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Headline: Inflation to reach 9-year high of 4.1% in March: poll

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Singaporeans' one-year-ahead inflation expectations reached 4.1% in March 2022 from 3.2% in December 2021, the highest since December 2012 when it posted above 4%, according to a poll by DBS and Singapore Management University (SMU).

In a statement, the current headline inflation expectations are higher than the historical first-quarter average of 3.3% from 2012 to 2021. In comparison, the Monetary Authority of Singapore (MAS) Survey of Professional Forecasters data released in March showed a median forecast of inflation for all items for 2023 was 2.4%.

Taimur Baig, DBS chief economist and managing director of Group Research, said the actual and expected inflation in Singapore rose in line with global developments, adding that the sharp increase in food, fuel, and rents are now a "global phenomenon."

Despite this, rates increases in the Lion City remain modest compared to the US and Europe, Baig said.

"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. Under these circumstances of sustained price pressure, further steepening of the nominal exchange rate band by Singapore's central bank looks justified, in our view," he said.

Singapore's inflation rose to 4.3% year-on-year (YoY) in February from 2.3% in 2021, according to the Department of Statistics. The MAS, in April 2022, tightened further its monetary policy due to the rise in domestic costs due, following the increase in global community prices and supply chains.

DBS and SMU also found that overall headline inflation expectations rose to 5.7%, from the 3.1% recorded in December 2021. This is after adjusting potential component-wise behavioural biases and re-combining across components.

They said that it is the "highest value of this behavioural bias" adjusted inflation expectations since it started recording in the first quarter of 2019. The institutions also said that inflation expectations rose across all components with transport costs posting the highest jump to 9% from 4% in December 2021.

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The survey also found that the free response behaviourally adjusted overall inflation expectations increased to 5%, from 3% in December 2021, with global factors and ground realities faced by consumers as the main factors.

Excluding accommodation and private road transportation-related costs, the One-year-Ahead core inflation expectations rose to 3.9% in March 2022 from 3.1% in December 2021. For the population subgroup who owns their accommodation and uses public transport, one-year-ahead core inflation expectations rose to 3.9% from 2.9% in December 2021.

The one-year-ahead composite index of inflation expectations, which puts less weight on more volatile components like accommodation, private road transport, food, and energy-related expenses was at 4.0% in March 2022, up from the 3.2% polled in December 2021 and the highest since September 2012.

Furthermore, 73% of the respondents said that their belief that the pandemic's impact on growth would be significant compared to the 59% in December 2021, whilst those who feel that the health crisis will have a long-term impact on inflation also increased to 74% from 59% in the same period.

“Both results indicate that with the emergence of the Omicron variant, new infections albeit generally milder and push towards reopening, new waves and some continued constraints on normal life are being accepted as ‘the new normal’ of an endemic COVID-19,” according to DBS and SMU.

The online survey involved around 500 randomly selected individuals representing a cross-section of Singaporean households.