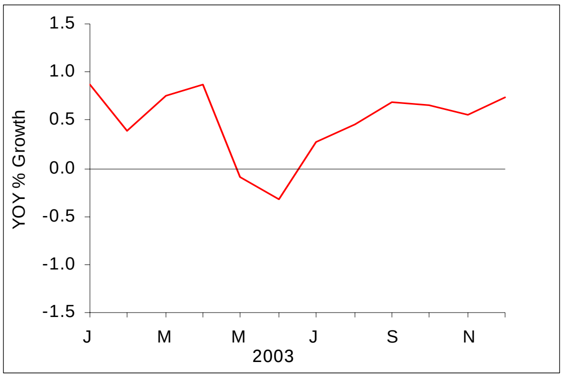
Inflation Monthly DEC 2003

HIGHLIGHTS & OUTLOOK

2003 IN REVIEW

For 2003 as a whole, **headline CPI inflation** came in within expectations at **0.5%** year-on-year (y-o-y). Even as there were modest price pressures arising from supply-side factors, underlying demand-push price pressures remained weak. CPI inflation, which came in at 0.7% in the first four months of 2003, turned down in May-Jun, following the negative impact of SARS on prices of various key consumer items. Boosted by several supply-induced price increases, and some recovery from the effects of SARS, prices subsequently resumed their mild upward path, with CPI inflation averaging 0.6% in H2 2003. (Chart 1)

Chart 1
Headline CPI Inflation



SUPPLY-SIDE PRESSURES KEY DRIVER OF CPI IN DEC

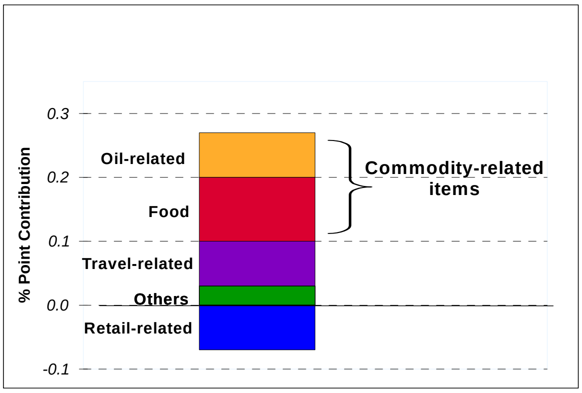
COMMODITY-RELATED PRICE PRESSURES UNDERPINNED PRICE INCREASES...

Headline CPI inflation came in slightly higher at 0.7% y-o-y in December, as compared to 0.6% in November. This was in line with both MAS' as well as private analysts' expectations.[1] The MAS underlying inflation – which excludes accommodation and private road transport – also came in slightly higher at 1.1% y-o-y in December, as compared to 1.0% a month ago.

The index rose by 0.2% sequentially in December, after inching up by 0.1% in the previous month. Commodity-related price pressures continued to be the key driver of price increases in December, as higher import prices of both oil and non-oil commodities in the world markets filtered through to local prices. In particular, prices of food and oil-related items contributed 0.17% points of the increase in overall CPI. (Chart 2) In addition, the more optimistic economic outlook had also improved consumer sentiment and spurred the demand for travel among Singaporeans, helping to lift the overall index. Nonetheless, downward price adjustments in some retail-related items capped overall price increases.

[1] The forecast for December's CPI increase was 0.7%. Source: Channel NewsAsia on 26 January 2004, "December consumer prices seen rising due to Christmas spending".

Chart 2
% Point Contribution to Increase in SA CPI



...WITH RISING PRICES OF FOOD AND OIL-RELATED ITEMS

Prices of non-cooked food rose by 0.7% in December, with several food products including meat & poultry, seafood, vegetables, fruits and cooking oil registering price increases, ranging between 0.5-0.9%. However, rice prices took a breather, edging down slightly after a steady climb since August. The general increase in domestic prices of non-cooked food partly reflected higher imported food prices, which also rose by 0.7% sequentially in December. Prices at restaurants saw significant increases as well, possibly reflecting operators' higher costs arising from more expensive foodstuff over the past few months.

Apart from food, petrol prices were hiked by five cents in mid-December, as pump operators who have been holding off increases for several months despite rising global oil prices[2], finally passed on the higher costs to consumers. This was the first time prices were raised since February, although some of the earlier discounts offered during the petrol price war were unwound in the previous month.

BUOYANT DEMAND FOR TRAVEL LIFTED CPI FURTHER

Prices of travel-related items continued to strengthen in December, as travelling demand improved further, on the back of more upbeat consumer sentiment. This was reflected in the 1.4% m-o-m SA rise in prices of "other miscellaneous" items (comprising largely holiday & tour packages) – the fifth straight month of increase – with prices recovering close to their pre-SARS levels.

PRICE DECLINES IN RETAIL ITEMS ***NOT*** INDICATIVE OF GENERAL WEAKENING IN DEMAND

While there were some downward price pressures in several retail-related items, this does not appear to be due to weakening demand. For example, car prices fell considerably in December, despite feedback from some car dealers that sales were fairly healthy. The drop in December's car premiums to around $26,500 – the lowest levels since July 2001 – was primarily due to the unexpectedly huge supply of COEs to be released by the Land Transport Authority over the period September 2003 to April 2004.

While prices of big-ticket items such as furniture and household equipment saw the anticipated support from the front-loading of purchases prior to the GST hike, this was not reflected in most mass-market retail items. In fact, many retailers attributed the weakness in sales to the close proximity of the Christmas and Chinese New Year seasons.[3] As a result, several major retailers resorted to offering massive discounts on

[2] OPEC oil prices climbed rapidly for the past few months from around US$26 per barrel at end-September 2003 to nearly US$30 per barrel at end-December.

[3] Source: The Business Times on 22 January 2004, "CNY too close to Christmas, sigh retailers".

clothing, footwear, and personal effects, in an attempt to entice shoppers to spend further in the post-Christmas or year-end sales.

UPSIDE TO COMMMODITY PRICES COULD SUPPORT CPI

SUPPLY-SIDE FACTORS EXPECTED TO CONTINUE EXERTING UPWARD PRESSURE

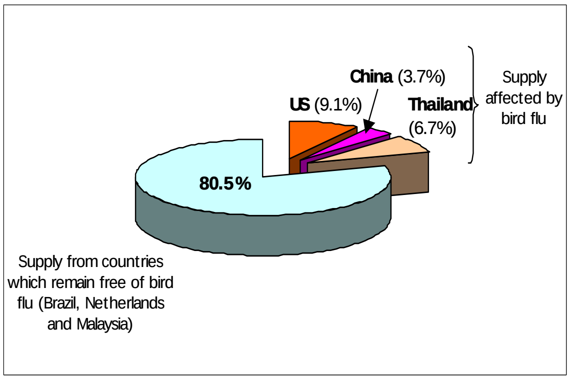
Headline CPI inflation is expected to come in within **0.5-1.5%** for 2004. In the near term, inflation trends will be influenced by the developments of world commodity prices, including price shocks from food-related diseases.

Food-related Diseases

The recent bird flu outbreak in Asia, and the mad cow disease in the US, could lead to a substitution for alternative supplies of these items, as well as a shift towards other types of meat. On balance, this could result in only a modest increase in general food prices.

There was a minor supply disruption of chicken following the ban by the Agri-Food and Veterinary Authority (AVA) on all imports of poultry from Thailand, China and the US, which affects approximately 20% of total chicken consumption in Singapore. (Chart 3) However, many of Singapore's major sources of chicken imports including Brazil, the Netherlands and Malaysia, remain free of such diseases.[4] With the bulk of chicken consumed domestically remaining free from the contagion, it is unlikely that chicken prices will be significantly affected.

Chart 3
Total Imports of Chicken in 2003*



*Figures are provided by the AVA.

While the affected frozen chicken (from Thailand, China, and US) represent 20% of total chicken consumption in Singapore, their significance in the CPI basket is expected to be even smaller - frozen poultry makes up less than 12% of the weight of overall poultry items in the CPI basket, while fresh poultry (which are mainly from Malaysia) takes up the remaining 88%. A more significant impact on overall CPI could arise from the substitution of chicken for other forms of meat or seafood.

The impact of the six-year ban on US beef imports is likely to be muted as well, given that Singapore imports only about 5% of its beef requirements from there.[5] However, with many countries replacing their US imports with alternative sources from Australia and New Zealand, the sudden surge in demand for beef imports from these countries –

[4] Singapore imported 103,000 tonnes of frozen chicken meat last year, with the bulk coming from Brazil, and an additional 120,000 live chicken are also imported daily from Malaysia. Source: The Straits Times on 29 January 2004, "Singapore bans Chinese poultry".

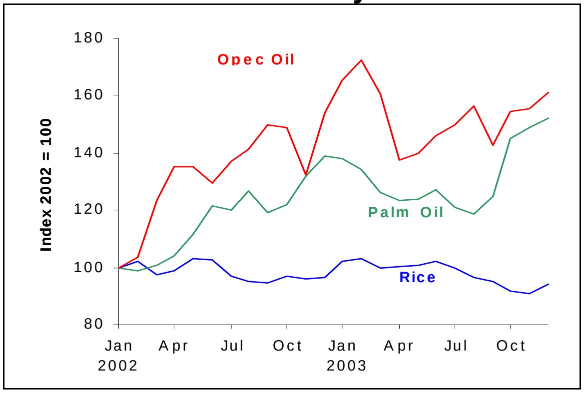
[5] Source: The Straits Times on 11 January 2004, "Too cowed to eat beef?"

already major beef importers for Singapore – suggests that prices may rise in the interim.

Agricultural and Oil Commodities

Aside from the food-related disease shocks, several agricultural commodities including rice and palm oil have also been experiencing some price increases in the CPI basket. Although domestic rice prices edged down slightly in December, this is not expected to persist as the rice intervention schemes in Thailand have continued to support prices in commodity markets. The drought in several rice-producing countries will also limit supplies, and further exert upward pressure on rice prices in the coming months. Likewise, prices of cooking oil, which have been rising since January 2003, are likely to trend up further, supported by the continued upswings in world prices of palm oil. (Chart 4) In addition, shipping prices, which is an integral component of the (delivered) commodities' final price, have increased markedly in recent months, adding further upward price pressures on deliverable commodities in general.[6]

Chart 4
World Commodity Prices



Global oil prices, which have been fairly volatile, are likely to remain a key factor underpinning consumer price developments in the coming months. The steady rise in world oil prices over the past few months has put pressure on the retail petrol market. (Chart 4) Indeed, several major pump operators adjusted their prices upwards by another five cents in February, as OPEC oil prices breached the US$30 per barrel mark in January. Prices continued to be supported at around these levels in early February, following OPEC's announcement to quash overproduction of 1.5 million barrels. The organization also intends to reduce output by a further one million barrels a day in April, in an effort to prop up prices when winter fuel demand wanes. In addition, the disruption of gas supplies from Indonesia to Singapore arising from a pipeline leak in November 2003 could have an additional, albeit minor, impact on overall CPI as well. Nonetheless, some mitigating forces on prices remain. These include the widely anticipated boost in non-OPEC supplies, as well as the eventual return of Iraqi oil production.

DEMAND-SIDE PRICE PRESSURES COULD EMERGE ALONGSIDE IMPROVED CONSUMER SENTIMENT

On the domestic front, with the economic outlook brightening, consumer confidence has also turned more optimistic, as supported by the results from the quarterly Straits Times Consumer Confidence Index and the MasterIndex of Consumer Confidence.[7]

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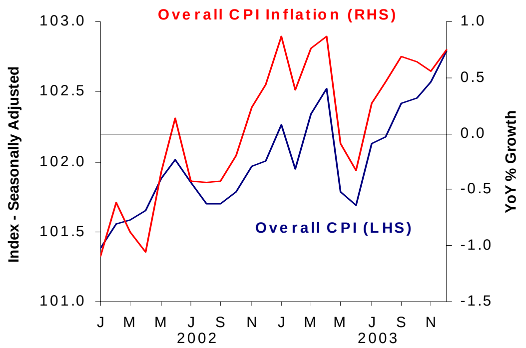
6 Global freight rates have shown significant improvement towards the end of the last year. As an example, NOL experienced a 16% y-o-y increase in freight rates in the last six weeks up to Christmas last year. Source: The Business Times on 21 January 2004, "NOL freight rates up 16% on higher demand".

7 The Straits Times Consumer Confidence Index rose from an index of 212 in September to 294 in December 2003, bringing it close to year 2000 levels. The MasterCard Confidence Index also nearly doubled from 33.9 in June to 65.3 December 2003. Sources: The Straits Times on 14 January 2004, "Singaporeans more upbeat", and The Business Times on 15 January 2004, "Big upswing in consumer confidence: poll".

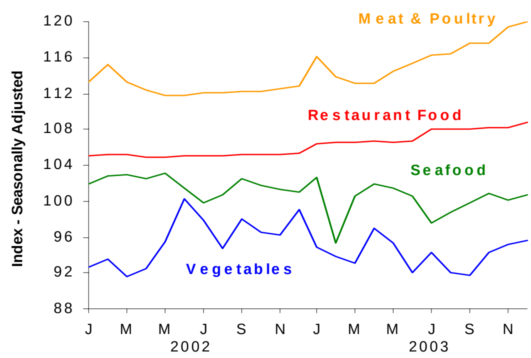
The anticipated economic recovery may in turn exert some demand-side inflationary pressures. For example, the surge in demand for cars could lead to a rise in vehicle prices.[8] A similar recovery path may also materialise for prices of mass-market retail items, with the tapering off of various discounts offered by major retail outlets following the end of festive season. Nevertheless, the outlook for consumer confidence could also depend on how the bird flu situation develops. If the situation escalates, and human-to-human transmission becomes possible, we could see a replay of what happened during the SARS outbreak, with prices of retail and travel-related prices taking a dive.

[8] Source: The Straits Times on 21 January 2004, "Surge in demand, so new cars run out".

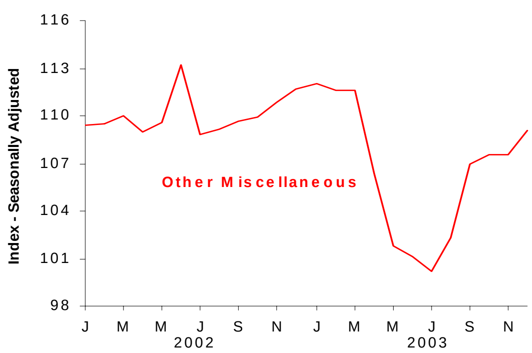
Headline CPI inflation came in at 0.7% y-o-y in December, slightly higher than the 0.6% recorded in the previous month. The seasonally adjusted index rose by 0.2%, after inching up 0.1% in November.



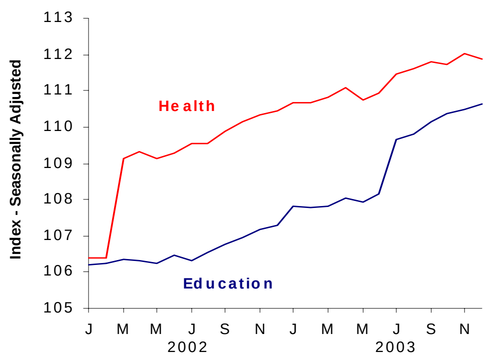
The increase in prices of non-cooked food items such as meat & poultry, seafood and vegetables, as well as more expensive restaurant meals contributed to the higher food prices.



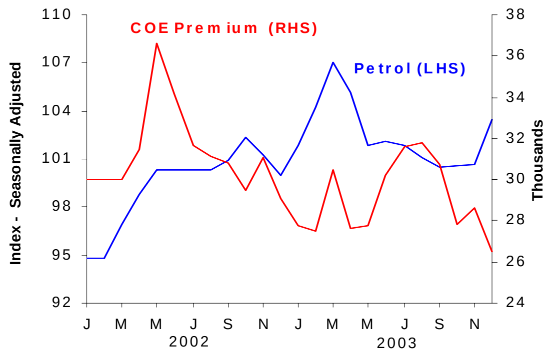
Prices of "other miscellaneous" items (comprising mainly packaged tours) continued to strengthen for the fifth straight month, nearly recovering to their pre-SARS levels.



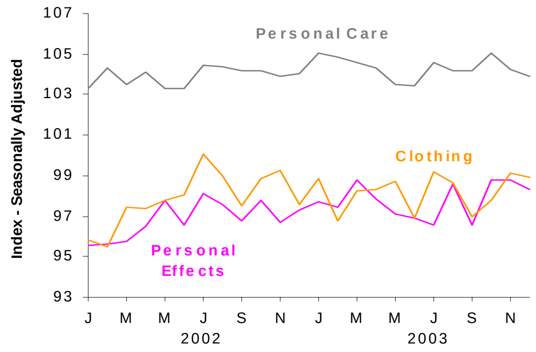
While education costs continued to rise on account of dearer newspapers and magazines, healthcare costs edged down slightly due to falling prices of medicines.



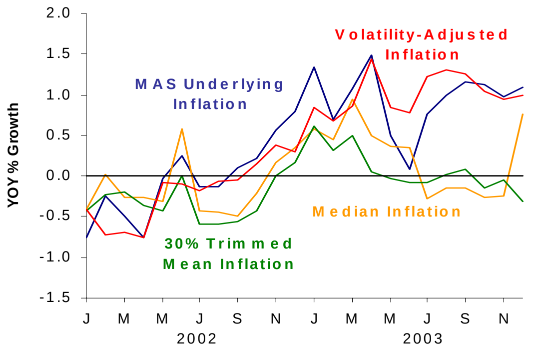
Petrol prices rose in December, although the overall increase in transport costs was limited by the fall in COE premiums due to the glut of COEs.



Prices of several retail-related items including clothing, personal effects and personal care declined, as retailers offered massive discounts.



Except for the trimmed mean inflation measure, all measures of core inflation came in higher for December, as compared to the previous month.



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

MONETARY POLICY DIVISION
ECONOMIC POLICY DEPARTMENT

ANNEX 1

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
Sep	102.4	102.9	97.0	99.2	97.5	110.1	111.8	107.3
Oct	102.5	103.1	97.8	98.6	98.0	110.4	111.7	107.7
Nov	102.6	103.1	99.1	98.4	98.4	110.5	112.0	107.6
Dec	102.8	103.5	98.9	98.6	98.6	110.6	111.9	108.0

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	11.1	37.2
Dec	0.4	2.2	11.3	59.6
2003 Jan	0.9	3.1	11.8	65.5
Feb	0.4	5.1	11.4	66.7
Mar	0.8	3.3	7.2	30.4
Apr	0.9	-0.3	7.1	1.9
May	-0.1	-1.5	6.8	3.6
Jun	-0.3	0.0	3.9	12.7
Jul	0.3	1.1	1.3	9.3
Aug	0.5	1.7	4.0	10.7
Sep	0.7	-0.3	3.1	-4.7
Oct	0.6	-0.7	6.7	3.8
Nov	0.6	1.4	10.1	17.4
Dec	0.7	0.9	12.9	4.8