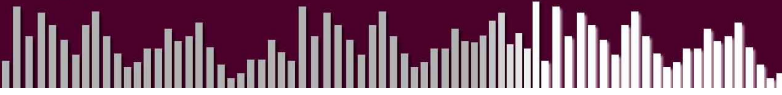


Inflation Monthly

May 2005



Lower Transport Costs Weigh Down on CPI

- **Headline CPI inflation came in at 0.0% in May**

The MAS underlying inflation measure moderated to 0.8%, from 1.0% in April.

- **On a m-o-m basis, overall CPI fell 0.2%, reflecting lower private road transport costs and cheaper clothing & footwear**

Private road transport costs fell in May, as lower car prices more than offset the rising cost of petrol. Prices of clothing & footwear also came in lower, as retailers geared up for the annual Great Singapore Sale.

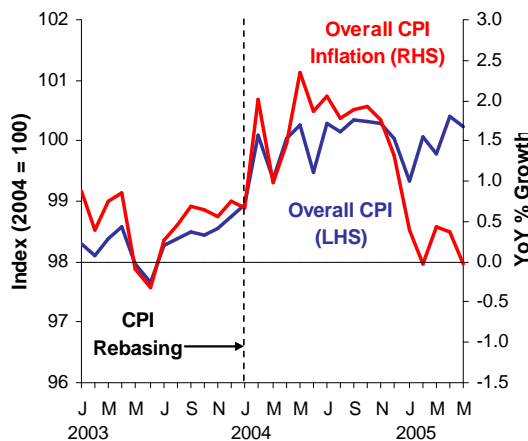
- **Fall in COE prices due to weakness in replacement demand**

Share of quotas going to new cars increased to an average of 19% in the first five months of this year, from an average of 11% in 2004.

- **Price Softness Largely Confined to Private Road Transport**

Price weakness in recent months was largely due to falling car prices, which lowered overall CPI inflation by about 0.6% points over Jan-May. Inflation is expected to pick up somewhat in the second half of the year, as price pressures in the form of higher commodity prices, rising wages and services cost adjustments gradually filter through.

CPI (2004 = 100)		
% Growth/ Level	Apr 05	May 05
y-o-y	0.4	0.0
m-o-m	0.6	-0.2
Index	100.4	100.2



Recent Developments

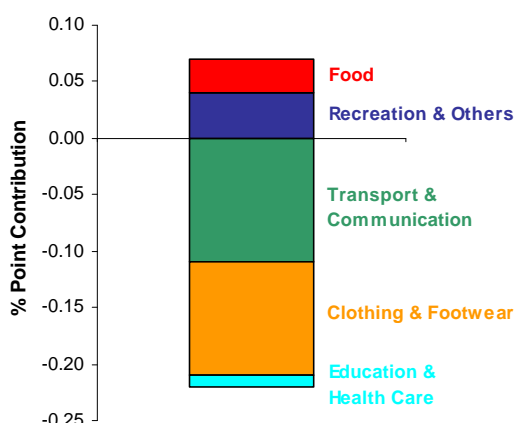
Headline CPI Inflation Remained Subdued

Headline CPI inflation fell to 0.0% year-on-year (y-o-y) in May, after coming in at 0.4% in April. This brought average inflation for the first five months of the year to 0.2%. The MAS underlying inflation measure – which excludes private road transport and accommodation costs – moderated to 0.8% y-o-y, from 1.0% in the previous month. It averaged 1.0% in Jan-May 2005.

Lower Private Road Transport Costs and Clothing & Footwear Prices Weighed Down on Overall CPI

On a month-on-month basis, the CPI fell 0.2% in May, largely reflecting lower costs of private road transport (subsumed under Transport & Communications) and cheaper Clothing & Footwear. (Chart 1)

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



LOWER CAR PRICES MORE THAN OFFSET RISING COST OF PETROL

The fall in private road transport costs was mainly dragged down by lower car prices, contributing 0.1% point to the overall decline in CPI. Car prices resumed their trend decline after rising for the first time in six months to April, as Certificate of Entitlement (COE) prices slumped to new lows. With COE quotas reduced slightly from April onwards¹, the fall in prices reflected the general weakness in the demand for COEs.

As shown in Figure 1, a fall in total demand for COEs can be attributed to either a decline in new demand² for cars or a fall in replacement demand, or both. As new demand translates to growth in the car population, we can investigate the source of the weakness in total demand by examining the share of quotas going to new cars over time. Chart 2a shows that this share increased to an average of 19% in the first five months of this year, from an average of 11% in 2004, suggesting that the demand for replacement cars had fallen relative to the demand for new cars. This could be attributed to several factors. First, as the car

¹ COE quotas are revised semi-annually in April and October.

² This refers to the purchase of cars by individuals who did not previously own a car, as well as by individuals who are adding to the cars that they already own.

population becomes “younger”, the incentive to replace cars could have diminished. (Chart 2b) Second, with the increase in the proportion of “large” cars (above 1,600cc), demand from car owners to upgrade could also have weakened somewhat. (Chart 2c) Third, the second-hand market for cars has weakened in recent months. Unlike before, when owners could obtain a slight premium over their Preferential Additional Registration Fee (Parf) paper, many are now forced to settle for a discount. Fourth, industry observers have noted an absence of new models to entice car owners to upgrade.

Figure 1
Demand and Supply of COEs

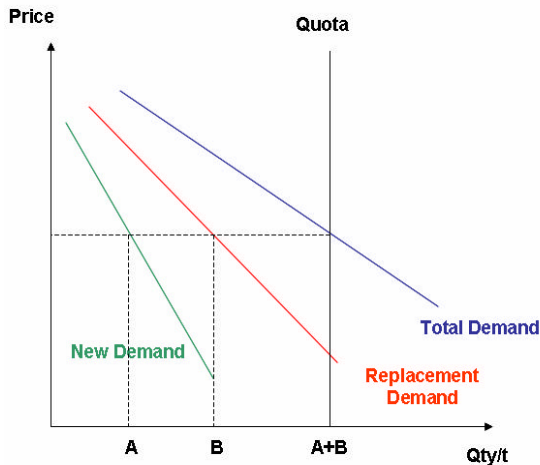


Chart 2a
Share of Quotas Going to New Demand

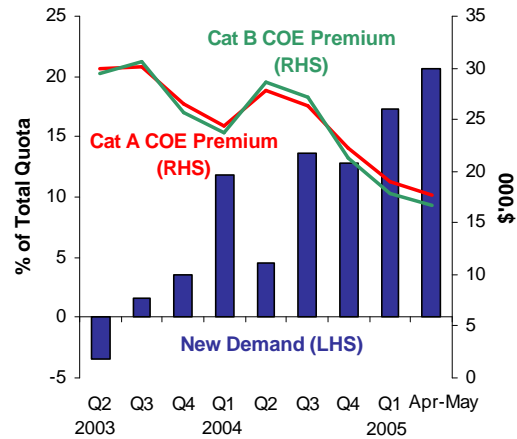


Chart 2b
Age Distribution of Cars

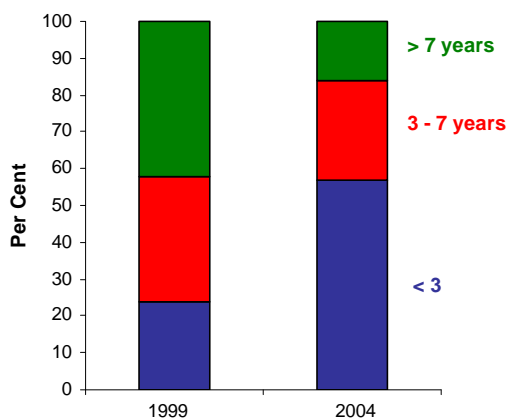
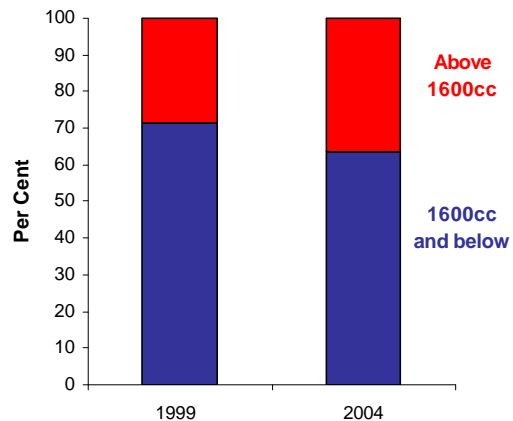


Chart 2c
Breakdown of Car Population



Nonetheless, the decline in private road transport costs was tempered by rising retail petrol prices. Pump operators lifted some of the earlier discounts in May, as global crude oil prices remained persistently high. (Chart 3a) For example, during the Vesak holiday long weekend, discounts were cut to 5%, from the 10-12% level which had prevailed in April. This would have helped to alleviate some of the pressures on retailing margins resulting from rising costs and domestic competition. In addition, we note that petrol price quotes (which do not include discounts) have recently gone up by 9 cents per litre on account of a strong rally in crude oil prices, which hit a new record high of US\$61.28 per barrel in early July. (Chart 3b) Despite the recent hikes, price discount wars have also increased in frequency and intensity, with record discounts of up to 26%.

Chart 3a
WTI Oil and Retail Petrol Prices

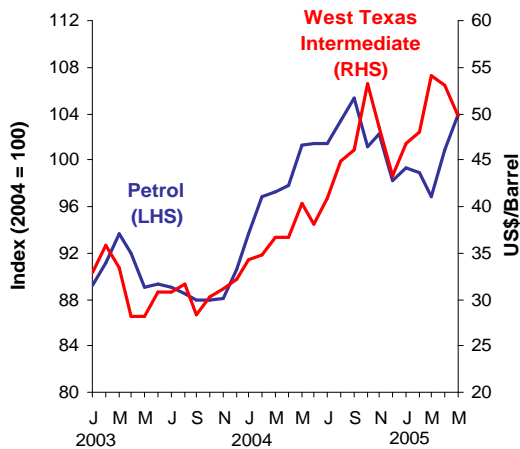
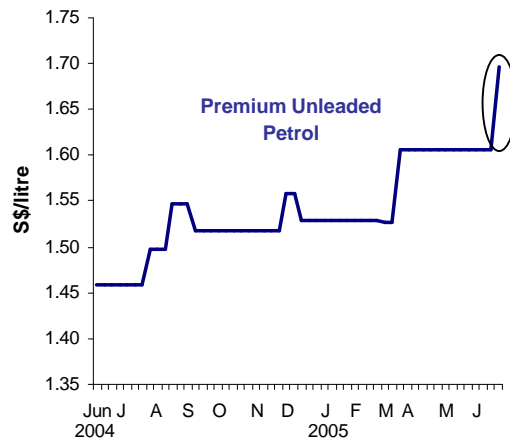


Chart 3b
Quoted Retail Price for Premium Unleaded Petrol

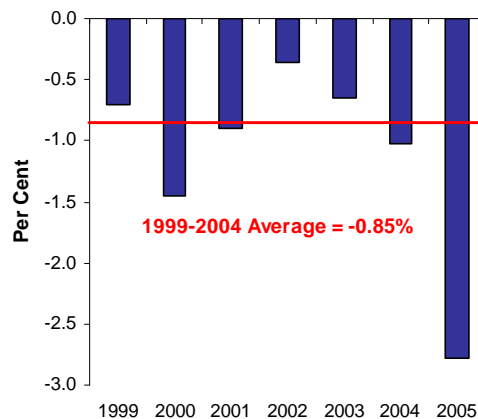


Source: Bloomberg

PRICES OF CLOTHING AND FOOTWEAR FELL AS RETAILERS GEARED UP FOR THE GREAT SINGAPORE SALE

Apart from the weakness in car prices, prices of clothing and other retail sales items tumbled 2.8% in May, as retailers geared up for the 12th annual Great Singapore Sale (GSS) which stretches for eight weeks from 27 May to 24 July. (Chart 4) As was the case last year, many retailers began offering attractive discounts as early as a fortnight before the official start of the Sale. However, this year's "May GSS effect" was the largest to date, with prices falling by almost three times that experienced during last year's Sale. This could have partly reflected the successful extension of this year's Sale beyond the main Orchard Road shopping belt to heartland areas such as Toa Payoh Central, Marine Parade, Hong Kah Point and Bras Basah Complex.³

Chart 4
"May GSS Effect": % Change (m-o-m) in Prices of Retail Sales Items in May



³ This is only the second time a concerted push was made to make the Sale a more island-wide affair. In 2002, nine heartland areas took part, but met with limited success.

PRICES OF FOOD AND RECREATION RECORDED MILD INCREASES

There were some mild upward price pressures from food and recreation items. In particular, food prices rose marginally due to higher vegetable prices. This reflected increases in the prices of vegetables imported from ASEAN countries, which have been affected by severe droughts. A detailed explanation for the modest pass-through of higher regional food prices into domestic prices was discussed earlier in the April 2005 issue of the *Inflation Monthly*.

Prices of Recreation & Others also came in higher, due to hikes in cinema admission charges. Cinema operators Shaw, Eng Wah and Golden Village 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. Notwithstanding the recent increase, cinema admission charges in Singapore remain among the cheapest in the world. For example, prices are about S\$13-15 in Hong Kong and Taiwan, and start from S\$15-17 in London and New York.

Outlook

Some Uptick in Inflation Likely into H2

The inflation outcome over the first five months of the year was generally within expectations, and partly reflected the effects of the change in the weights and composition of the CPI basket since the start of this year. Chart 5a shows that the share of the CPI basket that has experienced price declines in recent quarters is not significantly higher than the historical average. Moreover, it is not reflective of weak demand, based on the strong growth in retail sales volumes. (Chart 5b) Indeed, anecdotal feedback from some retailers suggests that there was an increase in shopper traffic and takings in this year's GSS.

Chart 5a
Share of CPI Basket Experiencing Price Declines on a Q-o-Q SA Basis

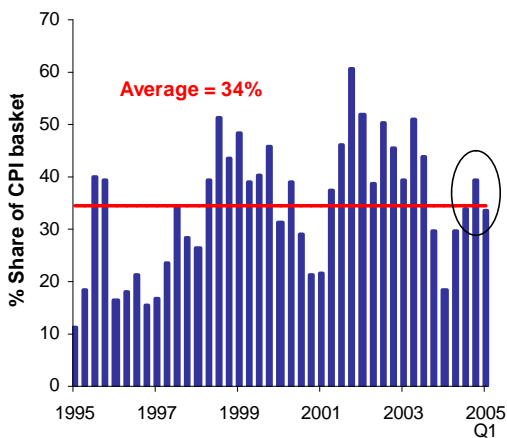
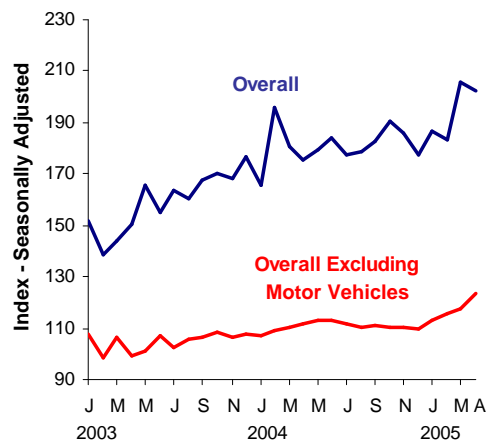


Chart 5b
Retail Sales Volume

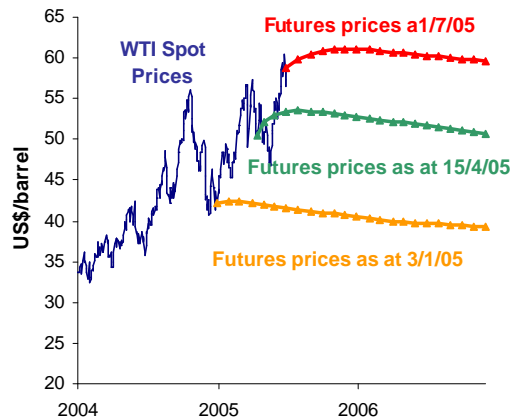


Price declines, where they did occur, were generally sector-specific in nature. In particular, price weakness in recent months was largely due to falling car prices, which lowered overall CPI inflation by about 0.6% points in the first five months of the year. Indeed, the MAS underlying inflation measure came in higher at 1.0% over the same period. Certain other items such as consumer durables and personal effects have also benefited from cheaper and more diversified import sources.

Going forward, we expect some pickup in prices in the second half of the year, as price pressures in the form of higher commodity prices, rising wages and services cost adjustments gradually filter through. For instance, university tuition fees and public transport fares have gone up in July. Electricity tariffs have also been raised by almost 14% for the period Jul-Sep – electricity tariffs are adjusted on a quarterly basis to reflect the forward price of 180-centistoke high sulphur fuel oil (180-CST HSFO) for the quarter. With the run up in global oil prices in recent months, Q3 tariffs were pegged at a much higher HSFO forward price of US\$39.32 per barrel, as compared to US\$30.09 per barrel for the previous quarter.

With global oil prices scaling new heights in recent weeks, the price of light sweet crude oil has surged by about 40% since the start of the year. The price of WTI oil hit a new record high of US\$61.28 per barrel at one point in early July, as tropical storms disrupted refinery operations in the Gulf of Mexico. Against this backdrop, a strong consensus has emerged that oil prices are likely to remain high and volatile for some time, as global demand remains resilient in the face of high prices, while the status of world refining capacity continues to be a major concern. The US Department of Energy expects the average monthly WTI price to be above US\$50 per barrel for the rest of 2005 and 2006. The markets have also priced in higher oil prices going forward, with futures prices at around US\$60 per barrel till the end of next year. (Chart 6) With persistently high oil prices, the extent to which local firms and operators can continue to absorb the cost increases may be limited. Apart from the direct impact of higher oil prices on the petrol, gas and electricity industries, there could also be indirect effects on a wide range of consumer goods and services e.g. plastic products and airfares.

Chart 6
WTI Spot and Futures Prices

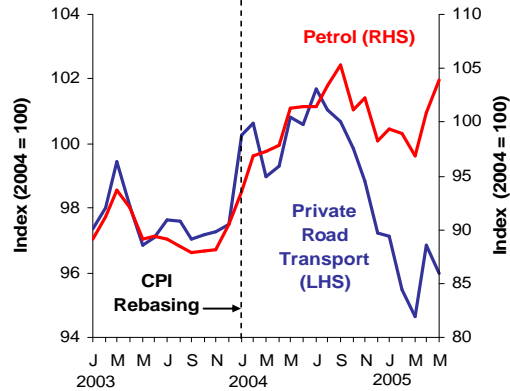
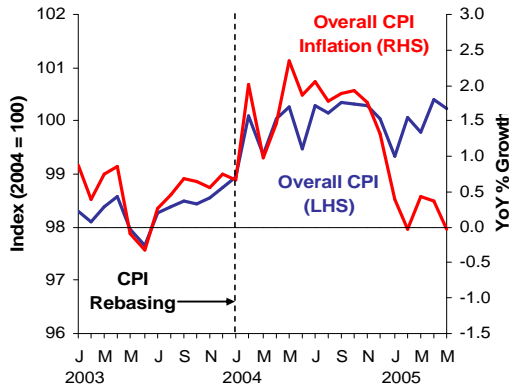


Taking all these into consideration, CPI inflation is expected to remain unchanged at 0-1% in 2005, before rising to 1-2% in 2006. The MAS underlying inflation measure is projected to be around 1% this year and 1-2% in 2006.

Summary of Recent Domestic Price Developments

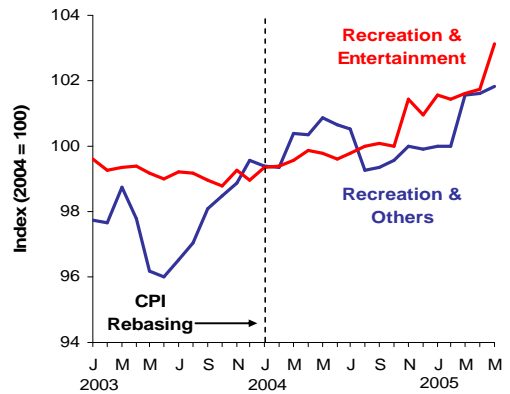
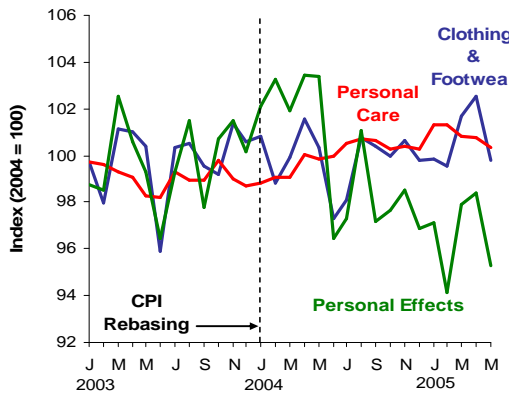
Headline CPI inflation fell to 0.0% y-o-y in May, from 0.4% in April. On a month-on-month basis, the CPI declined 0.2%.

Private road transport costs fell as lower car prices more than offset the rise in petrol prices.



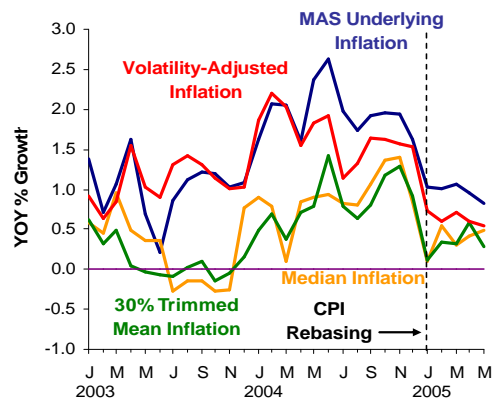
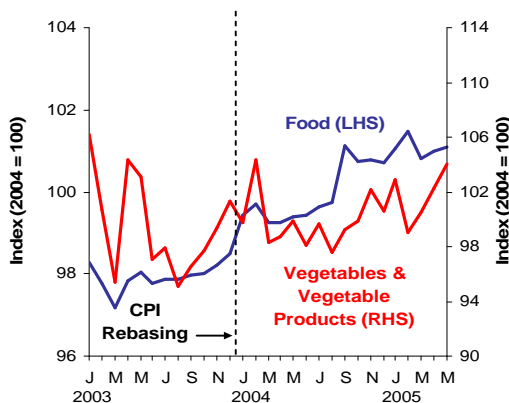
Prices of retail sales items such as clothing, footwear, personal care and personal effects also came in lower.

Prices of Recreation & Others strengthened, due mainly to higher cinema admission charges.



Food prices rose slightly, reflecting higher vegetable prices.

Except for the median inflation measure, core inflation measures came in lower. The MAS underlying inflation measure moderated to 0.8%, from 1.0% in April.



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 Jun	99.5	99.4	97.3	98.0	100.3	99.8	99.8	100.7
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 2004	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

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 Jun	1.9	2.9	23.9	28.9
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	6.7	53.4
May	0.0	3.2	6.5	28.1

Source: Singapore Department of Statistics, IMF and Bloomberg