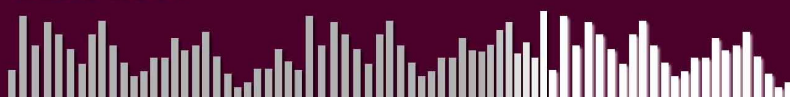


Inflation Monthly

June 2005



Headline Inflation Eases on Lower Prices of Petrol and Cars

CPI (2004 = 100)		
% Growth/ Level	May 05	Jun 05
y-o-y	0.0	-0.2
m-o-m	-0.2	-0.9
Index	100.2	99.3

- **Headline CPI inflation slipped to -0.2% in June**

The MAS underlying inflation measure came in at 0.8%, unchanged from the previous month.

- **On a m-o-m basis, overall CPI fell 0.9% largely due to lower accommodation costs**

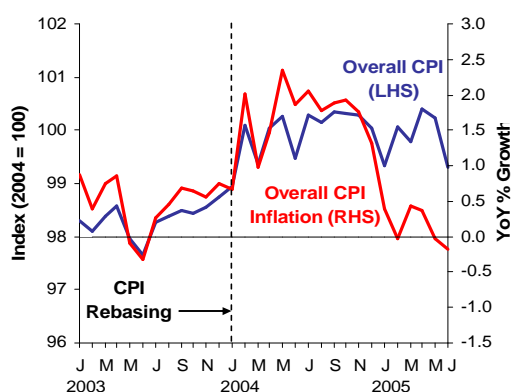
Accommodation costs fell in June, reflecting S&C rebates that were given out during the month.

- **The Great Singapore Sale and petrol price discount wars also weighed down on the CPI**

Prices of retail sales items came in lower as a result of the annual Sale. Petrol prices also fell on the back of price discounts.

- **CPI inflation is expected to pick up in H2 2005**

Against the backdrop of high commodity prices and improving labour market conditions, headline CPI inflation for 2005 is expected to come in at 0-1%.



Recent Developments

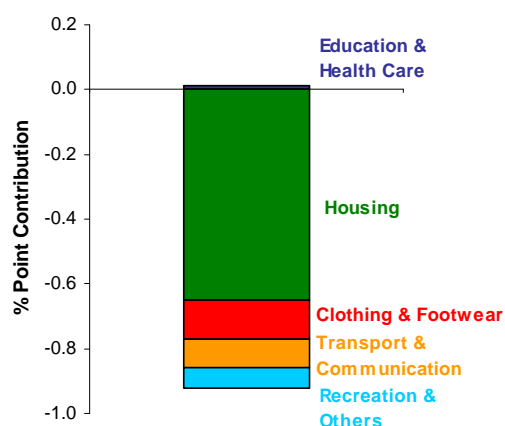
Headline CPI Inflation Remained Muted

Headline CPI inflation slipped to -0.2% year-on-year (y-o-y) in June, after coming in flat in May. This brought average inflation for the first half of the year to 0.2%. The MAS underlying inflation measure – which excludes private road transport and accommodation costs – came in at 0.8% y-o-y, unchanged from the previous month. For H1 as a whole, it averaged 0.9%.

Lower Housing Costs Dragged Down Overall CPI

On a month-on-month basis, the CPI fell by 0.9% in June, largely due to lower housing costs. Cheaper clothing & footwear as well as falling private road transport costs (subsumed under transport & communication) also weighed down on the CPI. (Chart 1)

Chart 1
% Point Contribution to CPI Change (m-o-m), June 2005

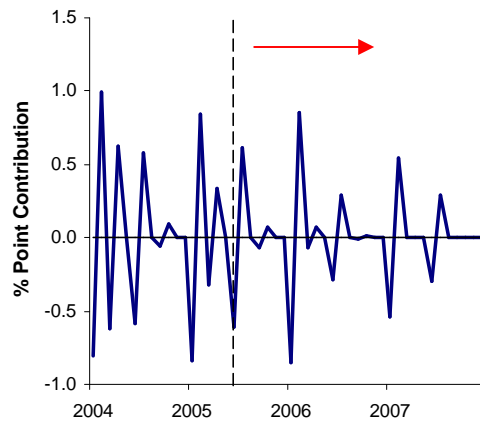


SERVICE & CONSERVANCY REBATES CONTINUED TO INFLUENCE CPI MOVEMENTS

The administering of service & conservancy (S&C) rebates continued to influence CPI movements.¹ The rebates given out in June dragged down housing costs, which lowered the overall CPI by 0.6% point. As shown in Chart 2, the effect of these rebates is expected to gradually dissipate, tapering off eventually by end-2007.

¹ For 2005, S&C rebates are given out in January, March, June, September and December.

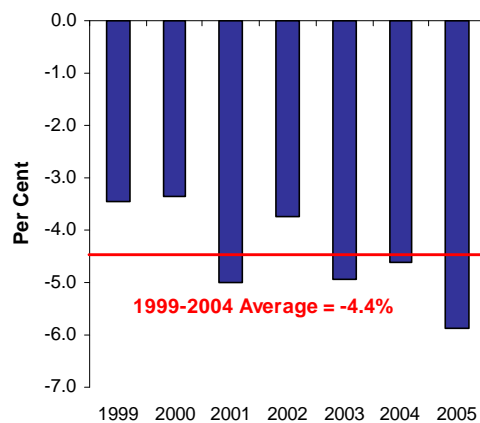
Chart 2
Estimated % Point Contribution to CPI Change (m-o-m)
Arising from S&C Rebates



PRICES OF CLOTHING & FOOTWEAR TUMBLED FURTHER AS THE GREAT SINGAPORE SALE WENT INTO FULL SWING

As this year's Great Singapore Sale (GSS) went into full swing, prices of various retail sales items including clothing, footwear and personal effects tumbled a further 3.2% in June, after sliding 2.8% in the previous month. As noted earlier in the May 2005 issue of the *Inflation Monthly*, this year's "GSS effect" was likely to be larger than that over the past few years, partly reflecting the push to extend the Sale island-wide to include participating outlets in the heartlands. (Chart 3) The Sale has been widely hailed as a success, with retailers such as C K Tang reporting a 30% y-o-y increase in revenue for June.

Chart 3
"GSS Effect": % Change in Prices of Retail Sales Items over May-June

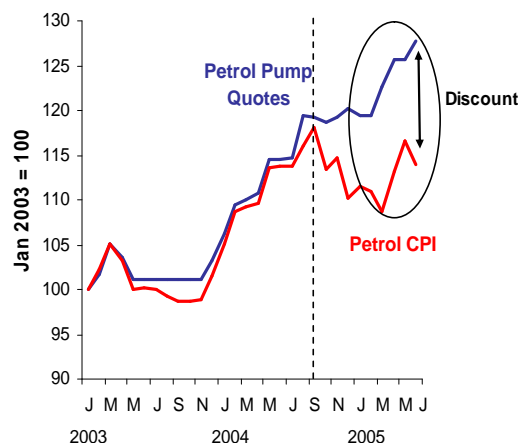


LOWER PETROL AND CAR PRICES WEIGHED DOWN ON TRANSPORT & COMMUNICATION COSTS

Overall CPI was dragged down by lower private road transport costs as well. In particular, retail petrol prices fell in June, with record discounts of up to 26% offered at one stage during the month. Petrol price discount wars, which emerged onto the local scene in H2 2004, have increased steadily in frequency and intensity. (Chart 4) Market observers have attributed this increase in competition to Singapore Petroleum Company's (SPC) acquisition of British Petroleum's (BP) 28 retail outlets in H2 2004, which raised their market share to

almost 20% from 5% previously. The fact that the record discounts in June coincided with the completion of SPC's retrofitting of its new outlets seemed to lend support to this view. Nonetheless, pump price quotes (which do not include discounts) have been raised by a cumulative 23 cents per litre since late-June, as crude oil prices continued to climb to new record levels.

Chart 4
Petrol Pump Quotes and Petrol CPI



In addition, car prices continued to trend downwards, as Certificate of Entitlement (COE) premiums slumped to new lows. As discussed in the May 2005 issue of the *Inflation Monthly*, falling car prices mainly reflected weakness in replacement demand, which was attributed to several factors including a “young” car population, a weak second-hand car market, and an absence of new models. Some market observers have recently suggested that negative equity in car loans could also have contributed significantly to the fall in replacement demand. The idea here is that with car prices continuing to decline, an increasing number of car owners would find the values of their cars falling significantly below their outstanding loan amounts. These individuals would have to first make cash top-ups to settle their existing loans before taking up another loan for the new car.

While replacement demand has fallen off somewhat, new demand has picked up strongly as cars become more affordable. (Chart 5a) In particular, there has been increased interest in off-peak cars, with 3,412 registered in the first half of the year, compared to 3,164 for the whole of last year. Indeed, with rebates for off-peak cars at a fixed \$17,000, they have benefited more from the fall in car prices. For example, with COE premiums previously at around \$30,000, a Toyota Corolla used to cost about \$76,000. Following the fall in COE premiums to around \$17,000, the car now costs \$63,000 – a 17% price decline. Correspondingly, off-peak car buyers now pay only \$46,000, as compared to \$59,000 previously, a proportionately larger fall in price of 22%. (Chart 5b) Other things being equal, this will bring about a relatively larger increase in demand for off-peak cars. On the back of this surge in off-peak cars, the car population grew at an annualised rate of about 5% in H1 2005, surpassing the Land Transport Authority's (LTA) 3% annual target growth rate.

Chart 5a
COE Premiums and Q-o-Q Change in Car Population

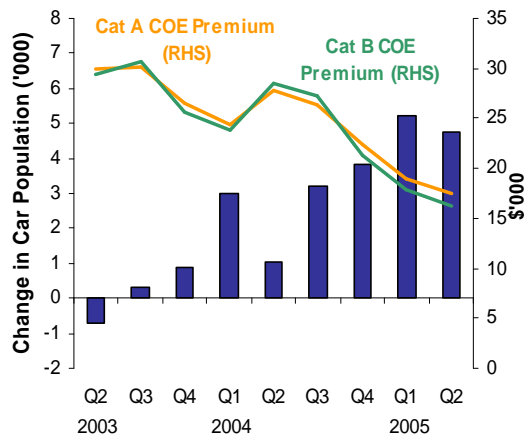
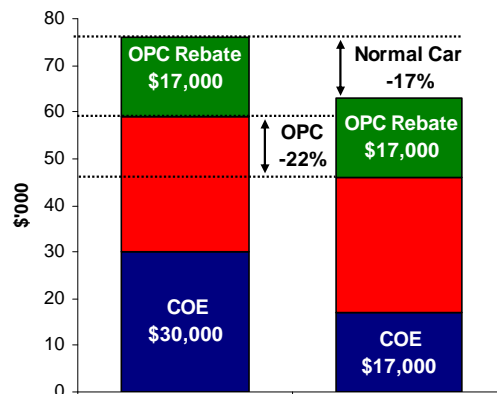


Chart 5b
Illustration of Relative Price Changes in Off-peak Cars (OPC) and Normal Cars



Outlook

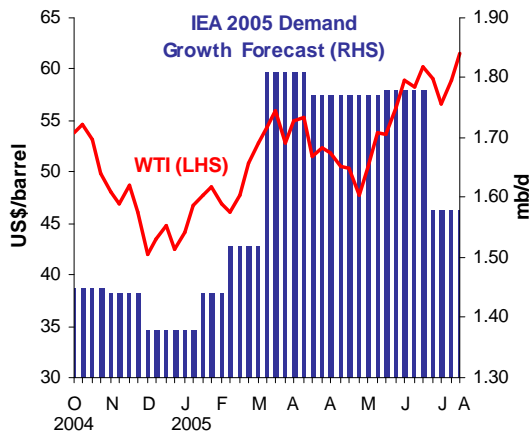
CPI Inflation to Pick Up Going Forward

We expect some pickup in inflation in the second half of the year, reflecting the July hikes in electricity tariffs, university tuition fees and public transport fares. Moreover, against a backdrop of persistently high commodity prices and improving labour market conditions, cost pressures are likely to increase further and filter through to consumer prices.

Global oil prices have rallied strongly in recent weeks on the back of refinery outages in the Gulf of Mexico and geopolitical developments in the Middle East. (Chart 6a) The price of WTI crude oil hit a new record close of US\$66.86 per barrel in early August. With global demand remaining largely resilient in the face of high oil prices, and the status of production and refining capacity continuing to be a major source of concern, oil prices are widely expected to stay high and volatile for some time. Apart from their direct impact on oil-related items such as petrol and electricity, high oil prices could also exert some upward pressure on the prices of other consumer goods and services. For example, Singapore Airlines and its regional subsidiary, SilkAir, have recently raised fuel surcharges for the second time this year. The surcharge on short-haul flights was raised from US\$10 to US\$12, while that for all other flights went up from US\$30 to US\$45.

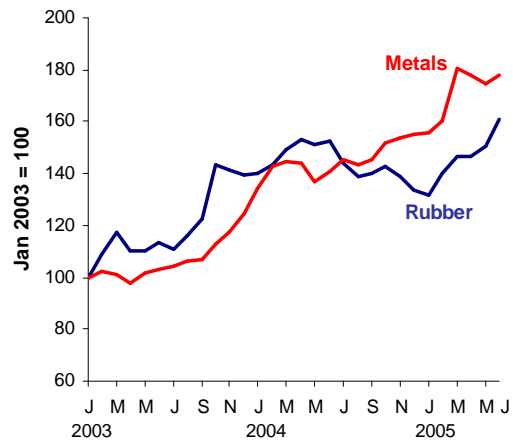
Other commodity prices have also firmed in tandem with oil prices. Rubber prices have recently scaled new heights on the back of soaring Chinese demand for tyres resulting from booming automobile sales. Prices of metals have likewise strengthened, as demand from the rapidly industrialising economies of China and India continues to outpace supply. (Chart 6b)

Chart 6a
WTI Oil Price and
Demand Growth Forecast



Source: Bloomberg, International Energy Agency

Chart 6b
Prices of Rubber and Metals



Source: IMF

On the domestic front, car prices, which lowered CPI inflation by about 0.6% point in the first half of the year, could experience a modest turnaround in H2. Market observers are expecting LTA to reduce COE quotas following its next review in September, especially with the car population growing at a significantly higher rate than the 3% annual target growth rate. Consumer sentiment could also strengthen somewhat alongside an improved economic outlook.

Meanwhile, domestic wage cost pressures have also emerged as the labour market continues to improve. Headline nominal wage growth, which averaged 3.7% in H1 2005, is forecast to come in at 2-4% for 2005 as a whole, following a 3.6% growth last year. With productivity gains expected to be fairly small this year, unit labour cost is likely to pick up modestly, after falling in 2004.

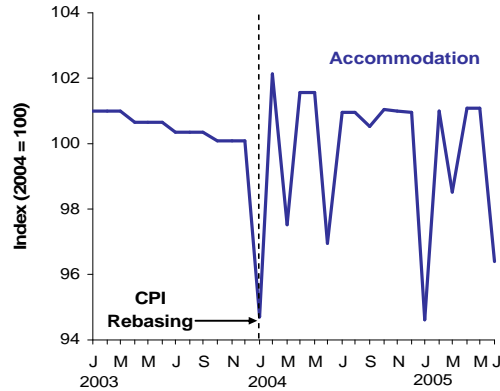
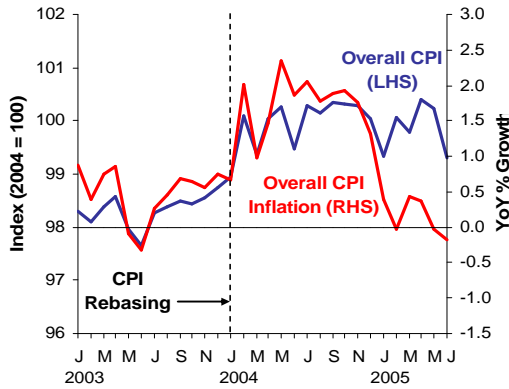
Headline CPI Inflation Forecast for 2005 Remains Unchanged at 0-1%

Taking all these into consideration, CPI inflation is expected to remain unchanged at 0-1% in 2005, before rising to 1-2% in 2006. The MAS underlying inflation measure is projected to be around 1% this year and 1-2% in 2006.

Summary of Recent Domestic Price Developments

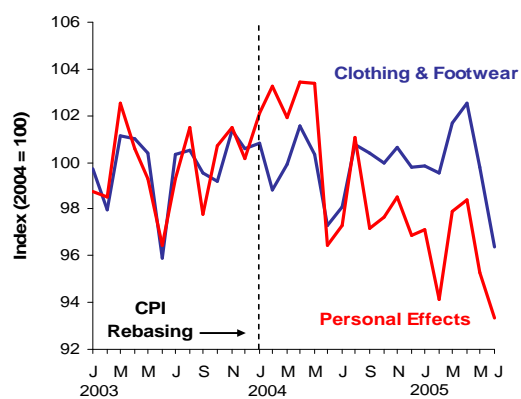
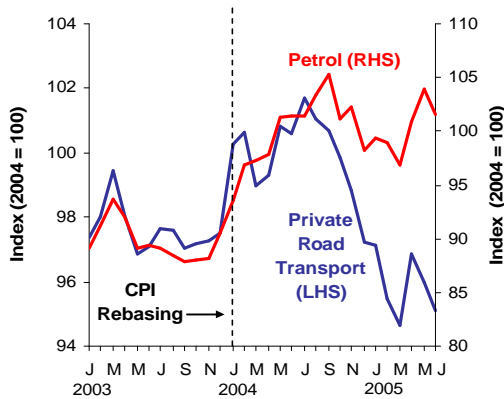
Headline CPI inflation slipped to -0.2% y-o-y in June, after coming in flat in May. On a month-on-month basis, the CPI fell by 0.9%.

Accommodation costs declined in June, reflecting S&C rebates that were given out during the month.



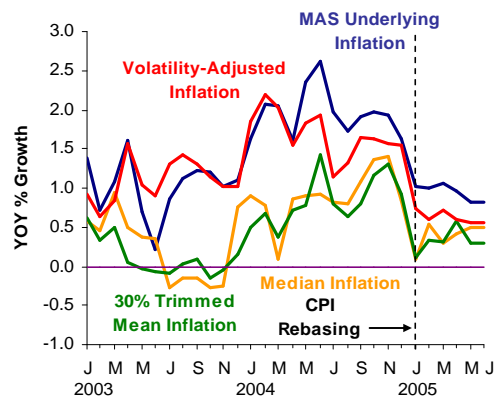
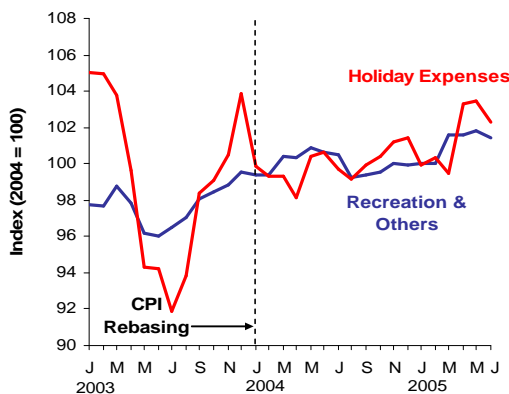
Private road transport costs were dragged down further by lower car prices as well as petrol prices.

Prices of retail sales items such as clothing, footwear and personal effects also came in lower.



Prices of recreation & others moderated as well, largely due to cheaper holiday packages.

All core inflation measures were stable. The MAS underlying inflation measure came in at 0.8%, unchanged from the previous month.



Statistical Appendix

Table A.1
Consumer Price Index

	All Items	Food	Clothing & Footwear	Housing	Tpt & Comm	Education & Stationery	Health Care	Recreation & Others
Weights	10000	2338	357	2126	2176	819	525	1659
	INDEX (2004 = 100)							
2004 Jul	100.3	99.6	98.1	100.7	100.9	100.0	100.2	100.5
Aug	100.1	99.8	100.7	100.8	100.6	100.0	100.2	99.3
Sep	100.4	101.1	100.4	100.4	100.4	100.1	100.1	99.4
Oct	100.3	100.8	100.0	100.8	99.9	100.7	100.0	99.6
Nov	100.3	100.8	100.7	100.8	99.3	100.6	100.1	100.0
Dec	100.0	100.7	99.8	100.8	98.4	100.6	100.1	99.9
2005 Jan	99.3	101.0	99.9	96.9	98.4	101.4	100.2	100.0
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	101.4	100.2	101.8
Jun	99.3	101.1	96.4	97.4	97.1	101.5	100.3	101.4

Source: Singapore Department of Statistics

Table A.2
Selected Inflation Indicators

	CPI	Import Price Index	Non-fuel Primary Commodities	OPEC Oil Price
	YOY% GROWTH			
2004 Jul	2.0	3.0	24.3	32.0
Aug	1.8	3.6	19.7	40.9
Sep	1.9	3.5	16.7	53.5
Oct	1.9	4.3	12.5	59.0
Nov	1.8	2.8	10.6	35.5
Dec	1.3	1.6	8.9	21.2
2005 Jan	0.4	1.4	5.3	33.9
Feb	0.0	2.3	4.7	42.4
Mar	0.4	4.2	9.4	53.6
Apr	0.4	5.6	6.9	53.4
May	0.0	3.2	7.3	28.1
Jun	-0.2	5.1	8.3	49.8

Source: Singapore Department of Statistics, IMF and Bloomberg