Singapore

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Upside inflation surprises are becoming the norm for Singapore with the peak still not in sight yet

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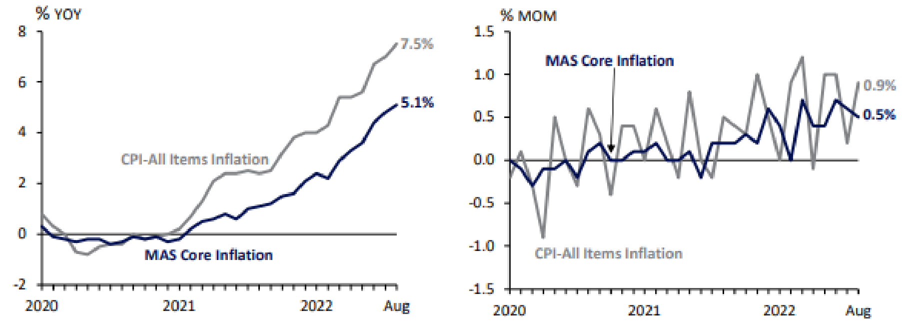
Highlights:

Headline CPI surprised on the upside at 7.5% YoY (0.9% MoM) in August, beating market consensus and my expectations. This is a jump from the July print of 7.0% YoY, amidst broad-based price pressures stretching from transport (20.2%), food (6.2%), clothing & footwear (8.7%), housing & utilities (6.0%, mainly from utilities at 16.2%) and recreation & culture (5.9%). In particular, an acceleration in car prices underpinned private road transport inflation, while there were also more expensive holiday expenses, bigger hike in housing rentals, and more costly food services and non-cooked food items like meat, dairy products, vegetables, fish and seafood. This brought inflation for the first eight months of this year to 5.7% YoY, which is near the upper end of the official headline CPI forecast of 5-6% YoY for 2022.

Core inflation also jumped from 4.8% to 5.1% YoY (0.5% MoM) over the same periods, reflecting stronger pickup of prices for services and food. This brought core CPI to 3.6% for the first eight months of this year. More importantly, it underpins our belief that core inflation may not have peaked yet for the Singapore economy as domestic drivers for inflation are becoming more prominent.

MAS-MTI rhetoric reiterated that the domestic labour market remains tight and wage growth is strong, coupled with businesses passing on cumulative cost increases to end-consumers amid firm demand conditions. The official caveat also remains that fresh shocks to global commodity prices and domestic wage pressures remain as upside inflation risks. However, there is no change to the official headline and core inflation forecasts of 5-6% and 3-4% respectively even though core inflation is tipped to stay elevated over the next few months. This may imply that core inflation may peak later than initially expected, which may not come as a total surprise since major central banks like the FOMC are already signalling the need to continue to front load aggressive monetary policy tightening as inflation may stay elevated for longer. As the MAS monetary policy review in mid-October draws near, the stage may be set for another tightening to provide more policy space for the next six months if core inflation remains sticky on the upside, especially amid the ongoing wage adjustments due to the tight labour market. Our headline and core inflation forecasts stand at 5.9% and above 4.2% but recent developments such as the Russia-Ukraine war escalation and rice export ban by India may imply further upside external price risks in addition to the domestic wage pressures.


% YOY
7.5%
5.1%
CPI-All Items Inflation
MAS Core Inflation
8
6
4
2
0
-2
2020
2021
2022
Aug
% MOM
MAS Core Inflation
0.9%
0.5%
CPI-All Items Inflation
1.5
1.0
0.5
0.0
-0.5
-1.0
-1.5

Source: MAS

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