

HIGHLIGHTS & OUTLOOK

STABLE HEADLINE CPI MASKS PICKUP IN PRICES OF VARIOUS RETAIL ITEMS

OVERALL CPI WAS HELD STEADY IN OCTOBER

Headline CPI inflation came in at **0.6%** year-on-year (y-o-y) in October, slightly lower than 0.7% in September. This brought average inflation for the first ten months of the year to 0.5%, in line with our expectations. The MAS underlying inflation – which excludes accommodation and private road transport – also came in slightly lower at 1.1% y-o-y in October, as compared to 1.2% a month ago.

On a seasonally adjusted, month-on-month (m-o-m, SA) basis, the index remained unchanged in October, after rising by 0.2% in the previous month. Nevertheless, the stable CPI masked some relative price adjustments during the month. A number of retail and food-related items saw price increases, even as housing prices continued to fall, on account of the downward adjustment in electricity tariffs.

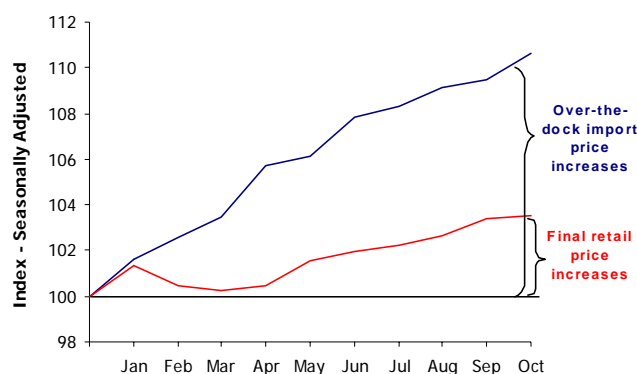
CONTINUED PRICE RECOVERY IN RETAIL AND TRAVEL-RELATED ITEMS...

After a brief respite in September, prices of various mass-market retail items resumed their upward trend in October. While the earlier pickup in prices of these items had been relatively patchy, there have been some emerging signs of a broader-based price recovery in October. Specifically, the clothing category registered the largest m-o-m price increase, on the back of more expensive ready-made clothing and footwear. Prices of personal effects and personal care rose as well. Likewise, prices of travel-related items continued to strengthen, registering its third consecutive month of increase.

...AS WELL AS INCREASES IN FOOD PRICES...

Reflecting the pass-through effects from higher prices of imported food products, prices of various consumer food items including rice, dairy products and cooking oil continued to trend up further in October. As shown in Chart 1, prices of these consumer food items have risen by 3.5% since the beginning of this year, alongside the double-digit increase in import prices of these food components. The less than proportionate price increases at the retail outlets suggests that some supermarkets, which enjoy economies of scale, may have continued to absorb the cost increases due to keen competition.

Chart 1
Import and Consumer Prices of Selected Food Products*



* These include prices of rice, meat & poultry, dairy products and cooking oil.

...WERE OFFSET BY PRICE DECLINES IN HOUSING

Following the brief downtrend in global oil prices at end-September, there was a 4.5% cut in electricity tariffs in October. In addition, the prolonged weakness in the property market continued to weigh down on accommodation costs. Meanwhile, healthcare costs were largely unchanged, as efforts by the government to increase transparency in hospital charges helped to rein in price increases of both medical services and proprietary medicines.

SUBDUED PRICE PRESSURES GOING FORWARD

SUPPLY-SIDED INDUCED PRICE INCREASES COULD EMERGE IN THE NEAR TERM...

Going forward, consumer price developments are likely to be influenced by several supply-side factors. The price pressures stemming from various food-related items witnessed recently are likely to linger somewhat in the quarters ahead, although these are expected to moderate, as the supply shortages dissipate. Likewise, oil prices are likely to exert some upward pressures in the near term. Apart from the impending 4.6% hike in electricity tariffs in November, the disruption of gas supplies from Indonesia to Singapore arising from a recent pipeline leak is expected to have an impact on consumer prices in the coming months.¹ The islandwide petrol price discount could also see an abrupt end, as pump operators may pass on the cost increases to consumers with the recent rise in global oil prices to more than US\$28 per barrel in Oct-Nov. In addition, public road transport cost is likely to rise, following distributor EZ Link's recent decision to charge public transport commuters a non-refundable \$5 for every EZ Link card.²

...ALTHOUGH COMPETITION WILL KEEP A LID ON OVERALL PRICE INCREASES

While prices of travel services are expected to pick up in tandem with some pent-up consumer demand for travel expected at year-end, competition among tour operators are likely to moderate the extent of these increases. Although the arrival of regional budget airlines may help to spur demand for travel within the region, these no-frills carriers may engage in price undercutting in a bid to gain market share at least in the initial stages upon their entering the industry.

In addition, the cost of healthcare services is likely to experience further downward adjustments, given the government's recent decision to disclose billing prices of more common medical treatments among local hospitals.³

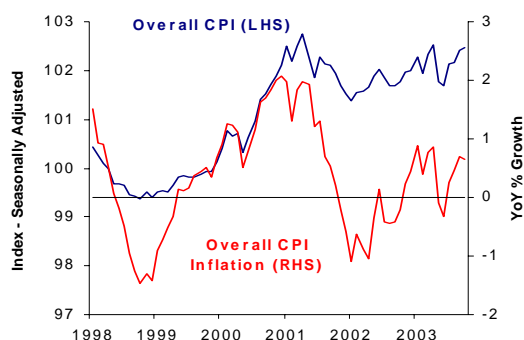
Taking all these factors into consideration, **headline CPI inflation** is expected to come in at around **0.5%** for 2003, before rising modestly to **0.5-1.5%** next year.

¹ Wholesale power prices had been pushed up by some 27-40% following the glitch in Indonesian gas supplies to Singapore. Source: The Straits Times on 19 November 2003, "Pipeline leak likely to hit retail power prices".

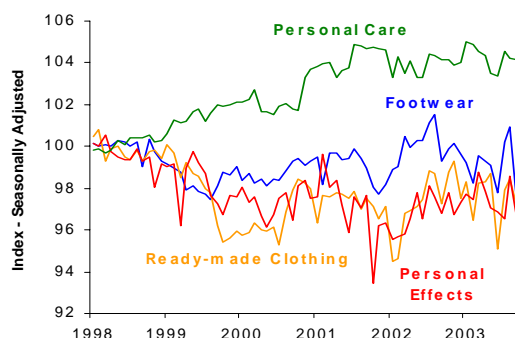
² Source: The Straits Times on 4 November 2003, "Pay \$5 for travel cards, no refund".

³ Sources: The Straits Times on 17 October 2003, "Prices of 17 more treatments to go public", and The Straits Times on 2 December 2003, "Changi GH acts to cut fees for four treatments".

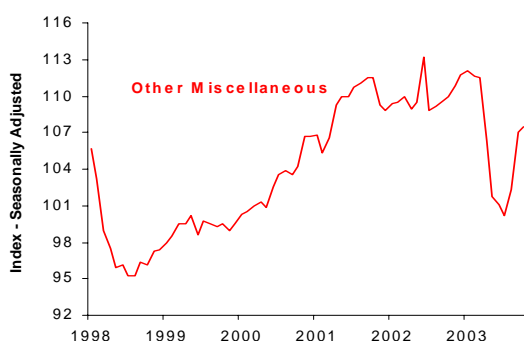
Headline CPI inflation came in at 0.6% y-o-y in October, slightly lower than 0.7% in September. The seasonally adjusted index remained unchanged from the previous month.



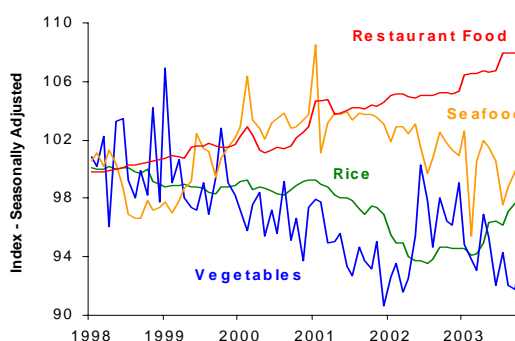
Prices of several retail-related items including ready-made clothing, footwear, personal effects and personal care resumed their upward trend in October.



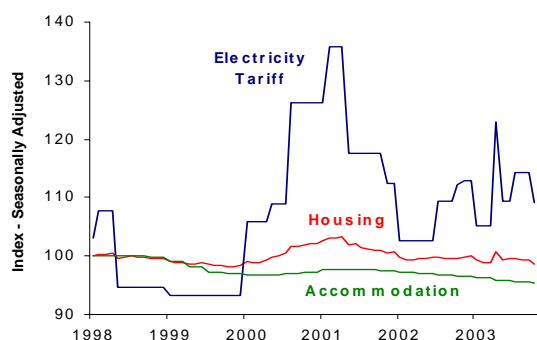
Prices of "other miscellaneous" items (comprising mainly packaged tours) continued to strengthen, although they still remained below their pre-SARS levels.



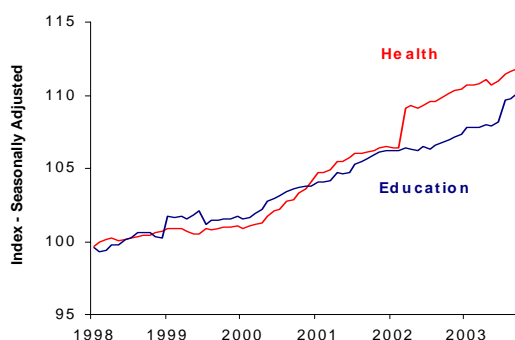
The increase in prices of non-cooked food items such as rice, seafood and vegetables, as well as more expensive restaurant meals contributed to the higher food prices.



The fall in housing prices reflected the downward adjustment in electricity tariffs, and the continued decline in accommodation costs.

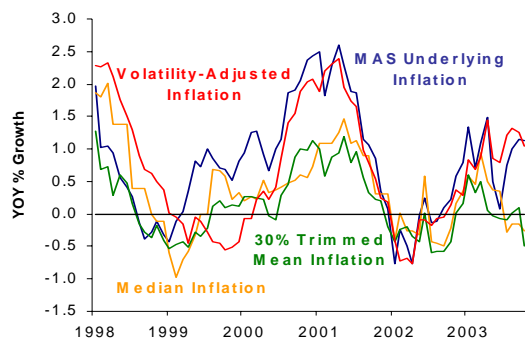


While education costs continued to rise, healthcare costs edged down slightly after experiencing a general trend for the past few months.



Compared to the previous month, all measures of core inflation came in lower for October.

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							
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

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	3.9	-4.7
Oct	0.6	-1.0	6.0	3.8