

Singapore consumers anticipate inflation to fall further in the next 1-5 years

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Due to moderated imported inflation.

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.

Here's more:

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%