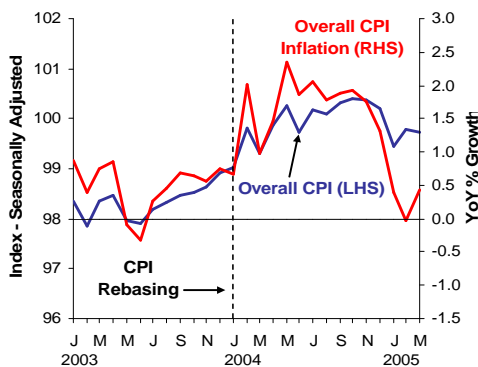


CPI Inflation Remained Subdued in March

CPI (2004 = 100)		
% Growth/ SA Level	Feb 05	Mar 05
y-o-y	0.0	0.4
m-o-m, SA	0.4	-0.1
Index (SA)	99.8	99.7



- **Headline CPI inflation rose by 0.4% in March**

The MAS underlying inflation measure increased slightly to 1.1%, from 1.0% in February.

- **On a m-o-m SA basis, overall CPI dipped 0.1% due to lower accommodation costs**

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

- **External factors appeared to have had a moderating impact on domestic prices**

Prices of household durables, computers and personal effects continued trending downwards, reflecting lower import prices.

- **Going forward, CPI inflation is expected to climb steadily as "pent-up" cost increases are passed on to consumers**

Notably, major cinema operators have raised ticket prices from 1 May, while public transport companies have applied for fare increases.

- **Headline CPI inflation forecast for 2005 remains unchanged at 0-1%**

MAS underlying inflation is projected to come in around 1% this year.

Recent Developments

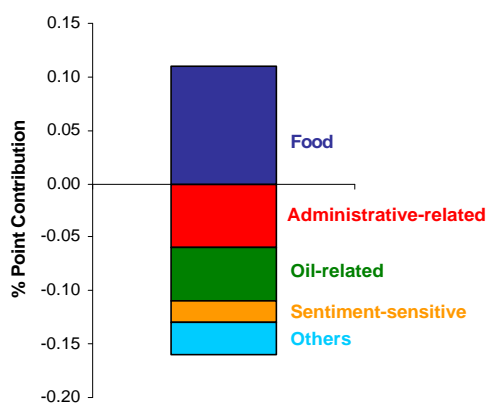
Headline CPI Inflation Remained Muted

Headline CPI inflation rose to 0.4% year-on-year (y-o-y) in March, after coming in flat in February. Inflation in March was underpinned by higher accommodation costs, and a heftier cigarette tax hike imposed this year as part of 2005 Budget measures. For Q1 2005, headline inflation averaged 0.3%. The MAS underlying inflation measure – which excludes private road transport and accommodation costs – rose slightly to 1.1% y-o-y in March, from 1.0% in February. For Q1 as a whole, it came in at 1.0%.

S&C Rebates Continued to Swing the CPI

On a month-on-month, seasonally adjusted (m-o-m, SA) basis, the CPI dipped 0.1% in March, reflecting lower accommodation and private road transport costs. (Chart 1)

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



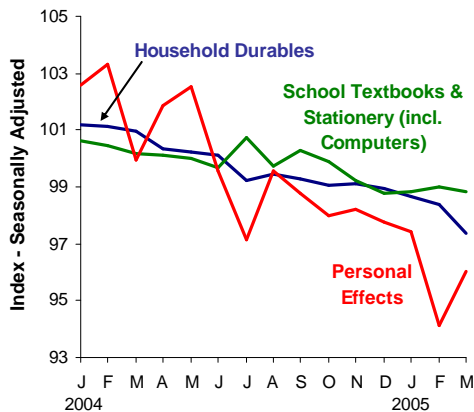
The administering of S&C rebates continued to swing the CPI, with these charges falling sharply in March. The rebates weighed down overall accommodation costs, which lowered the overall CPI by up to 0.3% points during the month. However, the downward pressure was partially offset by other policy measures, particularly the hike in cigarette taxes, which rose by 20% – higher than the 15% increase last year.

Abstracting from such administered price changes, there were other downward influences on consumer prices as well. Sentiment-sensitive items such as ready-made clothing and personal care items saw prices dipping slightly in the month. However, prices of footwear and personal effects rebounded somewhat as the impact of the festive sales wore off. These developments suggest some unevenness in the recovery in the retail sector, with competition continuing to have a moderating effect on prices. Private road transport costs also came in lower as car prices dipped further with COE premiums weakening in recent months.

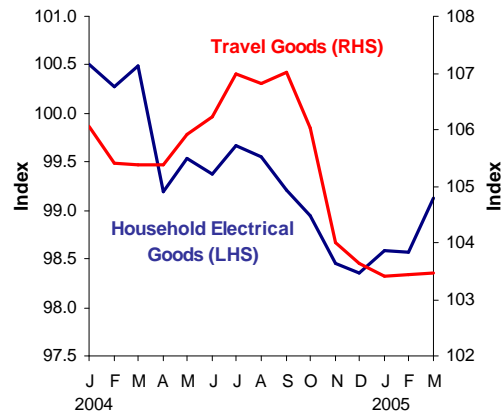
Globalisation Appeared to Have Had a Moderating Impact on CPI Inflation

Globalisation, which has resulted in cheaper import sources, appeared to have had a moderating impact on CPI inflation. In particular, prices of household durables, computers and personal effects (which comprise largely of leather and travel goods) have been trending downwards, reflecting falling import prices. (Charts 2 and 3) Although these items together account for only 5% of the CPI basket, they are estimated to have reduced Q1 2005 CPI inflation by about 0.2 percentage points.

**Chart 2
Retail Prices**



**Chart 3
Import Prices**

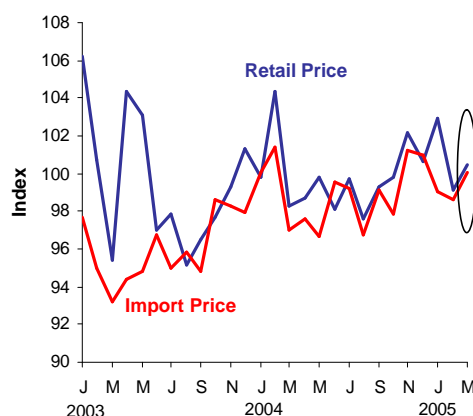


Competition at the retail level has continued to hold down the price increases of oil-related items in the CPI basket. Indeed, pump operators were pressured into more frequent reviews of petrol prices, in an attempt to strike a balance between rising import costs and the battle to maintain market share in the domestic market. This has resulted in pump prices see-sawing throughout the month – prices were pared down by six cents, before rising again weeks later, even as discounts of up to 15% were given. Additional incentives included more loyalty points and discounts off selected grocery items.

At the same time, there were some price pressures from food items during the month. In particular, retail vegetable prices rose in tandem with higher import prices. (Chart 4) Bread and cakes also became more expensive as a number of small family-run bakeries and confectioneries raised prices to cover higher sugar costs resulting from a steep drop in Thailand's sugarcane production due to drought.¹ These price increases were partially offset by cheaper poultry and eggs, as the prices of these items continued to gradually adjust back to pre-ban levels. Restaurant food prices also declined, suggesting that the increase in February could have been a temporary one associated with the Lunar New Year holiday.

¹ "That Piece of Cake is Going to Cost You More Soon", *The Straits Times*, 13 March 2005.

Chart 4
Vegetable Prices



Outlook

Inflation to Pickup Steadily Going Forward

Looking ahead, CPI inflation is expected to pickup steadily going forward as more firms pass on “pent-up” cost increases to consumers, against a backdrop of continued expansion in economic activity. For instance, cinema operators Shaw, Eng Wah and Golden Village have raised weekday prices by \$0.50 and weekend prices by \$1 from 1 May, after having remained unchanged for the past three years despite higher operating costs.²

Although global crude oil prices have receded to around US\$50 in recent weeks, from the record-high of US\$58 in early April, oil prices are widely expected to remain high and will continue to exert upward pressure on the retail prices of oil-related items. Apart from the direct impact on oil-related items such as petrol and electricity, their indirect effects have also become more apparent. For example, Singapore Airlines (SIA) and its regional subsidiary, SilkAir, raised fuel surcharges in May to partially offset higher jet fuel prices, which have risen from about US\$58 a barrel in November 2004 to over US\$70 a barrel in April 2005. The surcharge on all long-haul flights was increased from US\$22 to US\$30, while that for flights between Singapore and Kuala Lumpur went up from US\$4 to US\$10.³

Citing rising fuel costs, as well as the Goods and Services Tax (GST) hikes and higher wages, public transport operators SMRT and SBS Transit have applied to the Public Transport Council seeking adjustments to bus and rail fares. SBS Transit, which had held off applications for fare increases for two years, pointed out that fuel costs for buses had risen from \$39 million in 2002 to \$55 million last year, while the 2-percentage point GST increase since 2002 had added some \$11 million to its annual tax bill.⁴ A maximum increase of 2.4% is permitted under the new fare-cap formula and any approved fare revision will take effect from 1 July.⁵

² “Cinema Ticket Prices Going Up in May”, *The Straits Times*, 31 March 2005.

³ “SIA, SilkAir Raise Fuel Surcharges”, *The Straits Times*, 23 April 2005.

⁴ “SBS Transit Applies for Fare Adjustments, Stays Mindful of the Needs of Special Groups”, *SBS Transit Press Release*, 3 May 2005.

⁵ The new fare-cap formula is given by “0.5CPI + 0.5WI – 0.3%”, where CPI is last year’s headline inflation number and WI is last year’s average monthly earnings growth, adjusted to account for any changes in the employer’s CPF contribution rate. 0.3% represents the productivity extraction to be used for the next three years. With last year’s headline inflation and nominal wage growth at 1.7% and 3.6% respectively, the maximum allowed fare increase this year is 2.4%.

Other prices that are expected to increase include university tuition fees, which will be going up in July. The two public universities – National University of Singapore and Nanyang Technological University – announced earlier in December 2004 that tuition fees would be raised by 5% in July this year to meet operating costs which had gone up by 15% since 2001. Similarly, the Singapore Management University will be raising tuition fees by 15% in the new academic year, the first increase since the university was incorporated in 2000.

Some recent policy changes are expected to have an impact on the CPI. First, parking fees at government buildings for civil servants will see varying degrees of increases from April, given the government's recent move towards a market-based pricing for car parking charges by removing subsidies. Second, the reduction in foreign maid levies by \$50 in April, to alleviate the burden of rising wages of domestic maids due to more stringent entry requirements, is expected to exert some downward pressure on prices of household services (consisting largely of foreign maid levies and salaries) given that the rise in wages would be mainly confined to new maids entering Singapore.

In addition, demand-induced price pressures could strengthen as the economy continues to expand, leading to some increases in prices of sentiment-sensitive items. However, domestic competition pressures are expected to continue to exert a moderating influence on prices in a number of industries including telecommunications, medical services, and air-travel and related industries.

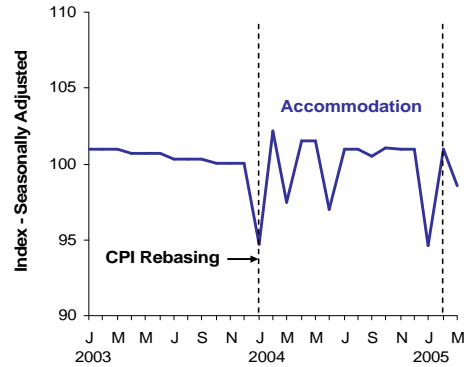
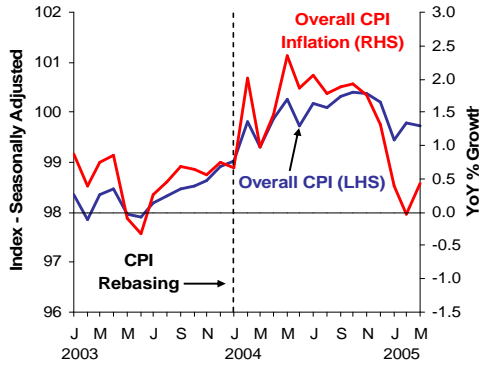
Headline CPI Inflation Forecast for 2005 Remains Unchanged at 0-1%

Taking all relevant factors into consideration, headline CPI inflation is expected to come in at **0-1%** for 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. Nonetheless, upside risks remain, including from higher-than-expected oil prices and the possibility of a stronger pass-through of cost pressures into consumer prices.

Summary of Recent Domestic Price Developments

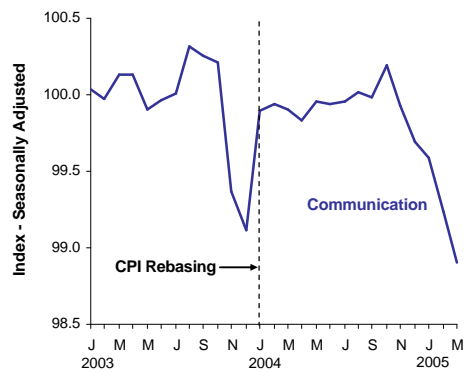
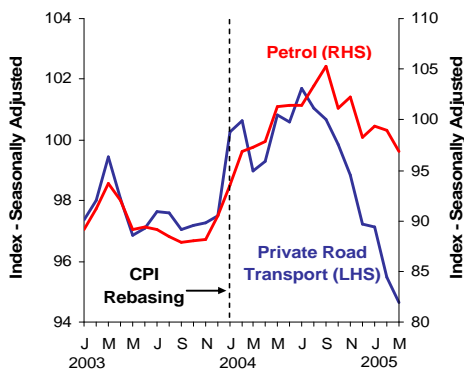
Headline CPI inflation rose to 0.4% y-o-y in March, from 0% in February. However, the seasonally adjusted CPI dipped 0.1%.

On a sequential basis, the fall in accommodation costs, which was due to S&C rebates given out in March, lowered overall consumer prices.



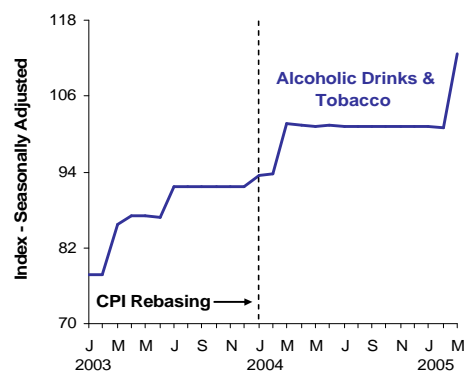
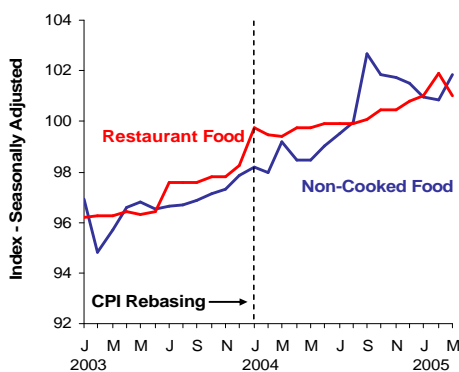
Private road transport costs were dragged down further by lower car prices as well as petrol prices.

Communication costs also continued to trend downwards on falling handphone prices.



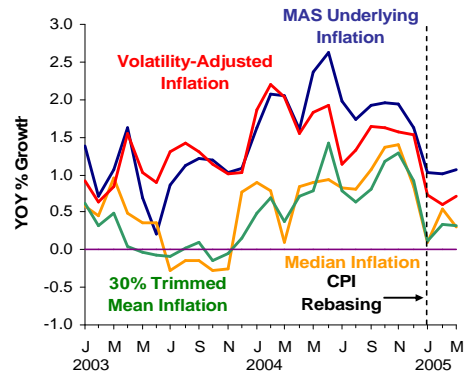
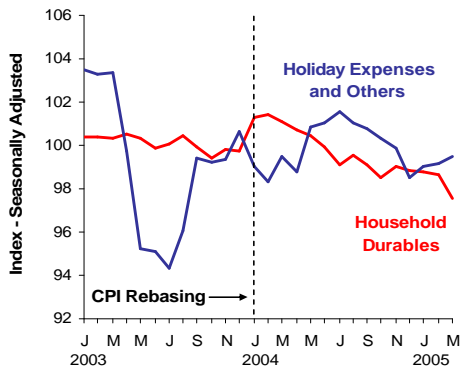
Non-cooked food prices increased on account of dearer vegetables. This was partially offset by lower restaurant food prices.

Cigarette prices were up sharply, reflecting higher excise duties.



Price developments for various mass-market retail items remained mixed. While prices of household durables fell at a sharper pace, holiday packages became more expensive.

Except for the median inflation measure, core inflation measures rose slightly or remained stable. In particular, the MAS underlying inflation measure edged upwards to 1.1%.



Statistical Appendix

Table A.1
Consumer Price Index

	All Items	Food	Clothing	Housing	Tpt & Comm	Educational	Health	Misc
Weights	10000	2338	357	2126	2176	819	525	1659
	INDEX (2004 = 100) – SEASONALLY ADJUSTED							
2004 Apr	99.9	99.2	100.4	100.5	99.5	99.8	99.6	99.9
May	100.3	99.3	99.9	101.0	100.1	100.0	99.5	100.5
Jun	99.7	99.5	99.5	98.3	100.1	100.1	99.7	100.6
Jul	100.2	99.8	98.2	100.5	100.3	99.5	100.0	100.8
Aug	100.1	100.0	100.1	100.4	100.1	99.7	100.3	99.8
Sep	100.3	101.3	100.1	100.2	100.1	100.1	100.5	99.8
Oct	100.4	101.0	100.2	100.6	99.9	100.7	100.5	99.9
Nov	100.4	101.0	99.7	100.7	99.7	100.8	100.6	100.0
Dec	100.2	101.0	99.9	100.7	99.2	100.9	100.7	99.6
2005 Jan	99.4	100.4	99.9	97.4	98.8	101.1	99.9	100.0
Feb	99.8	100.6	101.4	101.1	97.6	101.3	99.8	100.0
Mar	99.7	101.0	100.9	99.5	97.1	101.4	99.7	101.2

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 Apr	1.5	-0.3	25.3	27.8
May	2.4	2.6	23.2	41.9
Jun	1.9	2.9	23.8	28.9
Jul	2.0	3.0	24.4	32.0
Aug	1.8	3.6	19.7	40.9
Sep	1.9	3.5	17.0	53.5
Oct	1.9	4.3	12.8	59.0
Nov	1.8	2.8	10.7	35.5
Dec	1.3	1.6	9.2	21.2
2005 Jan	0.4	1.4	5.5	33.9
Feb	0.0	2.3	4.5	42.4
Mar	0.4	4.2	8.6	53.6

Source: Singapore Department of Statistics, IMF and Bloomberg