

Singapore: CPI Inflation Rose More Than Expected In May

May CPI was up 0.6% m/m and 4.5% y/y, higher than market estimates of 0.3% m/m and 4.2% y/y. Government rebates were not given in May, but in Apr, accounting for higher housing costs, and the increase m/m. Overall, even though May's inflation was more than expected, headline inflation probably peaked in Jan on a y/y basis. We are likely to see a moderation in headline inflation in the months ahead, due to rebates on housing and utilities given by the government, as well as the impact from monetary policy tightening by the MAS. Together with the slowing global growth, that should see demand for commodities moderate and ease inflationary pressures somewhat.

On month, the increase came from higher housing costs, up 3.1% on higher service & conservancy charges, as no rebates were given in May. Other components of the CPI such as food, was flat, while transport costs fell 0.5% as cars and petrol prices dropped. On a s/adj basis, CPI was up 0.6% m/m. On a yearly basis, CPI increased by 4.5%, with the housing and transport component rising by 8.1% and 7.5% respectively. Core inflation was down on an m/m and y/y basis, at -0.1% m/m and 2.1% y/y, compared to +0.6% m/m, and 2.2% y/y in Apr, within MAS' target of 2.0-3.0%.

Impact On Monetary Policy

We are projecting a moderation in headline inflation to 3.7% y/y in the 3Q of this year, and 3.5% y/y in the 4Q. Even so, it is not coming off as quickly as forecasted. There remains some pressure on inflation stemming from a rebound in COE prices and possibly higher costs of food. Domestic wage pressures from the tight labour market should also add to higher cost pressures. However, further monetary tightening does not look likely in Oct at this point. With the recent tightening efforts by the MAS, as well as an expected moderation in headline inflation as well as global growth, it looks unlikely that the MAS will allow further strengthening at the upcoming monetary policy meeting in Oct.

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