# S'pore's core inflation turned negative in Feb20 for the first time since Jan10 amid the Covid-19 outbreak.

**Selena Ling**
*Head of Research and Strategy*
*+65 6530 4887*
*LingSSSelena@ocbc.com*

**Highlights**

**February's headline CPI inflation eased from 0.8% yoy (-0.2% mom) in January to 0.3% yoy (+0.1% mom) which is also the softest reading since July 2019 (0.2% yoy).** The main drags were clothing & footwear (-2.7% yoy), recreation & culture (-1.5%), healthcare (-1.5%), education (-0.5%) and housing & utilities (-0.2%). **More importantly, core inflation has collapsed from 0.3% yoy (0.0% mom) in January to -0.1% yoy (-0.1% mom) in February and marking the lowest print since January 2010.** The core CPI decline was mainly due to the services cost declining as the Covid-19 outbreak has dented demand particularly for travel and services. With the rising number of travel restrictions and city lockdowns, this deflationary pressure may sustain in the interim. In addition, the oil price slump has contributed to a smaller private transport inflation as well as the cost of electricity & gas. In general, the demand shock is reflected in the cost of retail & other goods inflation as consumer confidence has taken a big hit and Singaporeans are avoiding crowded places and practising social distancing.

**We basically have seen this story before. During SARS, when consumer confidence tanked and public consumption declined, especially for travel, F&B and entertainment, these segments of the CPI basket saw deflationary pressures. This time is no different.** We basically see downside risk to both headline and core CPI for the next 3-6 months as well. **A further downgrade of both official GDP growth and inflation forecasts looks imminent and will justify more policy easing**. The second fiscal stimulus package is already in the pipeline. We have priced in a plausible domestic technical recession in 2Q20 as the Covid-19 situation is rapidly evolving and global demand and USD funding conditions are deteriorating. The softening domestic labour market conditions are also likely to restrain any near-term price inflation. We expect both full-year headline and core inflation forecasts to flatline this year, with both 2Q20-3Q20 inflation readings likely to be mired in negative territory. This will open the door wider for MAS to ease monetary policy sooner rather than later. An easing to a neutral S$NEER slope has already been priced in, and if the S$NEER softens further between now and the April MPS, a re-centering lower is also possible. MAS will be refreshing its inflation forecasts at the upcoming April monetary policy statement. We are now looking at 2020 GDP growth to be in the -1% to 0% yoy range, and headline and core CPI to be in the -0.5% to 0.5% yoy range.

# Treasury Research & Strategy

## Macro Research

**Selena Ling**
*Head of Research & Strategy*
LingSSSelena@ocbc.com

**Tommy Xie Dongming**
*Head of Greater China Research*
XieD@ocbc.com

**Wellian Wiranto**
*Malaysia & Indonesia*
WellianWiranto@ocbc.com

**Terence Wu**
*FX Strategist*
TerenceWu@ocbc.com

**Howie Lee**
*Thailand, Korea & Commodities*
HowieLee@ocbc.com

**Carie Li**
*Hong Kong & Macau*
carierli@ocbcwh.com

**Dick Yu**
*Hong Kong & Macau*
dicksnyu@ocbcwh.com

## Credit Research

**Andrew Wong**
*Credit Research Analyst*
WongVKAM@ocbc.com

**Ezien Hoo**
*Credit Research Analyst*
EzienHoo@ocbc.com

**Wong Hong Wei**
*Credit Research Analyst*
WongHongWei@ocbc.com

**Seow Zhi Qi**
*Credit Research Analyst*
ZhiQiSeow@ocbc.com



Co.Reg.no.:193200032W