



Singapore: Deflationary pressures to likely stretch into 4Q20

Singapore's consumer prices fell 0.4% year-on-year (+0.6% month-on-month) in August, marking its sixth straight month of deflation. Core prices also declined 0.3% y/y though by a smaller contraction versus July's -0.4% y/y.

The rate of deflation was slower compared to market expectations for headline CPI to fall by 0.5% y/y (+0.5% m/m) while core CPI was estimated to decline 0.4% y/y. Accounting for the latest data, consumer prices fell at an average pace of -0.2% in the first eight months of 2020, down from +0.6% over the same period last year.

It was no surprise that deflation had persisted in August given lower oil prices amid lacklustre demand and a dearth in tourism spending. Clothing & footwear fell 3.3% y/y, marking its 17th straight month of contraction while transport prices for a fifth month running (-1.5% y/y) as Brent crude fell 22.9% y/y while COE premiums for vehicles softened 6.0% y/y in August 2020. Cost of electricity & gas continued to decline but at a slower rate given the easing in take-up of new subscriptions under the Open Electricity Market.

Deflationary Pressures Persisted Into August 2020

Source: Macrobond, UOB Global Economics & Markets Research



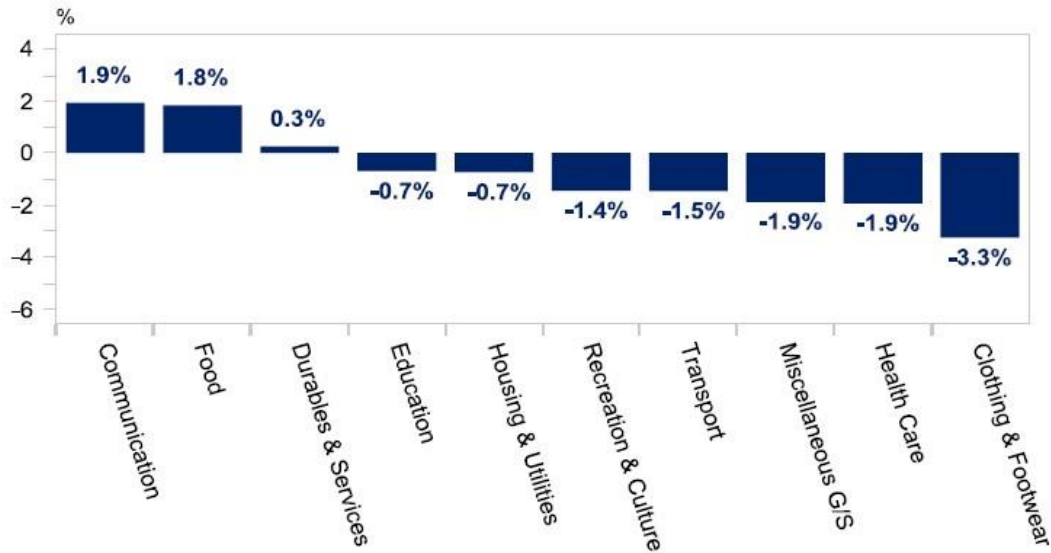
Higher food and communication prices

The overall decline in domestic consumer prices was cushioned by food and communication prices with food prices rising at its slowest pace in 5 months at +1.8% y/y in August, underlining the improving global supply conditions. Communication prices rose 1.9% y/y, clocking its fastest pace since April 2015, highlighting the increased demand for IT solutions and higher telecommunication services fees. Prices of household durables & services accelerated to +0.3% y/y in August 2020, up from +0.2% y/y the previous month.

The Monetary Authority of Singapore (MAS) and the Ministry of Trade and Industry (MTI) in their inflation report continued to highlight a “subdued” inflation outlook in 2020 noting that “external sources of inflation are likely to remain benign,” while lower oil prices will “weigh on the prices of energy-related components in the CPI basket.” Both are now of the view that “international food commodity price increases should generally be contained amid improved supply conditions.” The official outlook for both headline and core inflation remained unchanged at a range of between -1.0% and 0.0% for 2020.

Deflation Across Clusters (August 2020)

Source: Macrobond, UOB Global Economics & Markets Research



Looking Ahead

Improving global supply conditions may cap the increase in food prices going forward while low oil prices will likely persist into 2020/2021, while relatively weaker labour conditions may dent domestic consumption demand. OPEC has revised its demand outlook for oil to an average of 90.2 (-0.4) million barrels per day (mbpd) and 96.9 mbpd for 2020 and 2021 respectively. The downgrade was in view of a faltering global economic recovery and tumbling fuel demand in the wake of the coronavirus pandemic. A negative impact on oil demand in Asia is expected to persist through the first six months of 2021.

Labour conditions are expected to weaken further into 2H20 following the gradual lifting of subsidies under the Job Support Scheme (JSS) into 4Q20. Wage subsidies for businesses at 75% (for the first S\$4,600 of gross monthly wages between April-May 2020) will be lowered to 0% to 50% in 1Q21. Deputy Minister Heng Swee Keat, had noted in his statement on 17 August that retrenchments will be inevitable despite the government’s best efforts.

We expect deflationary pressures to persist for the rest of this year

The mix of falling domestic and tourism-led demand, coupled with low oil prices for the rest of 2020 are formidable headwinds against consumer prices while the continued weak labour market should cap increases for discretionary goods and services demand. Improving supply conditions if they persist for the rest of this year should also cap increases in food prices. We are keeping our full-year headline and core inflation forecast at - 0.3% in 2020.

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