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Headline: Singaporeans expect inflation to remain flat on uneven global outlook: poll

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INFLATION in Singapore is expected to remain unchanged for the year, with more Singaporeans believing Covid-19 will have a significant impact on inflation rates, according to the latest quarterly survey results of the Singapore Index of Inflation Expectations (SInDEx).

The survey, published jointly by DBS and the Singapore Management University (SMU), is derived from an online survey of 500 randomly selected individuals that represent a cross section of Singaporean households.

Headline inflation expectations remained flat at 2.7 per cent for the June poll from March, which is lower than the historical second-quarter average of 3.3 per cent since the survey's inception in 2012, and despite upward trends since September last year.

In a statement, DBS and SMU said tighter public health measures - under Phase 2 and Phase 3 (Heightened Alert) - and new virus variants may have outweighed the positives of Singapore's vaccine roll-out. In the survey, 70 per cent of respondents in June said Covid-19 will likely have a significant impact on inflation, up from 67 per cent in March, while the share of respondents who expect Covid-19 will have a long-term impact on inflation also rose to 73 per cent in June from 67 per cent in March.

DBS chief economist and managing director of Group Research Taimur Baig said inflation expectations have likely stabilised after it recovered earlier this year, on consumer confidence from vaccination progress and gradual economic reopening.

"This perhaps reflects lingering uncertainty about the timing and extent of reopening this year, casting a shadow on the outlook for further rise in demand, wages and prices," Dr Baig added.

After adjusting for behavioural biases, inflation expectations edged down to 3 per cent in June from 3.1 per cent in March.

DBS and SMU said overall inflation expectations "seem anchored", with most components remaining unchanged while recreation and culture, clothing and footwear and miscellaneous goods and services went down. In contrast, household durables and services have gone up slightly.

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.

Most components as well as the one-year-ahead and five-year-ahead inflation expectations were expected to have limited positive impact from Covid-19, with an exception for recreation and culture and clothing and footwear since retail and entertainment venues still face strict measures.

Consumption patterns have also changed in June from March, with some increase in household spending on housing and utilities to offset lower transportation expenses, amid work-from-home arrangements during the heightened alert phase.

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This is compared with March's poll where household consumption patterns appeared to continue at pre-pandemic norms as consumer spending picked up and economic activities resumed.

Meanwhile, core inflation expectations, excluding accommodation and private transport costs, gained 0.5 percentage point to 3.2 per cent in June, which likely reflected renewed economic activity and the recovery of global inflation alongside an upswing in world commodity prices such as oil, DBS and SMU said.

Core inflation expectations for the year ahead, for a subgroup of the population who own their accommodation and use public transport, also inched up to 2.7 per cent in June from 2.6 per cent in March.

DBS and SMU said that expectations of this subgroup resembled the Singapore Core Inflation Expectations as they were not exposed to private road transportation or accommodation expenses.

Assistant professor of finance (education) at SMU's Lee Kong Chian School of Business and head of the SInDEX survey, Aurobindo Ghosh, said: "While the SInDEX survey suggests overall inflation expectations seem to flatten with prospects of Federal Reserve tapering of accommodative policy in 2023, possible upswing in global commodity market or even a nascent commodity super-cycle seems to be pushing up the energy and commodity components and consequently medium-term Singapore Core Inflation Expectations."

In addition, the June survey also found around 12.5 per cent of Singaporeans expect a more than 5 per cent reduction in salary in the next 12 months, down from 14.1 per cent in March, while the median salary increment expectations stayed between -1 and 1 per cent.

Furthermore, as a measure of the trade-off between prioritising economic growth compared to the cost to life, the survey found that for every person who prioritised life over livelihood, there are three who prioritised livelihood over life in June, up from two in March.

"This is a clear indication that there is a demand for a return to normalcy from the respondents, although policymakers have to take into account potentially vulnerable groups who might not have been vaccinated yet," DBS and SMU said.

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.