



## **Media Release**

### **Singaporean's Inflation Expectations remain at record 5-year lows weighed down by subdued global and domestic demands**

Tweet: #Singapore #Inflation #Expectations hits 5 year lows due to subdued global and domestic demands @sgsmu <insert [bit.ly](#)>

**Singapore, 17 October 2016 (Monday)** – Singaporeans' One-year-Ahead median inflation expectations stayed unchanged at 2.63%, its lowest level since September 2011, according to the research findings of the latest quarterly survey for Singapore Index of Inflation Expectations (SInDEX) by Sim Kee Boon Institute for Financial Economics (SKBI) at Singapore Management University (SMU).

Keeping an unchanged US Federal Funds rate, the benchmark interest rate decided by a vote at the Federal Open Market Committee (FOMC) meeting in September 2016, the US Federal Reserve Board (FED) signaled that despite improving US domestic demand conditions, the time is not right for continuing the normalisation of the monetary policy started in December 2015 from its accommodative stance. The Vice Chairman of the FED and widely respected macroeconomist Stanley Fisher has observed in a recent interview that he foresees only a slow and deliberate progress of increase of interest rate to normalisation in this uncertain but interconnected global economy.

Despite unprecedented accommodative monetary policies in the G3 (US, Eurozone and Japan) economies, the main headwinds of the weak but promising global growth can be attributed to a few factors. First, the imminent, uncertain but yet to materialise fallout from BREXIT. Second, the increase in interest rate in the US and its consequent effect on the asset markets elsewhere in the world, particularly Asia. Finally, the upswing of prices of commodities particularly oil signal a change in the global demand including from the large emerging economies such as the BRICS economies which are currently going through a period of sustained slowdown.

On the domestic front, despite continuing slump in prices for accommodation and private road transportation, there are multiple factors that seem to be counter-balancing the price pressure. First, the drop in prices from private road transportation as a result of dips in COE prices was attenuated by an adjustment of the vehicle quota despite changes in financing. Second, domestic pass-through costs like wages seem to have moderated somewhat with less tight labour market conditions with fewer jobs being created in the most current quarter compared to previous ones. Third, domestic prices have been further dampened by continued slump in global demand in oil and hence energy prices despite the current neutral stance on appreciation of the Singapore dollar with the trade weighted basket of currencies. Fourth, there has been dissipation of the

effects of one-time budgetary concessions that affected inflation in the last quarter. Finally, there has been a slight increase in inflation of services including education and food which might have an uplifting effect on expectations of prices.

The SInDEx was co-developed by Assistant Professor Aurobindo Ghosh of the SMU Lee Kong Chian School of Business with funding from the SMU Sim Kee Boon Institute for Financial Economics and Ministry of Education Tier 1 Grant. The SInDEx survey, supported and implemented by Agility Research & Strategy, a leading Asian consumer insights and strategy firm with a large client base of Government and Private sector clients, 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 twenty-first wave of the SInDEx survey conducted in September 2016, 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 September 2016 survey showed that compared to June 2016, the median One-year-Ahead headline inflation (or CPI-All Items inflation) remained unchanged at 2.63% from June 2016, its lowest level since the survey's inception in September 2011. As a comparison benchmark, the *mean* One-year-Ahead headline inflation rate, moderated down to its new low of 2.82% in the September 2016 survey compared to 2.86% in the June 2016 survey, continuing its sub 3% value since December 2015.

Compared to the historical median headline inflation expectations (since September 2011) average of 3.54% and the more recent third quarter average of 2.78%, the current One-year-Ahead median headline inflation is significantly lower. Despite weak global growth prospects and headwinds from political uncertainty in the US and Eurozone, representative Singaporean households surveyed believe that One-year-ahead expected price changes seem to be plateauing.

However, unlike the overall headline inflation, the One-year-Ahead median Singapore core inflation expectations (excluding accommodation and private road transportation related costs) in September 2016 saw the biggest drop to 2.47% (from 3.00% in June 2016), its lowest ever recorded average since the survey's inception in September 2011. More 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 also dropped to its historic low of 2.3% in September 2016 compared to 2.9% in June 2016. This subgroup's expectations of inflation closely tracks the Singapore Core Inflation Expectations, as they are not exposed to private transport or private accommodation expenses. These results strongly indicate that there has been a significant drop in the perception of future price changes in the Singapore Core Inflation rate excluding housing and private road transportation possibly due to a prolonged slump in prices of everyday items.

One-year-Ahead Median Singapore Index of Inflation Expectations (Median SInDEx1), a composite weighted index of One-year-Ahead median inflation expectations, attained its

lowest level of 2.54% in September 2016 from 2.76% recorded in June 2016 survey. Historically, average value of Median SInDEx1 is 3.54% since its inception in September 2011. 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.

SMU Assistant Professor of Finance Aurobindo Ghosh, who is the Principal Investigator of the SInDEx Project highlighted, "In a recently concluded meeting, the International Monetary and Financial Committee (IMFC) highlighted that although near term risks of the financial markets have largely abated, the subdued global growth outlook and trade could at least partly be attributed to inward-looking policies, protectionism, stalled reforms and lack of technologically enabled inclusive growth. According to the Conference Board, this era of unprecedented level of political uncertainty with the fallout of the BREXIT vote and the upcoming US elections seem to be weighing down consumer demand despite a surge in consumer confidence in the US to levels not seen since the recession. Against this backdrop, with persistently low oil prices and subdued demand from the emerging economies particularly China, Singaporean consumers are expecting this low inflation environment to persist."

For the longer horizon, the Five-year-Ahead median headline (CPI-All Items) inflation expectations in the September 2016 survey moderated down to 3.43% (from 3.48% in June 2016), once again at its lowest level since the survey's inception in September 2011. The mean Five-year-Ahead headline inflation recorded 3.75% in the September 2016 survey, moderating from 3.84% recorded in June 2016 survey.

The Five-year-Ahead median Singapore core inflation rate (excluding accommodation and private road transportation related costs) moderated down significantly to 3.13% in September 2016 from 3.34% recorded in June 2016. The composite Five-year-Ahead median Singapore Index of Inflation Expectations (median SInDEx5) in September 2016 also inched down to 3.28% from 3.39% in June 2016, the lowest median SInDEx5 score on record since September 2011. The long term inflation expectations of Singapore core inflation (without accommodation and private road transportation) seems to be better anchored and significantly lower than the historical average median SInDEx5 of 4.21% since September 2011.

"The survey shows that Singaporeans are expecting record lows in inflation as seen in the significant drop of the One-Year-Ahead Singapore core inflation expectations which exclude the more policy related accommodation and private road transportation expenses. However, the Recent Economic Developments announcement by MAS and the Survey of Professional Forecasters (MAS-SPF) expect a gradual increase in both the CPI- All Item and the Singapore core inflation rate in 2016 and 2017. This apparent divergence can be explained in two ways. First, Singaporean consumers' expectations of Singapore's core inflation rate is still higher than projections of the MAS-SPF median forecasts for 2016 and 2017. In fact, the inflation expectations seem to be well anchored as there seems to be more of a convergence in the future expectations among consumers and economists. Second, it is well-known among academics and practitioners that surveys of individual consumers or households suffer from certain behavioural biases like the frequency bias which indicates that opinions would be impacted by changes of prices of everyday items and not necessarily big ticket items like houses or cars. Partly due to these biases, survey-based measures of Inflation

Expectations are better at identifying changes of expectations of inflation than the accurate value of the inflation expectations.” Prof Ghosh added.

## Methodology

Two indices were created, median SInDEx1 and median 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 behavior and expectations.

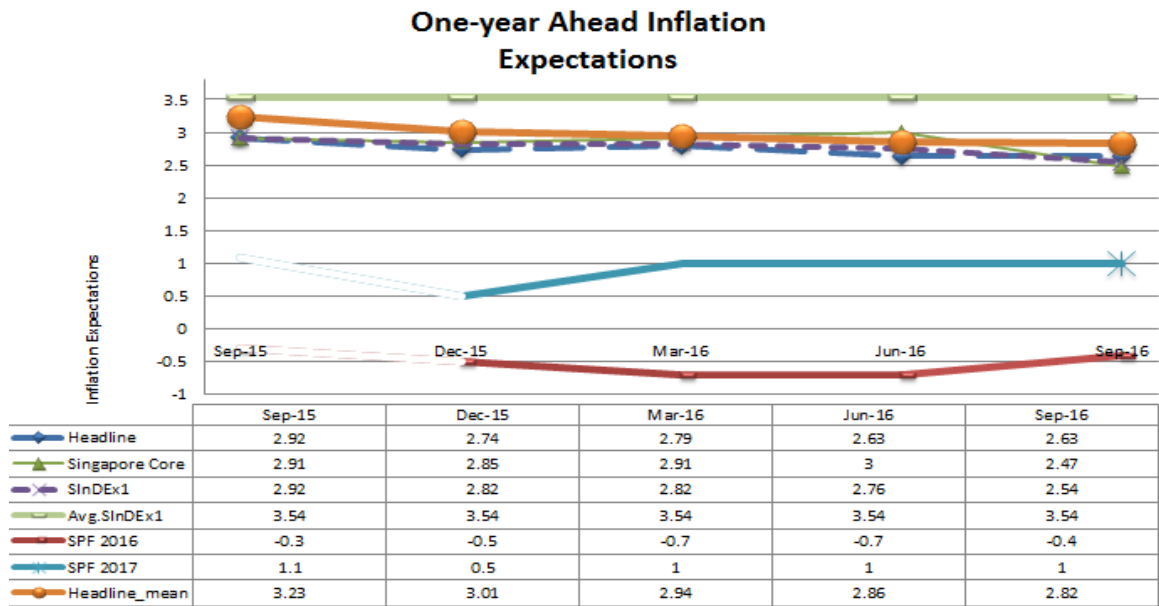


Figure 1: One-year-Ahead-inflation expectations in Singapore

### Five-year Ahead Inflation Expectations

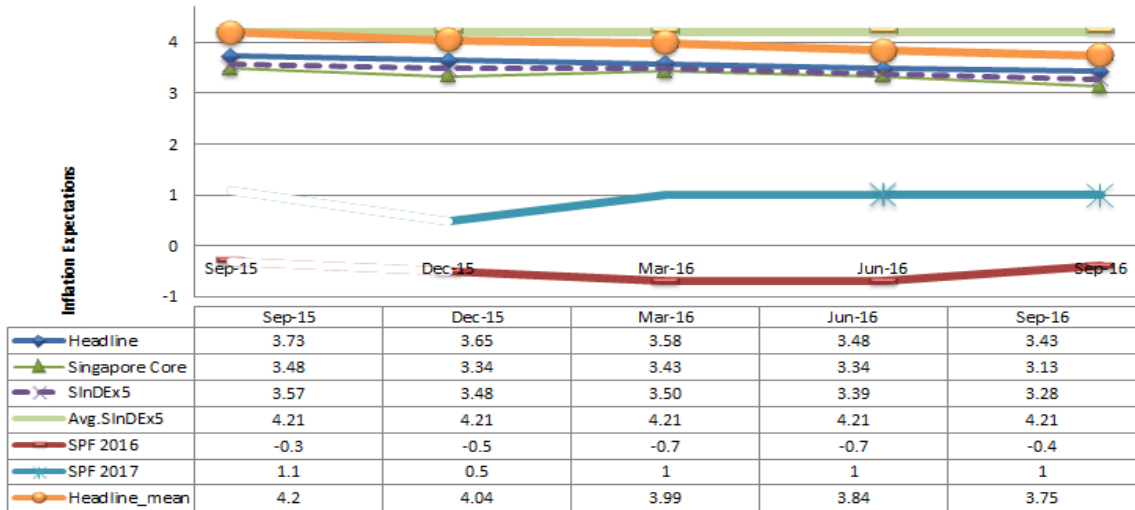


Figure 2: Five-year-Ahead-Inflation Expectations of Singapore

**For more information, please contact**

Teo Chang Ching (Mr)  
 Senior Assistant Director  
 Corporate Communications  
 DID: 6828 0451  
 Email: ccteo@smu.edu.sg

## **About Singapore Management University**

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. Comprised of six schools specialising in Accountancy, Business, Economics, Information Systems, Law and Social Sciences, it offers a wide range of bachelors', masters' and PhD degree programmes and is home to 9,300 students. With an emphasis on generating relevant multi-disciplinary research that addresses Asian issues, and being Singapore's only university in the city, SMU enjoys strategic linkages with business, government and the wider community through its research institutes, centres and labs. [www.smu.edu.sg](http://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 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 is driven by industry and societal needs in Singapore and the region. 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. <http://skbi.smu.edu.sg/>