

Wednesday, 25 January 2012

Flash Notes

Singapore: Dec CPI moderated to 5.5% y/y

Dec's Inflation rose 5.5% y/y, and was flat on a m/m basis, in line with market estimates. This was slower than Nov's 5.7% y/y and 0.6% m/m increase. On a y/y basis, higher transport (+10.0%), housing (+9.9%) and food (+3.7%) prices continued to keep the headline inflation elevated. On a monthly basis, housing costs fell (-1.1%) probably in part due to some rebates given on rental and service and conservancy charges. Core inflation which excludes accommodation and private road transport continued to head higher, to 2.6% y/y from 2.4% in Nov.

Headline inflation is likely to moderate this year, with some easing in demand-side inflation amid the slowdown in economic growth. However, still high accommodation costs, COE prices, and public transport costs, could still see the CPI inflation averaging around 4.0-4.5% in the first half of this year. We're projecting inflation to come down to 3.2% for 2012 from 5.2% in 2011.

Impact on monetary policy

With inflation still high and not moderating as quickly as expected, MAS could continue its monetary policy of strengthening the SGD NEER. But given the much lower domestic GDP outlook for 2012, which we are projecting to grow at 2.5%, there is a possibility of monetary policy easing from its current "gradual appreciation" stance in Apr.

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