S'pore's disinflationary trend continued in July

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Highlights:

S'pore's disinflationary streak continued in July with headline and core CPI both falling by 0.4% yoy, compared to -0.5% yoy and -0.2% yoy previously in June. This also marked the 4th and 6th consecutive month of negative readings amid the domestic recession and soft consumer spending amid the ongoing Covid-19 pandemic. The drag on consumer prices was attributed to a steeper decline in electricity & gas prices (-15.2% yoy versus -3.9% yoy in June due to the downward revision of electricity tariffs), cheaper private transport costs (weighed down by lower oil prices compared to a year ago, notwithstanding that COE premiums have been bumping higher since Circuit Breaker ended), as well as lower food inflation (namely non-cooked food such as meat, sugar, preserves & confectionery, and vegetables). Notably, the decline in services costs had eased as imputed holiday expenses and airfares saw smaller decreases, whereas telecommunication services costs rose more rapidly. This was also mirrored in the hike in telecommunication equipment prices. Overall, the mild disinflationary prints are reflective of the modest pickup in economic consumption with the gradual re-opening of the S'pore economy, albeit private consumption has not reverted to pre-Covid levels. Compared to June, headline and core CPI fell 0.3% mom and 0.2% mom respectively in July, after being flat in June.

The inflation outlook remains tepid in the near-term, with external pricing pressures likely to stay benign amid global recessionary conditions. Crude oil prices in particular should remain soft for longer, while imported food prices may stay elevated amid global supply chain disruptions. For the domestic economy, subdued consumer sentiments amid the soft labour market conditions, coupled with existing slack in the S'pore economy, should keep prices capped as firms find it difficult to pass on costs to end-consumers just yet. **As such, reflationary pressures are unlikely to pop up in the short-term, but may only emerge as a 2021 story.**

We tip headline and core CPI to remain in negative territory till year-end. Our full-year 2020 headline and core inflation forecasts are -0.4% yoy and -0.3% yoy respectively, but both are likely to rebound to 1.2% yoy in 2021 as the global and domestic demand normalises. Hence, we do not expect deflationary pressures to persist into 2021 as the prospect of a Covid-19 vaccine nears and assuming that the unprecedented fiscal and monetary policy stimulus bears fruit to restart the global economic engine. For the year-to-date, headline and core CPI are running at -0.2% yoy and -0.1% yoy respectively, which is at the lower end of the official headline and core CPI forecasts of -1% to 0% yoy.

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