GLOBAL MARKETS RESEARCH

Singapore

25 November 2024

October headline and core CPI decelerated more than expected to 1.4% YoY and 2.1% respectively. MAS to wait and see for now.

Selena Ling
Head of Research and Strategy
lingssselena@ocbc.com

Highlights:

- **Better-than-expected progress on the inflation front!** October headline and core CPI decelerated more than expected to 1.4% YoY and 2.1% respectively, down from 2.0% and 2.8% in September. This is below both the Bloomberg consensus forecast of 1.8% YoY and 2.5%, and our forecast of 2.0% and 2.5%. The October prints also marked the lowest readings since March 2021 (1.3% YoY) and December 2021 (2.0%) respectively. They also brought the year-to-date headline and core CPI average to 2.5% YoY and 2.9% respectively for the first ten months of the year, which is a significant improvement from 5.1% and 4.3% respectively in 2023. Compared to September, headline and core CPI both declined 0.3% MoM nsa.

- **The key contributors** to the headline disinflation were accommodation (2.5% YoY versus 2.7% previously due to slower housing rent hikes) and private transport (-2.5% YoY from -2.4 as car prices declined faster) costs, while core inflation also saw a moderation in services (2.3% YoY versus 3.3% due to smaller hikes in holiday expenses and healthcare service), electricity & gas (2.5% YoY versus 6.3% due to slower increases in both electricity and gas), and retail & other goods (0.1% versus 0.8% due to cheaper clothing & footwear as well as medicines and health products) prices. Food inflation was steady at 2.6% YoY as non-cooked food and food services rose at a similar pace.

- **MAS kept its 2024 headline and core inflation forecasts unchanged at around 2.5% YoY and 2.5-3.0% respectively before both step down to 1.5-2.5% in 2025**. MAS rhetoric remains similar – despite global energy levels being volatile recently, they remain below levels a year ago, and imported manufactured goods prices have continued to broadly decline with easing global inflation and the gradually strengthening trade-weighted S$ exchange rate. On the domestic side, unit labour costs are also projected to rise more gradually amid nominal wage growth and improving productivity. In addition, services inflation should also slow further for the remaining months. MAS also tips accommodation inflation to ease further next year, which should partly mitigate the pickup in private transport inflation amid firm car demand. MAS also reiterated that inflation risks are relatively balanced – citing that stronger than expected labour market conditions could lead to a slower easing in unit labour cost growth, while an intensification of geopolitical tensions may prompt higher commodity prices and hence imported costs, whilst on the flipside, a significant downturn in the global economy could see a greater easing of cost and price pressures.

- **For full-year 2024, we are on track to see headline and core CPI come in at 2.4% YoY and 2.7% respectively, before moderating to around 2% YoY in 2025**, which is broadly aligned with MAS forecasts. This is assuming that November-December inflation prints stay rangebound around 1.8-2.0% YoY. Incoming US president Trump has policy priorities that focus on immigration, tariffs, tax cuts etc. that may be inflationary in nature. In particular, the touted 60% trade tariffs on China and universal 10-20% tariffs on the rest of the world may usher in some retaliation if they materialise and be inflationary in nature. If the US Federal Reserve has less flexibility to cut interest rates due to a second inflation bout, and there is inflation spillover to other economies, this could also limit the monetary policy easing room for other central banks, especially in Emerging Markets. For MAS, the core inflation objective is paramount – while an easing in its policy stance is still logical given greater conviction that core inflation is headed in the right direction towards the 1.5-2.5% range in 2025, nevertheless, there is no hurry to do so given the many moving parts and external uncertainties. Geopolitical tensions appear to have escalated of late for Russia-Ukraine and in the Middle East, lending support to energy prices. Meanwhile, the fear factor pertaining to Trump 2.0 policies may imply that it is more prudent to wait and see rather than rush prematurely to a policy easing. Next to watch would be the upcoming Budget 2025 which could see a bigger fiscal impulse (since it may be the last budget in this term of government) to address cost of living issues and job security amongst others, there is no urgent need to ease the monetary policy stance in the near-term when dark inflationary clouds may be gathering. The recent momentum in private residential property sales and upward trend in COE premiums between July-October before subsiding in November also suggest that domestic appetite for big-ticket items remain resilient amid ample liquidity, low unemployment rates, and strong household balance sheets as interest rates decline.

Chart 1: MAS Core and CPI-All Items Inflation

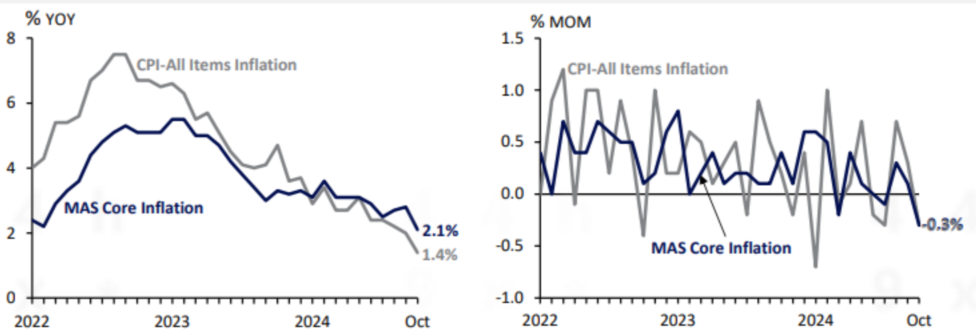
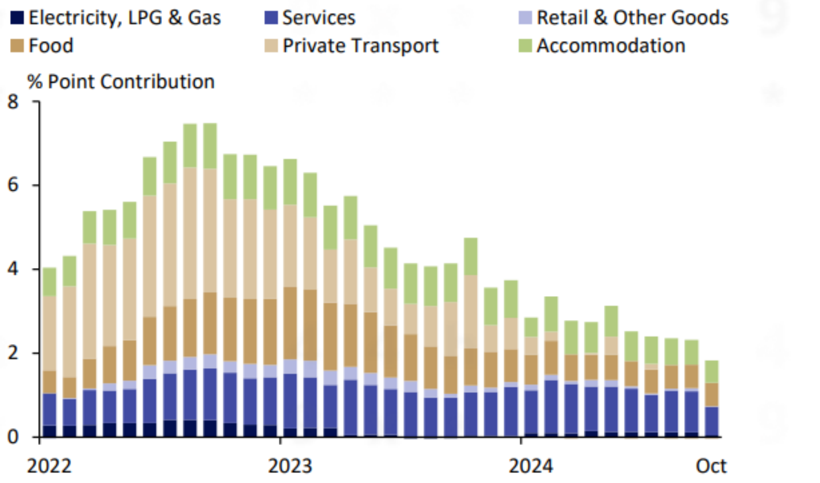


Chart 2: % Point Contribution to Year-on-year CPI-All Items Inflation



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

Source: MAS, MTI estimates

GLOBAL MARKETS RESEARCH

Macro Research

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

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
mengteechin@ocbc.com

*Follow our podcasts by searching '**OCBC Research Insights**' on Telegram!*