3 Labour Market And Inflation

Core Inflation To Rise At A More Gradual Pace

Core and overall inflation have diverged in recent months. On a y-o-y basis, MAS Core Inflation picked up to 0.5% in Q1 2016 from 0.2% in Q4 2015, as temporary disinflationary influences abated. In comparison, CPI-All Items inflation fell further, from −0.7% in Q4 2015 to −0.8% in Q1 2016, amid larger declines in housing rentals and car prices.

Going forward, external sources of inflation should stay generally benign. Notwithstanding the recent recovery in global oil prices from their January trough, the upside is likely to be capped in the near term, given the underlying supply overhang. For the whole of 2016, global oil prices are expected to average lower than last year. Accordingly, oil-related items will continue to contribute negatively to CPI inflation in 2016, albeit to a smaller extent compared to 2015. Meanwhile, imported food inflation could pick up from presently subdued rates, as the prolonged period of low prices and adverse weather conditions lead to a decline in world food production. Nevertheless, current elevated inventory levels will temper the extent of this increase.

On the domestic front, labour market tightness is expected to ease further. Labour supply will continue to moderate amid demographic changes in the resident workforce and reduced foreign worker inflows. However, labour demand will also ebb, stemming from cyclical weakness in the external environment, as well as ongoing industry restructuring, which has led to some skills mismatches. Consequently, wage growth is expected to soften from 3.5% in 2015 to about 2.5–3.0% in 2016, although it will continue to be uneven across sectors. Together with a modest increase in productivity gains, aggregate unit labour cost (ULC) growth is expected to moderate this year. The overall pass-through of domestic costs to consumer prices will continue to be constrained by subdued economic activity.

As a result of the diminishing drag from oil prices, as well as from budgetary and one-off measures, MAS Core Inflation is expected to pick up gradually over the course of this year. Barring a sharp rise in global oil prices, MAS Core Inflation for 2016 is likely to fall in the lower half of the 0.5–1.5% forecast range, after coming in at 0.5% in 2015. Meanwhile, the downward pressure on CPI-All Items inflation from non-core components of the CPI basket is expected to be larger this year, as more car COEs and residential units come on-stream. For the whole of 2016, CPI-All Items inflation is projected to be −1.0−0%, compared to −0.5% in the previous year.

3.1 Labour Market

Labour Demand Will Remain Modest

Job creation stayed subdued and aggregate labour market tightness eased further in H2 2015 as cyclical and structural factors continued to weigh on hiring. Looking ahead, overall headcount gains will remain modest, alongside a weak cyclical environment, intensifying industry reconfigurations in some sectors and increasing skills mismatches within the resident workforce. Accordingly, the resident unemployment rate is likely to rise slightly in 2016 and overall wage pressures will moderate.

Employment gains were subdued in H2 2015.

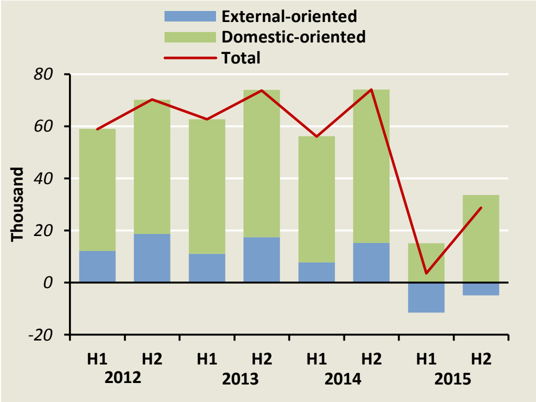
Total employment expanded by 28,700 in H2 2015. This was an increase from 3,600 in the first half of last year, but substantially below the 74,100 jobs added in the corresponding period a year ago. (Chart 3.1) For 2015 as a whole, overall job gains fell to 32,300 from 130,100 in the preceding year, as a result of a confluence of cyclical and structural factors.

Headcount in the external-oriented sectors has been declining since H1 2015, buffeted by both weak external demand and industry restructuring. (Chart 3.1) This was most evident in manufacturing, where employment contracted by a further 10,800 in H2 2015, following the 11,300 job losses in H1. (Chart 3.2) In particular, the electronics industry was affected by ongoing restructuring, while activity and hiring in the marine & offshore engineering segment was pulled down by lower oil prices. Meanwhile, a contraction in sea cargo handled lowered job creation in the transport & storage sector.

The rest of the external-facing sectors recorded slight improvements in job gains in the second half of 2015 compared to the first half. The wholesale trade sector added 900 workers in H2 last year, reversing the job losses seen in H1. This was, however, still lower than the headcount gains of 6,600 a year ago, as hiring was affected by the lacklustre performance in regional trade. Similarly, employment gains in financial services were fairly modest, reflecting consolidation among major global financial institutions.

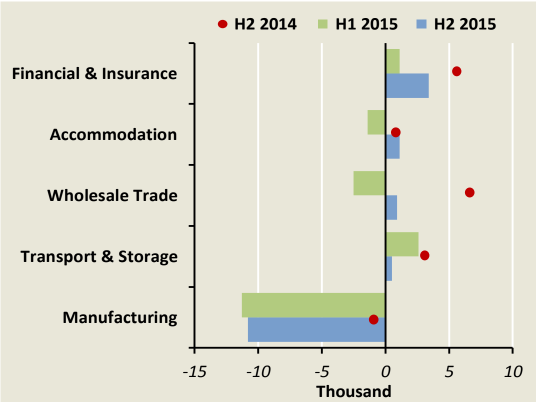
Hiring in the domestic-oriented sectors more than doubled to 33,600 workers in H2 2015, relative to the first half of the year. This was most apparent in retail trade and food & beverage services. (Chart 3.3)

Chart 3.1
Employment Change: External and Domestic-oriented Sectors



Source: EPG, MAS estimates

Chart 3.2
Employment Change: External-oriented Sectors



Source: EPG, MAS estimates

However, these two sectors typically record higher seasonal employment growth in the last quarter of the year to meet increased demand during the year-end festivities. Compared to the same period a year ago, headcount gains in H2 2015 for retail trade and food & beverage services were in fact considerably lower, reflecting generally weak economic sentiment and consumer demand.

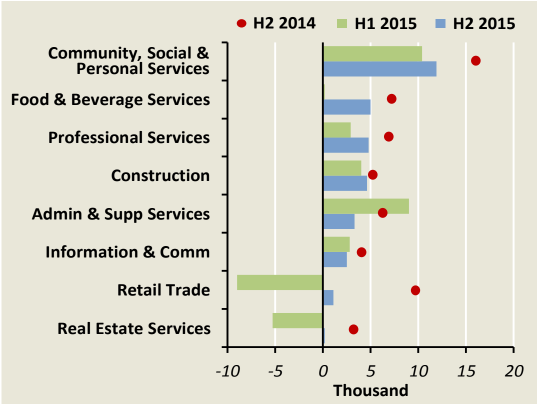
Firms in the real estate industry started to hire again, after cutting 5,300 jobs in H1 2015. However, the number of jobs added was small (around 200). Meanwhile, job creation remained resilient in the community, social & personal (CSP) services sector, owing to ongoing initiatives to expand capacity in healthcare and education. The sector recruited 11,900 workers in H2 2015, slightly higher than the 10,400 in the previous period, although still below the 16,000 jobs created a year ago. Other domestic-oriented sectors, such as professional services and construction, also registered a modest pickup in hiring in H2, supported by demand for legal, accounting & management services, and ongoing public sector building activity, respectively.

Headcount gains in information & communications remained largely unchanged, underpinned by firms' continued need for enhanced data security and the adoption of new technologies. Meanwhile, employment gains in administrative & support services moderated in H2 2015, following strong hiring in the cleaning & landscaping segment in the previous period.

Employment gains for residents improved slightly in H2 2015.

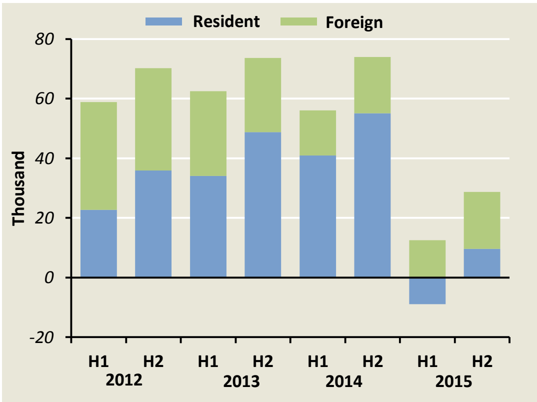
Resident employment rose in H2 2015, with net gains of 9,600 compared to the 8,900 net job losses in the first half of the year. (Chart 3.4) The majority of the local employment gains in H2 were concentrated in industries where temporary hires are prevalent, such as accommodation & food services, administrative & support and retail trade. Some of these resident workers are thus likely to exit the labour market in subsequent quarters.

Chart 3.3
Employment Change: Domestic-oriented Sectors



Source: EPG, MAS estimates

Chart 3.4
Employment Change: Resident and Foreign



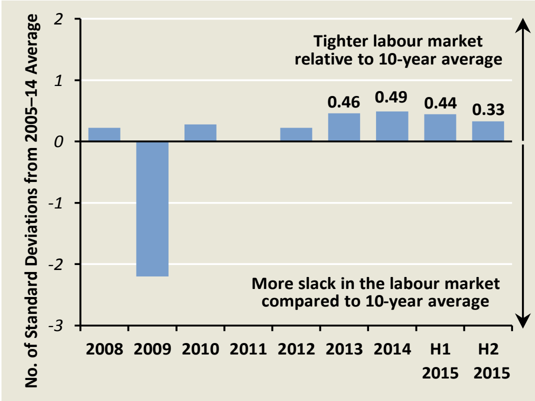
Overall labour market tightness eased further …

In line with weak employment demand, labour market tightness at the economy-wide level eased further. While the seasonally adjusted resident unemployment rate has been fairly stable in recent quarters, the number of unfilled job openings declined to 53,700 in December 2015, from 55,600 three months ago. Even as the number of job openings continued to exceed job seekers, the seasonally adjusted ratio of job vacancies to unemployed persons inched down to 1.13 in December 2015, from 1.21 in June. The incidence of redundancy (number of redundancies per 1,000 workers) also rose sharply to 2.6 in Q4 last year, from 1.6 in the previous quarter, suggesting that firms have been more willing to lay off workers. EPG's Labour Market Pressure Indicator—a summary statistic which captures the extent of labour market tightness using 31 indicators—continued to decline in H2 2015. (Chart 3.5)

Residents who have been laid off are finding it increasingly difficult to re-enter the workforce within six months, with the re-entry rate falling steadily since March 2015 to 51% as of December.[1] This was particularly the case for PMETs. While about half the job openings in Q4 2015 were PMET-related, only 48% of resident PMETs made redundant re-entered the workforce within six months, much lower than clerical, sales & service workers (63%) and production & transport operators, cleaners & labourers (53%). This could be due to various reasons, including skills mismatches in the resident labour market and inadequate remuneration. Indeed, based on the *Job Vacancies 2015* report, the top two reasons cited by employers for hard-to-fill vacancies for local PMET jobs are "Lack the necessary work experience" (36.4%) and "Find pay unattractive" (30.9%).

The problem of skills mismatch is, in fact, an increasingly widespread global issue, as suggested by the *Talent Shortage Survey* conducted by ManpowerGroup in 2015.[2] The findings from the survey revealed that talent shortages were on the rise globally, with 38% of employers facing difficulty filling jobs last year. This was the highest figure reported since 2008–09.

Chart 3.5
Labour Market Pressure Indicator



Source: EPG, MAS estimates

[1] The re-entry rate is defined as the proportion of residents made redundant who managed to re-enter employment. The rate within six months of redundancy for a given quarter refers to the end of quarter re-entry rate for residents made redundant in the previous quarter.

[2] ManpowerGroup surveyed hiring managers in 42 countries to identify the proportion of employers who have difficulty filling positions and the jobs which are difficult to fill.

… leading to lower wage growth.

Reflecting the easing labour crunch at the aggregate level, overall resident wage growth moderated to 3.3% y-o-y in Q4 2015, from 4.1% and 3.7% in Q3 and Q2, respectively. This brought full-year wage growth to 3.5% in 2015, slightly below the 10-year historical average of 3.6%. (Chart 3.6)

Wage gains have remained uneven across sectors. Lower salary increments were evident in the external-oriented sectors, such as manufacturing, financial & insurance and wholesale trade. In comparison, wage gains were higher in the domestic-oriented sectors facing more acute labour shortages, such as CSP services.

Meanwhile, labour productivity rose by 0.5% y-o-y in Q4 2015, after recording no growth in the preceding quarter. (Chart 3.7) This was the first quarter of positive productivity growth since Q1 2014, and it brought the full-year to −0.1% in 2015. Adjusting for actual hours worked, labour productivity growth was 1.0% in 2015, largely unchanged from 1.1% in 2014.[3] Alongside the moderation in resident wage gains, overall ULC increased at a slower pace of 1.5% y-o-y in Q4 2015, compared to 2.7% in the previous quarter, and eased to 2.8% in 2015, from 3.3% in the preceding year.

Job creation will remain sluggish due to cyclical headwinds and reduced support from trend factors.

Both labour demand and supply in the economy are settling at permanently lower levels, in line with the moderation in Singapore's trend GDP growth and ageing population. A decomposition of total employment growth into its cyclical, trend and other idiosyncratic factors[4] suggests that there has been some cyclical drag on employment growth over the last few years.[5] Concomitantly, the support from trend factors has gradually waned, reflecting ongoing restructuring and consolidation in some sectors, such as manufacturing and retail trade, as well as increasingly binding labour supply constraints confronting the Singapore economy. (Chart 3.8)

Chart 3.6
Overall Resident Wage Growth

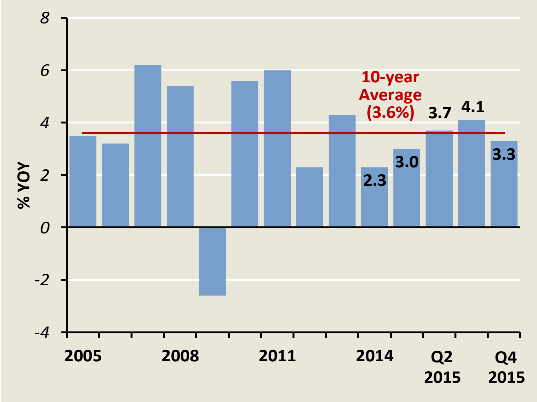


Chart 3.7
Productivity and ULC Growth

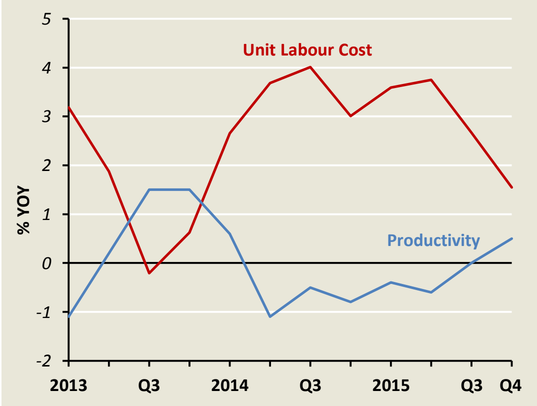
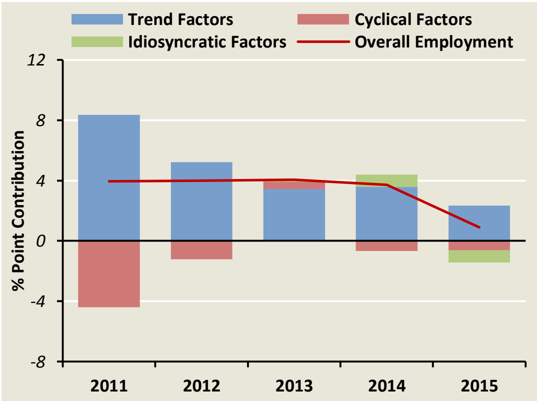


Chart 3.8
Contribution to Employment Growth, 2011–15



Source: EPG, MAS estimates

3 This is calculated using real value added per actual hour worked.

4 Such factors include the stronger-than-usual entry and exit of casual workers.

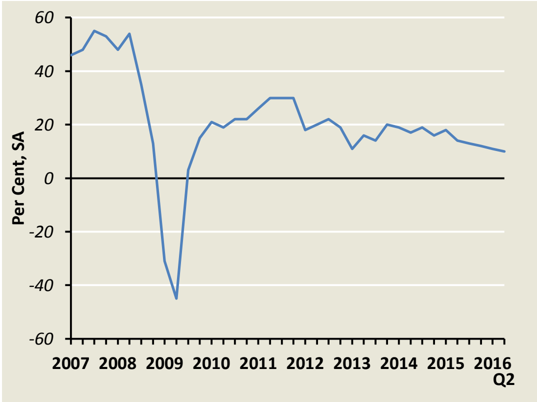
5 In determining the magnitude of the cyclical factor, a modified Okun's equation was used to estimate the elasticity of total employment growth with respect to real GDP growth.

Alongside the fall in labour demand, there has been a reduction in foreign labour supply growth amid the tightening of foreign worker policies. Meanwhile, the supply of resident workers grew at a fairly stable pace, despite an increase in the entry of part-time workers into the workforce. Going forward, structural headwinds and demographic ageing could intensify and further moderate the trend component of employment growth.

In the near term, labour demand will continue to hinge heavily on cyclical conditions and is expected to remain subdued. Latest results from the *ManpowerGroup Manpower Employment Outlook Survey* show the proportion of employers expecting to expand headcount falling to 10% in Q2 2016, from 14% in the same period a year ago. (Chart 3.9)

With lower labour demand and supply, total job creation this year is expected to stay modest. As such, overall and resident unemployment rates are likely to rise slightly in 2016 alongside the weak cyclical conditions, intensifying industry reconfigurations in some sectors, as well as increasing skills mismatches within the resident workforce. Redundancies could continue to rise in sectors facing weak external demand and undergoing restructuring.

Chart 3.9
Net Employment Outlook



Source: ManpowerGroup

Wage pressures are likely to ease in 2016.

In line with subdued employment demand and reduced tightness in the labour market, wage pressures are likely to ease in 2016. Overall resident wage growth is expected to moderate to about 2.5–3.0%, from 3.5% in 2015. Salary increments will, however, be stronger in sectors such as CSP where vacancy rates are higher, and weaker in sectors with greater slack, such as manufacturing. With more muted wage growth and a projected slight improvement in productivity, the pace of increase in ULC should slow in 2016.

Workers need to invest in the right skills to enhance their employability and enjoy higher wage gains.

As the Singapore economy continues to restructure, workers will need to be equipped with the right skills to remain employable and enjoy higher wages. Among various critical skillsets, ICT skills are becoming increasingly central in modern knowledge-based economies, especially as structural and technological changes raise the demand for expertise in ICT-related tasks.[6]

To cater to the rising demand for ICT professionals, the government introduced the TechSkills Accelerator scheme in Budget 2016, to enable and encourage individuals to acquire relevant expertise and skills to engage in the fast growing ICT sector. This programme aims to: (i) identify specific skills in demand and work with specialised training providers to offer relevant courses; (ii) develop industry-recognised skills standards and certification to guide ICT professionals and employers; and (iii) work with employers to commit to hire and remunerate based on certified skills proficiency, rather than solely relying on academic results.

Since the launch of SkillsFuture in November 2014, many initiatives have been put in place, such as the SkillsFuture Study Awards as well as Earn and Learn, for workers to acquire new skills or deepen their knowledge in their respective fields. Singaporeans have also started to utilise their SkillsFuture Credit to enrol in courses to equip themselves with the relevant skills that the economy needs going forward.

[6] Using data for 19 countries from the Programme for the International Assessment of Adult Competencies, Falck, Heimisch and Wiederhold (2016) showed that a one standard deviation increase in ICT skills raised wages by almost 8 percent. See Falck O, Heimisch, A and Wiederhold, S (2016), “Returns to ICT Skills”, *CESifo Working Paper Series 5720*.

3.2 Consumer Price Developments

Underlying Price Pressures Remain Muted

Core and overall inflation diverged in the first quarter of 2016. While core inflation picked up as some temporary disinflationary influences abated, CPI-All Items inflation remained negative on account of continued declines in housing rentals and car prices. Going forward, external price influences are likely to remain muted given current elevated inventory levels in key commodity markets, including oil and food. Alongside slower wage growth and subdued economic conditions, the pass-through of domestic costs to consumer prices will be modest.

MAS Core Inflation is expected to rise gradually for the rest of the year, reflecting the diminishing drag from oil prices, as well as from budgetary and one-off measures. However, this increase will be milder than earlier anticipated, with core inflation in 2016 likely to come in at the lower half of the forecast range of 0.5–1.5%, well below its historical average for the second consecutive year. Meanwhile, the downward pressure on CPI-All Items inflation from non-core components of the CPI basket is expected to intensify this year, given the large supply of car COEs and residential units.

Core inflation picked up in early 2016, while CPI-All Items inflation remained subdued ...

MAS Core Inflation rose to 0.5% y-o-y in Q1 2016 from 0.2% in Q4 2015, on account of a smaller decline in the prices of oil-related items and the dissipation of disinflationary influences from budgetary and other one-off measures.[7] In comparison, CPI-All Items inflation remained on a downtrend, falling to −0.8% in Q1 from −0.7% in the previous quarter, as a result of larger declines in housing rentals and car prices. (Charts 3.10 and 3.11)

These outcomes were mirrored in sequential terms as well. The overall price of core items in the CPI basket increased by 0.4% q-o-q in Q1 2016, after remaining largely flat in the previous quarter. This was primarily due to higher non-cooked food inflation, which more than offset the moderation in services inflation from reduced public transport fares and newly-introduced subsidies for pre-school education. Meanwhile, overall consumer prices declined for the sixth consecutive quarter in Q1, reflecting continued weakness in car prices and housing rentals. (Chart 3.12)

Chart 3.10
CPI-All Items and MAS Core Inflation

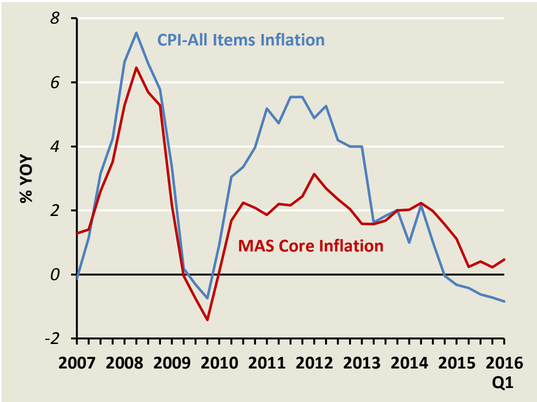
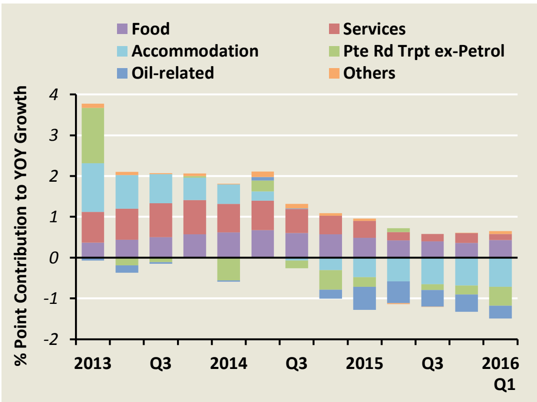


Chart 3.11
Contribution to Y-O-Y CPI-All Items Inflation



7 The cost of healthcare services rose in January as the disinflationary effect of enhanced medication subsidies introduced at the beginning of 2015 dissipated, while the expiry of some supermarket discounts also contributed to a pickup in non-cooked food inflation.

External sources of inflation were weak.

External price developments have been broadly benign over the past six months. On a year-ago basis, the overall Import Price Index (IPI) fell for the seventh consecutive quarter in Q1 2016. However, the pace of decline moderated due to dissipating base effects from the relatively higher global oil prices prior to Q1 2015. Apart from oil, most other components of the IPI also registered year-ago declines, reflecting subdued prices in several commodity markets, including food and other industrial materials. (Chart 3.13)

Global oil prices have been volatile since the start of the year.

After falling by more than 40% from US$48 in October 2015 to a low of US$26 in mid-January 2016, the Brent oil price rallied by more than 50% over the next three months to a high of US$45 on 26 April.

The recent rebound in oil prices reflected a sharp turnaround in market sentiment, fuelled by speculation about a potential accord between major oil-producing countries to limit production. At the same time, the continued fall in US rig counts signalled that the shale boom had come to an end, even as temporary pipeline outages in Iraq and Nigeria created some short-term disruptions to supply. While the eventual failure of major oil producers to agree to a coordinated production freeze in April caused oil prices to dip initially, other factors such as the oil workers' strike in Kuwait and the steady decline in US output, kept prices supported.

International food commodity prices have been stable.

Based on data from the UN Food and Agricultural Organisation (FAO), global food commodity prices have remained generally stable over the past six months, and were about 15% below their year-ago levels as of Q1 2016. Subdued global prices of key agricultural commodities, such as rice, wheat, and dairy, have in turn kept a lid on Singapore's overall imported food inflation, which has been negative since Q1 2015. (Chart 3.14) However, prices of certain "less-commoditised" food supplies, which tend to be more susceptible to localised supply and demand shocks, diverged from this overall declining trend. Notably, the cost of imported fish & seafood rose sharply in recent

Chart 3.12
Contribution to Q-O-Q CPI-All Items Inflation

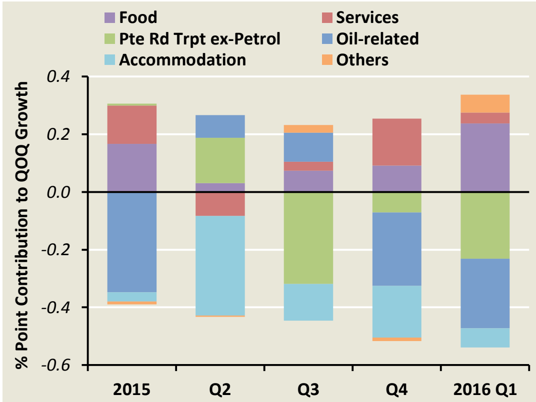
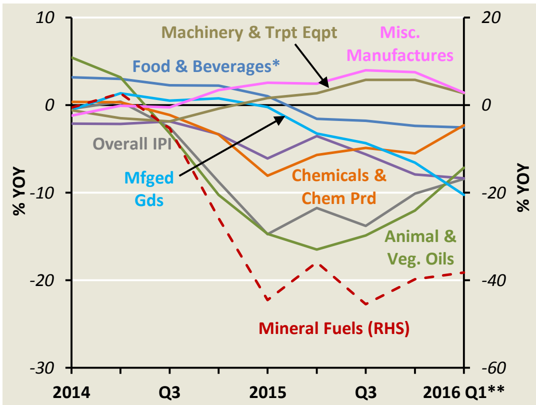


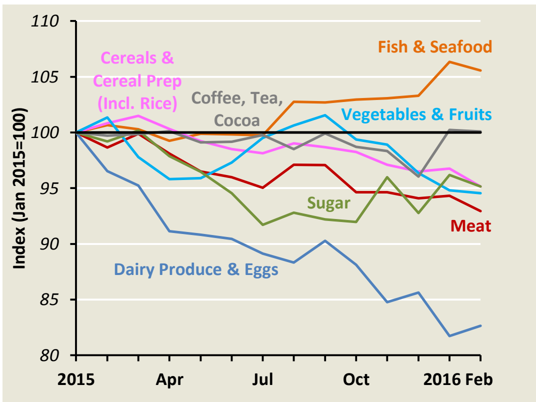
Chart 3.13
Y-O-Y Change in the Import Price Index and its Components



* Comprises "Food & Live Animals" as well as "Beverages & Tobacco".

** Jan–Feb 2016 average.

Chart 3.14
Components of Singapore's Imported Food Price Index (S$)



months due to increased seasonal demand during the Chinese New Year period. (Chart 3.14) The stronger-than-usual seasonal spike, together with the expiry of temporary supermarket discounts, pushed up domestic non-cooked food inflation in Q1 2016.

Domestic cost pass-through to consumer prices remained tempered by the soft economic environment.

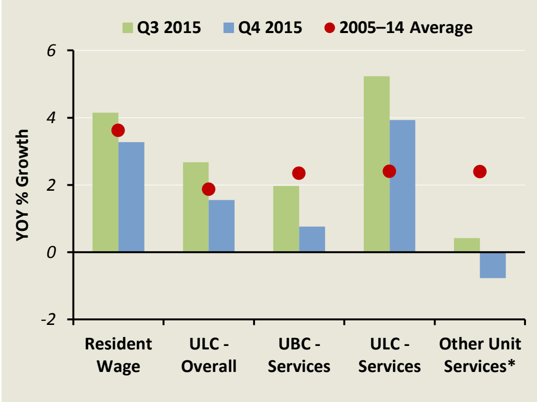
Labour cost pressures in the economy have eased, given the moderation in wage growth and slight productivity improvement. Lower rentals and utility fees have also alleviated the pace of increase in firms' overall operating costs. (Chart 3.15) Alongside subdued domestic demand, this has tempered the extent to which firms pass on higher domestic costs to consumers. In particular, over the past five months, price increases for some discretionary services, including restaurant food and other educational course fees, have moderated relative to the same period a year ago. (Chart 3.16) Lower oil prices have also filtered through to a reduction in public transport fares.

However, price increases have picked up for essential services, which continue to be driven by firm demand and are less susceptible to the current weakness in consumer sentiment. For example, private insurance companies have started to charge higher premiums for private health insurance plans (including riders), while the cost of domestic services has also risen after the imposition of tighter regulations by the countries supplying foreign domestic workers. In addition, several food court operators have recently raised the prices of drinks, citing higher labour costs as one of the key reasons.

Price declines persisted for non-core CPI items.

The cost of accommodation continued to decline as the significant number of new residential units in the market put further downward pressure on rentals. Indeed, the vacancy rate in the private residential property market remained elevated at 7.5% in Q1 2016. (Chart 3.17) Correspondingly, the drag from actual and imputed rentals on headline inflation increased to −0.8% point in Q1 2016, compared to −0.7% point in the preceding quarter.

Chart 3.15
Measures of Domestic Costs



Source: EPG, MAS estimates
* Consists of sub-components such as rentals, utilities, etc.

Chart 3.16
Price Changes for Selected CPI Items

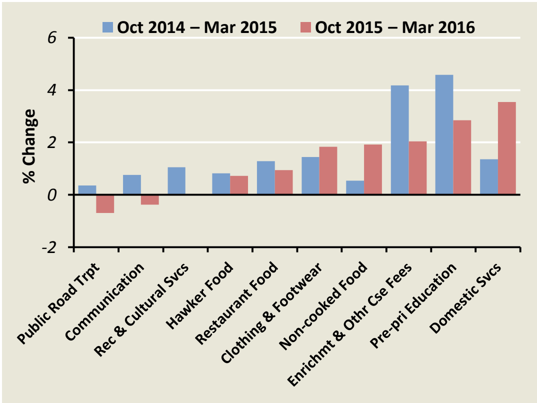
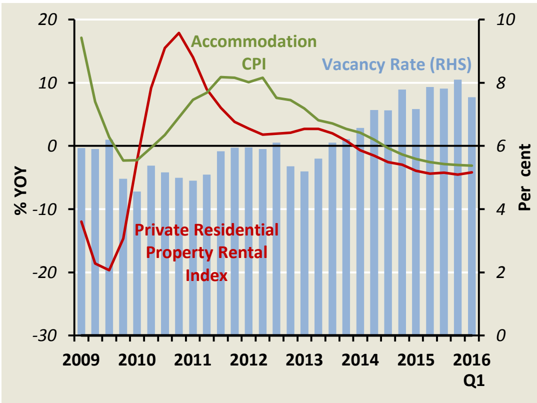
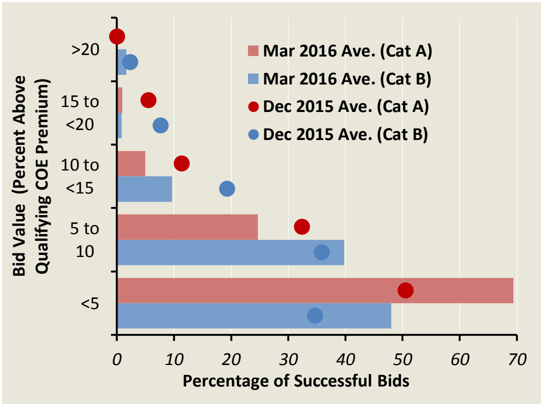


Chart 3.17
Property Rental Index, Accommodation CPI and Vacancy Rate



Meanwhile, average car COE premiums in Q1 were around 19% (or approximately S$11,000) lower compared to Q4 last year. This mostly reflected bidders' lower willingness-to-pay, possibly due to the subdued economic climate and expectations of further downside to premiums given the recent expansions in COE quotas.[8] (Chart 3.18) Consequently, the private road transport (excluding petrol) component reduced overall inflation by 0.5% point in Q1 2016, compared to 0.2% point in Q4 2015.

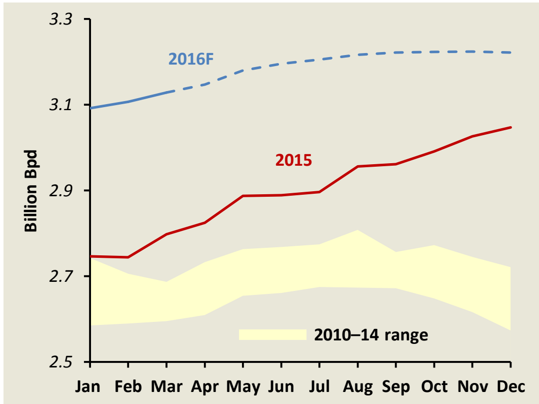
Chart 3.18
Distribution of Successful Bids in December 2015 and March 2016 Bidding Exercises



Upside to global oil prices will likely be capped as the underlying supply overhang remains significant.

Notwithstanding the recent rebound in global oil prices from the January trough, the underlying supply overhang will likely limit any sustained upward price movements in the near term. Indeed, global oil production continues to outstrip demand at a rate of 1.5–2 million barrels per day, even as inventory levels remain at a record 440 million barrels higher than the 2010–14 average. (Chart 3.19) For the whole of 2016, EPG expects global oil prices, based on the Brent benchmark, to average around US$40, lower than the US$52 recorded last year[9]. Accordingly, oil-related items are expected to reduce CPI-All Items inflation by around 0.4% point in 2016, compared to 0.5% point in the previous year.

Chart 3.19
OECD End-of-period Oil Inventory



Source: EIA

Prices of global food commodities could rise gradually due to unfavourable weather conditions.

Meanwhile, upside risks to food prices arising from adverse weather conditions remain. Even as the lingering effects of the hotter and drier climate associated with El Niño continue to impair global food supply, the increasing risk of a La Niña event in the latter half of 2016 could put renewed upward pressure on global food prices.[10] The prolonged period of weak prices and poor weather conditions appears to have reduced forecasts for food production. For example, global production of cereals is estimated to remain

8 Car COE quotas for Feb–Apr 2016 amounted to 19,422, a 21% increase from the 16,086 for Nov 2015 to Jan 2016.

9 The EIA currently expects the Brent crude oil price to average US$35 for the whole of 2016, while futures markets are expecting it to average US$43.

10 According to the US National Oceanic and Atmospheric Administration, the chances of a La Niña event in the autumn of 2016, following the 2015–16 El Niño occurrence, has increased to 65%, compared to 32% for a neutral outcome.

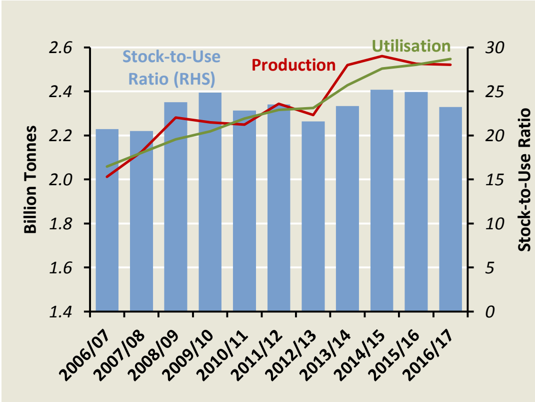
relatively flat in 2016 even as demand continues to rise. (Chart 3.20) Against this backdrop, prices of key food commodities, such as wheat and rice, could increase gradually in the coming months.

Slower domestic wage growth and consumer demand will temper the extent of price increases.

Given slower increases in operating costs and generally soft demand, firms are likely to be cautious about raising prices. Based on the *Business Expectations Survey for the Service Sector*, companies have indicated weaker business confidence, possibly due to uncertainty in the external environment. (Chart 3.21) In addition, industry reconfigurations will continue to spur greater competition, particularly in the retail and communications sectors. Notably, the potential entry of a fourth telco operator has already forced incumbents to offer steep discounts to maintain their market share, which will result in lower services inflation.

Although cost pressures and the degree of pass-through are expected to remain uneven across sectors, on balance, the extent of price increases in the CPI basket will be relatively restrained. As temporary disinflationary factors ease, the steep price decline in the 25th percentile of core consumer items is likely to taper off gradually, while the weighted median price change could rise from 0.7% in Q4 2015 to 1.6% by Q4 2016. At the upper end of the distribution (75th percentile), price increases are not likely to accelerate significantly given the subdued economic environment. (Chart 3.22) On an annual basis, the proportion of the core CPI basket that will face price declines is expected to fall to around one-fifth from one-third in 2015, while the proportion that will see price increases of more than 2% is likely to be slightly higher in 2016 than in 2015. Most items will see modest price increases of between 0–2%, reflecting the softer labour market and overall economic environment. (Chart 3.23)

Chart 3.20
Cereal Production, Utilisation and Stocks



Source: UN Food and Agricultural Organisation
Note: Cereals include wheat, coarse grains (maize, barley, sorghum), and rice.

Chart 3.21
Expectations of Services Firms for the Next Six Months

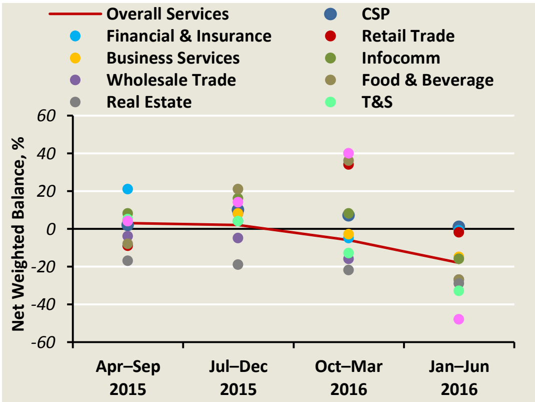
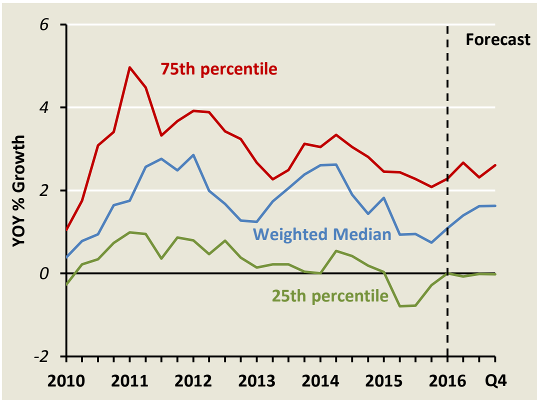


Chart 3.22
Weighted Median, 25th and 75th Percentiles of Y-O-Y Price Changes in the Core CPI



Source: EPG, MAS estimates

Housing rentals and car prices will continue to dampen headline inflation.

Based on current supply pipeline projections, a significant number of housing units are likely to come on-stream this year, which will keep the vacancy rate for private residential properties elevated. Alongside reduced foreign worker inflows, residential property rentals are projected to decline further.

Meanwhile, given the substantial expansion in the number of COE quotas and the generally weak economic environment, COE prices will likely come under downward pressure over the course of the year. Together, car prices and accommodation costs are expected to pull down CPI-All Items inflation in 2016 by more than 1% point.

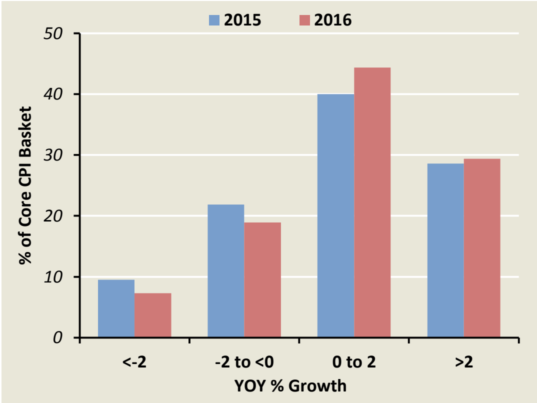
MAS Core Inflation is expected to rise more gradually in 2016 than previously anticipated, while CPI-All Items inflation will stay negative.

In sum, MAS Core Inflation is expected to be on a mild uptrend over the course of this year. This reflects the diminishing occurrence and smaller magnitude of price declines in the CPI basket, rather than a broadening of price increases, as the dampening effects of oil prices, together with budgetary and other one-off measures, ease. Nevertheless, the upward trajectory is expected to be flatter than envisaged in October 2015, due to the weaker external inflation outlook, subdued GDP growth prospects, and reduced tightness in the labour market.

Taking these factors into account, MAS Core Inflation in 2016 is likely to be in the lower half of the 0.5–1.5% forecast range, barring a sharp rise in global oil prices. This would be the second consecutive year that core inflation is well below its historical average.

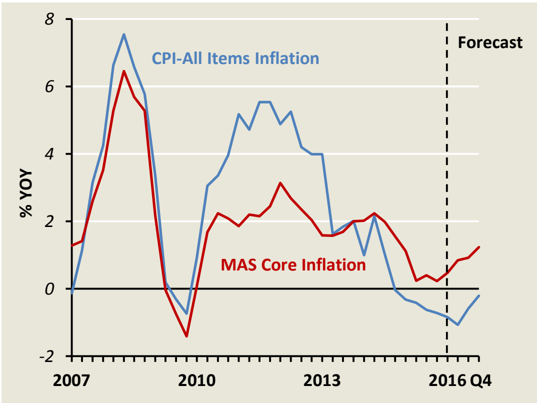
Meanwhile, CPI-All Items inflation will continue to be dampened by further declines in COE premiums and housing rentals, and remain negative throughout 2016. As a result of a more pronounced decline in housing rentals and car prices since the start of the year, the forecast for CPI-All Items inflation for the whole of 2016 was revised down to −1.0–0% in February, from −0.5–0.5% previously. (Charts 3.24 and 3.25)

Chart 3.23
Distribution of Annual Price Changes in the Core CPI Basket



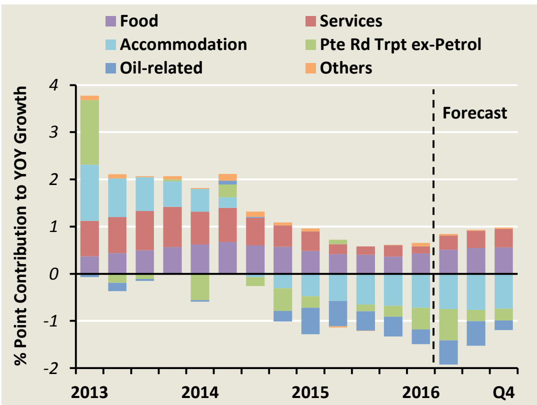
Source: EPG, MAS estimates

Chart 3.24
Y-O-Y CPI-All Items Inflation and MAS Core Inflation Forecasts



Source: EPG, MAS estimates

Chart 3.25
Contribution to Y-O-Y CPI-All Items Inflation



Source: EPG, MAS estimates

Beyond this year and into the medium term, external price pressures facing Singapore should be contained, as global inflationary pressures are likely to remain muted. The upside to commodity prices should be tempered by the greater flexibility of oil production from the shale industry, as well as the general supply overhang affecting commodity markets. An extended period of subdued global growth could also suppress price pressures and weigh on longer-term inflation expectations. Accordingly, core inflation in Singapore could average slightly below 2% over the medium term.