OCBC TREASURY RESEARCH

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Selena Ling
Head of Research and Strategy
+65 6530 4887
LingSSSelena@ocbc.com

S'pore headline CPI eased slightly in August while core CPI accelerated.

Highlights:

August headline CPI eased slightly from 2.5% yoy in July to 2.4% yoy, but still marked the 5th straight month above the 2% yoy handle. The main contributing factor for the small pullback in the headline CPI yoy print was the transport segment which rose 8.3% yoy, lower than 9.6% previously, as private transport inflation eased from 12.6% to 10.8% yoy, largely due to a smaller rise in car prices. However, an uptick was still seen in other cost segments including housing & utilities (+2.2% yoy, up from 1.9% previously), healthcare (1.7% yoy, up from 1.6% previously) and food (1.5% yoy, up from 1.1% previously). This more than offset the declines in clothing & footwear (-6.2% yoy, likely as discretionary consumer spending was impacted by the return to P2(HA) in July-August) and communications which fell for the second consecutive month by 2.2% yoy.

However, core CPI continued to accelerate to 1.1% yoy in August, up from 1.0% in July. In on-month sequential terms, core CPI also increased 0.2% mom nsa for the second straight month. Higher food inflation (mainly driven by fruits) and a smaller decrease in retail & other goods (amid higher personal effect prices) continued to underpin the core inflation picture in Singapore.

The inflation outlook is likely to evolve into a less benign end-2021 and into early 2022. While the official rhetoric continues to cite that the elevated external pricing pressures are beginning to ease as low base effects fade, and domestic wage inflation remains subdued and commercial rents are also generally soft currently. However, local car demand remains firm (note Category E COEs crossed $70k in the latest tender results), and accommodation demand could pick up further on the back of rental demand. Moreover, the domestic labour market is likely to improve further into 2022, with the planned expansion of the Progressive Wage Model to more sectors from September 2022 and the requirement of firms to pay local workers the Local Qualifying Salary if they wish to hire foreign workers, likely to drive wage inflation higher next year.

We expect headline CPI to stabilise around 1.5% in 2022, similar to 2021 levels, but core inflation is likely to jump from 0.7% yoy this year to 1.2% yoy in 2022. There was no change to the official headline and core CPI forecasts of 1-2% and 0-1% respectively, but we would likely have to wait until the October MPS to have a sneak peek into the 2022 official inflation trajectory. That said, the hint is clear that MAS core inflation is tipped to rise gradually in the coming months. If the 2022 core inflation outlook is for core inflation to step up to the 1-2% yoy range, then this would likely set the stage for a potential recalibration of monetary policy settings although we do not think that it would warrant an imminent change within weeks at this juncture, especially given the incomplete ongoing transition to an endemic Covid situation amid the rising Delta cases which could weigh on consumer confidence and personal spending.

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Howie Lee
Thailand & Commodities
HowieLee@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Herbert Wong
Hong Kong & Macau
herberthtwong@ocbcwh.com

FX/Rates Strategy

Frances Cheung
Rates Strategist
FrancesCheung@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com