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Headline: Singaporean inflation expectation eases to 4.5%, but still remains higher than average: SInDEx

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Singaporeans believe that inflation levels have peaked and will start to slow down over the next year, according to the Singapore Index of Inflation Expectations (SInDEx) survey.

The quarterly online survey, now in its 49th edition, found that Singaporeans inflation expectations dropped from 4.9% in June 2023 to 4.5% in September. Although price levels remain high in some advanced economies, Singaporeans think that the coordinated policy responses for major advanced economies to tackle global inflation and cost-of-living, on top of China’s dampened growth outlook, is paying off.

However, the survey finds that this third quarter one-year-ahead inflation expectations continue to be higher than the average one-year-ahead headline inflation expectations of 3.3% since the inception of this index in the third quarter of 2011.

SInDEx is conducted by economists from the Singapore Management University (SMU), and partnered by DBS Group Research, and surveys around 500 individuals representing a cross section of Singaporean households.

In comparison, data from the Monetary Authority of Singapore (MAS) survey of professional forecasters (SPF) released in September 2023, showed that the median forecasts of the consumer price index (CPI)-All Items inflation (or headline inflation) for 2023 and 2024 was 4.7% and 3.1% respectively, while MAS core inflation was 4.1%.

The latest CPI data release from the Department of Statistics showed that headline inflation rose by 5.2% between January and August 2023, compared to the same period in 2022 with August’s headline inflation coming in at 4.0% y-o-y.

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Overall, SInDEx found that CPI inflation expectations (CPIEx) declined to 5% this quarter, from 5.8% in June. The one-year-ahead inflation expectations of CPI includes food, transportation, housing and utilities, all of which declined from 7% to 5%, 6% to 5% and 6% to 5% respectively.

Meanwhile, other segments such as healthcare, education, recreation & culture, clothes and footwear, household durables & services, communications and miscellaneous items, remained steady at 5%.

The survey notes that higher demand related to travel, food & beverage and accommodation might have been met with commensurate or higher supply which led to flattening of inflation expectations across the board.

The economists at SInDEx say that a more forward-looking approach was taken to analyse the impact of global economic developments on Singapore's economic growth and inflation, to address potential behavioural biases in responses.

Aurobindo Ghosh, SMU assistant professor of finance and founding principal investigator of the SInDEx, notes that recent academic literature has revealed certain behavioural biases creeping into responses of those who are exposed to more volatile grocery and gasoline prices when asked about subjective inflation expectations.

As such, the survey has attempted to address some of these biases through multiple methods of finding inflation expectations of respondents while providing them with relevant information to make a more informed judgement, says assistant professor Ghosh.

Ghosh highlights that this is important as recent and ongoing research studies on SInDEx, revealed that inflation expectations between policymakers, professional forecasters and the consumer respondents impact one another, suggesting there is evidence of anchoring inflation expectations.

"The International Monetary Fund (IMF) in their October 2023 World Economic Outlook, has stressed the complementary role of monetary policy frameworks, including communication strategies, in helping achieve disinflation at a lower cost to output through managing agents' inflation expectations," says assistant professor Ghosh. "Our current data for both medium and long term inflation expectations, seems to show signs of the effectiveness of the monetary policy leading to anchor inflation expectations."

Dr Taimur Baig, DBS's chief economist and managing director of group research notes that while inflation expectations have eased slightly, both the level and change of prices remain "uncomfortably high" in Singapore.

"We expect to see further relief on inflation from rent and perhaps some goods in the coming months, but are wary about fuel, utilities, and the strong US dollar. Under these circumstances, despite a subdued demand picture, we see central bank policy leaning on the side of combating inflation well into 2024," he adds.