3 Labour Market And Inflation

MAS Core Inflation Is Set To Rise Gradually

Inflation has moderated since the April policy review, largely due to lower oil prices, as well as budgetary and other one-off measures. While MAS Core Inflation has stabilised more recently, coming in at a modest 0.4% in Q3, CPI-All Items inflation continued to ease on the back of a further decline in car prices and housing rentals.

Going forward, external sources of inflation are likely to stay generally muted. Global oil prices should remain subdued, with the supply overhang expected to persist for longer than initially projected. However, imported food inflation could face some upside risk towards the year-end and into 2016 as a result of the strong El Niño weather phenomenon.

On the domestic front, the labour market is settling at a lower level of employment gains, in tandem with the step-down in GDP growth and a more gradual rise in the resident labour force. However, slower employment growth has not been accompanied by a general easing of labour cost pressures, given binding labour supply constraints. Aggregate wage growth is projected to pick up in 2015 and stay firm in 2016.

MAS Core Inflation is expected to rise gradually over the course of 2016 towards its historical average, partly as the drag from lower oil prices wears off. Moreover, budgetary and other one-off measures have temporarily suppressed the pass-through of domestic costs. However, the effects of these factors will dissipate in 2016, and higher operating costs in the economy should filter through moderately to consumer prices. For the whole year, MAS Core Inflation is projected to average around 0.5% in 2015 and pick up to 0.5–1.5% in 2016.

CPI-All Items inflation could remain negative in the first half of 2016 owing to lower car prices and housing rentals, before picking up more significantly in H2. For the year as a whole, it is projected to come in at around −0.5% in 2015 and −0.5–0.5% in 2016.

3.1 Labour Market

Wage Pressures Will Persist

Net employment gains fell in H1 2015, reflecting both cyclical and structural factors impinging on the labour market. With slower employment growth, overall labour market tightness eased slightly, though some labour-intensive sectors continued to face acute manpower shortages. Looking ahead, overall job creation will remain moderate as labour demand and supply growth settle at a lower level in tandem with the step-down in GDP growth and Singapore's evolving demographic trends. Nonetheless, unmet labour demand in some segments will persist, sustaining overall wage pressures in the economy. Resident wage growth is expected to reach close to its 10-year historical average of 3.6% over the next 12–18 months.

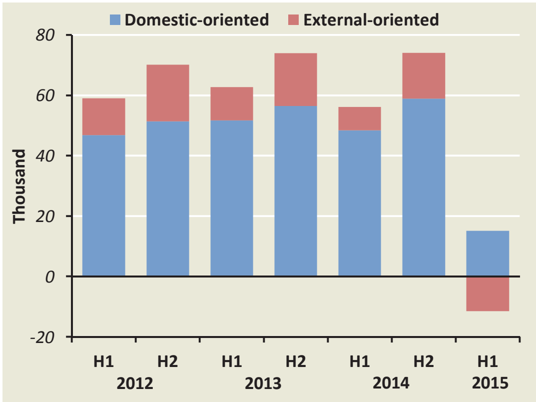
Overall net employment gains slowed in H1 2015.

Overall net employment gains fell to 3,600 in H1 2015, compared to the 56,100 jobs added in the same period a year ago. (Chart 3.1) The decline was broad-based and due to both cyclical and structural factors.

The external-oriented sectors, such as manufacturing and wholesale trade, as well as the sentiment-sensitive domestic-facing industries, namely retail trade, real estate and food services, were the hardest hit. (Chart 3.2) Manufacturing employment shrank by 11,300 in H1 2015 as production activities slowed in line with softer global demand. At the same time, hiring was reduced by ongoing restructuring in the electronics industry, while lower oil prices dampened employment in the petroleum, chemical & pharmaceutical products and transport equipment industries. The wholesale trade cluster also suffered a cutback of 2,500 jobs in the first half of 2015, in line with the weaker performance of re-exports.

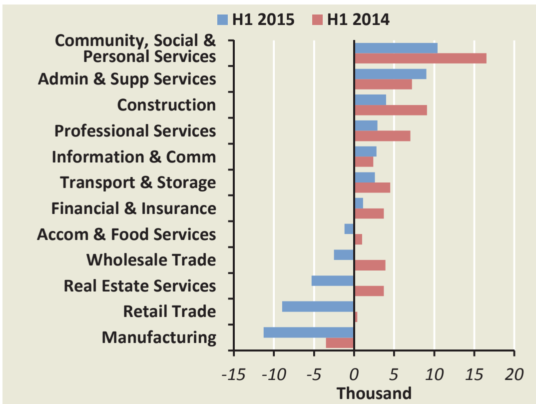
The retail trade and accommodation & food clusters shed 9,000 and 1,200 workers respectively in H1 2015. This was largely due to temporary workers, especially younger part-timers, being let go after the unusually strong hiring in Q4 2014 for the festive season. Sluggish non-motor vehicle retail sales amplified the employment losses in the industry, while fewer tourist arrivals earlier this year also dampened hiring in the accommodation & food services cluster.

Chart 3.1
Employment Change



Source: EPG, MAS estimates

Chart 3.2
Employment Change by Sector



Firms in the real estate industry cut 5,300 jobs in H1 2015 amid the slowdown in the private residential property market and a reduction in the number of property launches. Job gains in the transport & storage and financial & insurance segments were modest, as a result of weak economic sentiment as well as ongoing consolidation in the financial sector.

The less cyclical domestic-oriented sectors, including community, social & personal services (CSP), administrative & support services, professional services, information & communications and construction provided the bulk of the employment gains in H1. (Chart 3.2) The CSP industry hired a sizeable 10,400 workers, although this was fewer than the 16,500 jobs created in the same period a year ago. Labour demand in the CSP cluster was relatively firm, underpinned by ongoing initiatives to build long-term capacity in healthcare, education and other social services. There were also healthy employment gains in professional services, such as legal, accounting & management services, which saw 2,900 jobs added in H1.

Administrative & support services and information & communications hired 9,000 and 2,800 workers respectively in H1 2015, more than in the corresponding period a year earlier. Demand for workers in cleaning & landscaping and security & investigation services (under administrative & support services) remained robust, supported by the launch of new residential and commercial buildings, as well as the opening of new suburban malls, such as HillV2 and East Village. Hiring in information & communications was bolstered by firms' increasing need for enhanced data security and the adoption of new technologies.

Finally, the construction industry increased headcount by 4,000, though this was a step-down from the 9,100 jobs created a year ago. Hiring was supported by ongoing public-sector building activities, amid efforts to enhance Singapore's infrastructure in the areas of transport, public housing, healthcare and education.

Foreign employment gains slowed in H1 2015, while local employment declined after strong growth in 2014.

The net employment gains in H1 2015 accrued entirely to foreigners. (Chart 3.3) Nonetheless, foreign labour inflow continued to slow amid the tightening measures. A total of 12,500 foreign workers were added in H1 2015, compared to 15,100 in the corresponding period a year ago. The services sector accounted for the majority of foreign employment gains. The largest proportion of foreign hires were work permit holders, who were employed in the administrative & support, transport & storage, and accommodation & food services sectors as cleaners, kitchen assistants and bus drivers.

Local employment shrank by 8,900 in H1 2015, following strong gains of 41,000 in H1 2014. A significant share of these job losses was accounted for by temporary workers in the retail trade and accommodation & food services industries, as well as workers in the real estate segment who were affected by the slowdown in the private residential property market. Despite a contraction in total local hires, older workers continued to see positive employment growth.

Overall labour market tightness eased slightly …

In line with the slowdown in employment, labour market tightness at the economy-wide level eased marginally. Notably, the seasonally adjusted resident unemployment rate rose to 2.8% in Q2 2015, from 2.5% in Q1, while the ratio of vacancies to unemployed persons fell to 1.21 in Q2 2015, from 1.43 in Q1. (Chart 3.4)

Accordingly, EPG's Labour Market Pressure Indicator (LMPI)—a summary statistic which captures the extent of labour market tightness using 31 indicators—softened in Q2 2015, but remained higher than its historical average. (Chart 3.5)

… even as manpower shortages remained in some industries.

While the vacancy rate for the overall economy moderated, those for the retail trade, information & communications and financial & insurance industries picked up in Q2 2015. Further, the vacancy rates for

Chart 3.3
Local and Foreign Employment Change

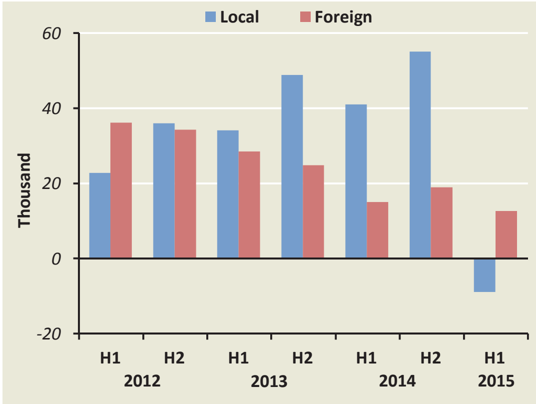
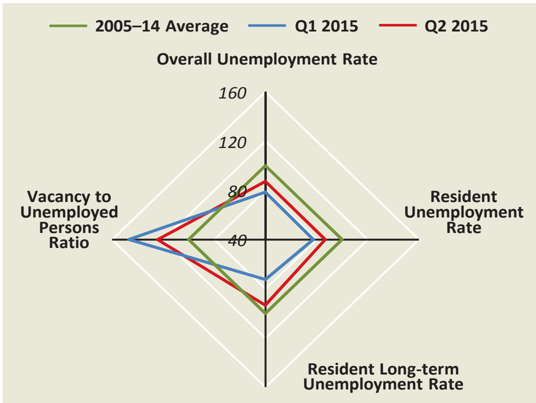


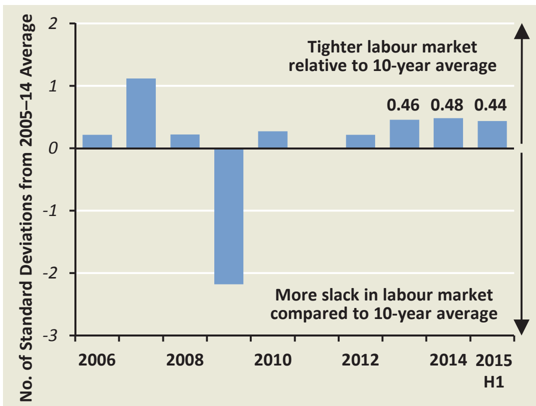
Chart 3.4
Indicators of Labour Market Tightness



Source: EPG, MAS estimates

Note: All variables are based on seasonally adjusted data. Each variable is indexed such that its 2005–14 average takes a value of 100.

Chart 3.5
Labour Market Pressure Indicator



Source: EPG, MAS estimates

all sectors, except construction and manufacturing, were higher than their 10-year historical average. (Chart 3.6)

Overall, this suggests that businesses continued to face significant difficulty in filling positions, particularly in the labour-intensive industries. In Q2 2015, unmet labour demand was most acute for accommodation & food services, retail trade and administrative & support services, while it moderated in real estate, professional services and manufacturing.

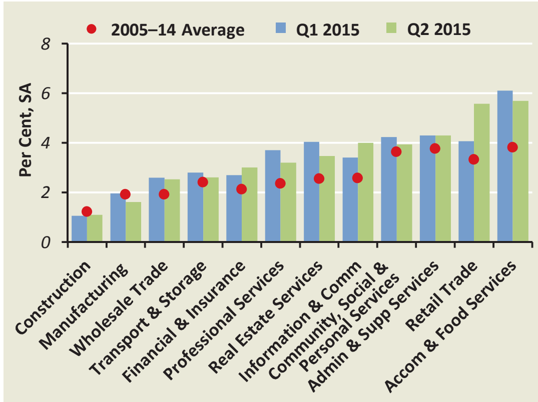
Accordingly, underlying wage pressures remained firm, with resident wage growth rising to 3.4% y-o-y in H1 2015, from 1.6% in the preceding half-year period. (Chart 3.7) Moreover, the average weekly hours worked per employee has fallen steadily to 45.6 hours in Q2 2015, from 46.1 in the same period a year ago.[1] Adjusting for the decline in hours worked, resident wage growth is estimated to have been even higher at 4.3% in H1 2015.

Meanwhile, labour productivity contracted by 0.5% y-o-y in H1 2015. (Chart 3.8) The manufacturing sector witnessed the sharpest decline in output per worker, while productivity gains in construction and services were negligible. Consequently, unit labour cost rose at a fairly rapid pace of 5.2% in H1 2015, following the 4.0% increase in the preceding quarter.

Job gains will step down in tandem with reduced labour demand and increasing labour supply constraints.

Labour demand and supply growth are both expected to slow, with employment increases settling at a lower level than in the past. On the supply side, given the record high resident labour force participation rate of 67% in 2014 and Singapore's evolving demographic trends, net entrants to the resident labour force will ease considerably from historical levels. Net resident employment gains have declined from an annual average of 70,300 workers (4.1% growth p.a.) in 2005–09 to 66,300 (3.2% growth) in 2010–14, and are expected to slow to 20,000 (around 1% growth) towards the end of the decade.[2] At the same time,

Chart 3.6
Vacancy Rate By Sector



Source: EPG, MAS estimates

Chart 3.7
Overall Resident Wage Growth

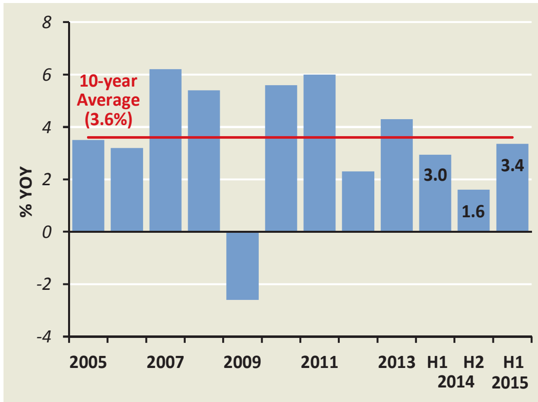
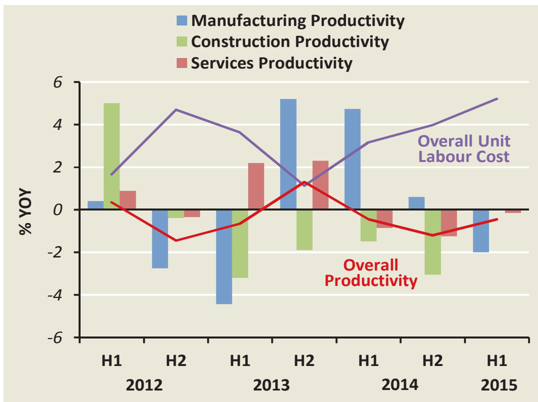


Chart 3.8
Productivity and ULC Growth



1 The decline in average weekly paid hours worked is the result of a greater reliance on part-time workers to cope with the binding labour supply constraints in certain industries. It could also be due to firms cutting back on hours in line with slower growth.

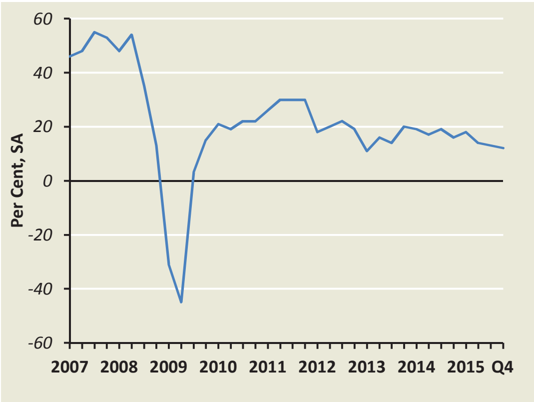
2 See MOM's *Statement on Labour Market Developments*, 15 September 2015.

foreign labour inflows could moderate further in light of foreign worker tightening measures.

On the demand side, new headcount requirements are expected to decline to a lower level in tandem with the step-down in real GDP growth.[3]

Notwithstanding the permanently slower pace of overall job creation in the economy, headcount gains in 2015 are expected to be stronger in sectors where demand remains firm, especially in the less cyclical domestic-oriented segments. In particular, employment gains should stay healthy in CSP to support capacity expansion in healthcare and education, as well as administrative & support services. The retail sector should also see increased hiring of temporary workers in the second half of 2015 to meet higher seasonal demand, alongside new retail store openings. Latest results from the *ManpowerGroup Manpower Employment Outlook Survey* for Q4 2015 corroborate this—while overall hiring intentions have weakened, employers still expect steady headcount increases in sectors such as public administration and education. (Chart 3.9) In contrast, job gains should remain muted in the manufacturing sector.

Chart 3.9
Net Employment Outlook



Source: ManpowerGroup

Wage pressures will persist, exacerbated by manpower shortages in particular sectors.

The slower pace of overall employment growth does not imply an easing of wage pressures. Reflecting stronger labour demand in some sectors, pockets of labour market tightness are expected to continue. Vacancy rates are likely to remain uneven, persisting at elevated levels for the less cyclical domestic-facing sectors, including administrative & support services and CSP. Consequently, pay increments in these sectors will remain firm relative to the external-oriented segments. On balance, overall resident wage growth is expected to pick up from 2.3% in 2014, and come in at close to its 10-year historical average of 3.6% in 2015 and 2016.

[3] This is consistent with empirical estimates based on EPG's MMS model as well as Okun's Law equation.

SkillsFuture will help to ensure that the local workforce remains relevant to the needs of an evolving economy.

Apart from cyclical developments, the quality of the resident workforce continues to improve, with the share of workers who have degrees, diplomas and post-secondary qualifications increasing over time. (Chart 3.10) Indeed, according to an index constructed by Nomura and Amano (2012)[4], labour quality in Singapore rose steadily between 1974 and 2011 (Chart 3.11), contributing 1.0% point to the 6.8% average annual GDP growth over this period. The most significant factor contributing to higher labour quality in Singapore is the rising education attainment of workers, which accounted for 65% of the increase in the index.

Taking into account the effects of population ageing on overall labour quality, Nomura and Amano projected that improvements in Singapore's labour quality index would continue until 2030, albeit at a slower pace. Several other studies have further demonstrated that technological advances are likely to cause shifts in the type of skills required across a wide spectrum of jobs. On this front, SkillsFuture aims to promote industry support for individuals to progress based on skills upgrading. It involves developing an integrated system of education, training and career progression, and fostering a culture of lifelong learning to ensure that the workforce remains relevant for the economy. In particular, an emphasis on combining routine technical tasks with non-routine roles would be important for workers.[5] This will require them to have interpersonal skills, be highly flexible and adaptable, and be able to engage in problem-solving tasks. Accordingly, the lifelong learning process of human capital investment should be aimed at producing skills that complement, rather than substitute for, technological change.

Chart 3.10
Resident Labour Force by Highest Qualification Attained

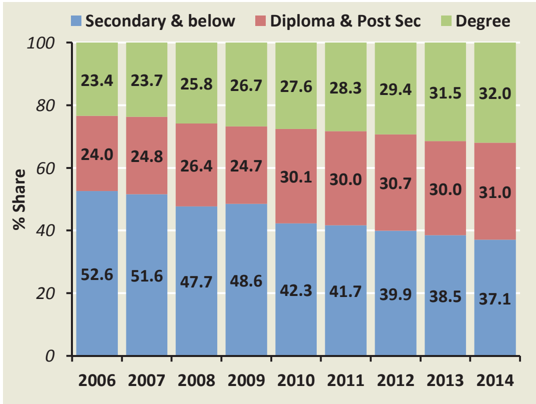
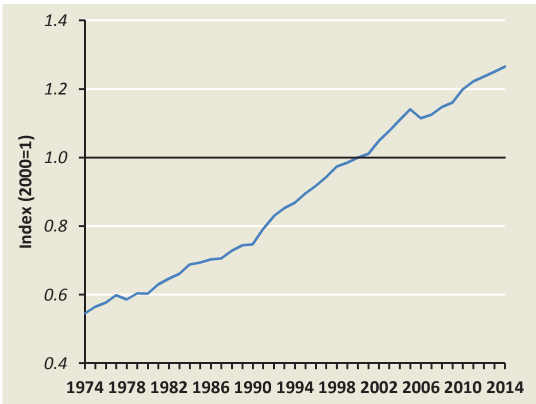


Chart 3.11
Labour Quality Index for Singapore



Source: Nomura and Amano (2012).

Note: Post-2011 figures are based on the authors' projections.

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4 Nomura, K and Amano, T (2012), "Labour Productivity and Quality Change in Singapore: Achievements in 1974–2011 and Prospects for the Next Two Decades", *KEO Discussion Paper* No. 129.

5 Autor, D (2015), "Why Are There Still So Many Jobs? The History and Future of Workplace Automation", *Journal of Economic Perspectives*, Vol. 29(3), pp. 3–30.

3.2 Consumer Price Developments

Domestic Factors Will Be The Main Driver Of Core Inflation

Domestic inflation has been on a general downtrend, largely because of the effects of lower oil prices, Budget measures, and SG50-related promotions, which have temporarily suppressed the pass-through of domestic costs to consumer prices. External price influences are likely to stay generally benign, given ample supply buffers in the major commodity markets and soft demand. Domestic cost pressures remain, but are expected to filter through only moderately to consumer prices in light of subdued economic activity. Taking these factors into account, MAS Core Inflation will pick up gradually over the course of 2016 towards its historical average, as the temporary dampening influences on inflation dissipate. Meanwhile, CPI-All Items inflation could remain negative in the first half of 2016, with further weakness in car prices and housing rentals.

Inflation has moderated ...

Both MAS Core Inflation and CPI-All Items inflation have remained tame since the April policy review, mainly on account of lower global oil prices, as well as administrative and other one-off measures. (Chart 3.12 and Table 3.1) While labour cost pressures remained, the pass-through to consumer prices was modest, given the slower growth environment.

MAS Core Inflation, which excludes the costs of accommodation and private road transport, has been on a downtrend since the middle of last year but stabilised more recently, averaging 0.3% in Q2–Q3 2015, compared to 1.1% in Q1.

Chart 3.12
CPI-All Items and MAS Core Inflation

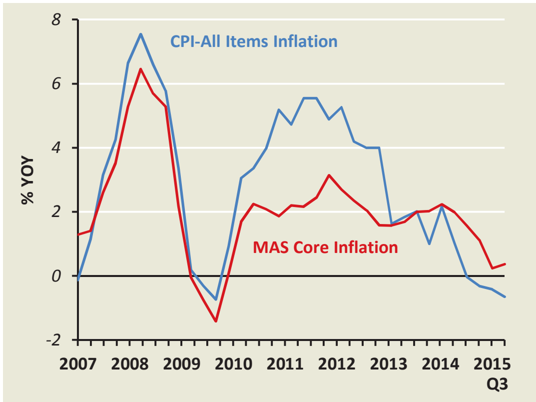


Table 3.1
Estimated Impact of Budget and SG50-related Measures on Inflation Outturns in Q1–Q3 2015

(YOY % Point)

Measure	Date	CPI-All Items Inflation	MAS Core Inflation
Enhanced Healthcare Subsidies	Sep 2014, Jan 2015	−0.15	−0.23
Waiver of fees for national examinations	Mar–May 2015	−0.03	−0.04
Reduction in Foreign Domestic Worker Levy	May 2015	−0.07	−0.11
Rise in Petrol Duty Rates	Feb 2015	0.08	N.A
Road Tax Rebate	Aug 2015	−0.02	N.A
Free Public Transport (Bus & MRT) for one day on 9 August*	Aug 2015	−0.005	−0.008
Price promotions for selected places of interest*	Jun–Aug 2015	−0.006	−0.006
Combined Impact	**Q1–Q3 2015**	**−0.2**	**−0.4**

Source: EPG, MAS estimates

* In conjunction with the SG50 celebrations.

Meanwhile, CPI-All Items inflation continued to ease due to further declines in housing rentals and car prices, falling to −0.6% in Q3 from −0.3% in Q1. (Chart 3.13)

… mainly due to a sharp fall in the prices of oil-related items and other one-off administrative measures.

On a sequential basis, core inflation came in at −0.4% in Q2 as the earlier fall in global oil prices filtered through more significantly to consumer prices, particularly electricity tariffs. Core inflation picked up in Q3 but remained below its historical average, partly dampened by budgetary measures and the suite of SG50-related promotions. In comparison, the overall CPI declined for the fourth consecutive quarter in Q3, reflecting the weakness in car prices and housing rentals. (Chart 3.14)

External sources of inflation remained subdued.

Commodity prices have generally fallen since the last policy review. (Chart 3.15) Global oil prices, based on the Brent benchmark, rose briefly to US$62 per barrel in Q2 but slipped back to US$50 in Q3 as markets reacted to more resilient-than-expected oil production in OPEC and non-OPEC countries, softer demand from China, and the prospect of Iranian oil exports resuming in 2016. Prices of industrial materials also corrected on excess supply and slackening demand from China. However, global food commodity prices were relatively stable as the plunge in dairy product and rice prices was offset by the rise in other grain prices on account of unfavourable weather conditions in the Northern Hemisphere.

At the same time, price pressures emanating from both the developed and emerging economies weakened amid the subdued economic environment. Overall foreign wholesale price inflation fell to −1.1% in H1 2015, the lowest since H2 2009.

Against this backdrop, Singapore's overall import price declined by a sharp 13.9% y-o-y in Jul–Aug. Given lower oil import costs, the domestic prices of oil-related items, including petrol and electricity tariffs, fell by 8.1% y-o-y in Q3. Meanwhile, lower imported food inflation, coupled with temporary price promotions by supermarkets, contributed to a further easing of domestic non-cooked food inflation from 2.3% in Q1 to 0.8% in Q3.

Chart 3.13
Contribution to CPI-All Items Inflation

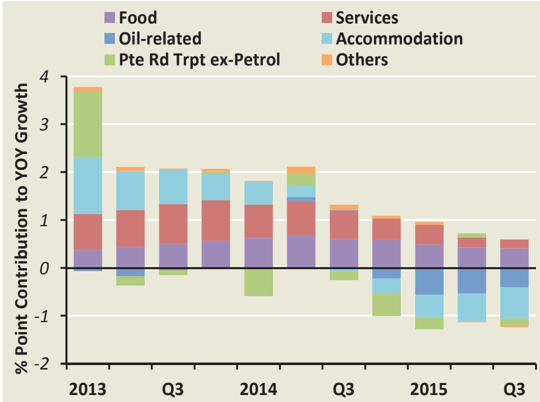


Chart 3.14
Sequential Q-O-Q Change in CPI-All Items and MAS Core Inflation

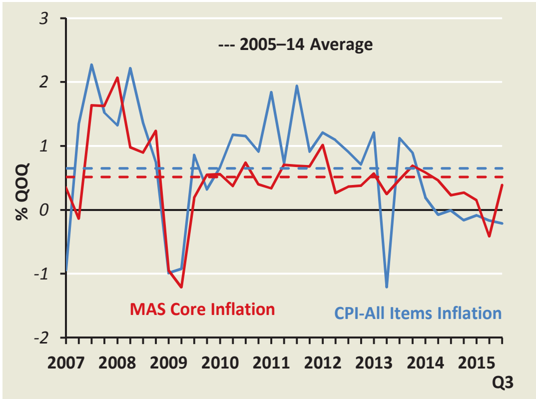
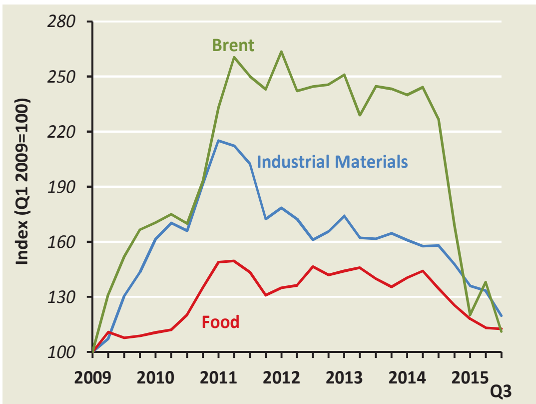


Chart 3.15
Global Commodity Prices in US$



Source: IMF

Price increases were uneven across consumer items.

Domestically, overall wage growth picked up in H1 2015 compared to the second half of last year. In turn, higher labour costs were passed through fairly strongly to the prices of services with relatively resilient demand, such as education, healthcare services and restaurant meals. (Chart 3.16) As a result, price increases for hospitalisation and education services have remained elevated at above 3% y-o-y. Pricier restaurant food also pushed up domestic cooked food inflation to 2.5% in Q3, from 2.3% in Q1 2015.

For a wide range of other services, however, the pass-through of domestic costs was generally muted. This, along with Budget measures and SG50-related promotions, continued to dampen prices for these services. (Chart 3.16) As a result, overall services inflation eased further to 0.6% in Q3 2015, from 1.4% in Q1.

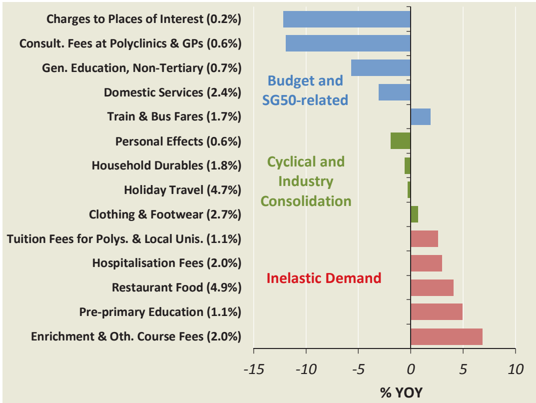
In the retail sector, weak consumer demand and ongoing industry reconfigurations were at play to keep retail goods inflation subdued.[6]

Price declines persisted for non-core CPI items.

The significant number of new residential units in the market has put further downward pressure on housing rentals. Indeed, the rental housing market continued to soften, with the private property vacancy rate rising to its highest level since Q4 2005. (Chart 3.17) Correspondingly, accommodation costs lowered CPI-All Items inflation by 0.7% point in Q3, after shaving off 0.6% point in Q2.

Car COE premiums have fallen substantially over the past six months, on account of the continued increase in COE quotas and as the earlier bout of purchases ahead of the revision in the Carbon Emissions-based Vehicle Scheme (CEVS) subsided. (Chart 3.18) On a year-ago basis, new car prices fell by 2.9% in Q3, after declining by 0.2% in Q2.

Chart 3.16
Y-O-Y Inflation Rate for Selected CPI Components in Q3 2015



Note: Figures in parentheses represent CPI weights.

Chart 3.17
Private Residential Property Vacancy Rate and Growth in Available Floor Space

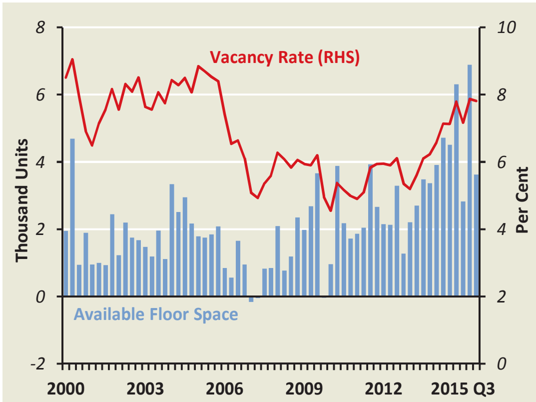
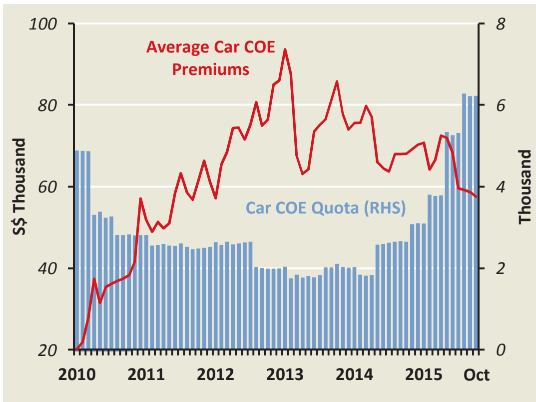


Chart 3.18
Average Car COE Premiums and Quotas



6 Several major retailers, such as Metro, Isetan and Marks & Spencer, have consolidated their operations this year, even as new brands have entered the retail scene.

Global inflation is unlikely to pick up strongly, though there could be upside risks to food prices.

Price pressures emanating from abroad are expected to remain generally benign, on account of weak commodity prices and soft demand conditions, especially in emerging markets.

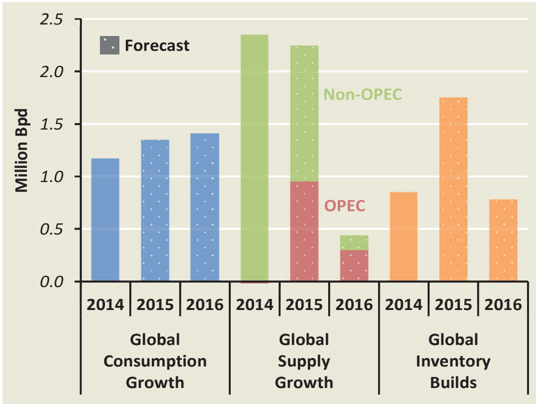
Global oil prices should remain subdued, with the supply overhang likely to persist for some time, resulting in a continued build-up of inventories. (Chart 3.19) Relative to the projection at the last policy review, oil prices are now expected to stay "lower for longer", given efficiency gains in non-conventional oil production and the likely sanctions relief on Iran. (Chart 3.20) Nevertheless, oil prices could rise gradually in 2016 when North American oil production is anticipated to slow more significantly. For the whole year, the Brent oil price benchmark is expected to average US$54 in 2015, before edging up slightly in 2016.[7] Accordingly, direct oil-related items should contribute modestly to CPI-All Items inflation in 2016, after subtracting 0.5% point this year.

Meanwhile, global food commodity prices could face some upward pressure towards the end of this year and into 2016. This is on account of the ongoing El Niño phenomenon, the strongest since 1997, although ample food inventories from recent bumper harvests should provide some buffer against sharp price increases. Further, the dampening effects of supermarket price discounts will start to fade from early 2016. As a result, domestic non-cooked food inflation is expected to rise, pushing overall food inflation up slightly in 2016 from around 2% in 2015.

Domestic cost pressures remain ...

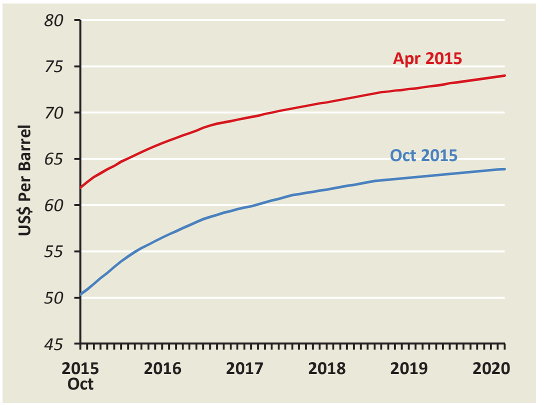
On the domestic front, businesses will continue to face pressures from operating costs, particularly due to higher wages. The pace at which domestic costs are changing, or "domestically-generated cost inflation", is commonly proxied by a suite of indicators such as the rate of increase in unit labour cost, unit business cost in manufacturing, resident wages, and the overall GDP deflator. While these individual measures can be volatile, the average reading suggests that domestic cost increases have been stable but firm at

Chart 3.19
Changes in Global Crude Oil Supply, Consumption & Inventory



Source: EIA

Chart 3.20
Brent Oil Futures Prices



Note: Futures prices in April 2015 are averages of all working days in the month of April. Futures prices in October 2015 are averages of all working days in the month until 13 October 2015.

7 The EIA currently projects the Brent oil price to average US$54 and US$59 for the whole of 2015 and 2016 respectively. Futures prices suggest that the market expects Brent oil prices to average US$54 and US$55.

around 3% y-o-y in H1 2015. (Chart 3.21) This trend is likely to persist going forward, given binding labour supply constraints.

… but the cost pass-through to consumer prices is likely to be restrained.

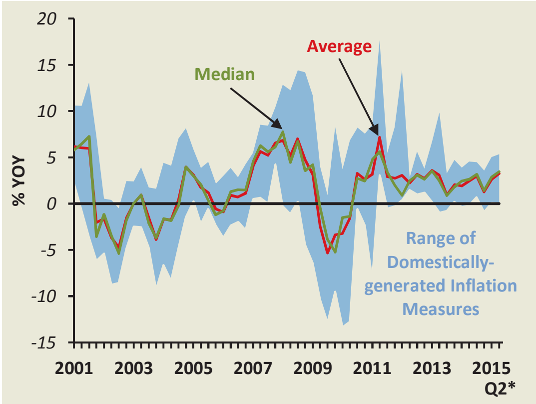
However, the pass-through of higher domestic costs to inflation will likely be modest amid soft economic conditions. Indeed, firms appear to have already taken into account expectations of more subdued demand conditions in their price-setting decisions.

Following the methodology of Bryan & Meyer (2010) and Millard & O'Grady (2012)[8], two sub-indices of the core CPI (excluding accommodation and private road transport costs) were computed: a sticky price CPI and a flexible price CPI. A CPI category is classified as 'sticky' if the frequency of price adjustment is lower than the median frequency of price adjustment[9] for the entire core CPI basket, and 'flexible' if it is higher. Examples of sticky prices in Singapore include the cost of prepared meals, medical and dental treatment, public road transport and education, while flexible prices include the cost of non-cooked food, clothing & footwear, utilities, holiday expenses and personal care.

Compared to flexible prices, sticky prices, which are held unchanged for a longer period of time, tend to incorporate more information about firms' expectations of future demand and prices. Chart 3.22 shows that sticky price core inflation has been on a mild downtrend since the start of 2015. With price expectations better anchored against the backdrop of modest economic growth, cost pass-through is therefore less likely to accelerate in the near term.

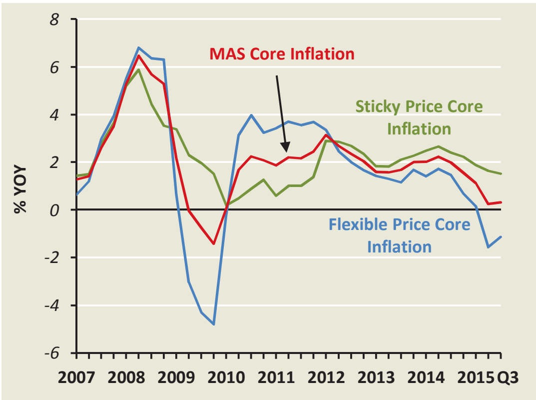
Nevertheless, there will be varying degrees of cost pass-through across industries. For healthcare and education services, the cost pass-through and, hence, the rate of price increases will be stronger given their higher labour share and relatively inelastic demand. Prices of these services were also reduced by subsidies this year, but the effects will dissipate in 2016. Moreover, the introduction of MediShield Life could

Chart 3.21
Measures of Domestically-generated Cost Inflation



* EPG, MAS estimates.

Chart 3.22
MAS Core Inflation, Sticky and Flexible Price Core Inflation



Source: EPG, MAS estimates

8 Millard, S and O'Grady, T (2012), "What do Sticky and Flexible Prices Tell Us?", *Bank of England Working Paper* No. 457 and Bryan, F M and Meyer, B (2010), "Are Some Prices in the CPI More Forward Looking than Others? We Think So", *Federal Reserve Bank of Cleveland Economic Commentary*, May.

9 Across CPI categories, the median duration over which firms in Singapore keep their prices unchanged is 13.7 months.

cause healthcare insurance costs to rise slightly, even after accounting for the transitional subsidies.[10] As a result, the average pace of price increases in healthcare and educational services is expected to pick up to around 3% in 2016, from 1.8% in 2015.

In comparison, price increases of sentiment-sensitive items, such as recreational services and holiday travel, are likely to remain modest, given weak consumer spending. Public road transport fares will also be lowered in line with the decline in fuel costs. Overall services inflation is expected to rise modestly in 2016, from around 1% in 2015.

Car prices and housing rentals are expected to exert a stronger drag on inflation in 2016.

Car COE premiums are likely to be dampened by the expected increase in COE supply which, in turn, is driven by the rising number of cars due to be de-registered. (Chart 3.23)

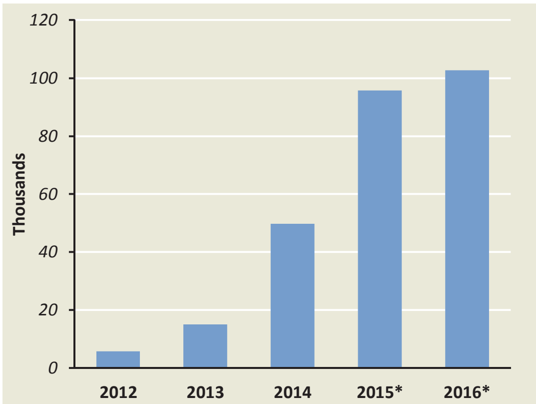
Demand for rental housing should soften as foreign worker inflows moderate, while supply will be boosted by the large number of newly completed housing units coming on-stream. Actual rentals and imputed rentals on owner-occupied accommodation are thus expected to edge down modestly for the rest of 2015 and into 2016.

Together, car prices and accommodation costs are expected to reduce CPI-All Items inflation by around 0.7% point in 2015, and exert a stronger drag of slightly over 1% point in 2016.

Both MAS Core Inflation and CPI-All Items inflation are anticipated to pick up gradually in 2016.

In sum, inflation is expected to pick up in 2016, partly due to the diminishing effects of lower global oil prices. Overall imported inflation should generally be benign, although food prices could rise as El Niño impairs harvests. Budgetary and other one-off measures have suppressed the pass-through of domestic costs to consumer prices this year, but the disinflationary

Chart 3.23
Number of Cars between 9 and 10 Years Old



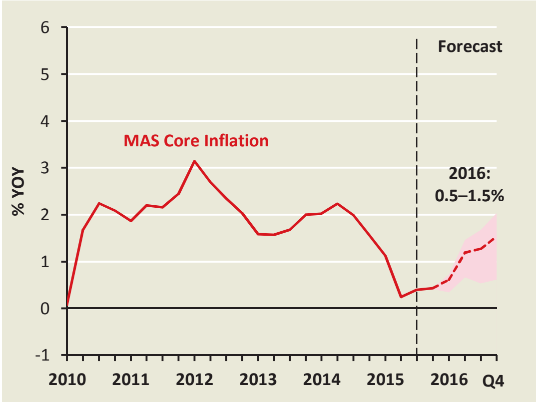
* EPG, MAS estimates.

10 Transitional subsidies are available for the first four years of MediShield Life, for all Singapore citizens. In the first year, the government will pay 90% of the net increase in MediShield Life premiums (after taking into account other premium subsidies) above MediShield premiums, and will cover 70%, 40% and 20% of the net premium increase in the second, third, and fourth years of MediShield life respectively.

effects are only temporary. As a result, MAS Core Inflation is expected to pick up gradually over the course of 2016 towards its historical average of close to 2%, and come in between 0.5–1.5% for the full year, from around 0.5% in 2015. (Chart 3.24)

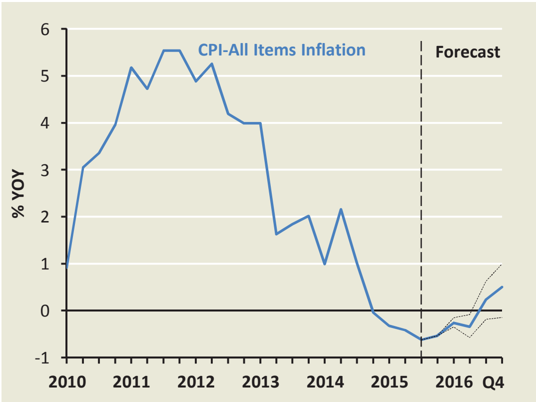
CPI-All Items inflation will likely continue to be dampened by further declines in COE premiums and housing rentals. However, COE premiums are volatile and any sharp price fluctuations would pose both upside and downside risks to the headline inflation forecast (see dotted lines in Chart 3.25). MAS' baseline projection is for CPI-All Items inflation to remain negative throughout H1 2016, before picking up gradually and turning positive in the second half of the year. For 2016 as a whole, CPI-All Items inflation is projected to average between −0.5–0.5%, compared to around −0.5% this year. (Charts 3.25 and 3.26)

Chart 3.24
Y-O-Y MAS Core Inflation Forecasts



Source: EPG, MAS estimates
Note: The dotted red line represents EPG's current baseline projection. The shaded area shows the plausible inflation outcomes within the 0.5–1.5% range for 2016.

Chart 3.25
Y-O-Y CPI-All Items Inflation Forecasts



Note: The upper and lower dotted forecast lines show the projected CPI-All Items outturns if average car COE prices in 2016 were $10,000 higher or lower than the baseline.

Chart 3.26
Contribution to CPI-All Items Inflation