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**Headline: Inflation expectations drop to 3.5-year low: SMU survey**

# Inflation expectations drop to 3.5-year low: SMU survey

**Persistently weak oil prices, exchange rate fluctuations on US rate hike fears sway those polled**

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INFLATION expectations in Singapore have continued to drop, reaching a new 3.5-year low of 3.05 per cent.

Consumers polled in March were swayed not just by domestic factors, but also by global ones, the latest Singapore Index of Inflation Expectations (SInDEx) by the Singapore Management University (SMU) showed.

These included persistently weak oil prices accentuated by the uneven global recovery, and exchange rate fluctuations on US rate hike fears.

The new reading is lower than their one-year inflation expectation of 3.52 per cent recorded in December last year. It is also the lowest since the launch of SInDEx in September 2011, and below the historical headline and first quarter inflation expectations averages of 4.03 per cent and 3.77 per cent respectively.

Said Aurobindo Ghosh, who co-created the SInDEx: "Despite a divergent but upbeat World Economic Outlook by the International Monetary Fund for 2015, low oil prices and fluctuating exchange rates are probably here to stay in the medium term. These phenomena have had a significant negative impact on expectations of inflation the world over, including the G3 economies.

"Singapore is no different. Domestic factors such as the impending supply glut in COE (certificate of entitlement) quota and upcoming additional supply of accommodation, lower than expected pass-through costs despite tight labour market and medical subsidies have brought down the inflation expectations by Singaporeans in the current quarterly SInDEx survey."

The latest quarterly online poll of around 500 consumers also found that the public now expects a lower rate of core inflation, which excludes accommodation and private transport costs.

Expectations for core inflation in the year ahead have dropped to 3.44 per cent, from 3.6 per cent last September – also a new low.

Still, both headline and core inflation expectations are much higher than official estimates; full-year headline and core inflation forecasts stand at -0.5 to 0.5 per cent, and 0.5 to 1.5 per cent respectively.

Explaining the disparity, Dr Ghosh, who is an assistant professor of finance from the Lee Kong Chian School of Business, said: "Quarterly surveys like SInDEx on medium and long-term inflation expectations usually provide lower fluctuations than short-term inflation expectations. In a low inflationary environment, many consumers might not see a huge reduction in their overall expenditure.

"The main reason for this is because the consumption basket for measuring consumer price index is representative but not experienced by all individuals. Hence, survey-based instruments, even after corrections, might overestimate inflation expectations when there is near zero or negative inflationary environment."

The Department of Statistics will announce the inflation rate for March on Thursday. The 16 economists polled by Bloomberg expect headline inflation to remain in negative territory, at -0.5 per cent. However, five economists foresee core inflation remaining sticky at 1.1 per cent.

Just last week, the Monetary Authority of Singapore said that external price pressures should be contained while the domestic pass-through of costs to consumer prices is expected to be moderate this year.

Beyond the near term, however, MAS flagged how underlying cost and price pressures could pick up, given the continued tightness in the labour market.

## Softer again

| INFLATION RATE (%) | DEC 2014 SINDEX* | MARCH 2015 SINDEX* | LATEST CPI INFLATION RATE – FEB 2015 |
|---|---|---|---|
| Headline inflation | 3.52 | 3.05 | -0.30 |
| MAS core inflation | 3.60 | 3.44 | 1.30 |

*One-year ahead expectations

Source: SMU SInDEx survey, Department of Statistics