

# Households expect higher inflation: survey

Responses suggest that consumers expect 4.4% inflation over the next year

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SINGAPORE households expect prices to rise a faster 4.4 per cent in the year ahead, the latest Singapore Management University (SMU)-MasterCard Singapore Index of Inflation Expectations index shows.

Responses from 400 households polled online in June produced a composite index that suggest that consumers expect inflation of 4.4 per cent over the next year, after expectations fell to 4.2 per cent in the March survey from 4.6 per cent in December.

But the researchers behind the index

see "early indications" that inflation expectations on the ground are reaching a plateau, as communication from the central bank helps anchor expectations.

With Singapore's inflation currently stuck at levels above its historical average, more economist have raised the need for policymakers to not only keep inflation in check but also ensure that expectations of future inflation are not unhinged. Beliefs about where prices are headed shape consumers' spending and wage decisions, feeding into actual inflation in the future.

In between the March and June surveys, the government raised its inflation forecast for 2012 to 3.5 to 4.5 per cent, and

announced inflation of 5.4 per cent for April and 5 per cent for May.

Just this week, the Department of Statistics announced a June inflation rate of 5.3 per cent and the central bank narrowed its 2012 forecast range to the upper half of 4 to 4.5 per cent.

Aurobindo Ghosh, the index's creator and programme director at the SMU Sim Kee Boon Institute for Financial Economics, said that this fourth edition of the survey has a couple of implications.

"First, have the policymakers effectively communicated future expected inflation rates to the public? Probably yes, at least to a limited extent. Are these rates fluctuating with short-term news, meaning, are the inflation expectations well anchored? Probably not yet, but it's getting there," said Dr Ghosh.

He pointed out that this is not unique to Singapore. In the US, the latest inflation expectations published by the Conference Board in June was 5.3 per cent, much higher than the US' steadily declining inflation rate of 1.7 per cent.

But longer-term inflation expectations have proven more sticky. Over the next five years, respondents expected an inflation rate of 5.08 per cent in June, up from 4.97 per cent in March.



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## GOING UP

Singapore's inflation is currently stuck at levels above its historical average

These longer-term expectations ideally should not fluctuate with short-term changes to commodity prices such as oil and food, and frequent communication and updates from the Monetary Authority of Singapore ought to help, Dr Ghosh said.

High long-term inflation can have serious implications for real interest rates. With nominal interest rates now close to zero, a 5 per cent long-term inflation expectation means that the real rate of interest is strongly negative. "This perception of depreciation of purchasing power is a serious problem facing policymakers," said Dr Ghosh.