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Expectation comes as growth in emerging economies slows: survey

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Right price: *The survey, which polled 400 local consumers, showed that the public expects inflation of 3.92 per cent for the year ahead, down from 3.99 per cent in June.* PHOTO: REUTERS

[SINGAPORE] Consumers here expect inflation to keep trending downwards in the next year, partly due to tepid growth in emerging economies, such as China and India, and to moderating imported inflation, says a quarterly survey.

The Singapore Index of Inflation Expectations (SInDEx) indicated that the public expects inflation of 3.92 per cent for the year ahead, down from 3.99 per cent in June.

The online survey, which polled 400 local consumers, was developed by Singapore Management University's Sim Kee Boon Institute for Financial Economics (SKBI) and MasterCard.

Consumer expectation of headline inflation dipped to 3.85 per cent – the lowest since the launch of the survey in September 2011 – from 3.91 per cent a quarter before.

Core inflation, which strips out accommodation and private road transport costs, is also expected to come in slightly lower, at 4.03 per cent against 4.05 per cent.

Although the general public expects inflation to let up, their expectations for inflation are still higher than that forecast by the government. This year, the government expects headline inflation to register in the upper range of the 2 to 3 per cent forecast. For next year, headline inflation is projected to come in at between 2 and 3 per cent.

The official estimate for core inflation is between 1.5 and 2 per cent this year, and between 2 and 3 per cent next year.

Assistant professor Aurobindo Ghosh, the co-creator of SInDEx and project director of SKBI, noted that headline inflation has come down from the first quarter of 2013 as a result of a slew of government measures to cool the property market and curb car loans, as well as the deleveraging of household debt – the combined effect of which was not expected a year ago.

"Academic literature has shown that inflation expectations are quite persistent or 'sticky', and are often slow to react downwards," Prof Ghosh said.

"Additionally, there is an expectation of pass-through costs, including domestic ones like wages and rental, and imported ones like oil prices, which might have caused elevated expectations of price rises in the medium term.

"For policymakers, this might indicate some risks to the anchoring of medium-term inflation expectations for both headline rate and the core inflation rate in Singapore."

Dr Yuwa Hedrick-Wong, the global economic advisor for MasterCard, said that inflation expectations are still relatively high despite the downward trend, possibly due to a combination of the pick-up in the US and European economies and the positive impact of the expansionary policies in Japan.

"At the same time, this has to also be seen in the context of Asia's growth shifting to a lower gear with the slowdown in big emerging economies like China and India, which is likely to adversely affect Singapore's open economy, vulnerable to external market conditions," he added.

The report also polled respondents on what they expected inflation would be in five years. This worked out to 4.7 per cent for the composite index, up slightly from 4.68 per cent from the June edition of the survey.

Headline inflation in five years is expected to clock in at 4.86 per cent – the lowest figure recorded so far – down from 4.99 per cent.

Core inflation is expected to rise to 4.6 per cent from 4.45 per cent.