

Singapore consumers anticipate inflation to fall further in the next 1-5 years

Here are 3 reasons why.

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.

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.