

INFLATION EXPECTATIONS HOLD STEADY

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SINGAPORE, 20-January-2020

These are the research findings of the 34th 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).

- One-year-Ahead headline inflation expectations remained unchanged at 3.2% in December 2019, from September 2019, and largely the same as the 2011-18 fourth quarter average of 3.3%.
- The overall CPIEx Inflation Expectations, after adjusting for potential behavioral biases and re-combining across components, eased to 3% in December 2019 compared to 3.3% in September 2019.
- Excluding accommodation and private road transportation related costs, the One-year-Ahead Core CPIEx inflation expectations was slightly higher at 3.4% in December 2019 compared to 3.3% in September 2019.
- For a subgroup of the population who own their accommodation and use public transport, the One-year-Ahead CPIEx core inflation expectations pared to 3% in December 2019 from 3.2% in September 2019. Not being exposed to private road transportation or accommodation expenses, this subgroup's expectations of core inflation closely resemble the Singapore Core Inflation Expectations.
- The one-year-ahead composite index SInDEx1, that puts less weight on more volatile components like accommodation, private transport, food and energy, polled at 3.2% remained unchanged in the December 2019 SInDEx survey.

DBS Chief Economist and Managing Director of Group Research, Dr. Taimur Baig commented, "Unlike recent developments in China and India, where idiosyncratic factors have pushed up food prices, along with the overall CPI, prices have been remarkably stable in Singapore lately. Despite an impending GST hike, inflation expectations remain well anchored."

“The stability of Singapore’s inflation expectations also contrasts with a similar survey conducted by the Melbourne Institute which showed consumer inflation expectations in Australia rising in Q4, coincident with the bushfires that have only intensified recently,” noted SMU Professor and SKBI Director Dave Fernandez.

SMU Assistant Professor of Finance and Principal Investigator of the DBS-SKBI SInDEx Project, Aurobindo Ghosh observed, “The global economy is facing significant headwinds from the sluggish growth in China and India, which is affecting global consumer confidence, despite the US economy showing significant resilience. Against this backdrop, Singaporeans seem to have calibrated their inflation expectations to hold steady in the medium term despite accommodative monetary policy at home and abroad.”

For the longer horizon, the Five-year-Ahead CPIEx inflation expectations in the December 2019 survey stayed unchanged at 4.1% compared to September 2019. The current polled number is the same as the 2011–2018 fourth quarter average of 4.1%.

The Five-year-Ahead CPIEx core inflation expectations (excluding accommodation and private road transportation related costs) fell from 3.9% in September 2019 to 3.6% in December 2019. Overall, the composite Five-year-Ahead SInDEx5 inched down to 3.8% in December 2019 from 4% in September 2019. In comparison, the 2011–2018 fourth quarter average value of the composite Five-year-Ahead SInDEx5 was at 4%.

“While designing the DBS-SKBI SInDEx survey questionnaire, SMU researchers have included several methods of validating and mitigating possible behavioural biases which academic researchers have identified as challenges to survey-based measures of inflation expectations. It has also been conjectured by policy academics and practitioners that while the overall level of inflation expectations using survey-based measures might be biased upwards, the change points and comparisons with past surveys signals the changes in inflation expectations better,” 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.

The DBS-SKBI SInDEx survey was augmented in June 2018, based on a joint research study conducted by SMU researchers in collaboration with 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, since March 2019 polled the One-year-Ahead inflation expectations of all of the major components of CPI-All Items inflation. Compared to September 2019, the December 2019 survey revealed inflation expectations have remained unchanged for overall and across most categories. The component-wise inflation expectations have largely stayed the same for Food, Housing and Utilities, Recreation and Culture, Clothing and Footwear, Household Durables and Services and Communications. However, there has been a decline in inflation expectations in Transportation, Healthcare, Education and miscellaneous expenses not covered in other categories. Overall, in aggregation the component wise inflation expectations have polled at 3% in December 2019 compared to 3.33% surveyed in September 2019.

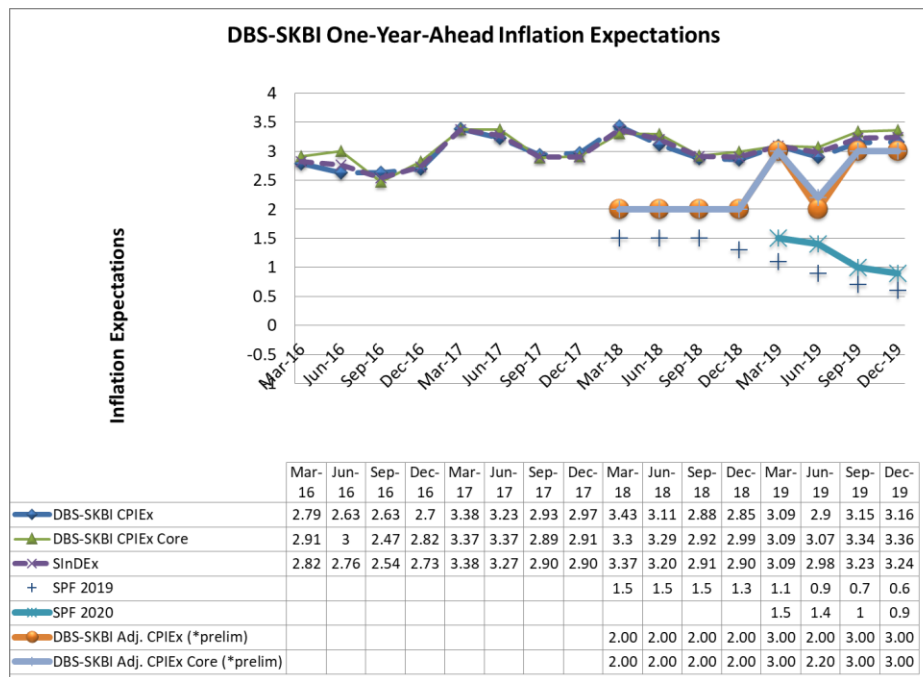
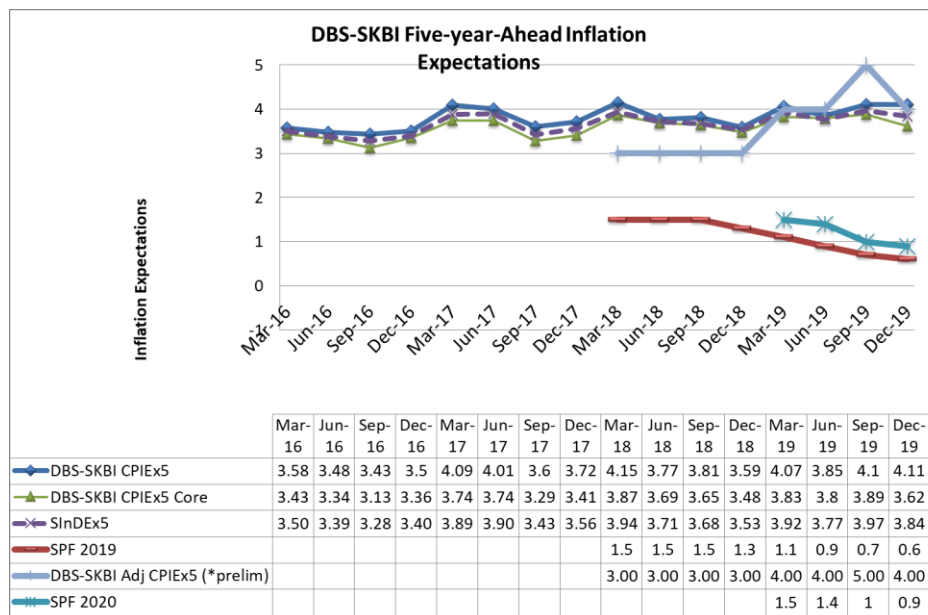
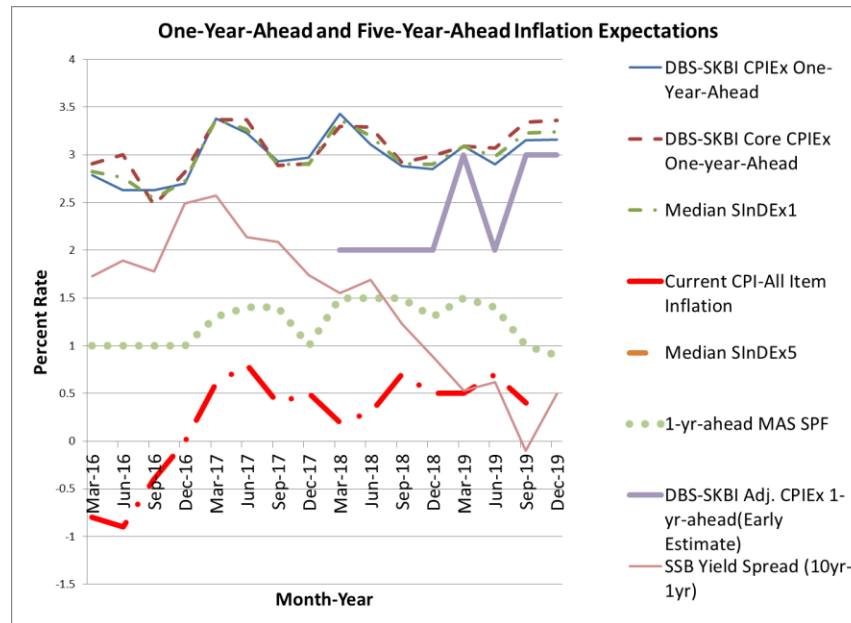
Figure 1: One-year-Ahead-inflation expectations**Figure 2: Five-year-Ahead-inflation expectations**

Figure 3: Five-year-Ahead-Inflation Expectations in Singapore

About DBS

DBS is a leading financial services group in Asia, with over 280 branches across 18 markets. Headquartered and listed in Singapore, DBS has a growing presence in the three key Asian axes of growth: Greater China, Southeast Asia and South Asia. The bank's "AA-" and "Aa1" credit ratings are among the highest in the world.

Recognised for its global leadership, DBS has been named “[Best Bank in the World](#)” by Global Finance. The bank is at the forefront of leveraging digital technology to shape the future of banking, having been named “[World’s Best Digital Bank](#)” by Euromoney. In addition, DBS has been accorded the “[Safest Bank in Asia](#)” award by Global Finance for ten consecutive years from 2009.

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.

With its extensive network of operations in Asia and emphasis on engaging and empowering its staff, DBS presents exciting career opportunities. The bank acknowledges the passion, commitment and can-do spirit in all of our 26,000 staff, representing over 40 nationalities. For more information, please visit www.dbs.com.

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 to produce broad-based, creative and entrepreneurial leaders for the knowledge-based economy. SMU’s education is known for its highly interactive, collaborative and project-based approach to learning.

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.

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 outreach, executive training and research dissemination through 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.

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