Singapore: Core inflation dips to over three-year low

Despite weak inflation, we believe the central bank's brief monetary easing cycle has drawn to close

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Another downside inflation miss

Singapore's consumer price index for October showed a further decline in both the headline and core inflation measures. Total inflation slowed to 0.4% year-on-year from 0.5% in September. And core inflation slowed to 0.6% from 0.7%, making it the lowest reading since April 2016.

The consensus had expected no change to both inflation rates from September.

It's largely about housing

Housing stood out as a key source of lower headline and core inflation last month. This isn't a surprise given that it was the month when the budget rebate of Services and Conservancy Charges (S&CC) for public housing were provided. This rebate affects the accommodation subcomponent of housing. This is transitory though, as S&CC rebates are just for one month (typically the first month of the quarter) and are reversed the following month.

Lower utility costs played their part too, with a 3% cut in electricity tariffs. While this explains some of the fall in core inflation, lower clothing and healthcare prices also played a role. On the flip side, food inflation gained some momentum, and transport costs were lifted by higher car COE (certificate of ownership) prices.

Inflation and policy in 2020

At 0.5% year-to-date, headline inflation sits at the Monetary Authority of Singapore's forecast for the full year. At 1.1% year-to-date, core inflation is close to the low end of the central bank's 1-2% forecast range for the year. With the year drawing to a close, these forecasts seem to be safe.

The MAS sees both total and core inflation averaging between 0.5-1.5% in 2020. Continued anaemic growth coupled with a wide output gap suggests the risk to these forecasts is biased to the downside. Our forecasts are 0.8% total and 1.1% for core inflation in 2020.

The key question is about MAS's policy going into 2020. Certainly, inflation isn't going to be a policy matter in the next year but the absence of stronger price growth could continue to be an issue. Hopes remain pinned on an improvement in the global trade environment. And barring any further intensification of global trade tensions, we believe the MAS will regard a trough in growth as sufficient reason to leave policy on hold at its next review in April 2020.