

Singaporeans wary of rising cost of living: SMU survey on inflation

Inflation expectations rise for the first time since September 2012, mainly due to domestic pass-through price pressures, such as rental and tight labour conditions, according to the SMU SInDEx survey.

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Fujitsu is partnering with Singapore to set up a research center for urban and port management.

SINGAPORE: For the first time in two years, households in the Republic expect the rate of inflation to rise in the short term, according to a Singapore Management University (SMU) survey - which indicates that Singapore households are wary of possible price increases on essential items, the varsity said.

The one-year-ahead inflation expectations of Singapore households rose to 3.73 per cent in September 2014, SMU announced on Monday (Oct 20), based on the latest quarterly survey for the Singapore Index of Inflation Expectations (SInDEx).

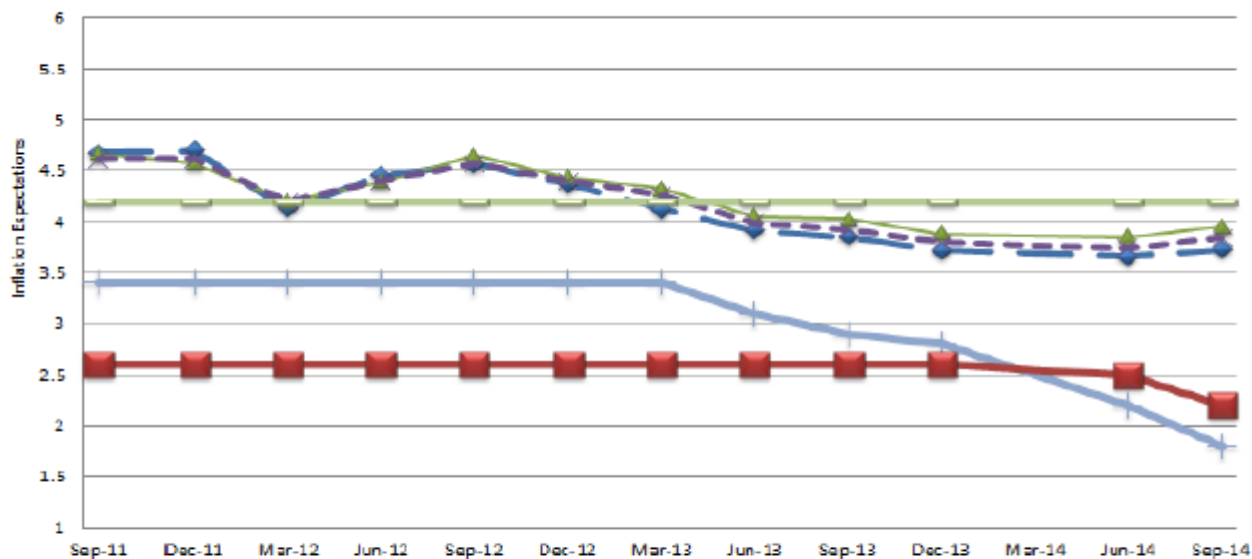
In a press release, SMU said that this is the first rise for both headline rate (or CPI-All Item) and Singapore core inflation rate (excluding accommodation and private transportation expenses) expectations since September 2012. The rise in expectation is mainly due to domestic pass-through price pressures, such as rental and tight labour conditions, added SMU.

The headline inflation rate rose to 3.73 per cent from 3.66 per cent in June 2014. This compares to the historical average of 4.16 per cent and the second quarter average of 3.79 per cent, according to SMU findings.

The one-year-ahead core inflation (excluding accommodation and private transportation expenses) expectations increased to 3.95 per cent in September from 3.85 per cent in June. For those who own their accommodation and use public transport, the core inflation expectations were 3.83 per cent in September 2014, a slight increase from June's 3.81 per cent.

The SInDEx1, a composite weighted index of one-year-ahead expectations, continued its downward trend to 3.84 per cent, which is lower than the historical average of 4.2 per cent, said SMU.

One-year Ahead Inflation Expectations



	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14
Headline	4.68	4.7	4.18	4.45	4.57	4.37	4.12	3.91	3.85	3.71	3.66	3.73	
Singapore Core	4.67	4.58	4.2	4.39	4.65	4.44	4.32	4.05	4.08	3.88	3.85	3.95	
SInDEx1	4.62	4.62	4.2	4.4	4.57	4.4	4.26	3.99	3.92	3.8	3.74	3.84	
Avg.SInDEx1	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20
SPF 2014	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.1	2.9	2.8	2.2	1.8	
SPF 2015	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.5	2.2	

Figure 1: One-year-Ahead Singapore Index of Inflation Expectations

The five-year-ahead overall (CPI-all items) inflation expectations in September remained at 4.72 per cent, unchanged since December 2013, while the core inflation rate inched down to 4.45 per cent in September from 4.5 per cent in June.

The SInDEx5, a composite weighted index of five-year-ahead expectations, inched up from 4.51 per cent in June to 4.57 per cent in September. This value is still lower than the historic average of 4.88 per cent, said SMU, but added that it signified some discomfort among the respondents on the long running impact on purchasing power or real interest rate, said the university.

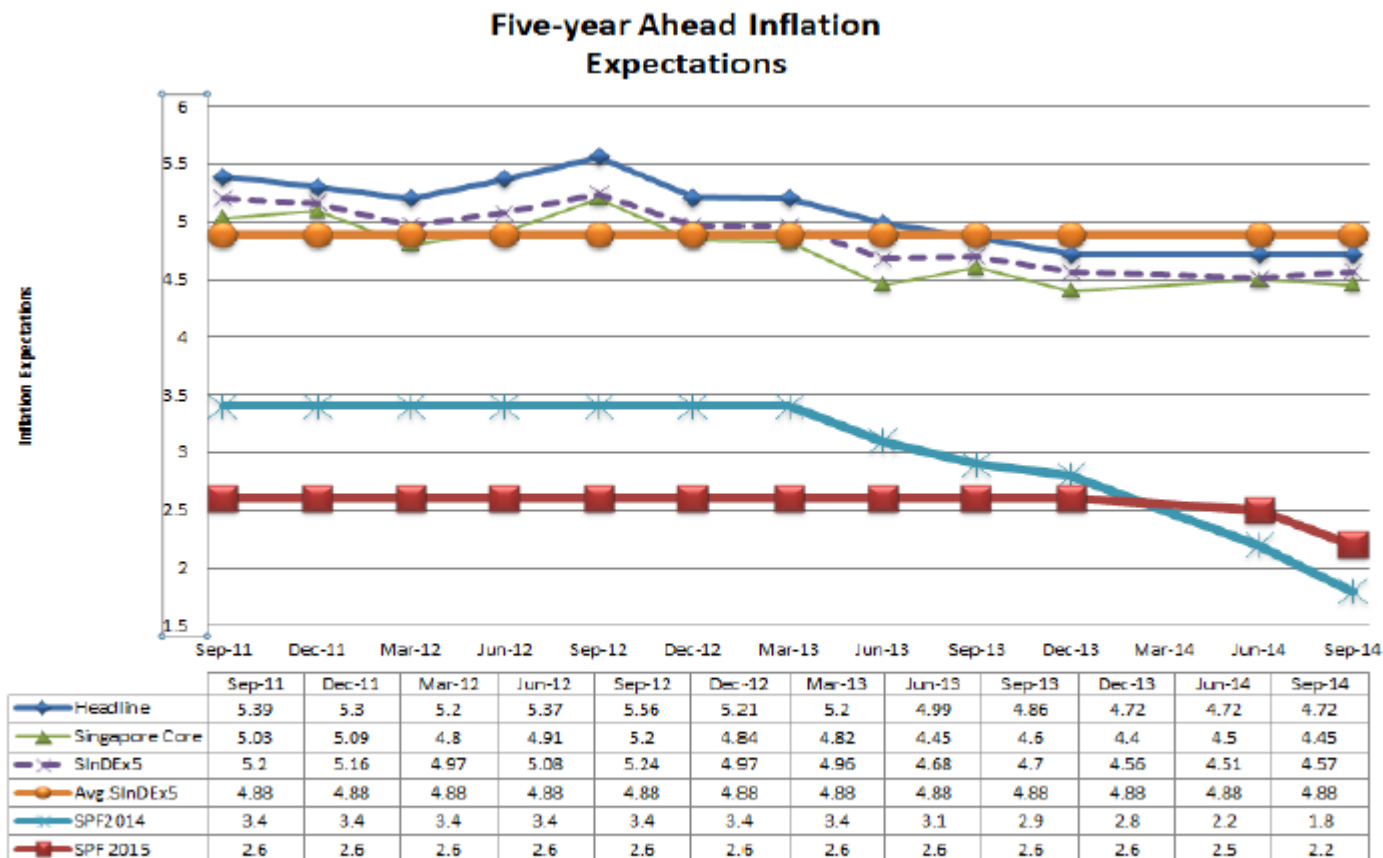


Figure 2: Five-year-Ahead Singapore Index of Inflation Expectations

"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," said SMU Assistant Professor Aurobindo Ghosh, co-creator and Principal Investigator of the SInDEX Project at SMU's Sim Kee Boon Institute of Financial Economics.

"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," he added.

The SInDEX is derived from an online survey of around 500 randomly selected consumers, and aims to help researchers understand the behaviour and sentiments of decision makers in Singapore households, said SMU.