

## Singapore inflation edges higher to 5.3% in June

By Thomas Cho

SINGAPORE: Inflation in Singapore continues to climb with housing and transport costs topping the increase.

The consumer price index (CPI), a key gauge of inflation, rose to 5.3 per cent year-on-year in June, according to a statement from the Department of Statistics.

Although, economists expect inflation to recede in the later half of 2012, they expect private transport prices to stay up due to measures to reduce congestion.

Based on the latest data, accommodation and private road transport costs accounted for around two-thirds of CPI-All Items inflation in June.

Prices remain firm as the effect of housing becomes stronger, gaining 9.7 per cent in June.

Transport cost was up 8.7 per cent last month from 2011.

This was due to the sharp increase in vehicle's certificate of entitlement (COE) premiums, given the further reduction in COE supply from August.

Prakriti Sofar, vice president of Research at Barclays Bank, said: "There is definitely a structural issue at play here because what we are seeing the government's labour policy continuing to feed into higher service sector prices within the economy. Pressure definitely remains because the government remains quite focus on its policy to try to mitigate congestion on the street."

Measured month-on-month, the index was unchanged after climbing 0.2 per cent in May.

Excluding the costs of accommodation and private road transport, Monetary Authority of Singapore (MAS) core inflation was stable at 2.7 per cent for the third consecutive month.

However, economists said if inflation stays stubbornly high, the MAS may allow further appreciation of the Singapore dollar to tackle increased costs.

But, if global headwinds lead to slower growth, MAS would just allow the Singapore dollar to move around the current band.

Song Seng Wun, regional economist at Singapore Research CIMB Research, said: "Trade weighted side because inflation has been both the headline and core inflation have come in the higher end of government's expectations, they have allowed the trade weighted Singapore dollar to be much stronger."

Economists are concerned over food supply disruption from agricultural economies and whether the US Federal Reserve may implement a third round of quantitative easing.



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Aurobindo Ghosh, program director, SKBI, Singapore Management University, said:  
"Increase of liquidity is not necessarily a way of generating more growth if the banks are not lending to each other more enough then it is very difficult even with more liquidity to keep control on inflation because inflation is related to more liquidity in the market as well."

For the whole year, the authorities expect inflation rate to be lower in the second half of the year, compared to the first half.

MAS added that inflation for the whole of 2012 is likely to come in at the upper half of the 3.5 per cent to 4.5 per cent forecast range.