Singapore: Core inflation turns negative

Negative core inflation is another reason for the Monetary Authority of Singapore to join the global central bank easing wave

Source: Shutterstock

-0.1% Core inflation in February

Year-on-year

Lower than expected

Services take hit from Covid-19 spread

Singapore released consumer price data for February showing a slowdown in headline inflation to 0.3% year-on-year from 0.8% in the previous month and in core inflation to -0.1% from 0.3%. While the headline matched our forecast, the core was weaker than our expectation for it to remain unchanged at 0.3% (consensus 0.4% and 0.1%, respectively). The slump was seen across most CPI components as the spread of Covid-19 weakened consumer spending. But heavyweight items, such as housing and transport, continued to be the key drags.

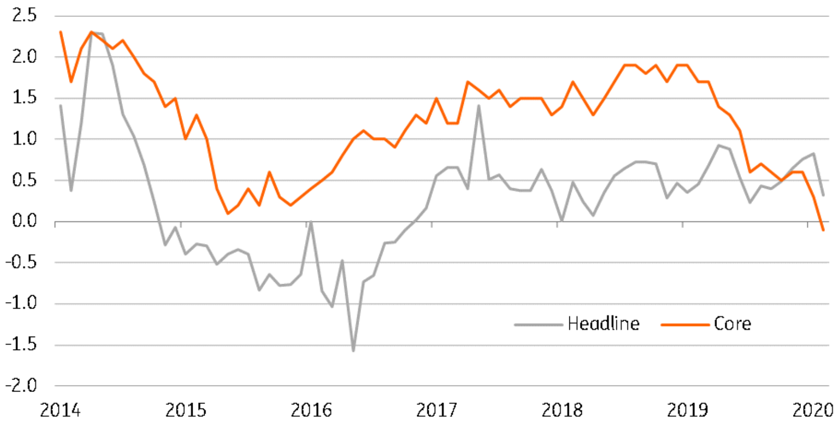
What was the cause of negative core inflation? Most services except communication. Transport (both private and public) and recreation and holiday-related CPI components stood out for their sharp declines. But that's not all. Food and fuel and utility prices also played a part in dragging down the core measure.

Negative price trend to persist

It won't be too long before headline inflation follows the core rate into negative territory. It could be as early as March, in our view. Moreover, with increasingly weak economic activity leading to potential job losses, we may see negative inflation becoming the trend for the rest of the year. We recently cut our annual inflation forecast for 2020 to 0.2% from 0.8%. We don't think this is the last downgrade.

We also believe a downgrade of the official view of both headline and core inflation this year, in a 0.5-1.5% range, is imminent.

Consumer price inflation (% year-on-year)



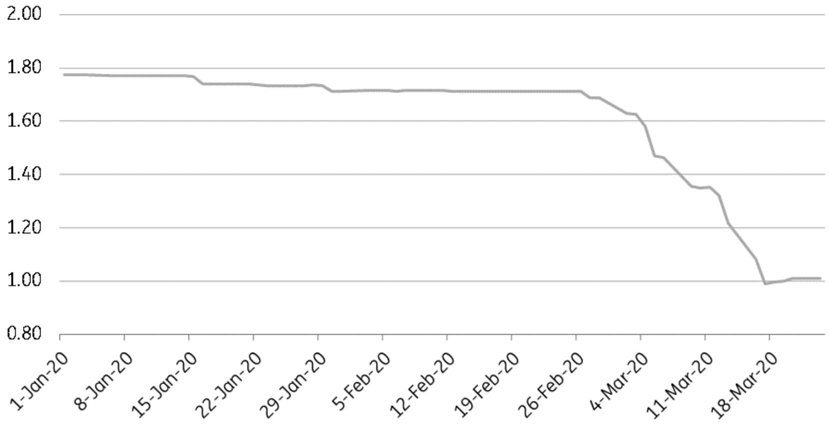
Source: Bloomberg, ING

Another push for the MAS easing

Negative core inflation is another driver for the Monetary Authority of Singapore to ease monetary policy in order to support the economy, which is bracing for recession. Although the MAS has yet to verbalise its easing stance, the accelerated depreciation of the Singapore dollar Nominal Effective Exchange Rate suggests that the central bank has been accommodating easing within the existing S$-NEER policy band. This is further reflected by a near-halving of interbank rates this month.

We continue to expect MAS to officially re-centre the S$-NEER policy band at a lower level, with a zero rate of appreciation, anytime from now until the scheduled policy review in mid-April. The earlier the better.

3-month Singapore Interbank offer rate (SIBOR)



Source: Bloomberg, ING