

Inflation expectations lowest in 3 years

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SINGAPORE'S inflation expectations have plummeted to their lowest levels in three years, due to sliding oil prices and shaky global growth.

Coupled with an anticipated increase in benchmark interest rates, consumers polled in December now expect overall inflation to stand at 3.53 per cent this year, according to the latest Singapore Index of Inflation Expectations (SInDEx) by the Singapore Management University (SMU).

This is not only lower than their previous one-year inflation expectation of 3.73 per cent recorded in September last year, it is also below the historical headline and fourth quarter inflation expectations averages of 4.11 per cent and 4.08 per cent, respectively.

Still, the latest 3.53 per cent figure is higher than the official headline inflation forecast of 0.5-1.5 per cent in 2015.

Explaining the divergence, Aurob-

Softer inflation expectations

	INFLATION RATE (%)		
	SEPT 2014 SInDEX (1-YR AHEAD EXPECTATIONS)	DEC 2014 SInDEX (1-YR AHEAD EXPECTATIONS)	NOV 2014 LATEST CPI INFLATION RATE
Headline inflation	3.73	3.53	-0.3
MAS core inflation	3.95	3.61	1.5

Source: SMU SInDEx survey, Department of Statistics

indo Ghosh, who co-created the SInDEx, said: "For survey-based instruments that are used for measuring inflation expectations, like SInDEx, there is less impact of base effects, unlike activity based measures like headline inflation. Therefore, even though there is a significant drop in expectations of inflation among Singapore households, those expectations are still higher than the actual numbers that are observed based on economic data.

"In my opinion, the change of direction such as a drop in expectations of inflation is more informative than the actual level," added Dr Ghosh, who is

an Assistant Professor of Finance at SMU's Sim Kee Boon Institute for Financial Economics (SKBI).

Derived from an online poll of 500 consumers, the latest SInDEx report – originally developed by SKBI in collaboration with MasterCard International – also found that the public now expects a lower rate of core inflation, which excludes accommodation and private transport costs.

Expectations for core inflation this year have dropped to 3.61 per cent, from 3.95 per cent last September.

Both the overall and core inflation expectations are at their lowest levels since the SInDEx survey started in September 2011.

Said Dr Ghosh: "The recent moderation in accommodation prices and private car prices in Singapore, exacerbated by the slump in oil prices which dampened imported inflation, seem to have brought down the current inflation rates and their expectations to very low levels."

Indeed, Minister for Trade and Industry Lim Hng Kiang noted in Parliament on Monday that the sharp fall in global oil prices – from a peak of US\$115 per barrel to around US\$50 per barrel – "will translate to lower electricity tariffs and fuel costs, which will directly benefit businesses and consumers".

The Department of Statistics will announce the inflation rate for December this Friday. The 18 economists polled by Bloomberg expect headline inflation to remain in negative territory – albeit barely at -0.1 per cent.

At -0.3 per cent, November had marked Singapore's first technical deflation in five years. But economists have described the below-zero figure as a blip, and do not expect it to continue into 2015.