

HIGHLIGHTS & OUTLOOK

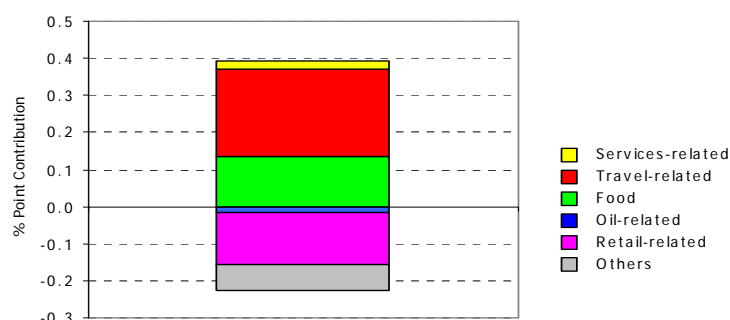
PRICE INCREASE WAS MUTED BY WEAK DEMAND CONDITIONS

CPI EDGED UP FURTHER IN SEPTEMBER, WITH INFLATION AVERAGING 0.5% IN Q3 2003

Headline CPI inflation came in at 0.7% y-o-y in September, up from 0.5% in August, bringing average inflation for the first nine months of the year to 0.4%. The headline inflation figure was only slightly higher than the market forecast of 0.5% y-o-y¹.

On a m-o-m, SA basis, the index edged up by 0.2% in September, slightly higher than the 0.1% recorded in the previous month. The mild sequential increase mainly reflected the recovery in prices of travel-related items, underpinned by the continued unwinding of earlier price discounts following the gradual return of the traveling crowd. In addition, the supply-induced price increases in some food-related items, specifically that of rice and meat & poultry, also contributed to the overall sequential rise in CPI. While prices of consumer-related services continued to trend up slightly, general weakness in demand conditions dampened prices of various retail-related items. (Chart 4)

Chart 4
Contribution of the m-o-m, SA
Changes in CPI, Sep 2003



WEAK DEMAND RESTRAINED PRICE RECOVERY OF SARS-HIT ITEMS

Notwithstanding the continued pickup in prices of travel-related items, they were still 4.3% and 2.5% below their pre-SARS levels in Jan-Feb. While anecdotal evidence suggests that the sales of tour packages have improved somewhat in recent months, feedback from NATAS indicates that the recent pent-up demand has been largely confined to short-haul trips and cheaper destinations. In addition, the lingering fears of travelling as well as keen competition within the industry also kept a lid on price pressures.

Prices of various retail-related items (e.g., ready-made clothing, footwear, and personal effects) also declined, after briefly recovering close to their pre-SARS levels in the past two months. The fall in prices of these items could be attributed to the prevailing weak demand conditions due to concerns of rising unemployment and the impending CPF cut. Indeed, feedback from the Singapore Retail Association suggests that the relatively strong retail sales recorded during the Great Singapore Sale in Jun-July was

¹ According to a Reuters poll, the median forecast for September's CPI was 0.5% on a range of 0.3-0.8%.

not sustained into the ensuing months, and this could have resulted in retailers slashing prices subsequently to entice shoppers.

KEEN COMPETITION KEPT PRICES SUBDUED

Apart from the weakness in underlying demand conditions, overall prices were also dampened by keen competition in certain sectors of the economy. In particular, there was another downward adjustment in petrol prices, as the continuing island-wide petrol price war heated up further in September, with pump operators offering more significant petrol discounts of up to 13%. Likewise, the fall in communications costs reflected the price war that erupted in early August among the three big telecommunications providers – SingTel, MobileOne and StarHub.

PRICE PRESSURES TO STAY SUBDUED

SECTOR-SPECIFIC COMPETITION ARE LIKELY TO CAP PRICE INCREASES ...

Looking ahead, near-term consumer price developments are expected to be influenced by various sector-specific factors. While prices of travel services could see further unwinding of the earlier price declines triggered by the SARS outbreak, in tandem with some pent-up consumer demand for travel expected at year-end², price competition among tour operators are likely to restrain significant price increases. In addition, the arrival of regional budget airlines such as Malaysia's Air Asia, Indonesia's Lion Air and Singapore's very own ValuAir may depress airfares in the near term, although the extra alternatives offered by these no-frills carriers may also help to spur demand for travel within the region. With tour operators expected to engage in aggressive price undercutting in a bid to gain market share, their profit margins would continue to be squeezed.

Meanwhile, the telecommunications price war that erupted in early August, which had already benefited consumers with cheaper services, could possibly lower communication costs further in the coming months. In addition, the cost of healthcare services is also likely to experience some downward adjustments following the Ministry of Health's (MOH) initiative to publish a comparative price list of common medical treatments among local hospitals at end-September. Indeed, several hospitals have already revised downwards the charges of some medical procedures, so as to align their cost structure with the rest of the public healthcare providers³.

...ALTHOUGH SOME COMMODITY-RELATED UPSIDE RISKS IN THE NEAR TERM

Despite the cuts in electricity tariffs in the upcoming months (i.e., October and November), prices of oil-related items could still see some support in the near term, in tandem with the recent developments in global oil prices. Since OPEC's decision in late September to cut back on production, oil prices have trended up steadily from about US\$25 to US\$28 per barrel in October, amidst concerns of possible winter heating fuels shortfall. If oil prices were to be sustained at this relatively high level, the tariff cuts are likely to be reversed later in the year. Similarly, while the petrol price war is set to

² It was reported that the Chan Brother's Travel Fair in August attracted 45,000 people and sold S\$8 million worth of tour packages. (Source: The Straits Times, 24 August 2003, "Fair weather for travel".) Likewise, several tour agencies that participated in the recent NATAS travel fair also reported better-than-expected sales of tour packages. (Source: The Straits Times, 24 September 2003, "Record turnout of 42,000 at NATAS fair".)

³ For example, Alexandra Hospital responded within 24 hours by slashing the charges for two of the treatments after it was found to be charging subsidised patients the highest for the three most common treatments. (Source: The Straits Times on 1 October 2003, "Alexandra acts swiftly to cut fees".) Similarly, NUH also swiftly lowered their Class B1 charges after it was revealed that its rates was much higher compared to the rest of the public hospitals. (Source: The Straits Times on 2 October 2003, "NUH to bring down B1 charges".)

heat up further in the coming months⁴, it is likely that these petrol discounts could see an abrupt end, as it is not sustainable for pump operators to absorb the cost increases in the long term.

There may also be some price pressures stemming from various soft commodities, specifically that of rice and meat & poultry. The price of rice, which has risen by more than 3% since the beginning of the year, may see further increases in the coming months, underpinned by low supplies and the Thai government's intervention scheme. Likewise, the marked increase in prices of meat & poultry since Jan 2003 reflected the near-term shortages of meat products globally, the stronger Aussie and Kiwi dollar (relative to the S\$) as well as increased demand arising from the various upcoming festive celebrations including Deepavali, Hari Raya Puasa and Christmas.⁵

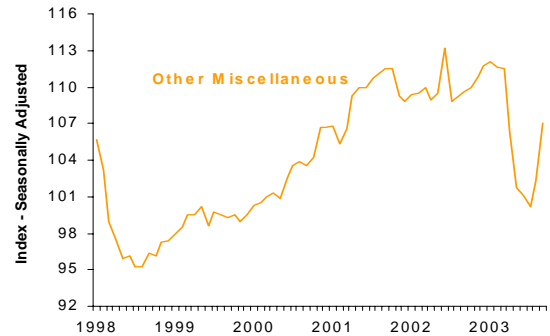
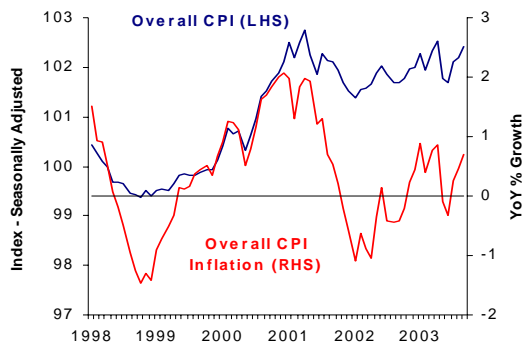
Taking all these factors into account, **headline CPI inflation** is expected to come in at around **0.5%** for 2003, before picking up modestly to **0.5-1.5%** next year.

⁴ Source: The Straits Times on 3 November 2003, "Petrol war again in Bukit Timah with 15% discount".

⁵ Source: The Straits Times on 21 October 2003, "Meat prices go up at wet markets".

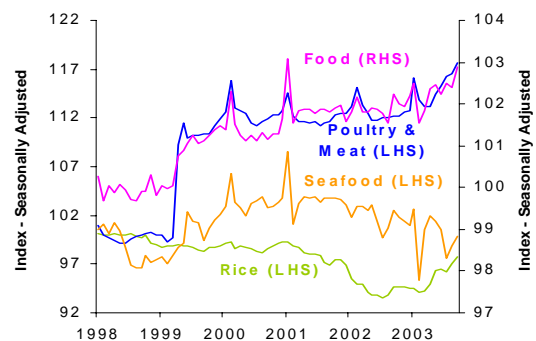
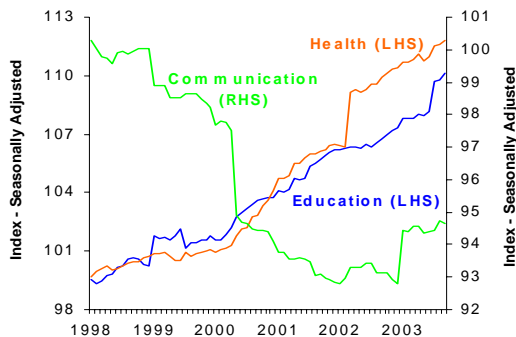
Headline CPI inflation came in at 0.7% y-o-y in September, up from 0.5% in August. The seasonally adjusted index edged up by 0.2%.

Overall CPI was supported by the rebound in prices of "other miscellaneous" items (comprising mainly packaged tours), although they still remained below their pre-SARS levels.

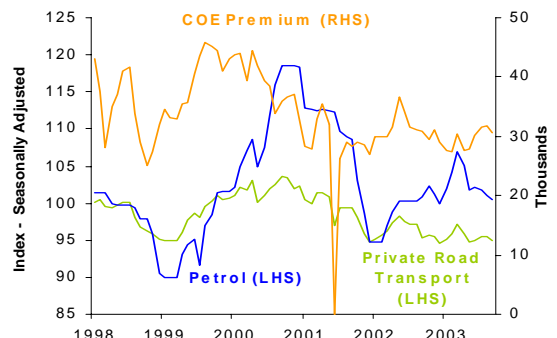


Costs of education and healthcare continued to edge up in September. Nonetheless, the increases were partially offset by the slight decline in communication costs.

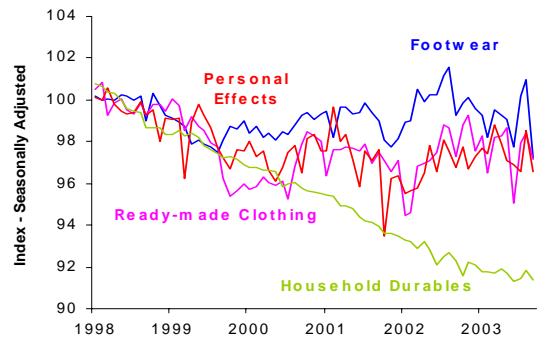
Food prices rose mainly due to more expensive non-cooked food items such as rice, poultry & meat and seafood.



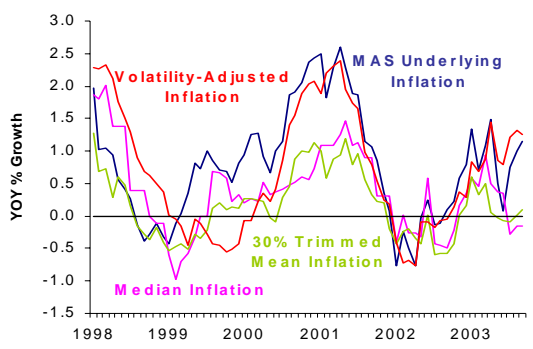
Private road transport costs fell due to cheaper car prices, and the continuing island-wide pump price war, which lowered petrol prices.



Prices of several retail-related items including personal effects, ready-made clothing, footwear and household durables declined in September.



Compared to the previous month, the MAS underlying inflation and the trimmed mean inflation came in higher at 1.2% and 0.1% respectively; while the median inflation fell to -0.1%. The volatility-adjusted inflation, however, remained unchanged at 1.3% in September.



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

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	-8.8	-24.4
Feb	-0.6	-2.1	-7.7	-25.6
Mar	-0.9	-0.7	-4.7	-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	13.4	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	6.7	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	5.0	10.7
Sep	0.7	-0.3	4.6	-4.7