

HIGHLIGHTS & OUTLOOK

PICKUP IN RETAIL PRICES SUPPORT CPI INFLATION

Headline CPI inflation rose to 0.9% y-o-y in March, averaging 0.7% for Q1 2003

Headline CPI inflation came in higher at 0.8% y-o-y in March, up from 0.4% in the previous month. This brought average inflation for the first quarter of the year to 0.7%. The increase in the headline inflation rate in March largely reflected the higher-than-anticipated price increases of several retail items and tobacco. The MAS underlying inflation rose to 1.1% y-o-y in March, up from 0.7% a month ago.

Sequential rise in CPI due to stronger prices of retail items and...

On a SA m-o-m basis, the CPI rose by 0.5% in March. Price increases were broad-based across all the major categories in the CPI basket, except for education and health care costs, which remained unchanged. The sequential increase in consumer prices was mainly due to the significant pickup in the prices of several mass-market **retail items** such as ready-made clothing, footwear, recreation and personal effects, as the discounts, sales and other promotions offered by several major retail outlets were wound back.

...the higher-than-expected increase in tobacco prices

Prices of **alcoholic drinks and tobacco** rose significantly in March, by more than 10%, largely on account of the upward revision in excise duties, which were effected immediately following the announcement of the FY2003 Budget at end-February. In particular, there was a hefty increase in prices of cigarettes, partly reflecting a larger-than-usual tax revision – a 21% hike in excise duties as compared to the 17% from last year's Budget. There was also a change in tax policy this year, with cigarettes to be taxed by sticks instead of by weight^{1/}, and this could have led to a higher-than-anticipated increase in prices of tobacco. Although the new taxation method is to be implemented only in July this year, some tobacco retailers may have raised prices ahead of the tax change, as part of their attempt to recoup lost margins incurred earlier in 2002 when prices were cut drastically due to intense competition.

Private road transport costs also rose, on account of higher car and petrol prices. Market players attributed the rise in COE premiums to the earlier rush for car purchases immediately following the MAS' relaxation of the restrictions on motor vehicle credit. Nevertheless, the COE premiums have since stabilised, with the April COE prices returning to the February levels (at around \$27,400). Although global oil prices have subsided recently, the higher oil prices in the earlier weeks of March pushed up petrol prices during that month. This was partly offset, however, by the downward adjustment in excise duties on petrol, which were passed on to consumers through a price cut of around 2-6 cents in the beginning of the month. Prices of other oil-related items, such as cooking gas (Liquefied Petroleum Gas) continued to rise in March.

FOREIGN AND DOMESTIC UNCERTAINTIES CLOUD INFLATION OUTLOOK

Developments in the global oil markets will continue to add uncertainties to domestic consumer prices

Overall consumer prices are likely to be impacted by a confluence of foreign as well as domestic supply-side factors in the near term. On the external front, fears of an oil shortage, which had caused the escalation in global oil prices in previous months, have subsided along with the conclusion of the Iraq-US war. In fact, developments in global oil markets seem to indicate a possible glut in crude oil supply. The increased supply by OPEC, initially intended to make up for the shortfall in supply by Iraq and Nigeria, is now flooding the markets as fears of such supply disruptions dissipate. The sluggish economic recovery in several countries has also dampened the demand for crude oil. These factors are turning oil prices south recently, and prices could slide further in the coming months if OPEC is not able to restrain output effectively.

These developments in global oil markets are likely to pose some downside risks to the prices of oil-related items in the CPI basket in the coming months. Nonetheless, we expect greater price volatility of these items going forward,

^{1/} The Government's rationale to tax cigarettes by sticks, instead of by weight is to subject the low-priced cigarettes with slightly lower tobacco content to the same duty rates as regular packs of cigarettes, thereby making them less accessible to youths.

following the recent decision by the Energy Market Authority^{2/} to switch from a quarterly to a monthly price review cycle, effectively shortening the transmission lag between world oil prices and domestic prices of oil-related items (specifically that of electricity tariffs).

On the domestic front, the SARS outbreak would impact prices as well

Domestic supply disruptions may exert some upward pressure on overall CPI. The recent episode of SARS at the Pasir Panjang Wholesale Centre, which led to the closure of the market for ten days, saw a short spike in vegetable prices although this was almost immediately countered by measures to raise vegetable imports to levels even exceeding the pre-SARS period.^{3/} To restrict excessive bulk purchases, NTUC FairPrice imposed a \$10 cap on purchases of vegetables and fruits for each shopper until end-April. Moreover, given that vegetables prices only have a small weight of less than 2% in the CPI basket, we do not expect this one-off supply-side induced price increase to have significant impact on the CPI inflation. In comparison, during the outbreak of the Nipah virus in Q1 1999, the increase in pork prices lasted for a quarter. Pork prices rose by more than 10% (q-o-q SA) in Q2 1999 when Singapore switched from importing Malaysian pork to the dearer Australian pork. The mandatory installation of pork chillers imposed by the government also translated into higher operating costs among meat sellers, pushing up prices of pork further.

In addition, the SARS outbreak could lead to an increase in the demand for medical supplies such as thermometers, surgical masks and gloves as well as an increase in the running cost of medical facilities. Thus, we could see some upward adjustments in healthcare costs going forward.

The demand-shock arising from the SARS outbreak is expected to have an adverse impact on certain sectors of the economy, in particular, the restaurants, retail and travel-related industries. With travel severely curtailed, and shopping malls and restaurants taking a severe hit, prices of various retail-related items and "other miscellaneous" services (which comprise largely travel packages) could see some weaknesses in the near term, in tandem with the drop-off in consumer demand.

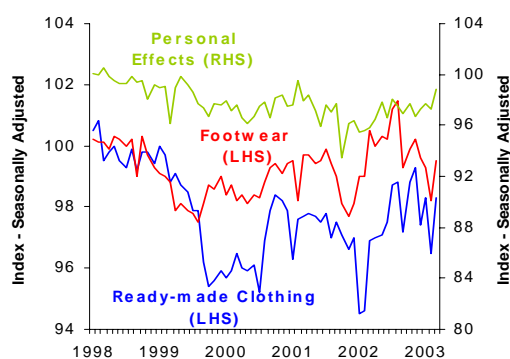
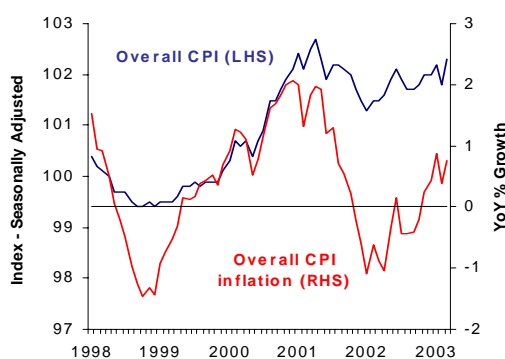
On balance, the downside effects of demand-side weakness in the economy will outweigh the upside risks, resulting in some weakening of overall prices in the coming months. Taking these factors into consideration, **CPI inflation** will remain subdued and is expected to come in between **0.5-1.5%** for 2003.

^{2/} The Energy Market Authority (EMA) is Singapore's regulator for the electricity and gas industry. EMA sets the non-contestable tariffs based on a certain cost recovery framework proposed by the Singapore Power. The authority initially announced on 26 March 2003 a 17% increase for April's electricity tariffs due to the Iraq war. Subsequently, the authority announced on 17 April 2003 to cut May's tariffs by around 11%.

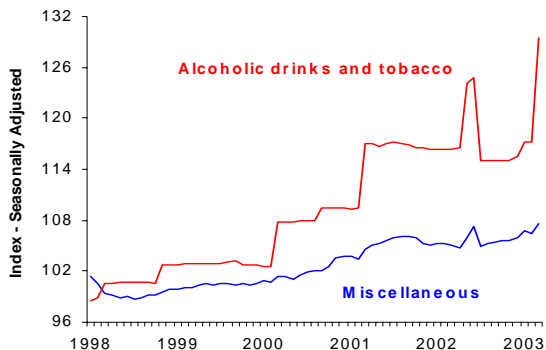
^{3/} The Agri-Food & Veterinary Authority of Singapore brought in some 772 tonnes of vegetables, or 157% above normal import levels, from neighbouring Malaysia to ease the shortage on 23 April 2003.

Overall CPI inflation came in at 0.8% y-o-y in March, bringing average inflation for Q1 2003 to 0.7%. The seasonally adjusted index rose by 0.5%, over February.

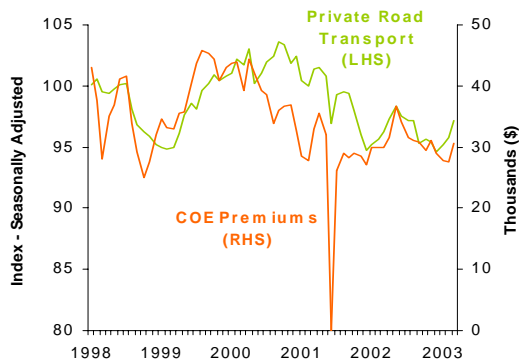
Prices of several retail-related items, specifically that of ready-made clothing, footwear and personal effects, rose markedly in March, reflecting the tapering off of promotions and discount sales offered by retailers.



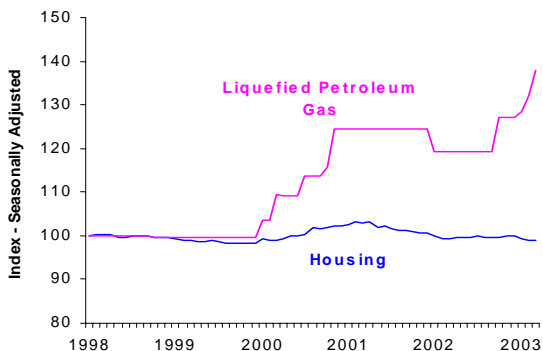
Prices of "miscellaneous items" rose, on account of the upward revision in excise duties for alcoholic drinks and tobacco products.



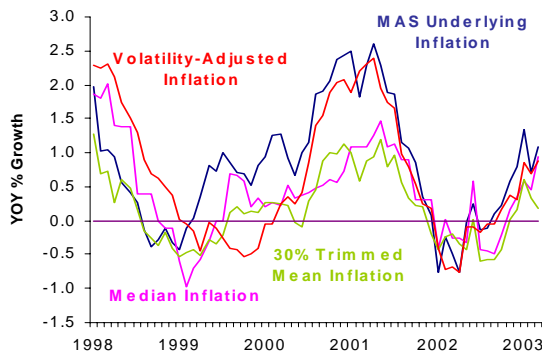
Private road transport costs came in higher due to higher car prices as the earlier rush for cars following the MAS' decision to relax controls on the car loans market pushed up COE premiums.



Housing costs rose slightly in March on account of higher cooking gas prices.



Compared to the previous month, the MAS underlying inflation, median inflation and volatility-adjusted inflation were higher at 1.1%, 0.9% and 0.9% respectively; while the trimmed mean measure came in lower at 0.2%.



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							
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

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	11.5	59.6
2003 Jan	0.9	3.1	12.1	65.5
Feb	0.4	5.0	12.5	66.7
Mar	0.8	3.9	7.9	30.4