

Press Release

SMU research shows Singapore households moderate inflation expectations in anticipation of an end to low interest rates

Singapore, 21 July 2014 – Expectations of inflation over one and five year horizons dipped at a moderate pace, according to the research findings of the latest survey for Singapore Index of Inflation Expectations (SInDEx) by Singapore Management University (SMU). The continued but moderate decline in inflation expectations can be attributed to a confluence of global and local factors.

In Singapore, property cooling measures have helped to moderate the rise in accommodation costs, while the increase of COE quota for vehicles have resulted in lowering of private transportation costs.

The slower decline in inflation expectations might also be due to global uncertainty as a result of the winding down of US bond buying activities and the lowest unemployment rate in the US since the 2008 financial crisis. However, there is continued support for an accommodative monetary policy and stimulus spending in the Eurozone and Japan (rest of G3 economies). Announcements by the Federal Reserve Board (FED) and the European Central Bank (ECB) that lower interest rate might be the new normal could add to the uncertainty in the global economic outlook.

The SInDEx, which was originally developed by SMU's Sim Kee Boon Institute for Financial Economics (SKBI) in collaboration with MasterCard, is derived from an online survey of around 400 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. This quarterly SInDEx survey started in September 2011, which yielded two indices that were officially launched in January 2012. SMU's Assistant Professor Aurobindo Ghosh and Professor Jun Yu are the co-developers of SInDEx.

In the latest survey conducted in June 2014, 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 June 2014 wave of the SInDEx survey showed that compared to December 2013, the One-year-Ahead headline inflation (or CPI-All Item inflation) has inched down to 3.66% from 3.72% in December 2013. Although the decrease in inflation expectations for headline inflation is flattening, this is the lowest since the survey's inception in September 2011. This significant downward trend has

continued since September 2012. Compared to the historical average of 4.2% and the second quarter average of 3.79%, the current One-year-Ahead inflation expectations shows that Singapore households perceive improving overall price stability and the moderation of inflation following global cues.

Following the overall headline inflation, the One-year-Ahead Singapore core inflation expectations (excluding accommodation and private transportation related costs) also inched down to 3.85% in June 2014 (from 3.88% in December 2013), maintaining a slowing but downward trend since September 2012. For a subgroup of the population who own their accommodation and use public transport, the One-year-Ahead Singapore core inflation rate was 3.81% in the June 2014 survey compared to 3.7% in December 2013. These respondents in reality face the Singapore core inflation as they don't have to face changes on accommodation or private transportation costs directly.

One-year-Ahead Singapore Index of Inflation Expectations (SInDEx1), a composite weighted index of One-year-Ahead inflation expectations maintained a downward trend to 3.74% (from 3.8% in December 2013), continuing its sub 4% value since June 2013, and lower than its historical average of 4.23%. SInDEx1 puts lower weightage on more volatile components like accommodation, private transportation, food and energy expenses, hence it is expected to be more stable than the all-inclusive headline inflation expectations.

Assistant Professor Aurobindo Ghosh, co-creator and Director of the SInDEx Project at SKBI said, "On the one hand, the US job market has improved significantly to pre-crisis levels which predicated continuation of the phased conclusion of bond buying activity. However, despite assurances on the contrary by FED chairwoman Janet Yellen and ECB president Mario Draghi, the spectre of an increase in interest rate from record lows is making asset markets in the developing world nervous due to the end of access to easy money. This, in the context of continued stimulus spending in Japan and the promise of stimulus spending in the Eurozone to reduce the risk of deflation, makes it still uncharted territory for central bankers, monetary policymakers and their forward guidance."

"Closer to home, property prices in Singapore have reacted to curbs in debt servicing ratios, and slight temporary increase in vehicle quota have dampened car prices. We see this reflected in the moderation of overall inflation expectations. However, the Monetary Authority of Singapore recently projected that there is an upward pressure on the Singapore core inflation without accommodation and private transportation, possibly from the tight labor market and other pass-through costs. In summary, although we see some anchoring in public perception of inflation expectations, continued uncertainty in global economic outlook might adversely affect long term inflation expectations," Assistant Professor Ghosh added.

For the longer horizon, the Five-year-Ahead overall (CPI-All Items) inflation expectations in the June 2014 survey stood flat at 4.72% (unchanged from December 2013). This is the lowest since inception, maintaining a slowing trend of decline since September 2012. The Five-year-Ahead Singapore core inflation rate (excluding accommodation and private transportation related costs) inched up to 4.5% from 4.4% in the December 2013 wave.

The composite Five-year-Ahead Singapore Index of Inflation Expectations (SInDEx5) in June 2014 consequently moderated to 4.51% from 4.56% in December 2013. When compared to SInDEx5's average of 4.91%, it is a significant drop. This bodes well for the increased level of confidence Singapore consumers have on the improving outlook of price levels in the long run.

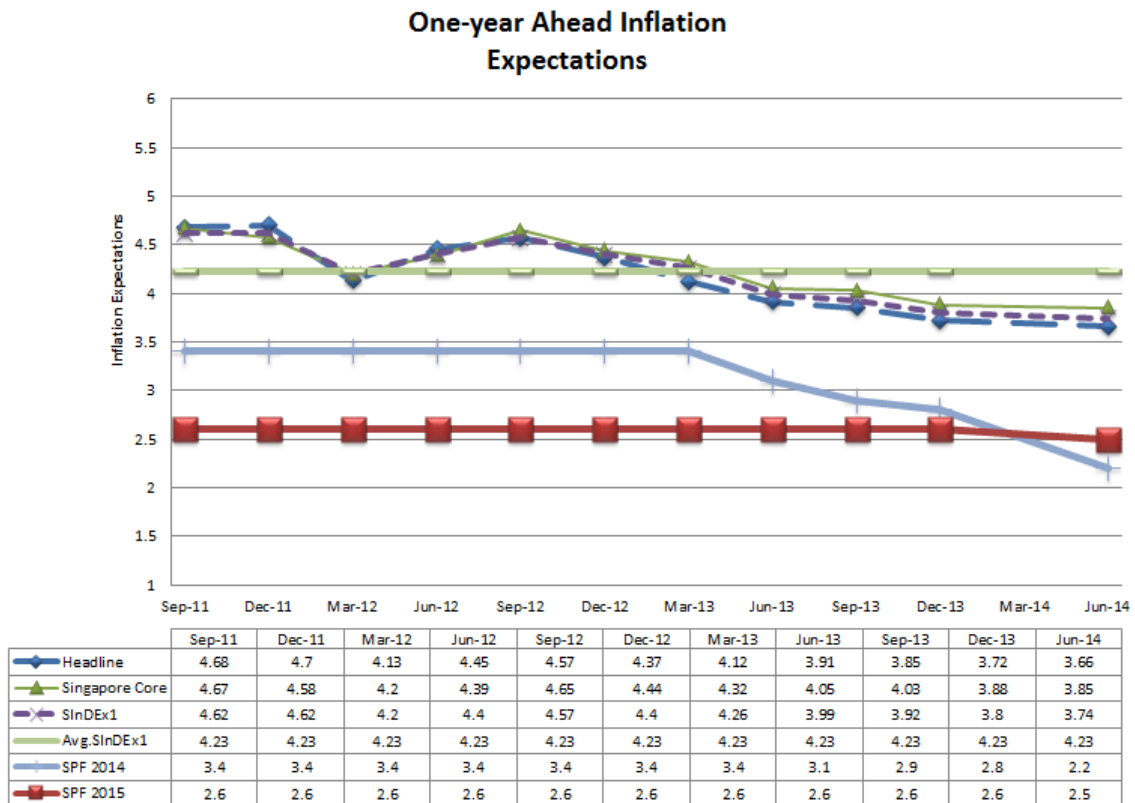


Figure 1: One-year-Ahead Singapore Index of Inflation Expectations

Five-year Ahead Inflation Expectations

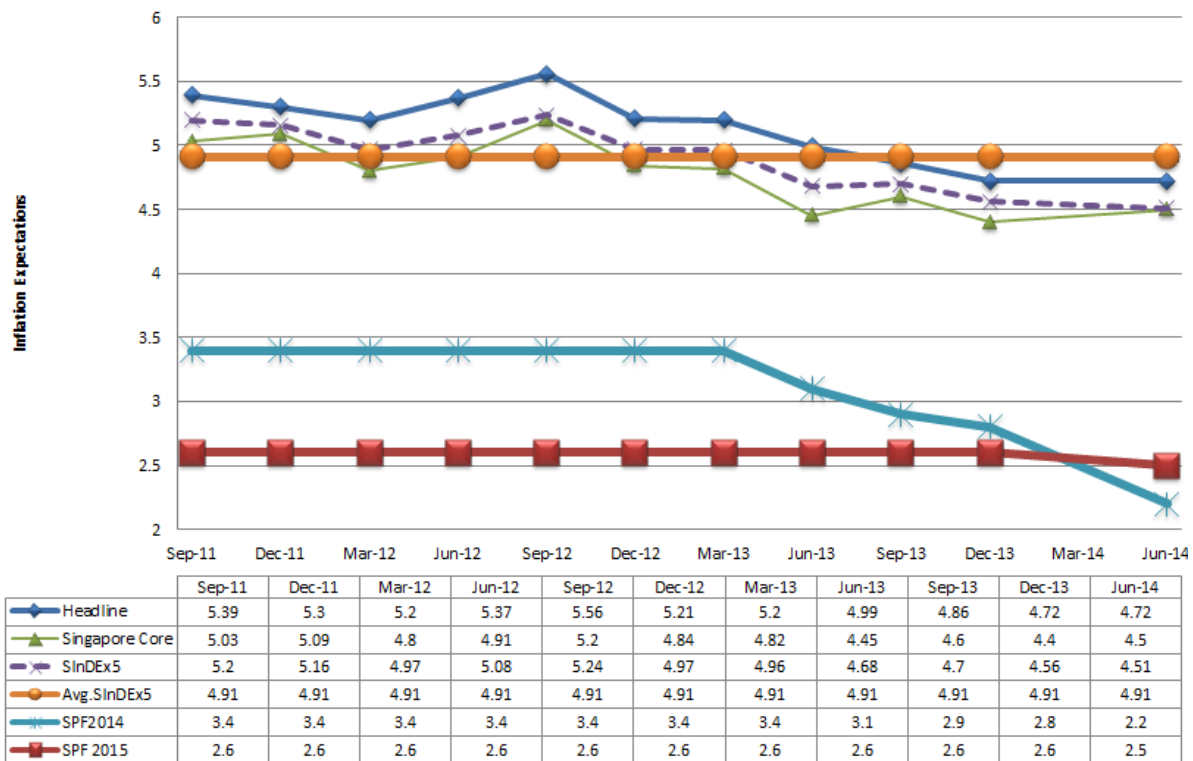


Figure 2: Five-year-Ahead Singapore Index of Inflation Expectations

Methodology

Two indices were created, SInDEx1 and 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 400 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.

For more information, please contact

Teo Chang Ching (Mr)
 Assistant Director
 Corporate Communications
 DID: 6828 0451
 Email: ccte@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. It is known for its interactive and technologically-enabled pedagogy of seminar-style teaching in small class sizes.

Home to over 8,300 students, SMU comprises 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, offering a wide range of bachelor's, master's and PhD degree programmes in various disciplines.

With an emphasis on generating rigorous, high impact multi-disciplinary research that addresses Asian issues of global relevance, SMU faculty 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 and centres. SMU's city campus is a state-of-the art facility located in the heart of downtown Singapore, fostering strategic linkages with the business and wider community. www.smu.edu.sg

About Sim Kee Boon Institute for Financial Economics

The Sim Kee Boon Institute for Financial Economics 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 aims at solving real-world issues. 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.