

S'pore consumers see inflation easing: poll

By **TEH SHI NING**

[SINGAPORE] Singapore consumers continue to expect inflation to edge downwards, says the latest *SKBI-MasterCard Singapore Index of Inflation Expectations* report. But their expectations remain above official inflation forecasts.

Responses from a representative sample of 400 local consumers polled online in March produced a composite index showing that the general public expects inflation of 4.26 per cent for the year ahead,

down from 4.4 per cent in December.

Consumer expectations of headline inflation fell to 4.12 per cent – the lowest expected level since the survey's launch in September 2011 – from 4.37 per cent a quarter earlier.

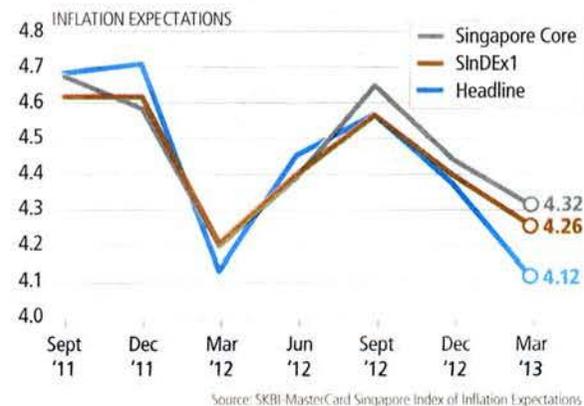
Core inflation, which strips out accommodation and private road transport costs, is also expected to fall to 4.32 per cent, from expectations of 4.44 per cent in December, said the report, which is produced by Singapore Management University's Sim Kee Boon Institute for Financial Economics (SMU SKBI) and sponsored by MasterCard.

Although the general public now expects prices to rise at a slower pace, inflation expectations are still above the official forecasts. The government expects headline inflation to come in at 3-4 per cent, while core inflation is expected to be 1.5-2.5 per cent. Both forecast ranges were revised half a percentage point lower earlier this month.

The good news is that medium-term inflation expectations among Singapore's households appears

Lower

One-year ahead inflation expectations



to be well anchored, said Aurobindo Ghosh, who co-created the inflation expectations index and is the programme director of SMU SKBI.

Singapore's persistently elevated inflation over the past two years has raised the risks of inflation expectations swinging too high. The worry has been that if consumers and businesses believe that prices are headed for ever steeper increases, that would shape their spending and wage decisions, fuelling actual inflation.

The need to anchor inflation expectations was also one reason that the Monetary Authority of Singapore decided to keep the trade-weighted Singapore dollar on an appreciating path earlier this month.

Noting that the latest inflation expectations index comes at a time of "unprecedented and concerted global expansionary monetary policy, and record low interest rates in the US, eurozone and Japan", Dr Ghosh said that moderation in imported inflation could have helped to cool expectations.

Survey respondents seemed to feel that local structural factors such as rising wages from a tight labour market and other pass-through costs including higher car certificate of entitlement (COE) premiums have not hit overall prices much, he added.

Today, the Department of Statistics is expected to report a slowing in Singapore's inflation rate in March. Economists polled by Reuters forecast a 3.75 per cent year-on-year rise in the consumer price index due to tumbling car prices, down from 4.9 per cent in February, when the Chinese New Year holiday accentuated price increases.

Car prices are expected to inject volatility into the headline inflation rate in coming months, but Dr Ghosh said that short-term volatility does feed into inflation expectations. "Given that the medium-term expectations are fairly anchored, we will not see huge fluctuations in average inflation expectations but possibly an increase due to increased uncertainty in the global financial system," Dr Ghosh said.