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Headline: Singaporeans expect inflation to remain flat: Survey

Singaporeans expect inflation to remain flat: Survey

Tighter health measures and new virus variants seen outweighing gains from vaccine roll-out

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 Bank and Singapore Management University (SMU), is derived from an online poll of 500 randomly selected individuals who 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 two and phase three (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 last month 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 to have a long-term impact on inflation also rose to 73 per cent last month from 67 per cent in March.

DBS' chief economist and managing director of group research, Dr Taimur Baig, said inflation expectations have likely stabilised after recovering earlier this year, on consumer confidence from vaccination progress and gradual economic reopening.

After adjusting for behavioural biases, inflation expectations edged down to 3 per cent last month 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 the consumer price index.

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 also changed last month, 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. 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 housing and private transport costs, gained 0.5 percentage point to 3.2 per cent last month, which likely reflected renewed economic activity and the recovery of global inflation alongside an upswing in commodity prices, DBS and SMU said.

Core inflation expectations for the year ahead, for a sub-group of the population who own their accommodation and use public transport, inched up to 2.7 per cent last month from 2.6 per cent in March.

DBS and SMU said expectations of this sub-group resembled the Singapore core inflation expectations as they were not exposed to private road transportation or accommodation expenses.

The June survey also found some 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 minus 1 per cent and 1 per cent.

The SInDEx survey was led by Assistant Professor of Finance (Education) Aurobindo Ghosh of SMU's Lee Kong Chian School of Business. DBS Group Research is a cosponsor and research partner, together with SMU's Sim Kee Boon Institute for Financial Economics.

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