

News Release

Singapore Inflation Expectations Trending Downwards Amid Continued Uncertainty

MasterCard and SMU Research Shows Fall in Expectations as Inflation Moderates in Singapore and the Region

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#MasterCard/@sgsmu Index <http://bit.ly/1i1tMD>*

Singapore, 21 October 2013 – Singapore consumers are expecting inflation to continue on a downward trend in the next one to five years in Singapore and the region, according to the latest findings of the SKBI-MasterCard Singapore Index of Inflation Expectations (SInDEx). This is partly due to moderation in imported inflation owing mainly to subdued demand and weak growth in regional economies such as China and India

The SInDEx, which was jointly developed by [Singapore Management University's Sim Kee Boon Institute for Financial Economics \(SKBI\)](#) and [MasterCard](#), is derived from an online survey of around 400 randomly selected individuals from Singapore households.

The online survey helps researchers understand the behaviour and sentiments of decision makers in Singapore households. This is the ninth wave of the quarterly survey conducted under the collaboration since the indices were officially launched in [January 2012](#). SInDEx was developed by Assistant Professor Aurobindo Ghosh and Professor Jun Yu from SMU SKBI, in collaboration with MasterCard.

In the latest survey conducted in September 2013, consumers shared their views on perceived values of economic variables over the next one to five years.

Comparing the two waves of research conducted in [June 2013](#) and September 2013, consumers expect inflation to continue to decline in the next 12 months. Their perception of the One-year-Ahead headline inflation (CPI-All Items) eased slightly to 3.85% in September 2013, down from 3.91% in June 2013. This is the lowest it has been since the index was first created in September 2011, and continuing its downward trend that started in September 2012. It is also substantially lower than the third quarter average of 4.34% and the overall average of 4.33% since September 2011.

Similarly, the forward looking SInDEx1, a composite weighted index of One-year-Ahead inflation expectations traced a downward trend and eased to 3.92% (from 3.99% in June), continuing its sub 4% value since June. The One-year-Ahead Singapore core inflation expectations (excluding accommodation and private transportation) also moderated downward to 4.03% in September (from 4.05% in June), maintaining a downward trend since September 2012 and is the lowest value since the survey's inception in September 2011.

Assistant Professor Aurobindo Ghosh, co-creator of SInDEx, and Project Director of SMU SKBI said, “Inflation expectations of Singaporeans for overall or headline rates have generally been quite grounded as we have seen in the previous eight rounds of the SInDEx Survey. However, CPI-All Inflation came down from the first quarter of 2013 owing to a slew of macro-prudential factors like property cooling measures and restrictions in car loans, and an emphasis on deleveraging of household debt and disbursement of HDB S&CC rebates. The combined effect of all these measures was mostly not anticipated a year ahead. Academic literature has also shown that inflation expectations are quite persistent or ‘sticky,’ and is often slow to react downwards.”

“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 anchoring of medium term inflation expectations for both headline rate and inflation rate without accommodation and private transportation costs, i.e., the core inflation rate in Singapore,” Assistant Professor Ghosh added.

The long term Five-year-Ahead overall (CPI-All Items) inflation expectations is at 4.86%, a drop from the 4.99% recorded in the June 2013 survey, and the lowest since inception, maintaining the trend of decline since September 2012. The Five-year-Ahead Singapore core inflation rate (excluding accommodation and private transportation) inched upward to 4.6% from 4.45% in the June wave.

The composite Five-year-Ahead Singapore Index of Inflation Expectations (SInDEx5) in September 2013 rose slightly to 4.7% from 4.68% when the survey was conducted in June 2013. This is compared to the two-year average of SInDEx5 which is at 5.00%.

[Dr. Yuwa Hedrick-Wong, global economic advisor, MasterCard](#) said, “Inflation expectation remains relatively high despite the continued decline in the last four waves of the survey. This reflects some optimism about the state of the world economy with some pickup in the U.S. and Eurozone economies and signs of positive impact of the expansionary policies in the Japanese economy. 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.”

One-year Ahead Inflation Expectations

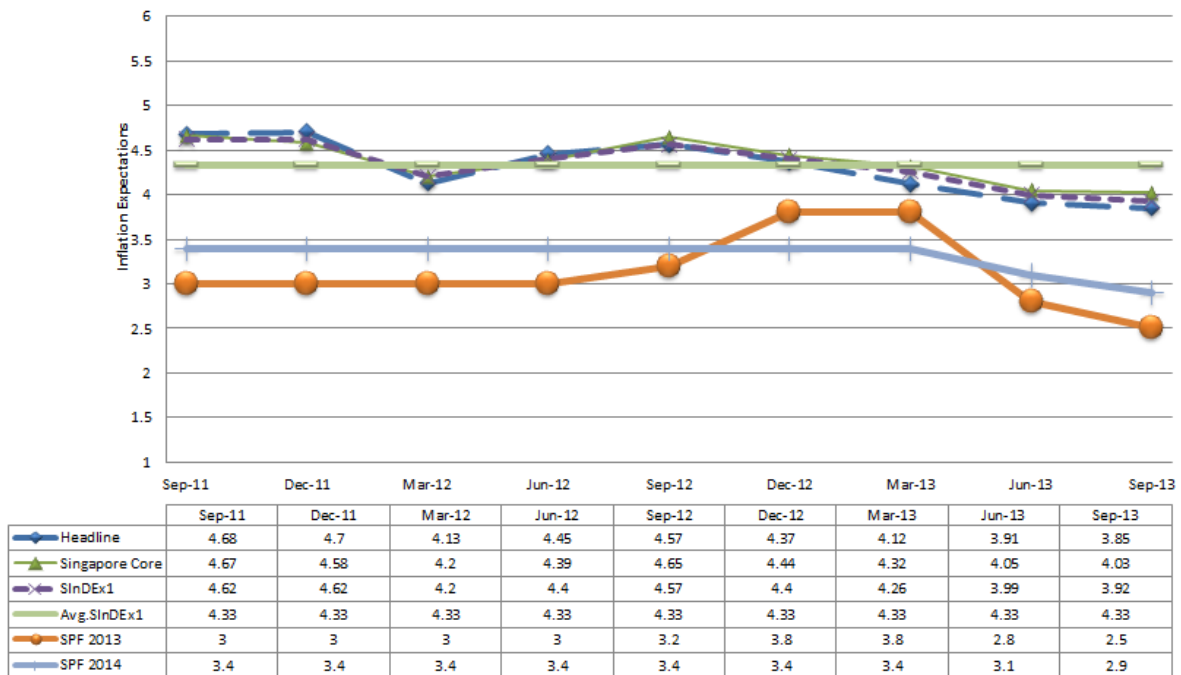


Fig. 1

Five-year Ahead Inflation Expectations

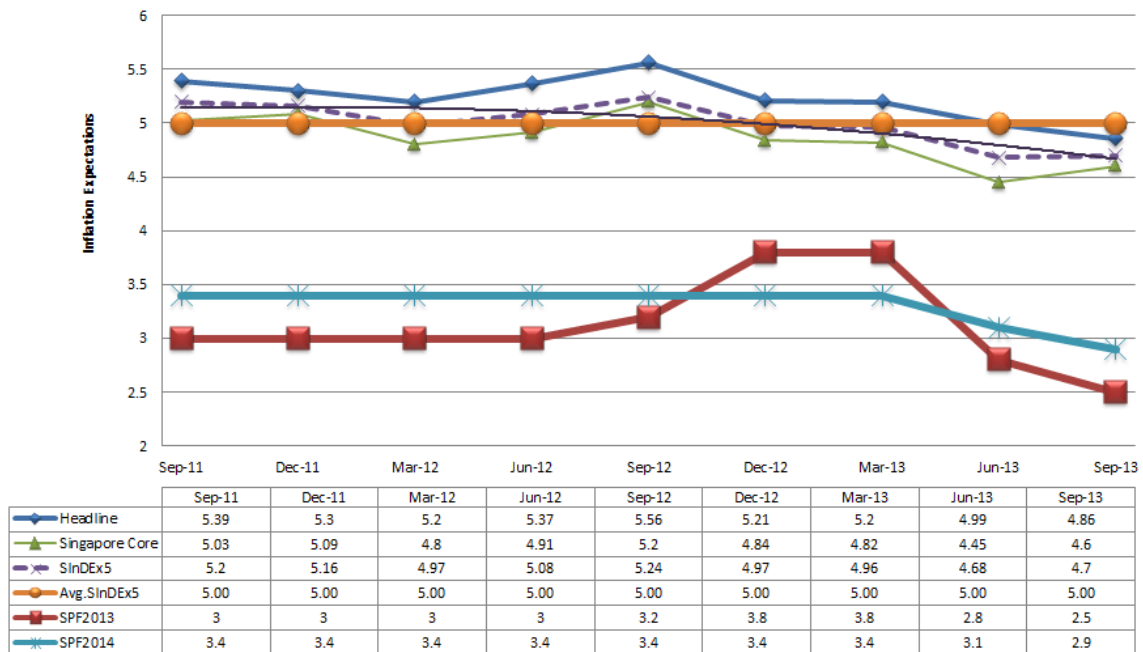


Fig. 2

Methodology

Two indices were created, SInDEx1 and SInDEx5, to measure the 1-year inflation expectations and the 5-year inflation expectations. The data for the SKBI-MasterCard Survey was collected online from about 400 consumers. The sampling was done using a quota sample over gender, age and residency status to ensure representativeness of the sample. Employees in some sectors like journalism, marketing were excluded as that might have an effect on their responses to questions on consumption behaviour and expectations.

About Singapore Management University

A premier university in Asia, the Singapore Management University (SMU) is internationally recognised for its world class research and distinguished teaching. Established in 2000, SMU's mission is to generate leading edge research with global impact and produce broad-based, creative and entrepreneurial leaders for the knowledge-based economy. It is known to be a pioneer in Singapore for its interactive and technologically-enabled pedagogy of seminar-style teaching in small class sizes which remains its unique hallmark.

Home to about 8,000 students, SMU comprises six schools: School of Accountancy, Lee Kong Chian School of Business, School of Economics, School of Information Systems, School of Law and School of Social Sciences, offering a wide range of bachelor's, master's and PhD degree programmes in business and other disciplines.

With an emphasis on generating rigorous, high impact cross-disciplinary research that addresses Asian issues of global relevance, SMU faculty collaborates with leading foreign researchers as well as partners in the business community and public sector through its research institutes and centres. Through executive education, the university provides public and customised training for working professionals in meeting the needs of the economy. Close relationships with leading universities, including the Wharton School of the University of Pennsylvania, Carnegie Mellon University, and the University of Chicago Booth School of Business, allow SMU to draw on their academic and research strengths in various collaborations. The SMU city campus is a state-of-the art facility located in the heart of downtown Singapore, fostering strategic linkages with the business and wider community.

www.smu.edu.sg

About Sim Kee Boon Institute for Financial Economics

Established in July 2008, the Sim Kee Boon Institute for Financial Economics (SKBI) at the Singapore Management University promotes the study of Financial Economics and Financial Econometrics in areas of strategic relevance to Singapore's economy and the economies of the region. A significant addition to Singapore's efforts to be a financial hub in Asia, SKBI is a leading institute for academic research with strong industry application and practical dimension in the area of Financial Economics.

The Institute has four major research centres for quantitative financial analysis and offers training programmes for professionals in the financial industry. Its work is conducted in close collaboration with leading scholars in financial economics and financial econometrics from around the world as well as leading international organisations and experts from industry. skbi.smu.edu.sg

About MasterCard

[MasterCard](#) (NYSE: MA), www.mastercard.com, is a technology company in the global payments industry. We operate the world's fastest payments processing network, connecting consumers, financial institutions, merchants, governments and businesses in more than 210 countries and territories. MasterCard's products and solutions make everyday commerce activities – such as shopping, traveling, running a business and managing finances – easier, more secure and more efficient for everyone. Follow us on Twitter [@MasterCardNews](#), join the discussion on the [Cashless Pioneers Blog](#) and [subscribe](#) for the latest news on the [Engagement Bureau](#).

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