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S'pore's headline and core CPI printed at 5.4% yoy and 3.3% yoy in April, but more upside lies ahead.

Highlights:

• **S'pore's headline and core CPI printed at 5.4% yoy (-0.1% mom) and 3.3% yoy (0.4% mom) in April, but more upside lies ahead.** My forecast was for headline and core CPI to come in at 5.1% yoy and 3.4% yoy in April, so while the latter marked a sharp jump from the March print of 2.9% yoy and the fastest reading since January 2012, it was actually slightly milder than what I was expecting. That said, there may be little respite in the coming months as the global supply chain and logistics problems and the elevated energy and food prices are likely to persist notwithstanding the recent emergence of global growth concerns.

• **Moreover, domestic cost pressures like wages due to the tight labour market conditions may prompt more businesses to pass on the cumulated cost increases to end-consumers.** Outside of core CPI, other cost segments like accommodation (with the uptick in rental market after the border re-opening), private transport (due to a combination of high COEs, surge pricing for private hire cars, and pump prices which have not come off despite the recent retracement in crude oil prices possibly due to the time lag in setting quarterly tariffs) and services continue to build in the pipeline. Even retail & other goods inflation has picked up in the form of clothing & footwear, and this is not a localised phenomenon but also apparent in the UK for instance, as demand conditions improve. The concern is that rising inflationary pressures further fuel wage pressures, which businesses pass on to end-consumers, creating a vicious cycle of wage-price dynamics.

• **Looking ahead, core CPI is likely to breach the 4% yoy handle from June onwards while headline CPI will also hover above the 5% yoy handle for the foreseeable future**, but it is not clear if core CPI will overtake headline CPI at this juncture. There have been occasions when core CPI was higher than headline CPI such as between 2013-2019 (pre-Covid era) but the MAS-MTI statement refers to headline CPI picking up more than core CPI this year, albeit core CPI will stay elevated above its historical average throughout this year.

• **There is still distinct upside risks to the official headline and core CPI forecasts of 4.5-5.5% and 2.5-3.5% yoy** given the persistent global supply chain problems, elevated food and energy prices, unresolved Russian-Ukraine tensions and China's Covid-related lockdowns due to its zero-Covid strategy, not to mention the local labour market straining at its seams as firms, including the retail & F&B, try to position for uptick in demand. **Our revised headline CPI forecast stand at 5.5% (previously 5.0% yoy) and core CPI may surpass the upper bound of the 2.5-3.5% official forecast to come in closer to the 4.0% yoy handle (previously 3.5% yoy).** This reinforces our expectation that the window is still open for another monetary policy tightening at the October MPS while more targeted fiscal measures may be forthcoming to assist lower income households and vulnerable individuals with their cost of living issues.

Chart 1: MAS Core and CPI-All Items Inflation

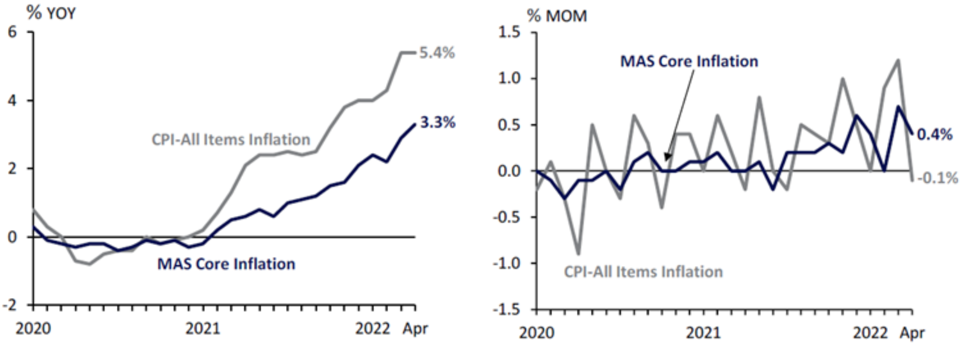
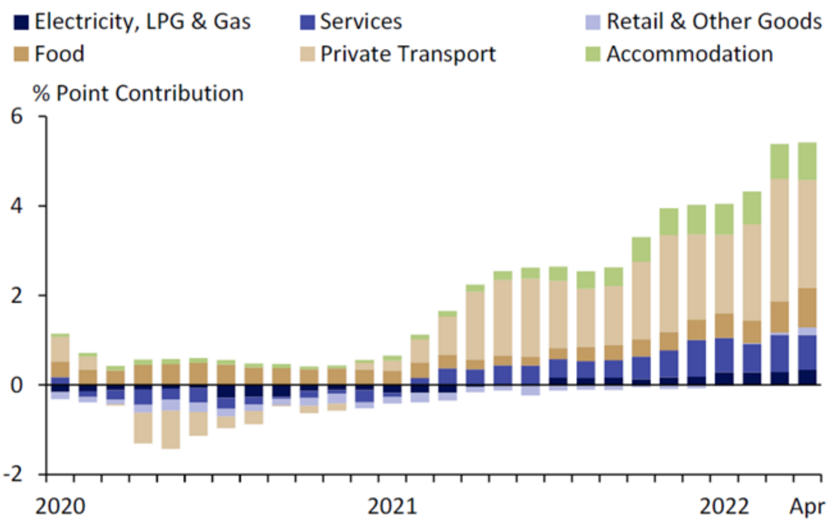


Chart 2: % Point Contribution to Year-on-year CPI-All Items Inflation



* Private transport and accommodation are excluded from the MAS Core Inflation measure.

Source: MAS, MTI estimates

Source: Bloomberg, OCBC

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