

INFLATION EXPECTATIONS DECLINE MODESTLY

SINGAPORE, 20 July 2020

These are the research findings of the 36th round of quarterly release for the DBS-SKBI Singapore Index of Inflation Expectations (SInDEx) Survey at the Sim Kee Boon Institute for Financial Economics (SKBI), Singapore Management University (SMU).

- One-year-Ahead headline inflation expectations edged down to 3.0% in June 2020, from 3.1% in March 2020, slightly down compared to the second quarter average of 3.3% since the survey's inception in 2012 till-2019.
- The overall CPIEx Inflation Expectations, after adjusting for potential behavioral biases and re-combining across components, remained unchanged at 2.9% in June 2020 compared to March 2020.
- In the June 2020 wave, we did an in-depth survey on potential impact of Covid-19 on inflation expectations of different components of CPI. Overall, food and healthcare cost inflation expectations have moderately significant positive impact possibly due to the expected disruption from the pandemic, while other components are not impacted. Analyzing the impact of Covid-19 on overall inflation expectations, there is a divergence of views -- about half the respondents expect a positive impact while the other half expects a negative impact.
- Excluding accommodation and private road transportation related costs, the One-year-Ahead Core CPIEx inflation expectations edged up slightly to 3.2% in June 2020 (3.1% in March). This can 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 reopens.
- As a robustness check on core inflation expectations, for a subgroup of the population who own their accommodation and use public transport, the One-year-Ahead CPIEx core inflation expectations pared to 2.8% in June 2020 from 2.9% in March 2020. Not being exposed to private road transportation or accommodation expenses; this subgroup's expectations of core inflation closely resemble the Singapore Core Inflation Expectations. The divergence in views in the subgroup, compared to the overall Core CPIEx inflation expectations, is probably due to the heightened level of uncertainty prevalent in the economy with an overall modest downward trend in inflation expectations.

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Page 1 of 9

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- The One-year-Ahead composite index SInDEx1, that puts less weight on more volatile components like accommodation, private transport, food and energy, polled at 3.1% in June 2020, down from 3% in the March 2020 SInDEx survey, and below the second quarter average of 3.4% since the survey's inception in 2012 till 2019.
- In June 2020, around 79% of the survey respondents believe Covid-19's impact on inflation would be significant, and 78.6% believe that it will have a significant impact on the economy.
- In addition, around 13.1% of Singaporeans polled expect there will be a more than 10% reduction in salary in the next 12 months, while the median salary increment expectation is between -1% and 1%. In addition, the salary increment and their belief in the length or duration of Covid-19's impact seems unrelated.

SMU Assistant Professor of Finance and founding Principal Investigator of the DBS-SKBI SInDEx Project, Aurobindo Ghosh observed, "With global infection rate at more than 13 million and more than 0.5 million deaths, and reopening plans being rolled back in different developed and large emerging markets, it's hardly surprising that Singaporeans are treading cautiously about future prospects of price changes. This can explain the divergence in views on the impact of Covid-19 on the Singapore Core inflation expectations with temporary price increase expected in components like food and healthcare, the former possibly being impacted by supply chain dislocations and the latter due to longer term impact of Covid-19. Over half of respondents expect Covid-19 to contribute positively to inflation in healthcare and food, while more respondents expect Covid-19 to dampen inflation in other CPI components. According to some ongoing global studies by Alberto Cavalho (2020) and the UK Office of National Statistics (ONS), perceived inflation rate might deviate from the official headline inflation owing partly to significant changes in consumption patterns induced by the pandemic. In general, consistent with other academic studies on survey based instruments, Singaporeans' inflation expectations seem to be capturing the direction of movement better than the level of inflation."

DBS Chief Economist and Managing Director of Group Research, Dr. Taimur Baig commented, "Singaporeans are facing difficult and uncertain economic circumstances, which would likely weigh on their expectation of employment and wages in the near term. However, sentiments may have stabilized to some extent lately owing to multiple support packages from the government. The findings of the latest round of the DBS-SKBI survey are consistent with the narrative of well anchored expectations undergoing a downward drift."

SMU Professor and SKBI Director Dave Fernandez noted that “The negative shock of COVID-19 to Singaporeans was abundantly evident in this survey, with some expecting double-digit salary reductions and nearly 80% seeing the hit to the economy and inflation as ‘significant’ and ‘longer term.’ Hopefully, the easing of restrictions presages a potential bottoming of this downshift in expectations, as has started to become evident in household surveys outside of Singapore, such as in Australia.”

According to SKBI Principal Researcher Thomas Lam, “An ongoing challenge amid the pandemic is determining the perceived tradeoffs between safeguarding the population and protecting livelihoods given incomplete information. The details from the latest survey suggest that roughly four out of seven view safeguarding the population, especially vulnerable groups, as viable only in the short- to medium-term (not beyond one year). But the proportion in favor of preserving jobs and the economy is actually more than twice as large as those who value unconditional public health measures.”

For the longer horizon, the Five-year-Ahead CPIEx inflation expectations in the June 2020 survey declined to 3.6% compared to 4.1% in March 2020. The current polled number is significantly lower than the second quarter average of 4.1% since the survey’s inception in 2012 till 2019).

The Five-year-Ahead CPIEx core inflation expectations (excluding accommodation and private road transportation related costs) remained unchanged at 3.7% in June 2020 compared to March 2020. Overall, the composite Five-year-Ahead SInDEx5 dropped to 3.6% in June 2020 from 3.9% in March 2020. In comparison, the second quarter average value of the composite Five-year-Ahead SInDEx5 was 4.1% since the survey’s inception in 2012 till 2019.

“Longer term impact on inflation expectations is less predictable; however, there seem to be a trend of a larger downward impact of inflation expectations in the long term given that economies around the world are going into a Covid-19 induced downturn. We polled Singaporeans on their views of the scenarios at which they think economies should reopen with due mitigation measures like wearing facemasks, social distancing and personal hygiene. We found that around 80% of respondents believe that policymakers should prioritize life over livelihood in the short run, particularly of the vulnerable population, even at the cost of short-term economic pain before reopening the economy. This is higher than the Edelman Trust Barometer Spring update in April 2020, where about 67% of respondents globally prioritized saving lives at the cost of economic damage,” Professor Ghosh observed.

Methodology

DBS-SKBI SInDEx survey yields CPIEx Inflation Expectations (estimating headline inflation expectations) and related indices are products of the online survey of around 500 randomly selected individuals representing a cross section of Singaporean households. The survey is led by Principal Investigator Dr. Aurobindo Ghosh, Assistant Professor of Finance (Education) at Lee Kong Chian School of Business, SMU. The online survey collection powered by Agility Research and Strategy helps researchers understand the behavior and sentiments of decision makers in Singaporean households. DBS Group Research is a co-sponsor and research partner together with the Sim Kee Boon Institute for Financial Economics (SKBI) at SMU.

The quarterly DBS-SKBI SInDEx survey has also yielded two composite indices, SInDEx1 and SInDEx5. SInDEx1 and SInDEx5 measure the 1-year inflation expectations and the 5-year inflation expectations, respectively. The sampling was done using a quota sample over gender, age and residency status to ensure representativeness of the sample. Employees in some sectors like journalism and marketing were excluded as that might have an effect on their responses to questions on consumption behavior and expectations.

The DBS-SKBI SInDEx survey was augmented in June 2018, based on a joint research study conducted by SMU researchers in collaboration with MAS and the Behavioral Insights Team, where respondents were polled about their perceptions of components of the Consumers Price Index (CPI) and adjusted for possible behavioral biases prevalent in online surveys.

Based on the recommendations of that study, the research team had, since March 2019 polled the One-year-Ahead inflation expectations of all of the major components of CPI-All Items inflation. Compared to December 2019, the March 2020 survey revealed inflation expectations have largely remained unchanged for overall and across most categories. The component-wise inflation expectations have largely stayed the same for Food, Housing and Utilities, Transportation, Healthcare, Education, Clothing and Footwear, Household Durables and Services, Communications and Miscellaneous and slight drop in Recreation and Culture. Overall, in aggregation the component wise inflation expectations have polled at 2.9 % in March 2020 compared to 3% surveyed in December 2019.

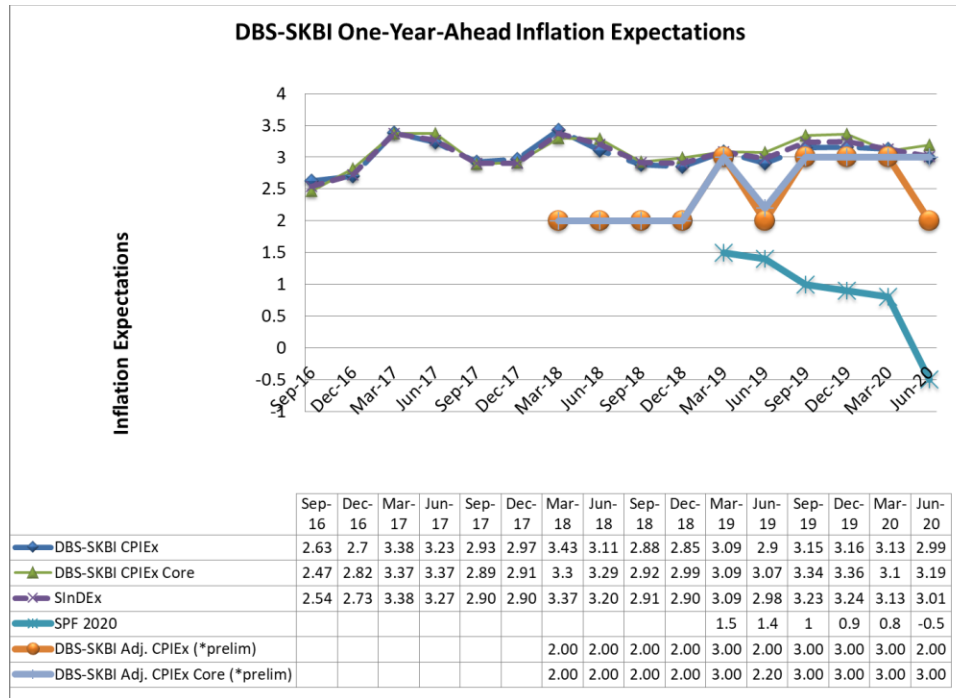
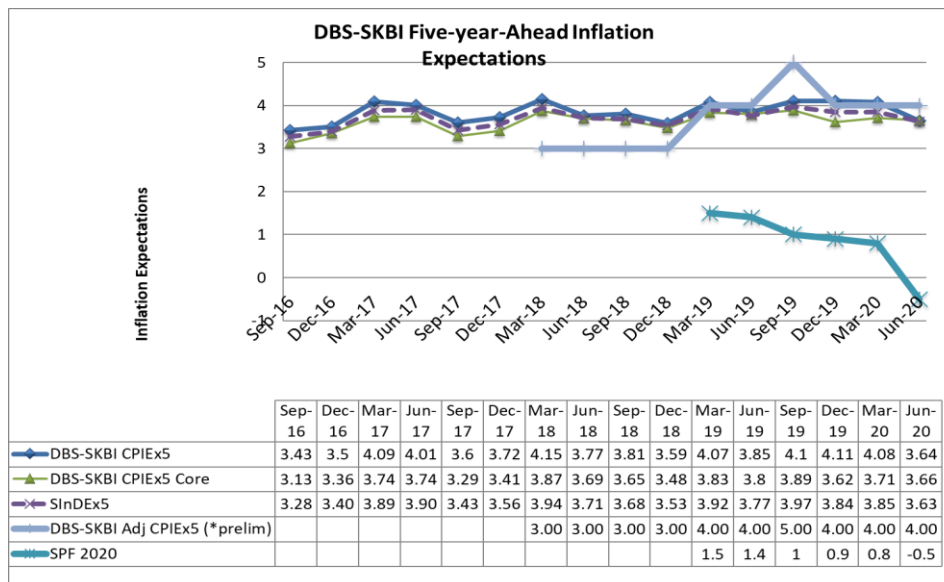
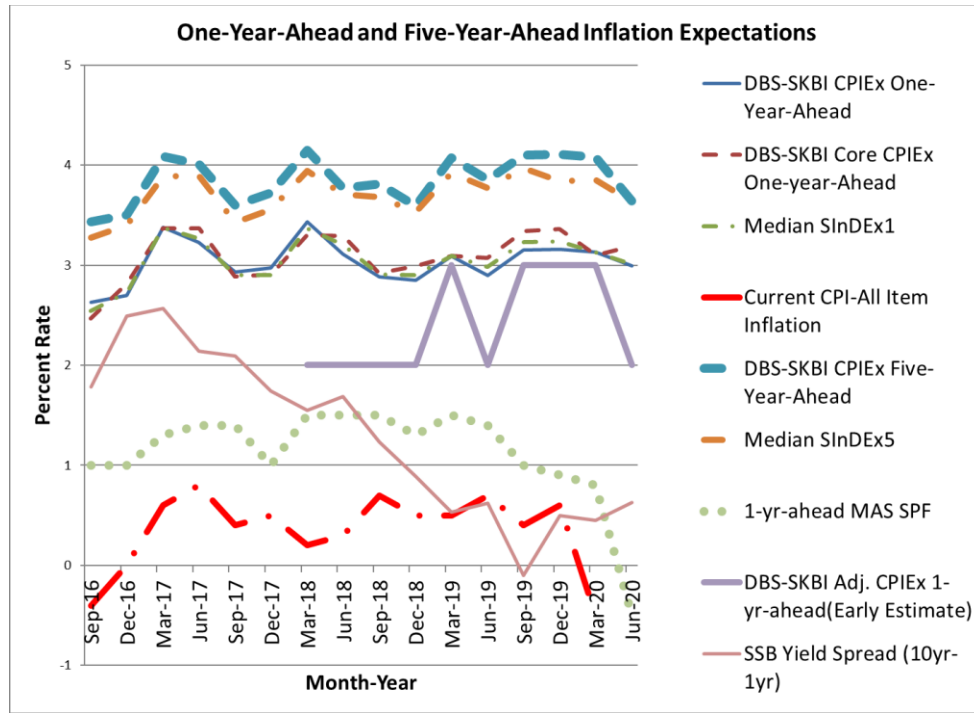
Figure 1: One-year-Ahead-inflation expectations**Figure 2: Five-year-Ahead-inflation expectations**

Figure 3: Five-year-Ahead-Inflation Expectations in Singapore

About DBS

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DBS provides a full range of services in consumer, SME and corporate banking. As a bank born and bred in Asia, DBS understands the intricacies of doing business in the region's most dynamic markets. DBS is committed to building lasting relationships with customers, and positively impacting communities through supporting social enterprises, as it banks the Asian way. It has also established a SGD 50 million foundation to strengthen its corporate social responsibility efforts in Singapore and across Asia.

With its extensive network of operations in Asia and emphasis on engaging and empowering its staff, DBS presents exciting career opportunities. The bank acknowledges the passion, commitment and can-do spirit in all of our 26,000 staff, representing over 40 nationalities. For more information, please visit www.dbs.com.

About Singapore Management University

A premier university in Asia, the Singapore Management University (SMU) is internationally recognised for its world-class research and distinguished teaching. Established in 2000, SMU's mission is to generate leading-edge research with global impact and to produce broad-based, creative and entrepreneurial leaders for the knowledge-based economy. SMU's education is known for its highly interactive, collaborative and project-based approach to learning.

Home to over 10,000 students across undergraduate, postgraduate professional and postgraduate research programmes, SMU is comprised of six schools: School of Accountancy, Lee Kong Chian School of Business, School of Economics, School of Information Systems, School of Law, and School of Social Sciences. SMU offers a wide range of bachelors', masters' and PhD degree programmes in the disciplinary areas associated with the six schools, as well as in multidisciplinary combinations of these areas.

SMU emphasises rigorous, high-impact, multi- and interdisciplinary research that addresses Asian issues of global relevance. SMU faculty members collaborate with leading international researchers and universities around the world, as well as with partners in the business community and public sector. SMU's city campus is a modern facility located in the heart of downtown

Singapore, fostering strategic linkages with business, government and the wider community.
www.smu.edu.sg

About Sim Kee Boon Institute for Financial Economics

The Sim Kee Boon Institute for Financial Economics (SKBI) is the premier Asian institute for applied financial research and training in financial economics. It is the think-tank within SMU that spearheads cutting-edge research in financial markets that is driven by industry and societal needs in Singapore and the region.

Over the last 10 years, a diverse portfolio of financial research, outreach and training initiatives has been built. In the coming 10 years, while further expanding that traditional financial economics portfolio, the Institute will focus our efforts on the areas of financial inclusion and literacy, sustainable finance, financial technology, and data and governance. To maintain our relevance to finance practitioners and policy-makers, SKBI also adopts a view on Asian and global economic trends.

Supported by SMU faculty and in collaboration and partnership with industry experts, relevant government bodies, and other world-renowned research agencies, the Institute conducts fundamental and applied research which aims at solving real-world issues. Besides research, SKBI also actively engages in outreach, executive training and research dissemination through organising courses, seminars and conferences. Our purpose-oriented activities are designed to bridge the gap between theory and practice and to act as accelerators with regard to financial policies and regulations. SKBI is led by an Advisory Board that consists of prominent leaders of local and international organisations in the finance industry that have footprints across Asia, and of government agencies.

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Page 8 of 9

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