Media Release

Broad-based cyclical recovery prompts Singaporeans' inflation expectations to inch up to 2.97%

Tweet: Broad-based cyclical recovery prompts #Singaporeans' #inflation #expectations to inch up to 2.97% @sgsmu <insert bit.ly>

Singapore, 16 January 2018 (Tuesday) – Singaporeans' One-year-Ahead median inflation expectations inched up to 2.97% in December 2017, reacting to global cues on geopolitical uncertainties despite broad-based global growth, 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).

In its January 2018 Global Economic Prospects (GEP) report, the World Bank Group has expressed their bullishness of global economic growth by adjusting their forecasts upwards for 2018, a cyclical recovery they expect to sustain for the next couple of years. This can be attributed to sustained broad-based recovery in the G3 (US, Eurozone and Japan) and major developing economies, including the recovery of commodities and oil prices. This has been underscored by worldwide financial markets breaking new grounds with long awaited US corporate tax reforms adding to the euphoria. While there has been market-wide recovery and relatively low unemployment in the G3 economies, anemic long-term productivity growth and investment on human capital together with the need for structural reforms in developing economies have been identified as major tasks ahead for sustained global economic development to take root. This was succinctly captured in the World Bank report "…Policy initiatives to lift physical and human capital, encourage labour force participation, and improve institutions could help raise potential growth and reduce inequality."

The global recovery is by no means a "…flash in the pan", it is the outcome of a sustained period of long-term, concerted accommodative monetary policy by central bankers in major economies since the global financial crisis erupted in 2008. With unemployment at 17-year low and inflation still off its long term guidance, Janet Yellen, in her final act as the outgoing chairwoman of the Federal Reserve Board, continued the process of normalisation of the monetary policy by raising the benchmark interest rate, which is expected to be continued under her successor, a signal of stability and continuity which might have bode well for the financial market. This is however against the backdrop of elevated levels of geopolitical uncertainty particularly in the Korean peninsula and the Middle East, continued uncertainty surrounding Britain's exit from the Eurozone, as well as heightened protectionism by the US including challenges to existing multilateral trade pacts such as NAFTA.

On the domestic front, a few factors might have contributed to counterbalancing pressures on the medium- and long-term inflation expectations. First, an expected reduction in the quota of Certificates of Entitlement available for 2018 might have increased private road transportation costs. Second, abstracting from the larger quantum of disbursement of Service and Conservancy Charges rebates in October 2017 compared to October 2016, the decline in housing rentals and imputed rentals on owner-occupied accommodation has stabilised in recent months. As accommodation and private road transportation form a major part of the consumption basket for Consumer Price Index (CPI), it’s hardly surprising that these two would have an uplifting effect on inflation expectations particularly for the headline rate. On the flipside, as a third factor, a slower increase in energy prices might have contributed to dampening the effect of the increase in overall price levels. Fourth, overall imported inflation has been benign with a perception of a relatively strong Singapore dollar relative to major global currencies, particularly the US dollar. Finally, with a still-loose labour market, pass-through costs such as wages have not substantially increased price pressures. In sum, weighing in those opposite price pressures, popular perception seems to be an upward tick in medium and long-term inflation expectations, particularly the headline rate.

SInDEx was developed under the supervision of Assistant Professor of Finance 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-sixth wave of the SInDEx survey conducted in December 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 December 2017 survey showed that the median One-year-Ahead headline inflation (or CPI-All Item inflation) inched up to 2.97% from 2.93% recorded in September 2017. As a comparison benchmark, the *mean* One-year-Ahead headline inflation rate, also edged up to 3.22% in the December 2017 survey compared to 3.21% recorded in the September 2017 survey.

Compared to the historical median headline inflation expectations (since September 2011) average of 3.44%, current One-year-Ahead median headline inflation is still lower, but it is higher than the recent fourth quarter average of 2.84%.

Excluding accommodation and private road transportation related costs, the One-year-Ahead median Singapore core inflation expectations was recorded at 2.91% in December 2017, slightly higher than the September 2017 surveyed value of 2.89%. 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 edged up to 2.92% in December 2017 compared to 2.88% polled in September 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 fairly stable 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, remained unchanged in December 2017 from September 2017 survey. Furthermore, the median SInDEx1 remained lower than its historical average value of 3.44% 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, "Global policy uncertainty impacts Singapore inordinately as we are a small open economy. This is especially so for policies that might be detrimental to multilateral trade, including the imposition of higher trade barriers with the ensuing volatile global prices and fluctuating currencies. Having said that, a strong Singapore dollar and global market conditions seems to have kept a lid on unhinged inflation expectations both in the medium and long term."

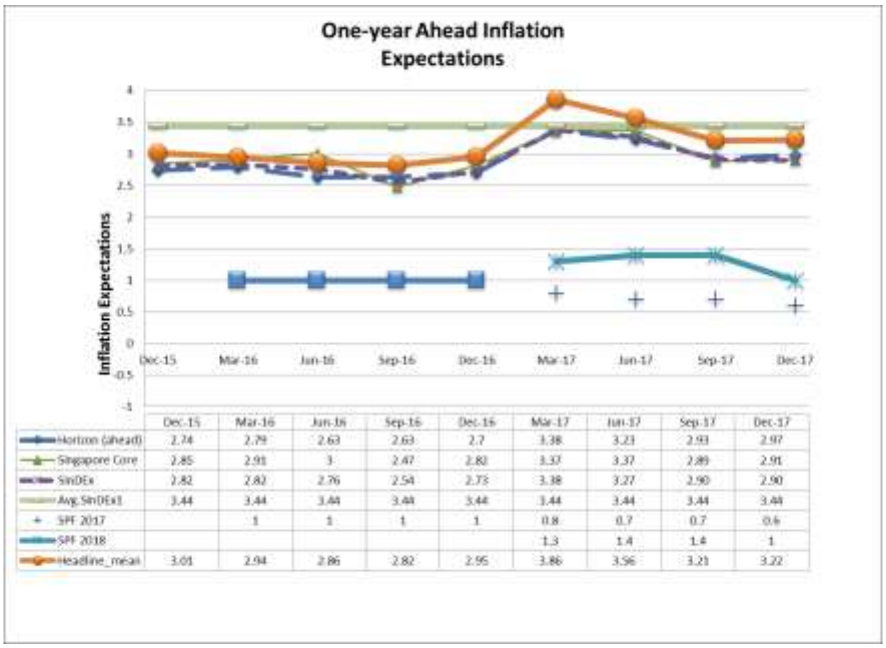
For the longer horizon, the Five-year-Ahead median headline (CPI-All Items) inflation expectations in December 2017 survey edged up to 3.72% from 3.6% in September 2017. The current polled number is still much less than its historical average of 4.27% since the survey started in September 2011. For the purpose of comparison, survey finding shows that the *mean* Five-year-Ahead headline inflation recorded 4.07% in the December 2017 survey, slightly higher than the 4.01% recorded in September 2017 survey.

The Five-year-Ahead median Singapore core inflation rate (excluding accommodation and private road transportation related costs) inched up to 3.41% in December 2017 from 3.29% in September 2017. Overall, the composite Five-year-Ahead median Singapore Index of Inflation Expectations (median SInDEx5) increased in December 2017 to 3.56% from 3.43% in September 2017, still substantially lower than its historical average of 4.09%.

"Measuring inflation expectations has been one of the more challenging topics in macroeconomic policy. This is particularly an unenviable task for policymakers like the outgoing chair of the Federal Reserve Board, Janet Yellen, who has to make a decision on monetary policy with essentially a dashboard of information about the economy, one of which is inflation expectations of the consumer. Professional forecasters, who are more informed about economic activities and the policy environment, can make an educated prediction of the inflation expectations. However, it is imperative to have the ordinary consumers or economic decision makers to also let their voices heard, as they are the ones making consumption decisions based on their own forecasts. The convergence of these two opinions about what to expect about future inflation would make policymakers more comfortable to steer the economy with a stable non-inflationary growth." Prof Ghosh observed.

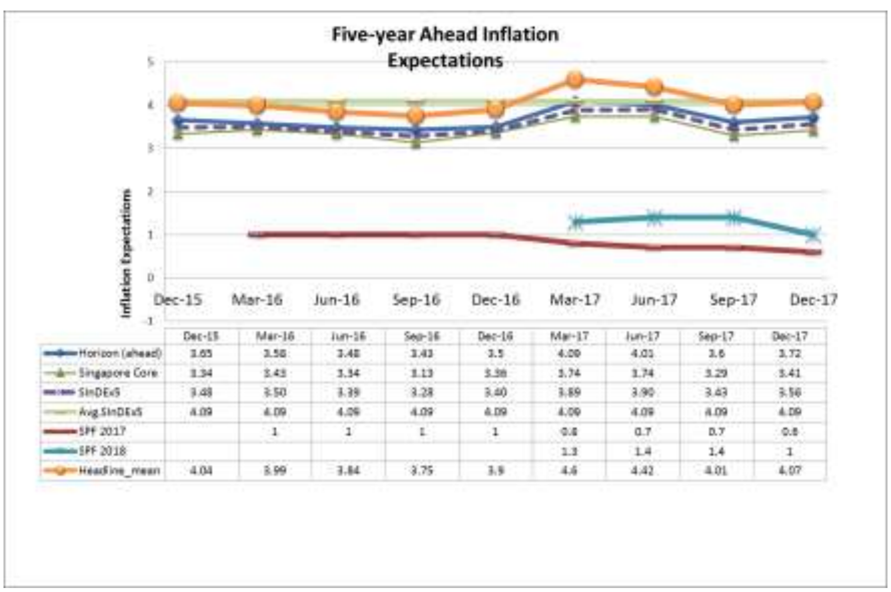
Methodology

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.



	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Horizon (ahead)	2.74	2.79	2.63	2.63	2.7	3.38	3.23	2.93	2.97
Singapore Core	2.85	2.91	3	2.47	2.82	3.37	3.37	2.89	2.91
SInDEx	2.82	2.82	2.76	2.54	2.73	3.38	3.27	2.90	2.90
Avg.SInDEx1	3.44	3.44	3.44	3.44	3.44	3.44	3.44	3.44	3.44
SPF 2017		1	1	1	1	0.8	0.7	0.7	0.6
SPF 2018						1.3	1.4	1.4	1
Headline_mean	3.01	2.94	2.86	2.82	2.95	3.86	3.56	3.21	3.22

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



	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Horizon (ahead)	3.65	3.58	3.48	3.43	3.5	4.09	4.01	3.6	3.72
Singapore Core	3.34	3.43	3.34	3.13	3.38	3.74	3.74	3.29	3.41
SInDEx5	3.48	3.50	3.39	3.28	3.40	3.89	3.90	3.43	3.56
Avg.SInDEx5	4.09	4.09	4.09	4.09	4.09	4.09	4.09	4.09	4.09
SPF 2017		1	1	1	1	0.8	0.7	0.7	0.6
SPF 2018						1.3	1.4	1.4	1
Headline_mean	4.04	3.99	3.84	3.75	3.9	4.6	4.42	4.01	4.07

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

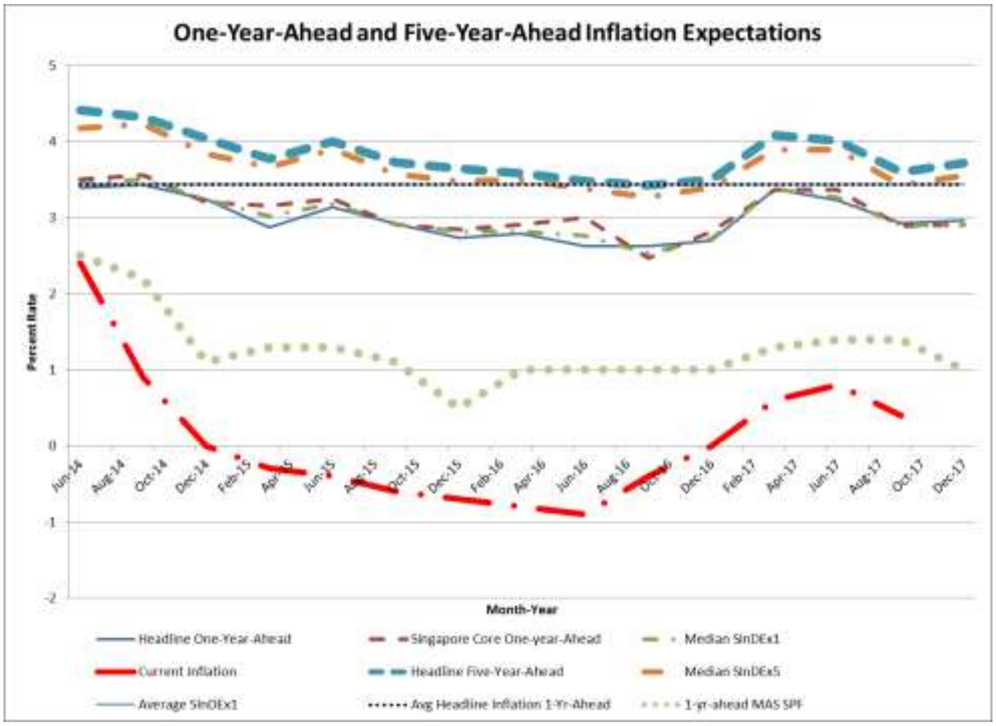


Figure 3: One-Year and Five-Year Ahead Inflation Expectations

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 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

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/

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

Our website:
www.agility-research.com
www.affluential.com