

## Singapore May inflation noses a little higher

All items consumer price inflation is still only 0.4%YoY (May), but the MAS core inflation rate has also edged up and now stands at 1.5%YoY.



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### Rising inflation signals that the economy continues to make moderate progress

The 0.4% inflation rate for Singapore remains very low by historical standards, but the Monetary Authority of Singapore (MAS) tends to focus on its 'core' measure. This, unlike most core measures that exclude food and energy, excludes housing and private road transport. With public provision of housing and its associated rents a key channel of government policy, and the certificate of entitlement (COE - a compulsory license) for driving a car in Singapore another, the MAS' core measure comes up with an inflation rate of 1.5% - not a million miles away from the upper half of a 1-2% range that it outlined in its April Monetary Policy statement.

### What's driving inflation? History...

Housing delivered a big inflation swing on the month (-2.6% rising to +2.5%YoY), though this is basically just the unwinding of the quarterly public housing rebate and can be ignored. Imputed

rentals on owner-occupied housing continue to rise, however, suggesting that the private accommodation market remains in slow recovery mode.

The other excluded element of the MAS core measure, private road transport is partly a function of the COE. But since May, when on average it was a little higher than April, the COE has trended down. This may provide a bigger drag in June than it was for this latest release, keeping the headline rate from moving abruptly higher even if it has no bearing on the core rate. Transport inflation as a whole rose 0.7pp from April, though the monthly increase was unchanged at 0.2%. There is nothing really going on here apart from some volatile history.

Moreover, although they are excluded from the core measure of inflation for being too heavily influenced by government policy to be meaningful, excluding the items above does suggest a strength in the underlying state of the economy that we are not convinced exists. For example, COE prices may be excluded from the MAS core price, but they are still a legitimate indicator of baseline domestic demand, and they are currently consistently falling across all price brackets for cars.

Other subcomponents showing weakness include food, which dipped 0.1%pp to 1.3%YoY, and clothing and footwear (0.6%YoY down from 0.8%). Most other goods, including (unhelpfully) miscellaneous goods, saw inflation rise. In the case of the miscellaneous component, inflation rose to 1.1% from 0.5%, though this seems to be almost entirely down to alcohol and tobacco (+5.7%YoY) even if these prices did dip 0.3%MoM, and this should be less of a boost in June.

## October MAS meeting probably leaves policy unchanged

Putting this all together, the story of economic improvement in Singapore remains intact, though hardly looks invulnerable. As we near the October MAS monetary policy decision, as things stand, it is hard to see there being another tightening. And the most likely outcome, especially taking into account the increasingly uncertain external backdrop, is for policy to remain on hold.

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