

2.1 Labour Market Conditions

Robust Hiring in the Domestic-oriented Sectors

Labour demand picked up towards the end of 2012, led by the domestic-oriented sectors. Together with the more binding foreign labour constraints, the resident unemployment rate fell to a five-year low in Q4 2012. Consequently, nominal resident wages continued to rise, although at a more moderate pace compared with the quarter before, due to relatively weaker pay increases in the external-oriented segments. Meanwhile, labour productivity fell, pushing up unit labour costs (ULC), especially in the services and construction sectors.

Employment growth rebounded in Q4 ...

Following quarterly gains averaging 29,450 in the first half of 2012, job creation eased to 26,200 in Q3, in line with softer economic conditions. It subsequently rebounded to 44,000 in Q4, the largest sequential increase since Q3 2008. (Chart 2.1)

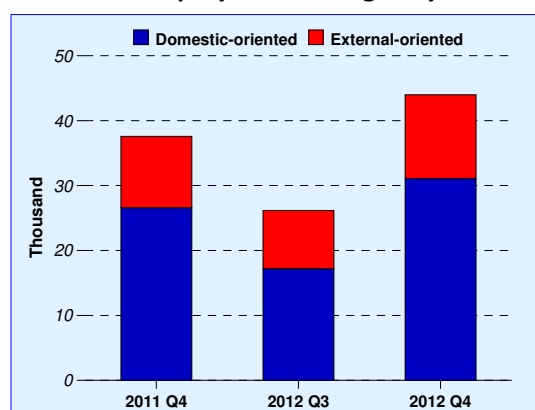
Robust hiring in the domestic-oriented sectors largely accounted for the step-up in job growth, even after controlling for the seasonal pickup in hiring to meet year-end festive demand. In comparison, headcount additions in the external-oriented sectors remained modest, although the pace of job losses in manufacturing moderated.

For the year as a whole, total job creation rose to 129,100 in 2012, from 122,600 in 2011. Considering real GDP growth was 1.3% in 2012, the employment increase of 4% in 2012 was significantly stronger. (Chart 2.2) Only in 2008 was the gap larger, with stronger employment growth at 8.1% even though GDP growth was only 1.7%.¹ In other years with positive GDP growth of less than 5%, employment growth ranged from around -1% to 1%.

... due to robust hiring in the domestic-oriented sectors.

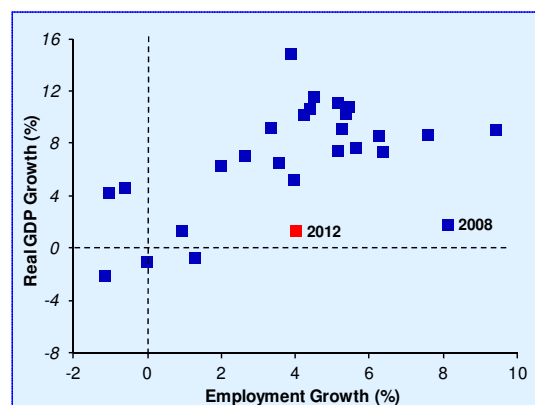
The pickup in labour demand in Q4, despite relatively weak economic growth, predominantly reflected the

Chart 2.1
Share of Employment Changes by Sector



Source: EPG, MAS estimates

Chart 2.2
Real GDP and Employment Growth, 1986–2012



¹ This was a result of the lagged adjustment of the labour market to the Global Financial Crisis which struck in the latter half of 2008.

ramp-up in infrastructure development and expansions in essential services. Construction alone accounted for a quarter of total employment gains in Q4, while related industries, such as real estate services, architectural & engineering services and administrative & support services, added another 3.6% points.² (Chart 2.3)

Meanwhile, health & social services, land transport and public administration & education also increased headcount strongly, in line with the government's push to improve transport infrastructure and build long-term capacity in essential services. In all, the domestic-oriented sectors accounted for over 70% of total jobs created in Q4, with most segments hiring at a faster pace than a year ago.

Job creation in the external-oriented sectors was lacklustre.

The trade-dependent and sentiment-sensitive sectors, in comparison, were more cautious in raising headcount. In fact, electronics manufacturing firms cut jobs for the eighth consecutive quarter in Q4 2012, shedding a cumulative 8% of their workforce since Q1 2011. (Chart 2.4) The weakness in global IT demand was a key drag on job creation in ancillary segments such as machinery & equipment and water & air transport services. At the same time, sluggish global demand for ship-building led to a cutback in hiring in the machinery & equipment segment.

The sentiment-sensitive financial & insurance sector was similarly restrained in its headcount growth compared to the last two years, while job gains in tourism-related accommodation services and retail trade were impacted by the slower pace of visitor arrivals.

Tighter foreign labour policy contributed to increased demand for resident workers ...

Apart from the construction sector, strong labour demand in the domestic-oriented sectors was increasingly met by resident workers. (Chart 2.5) Local employment gains rose to their highest in four years following the multiple rounds of foreign worker tightening measures that began in 2010.

Chart 2.3
Employment Changes in Domestic-oriented Sectors

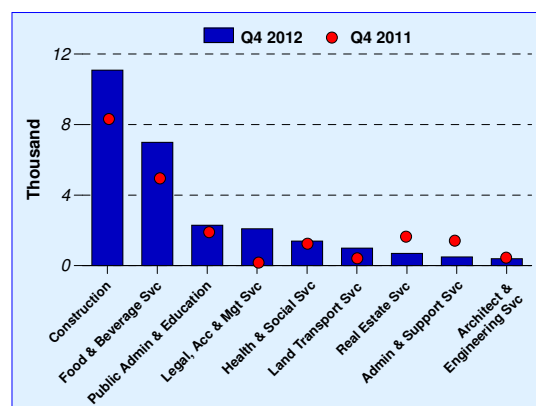


Chart 2.4
Employment Changes in External-oriented Sectors

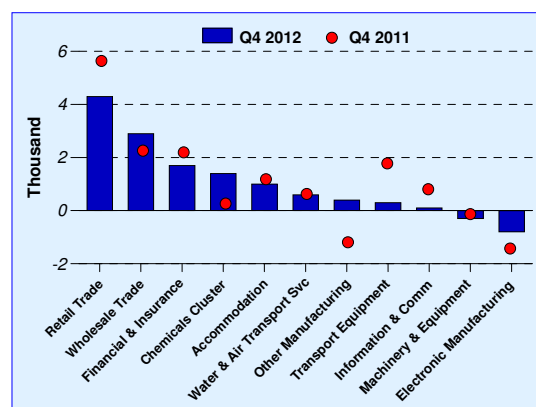
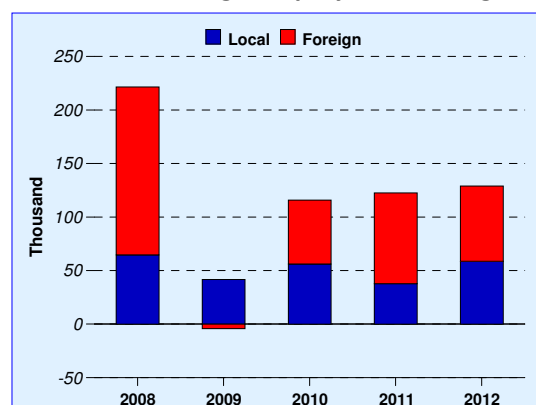


Chart 2.5
Local and Foreign Employment Changes



² Security, cleaning and landscaping firms in the administrative & support services cluster likely benefited from the completion of new buildings.

In January last year, qualifying salaries for entry-level Employment Pass holders (EPH) were raised, while the manufacturing and services sectors' Dependency Ratio Ceilings (DRC) were cut in July. Firms that exceeded the new DRCs were no longer able to hire low- and mid-skilled foreign workers without increasing local headcount. Levies for Work Permit holders (WPH) and S Pass holders were also successively raised in January and July 2012.

In contrast, the enhancement of the Special Employment Credit (SEC) in Budget 2012 further lowered the cost of hiring older Singaporean workers. These factors likely drove up the demand for resident workers, especially in the expanding domestic-oriented services sectors.

... pushing the resident unemployment rate down to a five-year low.

Thus, despite the increase in labour supply as economically inactive residents (re)entered the labour force, the labour market remained tight. All measures of unemployment fell to their lowest levels since 2007 as the number of unemployed residents declined. (Chart 2.6) Box A discusses the recent evolution of the unemployment rate in more detail in the context of the time-varying natural rate of unemployment.

In 2012, the resident labour force participation rate (LFPR) rose to a record high of 66.6% from 66.1% in 2011. Increased workforce participation among older workers and women in the prime working-age groups largely accounted for this rise. The former reflected in part policies such as the SEC to enhance the employability of older workers, while the growing prevalence of flexible work arrangements and the higher educational profile of workers likely boosted the participation rate for both groups.

Wage growth was strong in the domestic-oriented services sectors.

Reflecting the tight labour market, nominal wages of residents continued to rise in Q4, although at a slower pace. The moderation in overall resident wage growth from 3.1% y-o-y in Q3 2012 to 2.5% in Q4 largely stemmed from relatively smaller pay increases in the external-oriented sectors, particularly financial & insurance and wholesale & retail trade. Notably, wage increases in these segments were also weak compared to their historical averages. (Chart 2.7)

Chart 2.6
Unemployment Rates

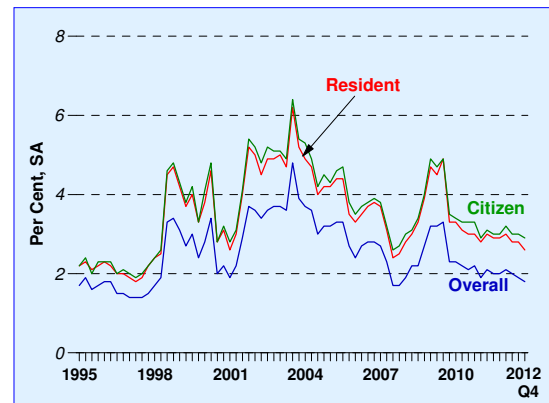
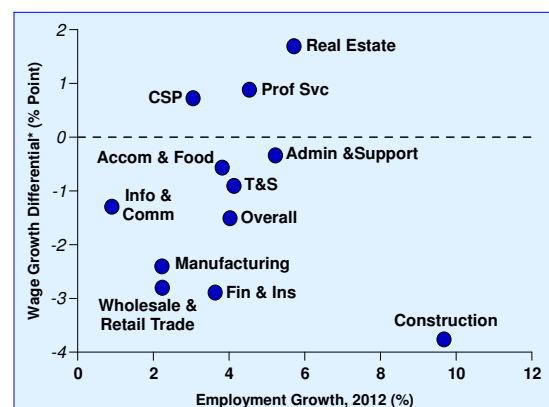


Chart 2.7
Relative Wage Growth and Employment Growth by Sector



Source: EPG, MAS estimates

* The wage growth differential is the difference between y-o-y wage growth in Q4 2012 and the 2006–11 average.

On the contrary, resident wage growth was stronger in the domestic-oriented services sectors such as real estate, professional services and community, social & personal services (CSP).

**Labour productivity was weak
across major sectors.**

Meanwhile, productivity levels across all sectors remained sluggish in Q4 with services and construction productivity declining further on a q-o-q SA basis. (Chart 2.8) For the whole of 2012, overall productivity fell by 2.6%.

Despite their recent weak productivity performances, manufacturing and construction productivity levels remained slightly above trend in 2012, though for differing reasons. (Chart 2.9) The former reflected sharp job cuts or modest hiring across segments, while the latter was boosted by robust output growth in H1.

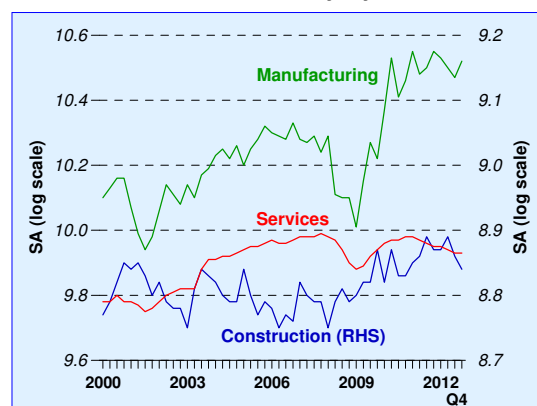
In the services sectors, productivity continued to decline in 2012 and remained below trend. This was due, in part, to some labour hoarding in the external-oriented segments. For example, wholesale & retail trade, transportation & storage and financial & insurance appeared to be operating with some spare capacity as employment gains outpaced output growth amid the cyclical slowdown. While some of this is likely to be transitory in nature, previous estimates suggest that services trend productivity growth has also been lacklustre. (See Section 3.3 of the October 2012 issue of the *Review* for further details.)

Overall, the cyclical drag on productivity was estimated to be around 2% points or three quarters of the fall in overall productivity growth in 2012.

**Cost pressures accumulated,
especially in the services sector.**

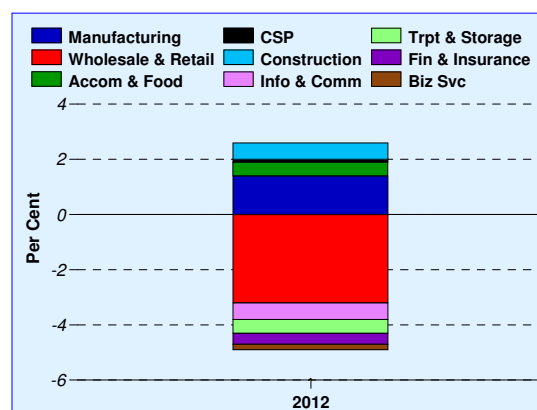
Coupled with the increases in foreign worker levies, ULC in services and construction rose further in Q4 2012, on a q-o-q SA basis. (Chart 2.10) This pushed the economy-wide ULC to its highest level in 10 quarters. In comparison, manufacturing ULC declined, following a small pickup in productivity towards the end of the year, although it remained above 2011 levels.

**Chart 2.8
Labour Productivity by Sector**



Source: EPG, MAS estimates

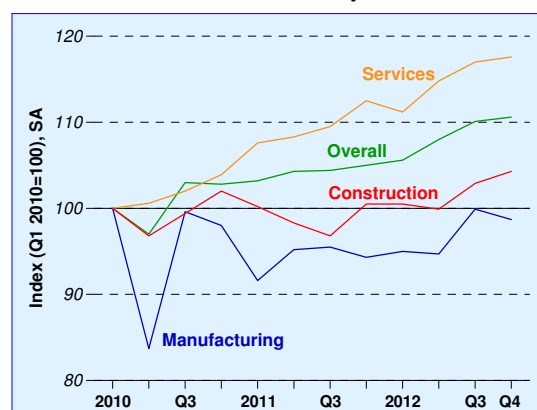
**Chart 2.9
Deviation of Labour Productivity
from Trend**



Source: EPG, MAS estimates

Note: The cyclical component of productivity was estimated as the deviation from the Hodrick-Prescott filtered trend productivity levels.

**Chart 2.10
Unit Labour Costs by Sector**



Source: EPG, MAS estimates

Box A

The Time-Varying Natural Rate of Unemployment in Singapore

In 2004, EPG reviewed the evolution of the unemployment rate in the context of its structural determinants, and showed that the natural rate had likely risen in the aftermath of the series of shocks in the early 2000s.^{1/} Notwithstanding the Global Financial Crisis, the headline unemployment rate has since fallen to a 14-year low of 2.0% in 2011 and appears to have stabilised at around this level. This box updates and re-examines Singapore's time-varying natural rate of unemployment in light of more recent developments in the labour market.

The Changing Natural Rate of Unemployment

The natural rate of unemployment is often defined as the level of unemployment that arises from all sources other than changes in aggregate demand associated with the business cycle. Assuming that a short-run trade-off exists between inflation and unemployment, the natural rate of unemployment can be thought of as the rate of unemployment at which inflation is stabilised i.e. the unemployment rate at which there is no tendency for inflation to increase or decrease. Hence, following Ball and Mankiw (2002), another interpretation of the natural rate of unemployment is the Non-Accelerating Inflation Rate of Unemployment, or NAIRU.

It is now generally acknowledged that changes in government policies and demographic shifts have measurable effects on the natural rate of unemployment.^{2/} However, these forces often only impact the labour market at low frequencies, affecting the natural rate over long periods of time. Modern search theory, in comparison, suggests that the natural rate can also exhibit significant fluctuations at business cycle frequencies. Brauer (2007) notes that the natural rate of unemployment “... is determined by the rate at which jobs are simultaneously created and destroyed, the rate of turnover in particular jobs, and how quickly unemployed workers are matched with vacant positions.”

This argument implies that in periods of significant structural change in the economy, the elevated rates of job creation and destruction can push the natural rate of unemployment up, alongside a rise in cyclical unemployment due to a downward shift in the aggregate demand curve. This occurs as labour is reallocated across industries and firms at a faster pace, resulting in higher frictional unemployment, while a higher incidence of mismatch between the characteristics of the jobs created and unemployed workers could also raise structural unemployment. Thus, in principle, it is possible for the NAIRU to exhibit fairly substantial high-frequency variation, in addition to being impacted by longer-term secular forces.

Recent Developments in the NAIRU: 2005–2012

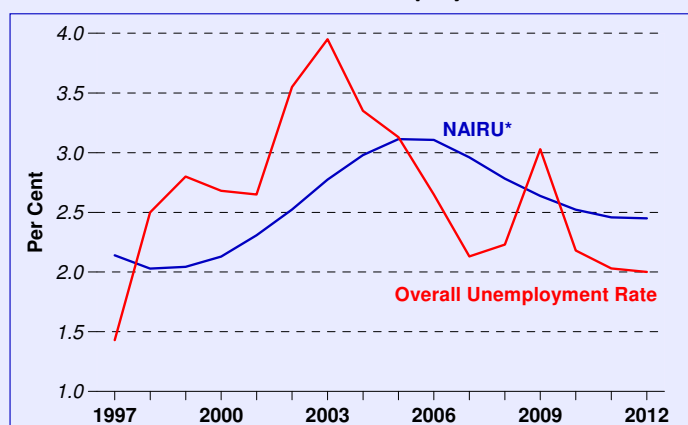
EPG's previous study using time series methods showed that the NAIRU in Singapore varied rather significantly over time. From around 2.9% in the early 1980s, the natural rate of unemployment rose to around 3.5% during the 1985 recession. The NAIRU then trended down to 2.3% and hovered around this level in the early to mid-1990s before rising to an estimated 3–3.5% in 2004. The fluctuations in Singapore's NAIRU reflected a myriad of factors including demographics, government policy, job-worker mismatch, and ongoing structural change in the economy.

In this box, EPG re-estimated the NAIRU using the wage equation in EPG's flagship model, the Monetary Model of Singapore (MMS). Recursive estimates of the wage equation—an inflation-expectations augmented Phillips Curve—provide evidence that the NAIRU may have gradually declined from its peak of over 3.0% in 2005–06 to just under 2.5% in 2012. (Chart A1)

^{1/} See the October 2004 issue of the *Review* for further details.

^{2/} Examples of government labour policies include the nature of the unemployment benefits system, labour taxes and the role of unions. Demographics, which drive changes in the composition of the labour force, also influence the natural rate. For instance, youth unemployment rates tend to be higher than the overall unemployment rate. Thus, as the proportion of young people in the workforce decreases, the natural rate will fall.

Chart A1
NAIRU and Overall Unemployment Rate



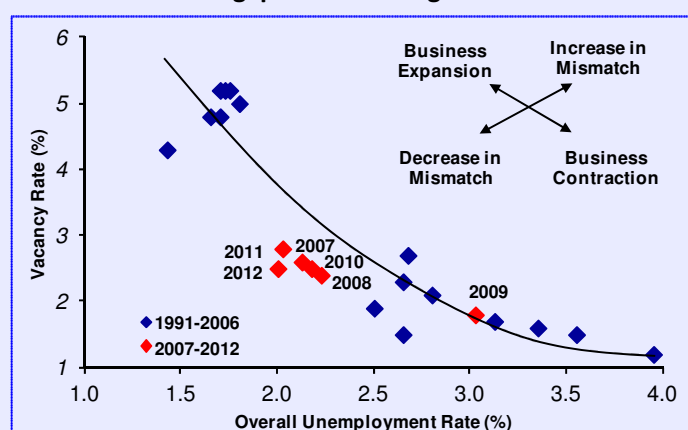
* EPG, MAS estimates.

The falling natural rate of unemployment during the recent period of strong employment growth meant a smaller (negative) unemployment gap than otherwise. Thus, the labour market tightened at a more gradual pace, and wage and inflation pressures were relatively more benign. Since 2011, the rate of decline in the natural rate of unemployment appears to have slowed and stabilised at around 2.5%. With the overall unemployment rate averaging 2.0% over this period, the negative unemployment gap is estimated at around 0.5% point. This finding is consistent with current estimates of a mild positive output gap and suggests continuing upward pressure on nominal wages.

Matching Efficiency in the Labour Market

While there is a variety of reasons behind the recent fall in the NAIRU, a key factor was probably the improvement in matching efficiency in the domestic labour market.^{3/} This is corroborated by the inward shift of the Beveridge Curve in recent years.^{4/} (Chart A2) For instance, the overall vacancy rate of 2.5% in 2012 would have been associated with an overall unemployment rate of 2.6% using the Beveridge Curve estimated from 1991 to 2006. However, the actual overall unemployment rate was 2.0% in 2012, or 0.6% point lower.

Chart A2
Singapore's Beveridge Curve



^{3/} The improving educational profile of the workforce could also have lowered the NAIRU. However, this is a long-term unbroken trend that is unlikely to have accounted for the recent fall in NAIRU.

^{4/} The Beveridge curve depicts the inverse relationship between the unemployment rate and the job vacancy rate, and incorporates the notion that unemployment and vacancies can co-exist. The position of the curve with respect to the origin provides some indication of the overall efficiency of the labour market in the matching of employment demand to labour supply. The Beveridge curve slopes downwards because an economic contraction increases unemployment as well as reducing the number of vacancies, as workers will encounter more difficulty finding jobs in a labour market with a significant degree of slack.

One plausible reason for the improvement in matching efficiency was the relatively accommodative foreign labour and immigration policies in the latter half of the previous decade. The availability of a wide range of skilled and unskilled workers from foreign sources likely speeded up the process of labour market matching and reduced the incidence of structural unemployment arising from job-worker mismatch.

As the literature suggests, the impact of the non-citizen workforce on the labour market can be estimated by calculating “Perry-weighted” unemployment rates.^{5/} Actual overall unemployment rates are calculated using weighted averages of the unemployment rates of citizens, PRs and foreigners with weights corresponding to their respective shares in the labour force. As foreigners and PRs have considerably lower unemployment rates than citizens, a rise in their proportions exerts downward pressure on the overall unemployment rate.^{6/} A “Perry-weighted” unemployment rate series that fixes the share of these groups in the labour force at their levels in 2004, before the rise in non-citizen employment, shows that the overall unemployment rate would have been 0.2% point higher in 2012 in the absence of changes in the shares. (Chart A3) Thus, the higher proportion of foreigners and PRs in the labour force accounted for around one-fifth of the total fall in the unemployment rate from 2004 to 2012.

Chart A3
Overall Unemployment Rate and “Perry-weighted” Unemployment Rate



* EPG, MAS estimates.

Another factor that could explain the inward shift of the Beveridge Curve in recent years is the proliferation of part-time work opportunities that began around the middle of the last decade. The share of part-time workers in the resident workforce rose significantly from 6.3% in 2006 to 9.6% in 2012, compared to the 1.3% points increase over the preceding seven years.^{7/} This occurred alongside a rise in the number of services jobs in the hospitality-related industries and administration & support services, which tend to be more amenable to part-time employment. As close to half of all part-time workers may be looking for full-time jobs while being temporarily employed, the rise in the incidence of part-time work reduces both measured vacancies and unemployment.^{8/} Further, the increase in resources committed to assisting part-time workers, such as those made available by the Singapore Hotels Association and the Employment and Employability Institute (e2i), likely speeded up the process of job matching.

^{5/} The “Perry-weighted” unemployment rate (Perry, 1970) is the classic method for measuring the effects of demographic changes on unemployment. Here it is employed to estimate the impact of the non-citizen workforce on the labour force.

^{6/} EPG estimates that from 2004 to 2012, the unemployment rates of foreigners and PRs were lower than that for citizens by an average of 3.3% points and 1.3% points respectively. The citizen unemployment rate averaged 3.7% over this period.

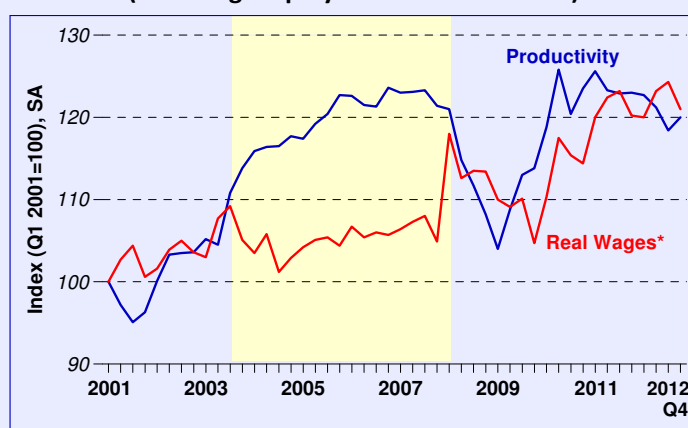
^{7/} This is, in part, due to the change in the definition of part-time work from 30 hours a week or less to 35 hours a week or less from 2009 onwards.

^{8/} In 2012, 88,100 residents or approximately 45% of part-time employed residents were underemployed, suggesting that some were still looking for full-time jobs. Time-related underemployed workers are defined as those who are willing and available to work additional hours.

Bargaining Power and Wage Restraint

More generally, the above factors that improved the matching efficiency of the labour market could also have kept wage growth and inflation lower than it would have otherwise been. The availability of workers from overseas with lower reservation wages and the willingness of economically inactive residents from outside the labour force to work part-time would likely have dampened the ability of existing workers to make significant wage demands. This could have contributed to the divergence between real resident wages (including employer CPF contributions) and productivity levels from 2004 to 2008. (Chart A4) The weak wage growth during this period also reflects the cut in employer CPF contributions and the policy of wage restraint recommended by the National Wages Council in 2003 due to the economic downturn. Meanwhile, productivity recorded strong increases from 2002 to 2006 as firms possibly postponed hiring due to lingering economic uncertainties following the series of shocks in the late 1990s and early 2000s.

Chart A4
Labour Productivity and Real Wages
(including Employer CPF contributions)



Source: EPG, MAS estimates

* Deflated by the GDP deflator.

This mismatch between real wage growth and productivity growth had the effect of improving the inflation-unemployment trade-off as firms hired more workers at the prevailing (low) wage, and likely placed further downward pressure on the natural rate of unemployment.^{9/}

Future Evolution of the NAIRU

There is tentative evidence that the rate of decline in the natural rate of unemployment has slowed since 2011. Indeed, amid this period of restructuring, some of the factors which had previously exerted downward pressure on the natural rate are expected to partially dissipate. Nevertheless, as economic restructuring runs its course and trend productivity growth picks up, the natural rate of unemployment is likely to settle down at its long run sustainable level. Tripartite efforts to raise the employability of workers over the long term are also likely to place downward pressure on natural rate, as will the better matching of the better-educated workforce to the needs of the more skill-intensive economy.

In the short term, however, the rate of improvement in matching efficiency may slow as firms are forced to hire from a more limited pool of workers amid the tighter foreign labour policy. The structural mismatch between the characteristics of the unemployed and those of job vacancies could also increase^{10/}, while frictional unemployment will likely rise as resources are reallocated across the economy.

^{9/} In addition, inflation expectations, which are partially backward-looking, were also tempered by low actual inflation, and may have reduced workers' demands for wage increments.

^{10/} Already, PMETs made up 57% of retrenched workers in 2012, while vacancies for PMETs comprised only 42% of total vacancies. This mismatch is larger compared to the 2009 recession, when the difference was only 5% points.

Sum-up

This box presents an updated estimate of the NAIRU for Singapore and reviews some of the structural factors that have impinged on the labour market and caused the NAIRU to fluctuate over time. The reversal of the trend decline in the natural rate of unemployment observed during the high growth years and its subsequent stabilisation at a slightly higher level of around 2.5%, provides a useful benchmark to assess current wage-employment developments against the ongoing restructuring in the broader economy.

References

Ball, L and Mankiw, G (2002), "The NAIRU in Theory and Practice", *Journal of Economic Perspectives*, Vol. 16(4), pp. 115–136.

Brauer, D (2007), "The Natural Rate of Unemployment", *Congressional Budget Office Working Paper* 2007-06.

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2.2 Consumer Price Developments

Core Inflation Moderated Despite Persistent Cost Pressures

Consumer price inflation was generally weaker than anticipated.

Inflation turned out to be weaker than expected in the last two quarters due to benign external price influences and a temporary restraint in domestic cost pass-through.

On a y-o-y basis, MAS Core Inflation, which excludes the costs of accommodation and private road transport, eased steadily from 3.1% in Q1 2012 to 2.0% in Q4 and 1.6% in Q1 2013, with price increases moderating across all the major components. (Chart 2.11)

Likewise, CPI-All Items inflation fell from 5.1% in H1 2012, although it remained elevated at 4.0% in Q4 2012 and Q1 2013 due to strong increases in car prices as the COE supply was tightened further. (Chart 2.12)

Sequential price increases of core items were modest and less widespread.

The sequential increases in core consumer prices in the last two quarters of 2012 were relatively contained and only slightly above their historical average in Q1 2013, due to the seasonal effects associated with Chinese New Year.³ (Chart 2.13)

Meanwhile, CPI-All Items continued to increase quite strongly at around 1% in the recent two quarters, owing to sharply higher COE premiums and imputed rentals on owner-occupied accommodation. However, the weighted median sequential price change across all items in the CPI, which removes the contribution of outliers, was subdued. The proportion of core consumer items which recorded price increases also remained modest. (Chart 2.14)

Chart 2.11
CPI-All Items and MAS Core Inflation

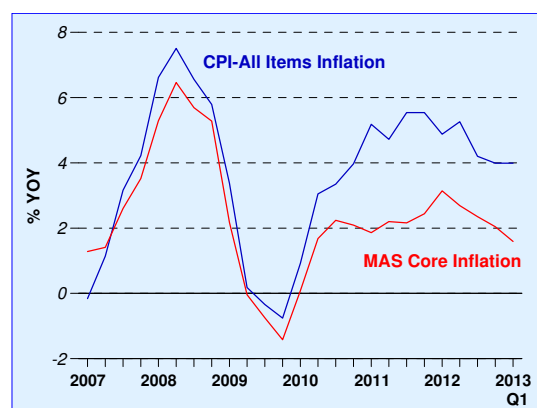


Chart 2.12
Contribution to CPI-All Items Inflation

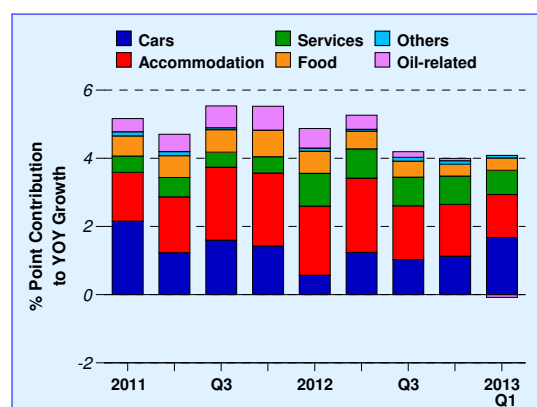
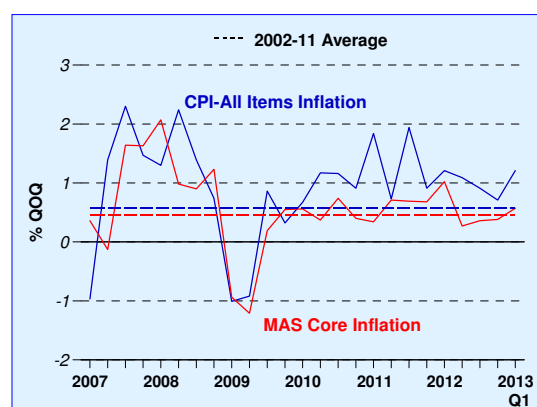


Chart 2.13
Sequential CPI-All Items and MAS Core Inflation



³ Sequential core inflation was 0.6% in Q1 2013, compared with an average of 0.9% in Q1 of the previous two years.

External price developments were largely benign.

External price pressures have remained weak since the last *Review*. Notably, wholesale price inflation in both the advanced economies and Asia was moderate, in line with easing cost pressures. In addition, global commodity prices fell towards the end of 2012 as uncertainty over US fiscal issues negatively impacted sentiment, while projections of commodity supply became more optimistic. (Chart 2.15) However, commodity prices, particularly for energy, picked up in early 2013 following positive US economic indicators that pointed to more self-sustaining growth going forward. Overall import prices in domestic currency terms fell by a cumulative 3.6% over H2 2012 along with the appreciation in the S\$, before edging up by 1.4% sequentially in Q1 2013. (Chart 2.16)

Oil prices softened as geopolitical concerns eased and new sources of supply came on-stream.

The West Texas Intermediate (WTI) oil benchmark price generally eased throughout 2012 before recovering early this year. In Q4 2012, it fell to US\$88 per barrel from US\$103 in the first quarter as geopolitical tensions in the major oil-producing countries subsided. Further, global spare capacity rose as new unconventional sources, including the US tight oil formations and Canadian oil sands, boosted supply, even as demand remained sluggish. (Chart 2.17) Nonetheless, expectations of an improvement in US economic prospects at the turn of the year lifted the WTI benchmark price to an average of US\$94 in Q1 2013.

Reflecting global developments, domestic prices of oil-related items fell steadily by 2.7% on a sequential q-o-q basis in H2 2012, before picking up moderately by 0.4% in Q1 2013.

Concerns over major disruptions to food supply dissipated after Q3 2012.

Global food prices rose by around 8% from July to September 2012 as the worst US drought since the 1930s severely affected crop production. However, upward pressure on prices subsided thereafter as improved weather conditions eased concerns over food supply, even as stocks-to-use ratios for several key grains remained low.

Chart 2.14
Weighted Median Price Change and Core Items with Price Increase

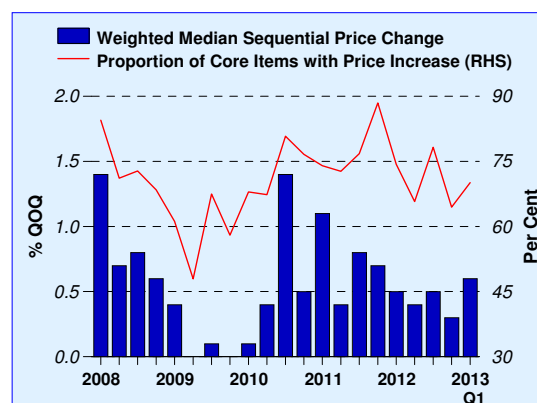
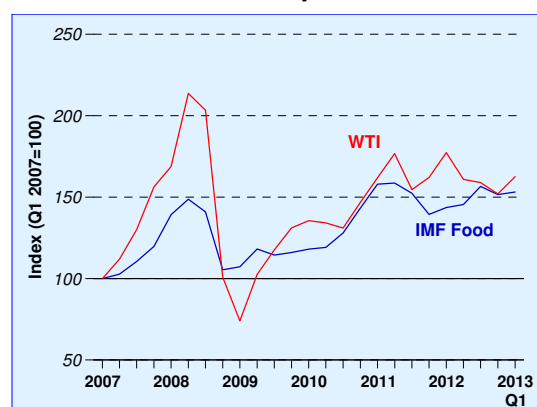
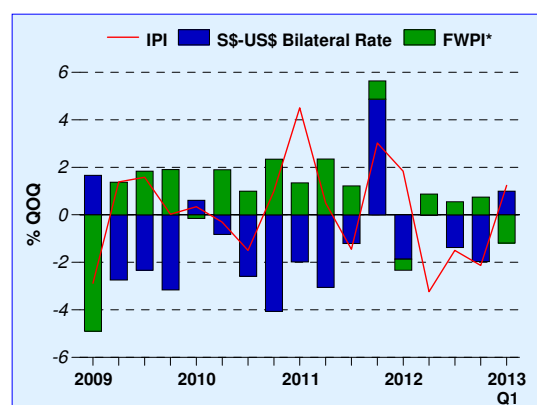


Chart 2.15
Global Commodity Price Indices



Source: IMF

Chart 2.16
Foreign Wholesale Price Index*, Singapore's IPI and S\$-US\$ Bilateral Rate



* Weighted by average import share for 2007–11.

The El Niño weather phenomenon, which was earlier expected to result in droughts in Southeast Asia and Australia in H2 2012, did not materialise. Notably, global prices of rice—the major staple for Singaporeans—declined as rice production reached an all-time high for the third consecutive harvest season in 2012–13. Apart from more stable weather conditions, government policies in major rice-producing countries to buy stocks from farmers at above-market prices boosted rice production.

In line with global developments, domestic food inflation, on a sequential basis, remained weak until the first quarter of this year, and was below the average of the last 10 years. (Chart 2.18)

**Meanwhile, domestic cost pressures persisted
due to the tight labour market ...**

On the domestic front, the labour market remained tight, thereby putting upward pressure on wages, especially in the domestic-oriented services sectors. Coupled with lacklustre productivity performance and foreign worker levy increases, the economy-wide ULC in Q4 2012 was the highest in 10 quarters. In turn, the Unit Services Cost Index—EPG’s internal gauge of cost conditions in the services industry—stepped up by 1.3% q-o-q in Q4.

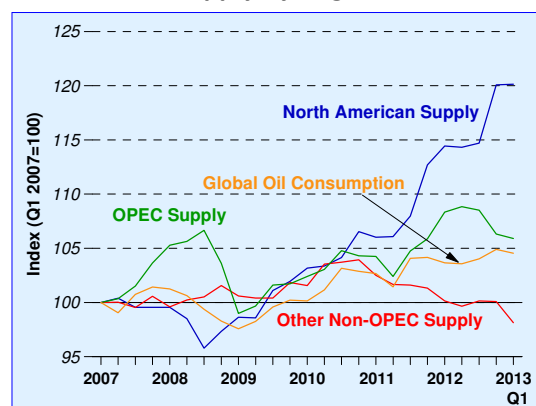
**... but firms were cautious in passing on
cost increases.**

Despite the build-up in business costs, firms appeared to be more cautious in their pricing decisions as shown by the decline in the implied mark-up coefficient.⁴ (Chart 2.19) The weaker cost pass-through likely reflected relatively subdued consumer sentiment as a result of a prolonged period of sluggish economic growth. (Chart 2.20)

For example, the prices of sentiment-sensitive items, such as restaurant food and holiday travel, rose more modestly in Q1 this year compared to the same period a year ago. (Chart 2.21) Fee adjustments in relatively demand-inelastic services, such as healthcare and private education, were also weaker than expected.

⁴ Firms’ mark-up on ULC is proxied by MAS Core Inflation/ULC.

**Chart 2.17
Global Oil Consumption and
Supply by Region**



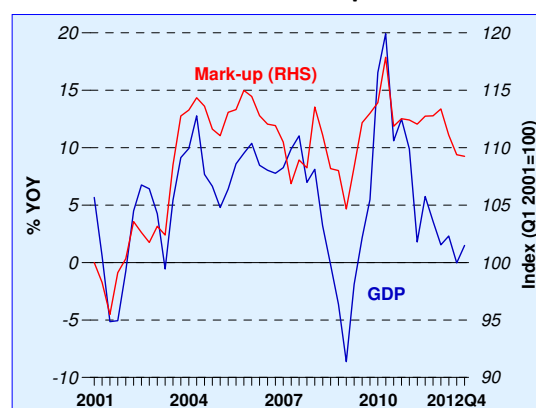
Source: EIA

**Chart 2.18
Deviation of Sequential Food Price Increases
from their Historical Average***



* Price increases were compared against the average price change for the particular quarter over 2002–11 to adjust for seasonal factors.

**Chart 2.19
GDP Growth and Mark-up Coefficient**



Indeed, excluding the impact of the new MOM regulation that mandates a weekly rest day or compensation in lieu for foreign domestic helpers, services fee increases in Q1 2013 were below those for the same quarter in the last three years. On a year-ago basis, services inflation moderated from 3.1% in Q1 2012 to 2.8% over the next three quarters and further to 2.4% in Q1 2013.

Imputed rental inflation moderated gradually.

Imputed rentals continued to add a significant 1.1% points to y-o-y CPI-All Items inflation in Q1 this year. Nonetheless, this was less than the 1.8% points in Q1 last year due to more moderate increases in private residential market rentals. This occurred as the supply of completed units rose significantly and foreign labour inflows and immigration slowed.

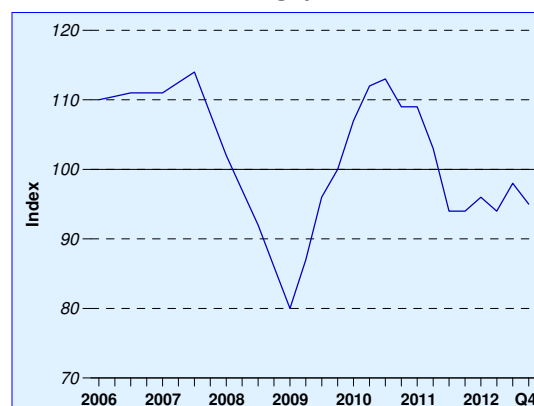
At the same time, there appeared to be a continued shift in demand towards more affordable accommodation, as is evident from the narrowing rental differentials between higher- and lower-end private properties. (Chart 2.22) Reflecting this general trend, as well as the tight supply of HDB sublet units especially following the new leasing policies⁵, rentals of HDB flats saw strong increases.

The sharp increase in COE premiums further increased the contribution of car prices to inflation.

COE premiums for cars surged over November 2012 to February 2013 as car buyers frontloaded their purchases ahead of the quota cut in February this year. As a result, car prices added 1.3% points to overall inflation in December 2012, up from an average of 1.1% points in the preceding six months. This rose further to 1.7% points in Q1 this year, in part due to base effects associated with the fall in COE premiums in the same period a year ago.

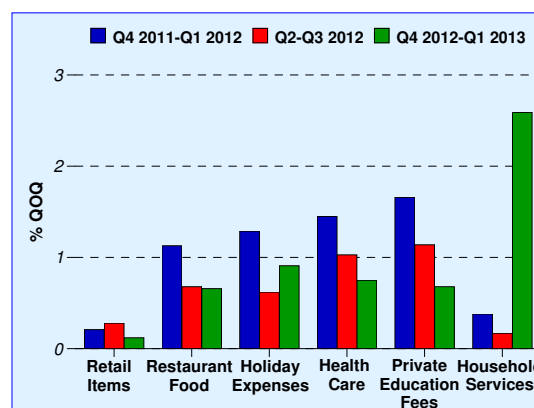
Together, accommodation costs and car prices continued to account for more than 60% of CPI-All Items inflation in the last two quarters.

Chart 2.20
Nielsen Consumer Confidence Index for Singapore



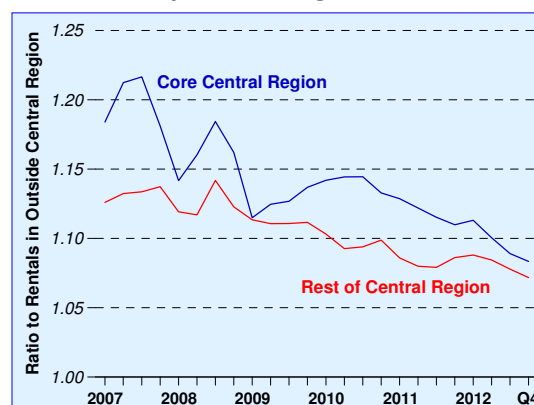
Source: Nielsen

Chart 2.21
Sequential Price Increases of Selected CPI Items



Note: Retail items include clothing & footwear, personal effects, household durables and non-durable household goods.

Chart 2.22
Ratios of Private Residential Rental Indices by Market Segments



Note: Properties in the Core Central Region typically command the highest rentals, followed by the Rest of Central Region and the Outside Central Region.

⁵

In July 2012, HDB introduced a set of rules governing the subletting of HDB flats by Permanent Residents (PRs). As of April 2012, 2,142 PRs rented out their flats, comprising just under 10% of the stock of HDB units that are leased out.