Publication: Yahoo!
Date: 22 July 2013
Headline: Singaporeans predict inflation to drop in the next 1 to 5 years

Singaporeans predict inflation to drop in the next 1 to 5 years

Singapore Business Review – Mon, Jul 22, 2013 10:10 AM SGT

As emerging economies become sluggish.

According to MasterCard and SMU Research, Singapore consumers are expecting inflation to continue on a downward trend in the next one to five years amid slowdown in big emerging economies like China and Brazil (in general the so called BRICS economies) and persistent weakness in the Eurozone, according to the latest findings of the SKBI-MasterCard Singapore Index of Inflation Expectations (SInDEx).

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 eighth wave of the quarterly survey conducted under the collaboration since the indices were officially launched in January 2012. SInDEx was developed by Dr. Aurobindo Ghosh and Professor Jun Yu from SMU SKBI, in collaboration with MasterCard.

In the latest survey conducted in June 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 March 2013 and June 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 to 3.91% in June 2013, down from 4.12% in March 2013. This is the lowest it has been since the index was first created in September 2011, and the first time the One-year-Ahead headline inflation (CPI-All Items) has fallen below 4%.

Similarly, the forward looking SInDEx1, a composite weighted index of One-year-Ahead inflation expectations decreased to 3.99% (from 4.26% in March), also its first sub 4% value since the survey's inception. The One-year-Ahead Singapore core inflation expectations (excluding accommodation and private transportation) also reached to a new low of 4.05% in June (from 4.32% in March).

Dr. Aurobindo Ghosh, co-creator of SInDEx, and Programme Director of SMU SKBI said, "Better than expected job situation and housing market in the U.S. seem to portend an earlier tapering of the U.S. Federal Reserve's stimulus spending with accommodative monetary policy, and consequent upward pressure on interest rates. Furthermore, Singapore is facing a weakening impact of imported inflation owing to a cyclical slowdown of some of the ASEAN economies, as well as regional economies like China and India."

"Macro-prudential policies like cooling measures for the property market and curbs on financing on private transportation, and gradual emphasis on individual deleveraging, seem to have an impact on the public's perception of overall inflation expectations," Dr. Ghosh added.

The long term Five-year-Ahead overall (CPI-All Items) inflation expectations is at 4.99%, lower than the 5.2% recorded in the March 2013 survey, maintaining the trend of decline across the board. The Five-year-Ahead Singapore core inflation rate (excluding accommodation and private transportation) decreased to 4.45% from 4.82% in the March wave, following a consistent downward trend since September 2012.

The composite Five-year-Ahead Singapore Index of Inflation Expectations (SInDEx5) in June 2013 fell to 4.68% from 4.96% in the survey conducted in March 2013, also the lowest since inception after a drop of nearly 0.3%.

Dr. Yuwa Hedrick-Wong, global economic advisor, MasterCard said, "There are domestic cost pressures evident in this survey related to a tightening labour market and Singapore's smaller than expected growth figures and forecast cuts in manufacturing and trade. Of bigger concern in Asia, however, is China's slowdown which is causing slower growth and weakening economies across the region."