



Media Release

Interest rate lift-off leads Singaporeans' Inflation Expectations to lowest level in 4 years at 2.74%

Singapore, 18 January 2016 (Monday) – Singaporeans' One-year-Ahead median inflation expectations have slipped to 2.74%, according to the research findings of the latest quarterly survey for Singapore Index of Inflation Expectations (SInDEx) by Singapore Management University (SMU).

The slowing down of four of the five BRICS countries exacerbated by the turmoil in Chinese equity market and continued weakness in global demand led the World Bank group to moderate the world growth forecast downwards to 2.9% in its 2016 Global Economic Prospects. These multiple headwinds and downward price pressures, accentuated by a 12-year low in oil prices and lackluster demand in commodities in general, have consequently led the One year-Ahead inflation expectations to plummet to their lowest level since the survey's inception in September 2011.

The SInDEx, co-developed by Assistant Professor Aurobindo Ghosh of the SMU Lee Kong Chian School of Business, 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 behaviour and sentiments of decision makers in Singapore 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 eighteenth wave of the SInDEx survey conducted in December 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 December 2015 survey showed that compared to September 2015, the median One-year-Ahead headline inflation (or CPI-All Item inflation) has declined to 2.74% from 2.92% in September 2015. As a comparison benchmark, the mean One-year-Ahead headline inflation rate, inched down to 3.01% in the December 2015 survey compared to 3.23% in the September 2015 survey.

Compared to the historical median headline inflation expectations average of 3.69% and the more recent fourth quarter average of 2.99%, the current One-year-Ahead median headline inflation is significantly lower. The inflations expectations show that Singapore households are probably expecting weaker prospects of the global growth and domestic price pressures, and consequently expect overall inflation will be subdued.

Tracking the overall headline inflation, the One-year-Ahead median Singapore core inflation expectations (excluding accommodation and private transportation related costs) also moderated down to 2.85% in December 2015 (from 2.91% in September 2015), its lowest level recorded since SInDEx survey started in 2011. However, significantly, 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 moderated down to 2.67% in the December 2015 survey compared to 2.73% in September 2015, its lowest level since June 2013. These respondents are possibly more informed about the Singapore core inflation rate as they do not face changes on accommodation or private transportation costs directly.

One-year-Ahead Median Singapore Index of Inflation Expectations (Median SInDEx1), a composite weighted index of One-year-Ahead median inflation expectations, moved down to its lowest level of 2.82%, from 2.92% in September 2015. 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. Median SInDEx1 is less adversely affected by outliers, unlike the original mean SInDEx1.

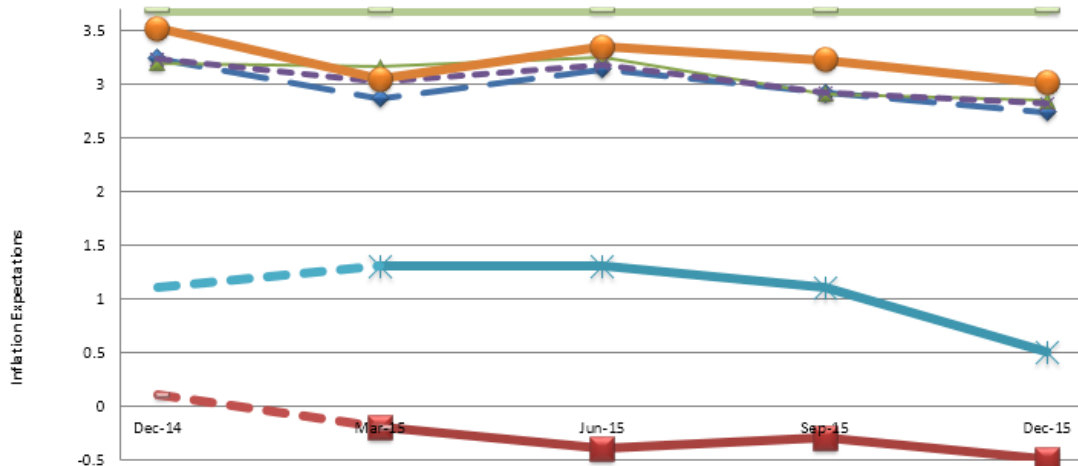
Assistant Professor Aurobindo Ghosh, who is the Principal Investigator of the SInDEx Project observed, “The much anticipated interest rate lift-off by the US Federal Reserve Board’s Federal Open Market Committee in December 2015 from near zero rates has created uncertainty particularly surrounding the future course of normalization of the US monetary policy. Globally depressed demand, particularly from the emerging markets, and persistent commodity price downturn, might have reduced the overall expectations on inflation. Domestically, the pass-through price pressures remain mainly due to the tight labour market, though impact of lower rental prices and lower COE prices have led to a significant drop in overall inflation outlook. Having said that, we do observe some flattening of the continuing downward trend of expectations of overall inflation both at the medium (One-year Ahead) and long terms (Five-years-Ahead).

“It is well-known in the academic literature that survey-based methods of forecasting inflation expectations often suffer from behavioral biases of respondents and need to be addressed. In this atmosphere of uncertainty, to adjust possible impact of outliers, a more widely accepted and robust median based measure was implemented for the index computations, similar to the consensus forecast of the Survey of Professional Forecasters,” Prof. Ghosh added.

For the longer horizon, the Five-year-Ahead median headline (CPI-All Items) inflation expectations in the December 2015 survey moderated to 3.65% (from 3.73% in September 2015), its lowest level since the survey’s inception in September 2011. The mean Five-year-Ahead mean headline inflation stood at 4.04% in the December 2015 survey, slightly lower from 4.2% in September 2015.

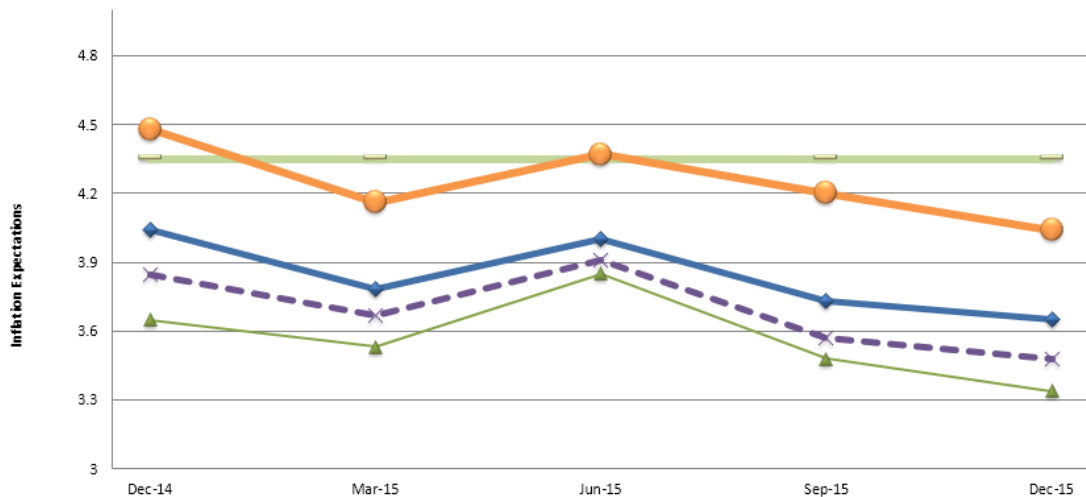
The Five-year-Ahead median Singapore core inflation rate (excluding accommodation and private road transportation related costs) also inched down to 3.34% from 3.48% recorded in September 2015. The composite Five-year-Ahead median Singapore Index of Inflation Expectations (median SInDEx5) in December 2015 moved to 3.48% from 3.57% in September 2015, the lowest median SInDEx5’s on record since September 2011.

One-year Ahead Median Inflation Expectations



	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Headline	3.24	2.87	3.14	2.92	2.74
Singapore Core	3.2	3.16	3.25	2.91	2.85
SInDEx1	3.24	3.02	3.19	2.92	2.82
Avg.SInDEx1	3.69	3.69	3.69	3.69	3.69
SPF 2015	0.1	-0.2	-0.4	-0.3	-0.5
SPF 2016	1.1	1.3	1.3	1.1	0.5
Headline_mean	3.52	3.05	3.35	3.23	3.01

Five-year Ahead Median Inflation Expectations



	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Headline	4.04	3.78	4.00	3.73	3.65
Singapore Core	3.65	3.53	3.85	3.48	3.34
SInDEx5	3.84	3.67	3.91	3.57	3.48
Avg.SInDEx5	4.35	4.35	4.35	4.35	4.35
Headline_mean	4.48	4.16	4.37	4.2	4.04

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.

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 9,300 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

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