

Singapore Economics

Inflation Uptick Amid Higher Oil Prices

Headline & Core Inflation Pick Up in May

Both headline and core inflation saw an uptick in May as rising global oil prices pushed up petrol prices, while services and retail inflation increased. Headline inflation edged up to +0.4% in May-18 (vs. +0.1% in Apr), while core inflation rose to +1.5% (vs. +1.3% in Apr).

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Headline CPI Rises as Private Transport Prices Rebound

The stronger reading in headline CPI was mainly due to the rebound in the private road transport component (11.5% weight in CPI basket) by +0.1% (vs. -0.8% in Apr) after two consecutive months of decline. The rebound was driven by a steeper increase in petrol prices and a smaller year-ago decline in Certificate of Entitlement (COE) premiums compared to the past two months. Accommodation costs also fell at a more moderate pace (-3.2% vs. -3.6% in Apr) with slower declines in housing rentals and larger increases in the cost of housing maintenance & repairs.

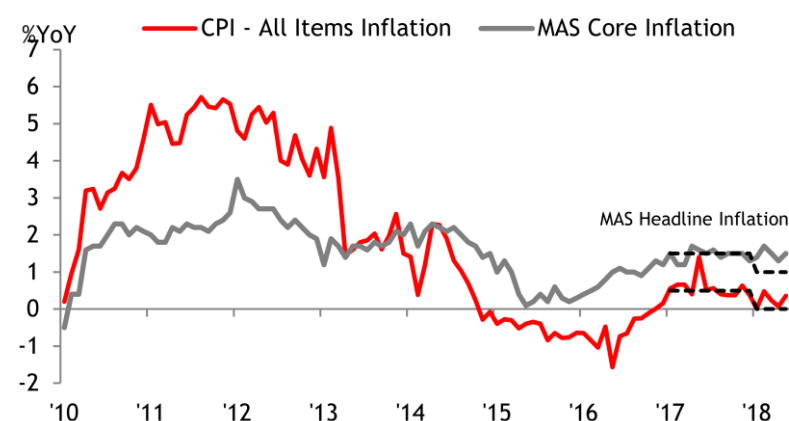
Services and Retail Inflation Rising, But Food Softening

Services inflation edged up to +1.6% (vs. +1.3% in Apr) with larger increases in holiday expenses and airfares (+2.1% vs. +1.1% in Apr) and a softer decline in communication fees (-0.8% vs. -1.3% in Apr). Retail prices also picked up to +1.3% (vs. +0.9% in Apr) on the back of higher prices for medical products, appliances & equipment (+0.6%) which offset the moderation in prices of clothing and footwear (+0.6% vs. +0.8% in Apr). Food inflation eased further to +1.3% (vs. +1.4% in Apr) on the back of non-cooked food items.

Revise Headline CPI to +0.7%, 3M SIBOR to 1.85%

Year to date, headline and core CPI have averaged +0.2% and +1.5% respectively. Given the weaker than expected rise in the first five months, we cut our headline CPI forecast to +0.7% (from +0.9%) for 2018. We maintain our core CPI forecast at +1.7%, as the second half of the year will see some administrative price hikes (Changi Airport fees and water prices), and greater pass through from rising oil prices. As our chief economist Suhaimi now expects the Fed to hike 2 more times in 2018 and 3 times in 2019, we have raised our year-end 3M SIBOR forecast to 1.85% in 2018 (from 1.65%) and 2.20% in 2019 (from 1.90%). The 3M SIBOR is currently at 1.52%, rising only slightly after the recent rate hike. We expect MAS to maintain the current “slight appreciation bias” at the next policy meeting in October.

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



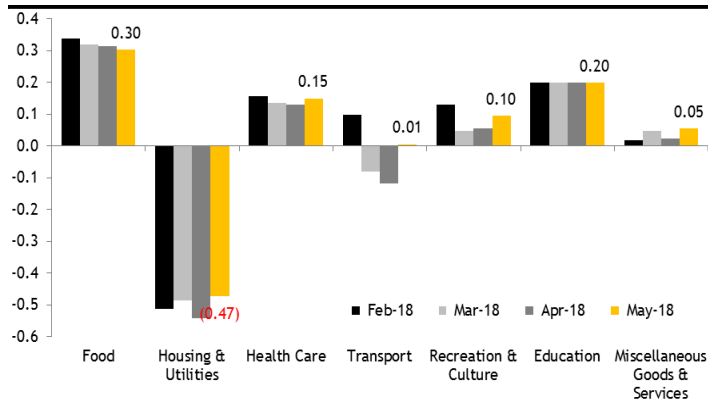
Source: CEIC, Maybank Kim Eng

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

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

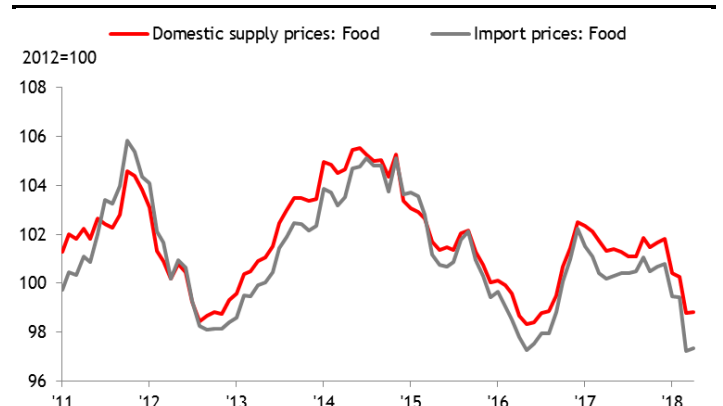
Source: CEIC, Maybank Kim Eng

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



Source: CEIC, Maybank Kim Eng

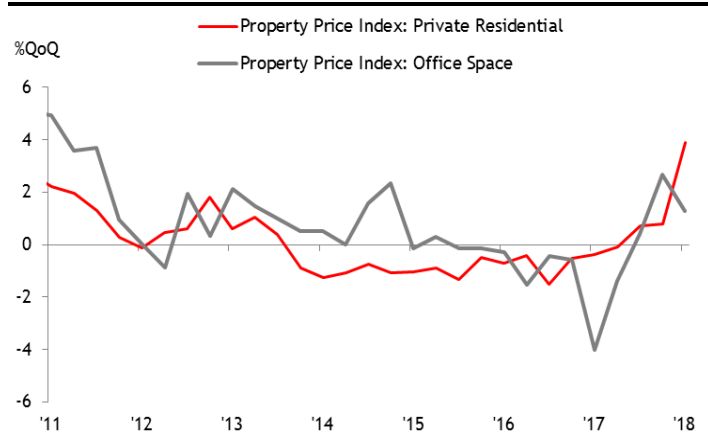
Fig 3: Food Prices Continue to Stay Muted



Note: Last datapoint is as of Apr-18.

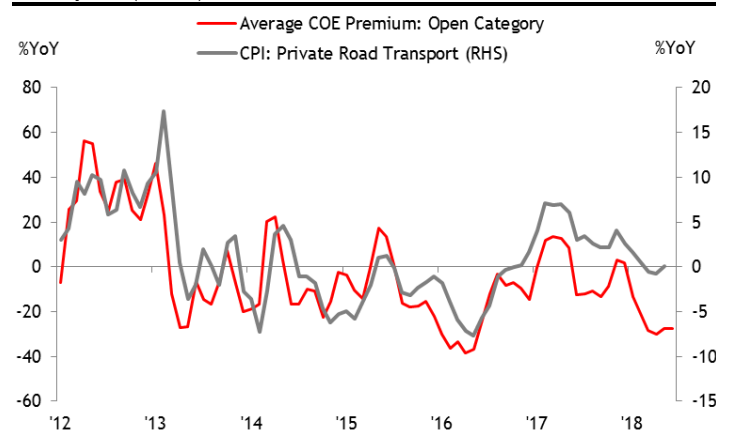
Source: CEIC, Maybank Kim Eng

Fig 4: Private Residential Prices Surged by +3.9% in 1Q18 from the Previous Quarter



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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