

HIGHLIGHTS & OUTLOOK

HEADLINE CPI INFLATION BOOSTED BY EARLIER INCREASE IN CIGARETTE PRICES, EVEN AS CONSUMER PRICES EDGED UP SEQUENTIALLY

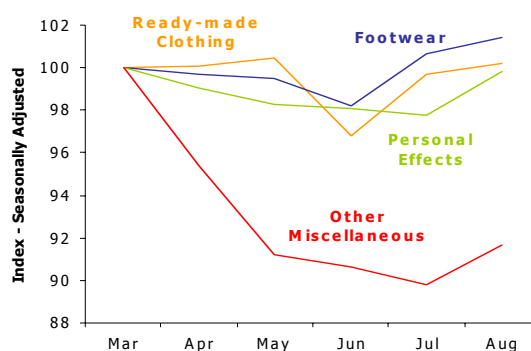
CPI inflation came in higher at **0.5%** year-on-year (y-o-y) in August, compared with 0.3% in July. The headline inflation rate continued to reflect the hefty one-off 20% y-o-y increase in prices of "alcoholic drinks & tobacco" earlier in July, which will have a permanent effect on the headline number for the rest of the year.¹ This brought average inflation for the first eight months of the year to 0.4%.

On a seasonally adjusted, month-on-month (m-o-m, SA) basis, the index edged up by 0.1% in August after a marked increase of 0.4% in the previous month. The MAS underlying inflation – which excludes accommodation and private road transport – picked up further to 1.0% y-o-y in August, from 0.8% in the previous month.

DELAYED PICKUP IN PRICES OF TRAVEL-RELATED ITEMS AFTER SARS, ALTHOUGH PRICES OF SEVERAL MASS-MARKET RETAIL ITEMS HAVE LARGELY BOUNCED BACK

After rebounding strongly in July, overall consumer prices stabilised somewhat in August, registering only a small uptick. The mild increase reflected the continued unwinding of earlier price discounts with the containment of SARS. Nonetheless, the pickup in prices in the SARS-hit sectors has been uneven. Prices of "other miscellaneous" items (comprising largely packaged tours) turned around for the first time in August, after plunging in Apr-Jul. While the SARS outbreak triggered the sharp decline in prices earlier in April, the delayed pickup in prices after the containment of the outbreak was more likely to be attributed to weak demand sentiments and earlier uncertainties about the CPF cuts. In comparison, prices of some retail items such as ready-made clothing, footwear and personal effects, most of which bounced back earlier in July, continued their gains in August with prices recovering close to their pre-SARS levels. (Chart 1.) Arguably, these retail items have a smaller price elasticity compared to the more discretionary spending items such as package tours which is subsumed under the "other miscellaneous" category.

Chart 1
Profile of SARS-hit Items



In addition, communication costs, which have been on a trend decline, recorded some increases, largely due to more expensive and sophisticated mobile phone sets launched by

¹ The sharp y-o-y rise in prices of cigarettes in August was due to the Government's change in tax policy on tobacco (cigarettes are now taxed by sticks instead of by weight) implemented in July 2003. Nevertheless, on a m-o-m SA basis, the price of "alcoholic drinks & tobacco" stabilised in August.

the major phone makers this year.² Prices of other consumer-related services, specifically that of healthcare and education, also edged up during the month.

MEANWHILE, PETROL PRICE WAR KEPT PRICES FAIRLY SUBDUED

Nonetheless, the overall CPI increases in August were partially offset by other short-term adjustments in relative prices. Private road transport costs declined mainly due to the continuing island-wide petrol discounts (of up to 10%) offered by the various pump operators since July. Meanwhile, food prices fell in August on account of a sharp decline in the prices of vegetables, even as the price of rice and seafood rose.

SOME COMMODITY-RELATED UPSIDE RISKS IN THE NEAR TERM...

Singapore Power will be reducing electricity tariffs by over 4% from October, based on lower oil prices in the first two weeks of September.³ Notwithstanding the recent tariff cut, prices of oil-related items in the CPI basket may still see some support due to more recent global oil price developments. Global oil prices trended up again to about US\$26 recently with OPEC's decision in late September to cut back on production.⁴ If oil prices rise further, the tariff cuts may be partially restored later in the year. The petrol pump discounts, which have increased by up to 13% in September, could also see an abrupt end. There may also be some price pressures from soft commodities, specifically that of rice, supported by low supplies due to recent poor weather conditions and the Thai government's intervention scheme.

...ALTHOUGH WEAK DEMAND PRESSURES IN THE ECONOMY WILL KEEP A LID ON PRICES

Overall demand-side pressures in the economy are expected to be limited, as the on-going structural changes coupled with the impending CPF cuts in October weaken consumer sentiment somewhat. Nevertheless, consumer prices going forward, are likely to reflect the continued unwinding of the earlier price declines triggered by the SARS outbreak, especially from sectors that have not recovered fully yet such as travel items. Following the initial rebound in August, prices of travel services are likely to continue to recover going forward, with some pent-up consumer demand for travel expected at year-end. After the local tour agency Chan Brother's successful Travel Fair in August (which reportedly attracted 45,000 people and sold S\$8 million worth of tour packages), the NATAS followed up with their own travel fair in September which attracted a turnout of 42,000.⁵ Many of the tour agencies which participated in the NATAS travel fair also reported better-than-expected sales of tour packages.

Meanwhile, keen competition in some sectors of the economy will continue to put a lid on price pressures. In particular, the price war that erupted in early August among the three big telecommunications providers – SingTel, StarHub and MobileOne – is expected to benefit consumers with cheaper services and possibly lower communication costs in the months going forward.⁶

Taking all these factors into account, for 2003 as a whole, our forecast for headline CPI inflation is at the lower end of the **0.5-1.0% range**.

² According to a BT report (7 Aug 2003), Nokia and Motorola launched several new models worldwide this year, many of which have been launched in Singapore since the second quarter of this year.

³ OPEC oil prices trended down to around US\$25 per barrel by mid-September.

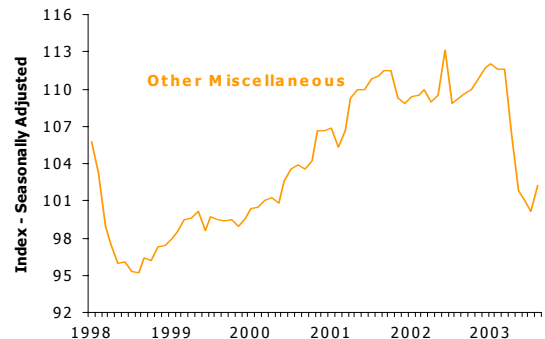
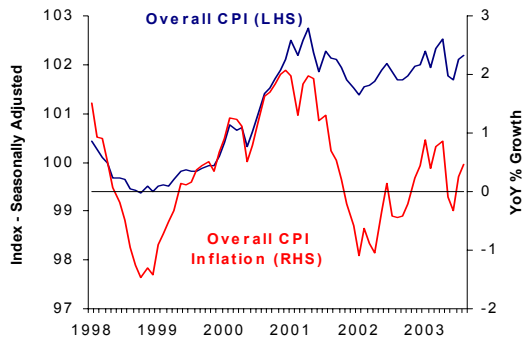
⁴ OPEC's decision to cut production by 900,000 barrels per day was due to concerns of an expected spike in supply from Iraq next year with its resumption in production, as well as higher output from non-OPEC members like Russia and Mexico.

⁵ Source: The Straits Times on 24 September 2003, "Record turnout of 42,000 at Natas fair".

⁶ The price war began in early August when SingTel announced new handphone subscriptions plans that came with free incoming calls. MobileOne also joined in the fray with its own free incoming calls package while Starhub (which already provides free-incoming call packages) surprised the markets by extending its "free" IDD call beyond Malaysia to countries like US, China and Hong Kong. Source: The Business Times on 5 August 2003, "Handphone war could hurt all three telcos".

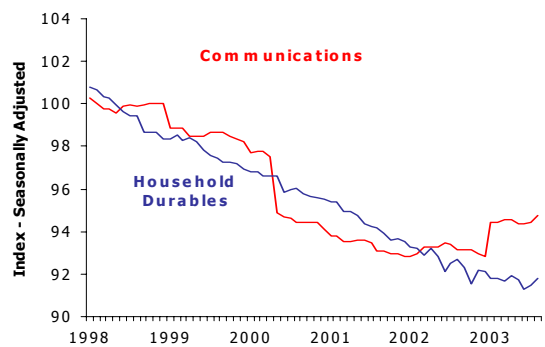
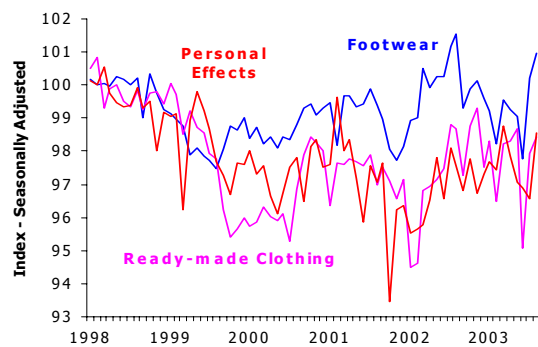
CPI inflation came in higher at 0.5% y-o-y in August, from 0.3% in the previous month. The seasonally adjusted index inched up by 0.1%, after a stronger 0.4% increase in July.

Overall CPI was supported by the rebound in prices of "other miscellaneous" items (comprising mainly packaged tours), although they remained below their pre-SARS levels.



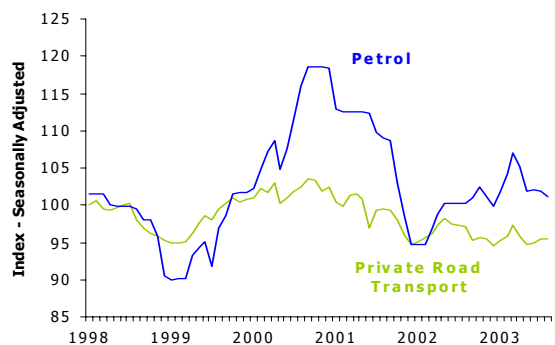
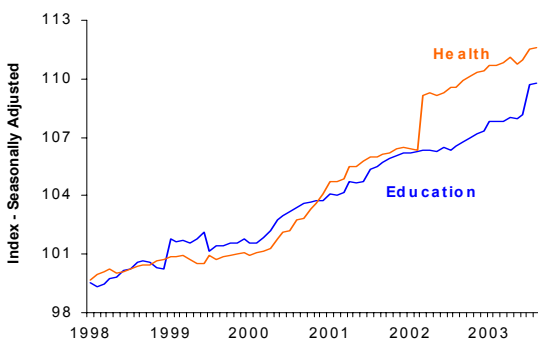
Prices of some mass-market items including ready-made clothing, footwear and personal effects also continued to rise in August.

Communications costs and prices of household durables, which have been on trend declines, also recorded some modest increases.



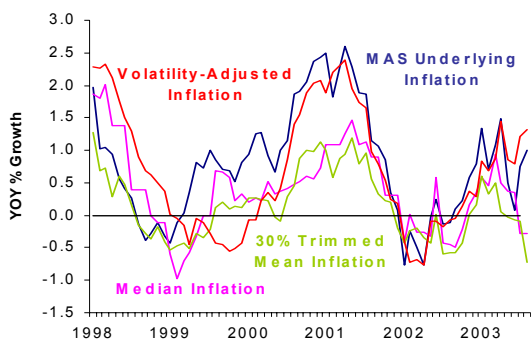
Costs of education and healthcare rose marginally in August.

Private transport costs fell due to the continuing island-wide petrol price war, which lowered pump prices.



Compared to the previous month, the MAS underlying inflation and the volatility-adjusted inflation came in higher at 1.0% and 1.3% respectively; while the median inflation and the trimmed mean continued to decline, coming in at -0.3% and -0.7% respectively.

Note: CPI SA series are used only when seasonality is detected. Otherwise, non-SA series are used.



**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							
2001 Jan	102.5	103.1	97.4	102.7	100.8	104.1	104.7	103.8
Feb	102.2	101.5	97.6	103.1	100.5	104.1	104.7	103.4
Mar	102.5	101.9	98.0	103.0	100.9	104.2	104.9	104.5
Apr	102.7	101.9	98.0	103.4	100.7	104.7	105.5	105.0
May	102.2	101.9	98.1	101.8	100.1	104.7	105.5	105.2
Jun	101.9	101.8	97.6	102.0	98.3	104.8	105.8	105.6
Jul	102.3	101.9	99.1	101.6	99.2	105.3	106.0	106.0
Aug	102.1	101.9	97.3	101.3	99.2	105.5	106.0	106.0
Sep	102.1	101.8	97.6	101.0	98.9	105.7	106.1	106.1
Oct	102.0	101.9	97.2	100.9	98.5	105.9	106.2	105.9
Nov	101.7	102.0	96.7	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	101.4	101.8	95.9	99.8	98.1	106.2	106.4	105.2
Feb	101.6	102.2	95.5	99.4	98.4	106.2	106.4	105.3
Mar	101.6	101.8	97.4	99.4	98.4	106.4	109.1	105.2
Apr	101.6	101.8	97.4	99.5	98.8	106.3	109.3	104.8
May	101.9	101.9	97.8	99.6	99.0	106.2	109.1	105.9
Jun	102.0	101.9	98.0	99.8	98.8	106.5	109.3	107.3
Jul	101.9	101.8	100.0	99.9	98.9	106.3	109.6	105.0
Aug	101.7	101.6	99.0	99.7	98.7	106.5	109.6	105.2
Sep	101.7	102.2	97.5	99.5	97.5	106.8	109.9	105.3
Oct	101.8	102.0	98.8	99.6	98.1	106.9	110.1	105.5
Nov	102.0	101.9	99.3	99.8	98.4	107.2	110.3	105.6
Dec	102.0	102.2	97.6	100.0	98.1	107.3	110.4	106.0
2003 Jan	102.3	102.5	98.9	99.3	99.3	107.8	110.7	106.7
Feb	102.0	101.5	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
May	101.8	102.5	98.7	99.4	98.0	107.9	110.7	104.5
Jun	101.7	102.2	96.9	99.6	98.4	108.2	110.9	104.5
Jul	102.1	102.5	99.2	99.5	98.2	109.7	111.5	105.2
Aug	102.2	102.4	98.7	99.4	98.1	109.8	111.6	106.0

SELECTED INFLATION INDICATORS

Period	CPI	Import Price Index	Non-fuel Primary Commodities	Opec Oil Price
YOY% Growth				
2001 Jan	2.0	4.5	-2.1	-2.4
Feb	1.3	3.7	-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	-0.5	-2.1	-14.5
Sep	0.5	-2.7	-7.0	-22.7
Oct	0.2	-4.1	-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	-1.7	-8.7	-24.4
Feb	-0.6	-2.1	-7.6	-25.6
Mar	-0.9	-0.7	-4.6	-4.4
Apr	-1.1	-0.9	-5.2	0.5
May	-0.3	-1.7	-6.3	-5.8
Jun	0.1	-2.8	-2.8	-8.9
Jul	-0.4	-2.0	0.2	6.0
Aug	-0.4	-0.6	1.4	5.7
Sep	-0.4	0.7	7.9	13.8
Oct	-0.2	1.5	13.5	40.2
Nov	0.2	0.8	11.4	37.2
Dec	0.4	2.2	11.5	59.6
2003 Jan	0.9	3.1	12.4	65.5
Feb	0.4	5.1	12.0	66.7
Mar	0.8	3.3	7.7	30.4
Apr	0.9	-0.3	7.5	1.9
May	-0.1	-1.5	7.2	3.6
Jun	-0.3	0.0	4.5	12.7
Jul	0.3	1.1	1.8	9.3
Aug	0.5	1.7	5.2	-10.7