INFLATION came in a touch lower than expected last month, but it remains stubbornly high with some economists predicting the central bank will hike in the Government’s full-year forecast.

The consumer price index rose 4.6 per cent last month compared with that in the same period last year, slightly below the 4.9 per cent tipped by economists. It was also down on the 4.8 per cent recorded in January.

While last month’s number means the pace of price increases is at its lowest in nine months, there is little cause for cheer as it is likely to be a temporary reprieve.

The slight decline was caused by the seasonal fall in the prices of non-cooked food following the Chinese New Year period, according to a joint statement by the Monetary Authority of Singapore (MAS) and the Ministry of Trade and Industry.

A fall in holiday travel costs during the Natas travel fair (above) and a temporary drop in COE premiums also led to the surprising dip.

The statement added that “inflationary pressures since late last year have been more persistent than expected”.

It warned that the pace of price increases is expected to remain elevated over the next few months, before moderating gradually.

Private-sector economists agree, saying higher oil prices, a tight domestic labour market, rising COE premiums and still-healthy housing demand are likely to continue driving inflation this year.

However, the MAS maintained its headline inflation forecast at 2.5 per cent to 3.5 per cent for the year, and its core inflation forecast – which excludes accommodation and private car transport – at between 1.5 per cent and 2 per cent.

These projections hinge on some local and external costs easing in the second half of the year, given the “generally slug¬ gish economic environment”, the statem¬ ent said.

But the Government said it will review the forecasts if underlying price pressures turn out to be more persistent.

Some economists are already throwing out higher inflation figures in expectation that the central bank will eventually raise its full-year forecast.

Bank of America Merrill Lynch economist Chua Hak Bin expects the MAS to raise its headline inflation forecast to between 3 per cent and 4 per cent, while its core inflation is expected to be raised to 2 per cent to 3 per cent.

He expects inflation to come in at 3.5 per cent for the year, higher than the MAS forecast.

Barclays Capital economist Leong Wai Ho also expects the MAS to upgrade its inflation forecast in its monetary policy stance update next month.

The MAS expects headline inflation to come in at about 3.5 per cent, but sees signifi¬ cant risk of a higher figure “given the recent significant fall in COE premiums since the Chinese New Year and the recent stabilization in the property market after a tem¬ porary slump in December”.

Dr Tan Khay Boon, a senior lecturer at UniSIM’s school of business, said: “The main concern is the oil price, which is trending upwards and may go even higher if there is instability in the Middle East. This will not only affect the transport sector, but may also translate into higher production costs and, eventually, the higher price of goods and services.”

Core inflation fell to 1 per cent last month, from 1.5 per cent in January. Barclays’ Mr Leong expects core inflation to stay at around 1 per cent until June.

Most economists agree that with core inflation likely to remain elevated in the near term, the MAS would probably stick to its current stance of “modest and grad¬ ual” appreciation of the Singapore dollar.

Inflation eases to 4.6% in February

But MAS expects figure to stay high over next few months before moderating gradually

BY ESTHER TEO

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ST PHOTO: CHEW SENG KIM

A dip in holiday travel costs during the Natas travel fair (above) and a temporary drop in COE premiums contributed to the surprising dip in inflation last month. ST PHOTO: CHEW SENG KIM

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