S'pore Core CPI rose for the fourth consecutive month

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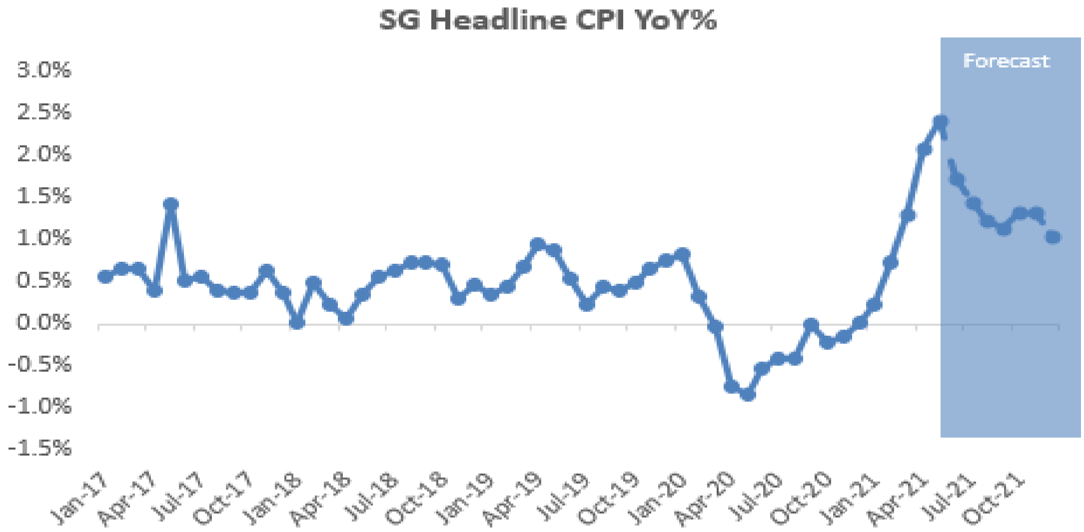
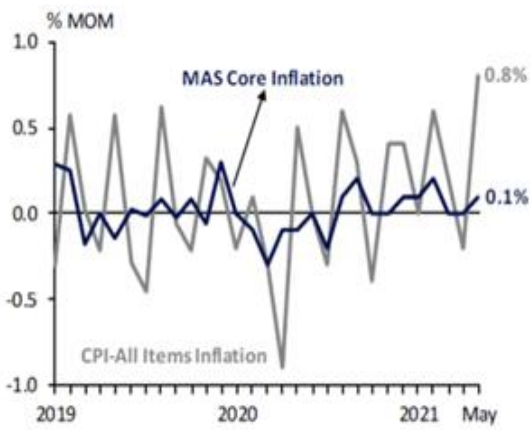
Highlights:

S'pore's headline CPI hit 2.4% yoy in May 2021, the highest since November 2013, mainly due to the low base last year during the Circuit Breaker period as well as higher transport prices (11.0% yoy, with private transport costs surging 14.5% yoy amid higher petrol prices and car demand), services and accommodation (namely rental housing) costs. Other segments that saw price increases were household durables & services (1.6% yoy), healthcare (1.0% yoy, largely attributable to health insurance and hospital services), recreation & culture (1.0% yoy) and food (1.0% yoy, mainly fruits and vegetables), whereas clothing & footwear (-4.1% yoy) and miscellaneous goods & services (-0.3% yoy) were the exceptions. Retail & other goods prices also saw a more modest decline of 0.8% yoy as retailers engaged in less aggressive discounting compared to last year given the gradual economic recovery. Compared to April 2021, headline CPI also rebounded from -0.2% mom nsa in the previous month to +0.8% mom nsa in May, marking the highest on-month increase since February 2013 as well.

Core CPI also ticked higher for the fourth straight month by 0.8% yoy (0.1% mom nsa), the highest since June 2019, but remained modest in comparison to headline CPI. For the first 5 months of 2021, headline and core CPI have climbed 1.3% yoy and 0.4% yoy respectively, still within the official inflation forecast ranges of 0.5-1.5% and 0.0-1.0% respectively. Looking ahead, MAS and MTI reiterated that while there are upside risks to external price pressures, these are tipped to ease in the latter part of this year, as oil price increases should be limited by surplus production capacity, and continued negative output gaps in key trading partners. More importantly, the low base effects should fade towards the end of the year and the Phase 3 (Heightened Alert) measures could dampen consumer sentiments and hence price increases in the near-term. Notably, wage growth is expected to remain subdued and commercial rents are also projected to stay low, notwithstanding firm demand for cars and rental accommodation.

Overall, headline CPI may stay elevated at 1.6% yoy in 3Q21 and 1.5% yoy in 4Q21, and core CPI may tick higher to average 0.9% yoy for 2H21. This implies headline CPI could come in at 1.5% yoy for the full year of 2021, which marks the top end of the official forecast range, amid higher oil and COE prices, whereas our 2021 core CPI forecast remains intact at 0.7% yoy. The official rhetoric remains somewhat cautious, which suggests no urgency for any imminent monetary policy recalibration just yet.





Source: CEIC, MTI, OCBC Bank

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