

## HIGHLIGHTS & OUTLOOK

### ARE RECENT PRICE DECLINES SUSTAINABLE?

#### *Consumer prices fell slightly in May, after recording six consecutive months of y-o-y increases*

Headline CPI inflation came in almost flat at -0.1% year-on-year (y-o-y) in May, considerably lower than the 0.9% recorded in April, bringing average inflation for the first five months of the year to 0.6%. Although several market analysts had anticipated a much higher inflation rate (median forecast of 0.6% y-o-y<sup>1</sup>), the headline inflation number was generally in line with our expectations, as we had anticipated some of the key driving factors identified below.

On a seasonally adjusted, month-on-month (m-o-m, SA) basis, the index fell by 0.7% in May, compared to the 0.2% rise in the previous month. The extent of the sequential decline was the steepest since May-Jun 2001 when the CPI declined by 0.8% over the two-month period. The MAS underlying inflation – which excludes accommodation and private road transport – also came in significantly lower at 0.5%, down from 1.5% in April.

#### *CPI continued to be influenced by world oil prices...*

As in the previous month, the impact of world oil price developments and SARS continued to be the main factors underpinning the consumer price developments in May.

The sharp rise in prices of oil-related items seen in April was not sustained into May, as the swift US victory brought down global oil prices to around US\$26/barrel from their peak of US\$32/barrel in February. In particular, electricity tariffs saw an 11% cut in May, after a 17% hike in April. Petrol prices were also adjusted downwards, by about 3%, partly due to a price war triggered by Shell's 5% discounts, as part of its fund-raising efforts for the Courage Fund. In addition, prices of cooking gas (Liquefied Petroleum Gas) declined considerably by 5.6%, after rising by more than 8% over the first four months of this year.

#### *...and the impact of SARS*

While the impact of SARS on the CPI was mixed in April, it had a dampening effect on overall consumer prices in May. In particular, the brunt of its impact was on travel-related items, as prices of "other miscellaneous" items (comprising mainly packaged tours) and airfares saw significant declines of 4.4% and 0.8% respectively in May – a month that traditionally experiences price increases in view of the June school-holiday season. Tour operators had slashed prices to attract holidaymakers. Similarly, meals at restaurants and fast food outlets were also cheaper, as prices were cut to lure customers who have been staying indoors for fear of contracting the disease. The negative impact of SARS on prices of retail items, however, appeared to be more moderate. Prices of most retail items including personal effects and footwear fell, although some items – ready-made clothing – still recorded mild increases in May. This was despite some lingering fears of SARS and the widely-anticipated discounts in the run-up to the Great Singapore Sale (GSS). (Singapore was only taken off the WHO's list of SARS-affected countries at end-May.)

Healthcare costs fell by 0.4%, the first contraction after rising steadily for a year. The decline in May was on account of cheaper proprietary medicines & supplies, while medical and dental treatment costs remained stable. Prices of medicinal supplies such as thermometers, surgical masks, gloves and various health supplements fell back to their pre-SARS levels, after a brief increase in April.

Meanwhile, prices of non-cooked food rose further in May, partly reflecting the increase in consumer spending in supermarkets, as people stocked up on food, and ate at home more frequently.

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#### *CPI inflation forecast range lowered to 0.5-1.0% for 2003*

Given that external inflationary and domestic cost pressures are likely to stay muted for the rest of year, our forecast for headline CPI inflation for 2003 has been lowered to 0.5-1.0%, from our previous forecast range of 0.5-1.5%. While the delayed economic recovery and the impact of SARS have dampened our inflation outlook for the year, we do not expect a persistent trend decline in consumer prices going forward.

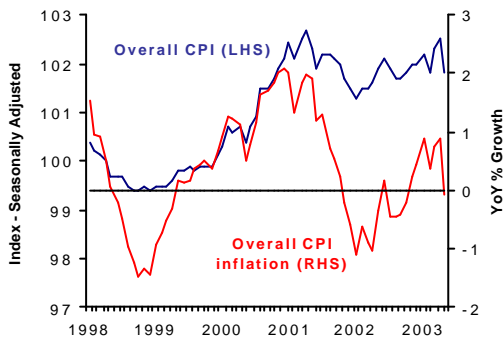
Global oil prices, which have been fairly volatile, are likely to remain as one of the main driving forces underpinning consumer price developments in the coming months. While oil prices have stabilised at around US\$25-26 recently, any significant downward price adjustment is unlikely, reflecting some lingering fears of supply disruptions arising from the political unrest in Venezuela, as well as the delay in the resumption of oil exports from Iraq. In addition, the recent spike in natural gas prices has prompted industrial consumers to switch to oil. Thus, prices of oil-related items in the CPI basket could see some support in the near term. Meanwhile, prices of soft commodities such as rice could also see some upside, as the government intervention schemes in Thailand have been fairly successful in supporting prices.

With SARS showing signs of stabilising, its negative impact on consumer prices is expected to abate in the coming months, as people gradually resume their daily activities. However, given that several retailers are reported to offer more significant discounts during this year's GSS to attract consumers, prices of retail items may continue to adjust downwards in the near term, especially in June. More recent feedback from retailers indicates that consumers' response to the GSS has been fairly positive, suggesting that prices may return to their pre-SARS levels in later months. This is especially so at year-end, when retail prices may experience some frontloading effects from the second phase of the GST increase. In addition, it is likely that healthcare costs may increase in the coming months, as clinics and hospitals may pass on part of the higher costs arising from SARS infection control measures to consumers eventually.<sup>2/</sup>

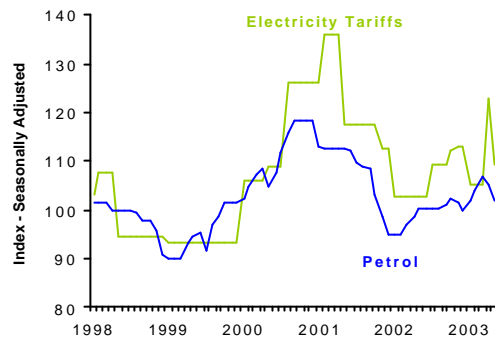
<sup>1/</sup> According to economic research firm IDEAGlobal, the median forecast for May's CPI increase was 0.6% on a range of 0.5-1.1%.

<sup>2/</sup> It was reported that some dentists had upped charges by \$5 at end-May.

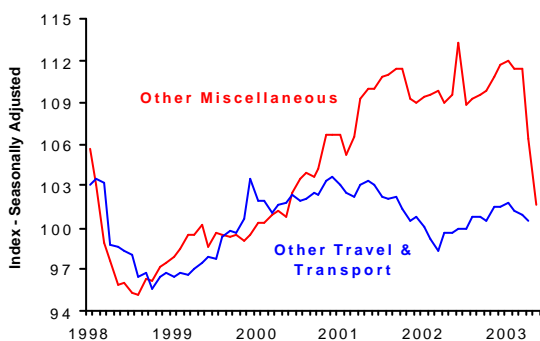
Headline CPI inflation dipped into negative territory, to -0.1% y-o-y in May, from a positive 0.9% in April. The seasonally adjusted index also declined by 0.7% m-o-m, as compared to a 0.2% rise in April.



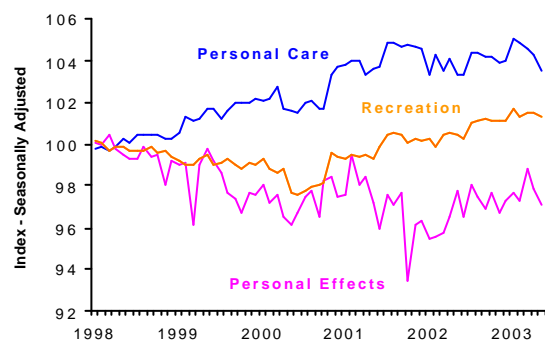
Prices of oil-related items declined sharply. While electricity tariffs were adjusted downwards by 11%, petrol prices were cut by about 3%.



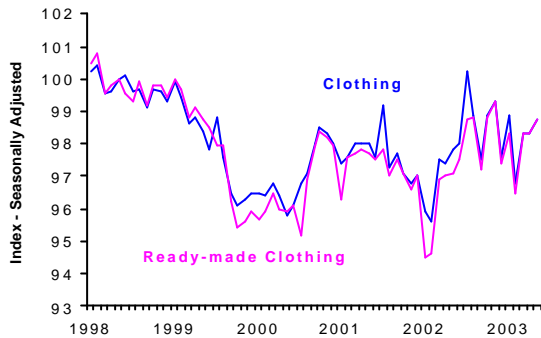
Prices of "other miscellaneous" items (comprising mainly tour packages) fell, as tour operators slashed prices to entice travellers. Airfares declined as well.



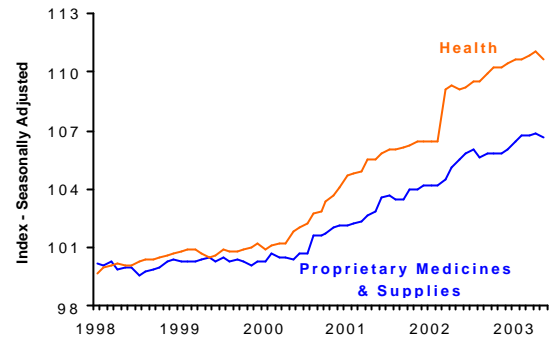
The negative impact of SARS also dampened prices of most retail items including personal effects, personal care, and recreation.



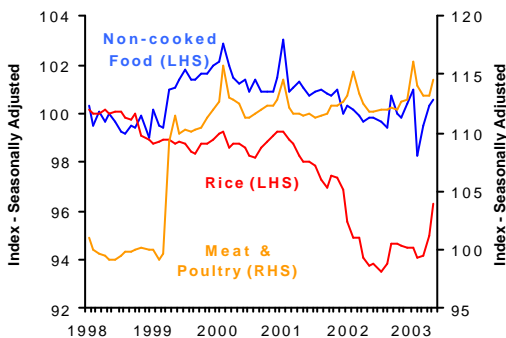
However, overall clothing prices rose, on account of more expensive ready-made clothing.



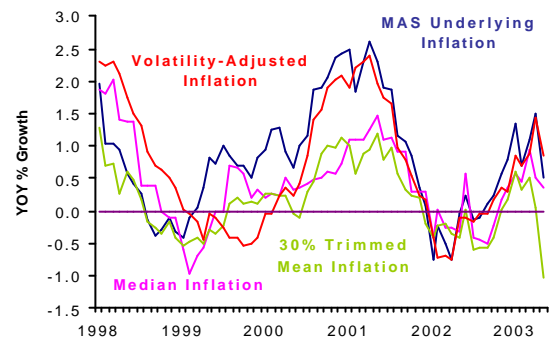
Healthcare costs fell, mainly due to cheaper proprietary medicines & supplies.



Meanwhile, prices of non-cooked food rose, reflecting more expensive rice and meat & poultry.



All core inflation measures came in lower in May as compared to April. While median inflation edged down to 0.4%, the volatility adjusted and trimmed mean inflation came in much lower at 0.9% and -1% respectively. The MAS underlying inflation was also lower at 0.5%.



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
Apr	102.5	102.4	98.3	100.6	98.9	108.0	111.1	106.0
May	101.8	102.4	98.7	99.4	98.0	107.9	110.7	104.6

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	-8.8	-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	0.1	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	6.9	1.9
May	-0.1	-1.5	7.1	3.6