

Thursday, 23 April 2009

Flash Notes

Singapore: Price Increases Look Set to Abate

Price increases are on the downtrend as Singapore's inflation in Mar registered the lowest y/y increase in 21 months. Compared to a month ago, the Consumer Price Index (CPI) fell 0.4%, on lower costs of housing, transport and communication. On a yearly basis, CPI rose 1.6%, in line with our estimate of 1.5%, as housing, food, health care and recreation were still higher compared to a year ago. On a s/adj basis, the CPI was flat in Mar compared to Feb.

On month, housing costs were down 1.7% owing to lower service and conservancy charges as a result of rebates. Transport and communication prices also receded by 0.6% due to the cheaper prices of car and petrol. Food prices -which constitute the bulk of the index at 23%- were however up by 0.1%.

We are projecting a mild deceleration in prices in the latter half of the year, leading to a contraction in CPI of 0.7% for 2009. A high base last year, coupled with falling prices of crude oil, electricity tariffs, and property will lower the costs of the main index items such as food, housing, transport and recreation. The deflationary environment currently does not look to be critical, as we are only expecting a few months of mild deflation. For now, it does not look reminiscent of the Asian financial crisis in 1998/1999, where there was a sustained decrease in prices y/y for 11 consecutive months, or during 1986/1987, where there were 14 straight months of y/y decreases.

Impact on Monetary Policy

With inflation coming off rapidly, MAS has more room to easing monetary policy should it need to, during the October monetary policy. This follows on from mid-April, where the MAS re-centred the exchange rate policy band to the prevailing level of the S\$NEER, while keeping the zero percent appreciation path.

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