

Inflation contracted for the 22nd month

3rd August 2016

- **CPI headline inflation stayed in deflationary territory for the 22nd consecutive month**, with August CPI falling by another 0.3% on year-on-year terms, compared to -0.7% in July. The fall was mainly driven by declines seen in transport (-0.7% yoy) and housing prices (-0.5% yoy). Elsewhere, core inflation, which excludes accommodation and private road transport, gained 1.0% yoy, unchanged from July's levels. Overall, the fall in transport and housing prices were offset by gains seen in education (+3.4%), food (+2.0%), recreation (+1.0%) and healthcare (+0.8%).
- **Importantly, private road transport costs fell by a modest 1.0% yoy, compared to a -4.4% print seen in the previous month.** This was due to the expiry of the one-year road tax rebate for petrol vehicles, as well as higher petrol prices seen over the course of 2016 (eg, Petrol 95 gasoline prices rose by 7% from its February's trough). Notably, the decline in overall transport cost printed its slowest pace since July 2015. Elsewhere, accommodation cost rose by a notable 1.4% on a month-on-month basis, as Service and Conservancy Charges (S&CC) rebates were disbursed in July, but not in August.
- **The slower wage growth seen from the easing tightness in the labour market should constrain the pass-through of wage cost to overall consumer prices.** Still, some upside in transport costs for the months ahead may present itself from the expiry of the one-year road tax rebate for petrol vehicles, as well as the upward revision of carpark charges with effect from 1 Dec 2016. Coupled with the (1) lower base effect seen in 2H15 as well as (2) potentially higher oil prices in the second half of this year when compared to 1H16, Singapore's headline inflation would have likely troughed in 2Q16. Our forecast for headline and core inflation to average -0.4% and 1.0% respectively remains unchanged, in line with official headline inflation expectation of -1.0% to 0.0% and core headline inflation expectation of "around 1.0%".

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