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# Singapore consumers' inflation expectations drop to lowest level in over 3 years: SMU survey

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Singaporeans continue to expect inflation to slide because of both domestic and global factors, going by the latest findings of the Singapore Index of Inflation Expectations (SInDEx). -- ST PHOTO: CAROLINE CHIA

SINGAPORE - Singaporeans continue to expect inflation to slide because of both domestic and global factors, going by the latest findings of the Singapore Index of Inflation Expectations (SInDEx).

The online survey of a sample of 500 individuals in March shows that consumers now expect a headline inflation rate of 3.05 per cent for the year ahead, down from the previous survey's 3.52 per cent in December last year.

This is the lowest rate recorded since the quarterly survey was first started by the Singapore Management University's Sim Kee Boon Institute for Financial Economics in September 2011.

Singapore experienced a fourth month of deflation after consumer prices fell 0.3 per cent in February, the longest slide in more than five years.

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SMU said persistent weakness in oil prices accentuated by the uneven global recovery and trepidations on exchange rate fluctuations have led to a significant drop in headline inflation rates across several influential economies, including China, India and the G3 economies (US, Eurozone and Japan).

"Reacting to global cues, both the one-year and the five-year ahead, Singaporeans' inflation expectations saw the largest quarterly drop in headline inflation expectations despite an unscheduled loosening of the monetary policy in Singapore in January 2015," SMU noted.

Despite a tight labour market and consequent pass-through costs, "Singaporeans perceive that overall prices from imported inflation have moderated enough" to warrant the lower inflation expectatons, SMU added.

Expectations for core inflation in the year ahead, which excludes accommodation and private transport costs, dropped to 3.44 per cent in March from 3.6 per cent in December.

Assistant Professor of Finance Aurobindo Ghosh from the Lee Kong Chian School of Business, who co-created SInDEx, observed, "Despite a divergent but upbeat World Economic Outlook by the International Monetary Fund for 2015, low oil prices and fluctuating exchange rates are probably here to stay in the medium term. These phenomena have had a significant negative impact on expectations of inflation the world over including the G3 economies. Singapore is no different."

"Domestic factors such as the impending supply glut in COE quota and upcoming additional supply of accommodation, lower than expected pass-through costs despite tight labour market and medical subsidies have brought down the inflation expectations by Singaporeans in the current quarterly SInDEx survey."

He added: "Quarterly surveys like SInDEx on medium and long term inflation expectations usually provide lower fluctuations than short term inflation expectations. In a low inflationary environment, many consumers might not see a huge reduction in their overall expenditure. The main reason for this is because the consumption basket for measuring Consumer Price Index (CPI) is representative but not experienced by all individuals. Hence, survey-based instruments, even after corrections, might overestimate inflation expectations when there is near zero or negative inflationary environment."

Singapore's inflation rate for March will be released on April 23.