

Box 4.1: CPI Inflation in Singapore

Singapore's Consumer Price Index (CPI) grew by 2.8 per cent in 2010 alongside the strong recovery from the economic downturn in 2009. While this was higher than the average CPI inflation of 1.5 per cent from 2000-2009, about half of overall CPI inflation was driven by private car purchases. This box article reviews trends in Singapore's CPI inflation in 2010.

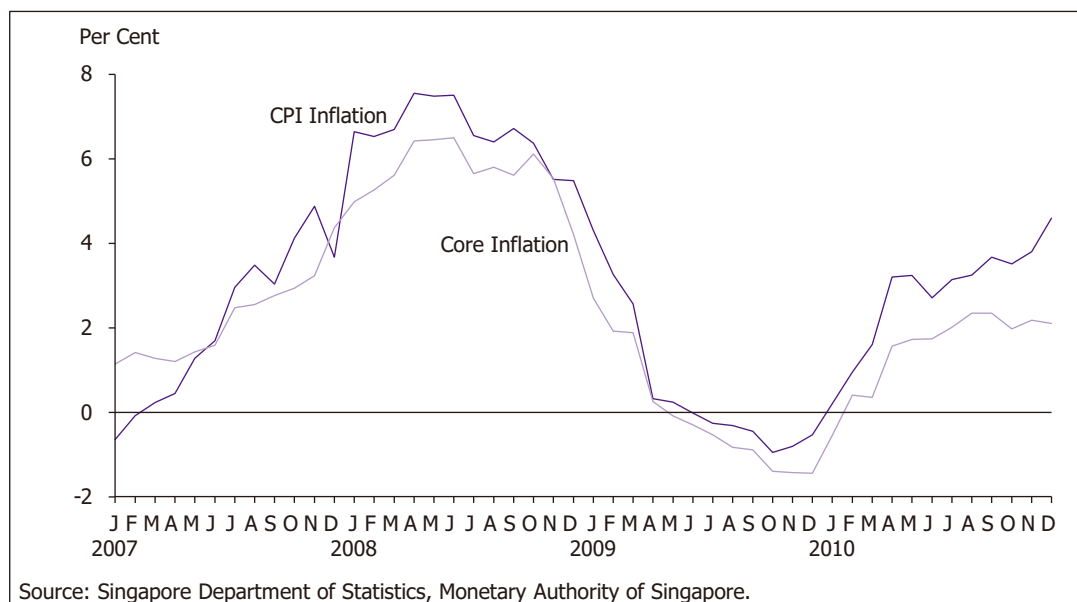
Headline CPI inflation rose to 2.8 per cent in 2010; MAS' core inflation was a more moderate 1.5 per cent...

CPI inflation in Singapore picked up in 2010, after six consecutive months of year-on-year decline in the second half of 2009, to reach a two-year high of 4.6 per cent by December 2010 (Exhibit 1). The increase can be mainly attributed to higher prices of cars, oil-related items, food and service-related items such as tuition fees and holiday travel.

Besides the headline CPI inflation figure, the Monetary Authority of Singapore (MAS) monitors an additional inflation indicator that excludes components that are influenced by administrative policies and are volatile. Known as the core inflation measure, this series excludes private road transport and accommodation costs.

For the whole of 2010, core inflation registered a moderate increase of 1.5 per cent. This is comparable to the 10-year average of 1.7 per cent. Unlike 2008, when headline CPI inflation and core inflation were both elevated, at 6.6 per cent and 5.7 per cent respectively, core inflation had been consistently lower than headline CPI inflation throughout 2010. While the headline inflation rate picked up noticeably towards the end of the year, core inflation was relatively stable at around 2.0 per cent.

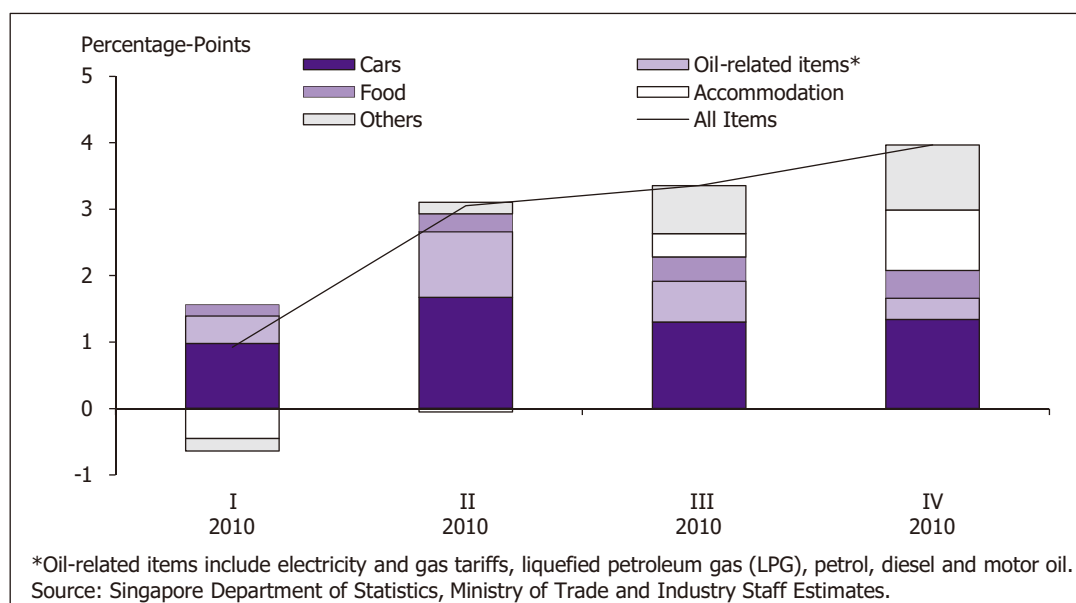
Exhibit 1: Singapore's CPI Inflation in 2010



Higher car prices contributed to about half of CPI inflation in 2010...

The surge in car prices contributed about half of overall CPI inflation in 2010 (Exhibit 2). The increase in car prices reflected a sharp increase in Certificate of Entitlement (COE) premiums for cars, which rose by close to 200 per cent in 2010 compared to 2009.¹ Category A, B and E COE premiums reached \$47,604, \$72,001 and \$76,102 respectively in December 2010, the highest levels since the COE open bidding system was introduced in 2002. The increase in car COE premiums was in part due to a 35 per cent reduction in COE quotas for the year, and in part due to pent-up demand from prospective car buyers who postponed car purchases during the economic downturn. The increase in car prices affects only households who purchased new cars. In 2010, there were a total of 41,200 successful bids for COE quotas that could be used to purchase cars.²

Exhibit 2: Main Contributors to Overall CPI Inflation in 2010



Apart from higher car prices, there were other factors which contributed to CPI inflation in 2010. First, higher global prices of food and oil had led to some imported inflation. According to the United Nations' Food and Agricultural Organisation, global food prices increased by 17 per cent in 2010 due to various weather-related supply disruptions. Average crude oil prices rose by 29 per cent for the whole of 2010, ending the year at a high of about US\$90 per barrel. However, the strengthening of the Singapore Dollar since April 2010 had helped to dampen imported inflation — Singapore's food import price index rose by 5.5 per cent in 2010.

Second, residential rentals had started to increase in early 2010, on the back of the strong property market sentiments. HDB median sublet rentals for various flat types rose by about 6-11 per cent in 2010. Notwithstanding this, as most Singaporean households live in housing that they own, they do not actually pay for rentals and hence the increase in the owner-occupied accommodation CPI would not have any impact on their actual cost of living in cash terms.

¹ Certificates of Entitlement (COEs) are issued as part of the Vehicle Quota System to limit car ownership in Singapore. Car buyers have to bid for a COE to have the right to own a car for a period of ten years. The number of COEs available is determined based on a formula which takes into account an allowable vehicle population growth rate after factoring in the number of COEs that have been de-registered.

² As of 2010, there were around 620,000 cars and taxis on the road.

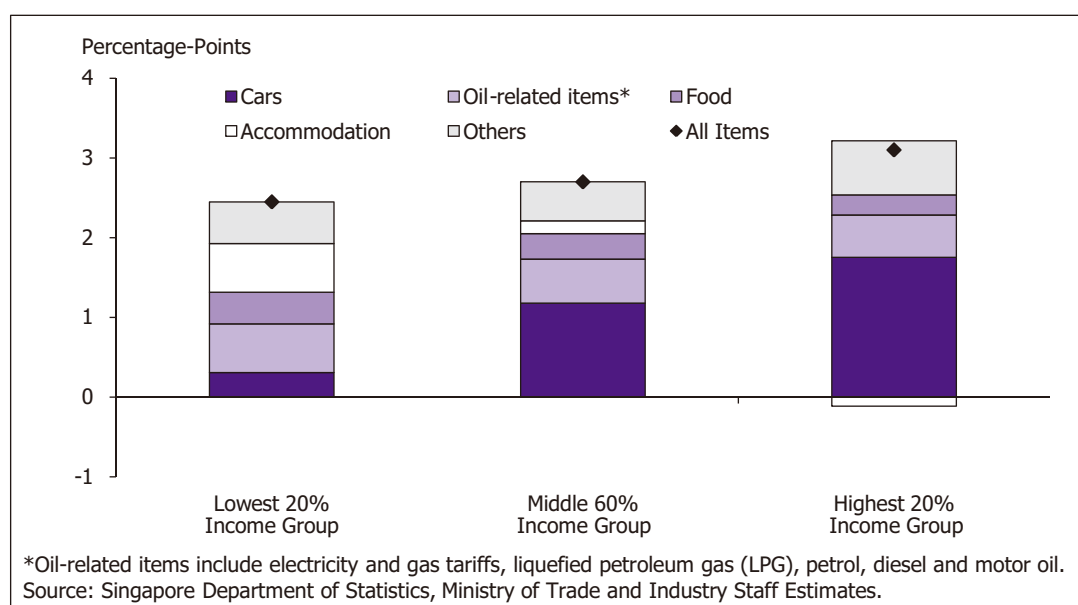
Third, service-related items such as tuition fees and healthcare charges had also come in higher in the second half of 2010 on account of rising operating costs. Holiday expenses had also risen as a result of the resumption in travel demand and in part due to higher fuel costs.

Lowest 20% income groups experienced the lowest CPI inflation...

The higher CPI inflation in 2010 affected the various income groups to different extents. For the whole of 2010, the lowest 20% income group experienced a CPI inflation rate of 2.4 per cent, lower than those for the middle 60% and highest 20% income groups, at 2.7 per cent and 3.1 per cent respectively ([Exhibit 3](#)).

In 2010, higher car prices contributed to 13 per cent of the overall increase in consumer prices for the lowest 20% income group, compared to 44 per cent and 57 per cent respectively for the other two income groups. This reflected the relatively lower weight for cars (1.1 per cent) in the CPI basket for the lowest 20% income group. The corresponding weights for cars in the CPI baskets for the middle 60% and highest 20% income groups were 4.8 per cent and 8.2 per cent respectively. Higher accommodation cost, which had a relatively higher weight, was a key driver of CPI inflation for the lowest 20% income group. The increase in accommodation cost can be attributed to higher rentals and less rebates for service and conservancy charges (S&CC) given out in 2010 as compared to 2009.

Exhibit 3: Main Contributors to Overall CPI Inflation for Different Income Groups in 2010



CPI inflation expected to remain elevated in early 2011 before moderating...

Over the next few months, CPI inflation is likely to remain elevated on account of stronger domestic and external price pressures, before moderating for the rest of the year. Should car COE premiums remain at high levels, car prices would continue to be a significant contributor to CPI inflation in 2011. In addition, given tight labour market conditions in Singapore, rising wage pressures could translate to higher CPI inflation for domestic service-related items. Accommodation costs are also expected to continue to increase on the back of rising residential rentals.

Lastly, external price pressures — arising from higher food prices due to various supply disruptions, coupled with increase in global oil prices alongside firmer global demand — could further contribute to CPI inflation, especially in the first half of the year. Nonetheless, a repeat of the 2007-08 food crisis is unlikely at this juncture as global food inventories remain higher than average. MAS expects Singapore's headline CPI inflation to be 3.0-4.0 per cent for the whole of 2011. However, core inflation is expected to be lower at 2.0-3.0 per cent.

Contributed by:

Jerome Chow, Economist
Chua Boon Loy, Lead Economist
Economics Division
Ministry of Trade and Industry

With inputs from the Monetary Authority of Singapore