

## HIGHLIGHTS & OUTLOOK

### GST BOOST TO HEADLINE INFLATION

***Overall CPI inflation rose to 0.9% y-o-y in January, while consumer prices also trended up sequentially...***

Headline CPI inflation came in higher at 0.9% year-on-year (y-o-y) in January 2003, up from 0.4% in December 2002. On a seasonally adjusted, month-on-month (m-o-m, SA) basis, the index also trended up by 0.2% in January, after remaining flat in the previous month. The sequential price increase was fairly broad-based, with prices of all major categories in the CPI basket rising in January, except for housing. All core inflation measures correspondingly increased, including the MAS underlying inflation, which rose to 1.4% in January, from 0.7% in the previous month.

### ***...partly boosted by the GST hike with higher pass-through seen in the goods market***

The one percentage point increase in GST implemented on 1 Jan 2003 was the key driving force behind the sequential price increase in January. Our internal estimates suggest that the actual effect of the GST hike contributed approximately 0.3% point<sup>1/</sup> to January's CPI increase, implying a 40% GST pass-through. (A full pass-through would have meant a 0.75% point increase to the CPI.) Several items affected by the tax hike saw price increases for the month, although to varying degrees. For example, prices of food and some other retail items such as ready-made clothing, books and stationery rose by an average of around 0.7%. In comparison, prices of consumer services, including communication, education and healthcare, climbed higher by an average of 1%. The relatively low GST pass-through in prices of retail items could likely be due to the more competitive environment in the industry, forcing more market players to absorb the tax increases either partially or fully in the short run.

### ***CPI was also influenced by government-related measures and world oil developments***

Apart from the effects of the GST hike, the CPI was also influenced to some extent by government-related measures and world oil developments. Car prices experienced a further boost towards the end of the month, fuelled by an increase in the demand for cars when the MAS relaxed guidelines pertaining to motor vehicle credit.

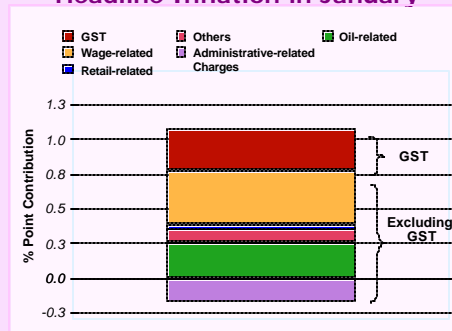
Private road transport costs were pushed up further by the hike in petrol prices in view of the higher global oil prices in recent months. Meanwhile, housing costs came in lower, largely due to the cut in electricity tariffs by Power Supply. Given that electricity tariffs usually respond with some lag to the overall movements in world oil prices, its downward adjustment in January reflected the generally more subdued oil prices late last year. The lower oil price caps for power generating companies also exerted further downward pressure.

### ***However, it is difficult to disentangle the effects of the tax hike from other influences***

Our estimates suggest that the GST increase contributed approximately one-third to overall headline CPI inflation for January. (See Chart 1.) Nonetheless, it is difficult to disentangle the pure GST pass-through effects from the influence of other factors during the month. For example, there was a boost to January's CPI arising from increased demand for various consumer items in the lead up to the Chinese New Year festivities. This was shown up in the y-o-y headline figure because the celebrations which took place in early February this year, were approximately two weeks earlier than last year. At the same time, the effect of the tax hike was countered to some extent by the significant downward price adjustments on several mass-market retail items, as retailers extended their year-end festive promotions into January.

<sup>1/</sup> Given that only 75% of the items in the CPI basket are subject to the GST increase, a full pass-through is estimated to raise CPI by at most 0.75% point.

**Chart 1**  
**Contribution of Main Driving Forces to**  
**Headline Inflation in January**



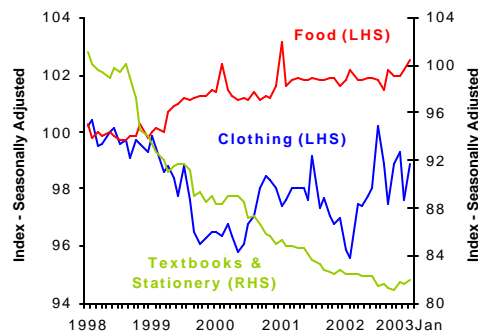
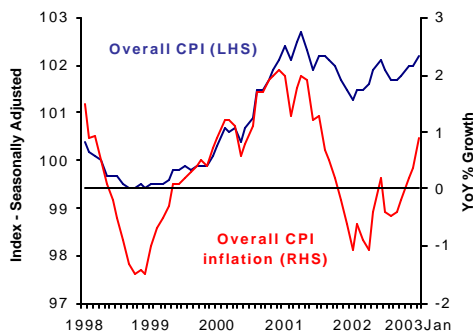
**CPI inflation expected to be benign at 0.5 -1.5% for 2003**

Going forward, although the headline CPI inflation would continue to be boosted by the GST hike, underlying inflationary pressures are likely to be contained for the year as a whole, given that economic activity will only pick up more strongly in H2 2003. Nonetheless, some upside risks have emerged in recent months, stemming largely from oil-related consumer items. With global oil price rising significantly since end-December 2002<sup>2/</sup>, several major petrol operators in Singapore have responded by raising petrol prices twice in January and February this year. If world oil prices were to be sustained at high levels, an upward revision in electricity tariffs may also be possible in the coming months. Thus, the headline inflation rate may be somewhat volatile on account of these short-term influences. Even so, the continued slack in resource utilisation including in the labour market, together with productivity gains are likely to hold down underlying cost and price pressures in the economy. We expect headline CPI inflation to come in between 0.5 to 1.5% for 2003, although there could be some downward pressures arising from the impact of the recently-announced FY2003 Budget. (We are continuing to work on the details of the Budget measures on the CPI.)

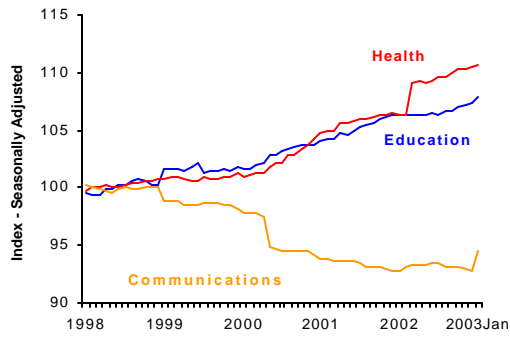
<sup>2/</sup> Fuelled by concerns over the disruption of oil supplies in the global oil market, OPEC oil prices rose significantly from an average of about US\$27/barrel in Q4 2002 to more than US\$30/barrel in the first two months of the year.

Headline CPI inflation came in higher at 0.9% y-o-y in January, up from 0.4% in the previous month. The seasonally adjusted index trended up as well, rising by 0.2% m-o-m in January.

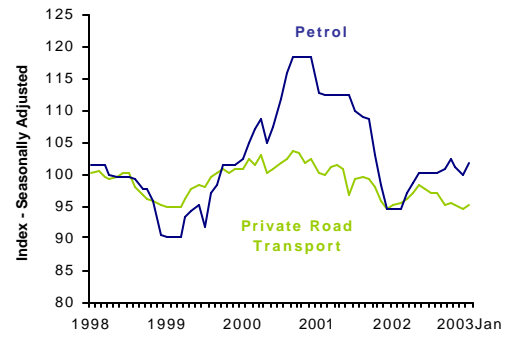
Prices of retail items such as food, clothing, books & stationery rose, boosted by the GST.



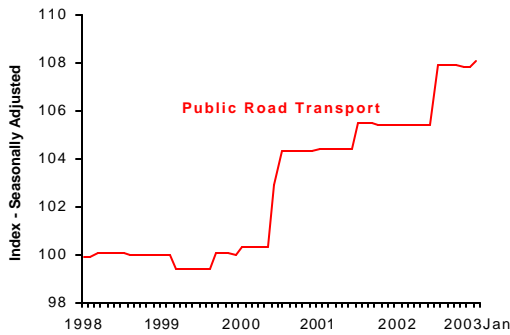
Prices of consumer services, including healthcare, education and communications, also increased on account of the tax increase.



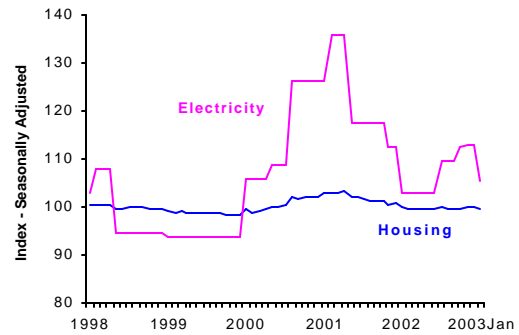
Private road transport costs rose as well, reflecting higher car and petrol prices.



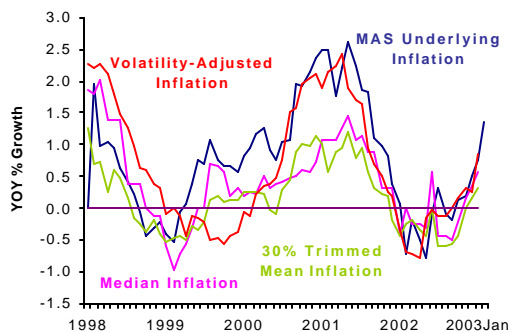
Public road transport costs also rose, on account of hikes in school bus fares.



Meanwhile, housing costs fell as electricity tariffs were adjusted downwards.



All the MAS core inflation measures came in higher in January, as compared to the previous month. The MAS underlying inflation and volatility-adjusted inflation came in higher at 1.4% and 0.9% respectively, while the trimmed mean and median inflation rose more moderately at 0.3% and 0.6% respectively.



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

Period	CPI	Import Price Index	Non-fuel Primary Commodities	OPEC Oil Price
YOY % Growth				
2000 Jan	0.9	7.5	2.5	133.1
Feb	1.2	8.5	6.3	168.4
Mar	1.2	10.2	6.0	122.7
Apr	1.1	8.2	5.0	53.5
May	0.6	9.2	4.8	77.0
Jun	0.8	11.1	4.3	86.2
Jul	1.1	11.0	3.9	51.3
Aug	1.7	9.6	-0.8	46.0
Sep	1.7	9.7	-0.4	42.4
Oct	1.9	9.9	-2.2	41.2
Nov	2.0	8.2	-2.3	30.8
Dec	2.1	4.6	-4.9	-2.6
2001 Jan	2.0	4.5	-2.8	-2.4
Feb	1.3	3.8	-4.1	-5.2
Mar	1.8	1.6	-6.4	-12.3
Apr	2.0	3.4	-4.9	7.7
May	1.9	2.6	-5.4	-2.9
Jun	1.2	1.3	-4.0	-10.5
Jul	1.3	0.3	-3.7	-14.1
Aug	0.7	-0.6	-2.2	-14.5
Sep	0.5	-2.7	-7.5	-22.7
Oct	0.2	-4.2	-9.5	-36.0
Nov	-0.2	-3.9	-7.6	-43.2
Dec	-0.6	-2.1	-6.5	-26.5
2002 Jan	-1.1	-1.8	-8.4	-24.4
Feb	-0.6	-2.1	-6.5	-25.6
Mar	-0.9	-0.8	-2.8	-4.4
Apr	-1.1	-1.0	-2.6	0.5
May	-0.4	-1.7	-3.3	-5.8
Jun	0.2	-2.9	0.0	-8.9
Jul	-0.4	-2.0	4.7	6.0
Aug	-0.5	-0.6	6.0	5.7
Sep	-0.4	0.7	13.8	13.8
Oct	-0.2	1.6	17.8	40.2
Nov	0.2	0.8	14.4	37.2
Dec	0.4	2.1	17.2	59.6
2003 Jan	0.9	3.5	17.3	65.5