# OCBC TREASURY RESEARCH

## Singapore

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# October inflation jumped more than expected. More sticker shocks coming?

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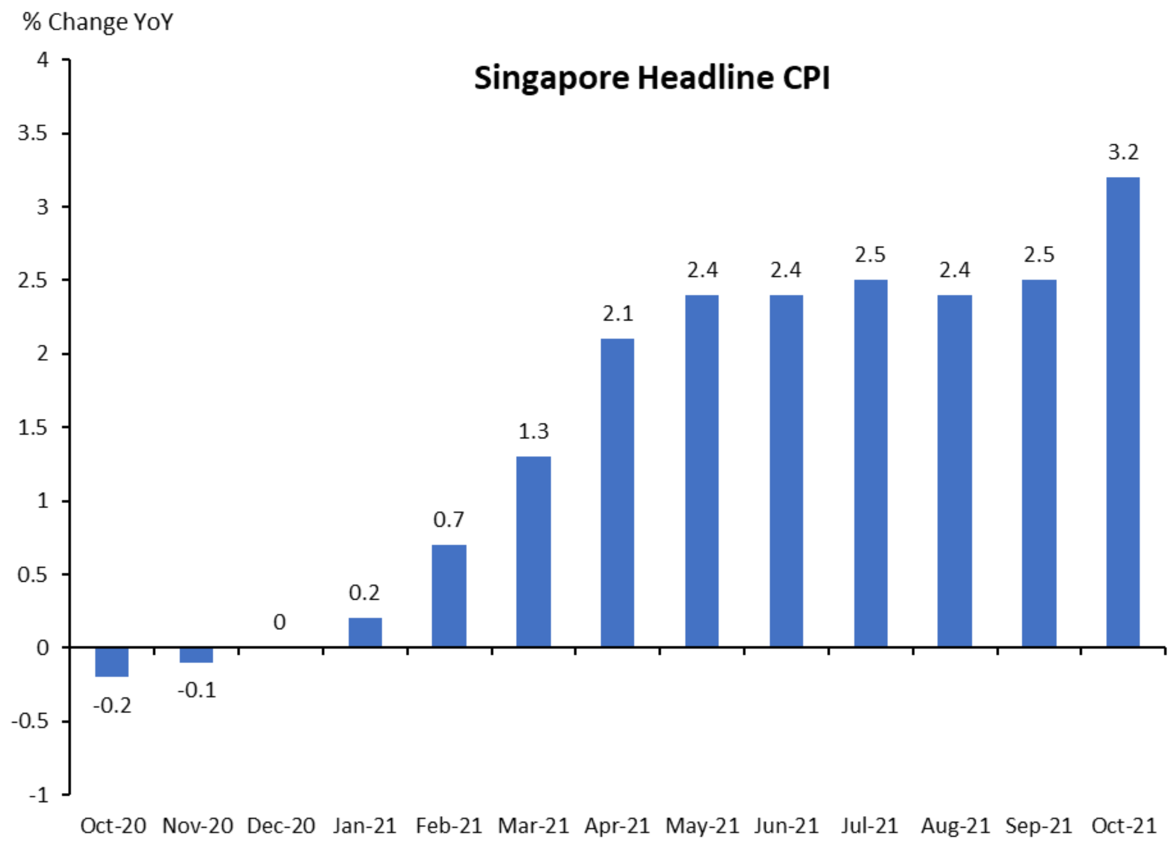
**Highlights:**

**Headline CPI surged more than expected by 3.2% yoy (0.4% mom nsa) in October,** more than the 2.7-2.8% forecast expected by the market and ourselves. This marked the biggest increase since March 2013 and was attributed to stronger private transport (14.3% yoy which is the highest since June 2021), accommodation (with rising rentals), services and food prices in addition to a smaller decline in retail and other goods. This near-perfect inflation storm was credited to both stronger demand conditions in line with the recovery story as well as supply side bottlenecks and mismatches in both the commodity (including electricity and gas) and goods market.

**The only silver lining was that the pickup in core inflation was more muted at 1.5% yoy,** albeit still the highest since March 2019. Nevertheless, the official rhetoric has shifted to indicating that inflation is likely to persist for some time, and in particular referencing the steady pace of wage increase amid a tightening domestic labour market and the greater pass-through of higher and cumulative business costs to end-consumers as demand improves further. Still, there was no change in the existing MAS forecasts for core CPI to pick up from 0-1% this year to 1-2% yoy in 2022, with headline CPI also to accelerate from 0-1% to 1.5-2.5% yoy accordingly. With the year-to-date headline and core CPI running at 2.0% and 0.7% yoy respectively, it is realistic to expect that the full-year 2021 forecasts would average 2.0% and 0.8% yoy too. Our forecast is for 2022 headline CPI to hold around 2% yoy, but core CPI will likely double to 1.6% due to a powerful combination of rising imported costs, higher manpower costs and fee adjustments in domestic services including education and healthcare amongst others.

**On hindsight, MAS' decision to pre-emptively tighten monetary policy settings by steepening the S$NEER slope from 0% to 1% appreciation per annum appears prescient.** With the upside surprise in the October CPI print, a legitimate concern is whether there is a need to frontload the policy tightening, especially since the policy review frequency is twice annually. Even globally, there has been intense market speculation that major central banks like the FOMC may need to step up the pace of recalibration to combat inflationary pressure. While there is a need to be watchful about the inflation overshoot and the potential entrenching of inflationary expectations, there is no need to jump the gun and worry about an inter-meeting MAS move at this juncture as the core CPI print is still within the 1-2% range tipped for 2022. That said, it is likely that the April 2022 monetary policy review is likely to warrant another tightening again.

The key to watch may be the wage inflation which may prove more protracted if worker demands for pay adjustments grow louder amid a broadening of price pressures, and especially if the international borders do not re-open in a prompt fashion.



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