

S'pore's core CPI eased to 1.3% yoy in April, even though headline CPI accelerated to 0.8% yoy (-0.3% mom nsa)

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Highlights

- **Big savings from the liberalisation of the Open Electricity Market (OEM) and lower electricity tariffs saw the cost of electricity and gas declining by 2.8% yoy in April, compared to the 3.9% yoy increase in March.** This partly contributed to core CPI easing to a 5-month low of 1.3% yoy in April, down from 1.4% yoy in March. With the phased nationwide launch of the OEM underway, this could continue to dampen core CPI and stay MAS' hand come the October monetary policy meeting. With core inflation averaging 1.5% for the first four months of 2019, this is squarely at the midpoint of the official 1-2% forecast range and in line with our 2019 core inflation forecast of 1.5% yoy.
- **However, headline CPI accelerated from 0.6% yoy to 0.8% yoy in April, the highest since May 2017 (+1.4% yoy),** but fell 0.3% mom nsa (previously -0.1% mom nsa). This brought the first four months of the year up to 0.5% yoy, which is triple the 0.2% seen for the same period last year. One key driver was private road transport costs (+1.1% yoy following a 0.9% decline in March), which largely driven by the spike in COE premiums as well as higher petrol prices. Another contributing factor was higher services inflation (+2.0% yoy which is an uptick from the 1.7% in March), which was mainly due to larger hikes in holiday expenses (with higher airfares), domestic service fees (with the non-concessionary foreign domestic worker monthly levy being raised from \$265 to \$300 in April 2019 for the first FDW and to \$450 for the subsequent FDW) and recreational & cultural service fees.
- **Other inflation pressure points were more mixed.** Accommodation costs fell 1.4% yoy in April, the same as March, as a smaller rise in housing maintenance & repair costs offset a more gradual dip in housing rentals. Meanwhile, food inflation also eased from 1.6% yoy in March to 1.3% yoy in April, as prepared meals and non-cooked food items (with cheaper fish & seafood and fruits) saw a smaller increase in prices. However, healthcare and education inflation were relatively stable at 1.2% yoy and 2.6% yoy respectively for April 2019, and averaging 1.5% yoy and 2.8% yoy for the year-to-date.
- **MAS-MTI rhetoric remains measured on inflation,** citing benign external sources of inflation amid gentler expected increases in global oil and food prices, while firm domestic labour market conditions are likely to support

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moderate wage increases but is unlikely to accelerate inflation further. In particular, they specified that private road transport costs are projected to be largely unchanged from 2018 while accommodation costs are likely to fall at a slower pace this year.

- **That said, we see some upside risk to headline CPI prints for the remainder of 2019, but this is unlikely to tilt MAS policy bias in the interim as core inflation is still easing.** Given that crude oil prices had collapsed from around US\$80-85 per barrel for WTI and Brent in October 2018 to around US\$43-50 per barrel by late December last year, this would translate into double-digit yoy increases for oil-related items even if they hold around current levels of US\$61-70 per barrel. Similarly, current COE premiums for category A and B are around \$27k and \$43k, compared to the 2018 lows of \$24k and \$31k (seen in December and July respectively), which barring a sharp correction in the coming months, may also contribute to sustained yoy private road transport inflation ahead.

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