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Property cooling measures, increase in vehicle quota cited

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[SINGAPORE] Singapore consumers continue to see inflation easing in the next one year, thanks to the recent property cooling measures and increase in vehicle quota, but economists warn that external risks could affect price stability forecasts in the longer term.

Going by the latest Singapore Index of Inflation Expectations (SInDEx) survey conducted in June, consumers polled expect overall inflation to stand at 3.66 per cent, down from 3.72 per cent in December 2013.

While this marks the lowest reading since the survey's inception in September 2011, it is far above the Monetary Authority of Singapore (MAS's) forecast of 1.5-2.5 per cent, and OCBC Bank's 1.7 per cent, for 2014.

The survey also found that consumers' expectations for core inflation (which excludes accommodation and private transportation-related costs) fell by 0.03 per cent to 3.85 per cent for the year ahead.

This compares to the MAS's core inflation forecast of 2-3 per cent, elevated due to domestic cost pressures stemming from a tight labour market, said the central bank. OCBC's forecast was 2.4 per cent.

"Property prices in Singapore have reacted to curbs in (total) debt servicing ratios, and the slight temporary increase in vehicle quota has dampened car prices. We see this reflected in the moderation of overall inflation expectations," Aurobindo Ghosh, co-creator of the SInDEx survey, said of the findings.

Selena Ling, head of treasury research and strategy for OCBC Bank, agreed: "I'm generally not surprised by the drop in headline inflation expectations, given that the year-to-date consumer price index (CPI) prints have been more subdued compared to market forecasts, and the macro-prudential measures have put a big dampener on domestic asset prices."

However, she cautioned that core inflation has consistently stayed above 2 per cent (apart from an outsider print of 1.6 per cent year-on-year in February), and the manpower shortfall is likely to pressure the pass-through of labour-intensive services industries into consumer prices.

The latest decline in inflation expectations is also a result of global economic uncertainty arising from the winding down of bond buying activities and record low unemployment rates in the US, according to the report.

And continued global uncertainly – likely caused by supply shocks to oil and gas prices or war – will only adversely impact inflation expectations in the long term, said analysts.

"There are certainly risks in the near term, for instance, the potential for US and European Union sanctions to push up oil and gas prices, which will feed through into inflation," said Michael Wan, economist at Credit Suisse.

"Nonetheless, these risks seem quite manageable at the moment. Our estimates show that even if oil prices inch up to US$114 per barrel (from US$106 per barrel currently), this should be very comfortable for CPI inflation in the region as a whole. A sustained oil price rise to US$125 per cent barrel will have a much bigger impact," he quantified.

But Francis Tan, economist at UOB Bank, noted that it is difficult to forecast external risks such as war, which can lead to supply shocks to food and oil.

"What is more certain is the reduced and eventual stop of bond buying activities in the US, which could in fact raise prices rather than lower them."

If the US commits to the tapering of quantitative easing, its economy and demand for consumption and investment will recover, leading to higher nominal interest rates, export prices and eventually, consumer prices, Mr Tan said.

The SInDEx survey, originally developed by the Singapore Management University's Sim Kee Boon Institute for Financial Economics in collaboration with MasterCard, polled some 400 Singapore individuals to understand the behaviour and sentiments of decision makers in Singapore households.