The Philip's Curve is flat in Singapore

Singapore's inflation is slowly creeping higher but given strong growth, it could have been much better

Source: istock

Why has inflation remained low?

It is a problem that most central banks ought to be quite happy to have. Output, as defined in this case by industrial production growth (due Friday) looks set to return another solid double-digit figure. We forecast 13.6% YoY while consensus is 12.6% YoY and this is likely to keep the year on year trend on an upward footing. Though helped by favourable base effects, seasonally adjusted levels of production also support the notion that output is moving ahead on an underlying basis.

Given this backdrop, one would have expected inflation to have done more by now. To be fair, the negative inflation rates of 2015 and 2016 have been consigned to history, but even with our above-consensus forecast 0.3% MoM increase (consensus for July is 0.2% MoM), inflation in June should only rise to 0.7%YoY from 0.5% in June.

Why the Phillip's curve is flat

Inflation should push higher in the months ahead. The Monetary Authority of Singapore's (MAS) core rate is running at a more respectable 1.6% YoY, and the imputed deflation from the rental sector looks to be bottoming.

> *Inflation remains an interesting aberration, but not one that anyone, including the MAS needs to lose any sleep over*

But the run rate on headline inflation so far this year has been very slow, and what we have learned from elsewhere in the world is that past relationship between activity, unemployment and the price level no longer seem to hold. In short, the Phillip's Curve is flat or has drastically flattened. Consequently, we see the full year inflation rate failing to exceed 1.0% (full-year 2017 0.7% YoY), and 2018 inflation may only be a little stronger (1.0% YoY).

Is this a problem for the MAS like many other central banks? And in our view, the answer is no. Moreover, for the MAS, for whom inflation is not the primary target for monetary policy, lower inflation rates than typical for this level of output growth is even less of a problem than say for the European Central Bank or US Federal Reserve.

Export growth from Singapore could be stronger, but it is adequate. And the SGD is firm, thanks to USD weakness, but not overly rich on a trade weighted basis. While this remains the case, inflation remains an interesting aberration, but not one that anyone, including the MAS, needs to lose any sleep over.

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