SINGAPORE CORE INFLATION (MAY)

Singapore YoY inflation highest since May 2017

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Treasury Research
Tel: 6530-8384

Highlights:

- **Singapore's headline inflation unexpectedly picked up to 0.9% yoy (+0.7% mom nsa) in May**, marking the highest yoy print since May 2017 (+1.4% yoy) and the fastest on-month pick-up since June 2016 (+0.7% mom nsa). This is higher than our expectations for 0.7% yoy (0.5% mom nsa) and also a pick up from the +0.8% yoy (-0.3% mom nsa) seen in April.

- **The key drivers were education** (+2.6% yoy, as tuition fees & other fees jumped 2.6% yoy), recreation & culture (+2.3% yoy, amid higher holiday expenses which climbed 4.3% yoy), transport (+1.6% yoy, across both public and private road transport costs which rose 2.5% and 1.5% yoy respectively), healthcare (+1.4% yoy, mainly in medical & dental treatments) and food prices (+1.4% yoy), which more than offset the lower prices in communications (-1.1% yoy), clothing & footwear (-0.9% yoy) and housing & utilities (-0.7% yoy).

- **The headline inflation for January to May 2019 averaged 0.6% yoy**, which is more than double the 0.2% yoy print for the same period last year. That said, it is still currently at the lower end of official 0.5-1.5% headline inflation forecast for this year.

- **Meanwhile, core inflation was unchanged at +1.3% yoy for the second month in May and flat on-month**. This brought the first five months' core inflation reading to average 1.5% yoy, which is on par with the same period last year. Note this is also comfortably within the official 1-2% core inflation forecast for 2019.

- **Looking ahead**, **the inflation rhetoric is unlikely to deviate significantly going into the October monetary policy meeting,** notwithstanding indications that private road transport costs could pick up slightly this year vis-à-vis last year and accommodation costs are still likely to decline at a slower pace in 2019. Essentially the dampened global growth prospects, coupled with the lingering US-China trade uncertainties which are manifesting in the manufacturing and electronics PMIs, are likely to keep even any potential hint of hawkish intentions under a lid for the interim. Moreover, given the recent dovish pivot by the US Federal Reserve, the European Central Bank and the Reserve Bank of Australia amongst others last week, the pendulum has swung clearer in favour of more rather than less monetary policy accommodation.

Selena Ling
Tel: 6530-4887
LingSSSelena@ocbc.com

- **Our full-year headline and core inflation forecasts remain at 1.0% and 1.5% yoy respectively.** Headline inflation is tipped to rise faster at 1.3% yoy due to higher COE premiums and oil prices. The recent pullback in COE premiums, if sustained, should imply the yoy spike in private road transport costs could start to fade by 4Q19. However, domestic core inflationary pressures remain stable for now, and firm labour market conditions are not spilling over into untoward wage intentions.