

3 Labour Market and Inflation

- Employment growth moderated across all broad sectors of the economy in Q4 last year, bringing the labour market closer into balance. Slowing labour demand in most sectors, along with the fading of bonus effects, led to a moderation in aggregate resident wage growth from earlier high rates.
 - In the first half of this year, employment growth is likely to remain modest before the anticipated pickup in VA growth later this year provides some support. Despite the relatively subdued growth in labour demand projected for 2024 as a whole, persistent labour supply constraints in certain services sectors imply that there is unlikely to be any significant uptick in labour market slack. Consequently, the resident unemployment rate should stay close to its long-term historical average.
 - Weaker labour demand in some external-facing sectors of the economy, combined with last year's high base effects from atypically large bonuses, should more than offset wage pressures in the domestic-oriented services sectors. Overall, growth in average monthly earnings should slow to around the pre-COVID norm in 2024. Alongside an improvement in labour productivity, unit labour cost increases should ease this year.
 - MAS Core Inflation was unchanged in Q1 from Q4, coming in lower than expected. Inflation for food and travel-related services fell markedly, and broadly offset faster increases in electricity & gas prices arising from the carbon tax hike, and in other services costs. A further moderation in private transport and accommodation inflation also contributed to a decline in CPI-All Items inflation. Overall, underlying inflation in the economy remained on a broad downward trajectory, in line with easing business cost pressures. This underlying disinflation trend is affirmed by a range of alternative core inflation measures.
 - MAS Core Inflation is forecast to decline gradually over the course of the year but will only step down more discernibly in Q4 and into 2025. In the near term, core inflation will remain at around current levels reflecting the hike in water prices and further expected adjustments in services prices to catch up to earlier cost increases. However, as imported and domestic cost pressures continue to ease, the disinflation trend should continue. For 2024 as a whole, both MAS Core Inflation and CPI-All Items inflation are projected to average 2.5–3.5%. Excluding the impact of the GST rate hikes, both core and headline inflation are forecast to be lower at 1.5–2.5%.
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3.1 Labour Market¹

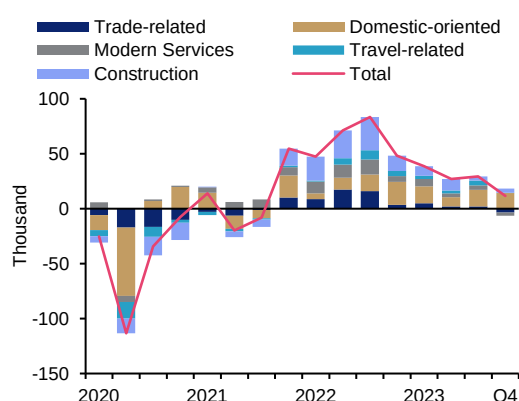
Labour demand slowed across all broad clusters last year

Total employment growth softened across all broad clusters in the economy in Q4 last year, as labour demand cooled (**Chart 3.1**). The moderation in employment growth was mainly on account of slower net inflows of non-resident workers, with resident employment remaining broadly stable.

Notably, employment in the modern services² and trade-related clusters contracted for the first time since Q3 2020 and Q4 2021, respectively, reflecting a pullback in hiring and uptick in retrenchments (**Chart 3.2**). Other segments of the economy also saw dampened employment growth in Q4 last year. Amid weaker sales volumes, the typical year-end seasonal employment boost in the F&B and retail trade sectors was more muted than anticipated. Overall, total employment growth moderated in line with the cyclical weakness in GDP growth over most of 2023 (**Chart 3.3**).

Chart 3.1 Employment growth moderated across all broad clusters

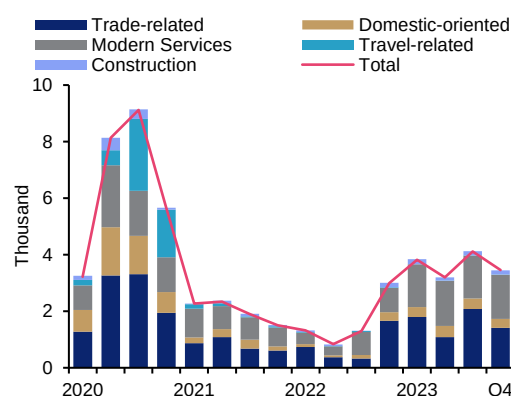
Employment change (q-o-q) by broad sector



Source: MOM and EPG, MAS estimates

Chart 3.2 Retrenchments picked up in modern services and construction

Total retrenchment by broad sector



Source: MOM and EPG, MAS estimates

Labour market tightness continued to lessen...

As labour demand and supply steadily rebalanced, labour market tightness continued to recede. EPG's summary labour market pressure indicator (LMPI) eased further to 1.20 in Q4 from 1.23 in Q3 (**Chart 3.4**), while average weekly total paid hours also declined from the previous quarter. Overall, these trends suggest that excess demand for workers, which was

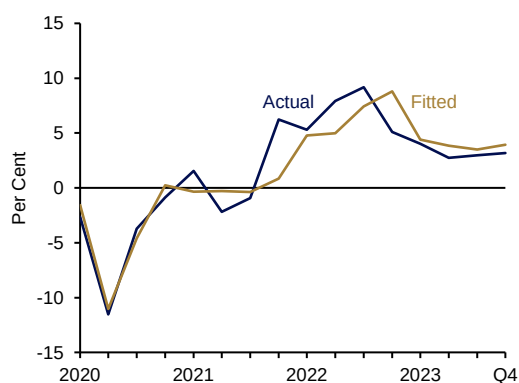
¹ The commentary in this section is based on actual labour market data that is available up to Q4 2023, unless otherwise stated.

² The modern services cluster comprises financial & insurance services, information & communications, and professional services. The trade-related cluster comprises manufacturing, wholesale trade, water transport and other transport industries. The travel-related cluster comprises the accommodation, air transport and AER sectors. The domestic-oriented cluster comprises real estate, retail trade, F&B services, land transport, administrative & support services, public administration & education, health & social services, other community, social & personal services (CSP), domestic work, and utilities & others.

prevalent for most of H2 2022 and 2023, has eased, and that the labour market is approaching its medium-term full employment equilibrium.

Chart 3.3 Total employment growth moderated in line with cyclical weakness in GDP growth

Actual and expected q-o-q % annualised employment growth

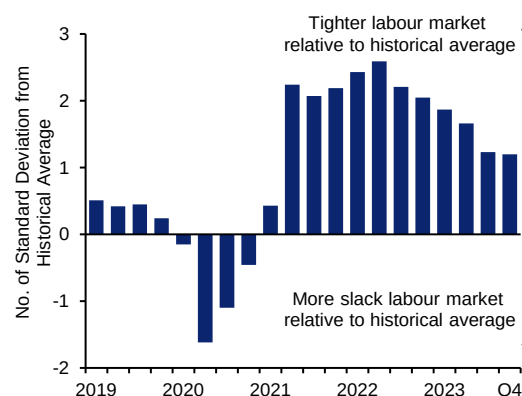


Source: DOS, MOM, EPG, MAS estimates

Note: Expected employment growth was estimated using an Okun's law model that projects employment growth conditional on employment-weighted q-o-q SAAR VA growth.

Chart 3.4 Labour market tightness continued to ease

Labour market pressure indicator (LMPI)



Source: EPG, MAS estimates

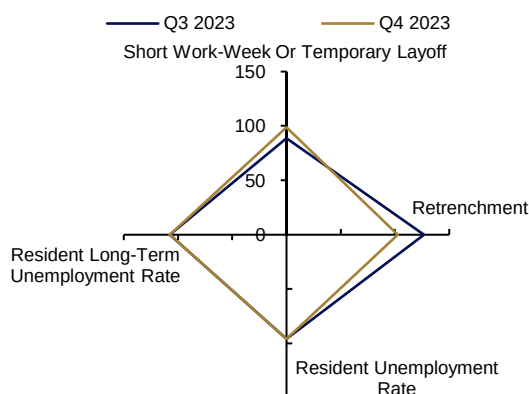
Note: Historical average period refers to Q1 2000 to Q4 2019.

...although mismatch has kept job vacancies high in several sectors

Nevertheless, some underlying tightness in the labour market remains. The LMPI reading stayed above its 2019 level, while the overall job vacancy rate remained elevated at 3.4% in Q4 2023, higher than the pre-COVID average of 2.5%. Further, the resident unemployment rate was stable at 2.8% from November 2023 to February this year, below the pre-COVID average of 3.0% (**Chart 3.5**). The broad stability of the unemployment rate over 2023 partly reflected the continued normalisation of the resident labour force participation rate (LFPR). Residents who had previously filled temporary COVID-19 positions, and were thus less attached to the labour market, have likely exited the labour force.

Chart 3.5 Unemployment remained close to pre-COVID averages

Labour market indicators relating to job separations, Index (2010–19 average=100)

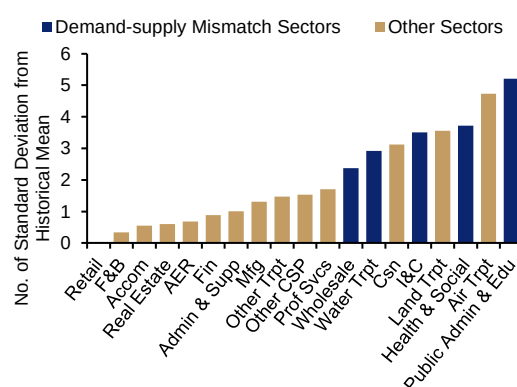


Source: MOM and EPG, MAS estimates

Note: A larger spider chart indicates greater degree of job separations and consequently greater labour market slack. All variables are indexed to the 2010–19 historical average, which takes the value of 100.

Chart 3.6 Job vacancy rates stayed elevated in some services sectors due to mismatch

H2 2023 job vacancy rate relative to historical (2015–19) mean



Source: MOM and EPG, MAS estimates

Note: High demand-supply mismatch sectors are marked by blue bars, and are defined as those where job vacancy rates in H2 2023 were more than two standard deviations above 2015–19 mean, while VA growth was below their pre-COVID mean.

Lingering manpower shortages are likely due to persistent mismatch between labour demand and supply in pockets of the economy. Job vacancy rates stayed significantly elevated in a number of services sectors even amid weak sectoral VA growth (**Chart 3.6**). This observation broadly suggests that employers face difficulties attracting a sufficient number of qualified workers, as resident jobseekers may not have the requisite skills or willingness to enter certain occupations within these sectors. For example, according to a recent MOM survey, vacancies remain unfilled in software, web & multimedia developer jobs, primarily due to a lack of necessary specialised skills. Meanwhile, employers cited a lack of necessary work experience and the physically strenuous nature of roles such as nursing as reasons for resident workers not entering the healthcare sector.³

Cooling labour demand led to an easing of overall wage growth

Resident average monthly earnings growth moderated from Q3 to Q4 last year, from 6.2% to 2.6% in y-o-y terms, and from 0.7% to –1.9% in q-o-q SA terms. Relatively weak cyclical demand, as evident from the slightly negative output gap, dragged on wage increases in H2 2023 (**Chart 3.7**). Meanwhile, high base effects, reflecting a normalisation in bonuses from the previous year⁴, also pushed down overall wage growth. Base effects are estimated to have dampened Q4 2023 y-o-y average monthly earnings growth by 0.8% point, out of its overall 3.6% points decline.

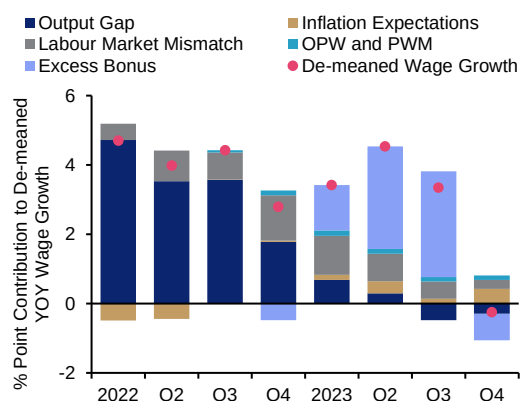
³ In MOM's latest *Job Vacancies 2023* report (published 25 March 2024), 47.6% of respondents cited a lack of necessary specialised skills as the top reason for not filling up vacancies in software, web & multimedia jobs. In registered nurse & other nursing professional roles, 41.6% of respondents cited a lack of necessary work experience. For enrolled nurse and assistant nurse roles, the top reason cited (17.4%) was that the job was too physically strenuous.

⁴ For instance, in the public administration sector, the year-end bonus for civil servants was lower at 0.6 month in 2023, compared to 1.1 months in 2022.

Nevertheless, labour demand and supply mismatch in some sectors has continued to push up overall wage growth slightly, as employers faced stiff competition to retain and attract workers with the requisite skills. This was despite below-trend VA growth for these sectors in H2 2023. Further, moderately elevated inflation expectations also contributed to wage pressures last year.

Chart 3.7 Cyclical weakness and bonus effects dragged on wage growth in Q4 2023

Decomposition of de-meaned average monthly earnings growth



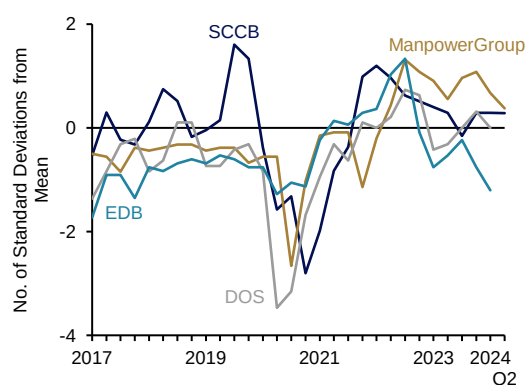
Source: CPF and EPG, MAS estimates

Note: "OPW and PWM" refers to the low-wage worker policies i.e., the occupational progressive wages and expanded progressive wage model.

The decomposition was based on expected wage growth from a wage Phillips curve framework, with the output gap as the main indicator of slack, and inflation expectations as measured by the Survey of Professional Forecasters. The measure of labour market mismatch was estimated as residuals from a regression of the vacancies-to-unemployed persons ratio on the output gap, which can be interpreted as changes in labour market matching efficiency.⁵ Policy impact as well as excess bonus contributions were estimated out of model.

Chart 3.8 Near-term outlook for hiring is modest

Employment outlook from firm-level surveys



Source: DOS, EDB, ManpowerGroup, and Singapore Commercial Credit Bureau (SCCB)

Note: Each of the reading is normalised by its historical mean and standard deviation.

Job creation is projected to remain restrained in the near term

Hiring in the overall economy is expected to stay relatively modest for most of this year (**Chart 3.8**). In the latest business expectations surveys by EDB and DOS, employers across sectors largely cited soft or uncertain demand as the primary impediment to fresh near-term hiring. Firms in several manufacturing clusters pointed to lower projected production levels in H1 this year, while some services sectors, such as the transportation & storage sector, referred to elevated economic uncertainty.

⁵ See Box A on "Labour Market Tightness and the Beveridge Curve in Singapore" in the April 2023 *Review* for more details on how job vacancy and unemployment rates are affected by matching efficiency in the labour market.

In the second half of the year, the anticipated pickup in GDP growth should boost labour demand modestly and provide some support to employment growth towards the end of 2024.⁶ With the projected easing of monetary policy by central banks, improvements in the global growth outlook should lead to a moderate increase in hiring for the external-facing modern services sectors, while firm inbound tourism should support demand for workers in consumer-facing services.

All in, total employment growth is expected to moderate this year, relative to the exceptionally strong growth over the past two years, which was largely driven by the catch-up in non-resident workforce numbers to pre-COVID levels. Employment growth this year should be more in line with its pre-COVID trend.

Even as labour demand moderates this year, supply constraints will keep the labour market close to full employment

Resident labour supply will likely be constrained by limits to further increases in the trend LFPR. The dampening impact of the ageing population on LFPR will increasingly outweigh structural factors boosting labour force participation, such as longer life expectancy and higher educational attainment. Labour policies could nevertheless mitigate the negative impact of population ageing somewhat by further lifting participation rates of women and older workers. See **Box A** for an empirical analysis of the structural drivers of labour force participation in Singapore.

In the short term, worker shortages could persist in parts of the economy this year due to the limited capacity of employers to add to their non-resident workforce, especially for sectors that face difficulties in attracting resident workers. Following strong growth of non-resident employment in the services sector over the past two years, a larger number of firms are likely to be facing binding dependency ratio ceilings for increasing their work permit holder or S-Pass holder headcounts, relative to the past two years.

Amid structural constraints on labour supply, the resident unemployment rate is not expected to rise sharply beyond its pre-COVID average, even as labour market tightness dissipates. In addition, the anticipated cyclical upswing later this year should help offset any increase in labour market slack. However, job seekers could face greater challenges finding employment if they are unable or unwilling to move into sectors where job vacancy rates remain elevated. These labour market mismatch dynamics could lead to some increase in unemployment even as worker shortages persist. Alternatively, the mismatch could lead to some decline in LFPR, if some unemployed individuals become discouraged and exit the labour force.

Wage growth should continue to slow towards pre-COVID norms, with atypically high bonuses last year not expected to be repeated

Nominal resident average monthly earnings growth should come in below pre-COVID norms in H1 this year, as variable wage components normalise after atypically large bonuses

⁶ The boost to overall employment growth from stronger VA growth in H2 2024 will likely be relatively modest. Results from a Vector Autoregressive (VAR) model estimating the impact of a positive shock to VA growth on labour productivity and employment suggest that the rise in external demand in H2 should mainly lead to stronger cyclical productivity growth, with employment growth responding to a smaller extent and with a lag.

in some sectors last year.⁷ However, the anticipated recovery in GDP growth and hiring should provide some support to wage growth towards the end of this year.

Wage growth for resident workers could remain firm in the domestic-oriented sectors, where there is still unmet demand for workers. To help balance labour demand and supply, these sectors will likely need to see some increase in relative wages and greater efficiency in manpower utilisation. In contrast, wage growth in some external-facing sectors could be more restrained.

In the F&B, retail trade, and administrative & support sectors, scheduled adjustments to the Progressive Wage Model (PWM) will continue to impart some wage pressures within affected sectors, although the impact on aggregate earnings growth is expected to be small.⁸ Some of these wage pressures will be mitigated by the Progressive Wage Credit Scheme, through which the Government provides employers with transitional co-funding of up to 75% of the wage increases that employers give to lower-wage resident workers from 2022 to 2026.⁹ The extent of wage pressures in these sectors is likely to be significantly impacted by the strength of consumer demand as well.

For 2024, nominal average monthly earnings growth for resident workers is expected to moderate and come in below the 5.3% registered last year, partly as the large bonuses given out in 2023 will not be repeated this year. Meanwhile, labour productivity growth is anticipated to improve, as employers cut back on hiring and focus on augmenting efficiency. Consequently, unit labour cost (ULC) growth in 2024 should fall significantly relative to the last two years, implying diminished cost-push pressures from the labour market.

⁷ Sectors that awarded high bonuses last year include the air transportation sector as SIA announced bonus of around 8 months for eligible staff in May 2023, following record annual profits for FY 2022/23.

⁸ PWM wage requirements increase annually according to a schedule agreed by tripartite consensus. The Progressive Wage schedules for each PWM sector is negotiated by sectoral tripartite cluster committees, which comprise representatives from the unions, service providers and service buyers in each sector, as well as the Government.

⁹ For 2024, the Government will co-fund up to 50% of wage increases given by employers to eligible lower-wage workers.

3.2 Consumer Price Developments

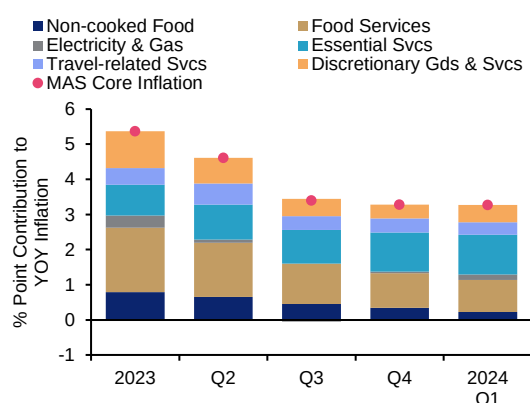
Core inflation came in slightly lower than expected in Q1

MAS Core Inflation averaged 3.3% y-o-y in Q1 2024, unchanged from Q4 2023 and slightly lower than expected. Inflation for food and travel-related services slowed markedly and broadly offset the steeper pace of price increases for electricity & gas as well as other services (**Chart 3.9**). Meanwhile, private transport and accommodation inflation fell and contributed to a discernible decline in CPI-All Items inflation to 3.0% y-o-y, from 4.0% in Q4 2023.

Excluding the impact of the GST increase in January this year, core inflation would have been lower in Q1. The GST hike to 9% has likely been fully passed through to most consumer prices as of March. While some residual pass-through remains due to several retailers' decisions to temporarily absorb the GST increase until later in 2024¹⁰, this is unlikely to raise inflation significantly in the upcoming months.

Chart 3.9 Core inflation was unchanged in Q1 from the previous quarter

% Point Contribution to MAS Core Inflation

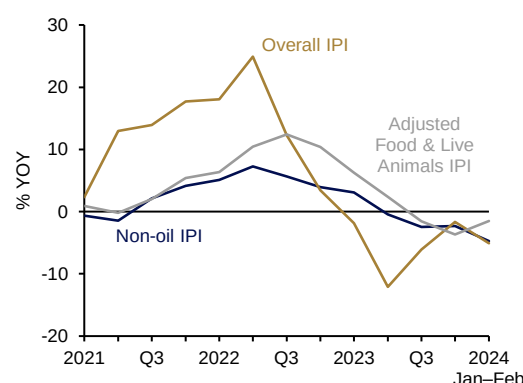


Source: DOS and EPG, MAS estimates

Note: Discretionary goods & services refer to retail & other goods and discretionary services, excluding food services.

Chart 3.10 Imported cost pressures have eased

Import price indices



Source: DOS and EPG, MAS estimates

Note: The adjusted food & live animals IPI is computed by aggregating the IPI sub-components using their corresponding weights in Singapore's non-cooked food CPI.

Easing supply and demand pressures in food, retail goods and travel-related services led to lower inflation

Ebbing business cost pressures continued to weigh on food and retail goods inflation. Food inflation fell to 3.4% y-o-y in Q1 2024, from 4.0% in Q4 2023, as both cooked and non-cooked food inflation moderated. Price increases for retail & other goods also eased slightly to 1.1% y-o-y, from 1.2% over the same period.

Falling imported costs have likely been a factor reducing business cost pressures and, in turn, inflation (**Chart 3.10**). Singapore's import price index (IPI) fell more steeply on a y-o-y basis in Jan–Feb compared to Q4 2023, as prices of imported intermediate inputs and final

¹⁰ Major local supermarket chains introduced temporary discounts to cushion the impact of the GST hike, while some retailers, such as IKEA and Decathlon, announced a freeze in prices of all their products till further notice.

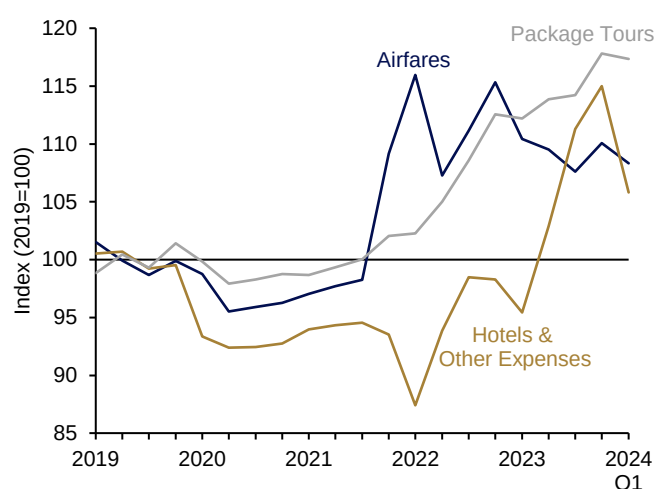
consumer goods moderated. While imported food costs¹¹ picked up in sequential terms early this year, the increase was relatively modest, and the index continued to decline in year-ago terms. The appreciation of the S\$NEER is estimated to have dampened overall imported goods inflation by 3.5% points per annum over 2022–23, effectively filtering the pass-through of global cost pressures to final consumer prices.

Meanwhile, the elevated real exchange rate has also induced some residents to switch away from domestic spending to expenditure abroad. The softening labour market and the attendant slowdown in resident wage growth may also have weighed on consumer sentiment slightly.¹²

Travel-related services inflation also eased in Q1 2024, likely reflecting improved supply conditions in overseas tourist destinations, as well as the appreciation of the Singapore dollar, which have lowered the cost of overseas accommodation. In particular, the CPI for hotel accommodation fell sequentially by a steep 8.0% in Q1, relative to the preceding quarter, reversing a substantial proportion of the step-up over H2 last year (**Chart 3.11**). Meanwhile, package tour fees also edged down on a sequential basis, driven in part by lower airfares as flight capacities to popular travel destinations increased.

Chart 3.11 Prices of travel-related services fell

Travel-related services CPI components



Source: DOS

Inflation stayed elevated in other services components as prices continued to catch up to earlier cost increases

Unlike goods and travel-related services inflation, inflation in other services components picked up in the recent quarter, even after abstracting from the GST hike effects (**Chart 3.12**). These increases largely reflected adjustments in services fees as part of the lagged catch-up of prices to earlier cost hikes, particularly for CPI components whose prices are revised less

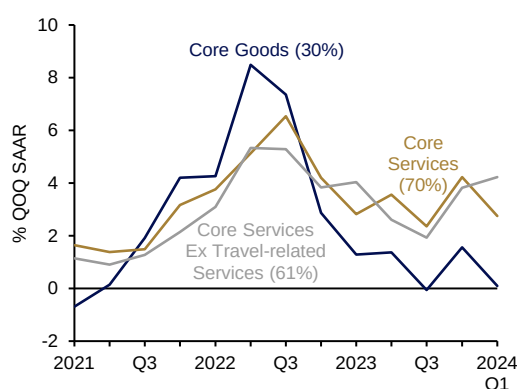
¹¹ Adjusted for non-cooked food CPI weights.

¹² The IPSOS Consumer Confidence index for Singapore was broadly unchanged in March 2024 after falling in February. Nevertheless, respondents have, in the past two surveys, demonstrated increasingly negative views about labour market outcomes and the employment outlook.

frequently and/or are administered. These include bus & train fares¹³, taxi fares as well as education fees (**Chart 3.13**).¹⁴ Notably, these are also sectors for which labour shortages have remained acute and wage pressures strong. While the price indices for point-to-point transport and food services appeared to have caught up with the rise in unit labour costs as of Q1 2024, this was not the case for education and healthcare services. However, the latter cluster of services should still see a more moderate pace of price increases, as it includes components whose fees are regulated by the Government and affected by its subsidies to service providers and households.

Chart 3.12 Inflation momentum for services (excluding travel-related) remained firm

Inflation momentum of core goods & services (excluding impact of GST hikes)

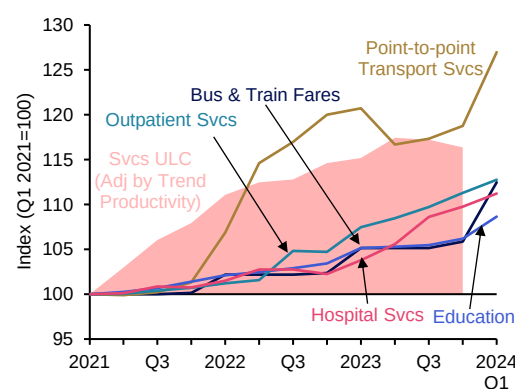


Source: DOS and EPG, MAS estimates

Note: Figures in parentheses refer to the share of each category in the CPI basket. Goods CPI comprises of non-cooked food, electricity & gas, and retail & other goods. Services CPI comprises of food services and other services.

Chart 3.13 Prices of public transport, in particular, rose more steeply in Q1

Key services CPI categories



Source: DOS and EPG, MAS estimates

Note: The last datapoint for services ULC refers to Q4 2023.

The underlying disinflation process remains intact

For a more holistic assessment of the general trend of inflation, alternative measures of underlying inflation are used to distinguish persistent, “core” price movements from price changes that are driven by more temporary disturbances. Such measures continue to indicate disinflation in domestic consumer prices: the 25% trimmed mean inflation slowed to 3.0% y-o-y in Q1 2024 from 3.8% in Q4 2023, while the weighted median inflation moderated to 3.0% from 3.7% over the same period (**Chart 3.14**).¹⁵ The volatility-adjusted measure of core inflation fell to 3.3%, from 3.7%. These suggest that the bulk of price changes in the CPI remained on an easing path thus far this year and underlying inflation is kept elevated only by a narrow set of items experiencing large increases. This is in line with the leftward shift in the distribution of price increases (**Chart 3.15**). Notably, the share of core CPI basket registering y-o-y price increases of 2% or below rose to 46% (by count) from 42% in the preceding quarter

¹³ The Public Transport Council raised bus and train fares by 7.0% in late December 2023.

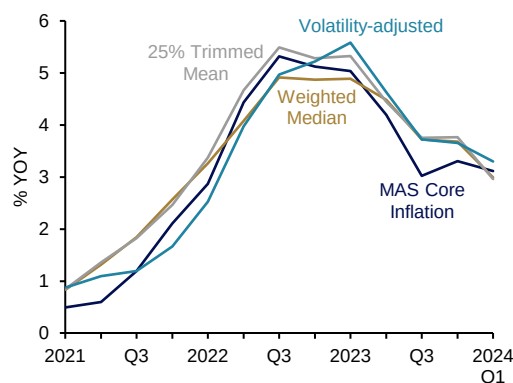
¹⁴ Part of the y-o-y increase in January 2024 reflected the low base last year when fee caps for Government-supported pre-schools were lowered and financial assistance schemes for primary to post-secondary students were enhanced.

¹⁵ Figures here refer to end-of-period y-o-y price changes.

and those with inflation above 4% edged down to 37% from 39%. Refer to **Box B** for more details on the alternative measures of underlying inflation.

Chart 3.14 Alternative measures of core inflation eased further in Q1

Measures of core inflation

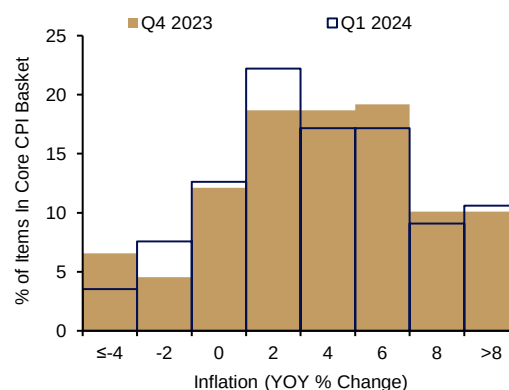


Source: EPG, MAS estimates

Note: These alternative measures of core inflation include accommodation and private transport costs. Lines depict y-o-y inflation rates on an end-of-period basis.

Chart 3.15 Share of core CPI basket registering y-o-y inflation above 4% continued to shrink

Distribution of y-o-y inflation rates for core CPI components



Source: EPG, MAS estimates

Core inflation should decline gradually over the rest of 2024 as imported and domestic cost pressures remain contained

Barring further shocks to global commodity prices, Singapore's imported inflation as a whole is expected to remain modest this year. This is based on a forecast of Brent crude oil prices averaging US\$89 per barrel (/b), up from US\$82/b in 2023 (**Chart 3.16**). Crude oil prices have risen to around US\$90/b in recent weeks due to heightened geopolitical tensions and OPEC+'s continued restraints on output. Should oil prices rise further and persist at elevated levels, domestic inflation for petrol and electricity & gas would be higher, and indirect effects on other goods and services prices stronger.

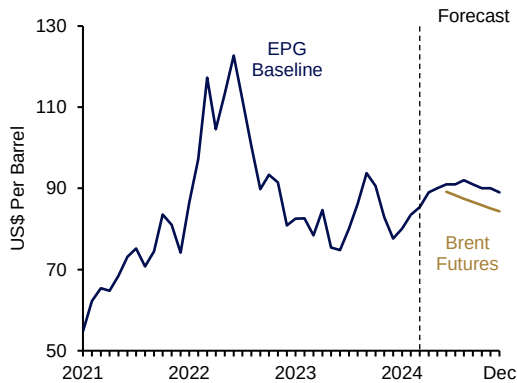
However, the inflationary impact of higher oil prices is, for now, expected to be contained and outweighed by easing inflation for other imported goods and services. Specifically, global food-related commodity prices pertinent to Singapore's consumption continued to fall in early 2024 as key markets remained well-supplied, owing to favourable weather conditions (**Chart 3.17**). In particular, prices of cereals have declined further due to abundant harvests while Ukrainian grain continues to flow to global markets. These should lead to lower feed prices for farmers, which should dampen global meat and dairy prices. The risks of adverse El Niño effects on agricultural production also appear to be fading as the weather phenomenon is projected to come to an end by mid-year.

Meanwhile, a significant rebound in global goods prices is unlikely. While the earlier sharp decreases in global producer prices and transport costs are fading, intermediate input and final consumer goods prices are expected to rise only modestly this year. In particular, regional inflation is expected to remain low in 2024 and should continue to exert some downward pressure on Singapore's imported goods prices (**Chart 3.18**). Global shipping costs have also fallen after rising over the turn of the year following the attacks in the Red Sea, and

firms appear to have successfully re-routed freight with disruptions largely confined to specific regions.

Chart 3.16 Crude oil prices have risen and are likely to remain elevated

Brent crude oil prices, futures and forecasts

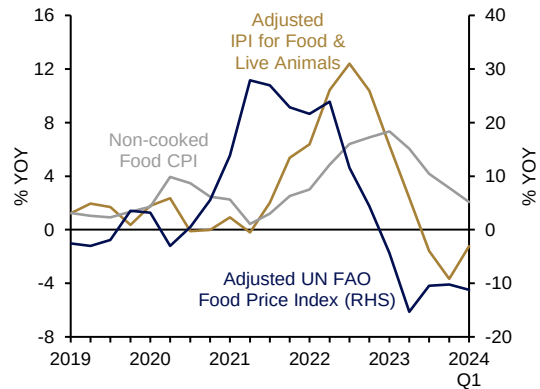


Source: Bloomberg, US EIA and EPG, MAS estimates

Note: EPG's baseline is based on US EIA's April forecasts for Brent crude oil prices. Prices of Brent futures with expiration months in Jun–Dec 2024 are based on average Brent futures over the working days between 4 to 24 April 2024.

Chart 3.17 Lower global food prices should weigh on domestic non-cooked food inflation

Global food price index and Singapore's IPI and CPI for non-cooked food

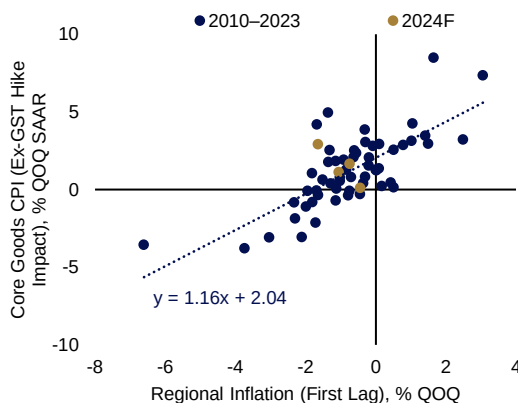


Source: UN FAO, DOS and EPG, MAS estimates

Note: The adjusted UN FAO food price index and IPI for food & live animals are computed based on the weights of the respective food components in Singapore's CPI basket. The last datapoint for IPI refers to the y-o-y change for Jan–Feb 2024.

Chart 3.18 Slowing regional inflation is also expected to temper domestic goods inflation

Domestic core goods inflation and regional inflation

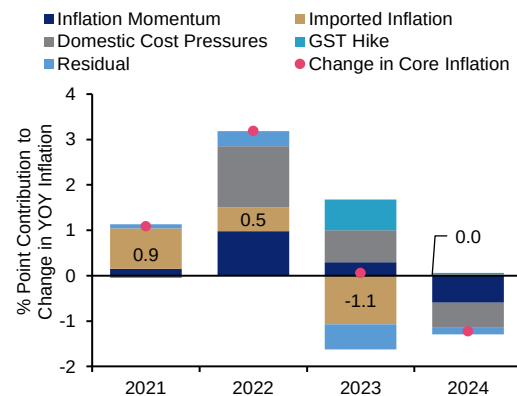


Source: DOS and EPG, MAS estimates

Note: Regional inflation refers to the first principal component of annual inflation rates across eleven countries including selected ASEAN and NEA countries.

Chart 3.19 Overall imported inflation is expected to remain modest

Contributions to change in core inflation based on cost mark-up model



Source: EPG, MAS estimates

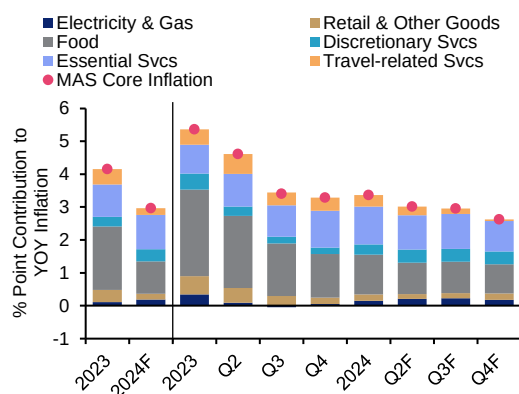
In addition, as demand-supply conditions in the global travel industry continue to rebalance, travel-related services inflation is expected to moderate further. Several international hotel operators and travel booking companies have projected softer travel

demand in 2024.¹⁶ Airlines and hospitality industries globally have also been ramping up supply capacity, and the resultant intensification in competitive pressures should dampen price increases. While labour woes persist in several regions, their impact on travel-related inflation should ease as foreign labour quotas for hospitality industries in key travel destinations such as Korea and Japan have been loosened.

All in, based on an econometric cost mark-up model, imported cost pressures are projected to contribute negligibly to the change in core inflation this year (**Chart 3.19**). On the domestic front, easing aggregate resident wage growth should keep a lid on business cost pressures. Alongside an anticipated pickup in productivity, unit labour costs, including in the services sectors, will increase at a significantly slower pace compared to the last two years. This is expected to drive a significant share of the decline in core inflation this year. Meanwhile, rentals for retail spaces have also eased further in Q4 2023, and are expected to stay below pre-pandemic levels. In terms of its components, the moderation in core inflation this year will be underpinned by easing inflation for food, and services, including travel-related services (**Chart 3.20**).

Chart 3.20 Lower inflation for food and services will drive the disinflation this year

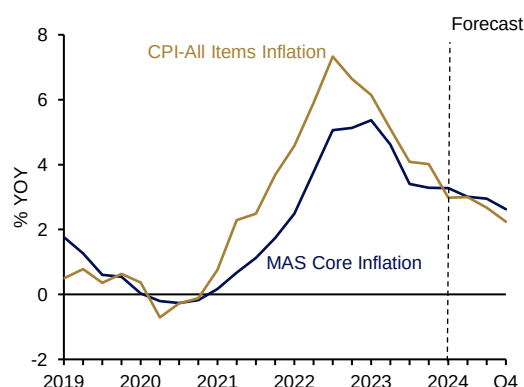
% Point Contribution to MAS Core Inflation



Source: DOS and EPG, MAS estimates

Chart 3.21 Core inflation is expected to ease more gradually this year, compared to 2023

MAS Core Inflation and CPI-All Items inflation forecasts



Source: DOS and EPG, MAS estimates

Core inflation is expected to stay around 3% in the near term before falling more discernibly in Q4 2024

While core inflation is expected to ease gradually over the rest of 2024, the pace of disinflation this year will be considerably slower compared to last year (**Chart 3.21**). Core inflation is forecast to stay elevated in the immediate quarters ahead, hovering slightly above or close to 3%, before stepping down more discernibly in Q4 and into 2025. The slower pace of decline in inflation this year partly reflects the smaller dampening effect of falling imported inflation compared to 2023. Meanwhile, consumer prices are likely to continue catching up with higher cost levels in some goods and services sectors for a while. This includes the step-up in water prices in April. However, as the pass-through of accumulated costs to consumer prices progresses through the year, core inflation is projected to ease more meaningfully.

¹⁶ Marriott International expects 2024 revenue per available room to increase by only 3–5% this year, down from nearly 15% in 2023. Hilton Worldwide expects full-year room revenue to rise by 2–4% in 2024 from 12.6% in 2023. Expedia has announced plans to cut about 9% of its total workforce.

Wage pressures are likely to persist in some consumer-facing sectors, as relative wages in some occupations and sectors continue to adjust to clear persistent labour supply-demand mismatches. Nonetheless, aggregate wage growth in the economy is expected to moderate with softer labour market conditions in the external-facing sectors. This should have a restraining effect on consumer demand, and consequently the ability of businesses to raise prices strongly.

Meanwhile, easing private transport and accommodation inflation will exert a drag on headline inflation. COE premiums have fallen markedly from 2023 levels, and the resultant decline in private transport inflation is expected to be the single largest driver behind the fall in headline inflation this year. Apart from LTA's intentions to carry forward future guaranteed de-registrations to more recent bidding rounds, the COE quota is also forecast to continue to increase alongside a rising population of cars reaching the compulsory age for either de-registrations or COE renewals. At the same time, residential rental inflation should moderate further as the supply of accommodation continues to rise, while leasing demand could soften amid slower inflows of non-resident workers.

For 2024 as a whole, both core and headline inflation are projected to average 2.5–3.5%. Excluding the transitory effects of the increases in GST, core and headline inflation are expected to come in at 1.5–2.5%.

There are risks that the decline in core inflation stalls or costs re-accelerate

Inflation could turn out to be stronger than anticipated due to shocks to supply and demand. On the supply side, geopolitical tensions, especially in the Middle East, have intensified in recent weeks, and could pose risks to global energy prices. Should global energy prices rise further and stay at significantly elevated levels, the inflationary effects could extend beyond energy-specific CPI components as businesses facing higher utilities costs pass these on to consumer prices. On the demand side, a stronger-than-expected turnaround in the labour market towards the end of the year could lift consumer sentiment and raise wage growth, which would in turn keep inflation elevated. However, there are also downside risks including the possibility of an unexpected weakening in the global economy, which could induce a faster easing of cost and price pressures.