New index tracks inflation expectations

By TEH SHI NING

[SINGAPORE] A new index to track the general public’s perception of how prices change was launched yesterday by MasterCard and the Singapore Management University (SMU).

The first of its kind here, the Singapore Index of Inflation Expectations (SinDEx) aims to be a gauge of consumers’ and firms’ sentiment, and help shape monetary policy.

Developed by Jun Yu and Aurobindo Ghosh of SMU’s Sim Kee Boon Institute for Financial Economics (SKBI), the quarterly index hopes to meet a similar purpose to frequently cited overseas ones such as the Thomson Reuters/University of Michigan Survey of Consumers and the Bank of England/GfK NOP Inflation Attitudes Survey. The goal is to eventually launch similar indices for economies in the region too, to allow for comparisons, Prof Jun and Dr Ghosh said.

Inflation expectations matter, they say, because it affects key investment, spending and saving decisions consumers and businesses make, which eventually feeds into actual inflation. An employee who expects higher inflation may demand higher wage hikes to offset higher costs. Companies may then pass on higher wage costs to consumers via higher selling prices, thus affecting actual inflation.

Prof Jun thinks the new index will also play a key role in signalling to the central bank how effective it is at communicating to the public its ability to keep prices stable via monetary policy.

At yesterday’s launch event, Edward Robinson, assistant managing director (economic policy), Monetary Authority of Singapore (MAS), described the index as a “natural and much-welcomed initiative” that will complement information in existing surveys targeting analysts, such as the MAS Survey of Professional Forecasters. He added that inflation expectations are already factored into the central bank’s macroeconomic models via both forward-looking and backward-looking inflation expectations.

Mr Robinson also highlighted the importance of such “proactive knowledge discovery” to the growth of a vibrant financial and economic research ecosystem that can give Singapore an edge as an international financial centre.

So far, the researchers from SKBI have conducted two rounds of surveys in September and December 2011. Each involved an online poll of a representative sample of 400 consumers for their inflation expectations. Respondents state what they think three inflation rates will be – the overall headline rate, core inflation (excluding food and energy prices) and Singapore core inflation (excluding accommodation and private transport) – over the next one year and five years.

Their resultant one-year SinDEx, a weighted average of the three rates, was 4.62 per cent for both September and December, while the five-year index slipped from 5.2 per cent in September to 5.16 per cent in December.

These expectations are higher than analysts’ forecasts. For instance, the September one-year headline inflation expectation of 4.68 per cent is significantly above the current official inflation forecast for 2012 of 2.5 and 3.5 per cent. Similarly, the one-year Singapore core inflation expectations rate of 4.67 per cent compares to a lower official core inflation forecast of 1.5 to 2 per cent.

“It is possible the public’s perception is affected by media reports on uncertainty about the global economy, or perhaps the public is not very well informed,” SKBI’s researchers said. Hence, the public’s view on inflation expectations ought not to be treated as a forecast, and it is the change in the index which is more informative.

Other local economists welcomed the initiative, saying that it fills the information gap on general future expectations on prices. “Inflationary expectations are key to managing inflation – the lower they are, the easier it is for central banks to conduct monetary policy to control inflation,” says Manu Bhaskaran of Centennial Asia Advisors.

Barclays Capital economist Leong Wai Ho sees it as useful to gauge the mood and level of confidence among households and consumers. But having such an index under the auspices of the Statistics Act, rather than run as an independent initiative, may give it the means to reach a wider sample and gain greater credibility, he says.