Singapore

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Waiting for "last-mile" disinflation - S'pore's headline CPI reaccelerated to 3.1% YoY (0.7% MoM nsa) and core CPI was unchanged at 3.1% YoY in May.

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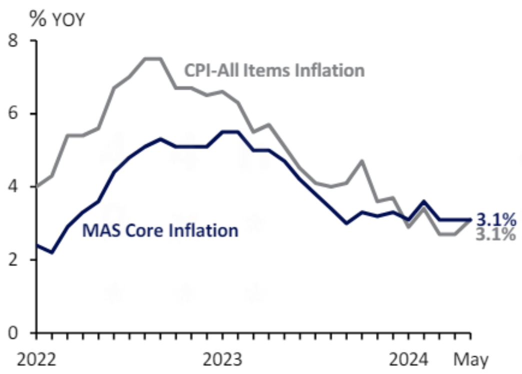
Highlights:

- **Headline inflation reaccelerated to 3.1% YoY (0.7% MoM nsa) in May**, up from 2.7% YoY where it has been for both March and April 2024. This marked the highest YoY print since February's 3.4% YoY, and was largely due to higher private transport inflation, namely prices of cars and motorcycles rose and petrol prices also increased at a faster pace. Other segments like recreation & culture (5.0% YoY, mainly supported by holiday expenses which rose 6.3%) and healthcare (4.8% YoY, mainly driven by hospital services, health insurance and outpatient services) remained important drivers of headline inflation. Food inflation, on the other hand, was unchanged at 2.8% amid stable food services inflation, whereas accommodation costs also eased slightly to 3.4% YoY as housing rents moderated its pace of increase. Within the food category, food excluding food serving services eased to 0.8% YoY in May (compared to the January-May average of 1.5% YoY), but food serving services is still running at 3.8% YoY (similar to the 3.9% for January-May).

- **May core CPI was unchanged at 3.1% YoY for the third straight month**, bringing the first five months to 3.2% YoY. Compared to April 2024, core CPI rose a muted 0.1% MoM. On balance, the higher services inflation (due to more expensive holiday expenses and also a smaller fall in airfares) was offset by lower electricity & gas (6.9% YoY versus 7.6% previously given a smaller increase in electricity price) and retail & other goods inflation (1.5% YoY versus 1.6% previously amid a slower increase in personal effects and alcoholic beverages & tobacco).

- **There is no change to the official 2024 headline and core inflation forecasts of 2.5-3.5%.** MAS-MTI's view remains that Singapore's imported intermediate and final manufactured goods have also continued on a broad decline and the gradually strengthening S$ trade-weighted exchange rate will continue to temper imported inflation in the coming months. Meanwhile the cooling domestic labour market conditions should weigh on unit labour costs, albeit businesses are likely to continue to pass on earlier cumulative cost increases to consumer prices at a reduced pace. Therefore, MAS core inflation is still tipped to gradually moderate over the course of the year and step down more discernibly in 4Q24. In addition, private road transport inflation is likely to benefit from the larger COE supply, while accommodation inflation will also see greater rental housing supply improve. There is also no change to the two-sided inflation risks perceived – upside price risks from fresh geopolitical shocks, adverse weather events and further supply chain disruptions on global energy, commodity and shipping costs, as well as stronger-than-expected domestic labour demand prompting a re-acceleration in wage growth. Conversely, if the global soft-landing scenario does not pan out, the risk is for a greater easing of cost and price pressures.

- **At this juncture, the last mile disinflation trajectory remains somewhat bumpy but is not unique to Singapore. With headline and core inflation running at 3.0% and 3.2% YoY respectively, there is room for both to step down below the 3% handle in coming months to average 2.8% and 3.0% for the full-year 2024.** Major central banks are also data-dependent, watching inflation developments closely, and prioritizing it over growth whose prognosis appears to be relatively stable for now. For instance, the ECB and SNB have started to cut policy rates, whilst the BOE is sending dovish signals. Meanwhile, others like the US Fed are still in wait-and-see mode but penciling in one cut this year followed by four cuts in 2025 and another four cuts in 2026 according to the recent dots plot. For the MAS, the bar to further monetary policy tightening is relatively high, while the time for easing may also be some time away given the downward sticky core inflation prints. Our baseline view is no change to MAS' monetary policy stance for the July meeting and likely the October meeting as well.



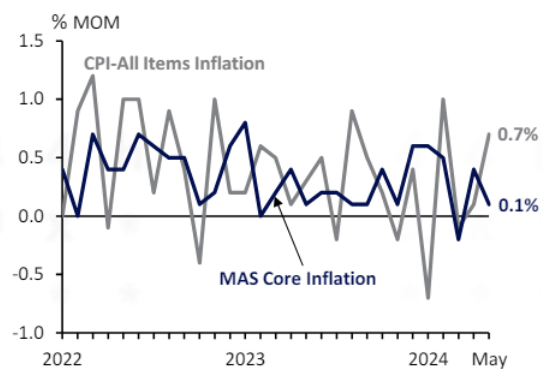
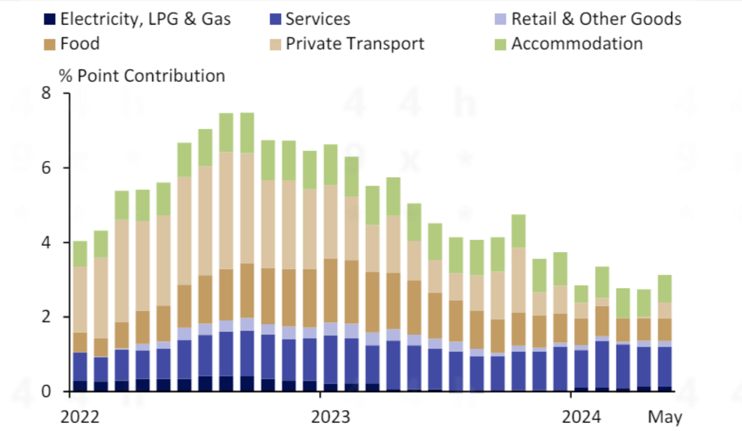


Chart 2: % Point Contribution to Year-on-year CPI-All Items Inflation



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

Source: MAS, MTI estimates

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