

## 3 Labour Market and Inflation

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- The labour market recovery remains broadly on track, even as the heightened alert measures had some temporary dampening effects on the domestic-oriented sector in Q2 2021. Total employment contracted by 19,900 in the quarter, although resident employment continued to expand, albeit at a slower pace relative to Q1. However, non-resident employment declined at a faster pace due to tightened travel restrictions.
  - While labour demand was weak in travel-related and consumer-facing segments, it rose strongly in most other sectors. Exacerbated by tight constraints in non-resident worker supply, manpower shortages have intensified in construction and manufacturing, and emerged in modern services and health & social services. Pockets of labour market tightness have contributed to rising wage pressures in aggregate, although higher wage growth thus far has largely reflected normalisation and base effects.
  - For the rest of the year, resident employment should continue to expand alongside the economic recovery. In 2022, demand for resident and non-resident workers will rise as the economy expands at an above-trend pace. As labour market slack dissipates, wages are anticipated to strengthen over time.
  - Core inflation rose to 1.1% y-o-y in Q3, from 0.7% in Q2. The step-up was mainly driven by the increase in electricity & gas costs, reflecting higher global oil prices. Labour cost increases also appear to have filtered through to consumer prices for some services such as food and domestic & household work. Reflecting higher core and accommodation inflation, CPI-All Items inflation edged up to 2.5% y-o-y in Q3, from 2.3% in Q2, even as private transport inflation moderated. Headline inflation is expected to come in at around 2% this year, while core inflation is projected to come in near the upper end of the 0–1% forecast range.
  - Underlying inflation in the Singapore economy is expected to pick up further next year on the back of stronger domestic sources of inflation, including some administrative price revisions. Higher business costs, alongside recovering private consumption, will support the pickup in services inflation. Overall import price pressures could also persist into 2022 as global supply bottlenecks take time to ease. These factors are likely to dominate and underpin the rise in core inflation even if concerns over virus transmission lead to some near-term weakness in consumption. All in, MAS Core Inflation is forecast to rise to between 1–2% while CPI-All Items inflation is projected to average between 1.5–2.5% next year.
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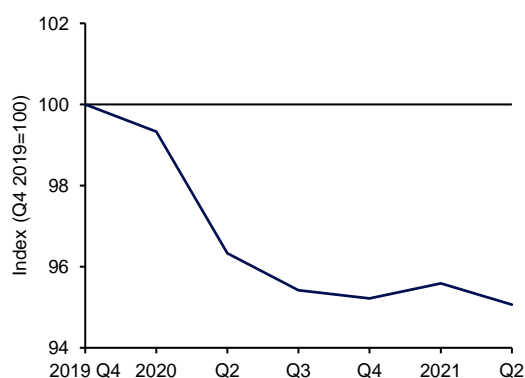
## 3.1 Labour Market<sup>1</sup>

### Worsening COVID-19 community infections and the introduction of heightened alert measures slowed the labour market recovery in Q2

The heightened alert measures, imposed in response to rising COVID-19 infections, impacted the domestic labour market in Q2 2021. Total employment contracted by 19,900 q-o-q, after expanding 14,000 in the preceding quarter, bringing total employment down to 95% of its pre-COVID level in Q2 (**Chart 3.1**).

**Chart 3.1** Total employment contracted in Q2

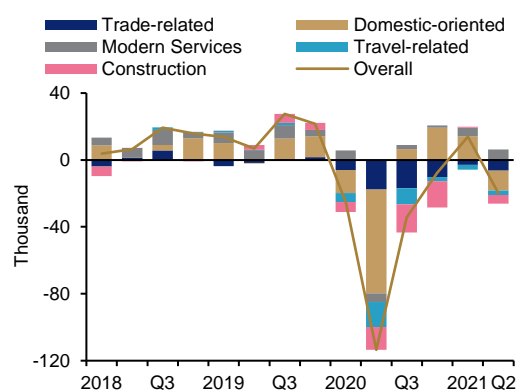
Total employment relative to pre-COVID level



Source: EPG, MAS estimates using data from MRSD, MOM

**Chart 3.2** Most broad sectors saw a weakening in employment growth in Q2

Q-o-q employment change by broad sectors



Source: EPG, MAS estimates using data from MRSD, MOM

Most sectors saw employment outturns weaken during the quarter (**Chart 3.2**). Employment fell in most segments within the domestic-oriented<sup>2</sup> sector, particularly in the consumer-facing segments such as F&B services and retail trade. Similarly, headcount in the travel-related sector declined further, albeit at a slower pace, as international travel remained restricted. The stricter border measures in Q2 also contributed to contractions in employment in the trade-related and construction sectors, as inflows of non-resident workers from higher-risk countries were curtailed.

In comparison, employment in the modern services sector bucked the trend to pick up more strongly in Q2, with firm labour demand in information & communications and professional services. The health & social services industry (within the domestic-oriented sector) also saw employment growth accelerate in Q2, amid a ramp up in national healthcare and vaccination capacities.

<sup>1</sup> The commentary in this section is mostly based on available labour market data up to Q2 2021.

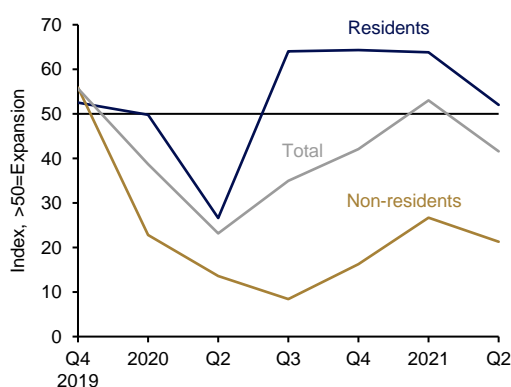
<sup>2</sup> The *domestic-oriented* sector encompasses land transport, retail trade, F&B services, real estate, administrative & support services, public administration & education, health & social services, other community, social & personal services, domestic work and utilities & others. The *travel-related* sector is made up of air transport, accommodation, as well as AER industries. The *trade-related* sector consists of manufacturing, wholesale trade, water transport and other transport industries. The *modern services* sector comprises information & communications, financial & insurance services and professional services.

## Resident employment growth eased and non-resident employment recorded steeper declines

Resident employment continued to expand, although the increase slowed to 4,800 q-o-q in Q2 2021, from 23,700 in Q1. The slowdown in resident employment growth in part reflected the already significant absorption of overall labour market slack since the recovery began in Q3 last year, although demand for resident labour weakened in some sectors as well. In Q2, more sectors recorded a slowdown in resident employment growth or a contraction in resident headcount compared to the previous quarter. MOM's Employment Diffusion Index (EDI)<sup>3</sup> for residents, which provides an indication of the breadth of employment change, dipped to 52.0 from 63.8 in Q1 (Chart 3.3).

**Chart 3.3** A majority of industries saw contraction in employment in Q2

Employment diffusion index

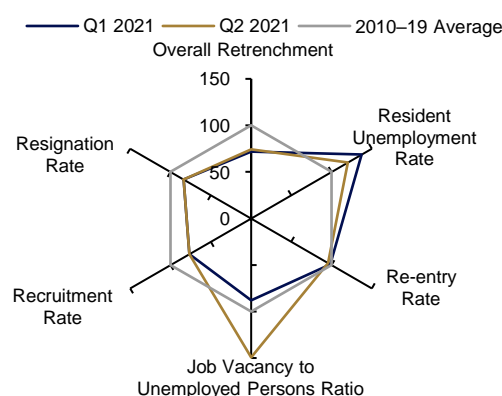


Source: MRSD, MOM

Note: Excludes migrant domestic workers.

**Chart 3.4** Several labour market indicators worsened or ceased improving in Q2

Labour market indicators



Source: MRSD, MOM and EPG, MAS estimates

Note: All variables are indexed such that the 2010-19 historical average for each indicator takes a value of 100.

Meanwhile, the fall in non-resident employment accelerated to 24,700 q-o-q in Q2, from 9,700 in the preceding quarter. A broader set of industries saw contractions, as evident from the decline in the EDI to 21.3 in Q2 (Chart 3.3). More stringent border restrictions from May, leading to a sharp drop in non-resident workers entering Singapore, was likely a key factor underlying the weaker employment outturns.<sup>4</sup> Nevertheless, the decline was mitigated by increased efforts to retain existing non-resident employees and to redeploy redundant workers to firms facing manpower shortages.<sup>5</sup>

<sup>3</sup> MOM's EDI ranges from 0 to 100. The further above or below this index is from the midpoint of 50, the more or less widespread the employment expansions and contractions, respectively.

<sup>4</sup> The significant impact of tighter border restrictions reflected the high numbers of COVID-19 infections and low vaccination rates in many of Singapore's key source countries for non-resident workers. Additional costs associated with testing and Stay-Home Notice requirements for incoming workers likely also dampened demand for them.

<sup>5</sup> For instance, work permit holders (WPHs) in certain sectors whose permits are expiring this year will be allowed to renew their permits for up to two years even if they do not meet renewal criteria, such as those WPHs reaching maximum period of employment or maximum employment age.

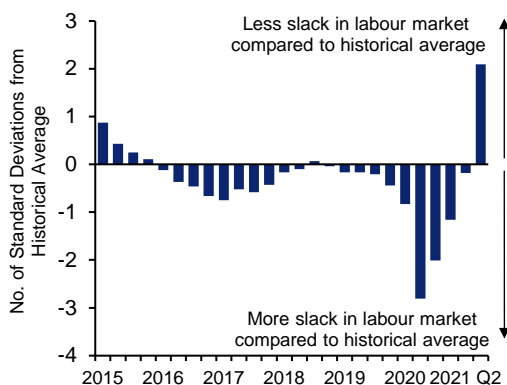
## The recovery in the domestic labour market was temporarily interrupted in Q2

Following three consecutive quarters of diminishing labour market slack, several labour market indicators stopped improving or deteriorated slightly in Q2 2021 (**Chart 3.4**). The total number of retrenchments edged up for the first time since Q3 last year. At the same time, the number of employees placed on short work-week or temporary layoff rose from the previous quarter. Residents' rate of re-entry into employment also weakened in Q2, suggesting that retrenched workers faced some difficulty in securing jobs during this period. Meanwhile, overall recruitment and resignation rates held steady in Q2 2021 but remained below the norm, indicating still relatively low levels of labour market confidence.

Conversely, the ratio of job vacancies to unemployed persons surged to 1.63 in Q2—the highest level since Q4 1997—as the seasonally adjusted number of job vacancies picked up to 92,100 in June, from 68,400 in March. The overall job vacancy rate also rose to its highest level in decades. Reflecting mainly these developments, EPG's Labour Market Pressure Indicator (LMPI) swung sharply to a high positive reading of 2.1 in Q2 from a small negative reading in Q1 (**Chart 3.5**).<sup>6</sup>

**Chart 3.5** High LMPI in Q2 overstated labour market tightness

Labour market pressure indicator

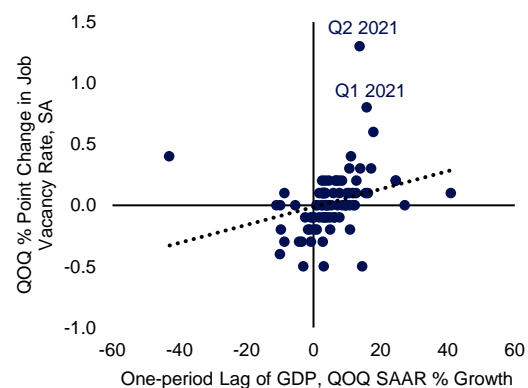


Source: EPG, MAS estimates

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

**Chart 3.6** The surge in job vacancy rate in Q2 mainly reflected restricted labour supply

Scatterplot of q-o-q change in seasonally adjusted job vacancy rate and one-period lag of GDP growth, Q1 2000 – Q2 2021



Source: EPG, MAS estimates using data from MRSD, MOM and DOS

Note: GDP growth is lagged by a quarter. The data labels shown in the chart are based on the job vacancy rate time period.

## A labour supply crunch contributed to the surge in job vacancies, but underlying labour demand appears resilient

The surge in job vacancies in Q2 was primarily a supply-induced outcome, driven by sharply reduced inflows of non-resident workers. Indeed, the Annual Business Survey conducted by the Singapore Chinese Chamber of Commerce & Industry (SCCCI) in Jun–Aug 2021 found that close to 50% of respondents faced severe difficulties in hiring non-resident

<sup>6</sup> If the job vacancy indicators of the LMPI were kept unchanged from Q1 2021 levels, the LMPI would have shown a smaller positive reading of 1.2 in Q2 2021 (Q1 2021: -0.1). Other drivers of the positive LMPI reading in Q2 2021 were high y-o-y sectoral labour productivity growth and y-o-y unit labour cost growth, both of which reflected strong base effects. If both of these indicators were kept unchanged from their Q1 2021 values, Q2 2021 LMPI would be 0.3.

workers.<sup>7</sup> The job vacancy rate rose sharply in Q2 even as (lagged) GDP growth—a proxy for aggregate labour demand—eased, suggesting labour supply conditions tightened (**Chart 3.6**).

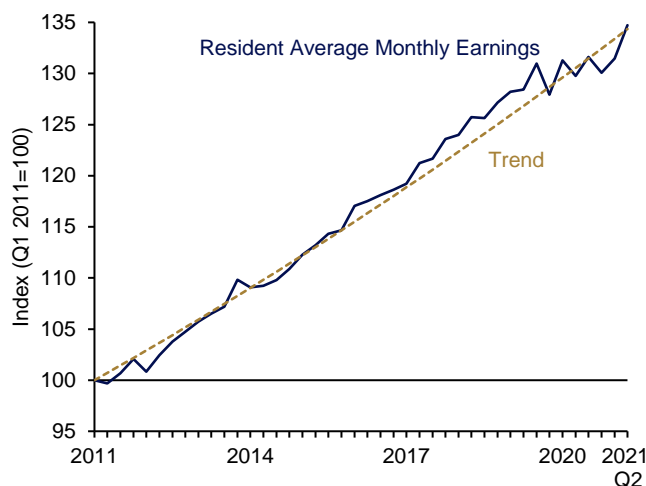
The high LMPI reading and job vacancy rate likely overstate the degree of overall labour market tightness in the economy to some extent. For instance, demand for labour likely eased in the domestic-oriented sector in Q2, as the heightened alert measures impacted activity. Meanwhile, the manufacturing and construction sectors, which typically do not rely heavily on resident workers for rank and file roles, accounted for slightly more than 40% of the additional job vacancies in June, compared to the pre-COVID average. The labour crunch in these sectors is unlikely to impart broad-based wage pressures to the economy. However, job vacancies grew in sectors such as modern services, public administration & education and health & social services. These sectors likely continued to be firm drivers of resident labour demand.

### Resident wage levels returned to trend in Q2

Resident average monthly earnings rose by 3.8% y-o-y in Q2 2021, a significant step-up from the 0.2% recorded in the preceding quarter. The strong growth reflected base effects as well as the progress made in the labour market recovery to date. Firms across a range of industries were reported to have ended wage freezes and reversed wage cuts.<sup>8</sup> For the economy as a whole, the rise in average monthly earnings in Q2 brought the wage level back in line with its pre-COVID trend (**Chart 3.7**).

**Chart 3.7** Resident wage growth rose in Q2, bringing the wage level back to its pre-COVID trend

Average monthly earnings



Source: EPG, MAS estimates using data from CPF and Haver Analytics

Note: The trend line is plotted using the average q-o-q SA wage growth from Q2 2011 – Q4 2019.

<sup>7</sup> Subhani, O (2021), "SMEs urged to seek new opportunities, develop workforce to survive Covid-19", *The Straits Times*, September 15.

<sup>8</sup> Tan, S (2021), "Firms in S'pore restore wages after pay cuts and freezes last year", *The Straits Times*, August 19.

## Sectoral disparities in labour market outcomes have widened, with some mismatch in labour supply and demand across sectors

For the economy as a whole, labour market mismatch likely intensified in recent quarters. The heightened alert measures have weighed disproportionately on labour demand in several consumer-facing segments, including F&B services and retail trade, leading to rising retrenchments and more workers on short work-week or temporary layoff. In comparison, economic activity in sectors which were relatively unaffected by the heightened alert measures faced tightening labour supply due to a fall in the stock of non-resident workers and diminishing resident labour market slack. In Q2 and early Q3, the pockets of sectoral labour market slack that emerged were unlikely to have been readily absorbed by rising labour demand in the sectors facing labour supply constraints (e.g., as residents generally do not favour or have the experience to take on jobs in construction and manufacturing, where manpower shortages are most acute). Accordingly, the increasing sectoral labour market disparities and mismatch led, unusually, to an increase in the resident unemployment rate (from 3.5% in June to 3.7% in July) and a rise in job vacancy rates in Q2.

## Resident employment growth is expected to pick up from Q2

The weakness in demand for resident workers in Q2 and early Q3 was likely temporary. Indeed, the easing of the resident unemployment rate to 3.6% in August suggests that labour market slack should continue to be absorbed. Forward-looking employment outlook surveys, including those by the ManpowerGroup and Singapore Commercial Credit Bureau (SCCB), indicate that firms intend to expand headcount, even as the degree of net hiring expected has eased somewhat in the latest readings (**Chart 3.8**). The extension of restrictions limiting group sizes for social gatherings into November will weigh on employment growth in the consumer-facing segments to some extent, but demand for resident workers could increase towards the end of the year in line with year-end festivities. Moreover, constrained inflows of non-resident workers in the near term should encourage employers to pivot towards the hiring of resident workers, where possible. Hiring will also be bolstered by the Jobs Growth Incentive (JGI) which was recently extended to March 2022.<sup>9</sup>

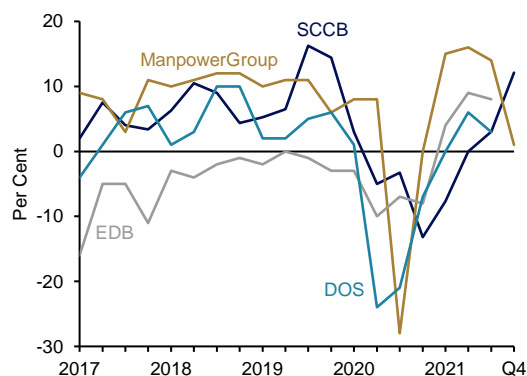
## In 2022, slack in the resident labour market will continue to dissipate and non-resident employment should begin to recover

Resident employment should continue to expand at a firm pace into 2022, although it is anticipated to slow from this year as resident labour slack is further absorbed. Non-resident employment is also expected to stabilise and then rise gradually as Singapore progressively shifts towards managing COVID-19 as an endemic norm, and as vaccination rates in the region improve, allowing more workers to enter. However, a significant setback on the path out of the pandemic or weaker-than-expected global growth could slow the pace of the domestic labour market recovery.

<sup>9</sup> Under Phase 3 of the JGI, from October 2021 to March 2022, the amount of support will be lowered. Firms will receive 15% wage support for the first \$5,000 gross monthly wages paid to all new local hires below age 40 for up to 6 months. This is down from the 25% wage support for up to 12 months under Phase 2 of the JGI. For local hires aged 40 and above, persons with disabilities or ex-offenders, the level of JGI support under Phase 3 will be higher, at 50% for the first \$6,000 gross monthly wages paid and for up to 12 months. This is tapered from the support period of up to 18 months under Phase 2 of the JGI.

**Chart 3.8** Most firms intend to expand headcount but the employment outlook has deteriorated

Employment outlook for Singapore

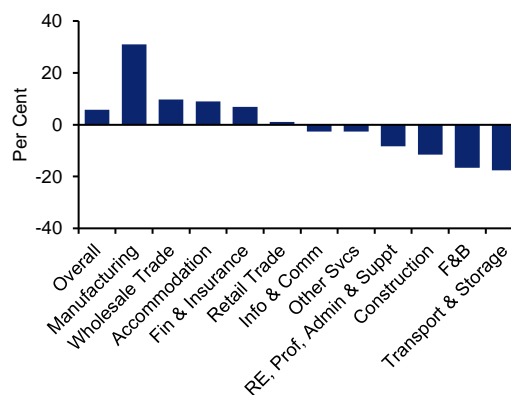


Source: DOS, EDB, ManpowerGroup and SCCB

Note: The net employment outlook refers to the percentage of surveyed employers expecting to increase headcount less the percentage of employers expecting to reduce employment during the period.

**Chart 3.9** Labour productivity has exceeded pre-COVID levels in almost half of the sectors

Seasonally adjusted VA per worker in Q2 2021 compared to pre-COVID levels (Q4 2019)



Source: DOS and Haver Analytics

Note: 'RE' refers to real estate services.

From a sectoral perspective, the travel-related sector is likely to see a stronger restoration of labour demand in 2022 as international travel returns to some degree. Similarly, the domestic-oriented sector should see an employment boost from the continued normalisation of economic and social activities. Modern services will continue to contribute significantly to job creation next year, although job growth should moderate from the highs in 2021. In comparison, employment in the manufacturing sector could continue its structural decline as the sector seeks to improve productivity through the greater use of robots and automation in production. (For an analysis of the impact of the digital economy on Singapore's productivity growth, please refer to **Box A.**)

The overall level of employment, however, may not rise back to its pre-COVID level even by the end of 2022, in part because firms are expected to raise labour productivity, while demographic factors will continue to weigh on resident workforce growth. For instance, as a means of addressing manpower shortages, around 70% of the firms surveyed by the SCCCI have turned to automation or are digitalising their business processes.<sup>10</sup> Indeed, the economy's labour productivity level as at Q2 2021 was 5.7% higher than its pre-COVID level, mainly due to strong productivity growth in the manufacturing sector and in wholesale trade, accommodation and financial & insurance services (**Chart 3.9**).

<sup>10</sup> Subhani, O (2021), "SMEs urged to seek new opportunities, develop workforce to survive Covid-19", *The Straits Times*, September 15.

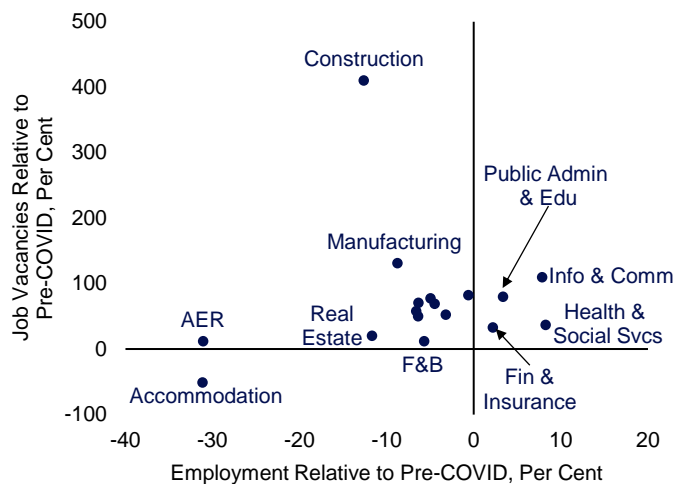
## The resident unemployment rate is expected to decline to around its pre-COVID level next year, and wage growth is projected to rise

The resident unemployment rate is projected to edge down further and come close to its pre-COVID level some time in 2022. As the labour market tightens and business and worker confidence recovers alongside steady economic expansion, resident wage growth is anticipated to strengthen next year. Government policies aimed at improving the wage outcomes of lower-paid residents will also add slightly to overall wage growth in the economy. These policies include requiring firms that employ foreign workers to pay at least the Local Qualifying Salary to all resident workers, as well as the extension of the Progressive Wage Model to the retail sector, both of which will be effective from September 2022.

At the same time, some lingering mismatch is expected to put upward pressure on wage growth in pockets of the labour market. Demand for labour will likely continue to rise at a firm pace in sectors such as information & communications, health & social services and financial & insurance services. In these sectors, employment and job vacancies have both exceeded pre-COVID levels, suggesting tightening in labour market conditions (**Chart 3.10**). There could also be higher non-resident wage costs for sectors where firms need to retain existing workers, such as in construction, manufacturing and domestic work.

**Chart 3.10** The degree of mismatch in the labour market has increased

Scatterplot of job vacancies and employment levels as of June 2021, relative to pre-COVID levels (Q4 2019)



Source: EPG, MAS estimates using data from MRSD, MOM



## 3.2 Consumer Price Developments

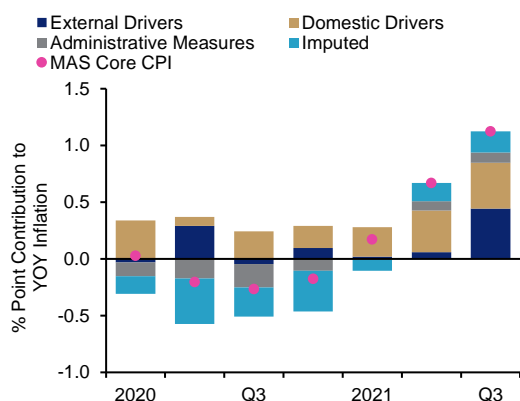
### Core inflation rose in Q3, mainly due to external factors

MAS Core Inflation rose to 1.1% y-o-y in Q3, from 0.7% in Q2, as the externally-driven<sup>11</sup> components of the CPI stepped up discernibly (**Chart 3.11**). In particular, electricity & gas costs increased sharply as global oil prices rose above the pre-pandemic (Q4 2019) level. At the same time, higher imported food prices, following the acceleration in global food inflation in preceding quarters, passed through to stronger non-cooked food inflation. On the domestic front, rising wage costs were likely reflected in some consumer services prices, keeping domestic drivers of inflation firm.

Higher core inflation, alongside a larger increase in accommodation costs, drove CPI-All Items inflation up to 2.5% y-o-y in Q3, from 2.3% in Q2 (**Chart 3.12**). Rents across all housing types continued to rise, lifting accommodation inflation to 1.7% in Q3, from 0.9% in Q2. Meanwhile, further increases in global oil prices in Q3 fed through to higher petrol costs, although this was more than offset by the slower pace of increase in car prices and the road tax rebates that were introduced in August.<sup>12</sup>

**Chart 3.11** Externally-driven CPI components contributed most to the increase in core inflation

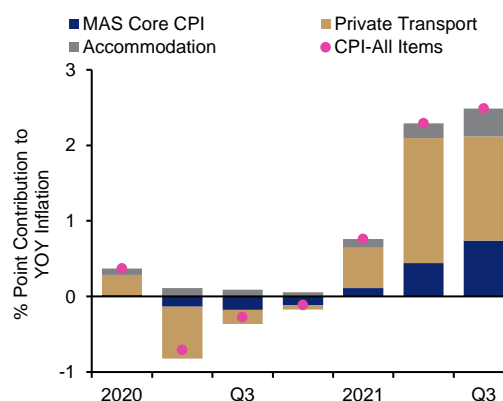
Y-o-y contribution to MAS Core Inflation



Source: DOS and EPG, MAS estimates

**Chart 3.12** Headline inflation rose in line with higher core and accommodation inflation

Y-o-y contribution to CPI-All Items inflation



Source: DOS and EPG, MAS estimates

<sup>11</sup> *Externally-driven* components of the CPI (15% of the core CPI basket) mainly refer to non-cooked food and electricity & gas as these items are heavily influenced by imported prices. *Domestically-driven* components (58%) consist of most discretionary services as well as retail & other goods, which are estimated to be mainly affected by domestic demand and cost conditions. *Administered* CPI components (18%) refer to those whose prices are significantly affected by government policies such as public education and healthcare services. Lastly, *imputed components* (9%) refer to holiday expenses and airfares which remain mostly imputed due to limited international travel.

<sup>12</sup> Road tax rebates were provided for petrol and petrol-hybrid vehicles for one year from 1 August 2021 to 31 July 2022 as part of government measures to ease the transition towards higher petrol excise duties.

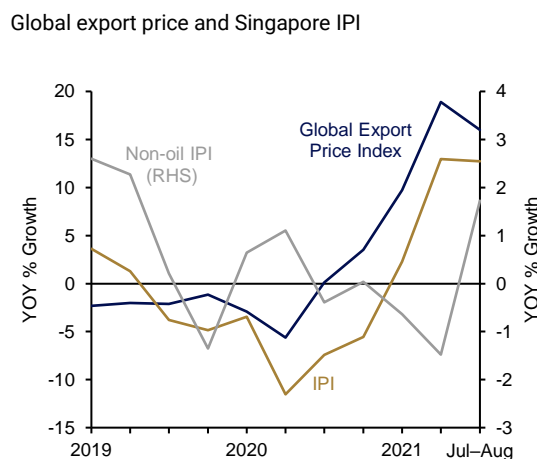
### Amid global supply-side constraints, higher imported prices have driven up consumer prices

Brent crude oil prices rose from US\$61 per barrel in Q1, to US\$69 per barrel in Q2, or 9% above the pre-COVID (Q4 2019) level. Global oil inventories were drawn down as OPEC and its allies (OPEC+) kept supply additions modest even as world oil consumption was increasing strongly. The pickup in crude oil prices in Q2 led to upward revisions in domestic electricity and gas tariffs for Q3, and as a result, the electricity & gas component of the CPI rose sharply by 9.8% y-o-y in Q3.

Meanwhile, global demand for a range of consumer goods such as home electronics and automobiles has been strong. At the same time, bottlenecks in global production and logistics have persisted and prices of intermediate inputs such as semiconductors, as well as transportation costs, have risen considerably. The Freightos Baltic Global Container Index, for example, was approximately seven times above its Q4 2019 level as at end-September. Coupled with higher input costs, the hikes in freight charges have caused global export prices to pick up significantly (Chart 3.13).

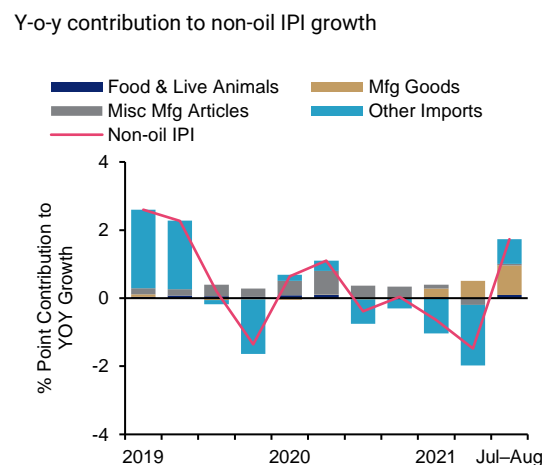
Mirroring the rise in the global export price index, Singapore’s import price index (IPI) increased in Q1 and rose more sharply in Q2. While higher oil prices contributed most to the pickup in import prices in H1, rising costs of non-oil imported components started to drive overall imported inflation in Jul–Aug. The increase in non-oil import prices was fairly broad-based in Jul–Aug (Chart 3.14). Imported costs for a range of consumer items such as handbags & leather products and household durables rose. Strong domestic demand for these items, in turn, facilitated the pass-through of higher costs to consumer prices. However, on the whole, retail goods inflation in Singapore remained contained. Prices of retail & other goods fell by 1.0% y-o-y in Q3, a slight moderation from the 1.2% fall in Q2, as continued declines in prices of items such as personal care products and clothing reflected persistent weakness in demand.

**Chart 3.13** Domestic import prices picked up alongside stronger global export price pressures



Source: CPB World Trade Monitor and DOS

**Chart 3.14** Non-oil import prices picked up across various components



Source: DOS and EPG, MAS estimates

Global food commodity prices have risen steadily in the past few quarters, and as at Q3, were 33% above their pre-COVID (2019) level. Adverse weather conditions in global corn and soybean growing regions have lifted prices of animal feed, resulting in record high production costs for livestock such as poultry in Malaysia.<sup>13</sup> In tandem, Singapore's imported food inflation began to pick up towards the end of Q2 and rose to 2.7% y-o-y in Jul–Aug, reflecting stronger price increases for several foodstuffs including dairy products and meat. In line with the step-up in imported food inflation, non-cooked food CPI rose by 1.2% in Q3, compared to 0.4% in the preceding quarter.

### Tighter domestic labour supply constraints have led to rising business cost pressures

Meanwhile, domestic drivers of inflation also firmed in Q3 2021. For instance, domestic & household services costs rose by 2.2% y-o-y, extending the 1.4% increase in Q2, partly on account of higher salaries for migrant domestic workers (MDWs). Salaries of MDWs have reportedly risen significantly since border measures curtailed most of the inflow of these workers.<sup>14</sup> New COVID-related costs incurred in the recruitment of incoming MDWs were likely a factor contributing to the increase in domestic & household services costs as well.

Labour shortages also appear to be emerging in the F&B services sector, which have led to cost-push pressures on the CPI. The sector is reportedly offering higher pay to attract and retain workers.<sup>15</sup> Stronger wage cost pressures, alongside higher non-cooked food prices, were likely the key drivers causing food services inflation to increase to 1.5% y-o-y in Q3, from 1.2% in the preceding quarter. The larger price increases were broad-based across restaurant, hawker centres and fast food outlets in Q3, despite the decline in average F&B sales volume in Jul–Aug given the restrictions on dining-in.

### Price pressures have broadened in the economy

The proportion of core CPI items experiencing price increases above their historical average rates rose to 43% in Q3, from 33% in H1 2021 (**Chart 3.15**). Alternative measures of underlying inflation in the Singapore economy, including the 25% and 15% trimmed mean inflation measures<sup>16</sup>, also increased further on a y-o-y basis in Q3 (**Chart 3.16**). The 25% symmetric trimmed mean inflation, for example, picked up to 1.3% y-o-y in Q3, from 0.9% in Q2.

<sup>13</sup> Tan, A, and Lim, M Z (2021), "Chicken prices could increase in Singapore, fuelled by rising feed costs in Malaysia", *The Straits Times*, September 15.

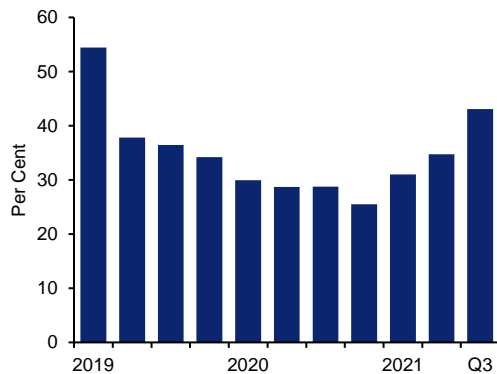
<sup>14</sup> Salaries of transfer helpers have risen to \$800–\$1,000 from \$650–\$800 before the pandemic. Ang, P, and Wong, Y (2021), "First group of 100 maids to arrive in S'pore in August under pilot scheme amid Covid-19", *The Straits Times*, July 15.

<sup>15</sup> Yang, C (2021), "Singapore F&B outlets struggle to hire despite offering higher pay", *The Straits Times*, July 13.

<sup>16</sup> The trimmed mean inflation measures are calculated by excluding a certain percentage of the largest and smallest weighted price changes in the components of the index (i.e., the most volatile CPI components). The 25% symmetric trimmed mean measure removes 25% of price changes at both ends of the distribution.

**Chart 3.15** A larger proportion of core CPI recorded inflation above their historical averages

Weighted proportion of MAS Core CPI with inflation above historical average

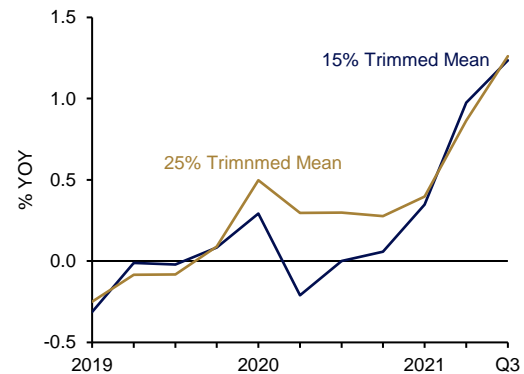


Source: EPG, MAS estimates

Note: The proportion is calculated by taking the sum of weights of core CPI items that experienced price increases above the 2015–19 average over the sum of weights of all core CPI items, excluding goods and services that were newly introduced in the 2019-based CPI.

**Chart 3.16** Other measures of underlying inflation also point to rising price pressures

Trimmed mean inflation



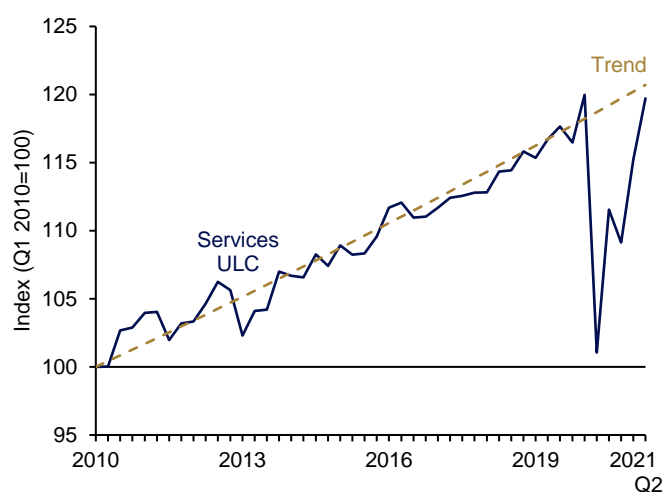
Source: EPG, MAS estimates

## A normalisation in business costs and administrative services components is expected to support the increase in core inflation

Business cost pressures have remained relatively contained to date, but should pick up further next year as government support measures taper and factor market slack declines. Indeed, most of the broad-based wage support for businesses had already ceased in Q3. Services ULC rose by 18.3% y-o-y in Q2 amid the waning of government wage subsidies and the pickup in resident wage growth (**Chart 3.17**). Wage growth in the period ahead is expected to remain firm, which would support a rise in services ULC to its pre-COVID trend level by year-end and its steady upward trajectory thereafter, broadly in line with its long-term rate of increase. These stronger labour cost pressures are expected to drive a pickup in inflation in most core CPI components in 2022, with a greater impact on discretionary services, including food services.

**Chart 3.17** Services ULC is projected to return to its pre-COVID trend level by end-2021

ULC for services producing industries



Source: DOS and EPG, MAS estimates

Note: The trend ULC line is plotted using the average q-o-q SA ULC growth from Q1 2010 – Q4 2019.

Some administrative services are also projected to resume fee increases next year as the economy returns to a firmer footing. Public transport fares could be raised, as the maximum allowable fare adjustment quantum of 4.4% from the previous fare review will be rolled over to the upcoming iteration.<sup>17</sup> On the education front, lower fee caps for preschool education significantly reduced fees this year.<sup>18</sup> The disinflationary effect of this structural measure should fade by January 2022, normalising education services inflation next year. Contingent on the pandemic situation locally, existing outpatient subsidies under the Public Health Preparedness Clinic scheme could also be gradually phased out, which would result in rising healthcare inflation next year.

<sup>17</sup> Public Transport Council (2020), "2020 Fare Review Exercise", September 4.

<sup>18</sup> Fee caps for childcare and infant care partner operators were reduced for the new 5-year term starting from January 2021.

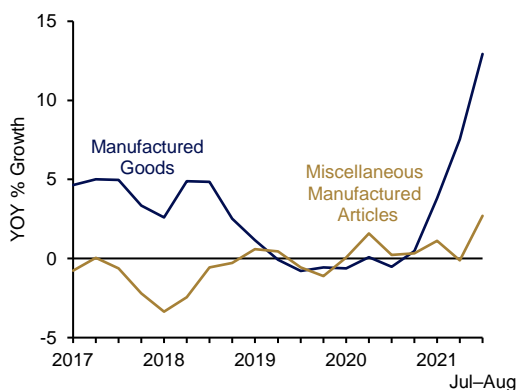
## External CPI components should continue to contribute to the increase in core inflation in 2022, as import price pressures are likely to persist ...

Disruptions to global food production and consumer goods supply chains will likely take some time to resolve. COVID-19 containment measures are expected to remain in place in some countries until vaccination rates rise, which in some cases may be early 2022. Inflated freight and delivery costs, as well as material costs, that have weighed on firms' margins could be passed through to final consumer prices in the coming year, especially if demand conditions stay resilient (**Chart 3.18**). For instance, reports suggest semiconductor chip shortages are anticipated to last for at least another year, which could lead to prices of consumer electronics remaining firm.<sup>19</sup>

While global food inflation slowed slightly in Q3, the ongoing logistics crunch could continue to exert cost-push pressures on food prices. The World Bank expects food commodity prices to rise by 26.1% this year, well above the 2010–19 historical average of -0.8%.<sup>20</sup> Against this backdrop, Singapore's imported food price inflation is expected to increase further in the coming months, in turn lifting non-cooked food CPI inflation (**Chart 3.19**).

**Chart 3.18** Import prices of goods could pick up further in the near term

IPI of selected goods

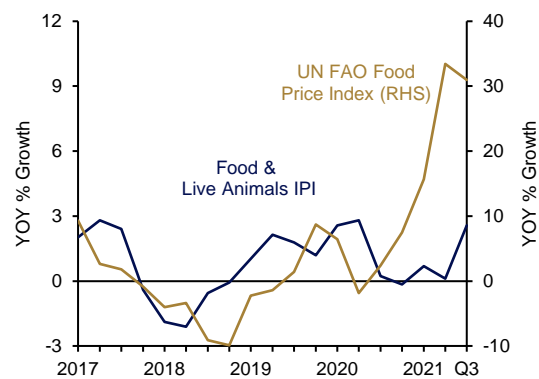


Source: DOS and EPG, MAS estimates

Note: The IPI for Miscellaneous Manufactured Articles exclude selected subcomponents that are less relevant to the CPI.

**Chart 3.19** Non-cooked food inflation ticked up in Q3 amid sustained increases in global prices

Global food price index and Singapore's IPI for food & live animals



Source: DOS and UN Food and Agriculture Organization (FAO)

Note: The last datapoint for IPI refers to the average y-o-y change in Jul-Aug 2021.

<sup>19</sup> The Straits Times (2021), "Increasing chip costs could lead to more expensive phones and PCs in 2022", September 12.

<sup>20</sup> World Bank (2021), "Commodity Markets Outlook October 2021".

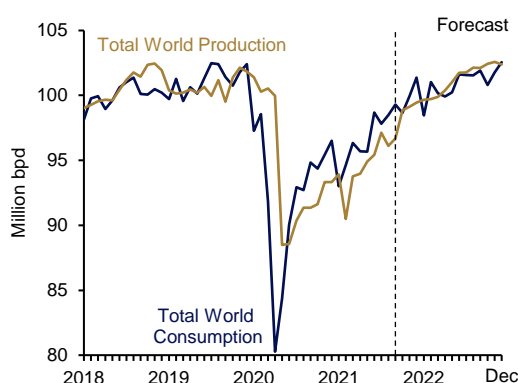
### ... but energy-related CPI items are expected to make a smaller contribution as oil prices average around 2021 levels

Brent crude oil prices increased further to US\$73 per barrel in Q3 and averaged more than US\$80 per barrel since early October on supply-side concerns, including the OPEC+ decision on 4 October to maintain the same magnitude of output increases.<sup>21</sup> In the near term, the increase in demand for crude oil is expected to continue outpacing supply growth, especially in light of the ongoing rally in natural gas prices.<sup>22</sup> Crude oil prices are projected to remain elevated at around current levels in Q4, before easing in 2022, assuming a stronger pickup in global oil production next year led by an unwinding of production cuts by OPEC+ and an increase in non-OPEC output (**Charts 3.20 and 3.21**). Given that full year average oil prices are forecast to remain similar in 2021 and 2022, the contribution of energy-related CPI to the increase in core and headline inflation is expected to recede in 2022.

However, there remain upside risks to crude oil prices in the near term. The recent surge in gas prices amid a supply crunch could persist and in turn contribute to stronger-than-expected increases in oil prices. The projected easing in crude oil prices over the course of next year is also largely dependent on supply conditions which are heavily influenced by the production decisions of OPEC+.

**Chart 3.20** Global oil supply is projected to pick up to match the increase in global consumption

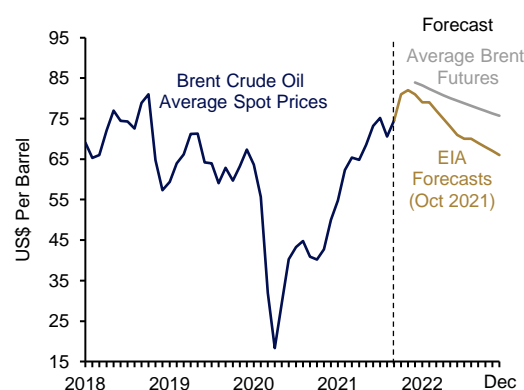
Brent crude oil production and consumption



Source: US Energy Information Administration (EIA)

**Chart 3.21** Brent prices are expected to average around similar levels in 2021 and 2022

Brent crude oil prices and forecasts



Source: Bloomberg and EIA

Note: Brent futures prices were averaged over the working days from 5 to 25 October 2021.

<sup>21</sup> Lawler, A, Ghaddar, A, and Astakhova, O (2021), "OPEC+ sticks to plan for gradual oil output hike, price roars higher", *Reuters*, October 5.

<sup>22</sup> With spot natural gas prices more than doubling since April, some countries switched to oil-fired power generation, further raising demand for global crude oil.

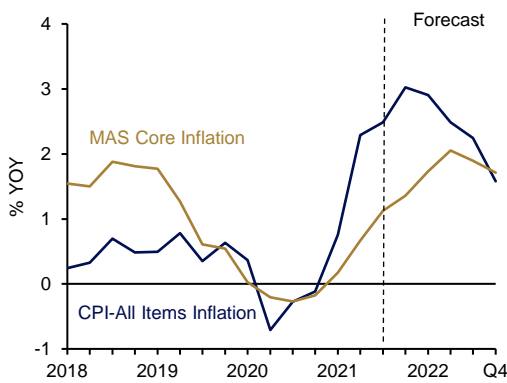
### All in, core inflation is forecast to rise steadily, underpinned by strengthening domestic and imported costs

In the quarters ahead, base effects associated with the rebound in prices from their lows a year ago will fade. However, rising imported and labour costs will lead to a strengthening of underlying inflation in the Singapore economy. As the domestic economy reopens and private consumption picks up, these accumulating business costs will be passed through to consumer price inflation. Inflation rates of various CPI components that have thus far been quiescent, such as those associated with administrative measures, are also expected to normalise gradually, and support a generalised strengthening in the economy’s price pressures.

All in, core inflation is expected to come in near the upper end of the 0–1% forecast range this year and rise to 1–2% in 2022. Meanwhile, CPI-All Items inflation is projected to come in around 2% this year and average 1.5–2.5% in 2022.

**Chart 3.22** Core inflation is expected to rise steadily

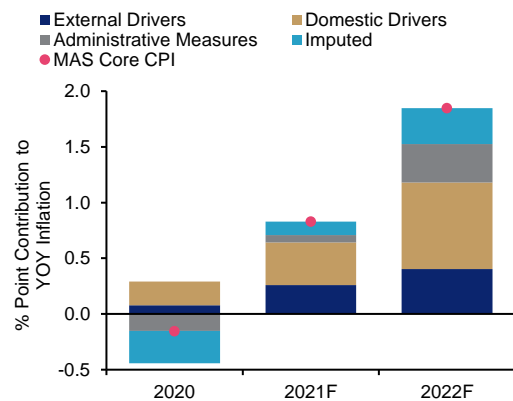
MAS Core Inflation and CPI-All Items inflation forecasts



Source: DOS and EPG, MAS estimates

**Chart 3.23** Domestic services components are anticipated to drive the increase in core inflation

Y-o-y contribution to MAS Core Inflation



Source: DOS and EPG, MAS estimates