

## Media Release

### **Wary Singaporeans expect One-year-Ahead Headline Inflation to inch up to 3.35%**

*Downward adjustment of global growth forecasts by IMF, volatility in the Chinese capital market, Greek debt crisis and domestic structural reforms overshadowed benign imported inflation and lower accommodation costs in pushing up Singaporean's inflation expectations to 3.35%*

**Singapore, 20 July 2015 (Monday)** – Singaporeans' One-year-Ahead inflation expectations inched up to 3.35%, according to the research findings of the latest quarterly survey for Singapore Index of Inflation Expectations (SInDEX) by Singapore Management University (SMU). Despite several factors pointing towards a further downward correction of expected inflation rate like the persistent weakness in global oil prices, slower than expected growth in China, downward pressure on exchange rates due to the recent Greek crisis, and the expected normalisation of monetary policy in the US through a hike in interest rate later this year, Singaporeans felt on the contrary that One-year-Ahead and Five-year-Ahead inflation expectations would be higher than the survey results in March 2015.

Higher wage pressures due to a tightening domestic labour market, and other pass-through costs like transportation with less than expected decline in fuel prices, might have more than offset the declining accommodation (i.e. rental) costs, subsidies for foreign domestic workers levy and reduced education costs through waiver of some examination fees. Globally there has been an increasing call from International Monetary Fund (IMF) for a delay in the rate hike by the US Federal Reserve Board expected later this year given the declining growth conditions and capital markets in China, exacerbated by the unfolding drama of the Greece crisis prior to the recent bailout deal. These might have dampened the prospect of an immediate or accelerated hike in the interest rates from a decade of record low rates.

The SInDEX, which was originally developed by SMU's Sim Kee Boon Institute for Financial Economics (SKBI), 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 behavior and sentiments of decision makers in Singapore households. The quarterly SInDEX survey has yielded two indices, SInDEX1 and SInDEX5.

In the latest and sixteenth wave of the SInDEX survey conducted in June 2015, 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 2015 survey showed that compared to March 2015, the One-year-Ahead headline inflation (or CPI-All Item inflation) has advanced to 3.35% from a record low of 3.05% in March 2015. As a comparison benchmark, the median One-year-Ahead headline inflation rate, considered by many to be more representative and minimally affected by outliers, inched up from 2.87% in March 2015 survey to 3.14% in the latest June 2015 survey.

Compared to the historical headline inflation expectations average of 3.99% and the historical first quarter average of 3.5%, the current One-year-Ahead headline inflation expectations shows that Singapore households are probably anxious about the growth prospects of the global economy and expect gradual and more deliberate increase in interest rates.

Following the overall headline inflation, the One-year-Ahead Singapore core inflation expectations (excluding accommodation and private transportation related costs) also inched up marginally to 3.5% in June 2015 (from 3.44% in March 2015). However, significantly, for a subgroup of the population who own their accommodation and use public transport, the One-year-Ahead Singapore core inflation rate moderated down to 3.38% in the June 2015 survey compared to 3.52% in March 2015. These respondents are possibly more informed about the Singapore core inflation rate 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, marginally moved up to 3.43%, from its lowest level of 3.26% in March 2015, although it stayed lower than the historic average of 4.03%. 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.

Assistant Professor of Finance Aurobindo Ghosh from the Lee Kong Chian School of Business who co-created SInDEx observed, "SInDEx surveys individual opinions on expectations of inflation, as such measures changes of perception. It is forward looking and complements the existing activity based measures at the disposal of policymakers. We noted there is an increase in inflation expectations across the board possibly due to domestic price pressures and structural changes like tightening labour market, overshadowing the subdued oil prices and otherwise benign imported inflation conditions.

"Globally, there has been an atmosphere of 'divergence'. With improving labour market conditions, US is mulling about tightening from a decade of accommodative policy and record low interest rate, while much of the rest of the developed world like the EU and Japan continue to turn to stimulus measures to generate growth. However, the recent volatility of the Chinese market and the imbroglio in Greece signal continued weakness and dim global growth outlook, leading to a call by IMF for a delay in raising US interest rates till the middle of next year. These might have had an impact in increasing inflation expectations in the medium term," Prof Ghosh added.

For the longer horizon, the Five-year-Ahead overall (CPI-All Items) inflation expectations in the June 2015 survey increased by 21 basis points to 4.37% (from 4.16% in March 2015, its lowest recorded level since the survey's inception in 2011). The five-year-ahead median headline inflation rate, considered by many academics to be more representative as it is less affected by extremes, stood at 4% in the June 2015 survey, slightly up from 3.78% in March 2015.

The Five-year-Ahead Singapore core inflation rate (excluding accommodation and private road transportation related costs) also inched up to 4.17% from 3.94% recorded in March 2015. The composite Five-year-Ahead Singapore Index of Inflation Expectations (SInDEx5) in June 2015 moved to 4.27% from 4.05% in March 2015, still significantly lower than SInDEx5's historical average of 4.75%.

### One-year Ahead Inflation Expectations

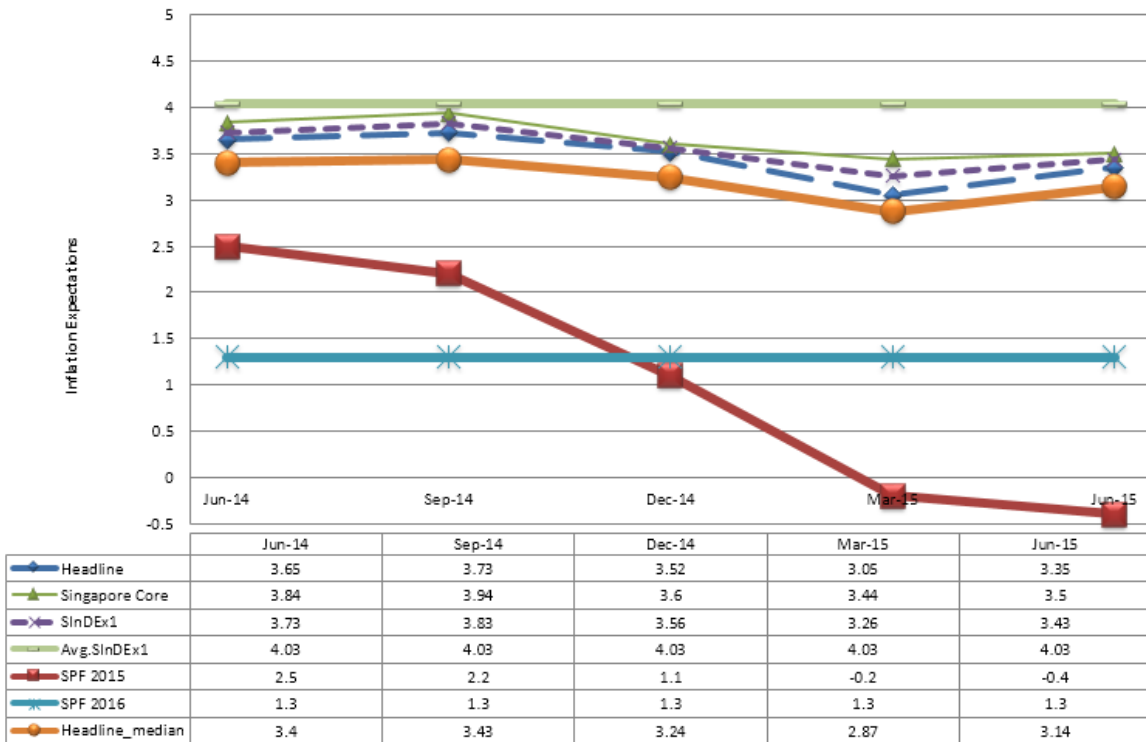


Figure 1: One-year-Ahead Singapore Index of Inflation Expectations

### 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 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 behaviour and expectations.

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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 8,800 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.

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## **About Sim Kee Boon Institute for Financial Economics**

Established in July 2008, the Sim Kee Boon Institute for Financial Economics (SKBI) at the Singapore Management University promotes the study of Financial Economics and Financial Econometrics in areas of strategic relevance to Singapore's economy and the economies of the region. A significant addition to Singapore's efforts to be a financial hub in Asia, SKBI is a leading institute for academic research with strong industry application and practical dimension in the area of Financial Economics.

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