

News Release

Limits to Borrowing Taking Effect on Singapore Inflation Expectations Despite Upbeat Global Cues

SMU and MasterCard Research Shows Continued Drop in Inflation Expectations as Macro-Prudential Policies Gain Traction

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Singapore, 20 January 2014 – Singapore households expect inflation to trend downwards in both one and five year horizons, according to the latest survey research findings of the SKBI-MasterCard Singapore Index of Inflation Expectations (SInDEx). This decline can be attributed to a combination of factors. First, the property cooling measures and other macro-prudential policies aimed at household's deleveraging have started having a significant impact. Furthermore, imported inflation emanating from ASEAN countries has weakened even though the global economic outlook including China, India besides the G3 economies (US, Eurozone and Japan) is more positive. Finally, commodity prices including food have moderated in the last quarter, having a downward pressure on price levels.

The SInDEx, which was developed by [Singapore Management University's Sim Kee Boon Institute for Financial Economics \(SKBI\)](#) in collaboration with [MasterCard](#), is derived from an online survey of around 400 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. This is the tenth wave of the quarterly SInDEx survey since September 2011, which yielded two indices that were officially launched in [January 2012](#). SInDEx was co-developed by Assistant Professor Aurobindo Ghosh at SKBI in collaboration with MasterCard.

In the latest survey conducted in December 2013, 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 tenth wave of the SInDEx survey in December 2013 show that compared to the [previous wave of the survey](#), the One-year-Ahead headline inflation (or CPI-All Item inflation) is expected to further decrease to 3.72% from 3.85% recorded in September 2013. This downward trend has continued since September 2012 albeit from a high of over 4.5%, to record the lowest level since inception of SInDEx survey in September 2011. This significant decline compared to the historic average of 4.25% and fourth quarter average of 4.05%, shows the confidence Singapore households have in improved price stability and the moderation of inflation in recent times.

Similarly, the forward looking One-year-Ahead Singapore Index of Inflation Expectations (SInDEx1), a composite weighted index of One-year-Ahead inflation expectations traced a downward trend and eased to 3.8% (from 3.92% in September 2013), continuing its sub 4% value since June 2013. SInDEx1 puts lower weight on more volatile components like accommodation, private transportation,

food and energy elements, hence is expected to be more stable than the all-inclusive headline inflation expectations.

The One-year-Ahead Singapore core inflation expectations (excluding accommodation and private transportation) also moderated downward to 3.88% in September (from 4.03% in September 2013), maintaining a downward trend since September 2012 and the first time it has fallen below 4% since inception. For a subgroup of the population who own accommodation and use public transport, who in reality faces the Singapore core inflation rate, the One-year-Ahead Singapore core inflation rate was 3.7% in the December 2013 survey.

Assistant Professor Aurobindo Ghosh, co-creator of SInDEX, and Project Director of SMU SKBI said, “In the MAS Survey of Professional Forecasters (MAS-SPF) released recently, the median forecast for 2014 CPI-All Inflation rate is 2.8%, and MAS expects it to be in the 2%-3% range for 2014. SInDEX survey estimates the One-year-Ahead headline inflation expectations to be 3.72%, which is higher than both estimates. There are a few ways of reconciling this apparent inflated expectations of inflation by households, though it is trending downwards. The levels of information available to households, policymakers or professional economists could be quite different. While policymakers and economists are more concerned with the macroeconomic outlook and conditions, individual households base their decisions on past experience and their expectations of possible escalating cost of living, particularly for commonly purchased items. This gap between expectations and reality might be gradually narrowed by effective and frequent communications from the policymakers.”

“Macro-prudential policies of the regulators, such as cooling measures in property and private transportation, are having an effect in controlling price rises. This might also have an impact on reducing pass-through costs, although the tight labor market might continue to pose some challenges in terms of domestic wage rises. Even though the long anticipated US Federal Reserve tapering of stimulus spending commenced in January 2014, uncertainty still remains on an orderly exit from this unprecedented period of highly accommodative monetary policy and surge of ‘hot money’,” Assistant Professor Ghosh added.

The long term Five-year-Ahead overall (CPI-All Items) inflation expectations in the tenth wave in December 2013 stood at 4.72%, a drop from 4.86% recorded in the September 2013 survey, and the lowest since inception, maintaining the trend of decline since September 2012. The Five-year-Ahead Singapore core inflation rate (excluding accommodation and private transportation) plunged to 4.4% from 4.6% in the September 2013 wave.

The composite Five-year-Ahead Singapore Index of Inflation Expectations (SInDEX5) in December 2013 consequently moderated to 4.56% from 4.7% when the survey was conducted in September 2013. This compared to the average of SInDEX5 which is at 4.95% is a significant drop. This indeed bodes well for the increased level of confidence of Singapore consumers have on improving outlook in the long run with respect to price levels.

[Dr. Yuwa Hedrick-Wong, global economic advisor, MasterCard](#) said, “2014 is likely to be the first time that all the key global regions will be returning to growth since 2010, thus providing a firmer and more positive global environment for an open economy like Singapore. However, with the Federal Reserve’s tapering, the interest rate cycle is shifting up, not down. In addition, there is still a great deal of uncertainty regarding growth prospects of China, India, and Japan. Getting monetary policy right is extremely challenging under such conditions. In this context, moderating inflation expectation is very good news for Singapore as it provides more room for maneuvering monetary policy to get it right.”

One-year Ahead Inflation Expectations

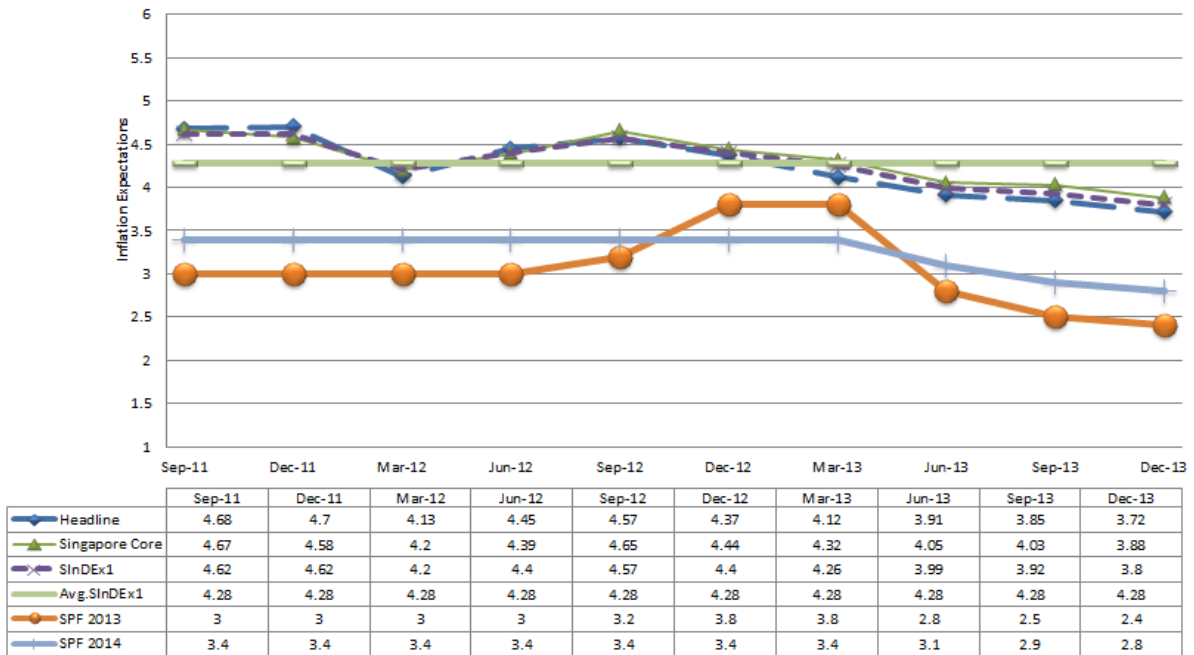


Figure 1: One-year-Ahead Singapore Index of Inflation Expectations

Five-year Ahead Inflation Expectations

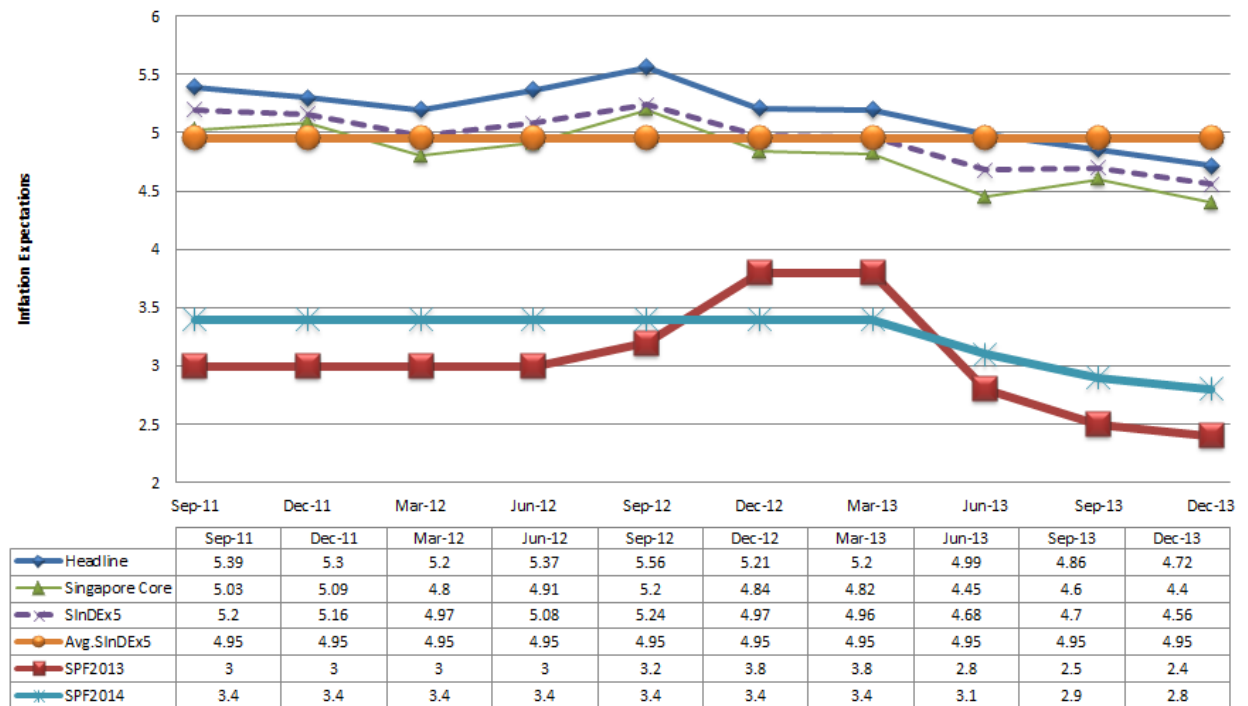


Figure 2: Five-year-Ahead Singapore Index of Inflation Expectations

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 SKBI-MasterCard Survey was collected online from about 400 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, 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. It is known for its interactive and technologically-enabled pedagogy of seminar-style teaching in small class sizes.

Home to about 8,000 students, SMU comprises 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, offering a wide range of bachelor's, master's and PhD degree programmes in various disciplines.

With an emphasis on generating rigorous, high impact multi-disciplinary research that addresses Asian issues of global relevance, SMU faculty 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 and centres. SMU's city campus is a state-of-the-art facility located in the heart of downtown Singapore, fostering strategic linkages with the business and wider community. www.smu.edu.sg

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.

The Institute has four major research centres for quantitative financial analysis and offers training programmes for professionals in the financial industry. Its work is conducted in close collaboration with leading scholars in financial economics and financial econometrics from around the world as well as leading international organisations and experts from industry. skbi.smu.edu.sg

About MasterCard

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