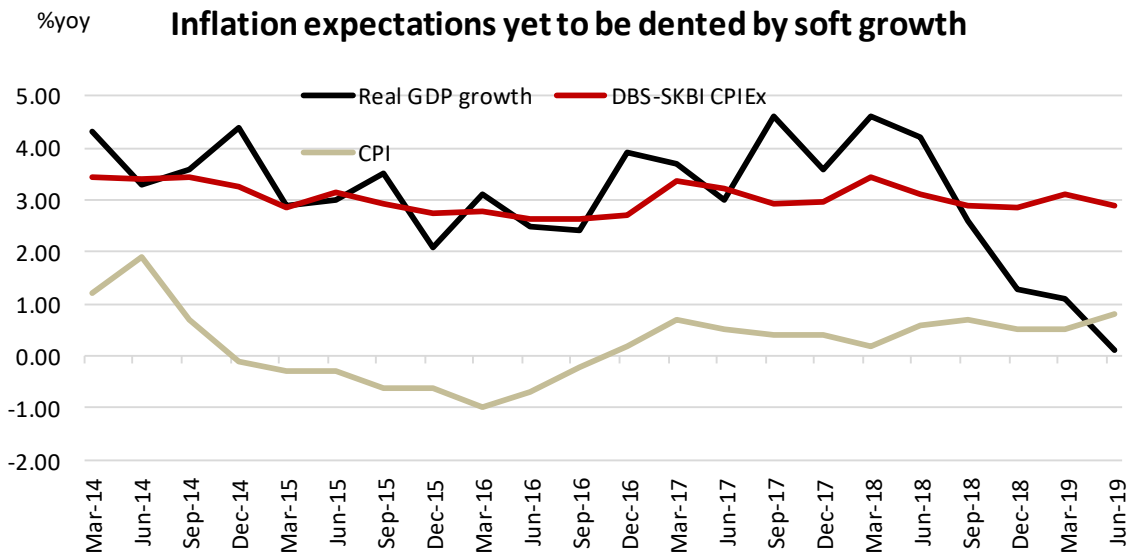


SINGAPORE: CONSUMER INFLATION EXPECTATIONS LARGELY FLAT DESPITE WEAKER GROWTH

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These are the research findings of the 32nd quarterly release of the DBS-SKBI Singapore Index of Inflation Expectations (SInDEx) Survey at the Sim Kee Boon Institute for Financial Economics (SKBI), Singapore Management University (SMU).

One-year-Ahead headline inflation expectations polled at 2.9% in June 2019. The reading compares to 3.1% polled in March 2019, and the recent second quarter (2018-19) average of 3%. The overall CPIEx Inflation Expectations, after adjusting for potential behavioral biases and re-combining across components, were also at 2.9% in June 2019 compared to 3.1% in March 2019. This also suggests that Singaporeans' inflation expectations are well-grounded from both the aggregated and the components-wise comparisons. One-year-ahead inflation expectations, adjusted for behavioral biases, dropped to 2% in June 2019, reverting to its most frequently polled value since inception in June 2018 (Fig 3).



Sources: Ministry of Trade and Industry, Singapore, DBS, SKBI. Note that 2Q GDP figure is an advance estimate and June inflation is a forecast.



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Excluding accommodation and private road transportation related costs, the One-year-Ahead Core CPIEx inflation expectations stayed unchanged 3.1% in June 2019 from March 2019. For a subgroup of the population who own their accommodation and use public transport, the One-year-Ahead CPIEx core inflation expectations inched up to 3.1% from 3.0% in March 2019. This subgroup's expectations of core inflation follow the Singapore Core Inflation Expectations readings, as unlike the general population they are not exposed to private road transportation or accommodation expenses.

DBS-SKBI SInDEX survey was augmented in June 2018, based on a joint research study conducted by SMU researchers in collaboration with the Monetary Authority of Singapore (MAS) and the Behavioral Insights Team, where respondents were polled about their perceptions of components of the Consumers Price Index (CPI) and adjusted for possible behavioral biases prevalent in online surveys.

Based on the recommendations of that study the research team had, since March 2019 polled the one-year-ahead inflation expectations of all of the major components of CPI-All Items inflation. Compared to March 2019, the June 2019 survey revealed inflation expectations across all categories have either stayed the same or dropped quarter on quarter, although without the same quarterly benchmark we were not able to conclude if the moderation is a peculiarity or a natural quarterly seasonality of these indices. The component inflation expectations indices that dropped in June 2019 survey compared to March 2019 are healthcare, education, recreation and communications.

Dr. Taimur Baig, DBS Chief Economist, commented, "Despite a weakening of growth in recent quarters and sub-1% headline inflation for several years, inflation expectations continue to hover around 3% in Singapore. This interesting finding suggests factors such as perceptions about broader cost of living continue to persist in a sticky manner."

For the longer horizon, the Five-year-Ahead CPIEx inflation expectations in the March 2019 survey edged down to 3.9% from 4.1% in March 2019. The current polled number is lower than the long-term (from 2012-19) average of 4.2%.

The Five-year-Ahead CPIEx core inflation expectations (excluding accommodation and private road transportation related costs) stayed unchanged at 3.8% in June 2019 from March 2019. Overall, the composite Five-year-Ahead SInDEX5 dropped to 3.8% in June 2019 from 3.9% in March 2019, much lower compared to its historical average of 4.1%.

SMU Assistant Professor of Finance and Principal Investigator of the DBS-SKBI SInDEX Project, Aurobindo Ghosh observed, "The World Bank, in its semiannual Global



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Economic Prospects (June 2019), have underscored the fragility in the global growth momentum with downside risks including a significant drop in global trade growth and consequent negative impact on business confidence. These headwinds to global growth might have slightly dampened inflation expectations in Singapore as well.

“Generally, on a year-on-year basis, there have been smaller declines in accommodation costs and private road transportation costs have picked up, although increases in the costs of food, fuel & utilities and other travel & transport have moderated in recent months. Furthermore, overall and non-energy import prices have been low. Softening labor market have also somewhat reduced the price pressure passed through to consumers. All these counterbalancing factors in net have caused overall inflation expectations CPIEX to move marginally downwards while the Core CPIEx Inflation expectations have remained unchanged. The DBS-SKBI survey also have provisions for adjusted indices to account for potential behavioral bias in survey responses. The median inflation expectations, after adjustment for behavioral biases for both Headline and Core Inflation Expectations, drops to 2% and 2.2% respectively, which are lower than the unadjusted indices reported. These are consistent with several academic studies, such as the Michigan-Reuters Survey in the US and the more recent surveys in New Zealand on persistent biases in inflation expectations.” Prof. Ghosh added.

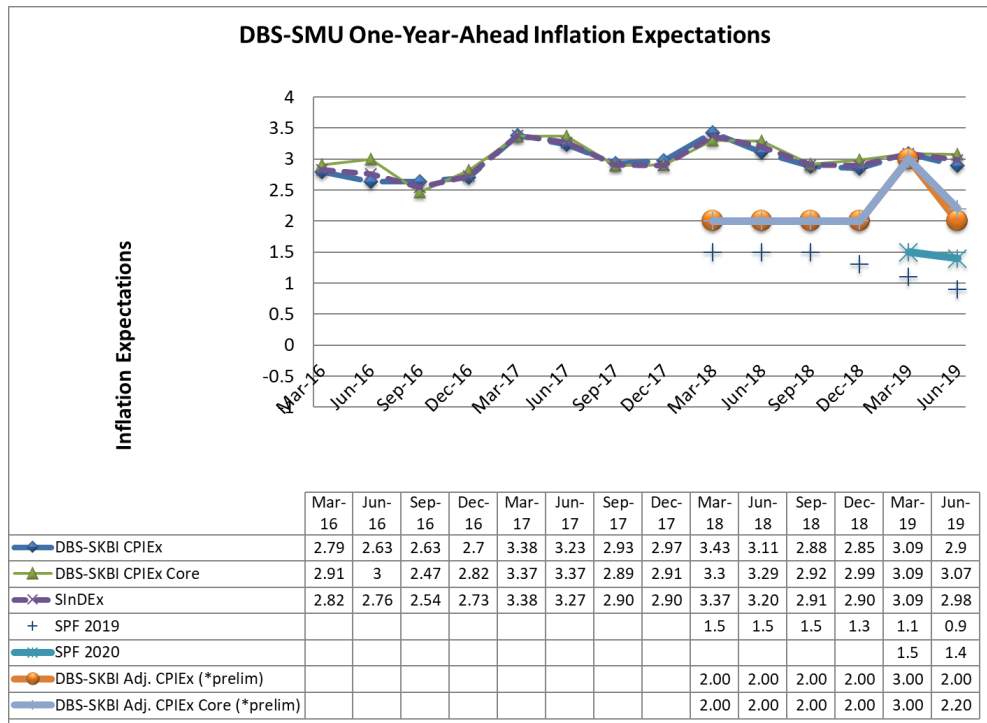


ANNEX

Methodology

DBS-SKBI SInDEX survey yields CPIEx Inflation Expectations and related indices are products of the online survey of around 500 randomly selected individuals representing a cross section of Singaporean households. The survey is led by Principal Investigator Dr. Aurobindo Ghosh, Assistant Professor of Finance (Education) at Lee Kong Chian School of Business, SMU. The online survey helps researchers understand the behavior and sentiments of decision makers in Singaporean households. DBS Group Research is a co-sponsor and research partner together with the Sim Kee Boon Institute for Financial Economics (SKBI) at SMU.

Figure 1: One-year-Ahead-inflation expectations



The quarterly DBS-SKBI SInDEX survey has also yielded two composite indices, SInDEX1 and SInDEX5. SInDEX1 and SInDEX5 measure the 1-year inflation expectations and the 5-year inflation expectations, respectively. The sampling was done using a quota sample over gender, age and residency status to ensure



representativeness of the sample. Employees in some sectors like journalism and marketing were excluded as that might have an effect on their responses to questions on consumption behavior and expectations.

Figure 2: Five-year-Ahead-Inflation Expectations

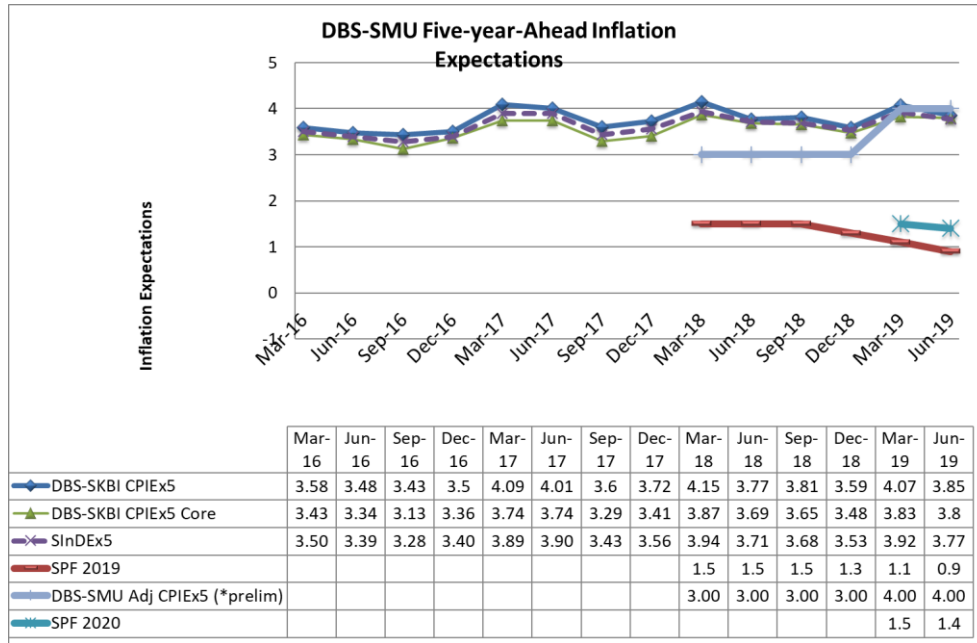
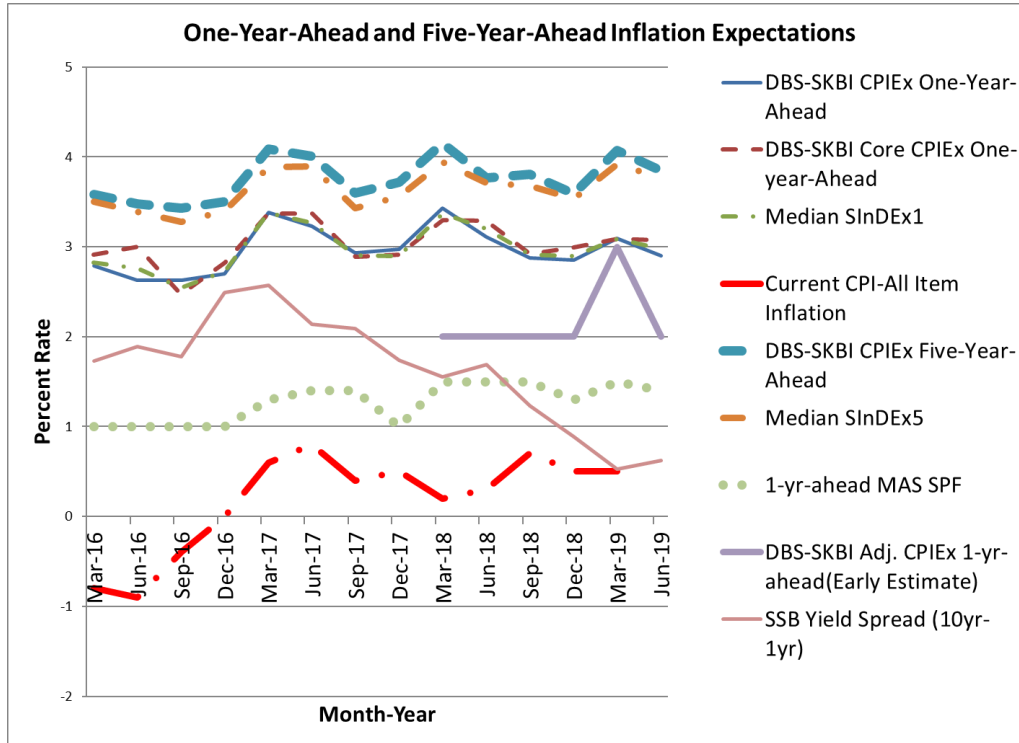




Figure 3: One-Year and Five-Year Ahead Inflation Expectations



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DBS provides a full range of services in consumer, SME and corporate banking. As a bank born and bred in Asia, DBS understands the intricacies of doing business in the region's most dynamic markets. DBS is committed to building lasting relationships with customers, and positively impacting communities through supporting social enterprises, as it banks the Asian way. It has also established a SGD 50 million foundation to strengthen its corporate social responsibility efforts in Singapore and across Asia.



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The Sim Kee Boon Institute for Financial Economics (SKBI) is the premier Asian institute for applied financial research and training in financial economics. It is the think-tank within SMU that spearheads cutting-edge research in financial markets that is driven by industry and societal needs in Singapore and the region.

Over the last 10 years, a diverse portfolio of financial research, outreach and training initiatives has been built. In the coming 10 years, while further expanding that traditional financial economics portfolio, the Institute will focus our efforts on the areas of financial inclusion and literacy, sustainable finance, financial technology, and data and governance. To maintain our relevance to finance practitioners and policy-makers, SKBI also adopts a view on Asian and global economic trends.

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