

HIGHLIGHTS & OUTLOOK

IMPACT OF SARS ON CPI

Headline CPI inflation came in at 0.9% y-o-y in April

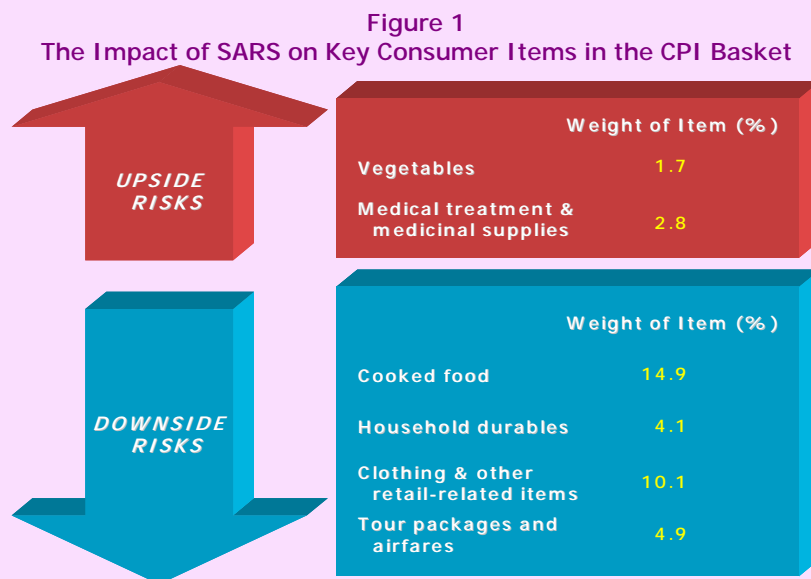
Headline CPI inflation inched up further to 0.9% year-on-year (y-o-y) in April 2003, from 0.8% in March. This brought average inflation for the first four months of the year to 0.7%. On a seasonally adjusted, month-on-month (m-o-m, SA) basis, the index rose by 0.2% in April, compared to the 0.5% increase in the previous month. Price movements during April reflected the impact of global oil price developments as well as SARS, which we will examine more closely in this report. The MAS underlying inflation – which excludes accommodation and private road transport – rose further to 1.5% in April, from 1.1% in the previous month.

CPI rose sequentially on account of world oil developments...

The sequential pickup in consumer prices in April was mainly attributed to the 17% upward revision in electricity tariffs, as SP Services (a subsidiary of Singapore Power) sought to recover earlier losses due to higher operating costs. Given that electricity tariffs usually respond with some lag to the overall movements in world oil prices, the upward adjustment in April reflected the escalating global oil prices during the lead-up to the Iraq war in Jan-Feb.^{1/} Nonetheless, overall prices of fuel-related items was partly offset by the cut in petrol pump prices, which are usually more responsive to fluctuations in global crude oil prices. With the subsequent easing of world oil prices following the US-led victory in Iraq, domestic pump prices were cut by around 5 cents in mid-April.

...although the impact of SARS on CPI was mixed

The outbreak of SARS had a dramatic impact on individual behaviour, as people adapted to the changed circumstances, which posed a clear and present threat of contracting a deadly virus. This had a mixed impact on consumer prices. Figure 1 provides a stylised representation of the channels through which SARS has affected prices, on both the upside and downside.



April saw weaker prices of various retail and travel-related items, as retail outlets, restaurants, and tour agencies adjusted to the sudden drop in demand. In particular, airfares and prices of tour packages declined significantly, as many consumers either postponed or cancelled travel plans. In comparison, the negative impact on prices of several retail items was generally less severe. For instance, prices of footwear and personal effects fell, whereas prices of ready-made clothing were stable. Together, these categories comprise about a third of the CPI basket, and accounted for the slower m-o-m SA increase in the April's CPI. In addition, there was a sharp drop in car prices in April, reflecting lower COE premiums as well as the government's removal of some taxes on motor vehicles.^{2/}

^{1/} OPEC oil prices rose significantly to more than US\$30/barrel in Jan-Feb 2003, before moderating to US\$29/barrel and US\$25/barrel in March and April respectively.

^{2/} With effect from 1 April 2003, a particular tax on cars – that was determined by the handling and marketing cost of the dealer – was removed and this probably lowered the upfront car taxes by 3-5%.

Food prices, in comparison, rose in April, largely on account of the short spike in vegetable prices following the temporary supply disruption with the two-week closure of the Pasir Panjang Wholesale Centre. Although this was almost immediately countered by the huge increase in vegetable imports from other sources, there was still a supply shortage in certain vegetables and contributed to the higher prices during the month. Healthcare costs also rose, albeit mildly, as the health scare led to an increase in the demand for medicinal supplies such as thermometers, surgical masks, gloves and various health supplements. Medical and dental treatment costs also went up, as the running costs of medical facilities increased due to stepped-up precautionary measures aimed to contain the spread of the virus.

CPI inflation expected to remain benign at 0.5-1.5% for 2003...

Although Singapore has been removed from the list of SARS-affected countries by the World Health Organisation, SARS is likely to have some lingering influence on CPI movements going forward. The SARS outbreak has led to a permanently higher running costs for hospitals and other medical facilities.^{3/} These developments are likely to push up overall healthcare costs in the near term. Other price increases, such as that for vegetables, are more temporary. The likelihood of another SARS-related supply shock such as the recent episode at the Pasir Panjang Wholesale Centre is now lower, given that the relevant authorities have implemented the necessary measures to minimise the risk of major disruptions in the supplies of foodstuffs. In particular, apart from the regular screening and tracking measures that are in place, the authorities are looking into further decentralising Singapore's wholesale supplies of foodstuffs – seafood, meat and vegetables – by increasing the number of wholesale centres for each type of food.

...although the downside uncertainties have increased due to SARS

Overall, CPI inflation is likely to remain benign. In particular, prices of various travel and retail-related items are likely to remain weak in the near term, as individuals may still be cautious about travelling overseas, given that the global SARS situation is still not completely under control. School children are still discouraged from travelling abroad during the June holidays, particularly to SARS affected countries. In addition, retailers have brought forward their promotional activities in the run-up before the Great Singapore Sale at end-May in a bid to draw crowds back. The discounts are also reported to be more attractive this time round. Some restaurants have also lowered prices by up to 30%. To further boost consumer confidence, retailers and restaurants have implemented preventive measures such as daily temperature screenings of staff and regular disinfection of premises. Similarly, travel agencies have offered significant price discounts on holiday packages to entice travellers.^{4/}

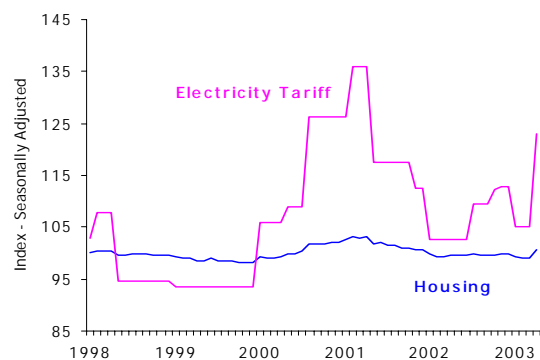
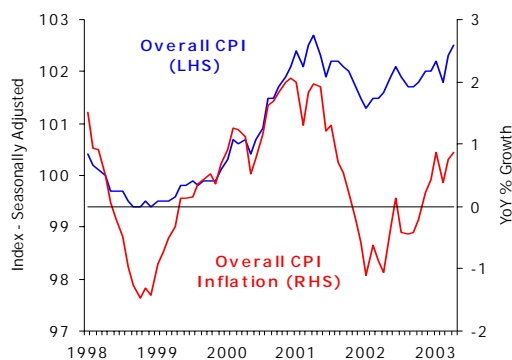
On balance, the demand weakness arising from SARS is expected to dominate price movements in the short run. Taking into account these developments, we expect CPI inflation to come in at the **lower half of our forecast range of 0.5-1.5% for 2003 as a whole.**

^{3/} The Straits Times on 26 May 2003 reported that medical fees are set to increase, as clinics and hospitals are likely to pass on part of the higher costs arising from SARS infection control measures to consumers. It was also reported that some dentists in private practice have already upped charges by \$5.

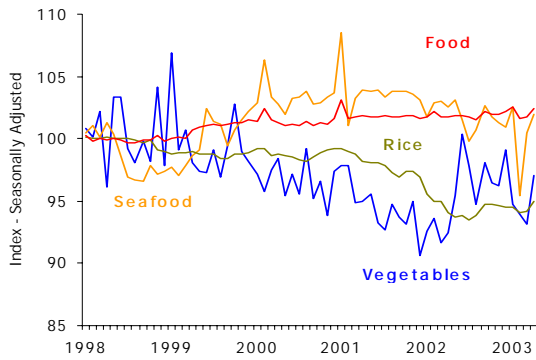
^{4/} Nonetheless, more recent feedback suggests that consumers are gradually streaming back to the shops and eating places, largely enticed by the attractive discounts and price cuts offered by retailers and restaurants. Moreover, businesses at travel agencies have also seen a slight pick up in recent weeks, with more people making travel enquires and bookings for the coming June holidays to the SARS-free destinations.

Headline CPI inflation came in at 0.9% y-o-y in April, up marginally from 0.8% in March. The seasonally adjusted index trended up at a more modest pace as compared to March, rising by 0.2% m-o-m in April.

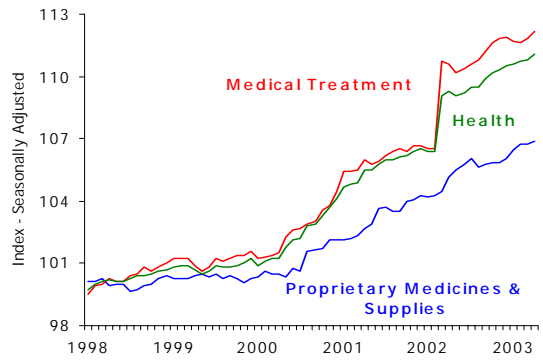
Housing costs rose markedly in April, on account of the sharp 17% hike in electricity tariffs.



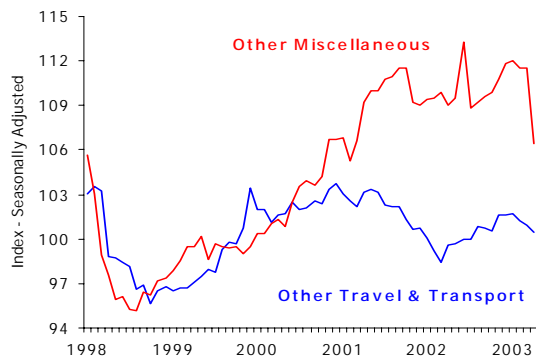
Food prices rose largely due to more expensive vegetables, seafood and rice.



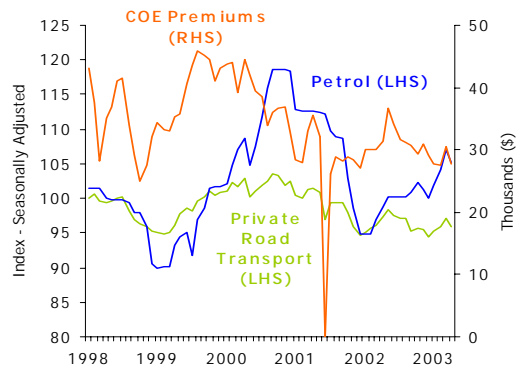
Healthcare costs also picked up, due to the increased demand for certain medical supplies and higher costs of running medical facilities as a result of the SARS outbreak.



The SARS outbreak severely curtailed air travel, as reflected by the significant price declines in "other transport" and "other miscellaneous" items (which comprise mainly tour packages).

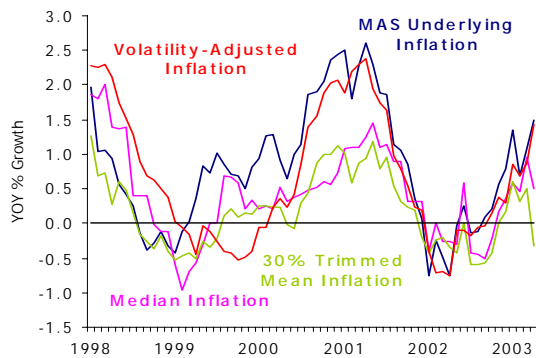


Meanwhile, private road transport costs declined as well, reflecting cheaper cars and lower pump prices.



While the MAS underlying inflation and the volatility-adjusted measure came in higher in April (at 1.5% and 1.4% respectively) as compared to March, the median and trimmed mean inflation came in considerably lower at 0.5% and -0.3% respectively.

Note: CPI SA series are used only when made available by DOS. Specifically, these are the aggregated price indices.



**MONETARY POLICY DIVISION
ECONOMIC POLICY DEPARTMENT**

Consumer Price Index

Period	All Items	Food	Clothing	Housing	Tpt & Comm	Education	Health	Misc
Weights	10000	2752	443	2292	1803	729	305	1676
	Index – Seasonally Adjusted							
2000 Jan	100.3	101.4	96.5	99.3	100.7	101.6	100.9	100.8
Feb	100.7	102.4	96.4	98.9	101.4	101.6	101.1	100.7
Mar	100.6	101.5	96.8	99.0	101.1	101.9	101.2	101.4
Apr	100.7	101.3	96.4	99.3	101.3	102.2	101.2	101.3
May	100.4	101.1	95.8	99.8	99.0	102.7	101.8	101.0
Jun	100.7	101.2	96.1	100.0	99.9	102.9	102.1	101.5
Jul	100.9	101.1	96.8	100.4	100.4	103.2	102.2	101.9
Aug	101.5	101.4	97.1	101.8	100.7	103.3	102.8	102.1
Sep	101.5	101.1	98.0	101.7	101.0	103.6	102.9	102.0
Oct	101.7	101.3	98.5	101.9	101.1	103.7	103.3	102.5
Nov	101.9	101.2	98.3	102.1	100.9	103.7	103.7	103.5
Dec	102.1	101.6	98.0	102.2	101.3	103.7	104.1	103.7
2001 Jan	102.4	103.1	97.4	102.7	100.8	104.0	104.7	103.8
Feb	102.1	101.6	97.6	103.1	100.5	104.1	104.8	103.4
Mar	102.5	101.8	98.0	103.0	100.9	104.2	104.9	104.6
Apr	102.7	101.9	98.0	103.3	100.7	104.7	105.5	105.1
May	102.3	101.8	98.0	101.8	100.1	104.6	105.5	105.2
Jun	101.9	101.8	97.6	102.1	98.3	104.8	105.8	105.6
Jul	102.2	101.9	99.2	101.6	99.3	105.3	106.0	106.0
Aug	102.2	101.8	97.3	101.4	99.2	105.4	106.0	106.1
Sep	102.1	101.8	97.7	101.1	98.9	105.7	106.1	106.1
Oct	102.0	101.9	97.1	100.9	98.5	105.9	106.2	105.9
Nov	101.7	101.9	96.8	100.6	98.0	106.1	106.4	105.3
Dec	101.5	101.6	97.0	100.7	97.4	106.2	106.5	105.1
2002 Jan	101.3	101.8	95.9	99.8	98.1	106.2	106.4	105.2
Feb	101.5	102.2	95.6	99.4	98.4	106.2	106.4	105.3
Mar	101.5	101.8	97.5	99.4	98.4	106.4	109.1	105.1
Apr	101.6	101.8	97.4	99.5	98.7	106.3	109.3	104.7
May	101.9	101.9	97.8	99.6	99.0	106.2	109.1	106.0
Jun	102.1	101.9	98.0	99.7	98.9	106.5	109.2	107.3
Jul	101.9	101.8	100.2	99.9	98.9	106.3	109.5	104.9
Aug	101.7	101.5	98.9	99.7	98.7	106.6	109.5	105.2
Sep	101.7	102.2	97.5	99.5	97.6	106.7	109.9	105.4
Oct	101.8	102.0	98.9	99.6	98.0	106.9	110.2	105.6
Nov	102.0	102.0	99.3	99.8	98.4	107.2	110.3	105.6
Dec	102.0	102.2	97.6	99.9	98.0	107.4	110.5	106.0
2003 Jan	102.2	102.5	98.9	99.3	99.3	107.9	110.6	106.7
Feb	101.8	101.6	96.8	98.9	99.5	107.8	110.7	106.4
Mar	102.3	101.8	98.3	99.0	99.8	107.8	110.8	107.6
Apr	102.5	102.4	98.3	100.6	98.9	108.0	111.1	106.0

ANNEX 2

Period	CPI	Import Price Index	Non-Fuel Primary Commodities	Opec Oil Price
YOY% Growth				
2000 Jan	0.9	7.5	6.2	133.1
Feb	1.3	8.5	9.6	168.4
Mar	1.2	10.2	9.0	122.7
Apr	1.1	8.2	7.8	53.5
May	0.5	9.2	7.6	77.0
Jun	0.8	11.1	7.3	86.2
Jul	1.2	11.0	6.5	51.3
Aug	1.6	9.6	2.3	46.0
Sep	1.7	9.7	1.7	42.4
Oct	1.8	9.9	-0.5	41.2
Nov	2.0	8.2	-1.2	30.8
Dec	2.1	4.6	-1.5	-2.6
2001 Jan	2.0	4.5	-2.1	-2.4
Feb	1.3	3.8	-2.9	-5.2
Mar	1.8	1.6	-3.0	-12.3
Apr	2.0	3.4	-2.3	7.7
May	1.9	2.6	-1.7	-2.9
Jun	1.2	1.3	-1.3	-10.5
Jul	1.3	0.3	-1.6	-14.1
Aug	0.7	-0.6	-2.1	-14.5
Sep	0.5	-2.7	-7.0	-22.7
Oct	0.2	-4.2	-9.3	-36.0
Nov	-0.2	-3.9	-7.2	-43.2
Dec	-0.6	-2.1	-8.4	-26.5
2002 Jan	-1.1	-1.8	-8.6	-24.4
Feb	-0.6	-2.1	-7.5	-25.6
Mar	-0.9	-0.8	-4.6	-4.4
Apr	-1.1	-1.0	-5.2	0.5
May	-0.3	-1.7	-6.3	-5.8
Jun	0.1	-2.9	-2.8	-8.9
Jul	-0.4	-2.0	0.1	6.0
Aug	-0.4	-0.6	1.3	5.7
Sep	-0.4	0.7	7.9	13.8
Oct	-0.2	1.6	13.4	40.2
Nov	0.2	0.8	11.3	37.2
Dec	0.4	2.1	11.4	59.6
2003 Jan	0.9	3.1	12.0	65.5
Feb	0.4	5.0	11.7	66.7
Mar	0.8	3.4	7.1	30.4
Apr	0.9	-0.6	6.6	1.9