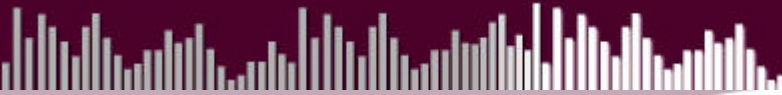


# Inflation Monthly

## Nov 2005



## A Dip in Inflation, Though Underlying Pressures Remain

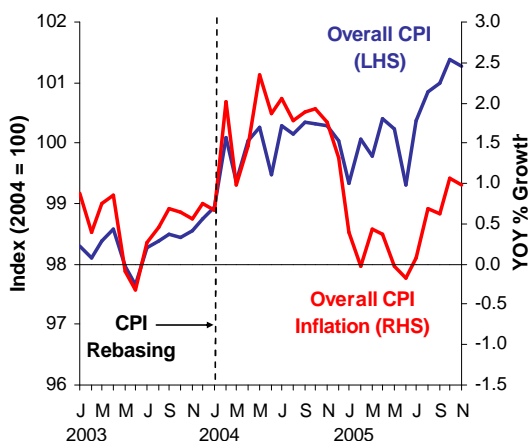
CPI (2004 = 100)		
% Growth/ Level	Oct 05	Nov 05
<b>y-o-y</b>	1.1	<b>1.0</b>
<b>m-o-m</b>	0.4	<b>-0.1</b>
<b>Index</b>	101.4	<b>101.3</b>

- **Headline CPI inflation edged down to 1.0% in November**

The MAS underlying inflation came in at 1.8%, up from 1.7% a month ago, the fastest pace of increase since November 2004.

- **On a m-o-m basis, CPI fell by 0.1% due mainly to lower private road transport costs**

Although price increases were witnessed in almost all major categories of the CPI basket, headline inflation was dragged down by significantly lower car and petrol prices.



- **Outlook: Inflation to Pick Up in 2006 on the Back of Continued Economic Growth and Higher Business Costs**

Although domestic inflation has remained benign the improvement in consumer sentiment alongside an improving economy could induce more businesses to pass on their cost increases from rising wages, rentals and utility bills.

- **CPI Inflation is forecast to come in around 0.5% for 2005, before rising to 0.5-1.5% in 2006.**

The MAS underlying inflation measure is projected to come in at around 1.2% for 2005 and 1.5-2.0% in 2006.

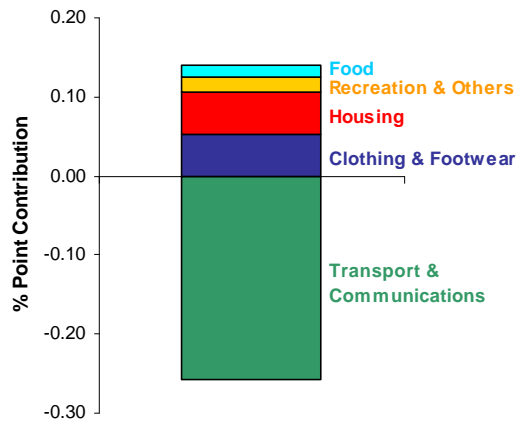
## Recent Developments

### A Dip in the Headline Figure due to Decline in Transport Costs

Headline CPI inflation dipped to 1.0% year-on-year (y-o-y) in November, after coming in at 1.1% in October. This brought average inflation for the first eleven months of the year to 0.4%, in line with MAS' forecast at the time of the April policy review. The MAS underlying inflation measure – which excludes private road transport and accommodation costs – rose from 1.7% in the previous month to 1.8% y-o-y, marking the highest rate since November 2004. The MAS underlying inflation averaged 1.2% over the period Jan-Nov 2005.

On a month-on-month (m-o-m) basis, the CPI edged down 0.1% in November as the decline in private road transport costs more than offset price increases in other categories of the CPI basket. (Chart 1)

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

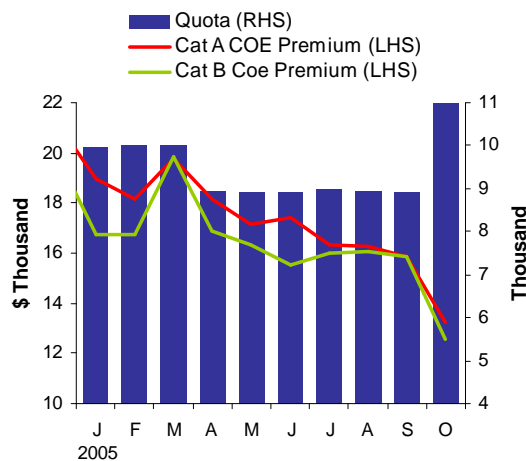


### DOUBLE WHAMMY PRICE DECLINE IN PRIVATE ROAD TRANSPORT COSTS

Private road transport costs tumbled by 2.4% in November – the largest fall since June 2001 – due to significant declines in both car and petrol prices. Car prices took a plunge as the Category A and B Certificate of Entitlements (COE) premiums fell by more than \$3,000 during the first round of bidding exercise in October<sup>1</sup>. The sharp decline was mainly due to an 18% increase in the supply of COE quotas issued by the Land Transport Authority (LTA) for the period Oct 2005-Mar 2006. (Chart 2)

<sup>1</sup> COE premiums in any 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 2**  
**COE Quota and Premiums**



With COE premiums on a downtrend, car dealers have responded by slashing prices. In fact, competition from more affordable entry-level models from Korean car makers such as Chevrolet and Kia have induced more established car dealers such as Toyota and Nissan to reduce prices by more than the decline in COE premiums. Table 1 below compares the Category A COE premiums and the selling prices of selected car models in February and October 2005. As can be seen from the data, the reduction in the selling price of these cars has truly exceeded the decline in COE premiums of about \$5,000. The \$14,000 plunge in the price of the Chevrolet Optra to below \$55,000, for example, would have made the 1.6 litre model relatively price competitive.

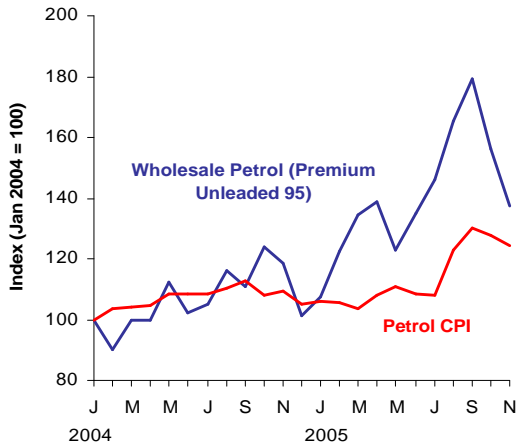
**Table 1**  
**COE Premiums and Prices of Selected Car Models over the period Feb-Oct 2005**

Car Model	Price in Feb 2005 (\$S)	Price in Oct 2005 (\$S)	Difference
Category A COE Premium	18,180	13,246	4,934
Chevrolet Optra 1.6 (A)	68,988	54,988	14,000
Honda Civic 1.6 (A)	73,000	65,300	7,700
Kia Cerato 1.6 (A)	54,499	48,999	5,500
Nissan Sunny 1.6 EX (A)	60,500	53,000	7,500
Toyota Corolla Altis 1.6 (A)	64,888	58,988	5,900
Mitsubishi Lancer 1.6 (A)	59,488	52,488	7,000

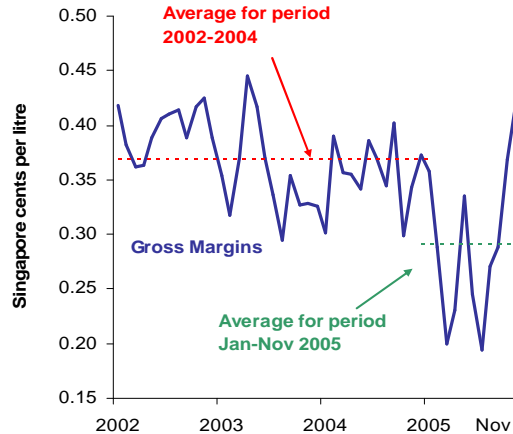
Source: LTA

In addition, retail petrol prices retracted another 2.6% during the month, as petrol companies continued to pass on cost savings from falling product costs to consumers by cutting pump quotes three times during the month. (Chart 3a) Although pump prices have been steadily adjusted downwards since late September, there appeared to be a normalisation of gross margins for petrol pump operators, after hitting a low in July 2005. (Chart 3b) The intense competition amongst operators to gain market share in the first half of 2005 came at the expense of lower margins, which had shielded domestic consumers from the pass-through of soaring oil prices back then.

**Chart 3a**  
Wholesale Petrol Price and Petrol CPI



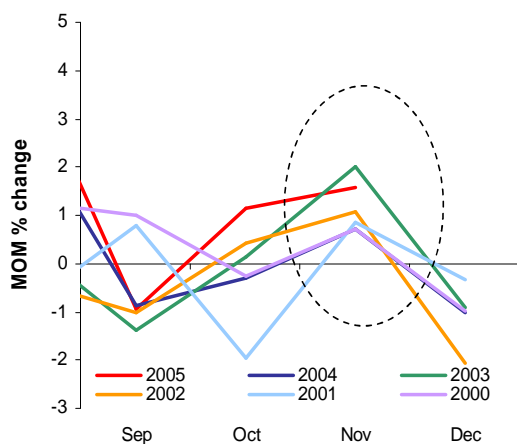
**Chart 3b**  
Petrol Gross Margins



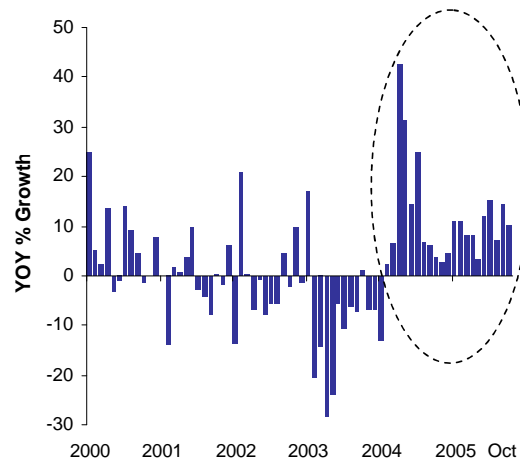
**PRICES OF CLOTHING & FOOTWEAR AND RECREATION & OTHERS STRENGTHENED FURTHER**

Following an unanticipated strengthening in the prices of ready-made clothing last month, prices of retail sales items such as clothing, footwear and personal effects rose further in November. (Chart 4a) Prices went up by 1.6% this November, almost double the average pace of price increase (0.9%) for the same month over the last 10 years. As discussed in the October 2005 issue of the *Inflation Monthly*, the stronger price increases witnessed recently could have been attributed to the improved optimism of retailers and consequently their greater willingness to pass on cost increases to consumers. Indeed, the strength in the retail sector has been reflected by the healthy growth in retail sales volume. Excluding sales of motor vehicles, the retail sales volume index jumped by about 12% y-o-y in October, the largest increase in 17 months. In particular, retail sales of wearing apparel and footwear continued to hold up, having registered positive growth since February 2004. In comparison, past increases in retail sales of these items have been far more sporadic in nature. (Chart 4b)

**Chart 4a**  
Monthly Price Changes in Retail Sales Items\*



**Chart 4b**  
YOY % Changes in Sales Volume of Wearing Apparel & Footwear

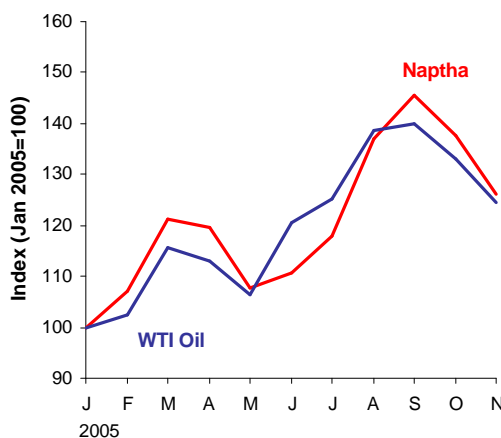


\* Weighted price index of ready-made clothing, footwear and personal effects.

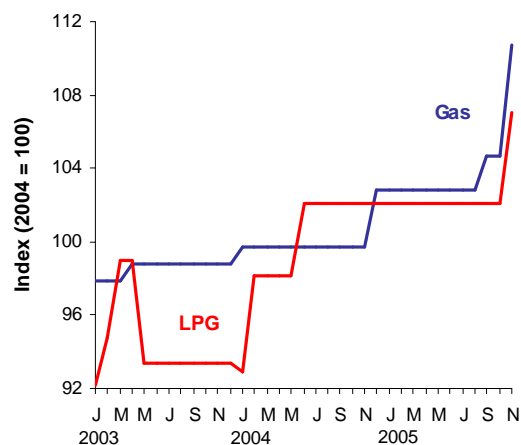
### "GAS-POWERED" RISE IN HOUSING COSTS

Overall CPI continued to be influenced by the delayed pass-through effects of high oil prices, although the WTI oil price has since moderated by some 10% from its record high level of US\$70.85 per barrel in August. In particular, housing costs edged up by 0.2%, due to more expensive domestic piped gas and liquefied petroleum gas (LPG). Town gas producer City Gas Pte Ltd, which recently adjusted its tariffs upwards by 1.8% in September, raised tariffs by another 5.8% in November on account of higher input costs. Indeed, the price of naphtha – a refining by-product used for the production of town gas – has risen close to 26% since the beginning of the year. (Chart 5a) Similarly, pent-up costs pressures from product costs drove retailers of LPG to hike prices by 4.8%, after having kept prices unchanged since June 2004. (Chart 5b)

**Chart 5a**  
WTI Oil and Naptha Prices



**Chart 5b**  
Gas and LPG CPI



Source for prices of Naptha: Bloomberg.

## Outlook

### Inflation to Pick Up in 2006 on the Back of Continued Economic Growth and Increased Business Costs

#### WAGE GROWTH AND RISING RENTALS TO DRIVE UP BUSINESS COSTS

Going forward into 2006, local employers are likely to remain sanguine about the global and domestic business climate, and will continue to provide support for the labour market. Apart from rising wages, business costs are also expected to face some pressures from the expected increases in rentals of retail and office space. For instance, property consultancy firms Jones Lang LaSalle and Knight Frank are projecting retail rentals to move up by 5-10% in 2006. Against this backdrop, the cost of doing business can be expected to increase in 2006, and a stronger pass-through to consumer prices can be expected this year.

#### DEMAND FOR SENTIMENT-SENSITIVE ITEMS TO BE STIMULATED BY HEALTHY REAL INCOME GROWTH

In view of the positive economic outlook, healthy growth in real wages and wealth effects from rising stock prices, consumer demand for retail sales items such as clothing, footwear and personal effects could strengthen in 2006. Already, retailers are reporting exceptional sales during the recent Christmas holiday season. When compared to the same period in the previous year, retailers at Paragon, Centrepont, and various heartland shopping malls have

noted a 10-30% increase in shopper traffic during the weekend before Christmas Day. Encouraged by the healthy growth in sales and record high tourist arrivals, anecdotal feedback suggests that retailers are generally upbeat about sales ahead, particularly with the Integrated Resort in the pipeline. Therefore, it is likely that retailers may pass on pent-up cost pressures stemming from rising wages, rentals and utility bills to consumers through higher prices.

**SOME INFLATIONARY EFFECTS FROM HIGH OIL PRICES ARE STILL LOOMING**

Apart from the abovementioned factors, inflationary pressures are also imminent in other components of the CPI basket. In particular, some energy-related items will continue to be influenced by the delayed effects of high oil prices. For example, electricity tariffs for Q1 2006 have been revised upwards by 7.4%, after having already witnessed three quarterly hikes in 2005. In addition, the Singapore School Transport Association, an industry body that represents 90% of school bus operators, has advised members to raise monthly fares by \$5-\$10 after a review which showed that the operators are bearing substantial costs burdens stemming from more expensive diesel.

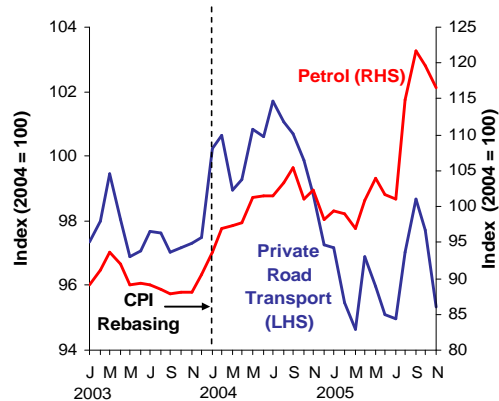
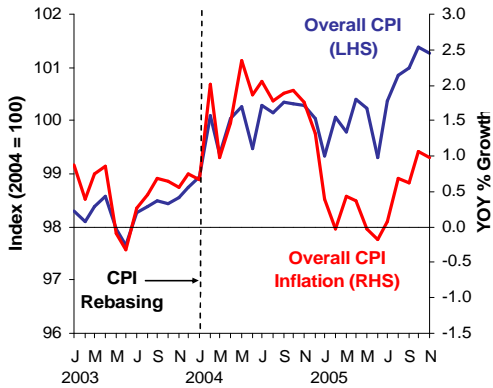
**HEADLINE INFLATION PROJECTED TO COME IN AROUND 0.5% FOR 2005 AND 0.5-1.5% NEXT YEAR**

Taking all factors into consideration, headline CPI inflation is forecast to be around 0.5% for 2005 as a whole before rising to 0.5-1.5% next year. Meanwhile, the MAS underlying inflation measure is projected to come in at around 1.2% in 2005 and 1.5-2.0% in 2006.

## Summary of Recent Domestic Price Developments

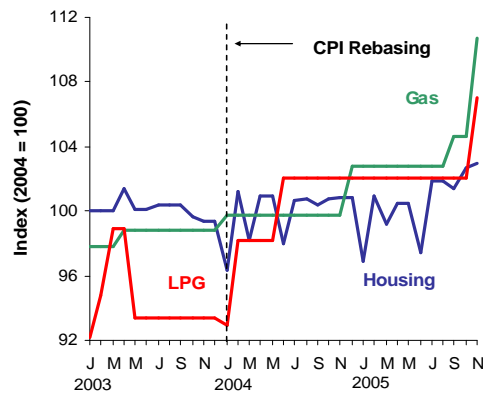
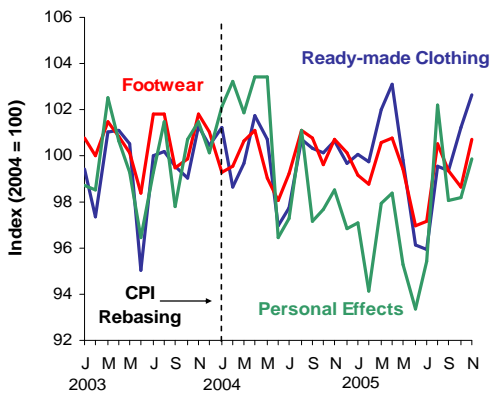
Headline CPI inflation edged down to 1.0% y-o-y in November, from 1.1% in October. On a m-o-m basis, the CPI fell 0.1%.

Private road transport costs tumbled by 2.4% in November, due to significant declines in car and petrol prices.



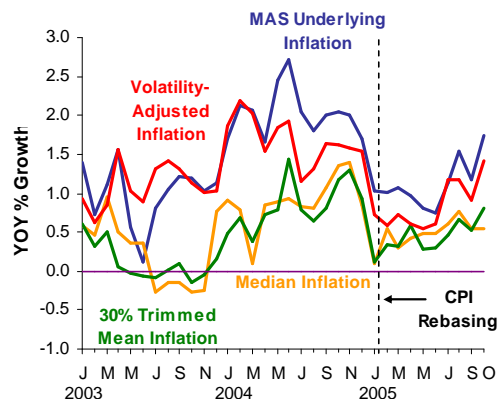
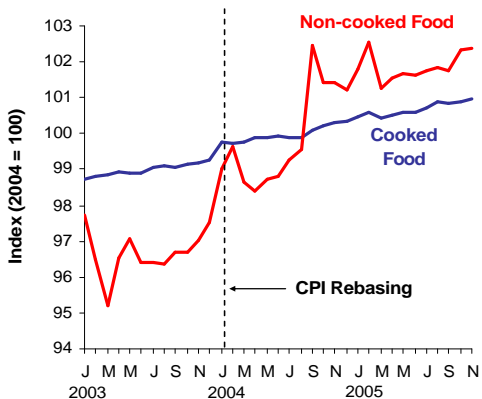
Prices of retail sales items including clothing, footwear and personal effects strengthened, in line with typical seasonal trends.

At the same time, housing costs went up as City Gas Pte Ltd raised tariffs for residential piped gas services while LPG retailers hiked product prices.



After having climbed steadily throughout the year, food prices continued to inch up during the month.

Meanwhile, all measures of core inflation rose further in November. The MAS underlying inflation measure increased to 1.8% (y-o-y), from 1.7% in October.



## Statistical Appendix

**Table A.1**  
**Consumer Price Index**

	All Items	Food	Clothing & Footwear	Housing	Tpt & Comm	Educ- ion & Stationery	Health Care	Recreation & Others
Weights	10000	2338	357	2126	2176	819	525	1659
	INDEX (2004 = 100)							
2004 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	101.5	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

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 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	8.7	33.9
Feb	0.0	2.3	8.0	42.4
Mar	0.4	4.2	9.6	53.6
Apr	0.4	5.6	6.8	53.4
May	0.0	3.2	7.2	28.1
Jun	-0.2	5.1	8.1	49.8
Jul	0.1	5.9	7.7	46.2
Aug	0.7	5.3	11.5	43.1
Sep	0.6	8.1	12.1	44.3
Oct	1.1	6.6	12.2	20.8
Nov	1.0	6.6	13.4	32.3

Source: Singapore Department of Statistics, IMF and Bloomberg