

## SINGAPOREANS INFLATION EXPECTATIONS EDGES DOWN ON COVID-19 CONCERNS

SINGAPORE, 15-April-2020

*These are the research findings of the 35<sup>th</sup> 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).*

- In this survey, we introduced two new ad-hoc questions related to COVID-19, asking respondents for their view on its likely effects on the Singapore economy and inflation expectations. Note that the reference period for the survey was March 20 to 31, which included the announcements of the “Resilience Budget” (March 26) and MAS policy decision (March 30), but prior to the outset of the “circuit breaker” period and “Solidarity Budget”.
- The majority of survey respondents (roughly 60%) generally expects the COVID-19 situation to have a “moderate impact” on both the Singapore economy and household inflation expectations, with the effects perhaps lasting “around one year.”
- One-year-Ahead headline inflation expectations edged down to 3.1% in March 2020, from 3.2% in December 2019, slightly down compared to 2012-19 first quarter average of 3.4%.
- The overall CPIEx Inflation Expectations, after adjusting for potential behavioral biases and re-combining across components, eased to 2.9% in March 2020 compared to 3.0% in December 2019.
- Excluding accommodation and private road transportation related costs, the One-year-Ahead Core CPIEx inflation expectations corrected to 3.1% in March 2020 compared to 3.4% in December 2019.
- For a subgroup of the population who own their accommodation and use public transport, the One-year-Ahead CPIEx core inflation expectations pared to 2.9% in March 2020 from 3.0% in December 2019. 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 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 March 2020 compared to 3.2% in the December 2019 SInDEx survey, below the 2012-2019 first quarter average of 3.4%.
- Around 57% believe the impact on inflation from COVID-19 would be in the medium term (or around 12 month ahead) but about 30% believe it might have a longer term (or around five year ahead) impact on inflation.
- In addition, around 10% of Singaporeans expect that there will be a 10% or more reduction in salary in the next 12 months, even though the median salary increment expectation is close to zero. However, the perception of 10% or more drop in their personal income over next 12 months does not seem to be associated with their view on the impact on COVID-19.

DBS Chief Economist and Managing Director of Group Research, Dr. Taimur Baig commented, “Surveys of expectations are the most valuable at times like these, with a global pandemic affecting jobs, wages, and the overall outlook. Faced with deflationary shocks and employment/income insecurities, survey responses will portray vividly the downside to prices and sentiments going forward. The latest survey shows a marginal easing of expectations, perhaps indicating incomplete passthrough of global oil price decline at local pumps, as well as lingering hopes of a deep but short contraction in activities. We are sure the next round of survey will offer insights more in line with expectations of weaker demand and prices.”

SMU Professor and SKBI Director Dave Fernandez noted that “While most expect the COVID-19 situation to have a ‘moderate impact’ on the domestic economy and household inflation expectations, Singapore, like other small and trade-dependent economies, will likely be more susceptible to the negative economic effects from the pandemic. In addition, the combination of demand destruction and supply disruption as a result of COVID-19 further complicates the current situation.”

SKBI Principal Research Associate Thomas Lam underscored that “Interestingly, the proportion of surveyed Singaporean households leaning toward the pandemic having a ‘significant’ and ‘longer-term’ imprint--approximately 25% to 30% of respondents--is more than double those expecting it to fade quickly with trivial effects.”

For the longer horizon, the Five-year-Ahead CPIEx inflation expectations in the March 2020 survey stayed unchanged at 4.1% compared to December 2019. The current polled number is lower than the 2012–2019 first quarter average of 4.3%.

The Five-year-Ahead CPIEx core inflation expectations (excluding accommodation and private road transportation related costs) inched up from 3.6% in December 2019 to 3.7% in March 2020. Overall, the composite Five-year-Ahead SInDEx5 inched up to 3.9% in March 2020 from 3.8% in December 2019. In comparison the 2012–2019 first quarter average value of the composite Five-year-Ahead SInDEx5 was at 4.1%.

SMU Assistant Professor of Finance and founding Principal Investigator of the DBS-SKBI SInDEx Project, Aurobindo Ghosh observed, “The global economy seems to be going through a generational event, exacerbated by oil price wars by Saudi Arabia and Russia which has abated recently with an agreement to reduce supply. As a small open economy, Singapore will feel the brunt of these in its growth outlook. However, in terms of overall inflations expectations, Singaporeans polled seem to have a collective cognitive dissonance. The median term or One-year-Ahead inflation expectations corrected downwards slightly across the board, but the short term supply crunch provided some resistance in lowering inflation expectations. The long term or Five-year-Ahead expectations stayed largely unchanged owing mainly to the global uncertainty, the massive stimulus spending and the recent oil price slump. These results signal some levels of anchoring of inflation expectations of Singaporeans who are cautiously optimistic of a V-shaped recovery and normalization of the dislocated supply chain.”

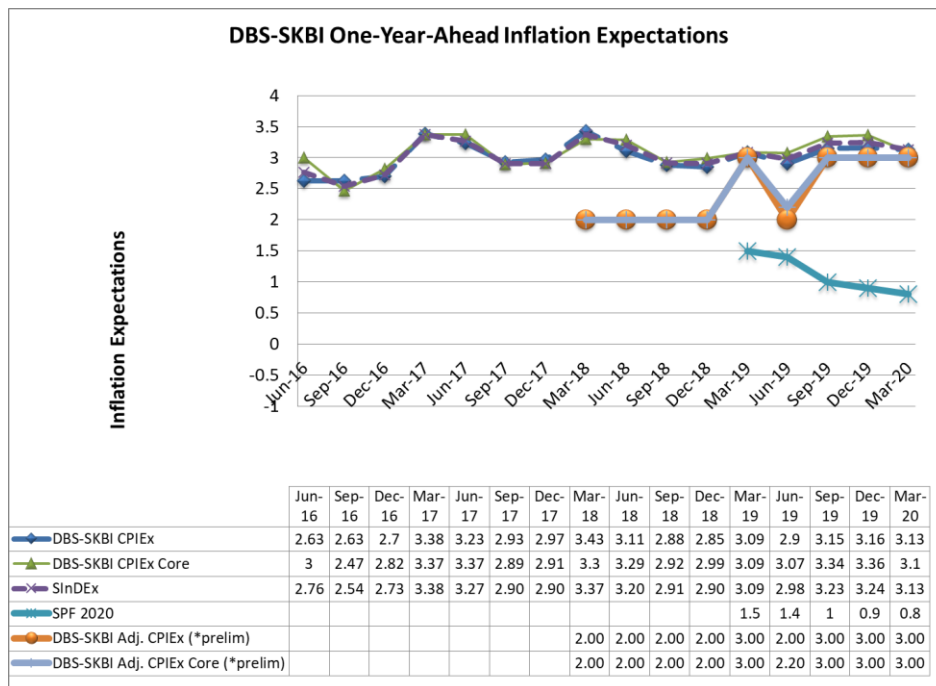
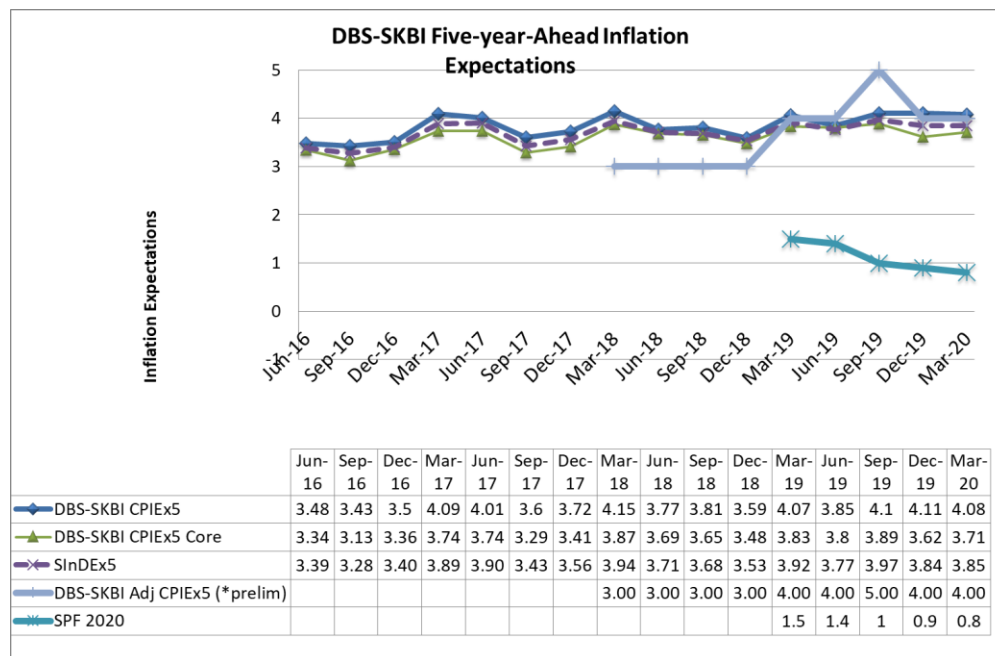
### **Methodology**

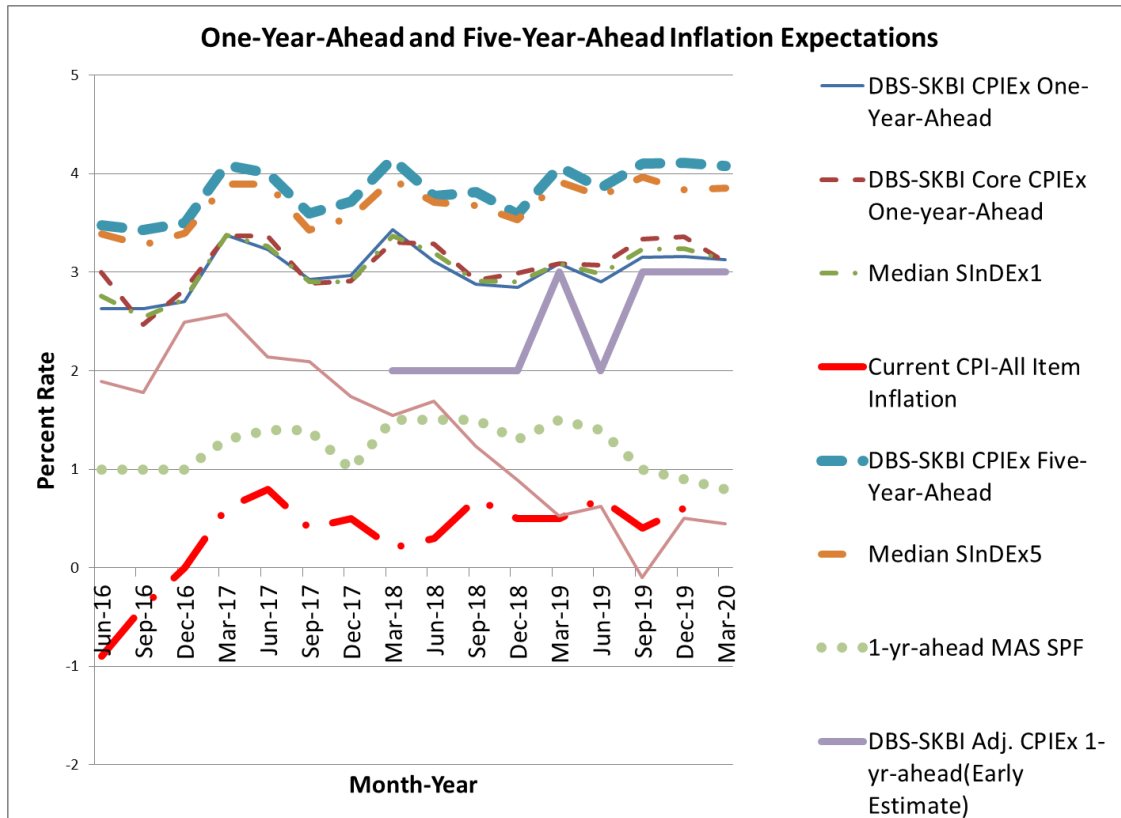
DBS-SKBI SInDEx survey yields CPIEx Inflation Expectations (estimating headline inflation expectations) and related indices are products of the online survey of around 500 randomly selected individuals representing a cross section of Singaporean households. The survey is led by Principal Investigator 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

DBS is a leading financial services group in Asia, with over 280 branches across 18 markets. Headquartered and listed in Singapore, DBS has a growing presence in the three key Asian axes of growth: Greater China, Southeast Asia and South Asia. The bank's "AA-" and "Aa1" credit ratings are among the highest in the world.

Recognised for its global leadership, DBS has been named “[Best Bank in the World](#)” by Global Finance. The bank is at the forefront of leveraging digital technology to shape the future of banking, having been named “[World’s Best Digital Bank](#)” by Euromoney. In addition, DBS has been accorded the “[Safest Bank in Asia](#)” award by Global Finance for ten consecutive years from 2009.

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](http://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.

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### **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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*For more information, contact:*

*Jolyn Tan*  
*Group Strategic Marketing & Communications*  
*DBS Bank*  
*Tel: (65) 6878 6337*  
*Mobile: (65) 9336 4570*  
*Email: [jolyntan@db.com](mailto:jolyntan@db.com)*

*Teo Chang Ching (Mr)*  
*Senior Assistant Director*  
*Corporate Communications*  
*Singapore Management University*  
*Tel: (65) 6828 0451*  
*Email: [ccte@smu.edu.sg](mailto:ccte@smu.edu.sg)*