Singapore

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First positive headline inflation print since February 2020

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Highlights:

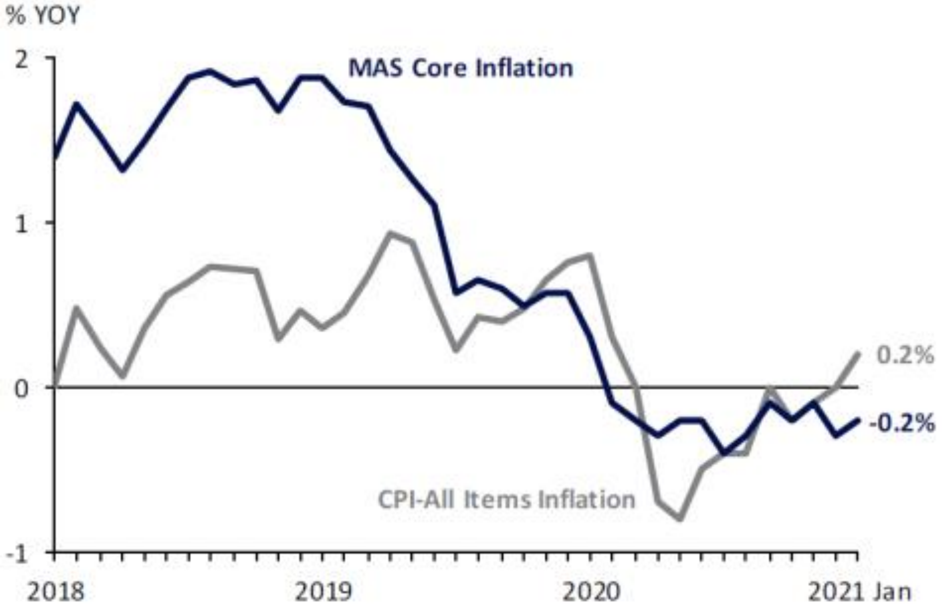
S'pore's headline inflation returned to positive territory on-year for the first time since February 2020 as we expected. The January print of 0.2% yoy (0.0% mom nsa) was also highest yoy reading since February 2020 before the onset of the Covid crisis and the start of the global lockdowns. Compared to December 2020, headline CPI was unchanged. The key drivers for the pickup in the on-year CPI reading were transport costs (+0.7% yoy due to higher private transport costs, namely car prices) and accommodation costs (+0.5% yoy with the expiry of rental rebates for public rental HDB flats), as well as a smaller decline in services costs (-0.3% yoy versus -0.8% yoy previously due to higher tuition & other fees). Food inflation remained apparent as well at +1.5% yoy amid higher non-cooked food and restaurant meals. Education costs also rebounded to positive territory at +0.7% yoy. In contrast, electricity and gas costs saw a larger decline of 9.7% yoy in January due to the downward revision in electricity tariffs.

However, core CPI remained in negative yoy territory for the 12th consecutive month at -0.2% yoy in January, albeit this was a smaller decline compared to the -0.3% yoy in December 2020. The smaller decline in core CPI was due to the easing deflationary pressure on services costs. Looking ahead, we expect food, private food transport and accommodation costs may continue to reflate in line with the domestic recovery story.

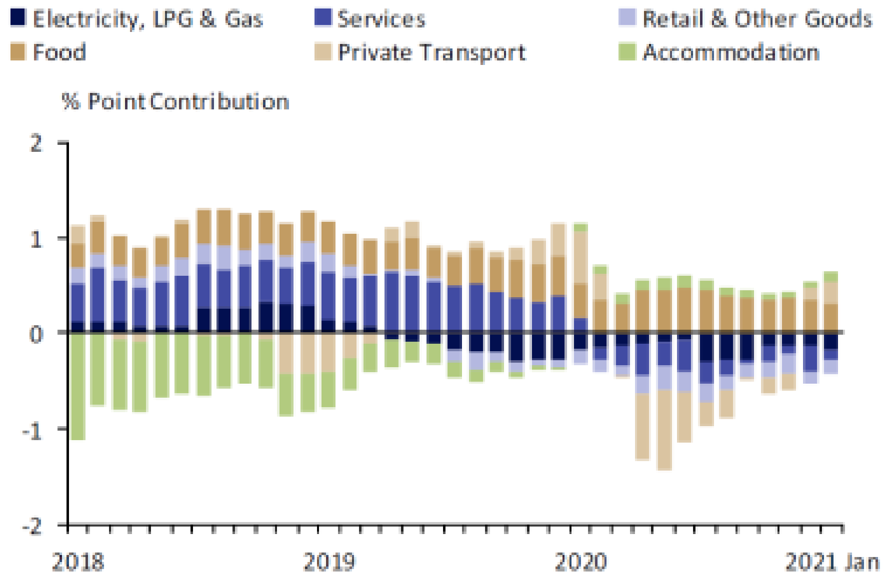
For the rest of 2021, we expect that there will be further upside pressure for the headline CPI. Core inflation is also tipped to turn modestly positive this year, probably by March 2021 according to our model, amid the rise in crude oil prices compared to a year ago, as well as the fading of disinflationary pressures from government subsidies introduced during the pandemic in 2020. External inflation is also likely to assert further amid the recovery in the crude oil prices, even though our major trading partners are still running negative output gaps and is unlikely to see a significant inflation uptick. Domestic price pressures are also likely to stay muted, even amid the gradual recovery story, amid the soft labour market conditions and commercial property market with the retail sector still subdued and many workers still working from home.

Our original headline and core CPI forecast for 2021 are 0.7 and 0.5% respectively, assuming oil prices stay around $55 per barrel. If oil prices average $60 per barrel for the rest of this year, then headline CPI could rise closer to the 1.0% yoy handle. However, like other major central banks, the persistent negative output gap and weak labour market outlook is likely insert caution into over-reading what may be a temporary overshoot of the inflation prints for the upcoming April-August period due to the low base a year ago. This implies that the MAS is also unlikely to recalibrate its monetary policy accommodative stance at the April MPS just yet.

Headline and MAS core inflation



% point contribution to yoy headline CPI



* Private transport and accommodation are excluded from the MAS Core Inflation measure.
Source: MAS, MTI estimates

Source: MAS

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