

Consumers continue to see inflation easing

But expectations remain above official inflation forecasts: SInDEx

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CONSUMERS here continue to expect inflation to trend downwards this year partly because of last year's loan curbs to encourage financial prudence, but expectations remain above official inflation forecasts.

According to the Singapore Index of Inflation Expectations (SInDEx) released yesterday, consumers polled in December expect overall inflation for 2013 to stand at 3.72 per cent.

This is lower than their one-year inflation expectation of 3.85 per cent recorded in September, besides being the lowest level recorded since the quarterly index was first produced in September 2011.

The 3.72 per cent figure is still higher than the government's inflation forecast; the Monetary Authority of Singapore expects headline inflation to be in the 2-3 per cent range this year.

Explaining why households seem to have higher inflation expectations, Aurobindo Ghosh, who co-created the SInDEx, said: "The levels of information available to households, policymakers or professional

economists could be quite different. While policymakers and economists are more concerned with the macroeconomic outlook and conditions, individual households base their decisions on past experience and their expectations of possible escalating cost of living, particularly for commonly purchased items.

"This gap between expectations and reality might be gradually narrowed by effective and frequent communications from the policymakers."

The latest online poll of a representative sample of 400 consumers – compiled by the Singapore Management University's Sim Kee Boon Institute for Financial

Economics (SMU SKBI) and sponsored by MasterCard – also found that the general public now expects a lower rate of core inflation, which excludes accommodation and private transport costs.

Expectations for core inflation this year dipped to 3.88 per cent in December from 4.03 per cent in September.

Dr Ghosh, who is programme director of SMU SKBI, attributed the decline of inflation expectations to several factors.

"Macro-prudential policies of the regulators, such as cooling measures in property and private transportation, are having an effect in controlling price rises. This might also have an

impact on reducing pass-through costs, although the tight labour market might continue to pose some challenges in terms of domestic wage rises," he said.

The SInDEx report also noted that commodity prices, including food, have eased in the last quarter, and this has exerted a downward pressure on price levels.

"Furthermore, imported inflation emanating from Asean countries has weakened, even though the global economic outlook, including China, India, besides the G-3 economies (US, eurozone and Japan) is more positive," said the report.