



## **Media Release**

### **Singaporeans' inflation expectations pared to 2.93% reflecting weakened global inflation trends**

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**Singapore, 16 October 2017 (Monday)** – Singaporeans' One-year-Ahead median inflation expectations moderated to 2.93% in September 2017, continuing a short-term downward trend since March 2017, according to the research findings of the latest quarterly survey for the Singapore Index of Inflation Expectations (SInDEX) by the Sim Kee Boon Institute for Financial Economics (SKBI) at Singapore Management University (SMU).

The International Monetary Fund (IMF), in its World Economic Outlook report released earlier this month, raised the global economic growth forecasts for 2017 and beyond. It highlighted buoyant consumer sentiments in the major economies as a reason for this optimism. However, the report also point out that there are headwinds and fragility to the prospect of unfettered growth. The main challenges come from weaker productivity growth, persistently low inflation despite accommodative monetary policies, and significant policy uncertainty such as increasing protectionism in many countries including some of the G3 economies (US, Eurozone and Japan). This is against the backdrop of record high stock market indices in many of the major economies including in Asia, recovering oil prices, an upswing in commodity prices and declining unemployment rates. It is therefore hardly surprising that the US Federal Reserve initiated a gradual normalisation of the monetary policy bolstered by these positive macro-economic data. Notwithstanding the optimism, commenting on the curiously persistently low inflation rate, the US Federal Reserve chairwoman Janet Yellen observed that accommodative policy might affect "...economic activity and inflation at a substantial lag."

Globally, monetary policymakers are, as the IMF report succinctly puts, in search of "sustainable and inclusive growth." Central banks, however, are cognizant of how global trade, finance and technology can affect unemployment and productivity growth, which in turn impact the strengths of global currencies. As a small open economy, Singapore is often adversely impacted by such policy uncertainties, particularly those that might impede multilateral trade through higher trade barriers and consequently volatile global prices.

On the domestic front, a few factors might have contributed to changes in the medium- and long-term inflation expectations. A significant decline in private road transport

inflation owing mainly to lower COE premiums in the recent rounds of bidding might have more than compensated the slight increase in accommodation costs with the disbursement of Service & Conservancy Charges rebates already completed. Furthermore, there has been a substantial decline in food inflation on the back of a decline in non-cooked food item prices such as bread and cereals. Additionally, with a loosening labour market, pass-through costs like wage pressures might have also somewhat relaxed despite certain increases in administrative, energy and utility costs. Finally, the relative strength of the Singapore dollar against major currencies including the US dollar and the British pound might have kept a lid on imported inflation and consequently future expected energy prices. It appears, the net impact of these counter-balancing price pressures have resulted in an overall decline in the one-year-ahead and five-year-ahead inflation expectations of Singaporean households.

SInDEx was developed under the supervision of Assistant Professor Aurobindo Ghosh of the SMU Lee Kong Chian School of Business and partially funded by SMU Sim Kee Boon Institute for Financial Economics. The SInDEx survey, supported and implemented by Agility Research & Strategy, a leading Asian consumer insights and strategy firm with a large client base of government and private sector clients, is derived from an online survey of around 500 randomly selected individuals representing a cross section of Singaporean households. The online survey helps researchers understand the behaviour and sentiments of decision makers in Singaporean households. The quarterly SInDEx survey has yielded two composite indices, median SInDEx1 and median SInDEx5. Medians are less affected by outliers in survey-based methods, hence median SInDEx is used for the current release.

In the latest and the twenty-fifth wave of the SInDEx survey conducted in September 2017, consumers shared their views on expectations of inflation-related and asset management related variables over the medium term (One-year-Ahead) to long term (Five-year-Ahead).

The results of the September 2017 survey showed that the median One-year-Ahead headline inflation (or CPI-All Item inflation) dropped to 2.93% from 3.23% recorded in June 2017. As a comparison benchmark, the *mean* One-year-Ahead headline inflation rate, also moved down to 3.21% in the September 2017 survey compared to 3.56% recorded in the June 2017 survey.

Compared to the historical median headline inflation expectations (since September 2011) average of 3.46%, current One-year-Ahead median headline inflation is still lower, but it is higher than the recent third quarter average of 2.78%.

Excluding accommodation and private road transportation related costs, the One-year-Ahead median Singapore core inflation expectations was recorded at 2.89% in September 2017, nearly a 0.5 drop from its June 2017 value of 3.37%. For a subgroup of the population who own their accommodation and use public transport, the One-year-Ahead median Singapore core inflation rate for the subgroup also dropped significantly to 2.88% in September 2017 compared to 3.54% polled in June 2017. This subgroup's expectations of core inflation closely resembles the Singapore Core Inflation Expectations, as unlike the general population they are not exposed to private transport or private accommodation expenses. These results indicate that there seems to be a short-term downward trend in the perception of future overall price changes representing the Singapore core inflation rate that excludes housing and private road transportation.

In summary, the One-year-Ahead median Singapore Index of Inflation Expectations (Median SInDEx1), a composite weighted index of One-year-Ahead median inflation expectations, also moderated to 2.90% in September 2017 from 3.27% in June 2017 survey. Furthermore, the median SInDEx1 remained lower than its historical average value of 3.46% since its inception in September 2011. SInDEx1 is constructed as a plausible alternative and more stable measure of inflation expectations by putting lower weightage on the more volatile and policy-sensitive components such as accommodation, private transportation, food and energy. Median SInDEx1 is also less adversely affected by extreme values, unlike the original mean SInDEx1.

SMU Assistant Professor of Finance Aurobindo Ghosh, who is the Principal Investigator of the SInDEx Project highlighted, “The Holy Grail for policymakers the world over seems to be the search for inclusive growth in an era of disruption and stock markets reaching record levels on a daily basis. Traditional or classical economics is also being tested, with the negative relationship between inflation and unemployment or the Phillips curve seem not to hold true anymore. In particular, the low inflation rates in the G3 economies, despite very accommodative policies, are puzzling to the Central bankers. Recent inflation expectations surveys by the New York Federal Reserve also highlighted pessimism owing to uncertainty in the implementation of the tax policies as a result of increasing acrimony within the current US Administration. All these developments might have kept the US dollar slightly depressed against major global currencies including the Singapore dollar, despite a continuing neutral stance on the Singapore dollar by the Monetary Authority of Singapore.”

For the longer horizon, the Five-year-Ahead median headline (CPI-All Items) inflation expectations in the September 2017 survey also pared to 3.6% from 4.01% in June 2017. The current polled number is still much less than its historical average of 4.29% since the survey started in September 2011. For the purpose of comparison, survey finding shows that the mean Five-year-Ahead headline inflation recorded 4.01% in the September 2017 survey, substantially lower than the 4.42% recorded in June 2017 survey.

The Five-year-Ahead median Singapore core inflation rate (excluding accommodation and private road transportation related costs) dropped to 3.29% in September 2017 from 3.74% in June 2017. Overall, the composite Five-year-Ahead median Singapore Index of Inflation Expectations (median SInDEx5) corrected in September 2017 to 3.43% from 3.89% in June 2017, substantially lower than its historical median of 4.11%.

“Economists have always maintained that survey-based measures of inflation expectations might suffer from inherent cognitive or behavioral biases such as the *Frequency* bias or *Memory* bias where you recall the most frequently purchased items like food staples more rather than the less frequently purchased items which come with higher prices such as private road transportation. Richard Thaler, who received the 2017 Nobel Prize in Economics for his work on Behavioral Economics, when highlighting the record run of the stock market despite significant risk factors commented that ‘...nothing seem to spook the market...’ Having said that, the decline in the longer term inflation expectations towards the historic average of about 3% seem to be more rationally grounded or anchored.” Prof Ghosh observed.

## Methodology

Two indices were created, median SInDEx1 and median SInDEx5, to measure the 1-year inflation expectations and the 5-year inflation expectations. The data for the SInDEx survey was collected online from about 500 consumers. 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.

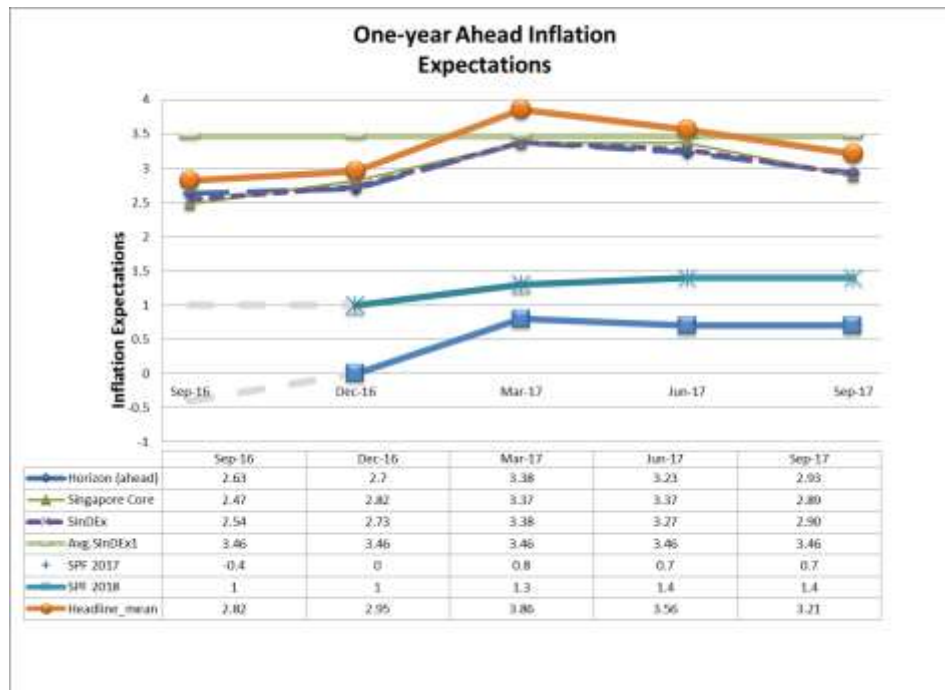


Figure 1: One-year-Ahead-inflation expectations in Singapore

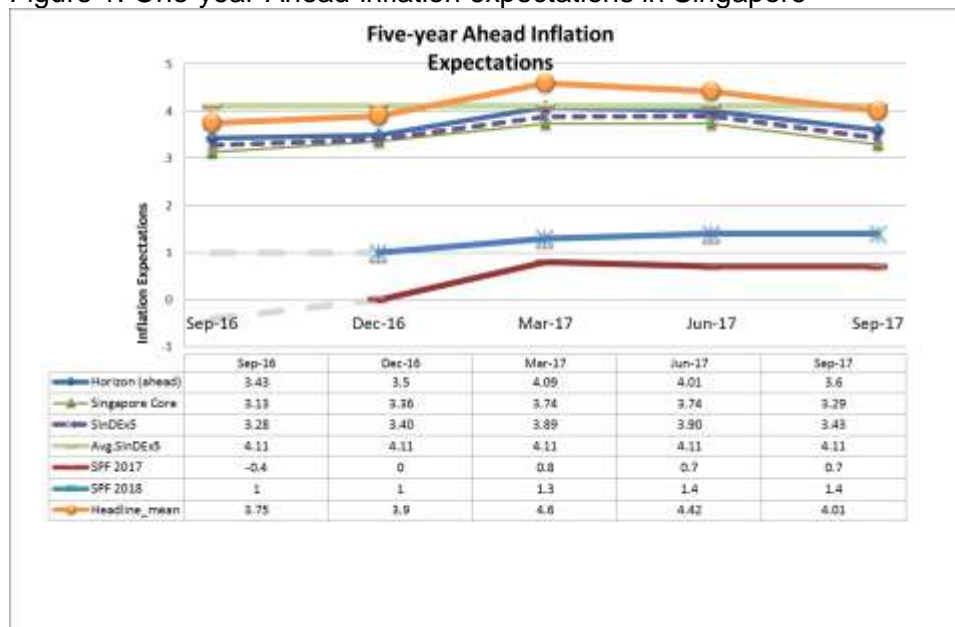


Figure 2: Five-year-Ahead-Inflation Expectations of Singapore

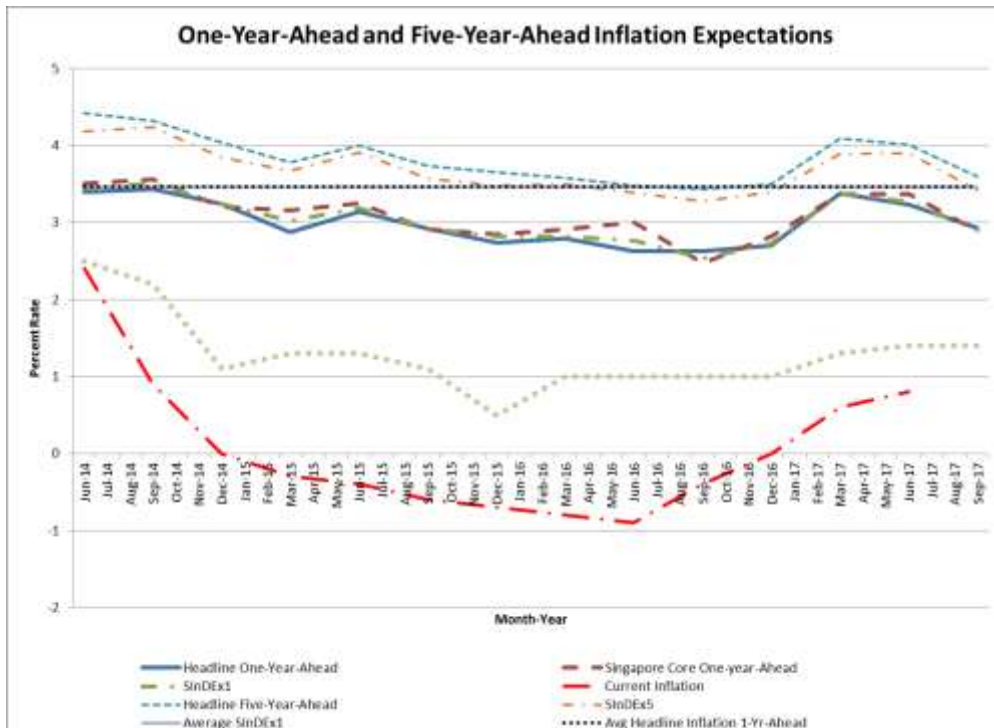


Figure 3: One-Year and Five-Year Ahead Inflation Expectations

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**About Singapore Management University**

A premier university in Asia, the Singapore Management University (SMU) is internationally recognised for its world-class research and distinguished teaching. Established in 2000, SMU’s mission is to generate leading-edge research with global impact and produce broad-based, creative and entrepreneurial leaders for the knowledge-based economy. SMU education is known for its highly interactive, collaborative and project-based approach to learning, and for its technologically enabled pedagogy of seminar-style teaching in small class sizes.

Home to around 10,000 undergraduate, postgraduate, executive and professional, full- and part-time students, SMU is comprised of six schools: School of Accountancy, Lee Kong Chian School of Business, School of Economics, School of Information Systems, School of Law, and School of Social Sciences. SMU offers a wide range of bachelors', masters' and PhD degree programmes in the disciplinary areas associated with the six schools, as well as in interdisciplinary combinations of these areas.

SMU has an emphasis on generating rigorous, high-impact, and relevant multi-disciplinary research that addresses Asian issues of global relevance. SMU faculty members collaborate with leading international researchers and universities from USA, Europe, China and India, as well as with partners in the business community and public

sector, through its research institutes, centres and labs. SMU's city campus is a state-of-the-art facility located in the heart of downtown Singapore, fostering strategic linkages with business, government and the wider community. [www.smu.edu.sg](http://www.smu.edu.sg)

### **About Sim Kee Boon Institute for Financial Economics**

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. SKBI focuses on five fundamental pillars of research, namely Financial Innovation, Financial Inclusion, Capital Markets, Asset Management and Corporate Finance.

Supported by SMU faculty and in collaboration and partnership with industry experts, relevant government bodies, and other world-renowned research agencies, the Institute conducts fundamental and applied research which aims at solving real-world issues. Besides research, SKBI also actively engages in training and consultancy, executive education and research dissemination in top tier journals, organising courses, seminars, and conferences. Our purpose-oriented activities are designed to bridge the gap between theory and practice and to act as accelerators with regard to financial policies and regulations.

SKBI is led by an Advisory Board that consists of prominent leaders of local and international organisations in the finance industry that have footprints across Asia, and of government agencies. <http://skbi.smu.edu.sg/>

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