



SOFTENING GROWTH AND STABLE INFLATION EXPECTATIONS

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SINGAPORE, 16 April 2019

These are the research findings of the 31st round of quarterly release for the DBS-SKBI Singapore Index of Inflation Expectations (SInDEX) Survey at the Sim Kee Boon Institute for Financial Economics (SKBI), Singapore Management University (SMU).

Singaporeans' One-year-Ahead headline inflation expectations polled at 3.1% in March 2019. The reading compares to 2.9% polled in December 2018, and the first quarter long-term (2012-18) average of 3.4%.

DBS-SKBI SInDEX survey was augmented in June 2018, based on a joint research study conducted by SMU researchers in collaboration with the Monetary Authority of Singapore (MAS) and the Behavioral Insights Team, where respondents were polled about their perceptions of components of the Consumers Price Index (CPI) and adjusted for possible behavioral biases prevalent in online surveys.

Based on the recommendations of that study the research team had, in March 2019 polled the one-year-ahead inflation expectations of all of the components of CPI-All Items inflation. Compared to December 2018, the March 2019 survey revealed inflation expectations across all categories have moved up quarter on quarter, although without the same quarterly benchmark we were not able to conclude if the uptick is a peculiarity or a natural quarterly seasonality of these indices.

The overall CPIEx Inflation Expectations, after adjusting for potential behavioral biases and re-combining across components, was at 3.07% in March 2019, similar to the CPIEx headline inflation rates polled. This also suggests that Singaporeans' inflation expectations are well-grounded from both the aggregated and the components-wise comparisons.

Excluding accommodation and private road transportation related costs, the One-year-Ahead Core CPIEx inflation expectations was recorded at 3.1% in March 2019 (compared to 3.0% reported in the December 2018 survey). For a subgroup of the population who own their accommodation and use public transport, the One-year-Ahead CPIEx core inflation expectations inched up to 3.0% from 2.9% in December 2018. 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 road transportation or accommodation expenses.

DBS Chief Economist and Managing Director of Group Research, Dr. Taimur Baig commented, “amid slowing growth and uncertainty about the global demand outlook, inflation expectations appear broadly stable. As commodity prices firm and expectations of global demand revival (led by China) sets in, conditions for a mild increase in expectations are in place.”

For the longer horizon, the Five-year-Ahead CPIEx inflation expectations in the March 2019 survey moved up to 4.1% from 3.6% in December 2018. The current polled number is lower than the long-term (from 2012-18) average of 4.2%.

The Five-year-Ahead DBS-SMU CPIEx core inflation expectations (excluding accommodation and private road transportation related costs) pared to 3.8% in March 2019 from 3.5% in December 2018. Overall, the composite Five-year-Ahead SInDEx5 increased to 3.9% in March 2019 from 3.5% in December 2018, still polling lower than its historical average of 4.1%.

SMU Assistant Professor of Finance and Principal Investigator of the DBS-SKBI SInDEx Project, Aurobindo Ghosh observed, “There have been several factors that might have led to an overall downbeat forecast by IMF World Economic Outlook in April 2019 for global growth despite significant green shoots such as the possible resolution for the Sino-US trade dispute and the breakthrough in extending of Article 50 to prevent a hard Brexit. This sentiment of a moderation in global growth has also been communicated by the US Federal Reserve Board as a primary driver opting for halting rate hikes and preferring patience in a short run and a data driven outlook for the longer run monetary policy with persistently low inflation. We have observed that the impact of this declining growth and possible downturn is also felt in the decline in the yield spread of Singapore government bonds (difference between the yield of 10-year and 1-year bonds).”

“Overall inflation has been largely benign since the tightening of the monetary policy in previous two semiannual policy reviews by MAS in 2018. We do however observe some possible pass-through of domestic price pressures from the quarterly DBS-SKBI SInDEx survey that yields the CPIEx along with a dashboard of other measures of inflation expectations, for both behaviorally adjusted and unadjusted series. There are often counterbalancing pressures with varying outcomes such as slight increase in global oil prices although deregulation in the retail electricity market has a downward pressure on electricity prices, moderation in decline in accommodation and private road transportation prices despite increasing wages in the domestic labor market. Unsurprisingly, in their current semiannual review in April 2019 the policymakers held their monetary policy unchanged.” Prof. Ghosh added.



Methodology

DBS-SKBI SInDEx survey yields CPIEx Inflation Expectations (estimating headline inflation expectations) and related indices are products of the online survey of around 500 randomly selected individuals representing a cross section of Singaporean households. The survey is led by Principal Investigator Dr. Aurobindo Ghosh, Assistant Professor of Finance (Education) at Lee Kong Chian School of Business, SMU. The online survey helps researchers understand the behavior and sentiments of decision makers in Singaporean households. DBS Group Research is a co-sponsor and research partner together with the Sim Kee Boon Institute for Financial Economics (SKBI) at SMU.

The quarterly DBS-SKBI SInDEx survey has also yielded two composite indices, SInDEx1 and SInDEx5. SInDEx1 and SInDEx5 measure the 1-year inflation expectations and the 5-year inflation expectations, respectively. 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

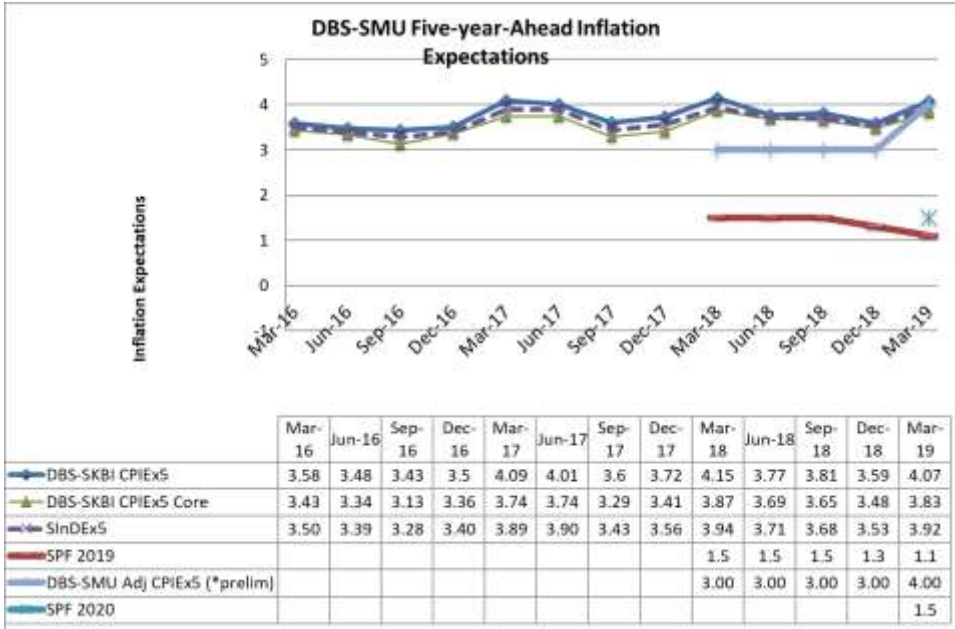


Figure 2: Five-year-Ahead-Inflation Expectations in Singapore

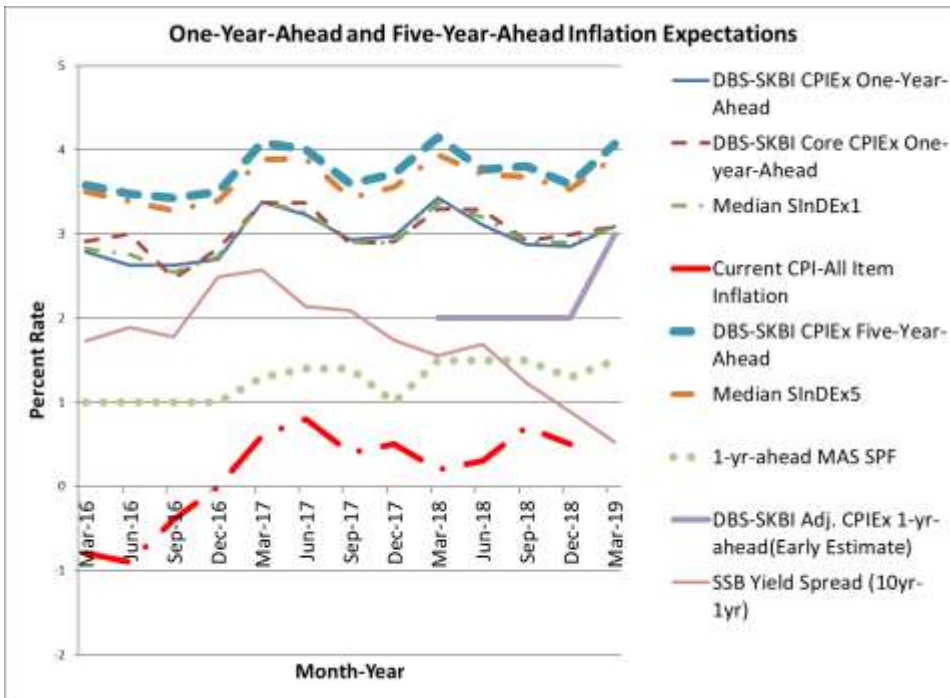


Figure 3: One-Year and Five-Year Ahead Inflation Expectations



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DBS provides a full range of services in consumer, SME and corporate banking. As a bank born and bred in Asia, DBS understands the intricacies of doing business in the region's most dynamic markets. DBS is committed to building lasting relationships with customers, and positively impacting communities through supporting social enterprises, as it banks the Asian way. It has also established a SGD 50 million foundation to strengthen its corporate social responsibility efforts in Singapore and across Asia.

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Home to over 10,000 students across undergraduate, postgraduate professional and postgraduate research programmes, 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 multidisciplinary combinations of these areas.

SMU emphasises rigorous, high-impact, multi- and interdisciplinary research that addresses Asian issues of global relevance. SMU faculty members collaborate with leading international researchers and universities around the world, as well as with partners in the business community and public sector. SMU's city campus is a modern 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.

Over the last 10 years, a diverse portfolio of financial research, outreach and training initiatives has been built. In the coming 10 years, while further expanding that traditional financial economics portfolio, the Institute will focus our efforts on the areas of financial inclusion and literacy, sustainable finance, financial technology, and data and governance. To maintain our relevance to finance practitioners and policy-makers, SKBI also adopts a view on Asian and global economic trends.

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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.

For more info about SKBI, please visit <https://skbi.smu.edu.sg/>.

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For more information, contact:

Teo Chang Ching (Mr)
 Senior Assistant Director
 Corporate Communications
 Singapore Management University
 Tel: (65) 6828 0451
 Email: ccte@smu.edu.sg

Jolyn Tan
 Group Strategic Marketing &
 Communications
 DBS Bank
 Tel: (65) 6878 6337
 Mobile: (65) 9336 4570
 Email: jolyntan@dbs.com

