



Media Release

Singapore households' inflation expectations inched up to 2.79% while long term inflation expectations hit 4.5-year low amid global "loss of growth momentum"

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Singapore, 18 April 2016 (Monday) – Singaporeans' One-year-Ahead median inflation expectations inched up to 2.79%, according to the research findings of the latest quarterly survey for Singapore Index of Inflation Expectations (SInDEX) by Singapore Management University (SMU).

The International Monetary Fund (IMF), in its January 2016 World Economic Outlook lowered the global growth outlook to 3.4%, and identified three transition challenges that will impact global growth - slowdown and restructuring of the Chinese economy, slump in commodity and energy prices, and the normalisation of US monetary policy. Since January 2016, while the Chinese economy is trudging along with lower capital outflows and there has been upward movement in oil prices due to more coordinated activities among the oil-producing countries, the normalisation of US monetary policy by the Federal Reserve seems to be the main challenge. The low interest rate environment is putting a strain on the banking sector, with the possibility of negative interest rate causing significant alarm among depositors and fixed income earners like retirees earning pensions. Continuing accommodative monetary policy or quantitative easing by the European Central Bank and the Bank of Japan have posed significant questions in the mind of the average consumer and investor about the effectiveness of monetary policy to drive global growth. In a recent speech, IMF Managing Director Christine Lagarde highlighted the "loss of growth momentum" in an environment of weakening global growth. As expected, in the most recent World Economic Outlook report released in April 2016, IMF cut its 2016 global growth outlook further to 3.2%.

The low interest rate environment accentuated by US Federal Reserve's policy stance of slower pace of interest rate hike led to a weakening of the surging US dollar, and consequently benign imported inflation in Singapore despite recovering oil prices. In the domestic front, costs pass-through to consumers from supportive labour market conditions have more or less been offset by decreasing COE premiums, accommodation costs and one-off budgetary subsidies like medical benefits under the Pioneer Generation Package, concession on foreign domestic worker levy, waiver of examination

fees, etc. As a result, the One year-Ahead inflation expectations has inched up from their lowest levels in December 2015.

The SInDEx, co-developed by Assistant Professor Aurobindo Ghosh of the SMU Lee Kong Chian School of Business, and currently funded by Ministry of Education Tier I grant, is derived from an online survey of around 500 randomly selected individuals representing a cross section of Singapore households. The online survey helps researchers understand the behaviour and sentiments of decision makers in Singapore 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 nineteenth wave of the SInDEx survey conducted in March 2016, consumers shared their views on expectations of inflation-related variables over the medium term (One-year-Ahead) to long term (Five-year-Ahead).

The results of the March 2016 survey showed that compared to December 2015, the median One-year-Ahead headline inflation (or CPI-All Item inflation) has an uptick to 2.79% from 2.74% in December 2015. As a comparison benchmark, the *mean* One-year-Ahead headline inflation rate inched down to 2.94% in the March 2016 survey compared to 3.01% in the December 2015 survey, its first sub 3% rate.

Compared to the historical (since September 2011) median headline inflation expectations average of 3.64% and the more recent first quarter average of 2.83%, the current One-year-Ahead median headline inflation is still slightly lower. Despite the uncertain and weak global growth climate, Singapore households surveyed believe that One-year-Ahead expected price changes seem to have flattened somewhat compared to a year ago.

Following the trajectory of the overall headline inflation, the One-year-Ahead median Singapore core inflation expectations (excluding accommodation and private transportation related costs) also increased to 2.91% in March 2016 (from 2.85% in December 2015), close to its lowest level recorded since SInDEx survey started in 2011. However, significantly, 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 rose significantly to 2.91% in the March 2016 survey compared to 2.67% in December 2015, which was its lowest level since June 2013. This subgroup's expectations of inflation closely tracks the Singapore Core Inflation Expectations, as they are not exposed to private transport or private accommodation expenses. This increase seems to be in line with the policy guidance by the Monetary Authority of Singapore about slow increase in the core inflation expectations in 2016.

One-year-Ahead Median Singapore Index of Inflation Expectations (Median SInDEx1), a composite weighted index of One-year-Ahead median inflation expectations, remained unchanged at 2.82% in March 2016, the same level as December 2015. This is significantly lower than the historical average value of 3.64% since the survey's inception in September 2011. SInDEx1 is constructed as an 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 less adversely affected by outliers, unlike the original mean SInDEx1.

Assistant Professor of Finance Aurobindo Ghosh, who is the Principal Investigator of the SInDEX Project observed, “The rise in global oil prices from 12-year lows and a concurrent increase in consumer confidence helped improve the market sentiment in the last quarter. However, the US Federal Reserve’s highly anticipated interest rate hike from near zero in December 2015, and expected normalisation of the expansionary monetary policy hit a road bump largely due to global jitters in the financial markets including the possibility of a BREXIT. The anticipated strengthening of the US dollar was also slower than expected. The combined impact might have dampened Singaporeans’ expectations of inflation through more benign imported inflation.”

For the longer horizon, the Five-year-Ahead median headline (CPI-All Items) inflation expectations in the March 2016 survey moderated down to 3.58% (from 3.65% in December 2015), this is the lowest level since the survey’s inception in September 2011. The mean Five-year-Ahead mean headline inflation recorded 3.99% in the March 2016 survey, slightly lower from 4.04% in December 2015.

The Five-year-Ahead median Singapore core inflation rate (excluding accommodation and private road transportation related costs) also inched up to 3.43% in March 2016 from 3.34% recorded in December 2015. The composite Five-year-Ahead median Singapore Index of Inflation Expectations (median SInDEX5) in March 2016 inched up to 3.50% from 3.48%% in December 2015, slightly off the lowest median SInDEX5 on record since September 2011. The long term inflation expectations of Singapore core inflation (without accommodation and private road transportation) seems to be well anchored with a marginal increase, in line with the forward guidance from policymakers and significantly less than the historical average median of 4.3% for SInDEX5 since September 2011.

“Recent academic policy literature on the trading of US Treasury Inflation Protected Security (TIPS) shows that market-based measure of long term inflation expectations usually shows a downward bias during periods of uncertainty, unlike survey-based measure like the Survey of Professional Forecasters or the SInDEX. Having said that, the continuing downward trend of the long term inflation expectations amid global uncertainty, including volatility in oil prices and financial market jitters, seem to indicate that Singaporean’s perception of long term inflation expectations are better anchored or grounded,” Prof. Ghosh added.

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 behaviour and expectations.

One-year Ahead Inflation Expectations

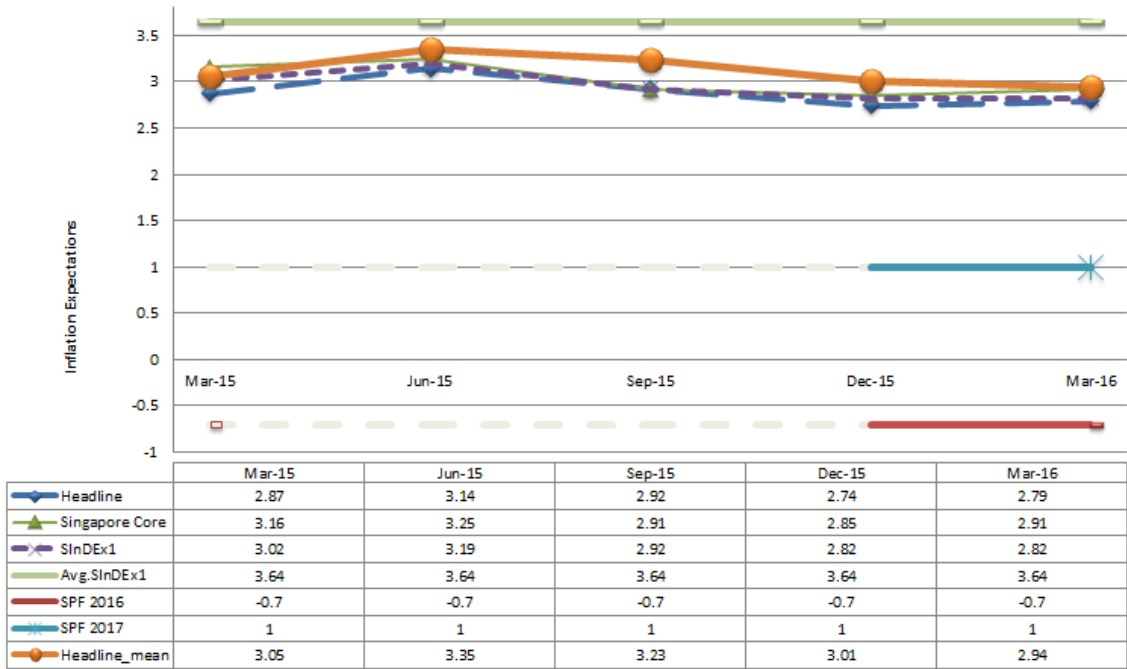


Figure 1: One-year-Ahead-inflation expectations in Singapore

Five-year Ahead Inflation Expectations

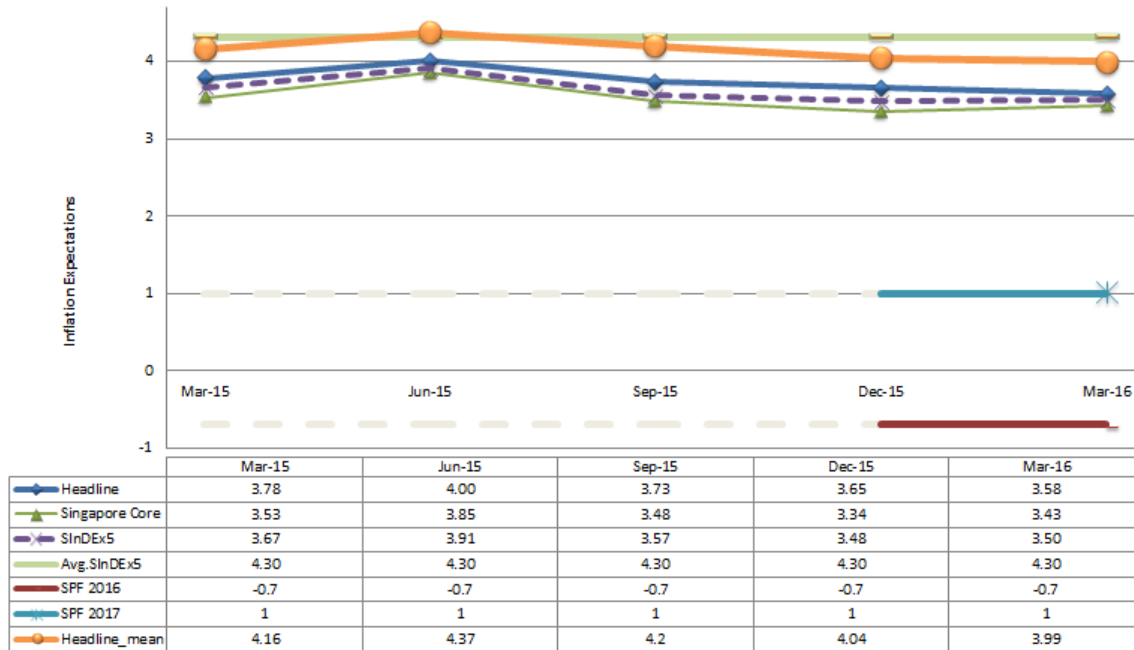


Figure 2: Five-year-Ahead-Inflation Expectations in Singapore

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.

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