

Singapore Economics

Inflation Eases in April, But Upside Risks in Coming Months

Dip in Both Headline & Core Inflation

Both headline and core inflation softened further in April amid a steeper decline in COE premiums and easing prices for nearly all categories including services, retail items and utilities. Rising oil prices have not translated into a higher pass-through to inflation as yet. Headline inflation edged down to only +0.1% in Apr-18 (vs. +0.2% in Mar), while core inflation (excl. accommodation & private transport) dipped to +1.3% (vs. +1.5% in Mar).

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Headline CPI Weaker as COE Premiums Fall Further

Headline inflation continued to be weighed down by declining private road transport costs (-0.8% vs. -0.6% in Mar) as Certificate of Entitlement (COE) premiums for the open category fell to 8-year lows in April. This more than offset the steeper rise in petrol prices. The housing & utilities category also declined at a sharper rate of -2.3% (vs. -2% in Mar) due to slower increases in the cost of electricity & gas (+3.7% vs. +6.2% in Mar) and housing maintenance & repairs.

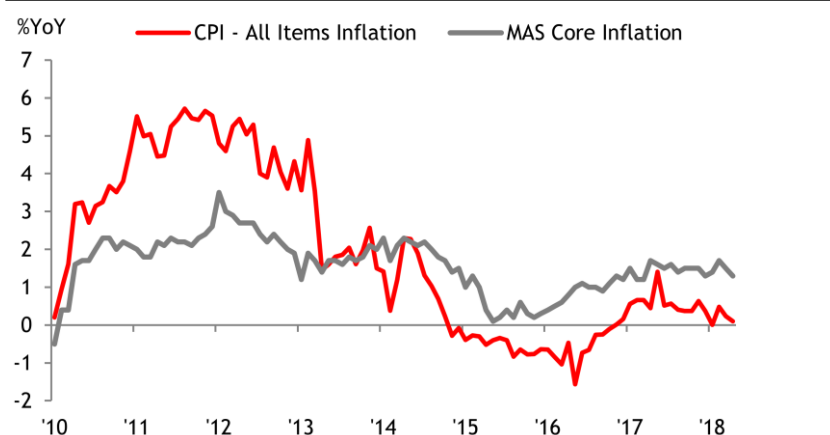
Services/Retail Inflation Ease While Food Prices Stable

Services inflation came in lower at +1.3% (vs. +1.4% in Mar) due to a sharper decline in communication fees (-1.3% vs. -0.3% in Mar) and smaller increases in airfares and recreational & entertainment services (+0.4% vs. +1% in Mar). Healthcare (+2%) and education (+2.9%) fee increases moderated compared to March. Retail prices eased to +0.9% (vs. +1.3% in Mar) on the back of a steeper decline in personal care products (-1.5%) and softer rise in clothing & footwear (+0.8%). Food inflation (+1.4%) remained unchanged from March.

Core Inflation to Edge Up with Upcoming Price Hikes

We expect core inflation to creep up over the rest of the year as wage growth strengthens and growth broadens. Upcoming price hikes include Changi Airport's fees (increase by \$13.30 starting 1 Jul), water prices (second phase of hike from 1 Jul), and gas tariff for households by City Gas (by 11 cents per kWh from 1 May to 31 Jul). Rising oil prices, which touched 4-year highs in May, will likely pass through into consumer prices gradually in the second half of the year. We maintain our headline and core inflation forecast at +0.9% and +1.7% respectively in 2018. 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)



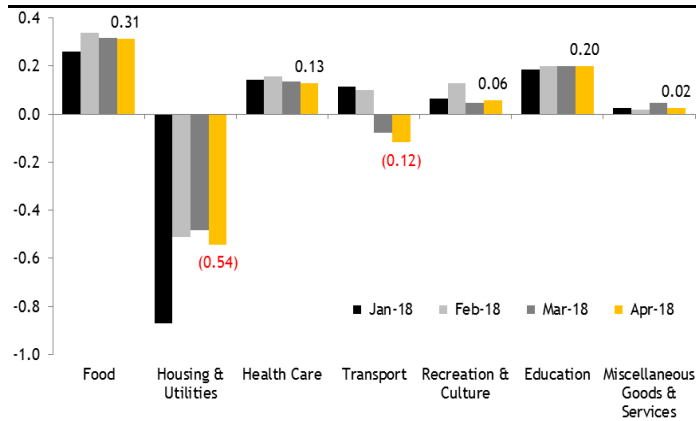
Source: CEIC, Maybank Kim Eng

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

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

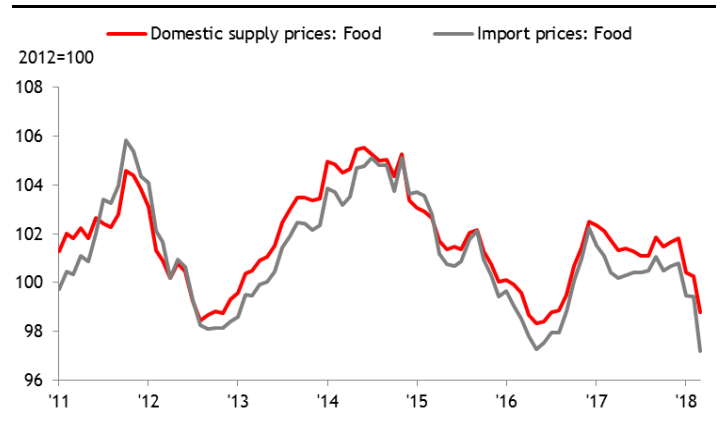
Source: CEIC, Maybank Kim Eng

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



Source: CEIC, Maybank Kim Eng

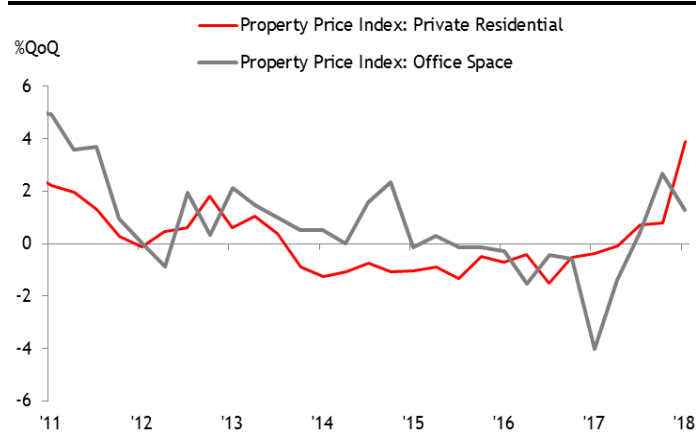
Fig 3: Food Prices Continue to Stay Muted



Note: Last datapoint is as of Mar-18.

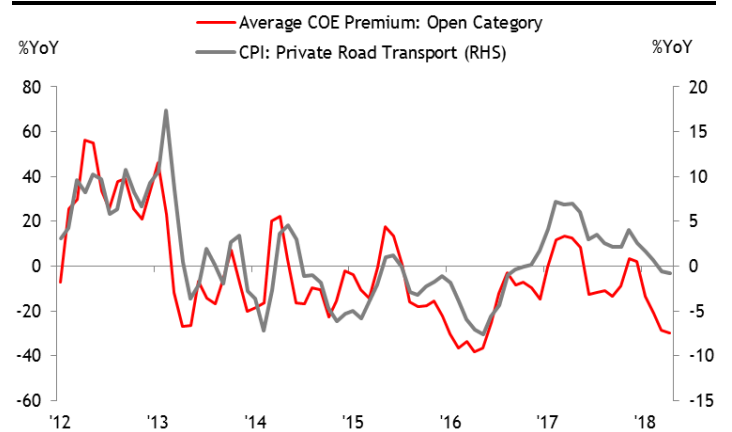
Source: CEIC, Maybank Kim Eng

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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