

Singaporeans expect inflation to remain stable

They believe consumer prices will rise by 3.1% over next 12 months, up from 2.9%: Poll

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Singaporeans expect consumer prices to remain stable in the year ahead, believing prices will rise by around 3.1 per cent over the next 12 months.

This is a little over the 2.9 per cent expected inflation rate polled in the previous quarter for the Singapore Index of Inflation Expectations, which was relaunched yesterday at the Singapore Management University (SMU) School of Accounting.

The respondents also predict core inflation to come in at 3.1 per cent, slightly more than the 3 per cent polled in December. Core inflation excludes private road transport and accommodation costs.

The latest poll, conducted last month, was not a steep uptick in inflation expectations and could be cyclical, considering that the six-year average for the first quarter is 3.4 per cent, said SMU assistant professor of finance Aurobindo Ghosh.

Prof Ghosh, who is the study's principal investigator, said "overall inflation has been largely benign" since the Monetary Authority of Singapore tightened its monetary policy twice last year and chose to make no changes in its latest policy review last week.

While global oil prices increased slightly, this was countered by downward price pressures due to deregulation in Singapore's open electricity market, he added.

First started in 2011, the online quarterly survey polled some 500 randomly selected individuals who represent a cross-section of Singapore's households.

But survey respondents have continued to overestimate the published level of inflation in the survey since 2014. The latest estimate of 3.1 per cent comes despite the fact that full-year inflation rates have not surpassed the 1 per cent mark since 2014.

In contrast, economists forecast inflation to come in at 1 per cent this year, and 1.5 per cent next year, according to a Bloomberg consensus poll.

Speaking at the event, Dr Taimur Baig, DBS' chief economist and managing director of group research, said what matters is how Singaporeans change in their interpretation of inflation, even though the level of estimated inflation is not necessarily accurate.

As consumers' expectations of inflation influence how they purchase goods or make long-term investment decisions, such an index could be useful from the market perspective as businesses can better understand the thinking of consumers, he added.

To this end, DBS has partnered the researchers at SMU's Sim Kee Boon Institute for Financial Economics to refine the survey even further, coming in as a co-sponsor with \$46,000 in funding.

Professor Timothy Clark, who was appointed provost of SMU in February, said such household surveys can be useful in gauging the credibility of central banks and offer a different perspective on the economy. They can also be used to improve public communication about inflation.

"Firms also take into account inflation expectations, harnessing the information as a guide for understanding investment decisions, longer-term business planning, price-setting behaviour and labour market hiring," he added.

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