GLOBAL MARKETS RESEARCH

Singapore

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Progress on the inflation front in June allows for a softer full-year 2024 headline and core CPI forecast

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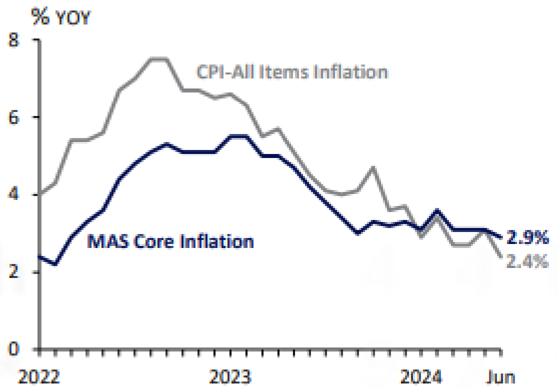
Highlights:

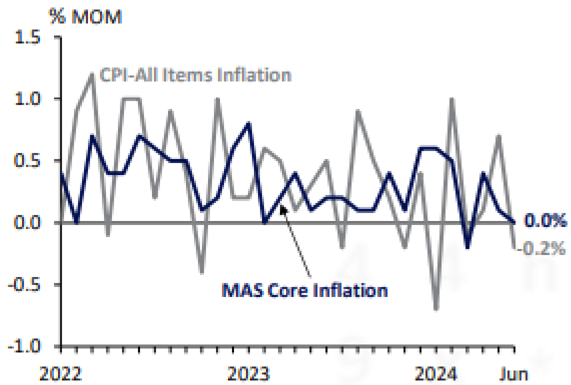
- **Singapore's headline and core CPI fell more than expected to 2.4% and 2.9% YoY respectively in June**, down from 3.1% each in May. This is softer than the Bloomberg consensus forecast of 2.7% and 3.0% YoY, and OCBC forecast of 2.9% and 3.1% YoY. The June headline CPI YoY print is the lowest since August 2021, which is a testament to how far the disinflation journey has progressed. For the core CPI, it is also the lowest since March 2022. Compared to May, headline CPI actually slipped 0.2% MoM whilst core inflation was unchanged on-month.

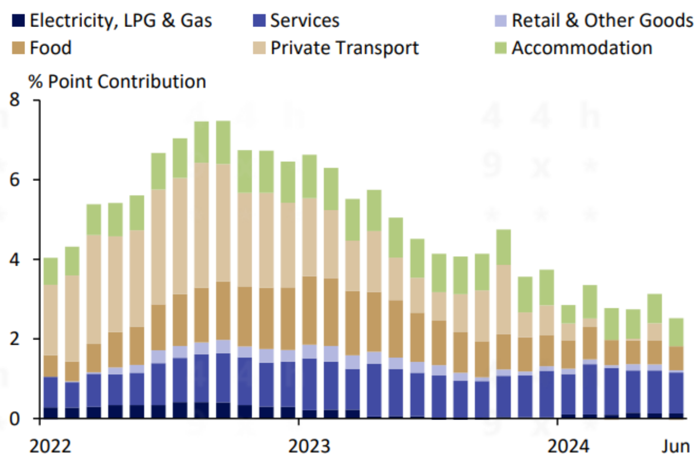
- **The key contributors to the softer June inflation prints were a decline in private transport costs** (-0.7% YoY due to cheaper cars and motorcycles as well as smaller hikes in petrol prices, versus 2.8% previously), as well as lower pace of inflation for retail & other goods (+0.5% YoY versus 1.5% previously as clothing & footwear prices fell whilst medicines & health products and personal effects saw more modest price increases), as well as services (3.4% YoY versus 3.6% previously as cost of hospital services and holiday expenses moderated). Big ticket items like housing inflation also eased marginally from 3.4% YoY to 3.3% as housing rents grew at a more modest pace. Meanwhile, food inflation was unchanged at 2.8% YoY as food services prices remain stable, and the picture was similar for electricity & gas inflation (+6.9% YoY).

- **The MAS-MTI assessment of inflation risks ahead remain largely static**, suggesting that MAS is comfortable to stay on hold on 26 July MPS. External price risks like global energy and food commodities have been stable, whilst imported intermediate and final manufactured goods are also on a downtrend. The holiday services component is also tipped to ease as the year progresses as air transport and hospitality sectors ramp up supply. Aiding the containment of imported inflation is the gradually strengthening S$NEER. On the domestic front, the gradual easing in labour market conditions should taper the pace of pass-through by businesses into end-consumer prices. Both accommodation and private transport inflation are expected to continue to ease as supply conditions improve. The inflation risks remain two-sided, with fresh geopolitical shocks, adverse weather events and renewed transportation disruptions putting upward pressure on commodity and shipping costs, while on the other hand, any unexpected weakening in the global economy will results in the opposite scenario. Domestically, there is also a need to be cautious of a stronger-than-expected labour market which could cause wage growth to re-accelerate.

- **There is no concrete shift in the core inflation outlook which is still tipped to step down more discernibly in 4Q24**. The current official headline and core inflation forecast ranges are 2.5-3.5% respectively, but MAS will refresh these forecasts at the next scheduled MPS on Friday. Given the more rapid than expected dip in the headline inflation in June, we adjust our full-year 2024 headline inflation forecast from 2.8% previously to 2.6% YoY, assuming that 2H24 will average around 2.4% and that COE premiums are likely to remain stable to slightly softer for the coming months. This also assumes that the current bout of port congestion and shipping rerouting will not significantly deteriorate, as well as the US presidential elections in November 2024 will not results in further surprises, whether on the trade tariff or other economic policy fronts. For core inflation, we also shade down our full-year 2024 forecast slightly from 3.0% to 2.9% YoY, assuming that 2H24 will average around 2.7%.







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

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