

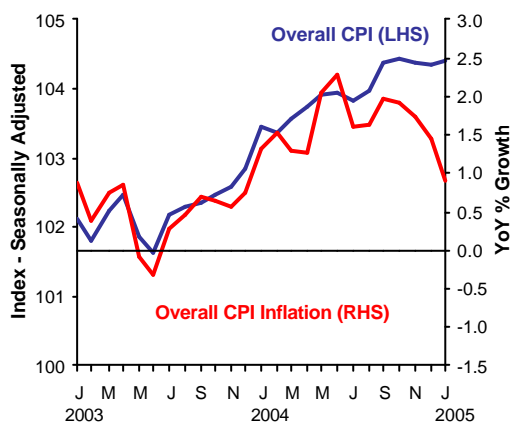
Inflation Monthly

Jan 2005



CPI Stability in January

CPI (Nov 1997 – Oct 1998 = 100)		
% Growth/ SA Level	Dec 04	Jan 05
y-o-y	1.5	0.9
m-o-m, SA	0.0	0.0
Index (SA)	104.4	104.4



- **Headline CPI inflation fell to 0.9% due largely to high “base effect” reflecting the GST hike in Jan 2004**

CPI inflation came in below market expectations, which had averaged around 1.2%. On a month-on-month, seasonally adjusted basis, CPI remained unchanged.

- **Higher electricity and domestic services costs were offset by lower poultry prices**

After adjusting for seasonality, relative price movements were largely confined to a small subset of housing, food and miscellaneous items.

- **Direct impact of 2005 Budget on overall CPI is likely to be minimal**

The tax hike on cigarettes will be offset by the reduction in foreign maid levies.

- **Restraint on cost pass-through effect could weaken somewhat going forward**

Against a backdrop of high commodity prices and an improving domestic economy, continuing cost pressures could compel suppliers to raise prices despite market competition.

Recent Developments

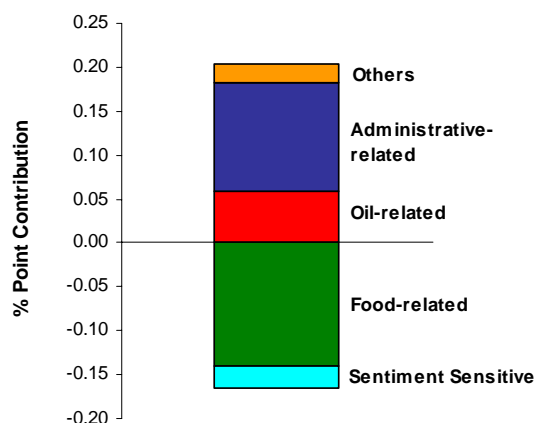
Calm on the Surface

Headline CPI Inflation fell sharply to 0.9% year-on-year (y-o-y) in January, after coming in at 1.5% in December. The MAS underlying inflation – which excludes private road transport and accommodation costs – also came in sharply lower at 1.1%, from 1.8% previously.

Some fall in the headline inflation number had been anticipated due to the high “base effect” arising from the GST hike from 4% to 5% in January last year. Other factors which had contributed to a higher base in January 2004 included the sharp hikes in newspaper prices and Chinese physician charges. In addition, the “moving holiday effect”, with the Lunar New Year falling in January 2004, but in February this year, contributed somewhat to the fall in the headline inflation number. Nevertheless, inflation came in below market expectations, which had averaged around 1.2%.¹

On a month-on-month, seasonally adjusted (m-o-m, SA) basis, consumer prices remained unchanged. Price movements were mainly confined to a small set of items, with higher electricity, education and domestic services costs offset by lower poultry prices. (Chart 1)

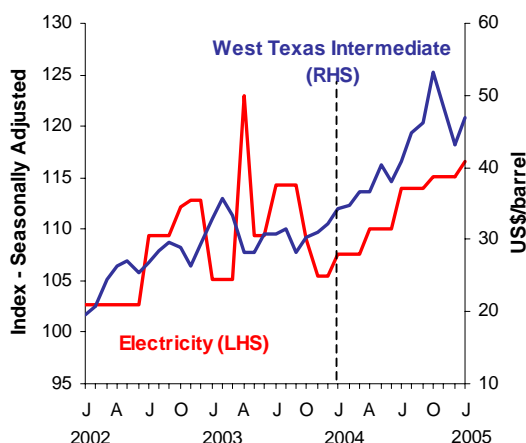
Chart 1
% Point Contribution to CPI Changes (m-o-m, SA) in January



These price movements were not entirely unexpected. In December 2004, SP Services announced that **electricity tariffs** would be increased by 1.2% in Q1 2005, primarily on account of higher fuel oil prices. Electricity tariffs had been gradually adjusted upwards each quarter of 2004 as global oil prices trended strongly upwards. (Chart 2)

¹ “Singapore’s Jan Consumer Prices Up 0.3% Month-on-Month”, Channel NewsAsia, 23 February 2005.

Chart 2
Electricity Tariffs: Incremental Steps



	Jan 02 -Dec 03	Jan 04 -Jan 05
Mean of Absolute Tariff Changes (%)	7.3	2.0
Standard Deviation of Tariff Changes (%)	8.8	1.0
Standard Deviation of WTI Prices (%)	3.7	5.8

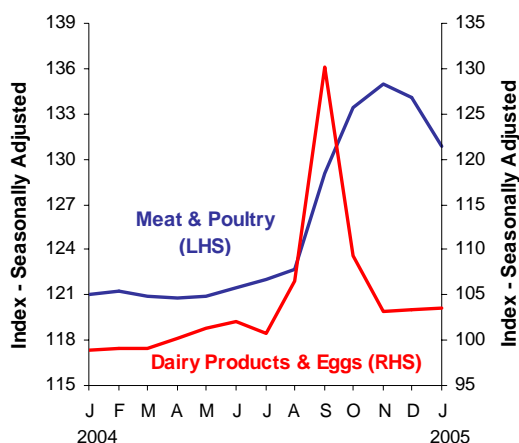
Further, the data seems to suggest that tariff adjustments have become somewhat more “predictable” post-2003 on two counts. First, since the start of 2004, SP Services has adhered to a regular quarterly schedule for making tariff adjustments. Second, the standard deviation of tariff adjustments has decreased, with smaller but more consistent adjustments favoured over larger swings, even as the volatility of global oil prices has generally increased.

Education costs also went up as **tuition and other fees** increased almost 1% with the revision to (standard) school miscellaneous fees. The Ministry of Education had announced as early as July last year that such fees would be raised for the first time in 14 years to cover some of the increase in costs and to further raise the quality of education in schools. For primary school pupils, the monthly fee went up by \$0.50, to \$5.50, while the fee for secondary students was raised by \$1, to \$8. Pre-university institutions saw the greatest increase, with the fee rising \$2, to \$11.

The **cost of domestic services** rose almost 5% as the new regulations for foreign maids, which were announced by the Ministry of Manpower in September last year, came into effect on 1 January. The minimum age requirement for new maids was raised from 18 to 23 years, and all new maids are now required to show documentary proof that they have had 8 years of formal education. These measures, which were intended to raise the quality of maid services, have led to a significant reduction in the supply of maids, as many used to come to Singapore to work at the age of 18 or 19, rather than 23. In anticipation of these changes, the cost of domestic services had already begun turning up in Q4 last year, rising by 1.3%.

Meanwhile, **poultry and meat prices** fell 2.4%, as the effects of the poultry ban dissipated gradually. It is useful to compare the dynamics of poultry (and meat) prices with that of dairy products and eggs prices. (Chart 3)

Chart 3
Poultry Prices: Follow-the-Leader



The Agri-Food & Veterinary Authority (AVA) lifted the ban on the import of poultry and eggs from Johor and Malacca on 30 September 2004. By end-October, imports of eggs and live chickens were restored to their pre-ban levels.² With this, egg prices also returned to near pre-ban levels. In contrast, poultry prices continued to climb in October and November, before finally dipping in December.

Competition between local and Malaysian egg supplies could be a key factor behind the relatively more rapid adjustment in egg prices. While local poultry farms supply around a third of total eggs consumed, Singapore is totally dependent on Malaysian farms for fresh poultry supplies.

Another reason could be the continued shortage of live ducks prior to January, as most of the AVA-accredited duck farms were in Perak, which was still covered by the ban. Live duck prices have been reported to remain more than 65% above pre-ban levels in November.³ With the lifting of the ban on the import of live ducks from Perak on 1 January, imports of live ducks have returned to pre-ban levels, contributing to the further decline in poultry prices in January.

On the whole, inflationary pressures remained well-contained. Competitive pressures and some degree of cautiousness over the outlook for the Singapore economy could be some of the reasons why many suppliers had refrained from passing costs onto consumers.

Outlook

Impact of 2005 Budget Minimal

The direct impact of the 2005 Budget, which was announced on 18 February, on overall CPI is likely to be minimal. The tax hike on cigarettes, which took immediate effect, saw excise duties rising 20% from \$293 per 1,000 sticks, to \$352 per 1,000 sticks. This will be offset by the reduction in foreign maid levies by \$50 a month from 1 April.

² "Singapore's Supplies of Eggs and Chicken are More Than Adequate", AVA Media Release, 28 October 2004.

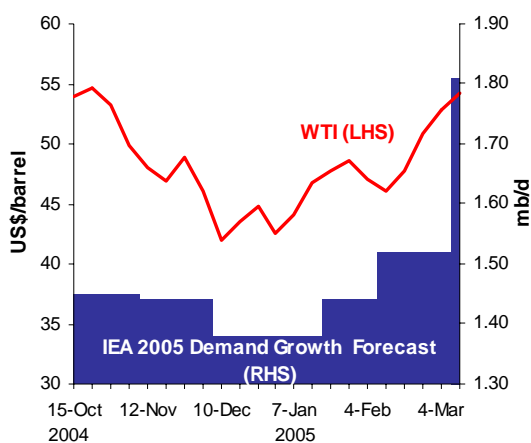
³ "Duck Imports from Johor Fail to Meet Shortage, Prices Still Remain High", Channel NewsAsia, 2 November 2004.

Underlying Pressures

Despite the various supply-side shocks in 2004, overall CPI inflation was mitigated to some extent by structural changes in certain sectors of the economy. In particular, the impact of increased competition on inflation has turned out to be greater than what many had envisaged.

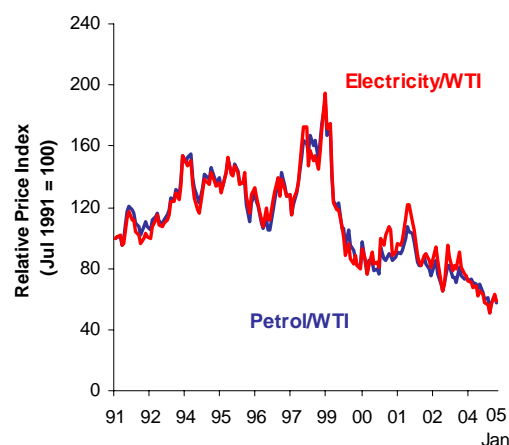
Nevertheless, against a backdrop of high commodity prices and continued expansion in economic activity, these inflation dampeners could weaken somewhat going forward, as rising costs increase the pressure on suppliers to raise prices. In particular, since the start of the year, global oil prices have soared by almost 30% on the back of rising global demand and speculative buying, and are now back at the record levels set in late October 2004. (Chart 4) Oil prices are expected to remain high, with the US Department of Energy projecting that WTI prices will remain near, or above, the high-to-mid US\$40s range throughout 2005-2006.⁴ With domestic prices of oil-related items already at such historic lows relative to global oil prices, there would be a limit as to how much local suppliers of these items could continue absorbing the cost increases. (Chart 5)

Chart 4
Oil Demand* and Prices:
Up, Up and Away



* International Energy Agency (IEA) forecasts

Chart 5
Domestic Prices of Oil-Related Items
Relative to WTI Prices*: Bottoming?



* S\$ equivalent

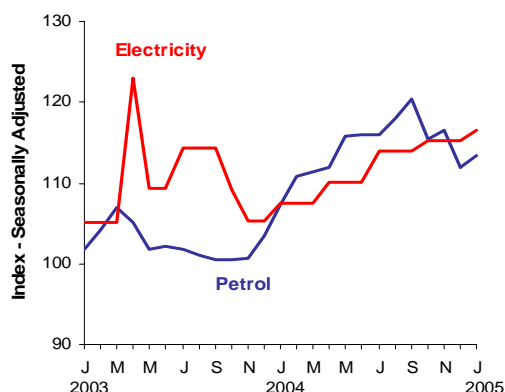
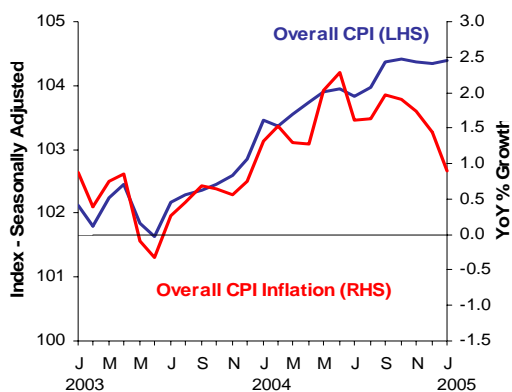
Taking all relevant factors into consideration at this point, the average CPI inflation forecast for 2005 remains unchanged at 1-2%.

⁴ "Short-Term Energy Outlook", US Energy Information Administration, March 2005.

Summary of Recent Domestic Price Developments

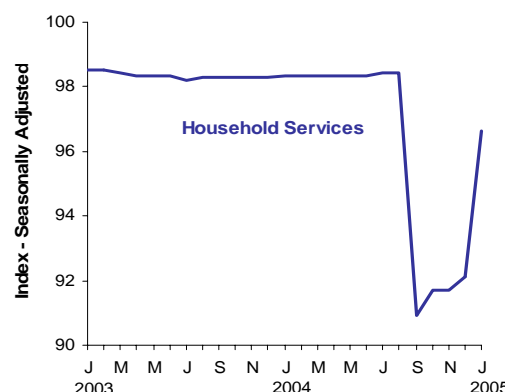
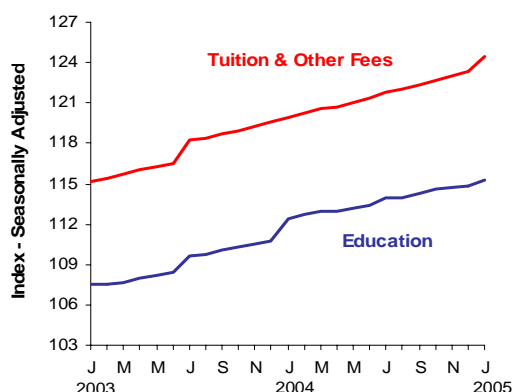
Headline CPI inflation fell sharply to 0.9% y-o-y in January, from 1.5% in December. The seasonally adjusted CPI remained unchanged.

Electricity tariffs and petrol prices climbed as global oil prices headed up again.



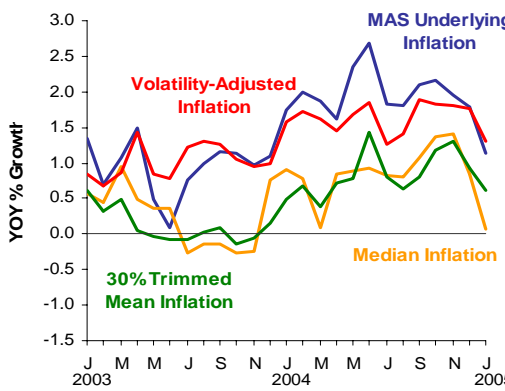
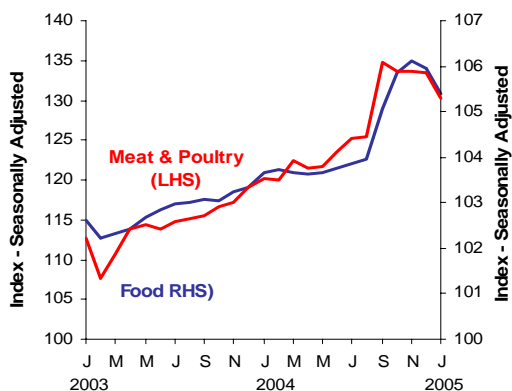
Education costs increased with the upward revision to school miscellaneous fees.

Household services costs rose sharply as a result of the new foreign maid requirements.



Rising prices were offset by lower meat & poultry prices as the supply of fresh poultry continued to adjust back to pre-ban days.

All measures of core inflation came in significantly lower for January, as compared to the previous month.



Statistical Appendix

Table A.1
Consumer Price Index

	All Items	Food	Clothing	Housing	Tpt & Comm	Educ- ion	Health	Misc
Weights	10000	2752	443	2292	1803	729	305	1676
	INDEX (NOVEMBER 1997 – OCTOBER 1998 = 100) – SEASONALLY ADJUSTED							
2003								
Jan	102.1	102.2	98.3	99.3	99.0	107.5	110.5	106.4
Feb	101.8	101.4	98.1	99.1	99.1	107.6	110.4	106.3
Mar	102.2	101.9	98.5	99.2	99.6	107.7	110.5	107.2
Apr	102.5	102.4	98.3	100.4	98.8	108.0	110.5	106.0
May	101.8	102.5	98.5	99.3	97.9	108.2	110.7	104.3
Jun	101.6	102.4	98.0	99.4	98.1	108.4	110.9	104.5
Jul	102.2	102.6	98.5	99.4	98.1	109.6	111.4	105.6
Aug	102.3	102.6	98.4	99.3	98.1	109.8	111.6	106.2
Sep	102.4	102.7	97.7	99.2	97.9	110.1	111.9	107.3
Oct	102.5	102.9	97.7	98.6	98.3	110.3	112.2	107.5
Nov	102.6	103.0	98.6	98.4	98.5	110.6	112.4	107.9
Dec	102.9	103.4	99.0	98.5	99.0	110.7	112.2	108.1
2004								
Jan	103.5	103.5	98.8	98.9	99.5	112.4	117.0	108.6
Feb	103.4	103.5	98.1	98.8	99.7	112.7	117.2	108.4
Mar	103.6	103.9	97.2	98.8	99.5	112.9	117.2	109.3
Apr	103.8	103.8	99.8	98.9	99.4	113.0	117.4	109.1
May	103.9	103.8	98.0	99.1	99.7	113.2	117.5	109.7
Jun	104.0	104.1	97.7	99.2	99.8	113.4	117.6	110.3
Jul	103.8	104.4	96.3	99.0	99.7	113.9	117.9	109.0
Aug	104.0	104.5	98.3	98.9	99.8	114.0	118.3	108.9
Sep	104.4	106.1	98.7	99.1	100.0	114.3	118.5	108.4
Oct	104.4	105.9	98.9	99.3	99.6	114.6	118.5	108.8
Nov	104.4	105.9	98.7	99.4	99.9	114.8	118.8	108.0
Dec	104.4	105.8	98.6	99.4	99.6	114.9	118.8	108.2
2005								
Jan	104.4	105.3	98.6	99.7	99.4	115.3	118.3	108.6

Source: Singapore Department of Statistics

Table A.2
Selected Inflation Indicators

	CPI	Import Price Index	Non-fuel Primary Commodities	OPEC Oil Price
	YOY% GROWTH			
2003 Jan	0.9	1.0	11.9	65.5
Feb	0.4	2.5	11.4	66.7
Mar	0.8	2.1	7.1	30.4
Apr	0.9	0.0	7.2	1.9
May	-0.1	-1.2	7.3	3.6
Jun	-0.3	-0.3	4.2	12.7
Jul	0.3	0.1	1.2	9.3
Aug	0.5	0.6	3.6	10.7
Sep	0.7	-0.9	3.1	-4.7
Oct	0.6	-1.0	6.8	3.8
Nov	0.6	0.4	9.9	17.4
Dec	0.7	0.2	12.1	4.8
2004 Jan	1.3	0.3	16.1	-0.3
Feb	1.5	-2.0	19.6	-6.4
Mar	1.3	-1.9	24.4	9.3
Apr	1.3	-0.3	25.3	27.8
May	2.0	2.6	23.2	41.9
Jun	2.3	2.9	23.8	28.9
Jul	1.6	3.0	24.4	32.0
Aug	1.6	3.6	19.7	40.9
Sep	2.0	3.5	17.0	53.5
Oct	1.9	4.3	12.8	59.0
Nov	1.7	2.8	10.7	35.5
Dec	1.5	1.6	9.1	21.2
2005 Jan	0.9	1.4	5.1	33.9

Source: Singapore Department of Statistics, IMF and Bloomberg