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SMU index shows one-year-ahead inflation expectations of Singapore households rising to 3.73%

By MINDY TAN
tanmindy@sph.com.sg
@MindyTanBT

Singapore

DOMESTIC pass-through price pressures have pushed up both the headline inflation rate (CPI-All Item) and core inflation rate expectations for the first time since September 2012.

The one-year-ahead inflation expectations of Singapore households has inched up to 3.73 per cent, according to the research findings of the latest quarterly survey for Singapore Index of Inflation Expectations (SInDEx), by Singapore Management University (SMU). In June 2014, the one-year-ahead headline inflation was 3.66 per cent.

Compared to the historical average of 4.16 per cent and the second quarter average of 3.79 per cent, the current one-year-ahead headline inflation expectations shows that Singapore households are a little wary of possible price increases on essential items due to pass-through costs despite a significant drop in current inflation rates.

Following the overall headline inflation, the one-year-ahead Singapore core inflation expectations (excluding accommodation and private transportation related costs) also edged up to 3.95 per cent in Sept from 3.85 per cent in June, reflecting an apparent end to the downward trend since Sept 2012.

For a subgroup of the population who own their accommodation and use public transport, the one-year-ahead Singapore core inflation rate was 3.83 per cent in the Sept survey compared to 3.81 per cent in June.

One-year-ahead Singapore Index of Inflation Expectations (SInDEx1), a composite weighted index of one-year-ahead inflation expectations, maintained an overall downward trend to 3.84 per cent, continuing its sub 4 per cent value since June 2013, and lower than its historical average of 4.2 per cent.

Despite a significant drop in current inflation rates, households are a little wary of price hikes on essential items due to pass-through costs. FILE PHOTO

SInDEx1 puts lower weightage on more volatile components like accommodation, private transportation, food and energy expenses, hence it is expected to be more stable than the all-inclusive headline inflation expectations.

"Recent moderation in accommodation prices and private car prices in Singapore, together with subdued global and regional economic conditions, seem to have brought down the current CPI-All inflation rates to very low levels. However, the Monetary Authority of Singapore recently projected that there might be an upward pressure on the Singapore core inflation, possibly from the tight labour market and other pass-through costs. The elevated inflation expectations, including the headline inflation rate, is likely due to behavioural biases in survey based data which might cause respondents to over emphasise price rise in everyday items, while ignoring big ticket items," said SMU assistant professor Aurobindo Ghosh, co-creator and principal investigator of the SInDEx Project at SMU's Sim Kee Boon Institute for Financial Economics.

For the longer horizon, the five-year-ahead overall inflation expectations in the Sept survey stood flat at 4.72 per cent (unchanged since Dec 2013). This is the lowest since inception, maintaining a slowing trend of decline since Sept 2012. The five-year-ahead Singapore core inflation rate (excluding accommodation and private road transportation related costs) inched down to 4.45 per cent from 4.5 per cent in the June 2014 wave.

The composite five-year-ahead Singapore Index of Inflation Expectations (SInDEx5) in Sept 2014 edged up to 4.57 per cent from 4.51 per cent in June 2014, still significantly lower than the historic average SInDEx5's of 4.88 per cent.

Without any other benchmark, this composite index probably signals some discomfort among the respondents on the long running impact on purchasing power or real interest rate.