

## HIGHLIGHTS & OUTLOOK

### SUPPLY-SIDE FACTORS SUPPORTED REBOUND IN CONSUMER PRICES

#### CPI INFLATION REBOUNDED TO THE POSITIVE TERRITORY IN JULY

Headline CPI inflation turned positive in July, coming in at **0.3%** y-o-y after two consecutive months in the negative territory. The hefty increase in the prices of "alcoholic drinks & tobacco" of more than 20% y-o-y contributed to about 19% of the increase in July's inflation. This brought average inflation for the first seven months of the year to 0.4%.

On a seasonally adjusted, month-on-month (m-o-m, SA) basis, the index rose markedly by 0.4% in July after a marginal decline of 0.1% in the previous month. The MAS underlying inflation – which excludes accommodation and private road transport – picked up strongly in July, registering a three-month high of 0.8% y-o-y.

#### OVERALL CPI PICKED UP ON ACCOUNT OF SUPPLY-SIDE FACTORS...

After some weakness in the earlier two months, overall consumer prices rebounded strongly in July, boosted by several supply-side factors. First, there was a sharp rise in the prices of cigarettes due to the Government's implementation of the change in tax policy on tobacco (cigarettes are now taxed by sticks instead of by weight). This is a one-off increase, although its effect will continue to be reflected in the headline inflation number for the rest of the year (i.e. in y-o-y comparisons). Second, electricity tariffs were hiked up by 4.7%, reflecting the rise in world oil prices to around US\$27/barrel in the earlier months. Third, prices of consumer-related services, specifically that of healthcare and education, saw significant increases during the month. Healthcare costs rose largely due to a sharp upward adjustment in dental treatment charges while education costs picked up on account of rising foreign university tuition fees<sup>1</sup>. Fourth, car insurance premiums continued to rise in July, as the motor insurance industry grappled with the problem of over-inflated repair claims that has plagued the industry for the past three years. Signs are however emerging that the beleaguered motor insurance industry could be finally turning around<sup>2</sup>.

#### ...AND SOME RECOVERY FROM SARS

Consumer prices also began to recover from the effects of SARS. Following the successful conclusion of the six-week Great Singapore Sale (GSS) at end-June, several retailers increased their prices to regain margins. In particular, prices of various mass-market retail items like ready-made clothing, footwear, recreation and personal care bounced back in the month. While prices of most items recovered close to their pre-SARS levels, some even exceeded pre-SARS levels, such as footwear prices. Apart from retail items, prices at restaurants also rose significantly in July as SARS-related fears abated and the crowds began returning to food places. Meanwhile, car prices rose as well.

#### HOWEVER, SIGNS OF DEMAND WEAKNESS STILL PERSIST

Nonetheless, the weak economic climate and uncertainties arising from the widely anticipated CPF cuts were dampeners holding back the recovery in some categories of the CPI basket. Prices of "other miscellaneous" items (comprising largely packaged tours), which plunged during the peak of the SARS outbreak in May, have yet to recover despite the successful containment of the outbreak. In fact, prices fell at an even faster pace during the month, as consumers could have temporarily held back spending on these purchases due to poor sentiment. Thus, tour agencies pushed prices down in hopes of drawing back the traveling crowd. Accommodation costs continued its trend decline as well.

<sup>1</sup> Local university tuition fees were frozen since 2001, as part of the Government's efforts to alleviate the burden of the downturn for Singaporeans. However, Australia (a popular overseas education destination among Singaporeans) recently allowed the universities to increase their fees for local students by up to 30 per cent from the start of the 2005 academic year and overseas students can also expect to pay more even. The first rise for overseas students was an increase in the price of an overseas student-visa application from A\$315 (S\$358) to A\$400, which took effect from 1 July 2003.

<sup>2</sup> Leading motor insurer NTUC Income announced on 6 August 2003 that its motor insurance business finally returned to the black for the first six months this year (after being mired in red ink for more than three years), which may lead to a reduction in motor insurance premiums next year.

In addition, the sporadic petrol discounts campaigns that had been occurring among competing pump stations in isolated areas of Singapore since December 2002, finally escalated into a full-scale petrol price war in July, with one in three petrol stations reported to be giving discounts of up to 10%.

### CPI INFLATION FORECAST RANGE REMAINS WITHIN 0.5-1.0%

For 2003 as a whole, our forecast for headline CPI inflation remains within **0.5-1.0%**. While the threat of SARS outbreaks has abated and the domestic economy is on the path of recovery, the recovery has been relatively slow. The generally weak consumer sentiment is expected to limit price pressures.

Furthermore, with the recently announced CPF cuts, the precautionary savings motive may increase in the short term, thus capping consumer spending. Nonetheless, consumer price inflation could see some modest increases in the near term, stemming from both demand-side and supply-side factors. With SARS finally contained in all countries, price of travel services could see some recovery amidst pent-up consumer demand in the coming months. For example, local tour agency, Chan Brother's recent Travel Fair reportedly attracted 45,000 people and sold S\$8 million worth of tour packages<sup>3</sup>. Many tour agencies which have planned to participate in other travel fairs, are also expecting similarly favourable results.

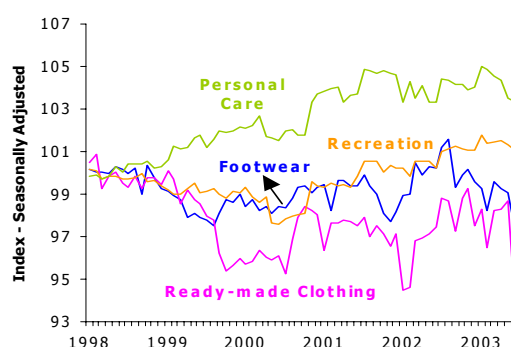
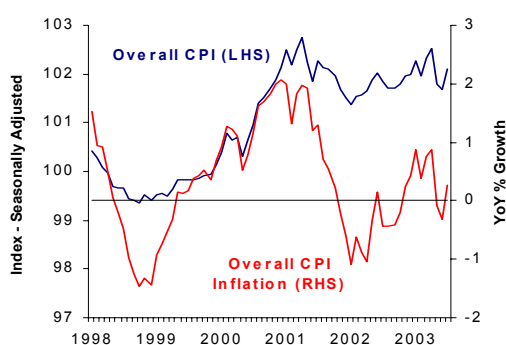
In addition, the increasingly volatile situation in Iraq has resulted in the increase in world oil prices to around US\$28/barrel in recent weeks. This could possibly lead to another round of upward revision in electricity tariffs in the coming months. Meanwhile, the recent increases in healthcare costs could see some moderation with the Ministry of Health's initiative to publish a comparative price list of common medical treatments among local hospitals. With increased awareness, it is hoped that medical costs can be capped, even as Singapore markets itself as a regional medical hub<sup>4</sup>.

<sup>3</sup> Source: The Straits Times on 26 August 2003, "Fair Weather for Travel".

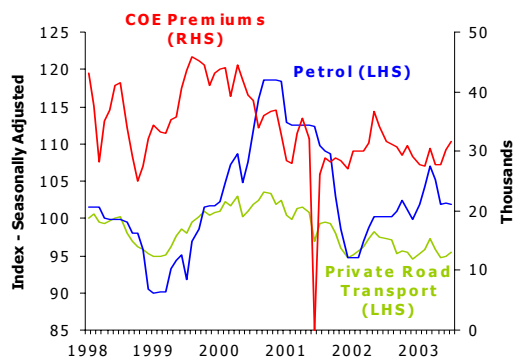
<sup>4</sup> Source: The Straits Times on 26 August 2003, "Price List for Hospitals Out by Year-End".

CPI inflation turned positive at 0.3% y-o-y in July, following a decline of 0.3% in June. The seasonally adjusted index also rose by 0.4% in July after falling marginally in the previous month.

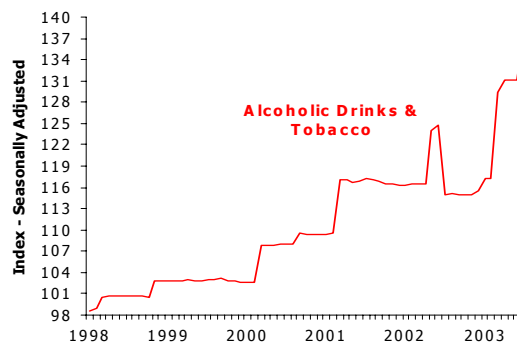
Prices of retail items such as ready-made clothing and footwear rebounded strongly in July, after the end of the GSS in end-June, recovering to pre-SARS levels. Price gains of other retail items such as recreation and personal care also helped to support overall CPI.



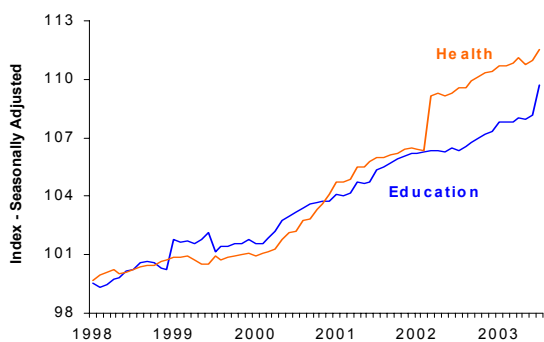
Private transport costs rose, spurred by higher COE premiums and car insurance premiums. However, an island-wide petrol price war lowered pump prices in July.



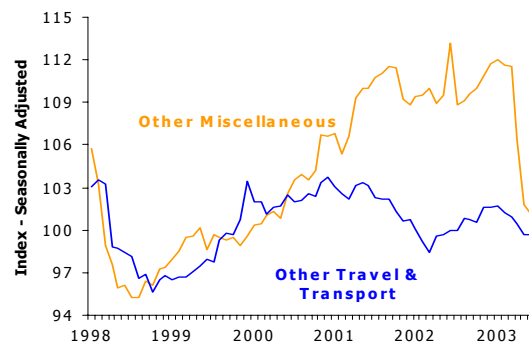
Prices of cigarettes rose sharply in July on account of the change of tax policy on tobacco.



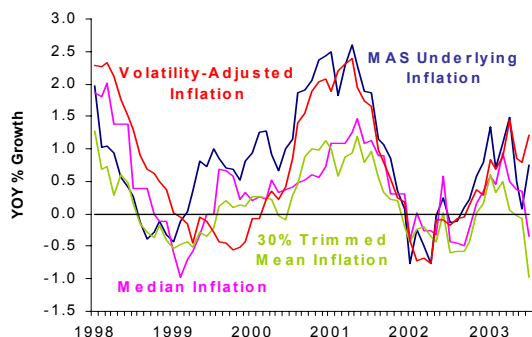
Costs of education and healthcare rose, reflecting more expensive university tuition fees, as well as higher dental treatment charges respectively.



Prices of "other miscellaneous" items (comprising mainly packaged tours) declined at a faster pace in July, as airlines and tour operators offered more attractive packages to entice holidaymakers.



Compared to the previous month, the MAS underlying inflation and the volatility-adjusted inflation came in higher at 0.8% and 1.2% respectively; while the median inflation and the trimmed mean declined to come in at -0.3% and -1.0% respectively.



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

**MONETARY POLICY DIVISION  
ECONOMIC POLICY DEPARTMENT**

<b>CONSUMER PRICE INDEX</b>								
<b>Period</b>	<b>All Items</b>	<b>Food</b>	<b>Clothing</b>	<b>Housing</b>	<b>Tpt &amp; Comm</b>	<b>Education</b>	<b>Health</b>	<b>Misc</b>
<b>Weights</b>	<b>10000</b>	<b>2752</b>	<b>443</b>	<b>2292</b>	<b>1803</b>	<b>729</b>	<b>305</b>	<b>1676</b>
	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

## 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	3.8	-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	-8.8	-24.4
Feb	-0.6	-2.1	-7.7	-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	0.2	6.0
Aug	-0.4	-0.6	1.4	5.7
Sep	-0.4	0.7	7.9	13.8
Oct	-0.2	1.6	13.4	40.2
Nov	0.2	0.8	11.5	37.2
Dec	0.4	2.1	11.5	59.6
2003 Jan	0.9	3.1	12.5	65.5
Feb	0.4	5.0	12.1	66.7
Mar	0.8	3.4	7.2	30.4
Apr	0.9	-0.3	7.1	1.9
May	-0.1	-1.4	7.4	3.6
Jun	-0.3	0.0	6.2	12.7
Jul	0.3	1.0	3.1	9.3