

Singapore Economics

Inflation Gathers Steam; Expect MAS to Tighten at April Meeting

Headline & Core Inflation Heats Up in Feb

Both headline and core inflation gathered steam in Feb, rising on higher services and food inflation. The decline in accommodation costs is also slowing. Headline inflation rose to +0.5% in Feb-18 (vs. zero in Jan) while core inflation (excl. accommodation & private transport) edged upwards to +1.7% (vs. +1.4% in Jan).

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Headline CPI Rises as S&CC Rebates Effect Dissipates

Pickup in headline inflation was mainly due to the dissipation of the Service & Conservancy Charges (S&CC) rebates effect (distributed in Jan 2018), which explained the softer decline in accommodation costs (-3.6% vs. -5.3% in Jan). On the other hand, private road transports costs slowed considerably to +0.6% (vs. +1.6% in Jan) due to moderating petrol prices, ERP charges and COE premiums (which recorded the lowest bidding prices since 2010).

Food and Services Pushing Core CPI Upwards

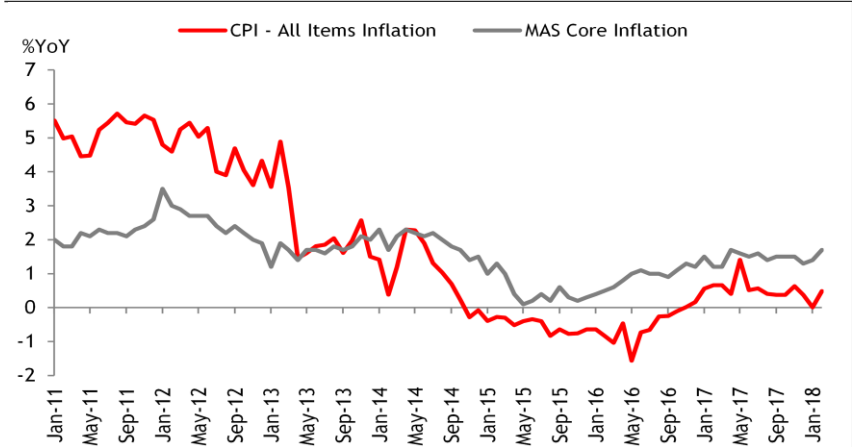
Core inflation rose to a 10-month high on higher food prices (+1.5%) and services (+1.9%), partly due to the Chinese New Year holiday effects. Within services, recreation & culture (+1.6%) showed a strong uptick mainly on rising air fares and holiday expenses (+2.5%). Healthcare (+2.5%) and education (+2.9%) costs also picked up, but communication (-0.1%) declined for the first time since Jun 2017.

Core Inflation Risks, Expect MAS to Tighten in April

Core inflation will likely continue creeping higher in 2018. Wage pressures will likely translate into higher services inflation, fuelled further by the recent tightening of foreign manpower measures. Nominal median income rose by almost 6% in 2017. Anticipated hikes in public transport fares (with the new formula incorporating changes to operating costs) and Changi Airport's fees (increase from current \$34 to \$47.30 starting 1 July) will likely push up transport and recreation costs.

High and rising core inflation will likely prompt MAS to normalize and shift to a "slight appreciation bias" at the April meeting. Risks of a China-US trade war will not likely delay the normalization shift. We forecast headline and core inflation to average +0.9% and +1.7% respectively in 2018.

Fig 1: CPI - All Items & Core CPI (%YoY)



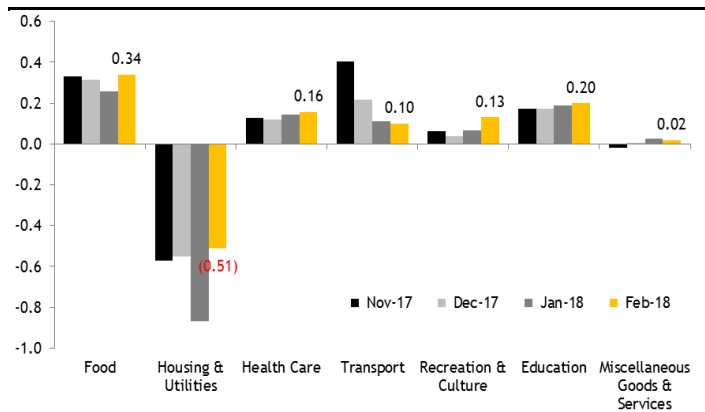
Source: CEIC, Maybank Kim Eng

Table 1: Consumer Price Index (CPI, 2014=100)

%YoY	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	YTD2018	2017
CPI - All Items	0.6	0.4	0.4	0.4	0.6	0.4	0.0	0.5	0.2	0.6
Food	1.4	1.2	1.2	1.5	1.5	1.4	1.1	1.5	1.3	1.4
Clothing and Footwear	2.6	1.6	0.5	0.7	0.7	(0.2)	1.0	0.7	0.8	0.6
Housing & Utilities	(2.5)	(2.3)	(2.3)	(2.7)	(2.4)	(2.3)	(3.6)	(2.1)	(2.9)	(2.5)
Household Durables & Services	1.0	1.2	0.8	0.7	1.0	1.1	1.2	0.8	1.0	1.1
Health Care	2.9	2.5	2.5	2.2	2.0	1.9	2.3	2.5	2.4	2.5
Transport	2.0	1.4	1.1	1.1	2.6	1.4	0.7	0.6	0.7	2.6
Communication	0.3	0.1	1.3	1.0	1.5	0.5	0.0	(0.1)	(0.0)	0.6
Recreation & Culture	(0.1)	0.3	0.4	0.7	0.8	0.4	0.8	1.6	1.2	0.3
Education	2.8	2.7	2.7	2.6	2.6	2.6	2.8	2.9	2.9	3.0
Miscellaneous Goods & Services	0.5	0.1	0.7	0.9	(0.4)	0.1	0.5	0.4	0.4	0.1
Core inflation	1.6	1.4	1.5	1.5	1.5	1.3	1.4	1.7	1.6	1.5

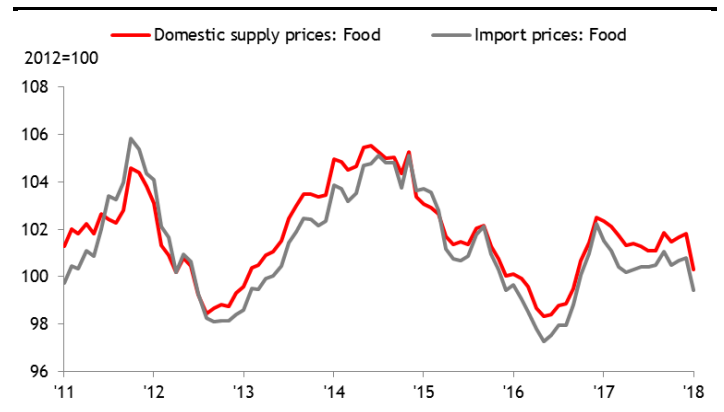
Source: CEIC, Maybank Kim Eng

Fig 2: Contribution to Inflation Rate by Key Components (ppts)



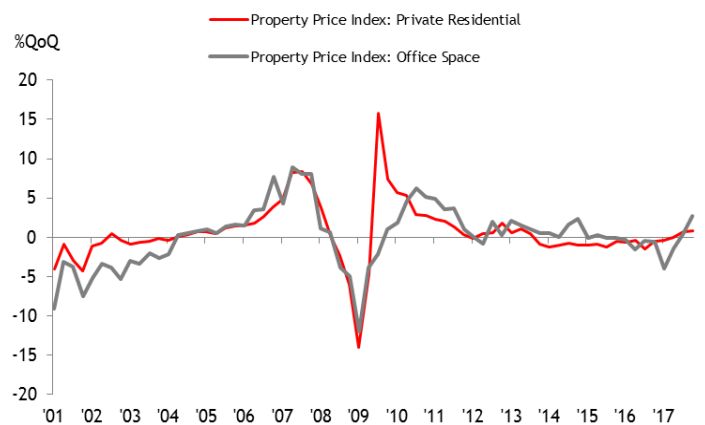
Source: CEIC, Maybank Kim Eng

Fig 3: Food Prices Dipped in Jan 2018



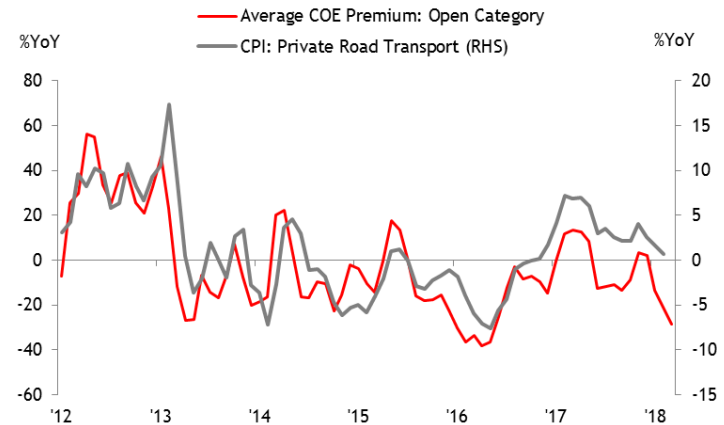
Source: CEIC, Maybank Kim Eng

Fig 4: Both Private Residential and Office Space Prices Rose Further in 4Q17



Source: CEIC, Maybank Kim Eng

Fig 5: COE Premium vs. CPI Sub-Index for Private Road Transport (%YoY)



Source: CEIC, Maybank Kim Eng

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