

Macro Note

Singapore: Slower Than Expected Core Inflation Seen, MAS Likely To Stay Pat

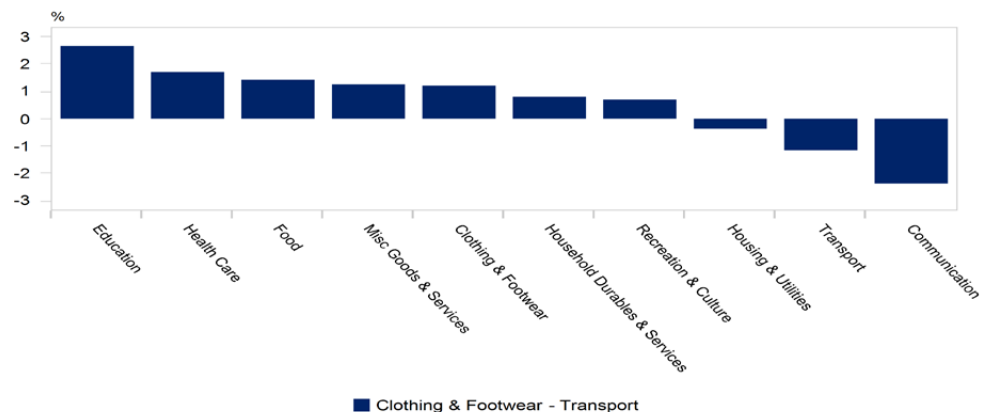
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- Singapore headline consumer prices in February grew by a tepid +0.5% y/y (+0.2% m/m sa), versus our expectations for a +0.6% y/y print (+0.3% m/m sa). February's inflation is however slightly higher than January's +0.4% y/y. Despite the rise in headline inflation, core inflation decelerated for its third consecutive month to print 1.5% (lowest since May 2018). Accounting for the first two months of 2019, CPI rose by +0.4% y/y (vs 2M18: +0.2%). The Monetary Authority of Singapore (MAS) has kept its inflation outlook unchanged for both headline (0.5 – 1.5%) and core (1 – 2%) inflation.

Exhibit 1: Drivers And Drags For Singapore's Inflation (Feb 2019)

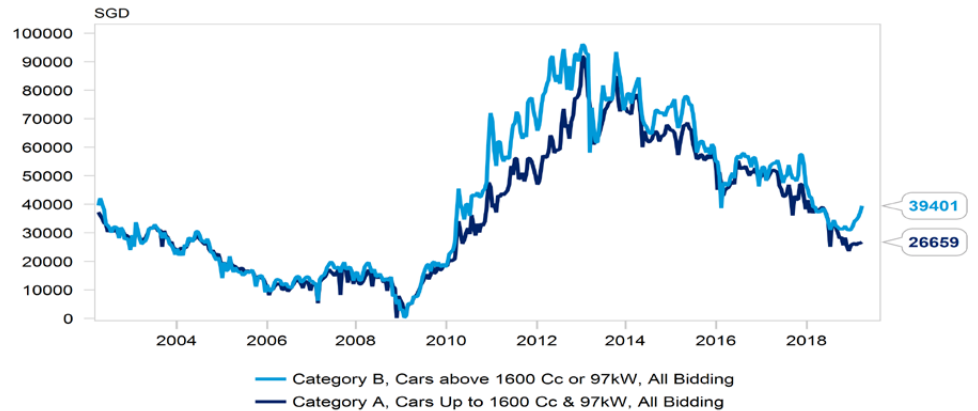
Source: Macrobond, UOB Global Economics & Markets Research



- Across the clusters, falling prices seen in Communications (-2.4% y/y), Transport (-1.2%) and Housing & Utilities (-0.4%) dragged the overall basket lower, while costs of Education (+2.7%), Healthcare (+1.7%), Food (+1.4%), Misc Goods & Services (+1.3%) Household Durables & Services (+0.8%) and Recreation & Culture (+0.7%) rose.
- Delving deeper, we identify three main drivers for the weaker than expected inflation print, which includes (1) phased nationwide launch of the Open Electricity Market (OEM) which allows consumers to enjoy lower electricity prices, (2) decelerating cost of retail items given smaller rise in the prices of clothing & footwear, and (3) slower services inflation given the gentler increase in education services and airfares.
- Elsewhere, the continued uptick in Certificate of Entitlement prices (see Exhibit 2) cushioned the slowdown in private road transport cost (-2.3% y/y and marking the second month of slower contraction). Moreover, larger rise in cost of housing maintenance & repairs amid a gradual fall in housing rentals cushioned overall accommodation costs (-1.6% y/y, vs Jan's -1.9%).

Exhibit 2: COE Prices Rose Into End-March

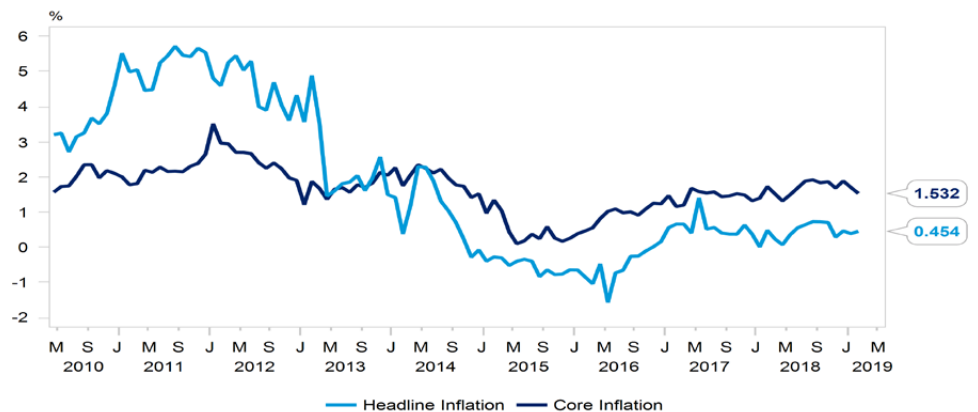
Source: Macrobond, UOB Global Economics & Markets Research



- In our latest [UOB Quarterly Global Outlook Q2 2019](#) report, we iterated our call for MAS to keep its monetary policy parameters unchanged in their upcoming April 2019 meeting. This means keeping the appreciation slope, width and center unchanged. The slower-than-expected core inflation print in February 2019 (+1.5% y/y) reinforces our view for MAS to keep its monetary policy unchanged.
- The mix of external and domestic inflation drivers needs to be considered. Importantly, the MAS views that global oil prices are expected to be lower in 2019 compared to the previous year¹. However, supportive labour market conditions are expected to underpin wage increases and price pressures. The policy-makers also views that “greater market competition in several consumer segments, such as telecommunications, electricity and retail” will cap the overall prices increase into the year ahead. All-in-all, we keep our outlook for headline and core inflation to average +1.2% and +2.0% respectively into 2019, with core inflation likely to cross its 2.0% handle only in 2H19.

Exhibit 3: Singapore Consumer Prices Stay Tame Into February 2019

Source: Macrobond, UOB Global Economics & Markets Research



¹ The Monetary Authority of Singapore, Consumer Price Developments in February 2019, 25th March 2019

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