

Friday, 23 October 2009

# Flash Notes

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## Singapore: CPI Inflation Contracted for 6th Straight Month

The Consumer Price Index inflation declined more sharply than market expectations in Sep, extending the contraction to 6 consecutive months. CPI inflation declined slightly by 0.1% m/m (consensus: +0.2%, UOB: +0.5%) and fell 0.4% y/y (consensus: -0.1%, UOB: +0.1%). On a seasonally adjusted basis, CPI remained flat. Sep's price decreases on-month resulted mainly from housing costs which dropped 0.5% on lower service and conservancy charges, as rebates were given in Sep but not in Aug. Transport & communication costs also came down 0.2% on cheaper prices of cars and petrol. On a yearly basis, the decline in CPI came largely from housing costs which were down 2.5%, as well as transport and recreation expenses.

We had expected the CPI inflation to venture into positive territory in Sep, due to the pace at which the y/y contraction was easing in the prior months, on the back of the improving domestic economy. We still expect month-on-month growth for the rest of the year, as well as an increase in CPI on a yearly basis, starting in Nov and Dec, on the back of a 12.5% increase in electricity tariffs in Oct. However, given the high base in Oct last year, the CPI for Oct should still be showing a decline. With the price of crude oil and vehicle prices starting to race ahead again, this would translate to higher food, housing and transport costs in the coming months. Also, as the economy's recovery become firmer, and demand climbs, we think inflation might head higher than MAS' forecast of 1-2% for 2010. That would be the impetus for a monetary policy tightening at the Apr meeting next year.

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