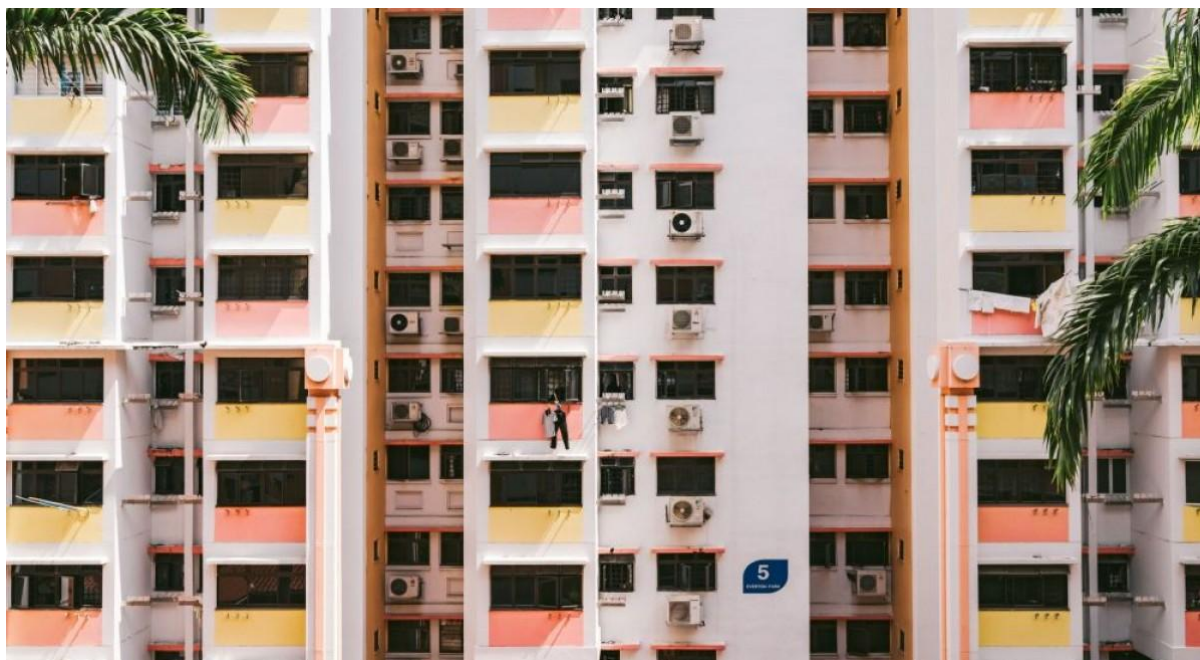


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Date: 17 July 2023

Headline: One-year-ahead headline inflation expectations elevated to 4.9% in June: DBS, SMU

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The one-year-ahead inflation is expected to hit 4.9% in June compared to 4.6% in March, according to the Singapore Index of Inflation Expectations (SInDEX) survey.

This is amid a continuing but slowing trend of increase in inflation expectations that started in December 2022. Divergent signals emanating from the global macroeconomy and from policymakers might be prompting variances in outlook in the perceptions of the consumers, the researchers note.

The second quarter one-year-ahead inflation expectations continue to be higher than the average expectations of 3.3% since the inception of the index between 2012 and 2022.

The 48th 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.

Citing overlapping economic shocks, the World Bank Group summarised the “precarious” state of the global economy in its June 2023 Global Economic Prospects, Ghosh notes. These are precipitated by the ongoing geopolitical conflicts and tensions, tightening of monetary policy to contain runaway inflation and restrictive credit conditions due to recent banking sector stress — with warnings of slowdown in global growth in 2023 and a lingering weakness in 2024.

“A small open trade-based economy like Singapore is susceptible to these global headwinds and has to walk a fine line between controlling cost of living and catalysing growth,” says Ghosh.

He adds that domestically, ongoing and planned increases in GST as well as other pass-through costs such as transportation, rental and higher wages — aside from the slowdown in the growth of major trading partners like China — might also dampen Singapore demand.

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“Singaporean consumers, being aware of these challenges, seem to believe that there would be some tempering of the trend of inflation, particularly in areas without the more volatile policy-sensitive elements like transportation and housing, indicating some initial signs of anchoring of medium-term inflation expectations despite the global uncertainty,” says Ghosh.

Benchmark comparison

In comparison to the SInDEx findings, data from the Monetary Authority of Singapore’s (MAS) survey of professional forecasters released in June showed that the median forecasts of consumer price index (CPI) All Items inflation for 2023 was 5%, and the MAS Core Inflation was 4.1%. This is in contrast to the figures of 3% and 4.1% for 2024, respectively.

The latest CPI data release from the Department of Statistics showed that CPI-All Items rose by 5.8% in January to May period compared with the same period in 2022, with the latest May 2023 monthly inflation print coming in at 5.1% y-o-y.

Meanwhile, the SInDEx’s overall CPIEx Inflation Expectations — after adjusting for potential component-wise behavioural biases and recombining across components — inched up to 5.8% in June 2023 from 5.2% in March.

The one-year-ahead inflation expectations of major components of CPI like food, transportation, housing and utilities increased slightly while all other components, namely healthcare, education, recreation and culture; clothes and footwear; household durables and services; communications and miscellaneous items remained steady at 5% between the March and June surveys.

Higher demand related to travel, food and beverage and accommodation without a commensurate increase in supply might have contributed to the slight increase in some inflation expectations, the researchers point out.

Looking forward

For the longer horizon, the five-year-ahead CPIEx inflation expectations elevated slightly to 5.3% in June 2023 from 5.2% in March. This continues to be higher than the first quarter average of 4.1% since the survey’s inception in 2012. The five-year-ahead CPIEx core inflation expectations, however, remained unchanged at 5.2% in June 2023 compared to March 2023.

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Overall, the composite five-year-ahead SInDEx5 also increased slightly to 5.3% in June 2023 from 5.2% in March 2023. In comparison, the first quarter average value since the survey’s inception in 2012 to 2022 of the composite five-year-ahead SInDEx5 is 4.0%.

After adjusting for potential behavioural biases, the free response five-year-ahead headline inflation expectations increased to 7% in June 2023 compared to 5% March 2023, while the free response core five-year-ahead inflation expectations also increased to 7% in June 2023 from 6% in March 2023. This might be reflecting some dampening of consumer confidence due to concern over cost-of-living increases, the survey researchers note.

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“Slowdown or flattening in the trend of medium and long-term inflation expectations bodes well for both consumer confidence as well as impact of global economic uncertainty on cost of living. Policymakers around the world seem to be studying data to finetune their policy stance and be cautiously optimistic about early signs of slowing inflation to avoid precipitating a ‘hard-landing’ of economic recession,” says Ghosh.