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Headline: One-year-ahead headline inflation expectations elevated to 4.6% in March: DBS, SMU

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The one-year-ahead inflation is expected to hit 4.6% in March compared to 3.8% in December, according to the Singapore Index of Inflation Expectations (SInDEx) survey.

This is higher than the average one-year-ahead headline inflation expectations of 3.3% since the survey's inception between 2012-2022.

The 47th edition of the survey is led by principal investigator Dr. Aurobindo Ghosh, assistant professor of finance (education), Lee Kong Chian School of Business at the Singapore Management University (SMU).

DBS Group Research is a co-sponsor and research partner with the Sim Kee Boon Institute for Financial Economics (SKBI) at SMU.

On the back of geopolitical unrest and uncertainty, financial sector volatility as well as continuation of tightening of monetary policies by major economies; aside from tight domestic job market and inflationary pressures, Singaporean consumers felt that these developments will have a slight negative impact on the country's economic growth over the next 12 months, the survey finds.

To this end, the Singaporean consumers also feel that they will have to spend slightly higher amounts owing mainly to price increases over the same period.

"Domestically, Singapore consumers have been facing elevated price pressures emanating from a tighter labour market and other pass-through costs including rental and energy," says Ghosh.

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"However, a discernable slowdown in global growth particularly in advanced economies despite the reopening in China which is also swaying the opinions of consumers who seem to suggest medium term inflation expectations are still elevated," he adds.

Benchmark comparison

In comparison to the SInDEx findings, data from the Monetary Authority of Singapore's survey of professional forecasters (MAS SPF) released in March showed that the median forecasts of consumer price inflation (CPI) All Items inflation for 2023 was 5%% and MAS Core Inflation was 4.1%.

The latest CPI data release from the Department of Statistics showed that CPI-All Items rose by 6.5% in January to February 2023, compared to the same period in 2022 with the latest February 2023 monthly inflation print coming in at 6.3% y-o-y.

In April, MAS maintained the rate of appreciation of the Singapore dollar nominal effective exchange rate (S$NEER) policy band, following five consecutive tightening moves between October 2021 and October 2022.

These moves have already tampered the momentum of inflation and their impact is still working through the economy, the researchers point out. The current appreciating path of the S$NEER policy band will continue to reduce imported inflation and help curb domestic cost pressures, they add.

Meanwhile, the SInDEx's overall CPIEx Inflation Expectations — after adjusting for potential component-wise behavourial biases and recombining across components — declined to 5.2% in March from 6.4% in December 2022.

Inflation expectations of almost all individual components held steady or recorded declines with some divergence in expectations. From December 2022 to March this year, one year ahead expectations of food inflation declined to 6%, while transportation, housing and utilities, healthcare as well as miscellaneous components all declined to 5%.

The remaining components of inflation expectations including education, recreation and culture, household durables, clothing and footwear as well as communications remained steady at 5% in the same period.

Looking forward

For the longer horizon, the five-year-ahead CPIEx inflation expectations elevated to 5.2% in March from 4.2% in the December 2022 survey. This continues to be higher than the first quarter average of 4.2% since the survey's inception.

Excluding accommodation and private road transportation-related costs, the five-year-ahead CPIEx core inflation expectations also increased to 5.2% in March 2023 from 4.1% in December. In comparison, the first quarter average value since the survey's inception of the composite five-year-ahead SInDEx5 is 4%.

After adjusting for potential behavioural biases, the free response five-year-ahead headline inflation expectations declined to 5% in March from 6% in December 2022, although free response core five-year-ahead inflation expectations remained unchanged at 6%.

"The unadjusted long term five-year-ahead inflation expectations seem to be treading closely with the medium term inflation expectations. However, when evaluating the longer term inflation expectations, adjusting for behavioural biases, the longer term inflation expectations seem to be moderating," says Ghosh.

"This signals there is some degree of anchoring of long-term inflation expectations despite the high degree of global geopolitical uncertainty and global economic headwinds. Policymakers around the world seem to be treading more cautiously on curbing inflation to avoid a 'hard landing' with policy normalisation amidst global headwinds for economic growth," he adds.