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Headline: Singaporeans expect headline inflation will rise to 9-year high at 4.1%: poll

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SINGAPOREANS' expectations for headline inflation have risen to 9-year highs, according to the latest quarterly survey results of the Singapore Index of Inflation Expectations (SInDEX).

The 1-year-ahead headline inflation expectation rose to 4.1 per cent in March 2022, from 3.2 per cent in December 2021. Inflation expectations were last recorded above 4 per cent in December 2012.

In comparison, the historical first quarter average was 3.3 per cent from 2012 to 2021, while data from the Monetary Authority of Singapore (MAS) forecasted a median of 2.4 per cent for consumer price index (CPI) all-items inflation in 2023.

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.

In a statement on Monday (Apr 18), DBS and SMU said multiple global factors and ground realities faced by consumers seem to be the main driver of such expectation formation.

After adjusting for potential behavioural biases, overall headline inflation expectations increased to 5.7 per cent in March 2022 from 3.1 per cent in December 2021, which is the highest value since it the forecast was first recorded in the first quarter of 2019.

DBS chief economist and managing director of Group Research Taimur Baig said this was in line with global developments. "Sharp rise in food, fuel, and rents are now a global phenomenon, although the rates of increases in Singapore are more modest compared to what's seen in the US and Europe," Baig said.

The 1-year-ahead inflation expectations that put less weight on more volatile components – such as accommodation, private road transport, food and energy-related expenses – jumped to 4 per cent in March 2022 from 3.2 per cent in December 2021, the highest since September 2012.

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Meanwhile, the 5-year-ahead inflation expectations increased to 4.8 per cent in March 2022 from 3.8 per cent in December 2021, which is also higher than the first quarter average of 4.1 per cent since the survey's inception in 2012.

SMU Assistant Professor of Finance and founding principal investigator of the SInDEx project Aurobindo Ghosh said it is "not surprising" for the headline inflation to jump over 4 per cent, given that Singapore is a small open economy that is vulnerable to risk factors including disrupted reopening from Covid-19 pandemic, rising commodity prices and rising inflation rates.

As for the trade-off between prioritising economic growth compared to the cost to life, or the "livelihood over life debate", the ratio was 3.3 in March 2022, compared to 2.6 in December 2021. This means for every person who prioritised life over livelihood, there are more than three who prioritised livelihood over life.

Under the current sustained price pressure, DBS's Baig expects the further steepening of the nominal exchange rate band seems justified.

"We think that credible policy action by the MAS will keep expectations moderate in Singapore, although the chance of expectations going back to long-term trend levels in the near-term is low," Baig said.

On the global front, SMU's Ghosh added: "The silver lining for the dark cloud of higher inflation expectations is that the world attention seem to be descending on inflation and steps are being taken to mitigate inflation risks." This includes easing the pressure on oil prices, for example.

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