

Inflation expectations shaped by rise of premium goods: study

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HOUSEHOLDS tend to see inflation as higher than it really is – a misapprehension that may nonetheless affect how wages and prices are set.

The trend can be blamed on rising living standards and the variety of consumer goods available here, a team of academics has suggested.

“As households are exposed to better-quality products, their expectations about overall inflation may be biased upwards,” they wrote, in an independent research report that accompanied the Monetary Authority of

Singapore’s (MAS) half-yearly macroeconomic review out on Wednesday.

But the researchers noted that policymakers can counter this bias by telling consumers about the prices of cheaper alternatives, and by making households more aware of the effect of changing consumption habits.

Close to 1,100 people were polled in the experiment, which showed respondents the prices of two ice cream brands in 2009 and 2019: the mass-market brand Walls and premium brand Häagen-Dazs, both of which increased in price by about 20 per cent.

Respondents were asked to predict inflation over the year ahead, before and after being exposed to different types of ice cream price data.

The researchers found that the consumers who considered the latest price of a premium item and the older price of a mass-market item later reported significantly higher inflation estimates than other respondents.

The study was done by Sumit Agarwal, a professor of finance, economics and real estate at the National University of Singapore (NUS); Chua Yeow Hwee, an economics instructor at NUS; and Song Changcheng, assistant professor of finance at the Singapore Management University (SMU).

“Our results show that exposure to prices of luxury goods upwardly biases inflation expectations,” they said, adding that “one plausible

reason for the high inflation expectations in Singapore could be changes in product variety” as the kinds of grocery items grew from 2016 to 2017.

Some lower-quality products have been taken off shelves, but retailers have also brought in higher-quality items in other categories. So both decreases and increases in the variety of goods could raise inflation expectations, the researchers concluded.

Just last week, a separate survey by DBS and SMU’s Sim Kee Boon Institute for Financial Economics found that respondents expect one-year-ahead headline inflation to be 3.2 per cent – well above the MAS estimate of 0.5 per cent to 1.5 per cent in 2020.