



Media Release

Singaporean's Inflation Expectations inch up to 2.7% on fears of headwinds to global trade

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Singapore, 16 January 2017 (Monday) – Singaporeans' One-year-Ahead median inflation expectations inched up to 2.7% from its lowest level since September 2011, according to the research findings of the latest quarterly survey for Singapore Index of Inflation Expectations (SInDEx) by Sim Kee Boon Institute for Financial Economics (SKBI) at Singapore Management University (SMU).

In the December 2016 meeting of the Federal Open Market Committee (FOMC), the Federal Reserve Board unanimously decided to increase the benchmark interest rate by 25 basis points to just below 0.75. The US central bank also signaled an accommodative stance and gradual growth in interest rate in keeping with its dual mandate of maximum employment and price stability even though both market-based and survey-based measures indicated inflation is below its long term target of 2%. However, there are several headwinds for unfettered global growth. First, despite improving conditions, there are significant global policy uncertainty and risk to global trade including ongoing fear of a "hard landing" on BREXIT negotiations and its impact on the future of Eurozone including upcoming elections and referenda. Second, somewhat unknown foreign policy stance of the incoming US administration. These policy uncertainties and populist trends precipitate an increasing likelihood of multi-lateral trade pacts like the Trans Pacific Partnership (TPP) might take a backseat to possibly bilateral partnerships. There are some silver linings, such as the purported reduction of US corporate taxes by the Trump administration which might usher in a period of increased growth in the US and consequently elsewhere in the world.

On the domestic front, in its October policy announcements the Monetary Authority of Singapore (MAS) adhered to its neutral stance on monetary policy with zero percent appreciation of the Singapore dollar against a trade weighted basket of currency, continuing its policy since April 2016. There were mainly two sources of price pressures domestically. First, stabilizing pound sterling and slowly appreciating US dollar had an impact on the trade weighted Singapore dollar exchange rate. Improving US demand and consequent increase in oil and commodity prices meant that there was some though moderate risk from imported inflation. In Singapore, this might potentially have an uplifting effect on prices particularly on the Singapore core inflation (which excludes accommodation and private road transportation expenses). Second, with a slight increase in accommodation expenses, more or less unchanged private road

transportation costs and slackening in tightness of labor market conditions, pass-through costs for consumers were slightly higher as well. There has been dissipation of the effects of one-time budgetary concessions that affected inflation in the last few quarters. These implied possible but muted increase in the headline inflation rate.

The SInDEx was co-developed by Assistant Professor Aurobindo Ghosh of the SMU Lee Kong Chian School of Business with funding from the 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 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 twenty-second wave of the SInDEx survey conducted in December 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 December 2016 survey showed that compared to September 2016, the median One-year-Ahead headline inflation (or CPI-All Item inflation) inched up to 2.7% compared to its five-year low of 2.63% recorded in September 2016. As a comparison benchmark, the *mean* One-year-Ahead headline inflation rate, also moved up to 2.95% in the December 2016 survey compared to its five-year low of 2.82% in the September 2016 survey, continuing its sub 3% value since December 2015.

Compared to the historical median headline inflation expectations (since September 2011) average of 3.5% and the more recent fourth quarter average of 2.72%, the current One-year-Ahead median headline inflation is still lower. Weakness in global growth exacerbated by the political and policy uncertainty particularly surrounding global trade in the US and Eurozone might have prompted representative Singaporean households surveyed to believe that One-year-ahead expected overall price changes might be inching up.

In tandem with the overall headline inflation, the One-year-Ahead median Singapore core inflation expectations (excluding accommodation and private road transportation related costs) saw a significant jump to 2.82% from its lowest ever recorded average of 2.47% in September 2016 since the survey's inception in September 2011. More 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 increased to 2.65% from its record low of 2.3% polled in September 2016. 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. These results indicate that there has been a substantial increase in the perception of future price changes in the Singapore core inflation rate which excludes housing and private road transportation. This might be attributed to both domestic and global price pressures and expected increase in oil and commodity prices.

In sum, the One-year-Ahead median Singapore Index of Inflation Expectations (Median SInDEx1), a composite weighted index of One-year-Ahead median inflation expectations, inched up to 2.73% in December 2016 after touching its five-year record low level of 2.54% in September 2016 survey. Despite the increase, median SInDEx1 remained substantially lower than its historical average value of 3.5% since its 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 like accommodation, private transportation, food and energy. Median SInDEx1 is less adversely affected by outliers, unlike the original mean SInDEx1.

SMU Assistant Professor of Finance Aurobindo Ghosh, who is the Principal Investigator of the SInDEx Project highlighted, “I think there are two main challenges that are facing the global economy despite unmistakable signs of recovery. First, it is policy uncertainty rather than political uncertainty. Even though the markets have recovered somewhat from the fallout of the BREXIT referendum and nearly euphoric rise in consumer confidence levels despite the largely unexpected US presidential election outcome riding largely on corporate tax cut promises, the market exuberance belie the trepidations of the uncertain and largely untested future. Second, geopolitically we can see the BREXIT vote and the results of the US presidential election as indicators of a protectionist, populist and possibly anti-trade fervour. Global growth is at a cross roads, with the nascent growth in the US seemingly a beacon of better days ahead. Any protectionist mindset might translate to a loss of opportunity of the stimulus spending and consequent continuation of the aftermath of the global financial crisis. Against this backdrop, it is to be expected that for the consumers of a trade dependent economy like Singapore would prepare for possible increase in overall price levels.”

For the longer horizon, the Five-year-Ahead median headline (CPI-All Items) inflation expectations in the December 2016 survey inched up to 3.5% (from 3.43% in September 2016), thus moving up from its lowest recorded level since the survey’s inception in September 2011. For the purpose of comparison, survey finding shows that the mean Five-year-Ahead headline inflation recorded 3.9% in the December 2016 survey, moderately increased from 3.75% recorded in September 2016 survey.

The Five-year-Ahead median Singapore core inflation rate (excluding accommodation and private road transportation related costs) significantly increased to 3.36% in December 2016 from 3.13% in September 2016. In the light of these findings, the composite Five-year-Ahead median Singapore Index of Inflation Expectations (median SInDEx5) in December 2016 also inched up to 3.4% from 3.28% in September 2016 which was the lowest median SInDEx5 score over the last five years. The long term inflation expectations of Singapore Core inflation (without accommodation and private road transportation) seems to be better anchored and significantly lower than the historical average median SInDEx5 of 4.17% since September 2011.

“Central banks like the US Federal Reserve often make monetary policy decisions about an uncertain future based on a dashboard of measures of inflation expectations which could be market-based, such as the Treasury Inflation Protected Securities (TIPS), and survey-based like the Survey of Professional Forecasters (SPF). From the SInDEx survey on representative Singaporean households, we find that the inflation expectations are inching up as a reaction to longer term global and domestic conditions. While being fairly reliable, it is well-known that inflation expectations surveys like the SInDEx better

capture changes of expectations of inflation than the true value of inflation expectations.” Prof Ghosh added.

Amrita Banta, Managing Director of Agility Research & Strategy, the survey partner for a number of years for the SInDEx Survey stated, “The importance of quality of methodology and interview responses, as well as the robustness of the data, are key to ensuring that thorough analysis by SMU researchers derive insightful findings year after year. This is the cornerstone to our working with SMU on this important survey. We as a business constantly measure the pulse of the Asian consumer, and the impact of economic inflation on consumer choice is a key factor for brands to take account of in their marketing strategy.”

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.

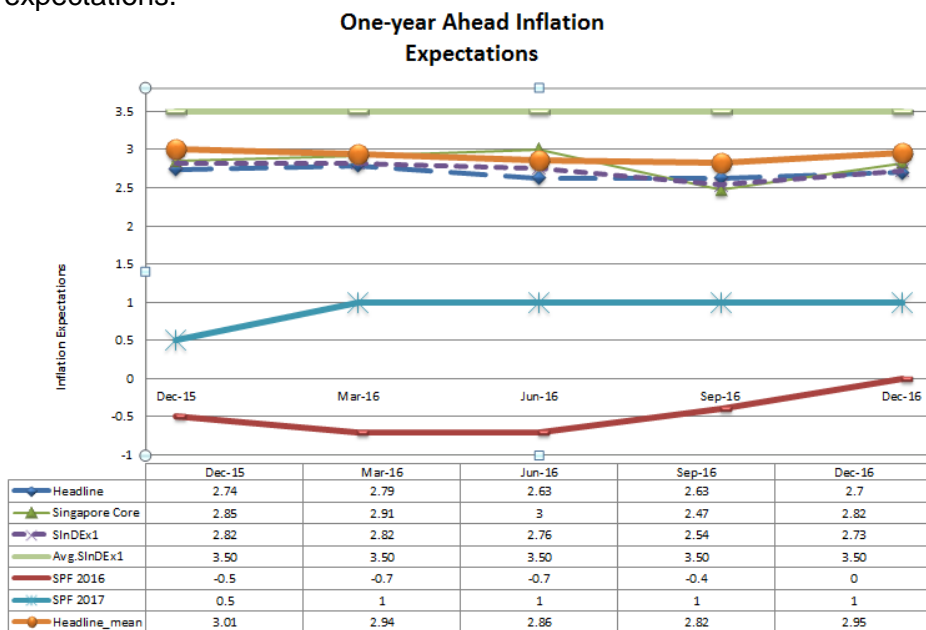


Figure 1: One-year-Ahead-inflation expectations in Singapore

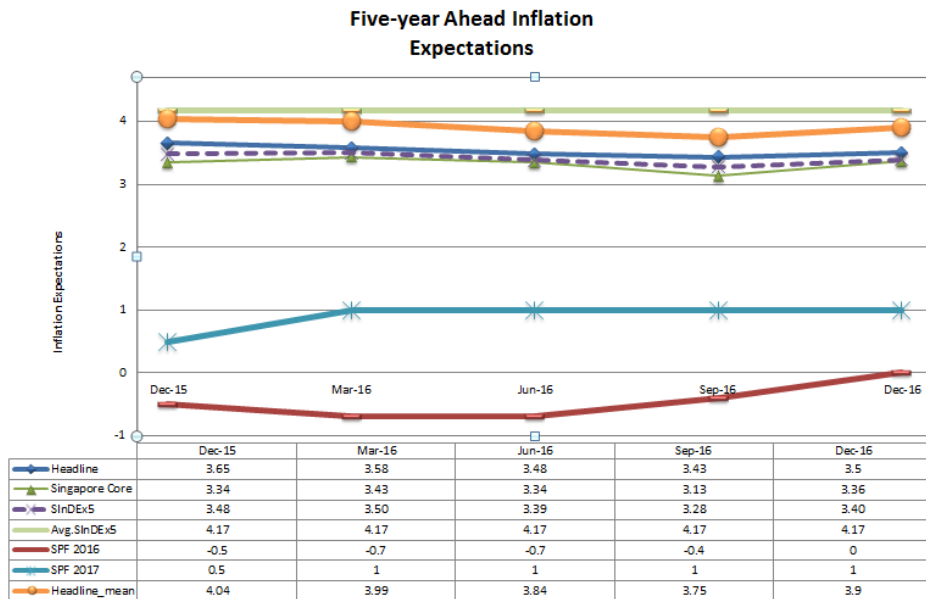


Figure 2: Five-year-Ahead-Inflation Expectations of Singapore

For more information, please contact

Teo Chang Ching (Mr)
 Senior Assistant Director
 Corporate Communications
 DID: 6828 0451
 Email: ccteo@smu.edu.sg

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 over 9,500 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

About Sim Kee Boon Institute for Financial Economics

The Sim Kee Boon Institute for Financial Economics (SKBI) is the premier Asian institute for research and training in financial economics. It is the think-tank in SMU that spearheads and excels in cutting-edge research in finance and financial markets which is of strategic and practical relevance to the Singapore and regional economies.

Supported by our 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 is driven by industry and societal needs in Singapore and the region. Besides research, SKBI also actively engages in training and consultancy, executive education and research dissemination through organising courses, seminars and conferences. Our purpose-oriented activities are designed to serve as enablers in bridging the gap between theory and practice and to act as accelerators in helping to shape financial policies and regulations, which are especially important given the uncertainty in the global markets.

<http://skbi.smu.edu.sg/>

About Agility Research & Strategy

Agility Research & Strategy regarded as Asia's fastest growing research company, ranked globally as a Top 10 research firm in the premium consumer brand research space. As Agency of the Year nominee for two years running and with over 30 years combined experience in understanding the Emerging Middle Class and Affluent consumer, we are truly Fluent on the Affluent™.

We partner with leading brands to provide actionable insights through a suite of data, research and intelligence solutions to boost their market share and help them succeed in a hypercompetitive marketplace.

AFFLUENTIAL™, the World's first Global Consumer Intelligence portal, powered by Agility is a comprehensive platform for brands looking for intelligence on Affluent consumers across categories in more than 20 key economies including the United States, Europe and Asia Pacific.

For further enquiries please contact: Jason@agility-research.com

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