

Embargoed Until 1.00 pm, 25 February 2008

High January Inflation Consistent with Official Forecast

The Ministry of Trade and Industry said that the 6.6 per cent year-on-year increase in the Consumer Price Index (CPI) in January 2008 was consistent with the official inflation forecast of 4.5 to 5.5 per cent for 2008 as a whole.

2 The higher *year-on-year* increase in CPI of 6.6 per cent in January 2008 (compared to 4.4 per cent in December 2007) largely reflects a low base twelve months ago. The CPI in January 2007 was 0.8 per cent lower than in December 2006. One reason was the service and conservancy charge (S&CC) rebates given in January 2007, which lowered housing costs. [Other factors included lower electricity tariffs and transport costs in January 2007.] But this year, S&CC rebates were given in December 2007 instead of January 2008.

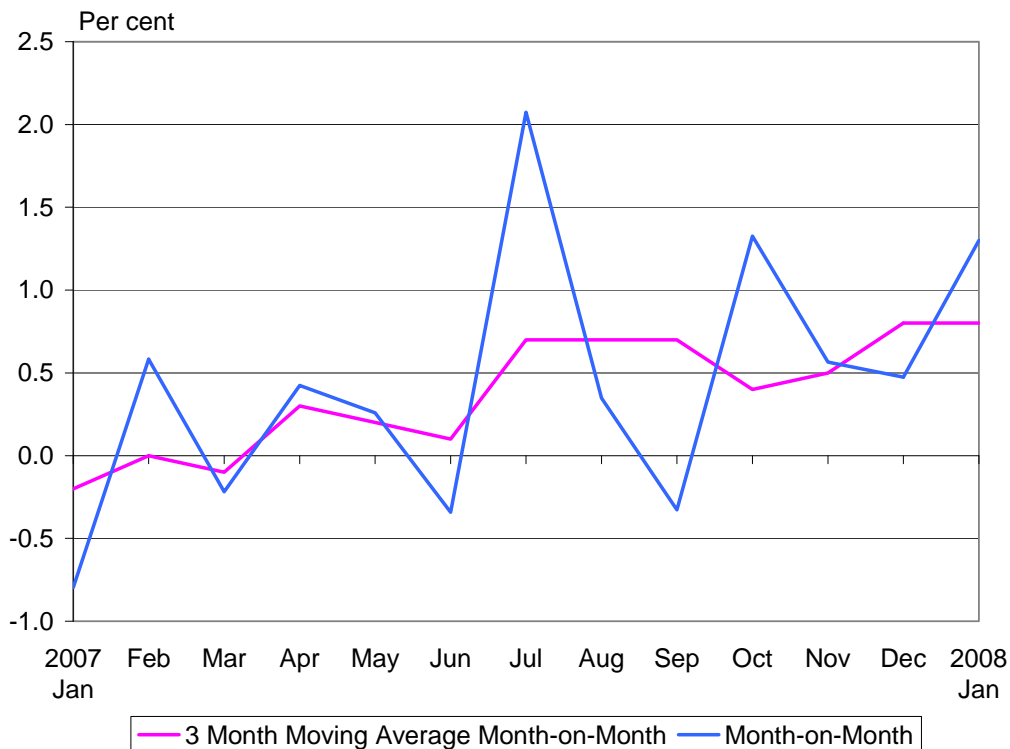
3 Another reason for the high January 2008 inflation figure is the revision to the Annual Value (AV) of HDB flats. As has been explained in Parliament, this does not actually affect expenditures of most Singaporeans, who own the homes they live in.

4 To better understand the underlying trend in inflation, we need to look at both **year-on-year** and **month-on-month** CPI numbers, as well as smoothed data. The **year-on-year** CPI inflation number tells us how much higher prices are now than a year ago. But it is a poor indicator of more current inflation momentum, because it is affected by base effects (the low CPI number twelve months ago) and one-off factors (like the GST increase which happened in July 2007, but is no longer raising price levels from month to month). The **month-on-month** CPI inflation number abstracts from base effects and one-off factors but is more volatile on account of random factors which vary from one month to the next, like the S&CC rebates.

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5 The 3-month moving average (3MMA) of the month-on-month inflation rates helps to even out the monthly volatility while giving an indication of inflation momentum. On this 3MMA basis, the month-on-month inflation in January 2008 was 0.8 per cent, the same as in December 2007. Exhibit 1 shows that the 3MMA inflation picked up sharply in July 2007 and has stayed at around 0.8 per cent since. This largely reflects the impact of higher global inflation in food and energy which has persisted through the last seven months. The underlying momentum in inflation in January 2008 is therefore in line with the inflation experience to-date. Inflation momentum has neither accelerated nor abated in January 2008.

Exhibit 1: Inflation momentum has been fairly stable in past 7 months



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6 The latest 2008 inflation forecast of 4.5 to 5.5 per cent has taken into account the expected increase in year-on-year inflation in the first half of the year. As the effects of the low base and one-off factors wear off in the second half of 2008, year-on-year inflation is expected to moderate significantly. Underlying inflation momentum is, however, likely to moderate more gradually, depending on external price trends, especially food and energy prices.

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