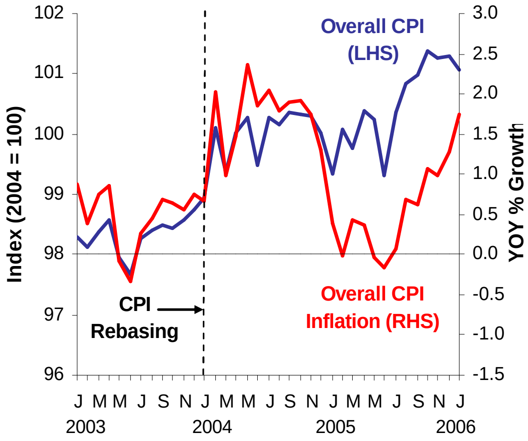
Inflation Monthly

Jan 2006

High Inflation Figure Boosted by "Base Effects"

CPI (2004 = 100)		
% Growth/ Level	Dec 05	Jan 06
y-o-y	1.3	**1.7**
m-o-m	0.0	**-0.2**
Index	101.3	**101.1**



- **Headline CPI inflation rose to 1.7% in January**
  The MAS underlying inflation measure came in at 2.3%, up from 2.0% in the previous month.

- **On a y-o-y basis, the strong inflation number was due to "base effects"**
  Prices of oil-related consumer items were substantially higher compared to the same period last year. The "moving holiday effect" also boosted the headline inflation figure, on a year-ago basis.

- **On a m-o-m basis, CPI fell by 0.2%, weighed down by lower accommodation and private road transport costs**
  The price declines from service & conservancy (S&C) rebates and lower car prices more than offset the price increases in food, petrol and electricity tariffs.

- **Outlook: Strengthening consumer spending could raise price pressures**
  The more buoyant sentiment is likely to spur consumer spending, resulting in further strengthening of demand-side pressures. Meanwhile, car prices could see a rebound in the short term as COE quotas have been reduced.

Recent Developments

Strong Inflation Figures due to "Base Effects"

Headline CPI inflation rose to 1.7% year-on-year (y-o-y) in January, after averaging 1.3% in December. Likewise, the MAS underlying inflation measure – which excludes private road transport and accommodation costs – came in higher at 2.3%, from 2.0% a month ago.

The pickup in the y-o-y figure was due to the "base effect", as the CPI in the first few months of last year was comparatively low. (Chart 1a) Since H2 2005, however, the significant spike in global oil prices has exerted upward price pressures on various oil-related consumer items. In January 2006, electricity tariffs (subsumed under Housing) and petrol (Transport and Communications) saw y-o-y price increases of 26% and 13% respectively, contributing to more than 50% of the rise in overall inflation. Other items contributing to the higher CPI this year, were the hefty tax hike on tobacco products[1] (Recreation) in March 2005, and the smaller service and conservancy (S&C) rebates (Housing) given out in January 2006. In addition, the inflation number was somewhat affected by the "moving holiday effect", as the inflationary impact of Chinese New Year festive price increases occurred in January this year but in February last year. Nevertheless, overall CPI inflation remained below the market expectations of 2.0%.[2]

On a month-on-month (m-o-m) basis, the CPI fell by 0.2% in January as the decline in accommodation costs (subsumed under Housing) and private road transport costs (Transport and Communications) more than offset price increases in food and education. (Chart 1b)

Chart 1a
% Point Contribution to CPI Change (y-o-y), January 2006

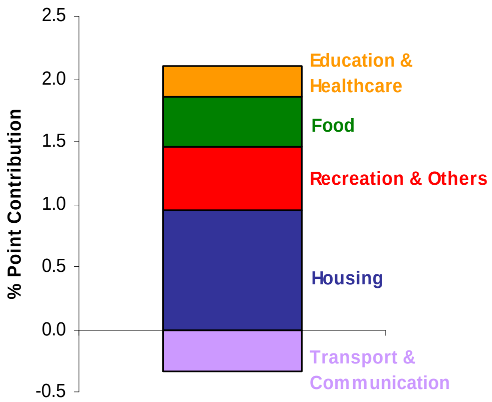
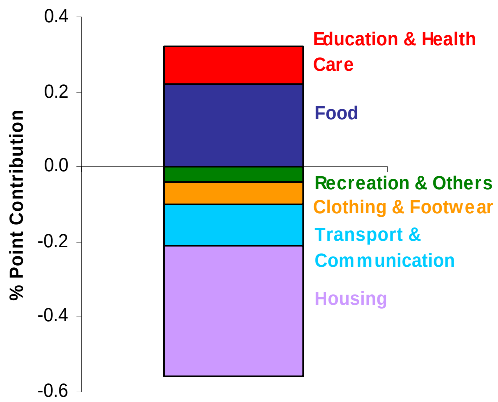


Chart 1b
% Point Contribution to CPI Change (m-o-m), January 2006



Housing Costs Fell as S&C Rebates more than Offset Electricity Tariffs Hike

Overall housing costs declined 1.6% during the month as the impact of service & conservancy (S&C) rebates more than offset that from the increase in electricity tariffs. (Chart 2a) The upward adjustment in the tariff rate, by another 7.4% for the period Jan-Mar 2006, was the third consecutive tariff hike since Q3 2005. The revision largely reflected the higher sulphur

[1] Prices of alcoholic drinks & tobacco were 12% higher when compared to the same period last year, following the previous tax hike on tobacco products in March 2005.

[2] This estimate is based on the median forecast of nine private sector economists polled by Reuters.

fuel oil (HSFO) forward price, of US$48.07 per barrel (compared to US$43.34 in the preceding quarter) due to the reduction in global refinery capacity following the oil infrastructure damage in the Gulf of Mexico by Hurricane Katrina.[3] (Chart 2b)

Chart 2a
Housing CPI

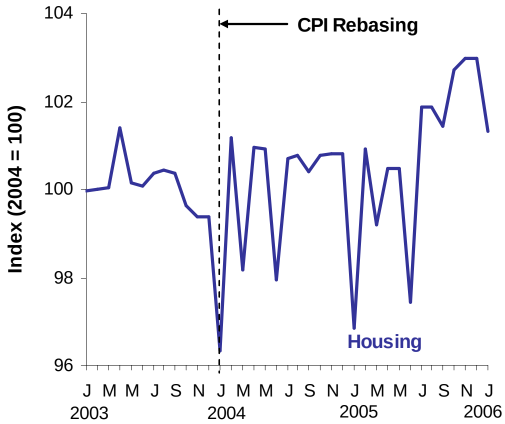
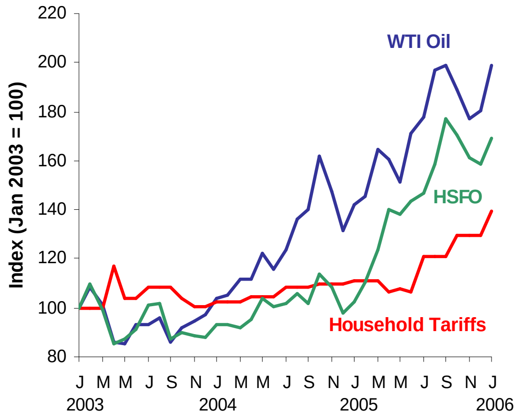


Chart 2b
WTI Oil, HSFO and Household Electricity Tariffs



PRICE DECLINES SEEN IN CARS, CLOTHING & FOOTWEAR AND HOLIDAY EXPENSES

Private road transport costs continued their downward path, with car prices dropping further as Category B COE premiums plunged in December[4], dipping below $10,000 for the first time since 1991. The fall in prices was partly attributed to the weak demand conditions during the holiday season when many Singaporeans travelled overseas. Some buyers were also taking a “wait-and-see” attitude, as evidenced by the sharp decline in the COE bid-to-quota ratio in December, following the exceptionally strong demand in November which sent premiums rebounding to above $14,000. (Chart 3a) Such price fluctuations could have deterred potential buyers who were hoping for further declines, after having seen premiums repeatedly touch multi-year lows.

Prices of retail sales items such as clothing, footwear and personal effects also came in lower due to the island-wide year-end sales. At the same time, costs of holiday travel moderated on the back of cheaper package tours and lower overseas hotel room rates. (Chart 3b)

[3] Electricity tariffs are revised on a quarterly basis to reflect the forward price of 180-centistoke high sulphur fuel oil (180-CST HSFO) for the quarter. The Energy Market Authority uses the forward prices transacted or quoted at Intercontinental Exchange in the first month (October) of the preceding quarter (Q4 2005) to determine tariffs in the forthcoming quarter (Q1 2006).

[4] COE premiums in a particular month tend to be reflected in overall car prices in the following month, given that car dealers need to secure the certificates before the cars are eventually delivered.

Chart 3a
Monthly COE Bid to Quota Ratio

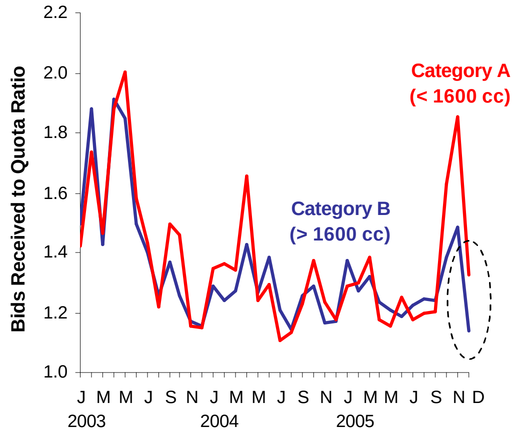
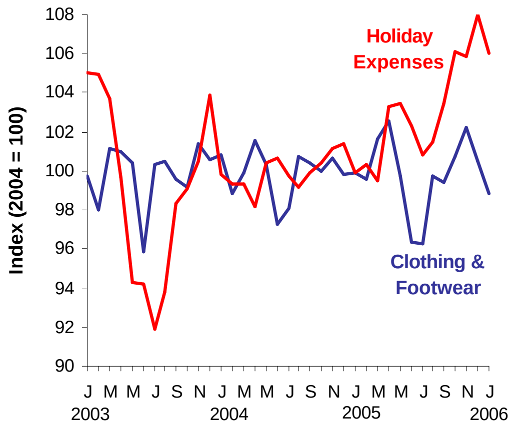


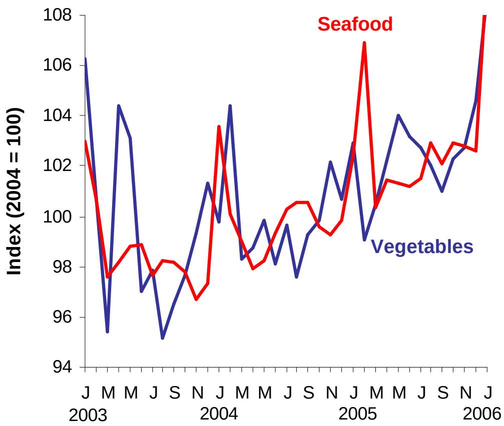
Chart 3b
Clothing & Footwear and Holiday Expenses CPI



STRONG SEASONAL DEMAND AND WEATHER-RELATED SUPPLY SHORTAGES PUSHED UP FOOD PRICES

As expected, prices of non-cooked food rose sharply due to the strong demand for seafood, vegetables, meat & poultry during the traditional Chinese New Year festive season. Coincidentally, food supplies from Malaysia were adversely affected by the prolonged rainy season during the month, which had led to a fall in exports of seafood and vegetables to Singapore. As a result, the prices of seafood and vegetables jumped sharply by 7.0% and 4.1% respectively. (Chart 4)

Chart 4
Vegetables and Seafood CPI



Outlook

Strengthening Consumer Spending Could Raise Price Pressures

Impetus from Improving Consumer Sentiments

Looking ahead, price pressures are expected to increase further, as the domestic economy continues to grow at a healthy pace. Hiring momentum has thus far remained robust, and could result in firmer wage growth as the labour market tightens. Costs of services such as education, in particular, are set to rise, with fee hikes already announced by various tertiary institutions for the upcoming months.

Demand-side pressures may also strengthen alongside the more sanguine sentiment, as reflected by a further rise in the consumer confidence index since the previous survey conducted by ACNielsen in May 2005. Moreover, spurred by the recent FY2006 Budget initiatives, there could be some positive, albeit temporary effect on spending. Thus, prices of various sentiment-sensitive items (including retail sales and travel-related items) could see a firmer pickup.

Car Prices could Rebound in the Short-Term

Contrary to market expectations, the government did not reduce the Additional Registration Fee (ARF) for vehicles in the FY2006 Budget. Moreover, during the recent COE quota review, the LTA decided to cut the number of COE available for tender each month for the period May 2006-April 2007. In the short-term, these factors could cause some increase in COE premiums as prospective buyers, anticipating further price rise, enter the market. Indeed, Category B premiums have already rebounded to $12,600 in the first bidding exercise for March, from $10,000 levels. There have also been anecdotal reports of increase traffic in car showrooms in recent weeks.

Nevertheless, over the longer-term, replacement demand could continue to weaken as the car population gets increasingly younger. In addition, the rising costs of car usage and higher interest repayment on car loans may have a dampening effect on demand. In sum, car prices are expected to continue to put some drag on inflation this year, with Category A COE premiums still some 47% lower on average in the first two months of 2006 compared to the same period last year.

Taking all factors into consideration, the headline CPI inflation for 2006 is projected to come in at 0.5-1.5%. The forecast for the MAS underlying inflation measure remains at 1.5-2.0%.

Statistical Appendix

Table A.1
Consumer Price Index

	All Items	Food	Clothing & Footwear	Housing	Tpt & Comm	Educat-ion & Stationery	Health Care	Recreation & Others
Weights	10000	2338	357	2126	2176	819	525	1659
	INDEX (2004 = 100)							
2005 Feb	100.1	101.5	99.6	100.9	97.4	101.4	100.2	100.0
Mar	99.8	100.8	101.7	99.2	96.9	101.4	100.1	101.6
Apr	100.4	101.0	102.5	100.5	98.0	101.4	100.3	101.6
May	100.2	101.1	99.8	100.5	97.5	101.5	100.2	101.8
Jun	99.3	101.1	96.4	97.4	97.1	101.5	100.3	101.4
Jul	100.4	101.2	96.3	101.9	97.3	102.2	100.5	101.2
Aug	100.8	101.3	99.8	101.9	98.4	102.5	100.5	101.6
Sep	101.0	101.2	99.4	101.4	99.2	102.7	100.6	102.0
Oct	101.4	101.5	100.7	102.7	98.7	102.8	100.8	102.7
Nov	101.3	101.6	102.2	103.0	97.5	102.8	100.9	102.8
Dec	101.3	101.8	100.5	103.0	97.3	102.9	100.7	103.2
2006 Jan	101.1	102.8	98.9	101.3	96.8	103.9	101.0	103.0

Source: Singapore Department of Statistics

Table A.2
Selected Inflation Indicators

	CPI	MAS Underlying Index	Import Price Index	Non-fuel Primary Commodities	OPEC Oil Price
	YOY% GROWTH				
2005 Feb	0.0	1.0	2.3	8.0	42.4
Mar	0.4	1.1	4.2	9.6	53.6
Apr	0.4	1.0	5.6	6.8	53.4
May	0.0	0.8	3.2	7.2	28.1
Jun	-0.2	0.8	5.1	8.1	49.8
Jul	0.1	1.1	5.9	7.7	46.2
Aug	0.7	1.5	5.3	11.5	43.1
Sep	0.6	1.2	8.1	12.1	44.3
Oct	1.1	1.7	6.6	13.1	20.8
Nov	1.0	1.8	6.6	13.3	32.3
Dec	1.3	2.0	7.4	17.5	46.8
2006 Jan	1.7	2.3	7.4	16.5	44.1

Source: Singapore Department of Statistics, IMF and Bloomberg