

Singapore Economics

Core CPI Stays Elevated; Trade War to Dampen Price Pressures

Core CPI Maintains Fast Pace; Headline CPI Sees Uptick

Core inflation remained at a 4-year high (+1.9%) in August, unchanged from July, on the back of higher retail and food inflation. Headline inflation edged slightly higher as accommodation costs fell at a softer pace. Headline inflation rose to a 17-month high of +0.7% in August (vs. +0.6% in Jul). We think inflation risks are however to the downside, as the US-China trade war will likely be deflationary for third countries like Singapore (see [ASEAN Economics - US-China Trade War: Raising the Stakes](#), 25 Jul 2018). A weaker RMB will reduce prices of China-made products, while the US-China trade war could divert excess supply to third countries.

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Food & Retail Prices Inch Up While Services Costs Ease

Core inflation extended its +1.9% pace into August as higher food and retail inflation offset easing services inflation. Food prices picked up further (+0.7% vs. +0.6% in Jul) on the back of non-cooked food items and prepared meals. Retail prices (+2% vs. +1.6% in Jul) edged up, with higher increase in clothing & footwear (+2.8%). Fuel & utilities continued to accelerate at +12.7% (vs. +12.5% in Jul). Services inflation however softened to +1.3% (vs. +1.5% in Jul) as telecommunication services fees fell by -1.5% after 2 months of increase. Recreation & culture costs (+1.6% vs. +1.7% in Jul) also softened slightly on the back of a slower rise in holiday expenses (+2.7%). Healthcare (+2%) and education (+2.4%) costs remained unchanged from the previous month.

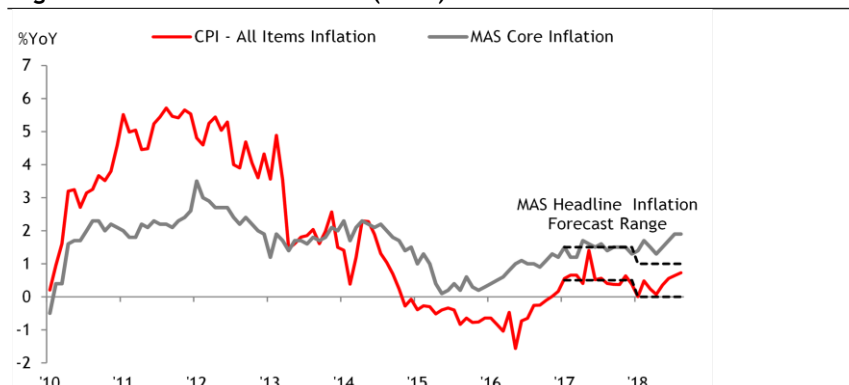
Smaller Decline in Accommodation Costs

Headline inflation picked up mainly due to the smaller decline in accommodation costs (-2.6%) as housing rentals fell at a softer pace and cost of housing maintenance & repairs rose. Private road transport continued to fall by -0.2% as COE prices remained muted in August.

Expect MAS to Remain on Hold in Oct Meeting

We expect headline CPI to remain subdued on the back of lower private road transport (11.5% of CPI basket), as COE prices remain low. Core CPI may stay elevated until Sep but soften in 4Q as utilities fees fall on lower oil prices. The US-China trade war is presenting downside risks to both growth and inflation. We maintain our headline and core inflation forecast for 2018 at +0.7% and +1.7% respectively. The MAS is expected to maintain the current “slight appreciation bias” stance in Oct given slowing growth and increasing downside risks from the trade war. The SGD NEER is currently trading at around +1.3% above the implied mid-point, by our estimates.

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



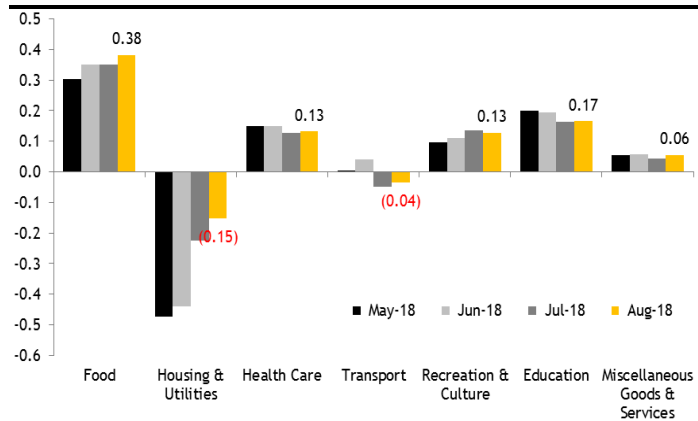
Source: CEIC, Maybank Kim Eng

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

%YoY	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	YTD2018	2017
CPI - All Items	0.0	0.5	0.2	0.1	0.4	0.6	0.6	0.7	0.4	0.6
Food	1.1	1.5	1.4	1.4	1.3	1.5	1.5	1.7	1.4	1.4
Clothing and Footwear	1.0	0.7	1.2	0.8	0.6	1.5	2.3	2.8	1.4	0.6
Housing & Utilities	(3.6)	(2.1)	(2.0)	(2.3)	(2.0)	(1.8)	(1.0)	(0.6)	(1.9)	(2.5)
Household Durables & Services	1.2	0.8	0.7	0.7	0.8	0.9	0.5	0.7	0.8	1.1
Health Care	2.3	2.5	2.1	2.0	2.3	2.4	2.0	2.0	2.2	2.5
Transport	0.7	0.6	(0.5)	(0.7)	0.0	0.3	(0.3)	(0.2)	(0.0)	2.6
Communication	0.0	(0.1)	(0.3)	(1.3)	(0.8)	0.2	0.2	(1.5)	(0.4)	0.6
Recreation & Culture	0.8	1.6	0.6	0.7	1.2	1.4	1.7	1.6	1.2	0.3
Education	2.8	2.9	3.0	2.9	2.9	2.9	2.4	2.4	2.8	3.0
Miscellaneous Goods & Services	0.5	0.4	1.0	0.5	1.1	1.2	0.9	1.1	0.8	0.1
Core inflation	1.4	1.7	1.5	1.3	1.5	1.7	1.9	1.9	1.6	1.5

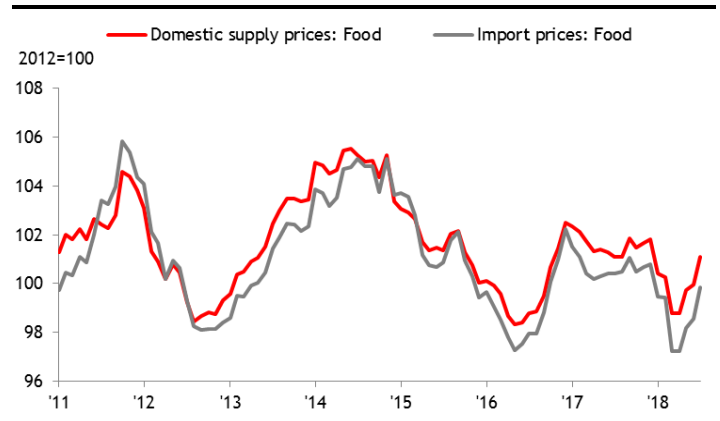
Source: CEIC, Maybank Kim Eng

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



Source: CEIC, Maybank Kim Eng

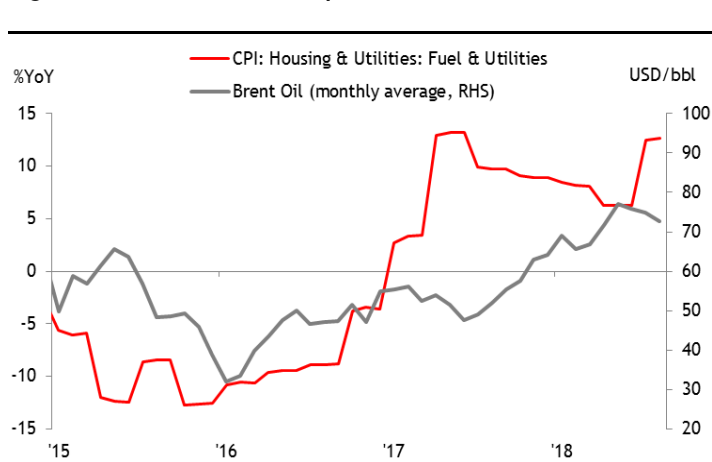
Fig 3: Food Prices on an Upward Trend



Note: Last datapoint is as of Jul-18.

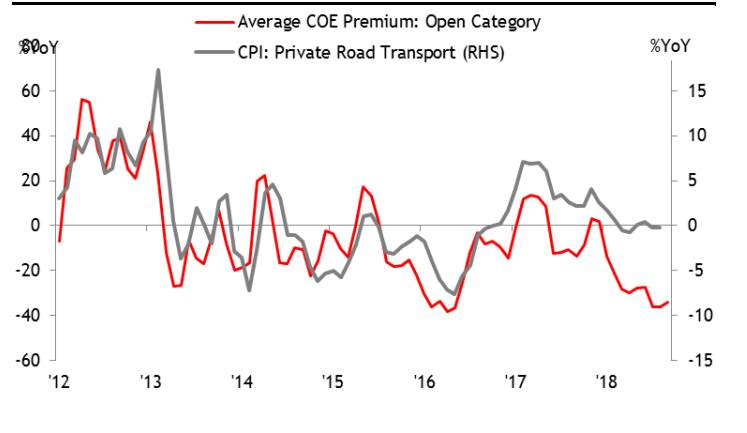
Source: CEIC, Maybank Kim Eng

Fig 4: Brent Oil Price Has Tapered Off in the Past Two Months



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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