

# Singaporeans expect headline inflation to fall to 3% this year, says poll

It is consistent with the continuation of accommodating fiscal and monetary policy, says DBS economist

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INFLATION in Singapore is expected to remain at low levels for the year, a trend which DBS chief economist Taimur Baig has said is "consistent with the continuation of accommodating fiscal and monetary policy" this year and the next.

The bank on Monday published the findings of the latest quarterly survey for the Singapore Index of Inflation Expectations (SInDEx), released jointly with the Singapore Management University (SMU).

The SInDEx is derived from an online survey of around 500 randomly selected individuals who represent a cross-section of Singapore households.

The June survey registered a slight decline in Singaporeans' headline inflation expectations for the year ahead to 3 per cent, down from 3.1 per cent in March, and lower than SInDEx's Q2 average of 3.3 per cent since the survey's inception in 2012.

This comes after the Monetary Authority of Singapore (MAS) in March forecast both core and headline inflation

at between -1 and 0 per cent this year. It said in April that fiscal policy will play the main role in mitigating the crisis.

In recent months, governments worldwide have announced fiscal and monetary easing to help lift their pandemic-hit economies, but higher inflation is increasingly limiting the room that some of them have for such moves.

This is the case with Turkey, where core inflation and energy costs are on the rise, despite months-long fiscal easing that sent inflation-adjusted borrowing costs below zero.

China's central bank is also slowing down the pace of monetary easing amid signs of an economic recovery, tolerating a steady increase in money market rates since early May.

Elsewhere, policymakers at the US Federal Reserve in June said they will consider maintaining interest rates near zero for this year and the next.

The Bank of England, which cut the benchmark interest rate to a historic low of 0.1 per cent, said in May that it was reviewing policies including negative interest rates.

As for Singaporeans, their overall inflation expectations remained unchanged at 2.9 per cent in June relat-

ive to March, DBS and SMU said in a joint statement.

They added that the June SInDEx poll included an in-depth survey on the potential impact of the Covid-19 pandemic on inflation expectations of different components of consumer price index (CPI) inflation.

Overall, "moderately significant" inflation expectations were observed for food and healthcare costs, due to expected disruptions caused by the pandemic. Other CPI components were unaffected.

Excluding accommodation and private road transport costs, core inflation expectations for the year ahead edged up to 3.2 per cent in June from 3.1 per cent in March.

This could "perhaps be attributed to the increased level of uncertainty, particularly related to a cognitive dissonance in terms of the impact of the Covid-19 crisis on the dislocation of supply chains once the economy re-opens", DBS and SMU said.

Core inflation expectations for the year ahead were lower at 2.8 per cent for a subgroup of the population who own their accommodation and use public transport, down from 2.9 per cent in March.

"Not being exposed to private road transportation or accommodation expenses, this subgroup's expectations of core inflation closely resemble the



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Singapore core inflation expectations," DBS and SMU said.

Aurobindo Ghosh, assistant professor of finance (education) at SMU's Lee Kong Chian School of Business and founding principal investigator of the SInDEx project, said it was "hardly surprising" that Singaporeans were "treading cautiously about future prospects of price changes".

In general, their inflation expectations "seem to be capturing the direction of movement better than the level of inflation", Prof Ghosh added.

The SInDEx survey also found that eight in 10 respondents believed that the pandemic's impact on inflation would be "significant", with 78.6 per cent saying it would have a significant impact on the economy.

Around 13 per cent of those polled

expected salary reductions of over 10 per cent in the next 12 months, with a median salary increment expectation of between -1 per cent and 1 per cent.

DBS' Mr Baig, who is also the bank's managing director of group research, said Singaporeans were "facing difficult and uncertain economic circumstances, which would likely weigh on their expectation of employment and wages in the near term".

"Since the results of the survey demonstrate that inflation expectations remain well anchored at low levels, they are consistent with the continuation of accommodating fiscal and monetary policy this year and the next," he added.

In the longer term, Singaporeans' headline inflation expectations for the five years ahead declined to 3.6

per cent in the June poll, compared to 4.1 per cent in March.

The June figure was "significantly lower" than SInDEx's historic Q2 average of 4.1 per cent, DBS and SMU noted.

Excluding accommodation and private transport costs, core inflation expectations for the five-year-ahead period remained unchanged at 3.7 per cent in June, compared to March.

Prof Ghosh said there seemed to be a trend of a larger downward impact of inflation expectations in the long term, given that economies worldwide were going into a pandemic-induced downturn.

The SInDEx survey was led by Prof Ghosh. DBS Group Research is a co-sponsor and research partner, together with SMU's Sim Kee Boon Institute for Financial Economics.