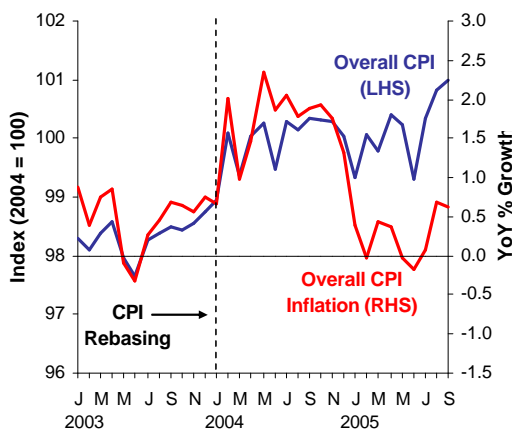


## CPI Inflation Remained Steady

CPI (2004 = 100)		
% Growth/ Level	Aug 05	Sep 05
<b>y-o-y</b>	0.7	<b>0.6</b>
<b>m-o-m</b>	0.5	<b>0.1</b>
<b>Index</b>	100.8	<b>101.0</b>



- **Headline CPI inflation came in at 0.6% in September**

The MAS underlying inflation measure moderated to 1.2%, from 1.5% in the previous month.

- **On a m-o-m basis, CPI rose 0.1% with higher private road transport costs partially offset by lower housing costs**

Petrol prices rose as global oil prices remained high following the onset of Hurricane Katrina. The hike in gas tariffs was offset by the S&C rebates given out during the month, resulting in lower overall housing costs.

- **External and domestic cost pressures are looking up**

Globally, higher input prices and resilient economic growth could lead to firmer imported inflation for the Singapore economy. Meanwhile, domestic operating costs are likely to increase on account of wage pressures and higher utilities charges.

- **CPI inflation projected to be around 0-0.5% in 2005 before rising to 0.5-1.5% in 2006**

The MAS underlying inflation measure is forecast at around 1% this year and to rise to 1.5-2% in 2006.

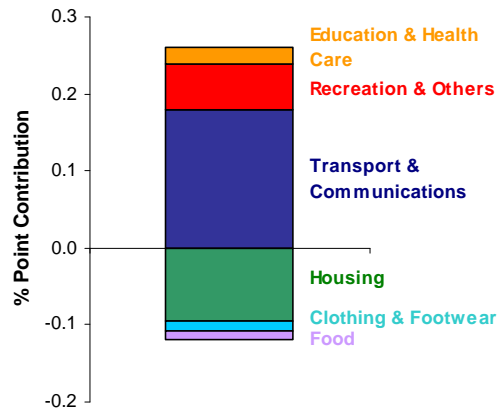
## Recent Developments

### Headline CPI Inflation Held Steady

Headline CPI inflation came in slightly lower at 0.6% year-on-year (y-o-y) in September, after the 0.7% recorded in August. This brought average inflation for the first three quarters of the year to 0.3%. The MAS underlying inflation measure – which excludes private road transport and accommodation costs – registered 1.2% y-o-y, down from 1.5% in the previous month. It averaged 1.1% over the period Jan-Sep 2005.

On a month-on-month (m-o-m) basis, the CPI rose marginally by 0.1% in September. The increases from private road transport costs (subsumed under Transport & Communications), holiday expenses (Recreation and Others) and pre-school education costs (Education & Health Care) were partially offset by lower accommodation costs (Housing) and cheaper retail sales items (Clothing and Footwear). (Chart 1)

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



### PRIVATE ROAD TRANSPORT COSTS PUSHED HIGHER BY PETROL PRICES

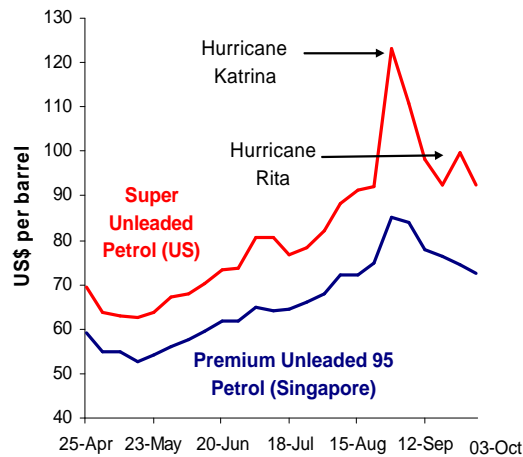
Following the significant 14% increase in the previous month, petrol prices rose further by 6% in September, contributing about 0.2% point to the overall increase in CPI. Local petrol companies hiked pump prices by 9 cents at end-August, following the onset of Hurricane Katrina. The severity of the hurricane's damage to the region's production and refinery facilities led to a spike in US petrol prices, which quickly spread to other regions such as Europe and Asia, as US oil companies rushed to draw spare supplies from these markets. (Chart 2) However, prices subsided to pre-Katrina levels three weeks later, as measures taken by the US government, International Energy Agency (IEA) and OPEC helped to alleviate tensions in the oil market<sup>1</sup>.

Just when recovery operations were gathering pace in the Gulf of Mexico, the oil infrastructure in the region was once again rampaged by Hurricane Rita on 24 September. While US petrol prices were driven slightly higher by the arrival of Rita, Singapore wholesale prices were somewhat spared from a major price reaction. (Chart 2) Market observers

<sup>1</sup> Measures taken by the US government included the release of crude oil from the Strategic Petroleum Reserve, the relaxation of the Jones Act shipping law so as to allow foreign tankers to move fuel between ports, and the nationwide waiver on requirements for summer gasoline and low-sulfur diesel. In addition, the IEA directed its member nations to make an extra two million barrels (mpd) of oil per day available to the market in the next 30 days. Meanwhile, OPEC said it stood ready to supply additional oil to the market when necessary.

attributed this to a narrowing of price arbitrage opportunities for exporting petrol to the US, as oil tanker freight rates rose in response to increased demand for US oil imports. With Singapore wholesale petrol prices having eased somewhat to pre-Katrina levels subsequently, domestic petrol companies were able to pass on some of these cost savings to consumers by cutting 3 cents off pump prices at end-September.

**Chart 2  
Wholesale Petrol Prices\***

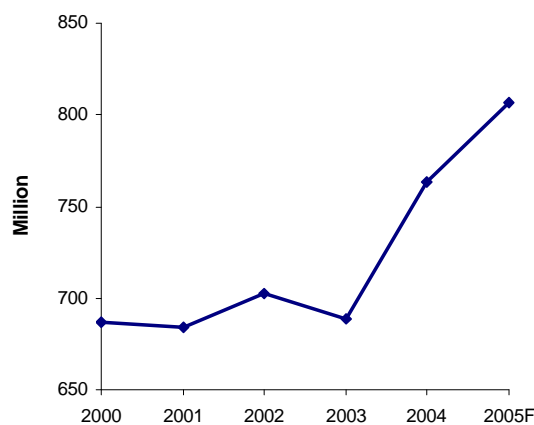


\*Weekly averages.  
Source: International Energy Agency

**INCREASED HOLIDAY TRAVEL EXPENSES RAISED COSTS OF RECREATION**

Recreation costs came in higher, largely reflecting the 2% increase in the overall costs of holiday travel. Anecdotal feedback and industry information suggested that hotel room rates have strengthened in many countries in the last two years, buoyed by a strong recovery in both leisure and business travel. Indeed, according to data compiled by the World Tourism Organisation, international tourist arrivals worldwide registered a healthy 5.9% y-o-y growth in the first seven months of 2005, after having surged 10.7% in the previous year. (Chart 3)

**Chart 3  
Worldwide International Tourist Arrivals**



Source: World Tourism Organisation

### MILD INFLATION FOR EDUCATION AND HEALTH CARE COMPONENTS

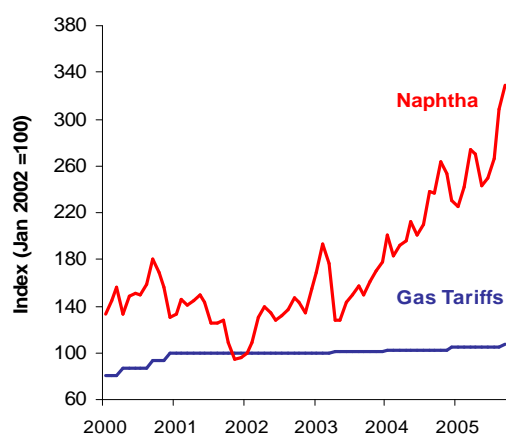
After receiving a boost from the hike in tertiary fees in July and August, education costs went up by another 0.2% in September on account of higher kindergarten and nursery fees. This increase was largely attributed to higher wage costs, as the Ministry of Education (MOE) raised the required qualification of pre-school teachers to improve the quality of pre-school education. By 2008, at least one in four teachers are required to have completed a Diploma in Early Childhood Education (Teaching), up from one in each education centre previously. With the government's continuous strive for educational excellence, pre-school education fees can be expected to trend upwards in the long term.

During September, there were also mild price pressures from health care items. Prices of vitamins and health food, which have been on a general upward trend since 2000, continued to rise, as increasingly health-conscious consumers underpinned demand for these health products. In addition, medical and dental treatment charges also edged up.

### HOUSING COSTS DRAGGED DOWN BY SERVICE & CONSERVANCY REBATES BUT GAS TARIFFS HIKE DAMPENED EFFECT

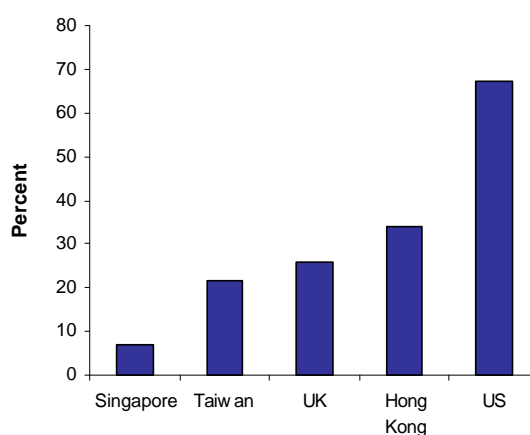
The service & conservancy charges (S&C) rebates<sup>2</sup> weighed down accommodation costs and lowered overall CPI by about 0.1% point in September. This was in spite of a 1.8% hike in household gas tariffs. Town gas producer City Gas Pte Ltd, which has kept its tariffs unchanged since December 2004 despite the price of naphtha – a refining by-product used for the production of town gas – soaring by more than 40% over the period, revised its charges upwards in September. (Chart 4a) Notwithstanding the current upward revision of tariffs, gas prices in Singapore rose by a mere 7% over the period January 2002 – September 2005. In comparison, countries such as Taiwan, Hong Kong, the US and the UK witnessed larger price increases. (Chart 4b)

**Chart 4a**  
Naphtha Prices and Gas Tariffs



Source: Bloomberg for Naphtha

**Chart 4b**  
Percentage Change in Gas CPI  
for Selected Countries,  
Jan 2002-Sep 2005



Source: CEIC

The relatively modest pass-through of product cost increases to consumer gas prices largely reflects the success of the Energy Market Authority (EMA) in bringing about greater competition in the gas industry. To create a level playing field, the EMA decided in 2000 to separate the gas transmission business, which is a natural monopoly, from the other activities such as retailing, trading and importing. The restructuring of the gas market is likely to have

<sup>2</sup> For 2005, S&C rebates are given out in January, March, June, September and December.

brought about higher cost efficiency, which translated into more competitive prices for consumers.

## Outlook

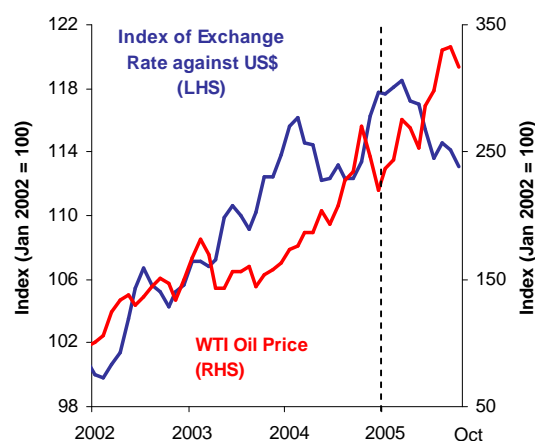
### External and Domestic Costs Pressures Looking Up

#### INFLATION CREEPING UP IN TRADING PARTNER COUNTRIES

Going into 2006, CPI inflation is likely to pick up, reflecting inflationary pressures in the external environment as well as domestic cost pressures. On the external front, both headline and core inflation measures in some of our trading partner countries have moved up in recent months, underpinned by high oil prices and strong economic growth. The strengthening of national currencies against the US dollar that partly shielded many economies from the impact of rising oil prices for the period 2002-2004 has taken a turn since the beginning of the year. (Chart 5) As such, high oil prices along with rising prices of non-fuel intermediate goods and tightening capacity utilisation are expected to pose supply-side cost pressures to producers in some countries.

The continued strength in GDP growth for major economies such as the US and China (as evidenced by robust Q3 growth figures) further confirmed that the global economy has largely remained resilient to high oil prices, and that growth will likely remain on track barring any unforeseen crisis. In addition, China's fixed asset investments may continue to grow firmly on the back of the country's strong economic momentum, thus lending support to prices of commodities such as oil and base metals. In view of these factors, demand-induced inflationary pressures globally could lead to higher prices of imported finished and intermediate goods for the Singapore economy in time to come.

**Chart 5**  
**WTI Oil Prices and Exchange Rates of Main Trading Partners\***



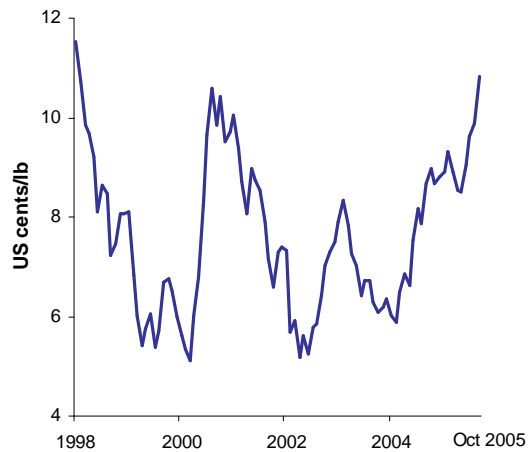
\* Equally weighted index of main trading partner's exchange rates against US dollar

#### SIGNS OF PASS-THROUGH EFFECTS OF OIL PRICES

Although global oil prices have receded from record high levels more recently, their effects continue to permeate through to domestic consumer prices. For instance, just two months after City Gas raised gas tariffs, it announced another 6% hike in November. Anecdotal feedback also suggests that the inflationary effects of oil prices have extended beyond

conventional oil-based products (e.g. plastics and synthetic rubber) to seemingly unrelated products. One such example is sugar. Sugar prices have moved in tandem with oil prices as ethanol – a type of alcohol fuel – is derived from sugarcane. With global demand for ethanol on the rise, the price of sugar traded on the New York Board of Trade (NYBOT) has risen close to 50% since the beginning of 2002. (Chart 6) Domestic importers indicated that although retail sugar prices have already increased 50% over the last 18 months, they will continue to adjust prices if costs continue to rise. Higher sugar prices would not only affect consumers directly through dearer raw sugar, but also indirectly as costs to beverage producers, restaurants and confectioneries increase.

**Chart 6**  
**New York Board of Trade (NYBOT) Sugar Prices**



Source: IMF

Although the economy may continue to see some lagged pass-through effects of high oil prices, business competition and industry restructuring will continue to moderate the pass-through effects, as witnessed in the air travel, electricity and petrol retailing industries.

#### **NOMINAL WAGES TO RISE AS LABOUR MARKET IMPROVES**

Alongside the strong employment growth, wages are likely to increase. For 2005 as a whole, the headline nominal wage growth is expected to come in at 3-4%, following a 3.6% growth in 2004. Together with the increasing cost burdens from rising utilities charges, firms could gradually pass on some of these costs to consumers through higher product prices.

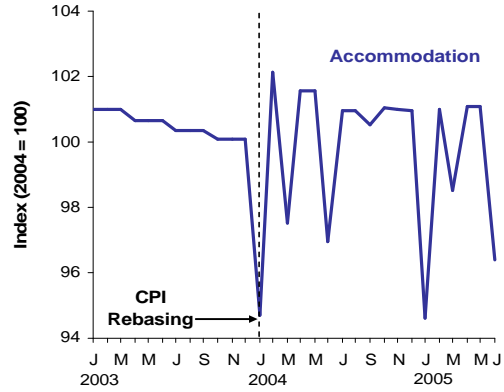
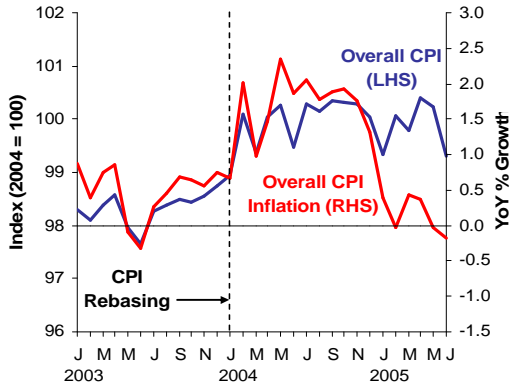
#### **HEADLINE INFLATION TO COME IN 0-0.5% FOR 2005 AND 0.5-1.5% FOR 2006**

Taking all factors into consideration, headline CPI inflation is forecast to be around 0-0.5% for the year 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% this year and 1.5-2.0% in 2006.

## Summary of Recent Domestic Price Developments

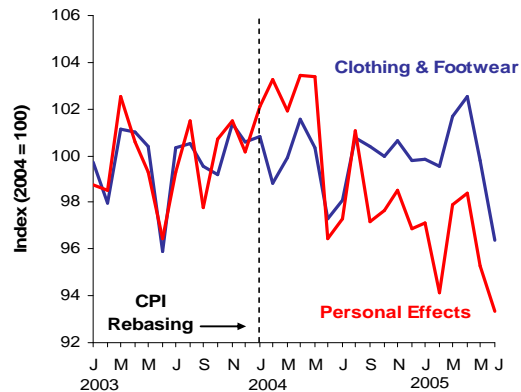
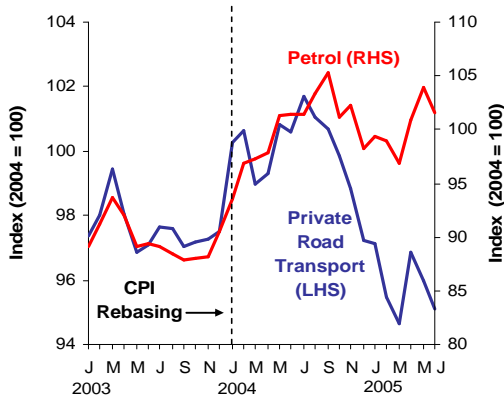
Headline CPI inflation slipped to -0.2% y-o-y in June, after coming in flat in May. On a month-on-month basis, the CPI fell by 0.9%.

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



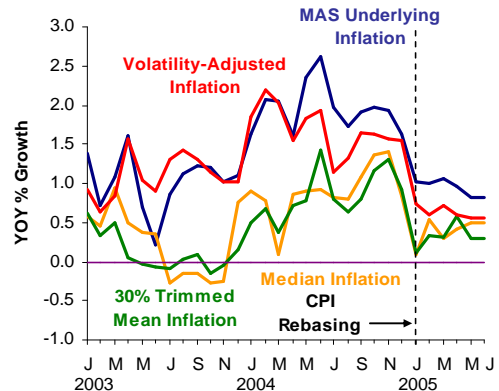
Private road transport costs were dragged down further by lower car prices as well as petrol prices.

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	Educational & 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	101.4	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	102.6	100.6	102.0

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	10.3	43.1
Sep	0.6	8.1	11.8	44.3

Source: Singapore Department of Statistics, IMF and Bloomberg