S'pore's headline and core inflation prints remain muted at 0.4% yoy and 0.6% yoy respectively in October

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Highlights

Headline CPI eased from 0.5% yoy (-0.4% mom nsa) in September to a three-month low of 0.4% yoy (0% mom nsa) in October, aided by the steeper decline in the cost of electricity and gas prices (-12.5% yoy) amid lower electricity tariffs and with the Open Electricity Market effects. Also contributing to the muted inflation reading was lower services prices (-1.2%) as holiday expenses, education services, medical and dental fees rose at a slower pace. Accommodation costs also fell 0.4% yoy as housing rentals registered more gradual declines, while retail goods prices declined 0.8% again amid cheaper clothing & footwear (-1.8% yoy), household durables and alcoholic drinks. However, private road transport inflation doubled from 0.5% to 1.0%, attributable to a larger hike in car prices which outweighed a sharper decline in petrol prices.

Core CPI also moderated from 0.7% yoy to 0.6% yoy (0% mom nsa) in October, the lowest since March 2016. In particular, food inflation also edged up to 1.7% on the back of higher prices for both non-cooked food (namely fish & seafood, fruits, vegetables) and prepared meals (including catered food, fast food, restaurant and hawker food). Education and healthcare costs also rose by 1.8% (led by tuition & other fees) and 1.2% (due to medical & dental treatments).

MAS and MTI both continue to expect external inflation to remain benign ahead amid weak demand conditions and generally well-supplied food and oil commodity markets. However, they did note that crude oil prices could be volatile in the near-term to reflect geopolitical risks. Domestic inflation should, however, reflect softening labour market conditions and a lower wage growth trajectory. Non-labour costs such as retail rents should also stay subdued, hence any cost pass-through to end-consumers would likely be constrained by the subdued macro-economic environment.

Our headline and core inflation rates remain at 0.6% and 1.1% yoy for 2019 before edging higher to just above the 1% handle for 2020. This is consistent with MAS-MTI's headline inflation forecast of around 0.5% yoy for 2019 before rising to 0.5-1.5% in 2020 as the negative contribution of imputed rentals to headline inflation dissipates. Headline inflation came in at just 0.5% yoy for January-October 2019, suggesting that the around 0.5% yoy forecast for this year is imminently likely. In addition, MAS-MTI tip core inflation to be at the lower end of the 1-2% forecast range in 2019 and average 0.5-1.5% next year. While core inflation printed at 1.1% yoy for the first ten months of this year, nevertheless, it is likely to remain sufficiently subdued in the remaining two months of 2019 in order to bring the full year to the low-end of the 1-2% official forecast range. At this juncture, the domestic inflation picture remains dovish while the growth outlook still remains somewhat tepid in the near-term, which will likely keep MAS in stasis for now.

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