

S'poreans lower expectations for inflation: survey

They show some confidence in MAS' ability to ensure price stability

By **TEH SHI NING**

[SINGAPORE] Singapore's consumers have lowered their inflation expectations for the year ahead, says a new survey produced by market research agency YouGov and UK investment house M&G Investments.

While high inflation remains a huge concern for 85 per cent of the Singaporeans polled, Singapore was also the only economy other than Switzerland among the nine economies the survey covered, whose consumers showed some confidence in the central bank's ability to ensure price stability.

Online polls of more than 500 Singaporeans showed that the public here expected a year-ahead inflation rate of 4.55 per cent in February. But their expectations fell to 4 per cent when polled again in May.

Singapore does not compile official inflation expectations of households, but these results were broadly in line with those of the SKBI-MasterCard Singapore Inflation Expectations Index (SinDEX). The last SinDEX survey in March showed that consumers expect a year-ahead headline inflation rate of 4.12 per

cent, down from 4.37 per cent in December 2012.

Consumer price inflation in Singapore was stubbornly high for more than two years before sinking to a three-year low of 1.5 per cent in April. Inflation stayed at 1.6 per cent in May, as car prices headed south after new vehicle loan curbs. The government's forecast for headline inflation is 3-4 per cent.

In Hong Kong, the only other Asian economy surveyed by YouGov, consumers are expecting the inflation rate to climb to 5 per cent in the next 12 months.

"There is a strong correlation between inflation rates in Asia because business cycles of many Asian countries tend to be largely

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— M&G head of retail fixed interest, Jim Leaviss

driven by export demand. Unlike the US, UK and Europe, Singapore and Hong Kong are characterised by low capacity, a tight labour market and favourable credit conditions," said M&G head of retail fixed interest, Jim Leaviss.

"The Monetary Authority of Singapore (MAS) and the Hong Kong Monetary Authority will need to be vigilant to ensure that high inflation expectations do not become entrenched and start to become a self-fulfilling prophecy," he added.

The M&G index showed that Singaporeans' medium-term expectations about the inflation rate in five years' time have not moderated yet, coming in at 5 per cent for both the February and May surveys.

Inflation expectations matter because what consumers and businesses believe about how prices will move can affect their actual saving, spending and investment decisions.

The report did say that in Singapore, close to half the respondents were either "very" or "fairly" confident that the MAS is currently pursuing the right policies to achieve price stability over the medium term.

Most economists here expect the central bank to stick to a modest and gradual appreciation of the trade-weighted Singapore dollar at its next monetary policy review in October.