

Singapore: Inflation Up in May

Prices increased in May over April, mainly due to higher housing and transport costs. The CPI rose 0.6% m/m but y/y, prices still fell 0.3%, -which is much higher than market estimates of -1% y/y. May's CPI compares to -1.1% m/m and -0.7% y/y in Apr. The main driver of the increase in CPI in May, were rebates on Service & conservancy charges given in Apr but not in May, which saw housing costs go up 2.9%, while transport prices were up 1.1%, fuelled by higher car prices and petrol. If accommodation costs were excluded, the CPI would have remained flat compared to the previous month. On a s/adj basis, the CPI rose 0.8% in May compared to Apr.

On a yearly basis, the CPI was lower, at -0.3%, as transport costs, recreation and others were less than a year ago. Cheaper petrol, car prices and road tax resulted in transport costs falling 5.8%. But housing costs, food and health care increased 0.7% from a year ago.

Sentiments are improving on the back of rosier-looking economic indicators. Along with this, crude oil price has been rising, which will in turn push transportation and food costs higher. Accommodation costs look likely to stay propped up, all of which would mean that deflation would not be an issue. We are still projecting a few months of mild deflation ranging from 1-2% drop y/y for the next few months till year end.

Impact on Monetary Policy

With inflation coming off rapidly, MAS has more room in easing monetary policy should it need to, during the October monetary policy meeting. This follows on from mid-April, where the MAS re-centred the exchange rate policy band downwards, while keeping the zero percent appreciation path.