

Singapore Industry Focus

Inflation vs Consumers

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DBS Group Research . Equity

21 Jun 2022

Tug-of-war: Inflation vs Consumer – who wins?

- 200 respondents to a survey we conducted shows consumers are well aware of surging inflation with 8 in 10 expecting it to last for the next 12 months or longer
- Reopening to boost retail sales, but we are watchful on a shift in spending patterns as inflation bites
- Staples are defensive bets in the face of spending pattern changes, though travel and leisure spending may continue on pent-up demand
- Picks: [SSG](#), [KIMLY](#), [SIA](#), [FCT](#), [LREIT](#), [CICT](#), [CDREIT](#), [ART](#)

How will high CPI affect consumers' spending? The recent Singapore Consumer Price Index (CPI) in Mar and Apr were the highest since 2008. We wondered how consumers will perceive this. We conducted a quick consumer survey, garnering 200 responses, to get an early understanding of the interplay between Singapore consumers and inflation, their perception, and impact on their spending categories. This is particularly so in the context of easing COVID-19 restrictions in Singapore since 26 April 2022.

Findings. Our survey findings show that consumers are feeling the heat of inflation, with more than 1 in 2 (54% of respondents) perceiving price increases to be above 10% - higher than the level official statistics imply (~5%). 8 in 10 respondents felt that higher inflation is going to last for the next 12 months and beyond, and 64% indicated that their spending habits will shift in the next 6 months in the face of this. Groceries, utilities and dining-out rank among the highest on respondents' priorities, while shopping, recreation and travel are lowest. Compared with opting for cheaper alternatives and reducing frequency, essential groceries are heavily skewed towards cheaper alternatives, while spending on other groceries (branded food, alcohol, snacks), dining-out and shopping point to a fairly even mix. Interestingly, for highly discretionary spending on travel and recreation, respondents seem to favour quality over quantity, and will opt to reduce frequency rather than look for cheaper alternatives.

Selective picks in Staples and Leisure. Against this backdrop, our stance is a preference towards staple consumer plays – Sheng Siong, Kimly for consumer. We also like SIA for pent-up demand for travel. For retail/ hospitality REITS, we like reopening beneficiaries FCT, LREIT, CICT, CDLHT and ART.

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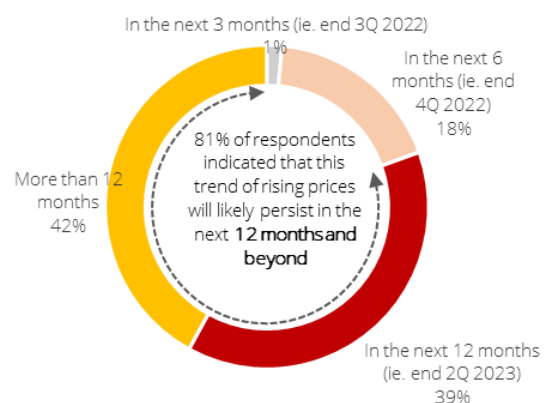
STOCKS

	Price S\$	Mkt Cap US\$m	12-mth Target Price S\$	Performance (%)			Rating
				3 mth	12 mth		
Consumer							
Sheng Siong Group Ltd	1.54	1,665	1.76	(0.7)	(2.6)		BUY
Kimly Limited	0.375	335	0.50	(1.3)	17.2		BUY
REITS							
Frasers	2.24	2,741	2.90	(3.4)	(7.0)		BUY
Centrepoin Trust	0.785	673	1.06	0.6	0.6		BUY
Lend Lease Global Commercial REIT							
Capitaland Integrated Commercial Trust	2.14	10,190	2.70	(1.4)	2.4		BUY
Travel/ Leisure							
Singapore Airlines	5.12	10,927	6.20	(1.6)	3.3		BUY
CDL Hospitality Trusts	1.29	1,142	1.55	13.9	4.8		BUY
Ascott Residence Trust	1.14	2,692	1.40	8.5	13.9		BUY

Source: DBS Bank, Bloomberg Finance L.P.

Closing price as of 20 Jun 2022

8 in 10 respondents expect inflation to persist for up to 12 months and beyond



Source: DBS Bank



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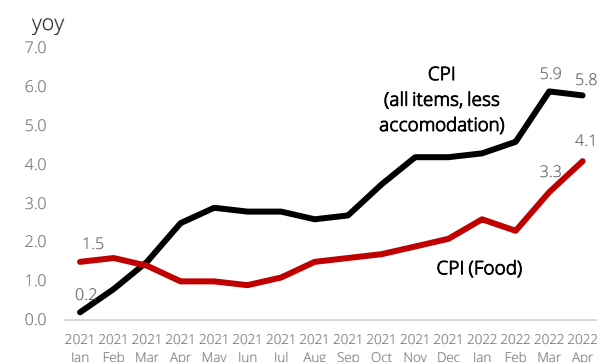
Live more, Bank less

Inflation vs Consumers Tug-of-war: Who wins?

Inflation vs Consumers - who wins in this tug-of-war? Based on official data from Singstats, Singapore Consumer Price Index (CPI) registered a year-on-year (y-o-y) increase of 5.9% and 5.8% in Mar and Apr 2022, respectively – a rate of increase not seen since mid-2008. CPI (Food) had also registered an increase of 3.3% and 4.1% in the same months, respectively. Based on our DBS senior economist's projections, this trend is likely to continue in the months ahead. We asked ourselves, "who wins in this?". We attempted to obtain some answers with a dip-stick consumer survey to get an on-the-ground pulse with respect to this.

A survey on early insights into consumers' perception and potential changes in spending patterns. On the back of this trend, we undertook a dip-stick survey to have an early understanding of the interplay between Singapore consumers and inflation, their perception, and impact on their spending categories. This is particularly so in the context of the easing COVID-19 restrictions in Singapore since 26 April 2022, when Singapore was downgraded to DORSCON Yellow. We felt a quick survey may provide early insights into consumer behaviour on the back of the current volatile price environment, and its impact on the various industries.

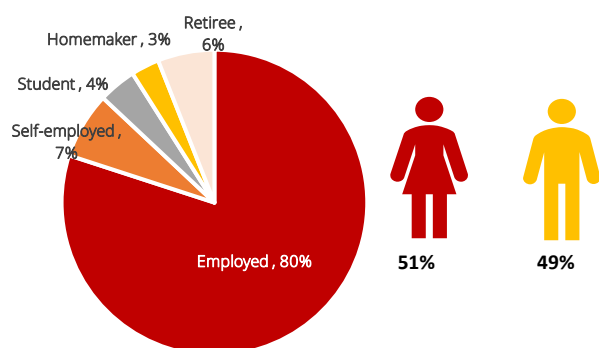
Singapore's Mar/ Apr 2022 CPI at highest since mid-2008



Source: Singstats, DBS Bank

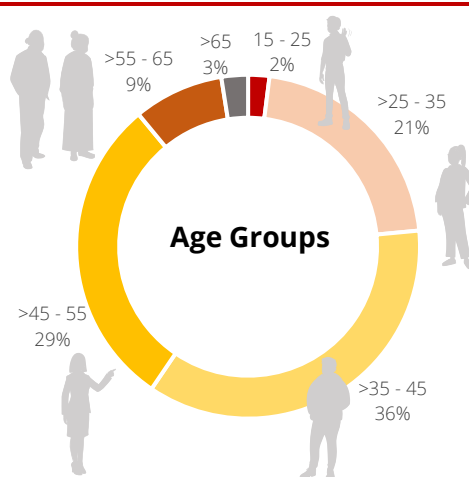
We garnered 201 responses over 3 days in the week of 23 May 2022. The survey was voluntary, sent out anonymously with a list of questions. Respondents were evenly mixed in gender (51%:49% - Female; Male), across a range of age groups but with majority employed (80%) or self-employed (7%). The other 13% indicated they were retirees (6%), students (4%) and homemakers (3%).

Survey respondents gender evenly split; 80% employed



Source: DBS Bank

Age groups largely within the economically active



Source: DBS Bank

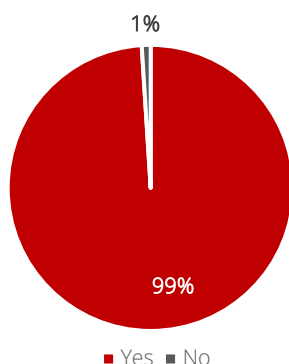
Key highlights

The consumer survey we conducted gave us several insights and implications from our perspective, as follows:

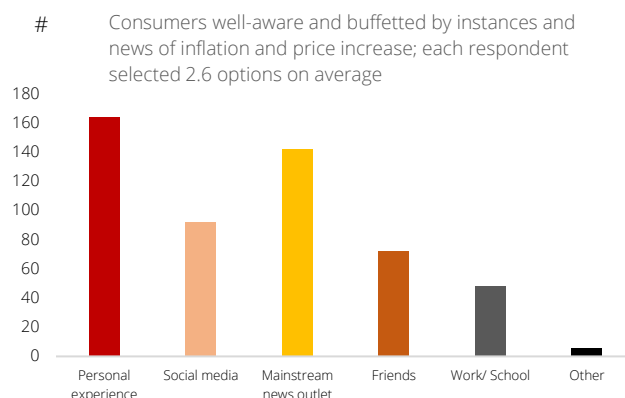
- 1) **Inflation has the upper hand; consumers are holding the shorter end of the rope and taking a defensive stance in their spending.** Our read-through is that price increases and pressures are well-known, widespread, and well-flagged; thus, consumers are taking it in their stride with adjustments in spending behaviour
 - a) **99% of respondents are well-aware.** On sources, 31% indicated it was based on personal experience, while 27% learnt of it from mainstream media;
 - b) **70% of respondents** attributed the cause of inflation to 2 factors – **supply chain disruptions** and **geo-political unrest**;
 - c) **74% highlighted** that they will “**save more, spend less**” and “**look for cheaper alternatives**” in response to inflation. 15% will “invest for higher returns”, while 9% will look for “higher employment/ alternative income”.
- 2) **Perception vs CPI statistics:** CPI increased by 5.8% y-o-y in April. The majority of consumers (41%) were relatively spot on (5-10% range), but more than half indicated price increases were above 10% and more.
 - a) **53% of respondents indicated that price increases had raised their expenses by 10% and more** (10 to 15% increase - 32% of respondents; more than 15% increase - 21% of respondents).
 - b) Amongst the categories, price increases on necessities were the most obvious to the respondents, possibly given the daily interactions on such spending categories.
 - c) **81% of respondents expect the high inflation trend to persist over the next 12 months and beyond.** This could suggest respondents are preparing for this to drag on for longer.
- 3) **Spending behaviour is changing and/or is expected to change; is this a canary in the coalmine?** This could serve as a background reminder to us to be more grounded in the outlook and mix in retail sales going forward.
 - a) **64% respondents** indicated their spending behaviour is likely to change in the face of inflationary pressures. This is something to note.
 - b) **Retail sales index May and June** could show stronger figures on reopening, but based on spending patterns survey, respondents did indicate a high possibility of a shift in spending. This, we believe, could be a reminder for us to be more grounded in expectations going forward, especially post the initial surge in reopening over the next few months.
- 4) **Basic behaviour kicks in - Necessities are top household spending priorities:**
 - a) Groceries (basic necessities, food items), Utilities and Dining-out rank among the highest on spending priority, while Shopping, Recreation and Travel rank lowest.
 - b) Lowest spending priorities are on discretionary items, such as shopping, recreation, and travel.
 - c) Groceries (comfort items, eg. branded food items, chocolates, alcohol, snacks, etc) are fairly evenly mixed within the highest/ lowest priority categories.
- 5) **How will consumers switch - cheaper alternatives vs reduction in consumption frequency depends on the categories. Survey shows consumers go for quality over quantity for travel and recreation.**
 - a) Spending categories deemed as discretionary such as groceries (comfort items), dining out and shopping rank high in terms of reducing consumption and cheaper alternatives.
 - b) Interestingly, **recreation and overseas travel** signal a preference of quality over quantity, i.e., respondents reduce consumption but have lower preference for cheaper alternatives. This could be a result of pent-up demand from movement and travel restrictions in the past two years.

Results of survey

Question: Have you noticed rising price trends that consumers/ you are facing now?

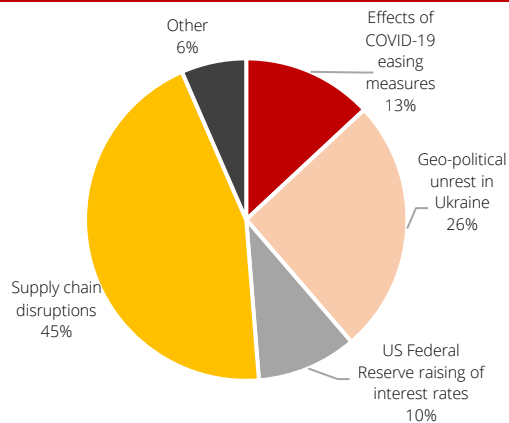


Question: Where did you learn of the rising inflation trend and reasons behind it?

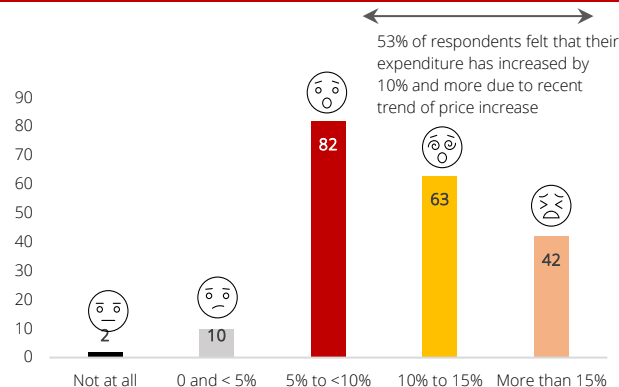


- Respondents are highly aware of the rising price trend, and this seems to be widely known and publicised either via personal experience, news outlets or social media.
- Price increases are being keenly felt with almost 31% of total responses based on “personal experience” while “mainstream news outlet” is the second most selected option (at 27%). This suggest the inflation theme is relatively pervasive and could already set a primer for consumers to shift their behaviour.

Question: In your opinion, what do you think is the main cause of the current trend of rising price inflation we are facing now?



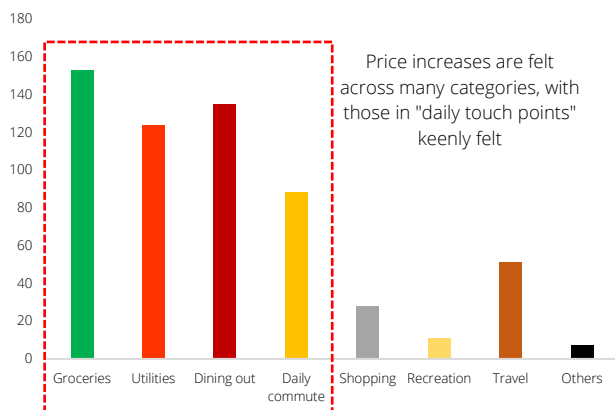
Question: With the recent trend of rising prices, what is the increase on your personal and family expenditure on the same basket of goods and services?



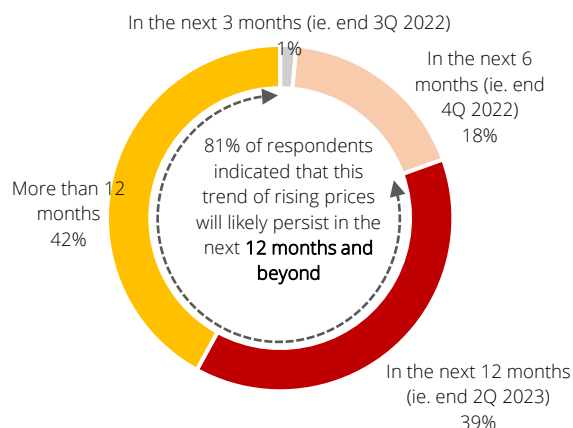
*figure depicts # of responses within the categories

- The main cause was supply chain disruptions, and likely the media and recent export ban of “live” chickens from Malaysia may have played a part in influencing the responses as this news was widely reported and coincided with the period the survey was conducted
- 53% of respondents felt that price increases were 10% and higher, which is higher than official CPI figure (as of April 2022 figures)

Question: Which aspects of price increase are the most obvious to you? (choose up to 3 only)

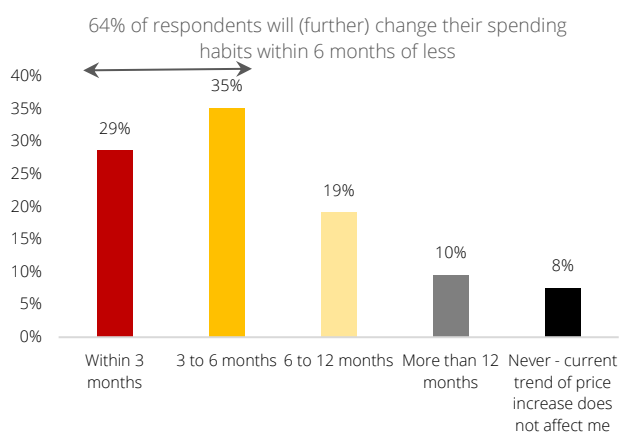


Question: How long do you expect this trend of rising inflation/ prices and its impact on your expenses to persist?

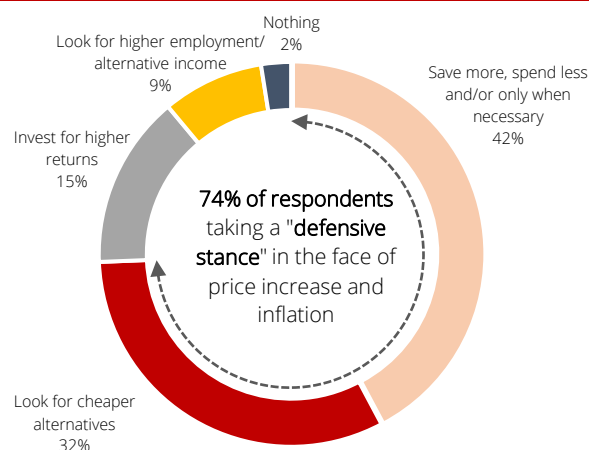


- Daily necessities and spending items are widely indicated as the most obvious.
- Over 8 in 10 respondents indicated that this current inflation trend will likely persist for the next 12 months and beyond. This suggests that most believe this is not temporal and referencing from the following question on how long before respondents will change their spending habits, it could suggest a shift in spending habit could change, or already is happening.

Question: Assuming this trend of rising inflation persists, and prices stay high, how long would it take before you are likely to (further) change your spending habits?

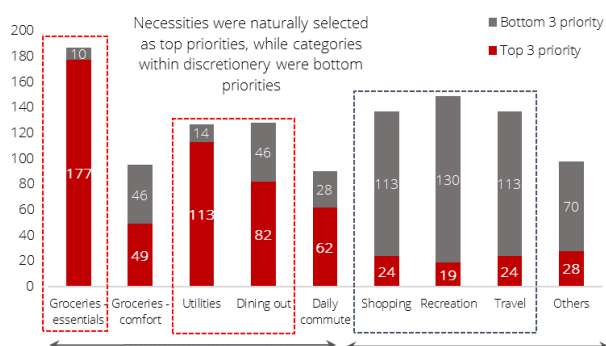


Question: Assuming this current trend of rising inflation and prices, what would be the most likely option would you take in terms of countering the effects?



- A high percentage of respondents indicated that their spending behaviour will change within 3 months, and 3 to 6 months. This suggests the wider consumer population will shift their spending habits relatively quickly in the current situation.
- Respondents highlight a preference towards taking a defensive stance, by saving more/ spend less, and look for cheaper alternatives, vs looking towards higher income.

Question: Taking into account the current trend of rising inflation and prices, which 3 categories of spending would you most likely prioritise on / have lowest priority on?



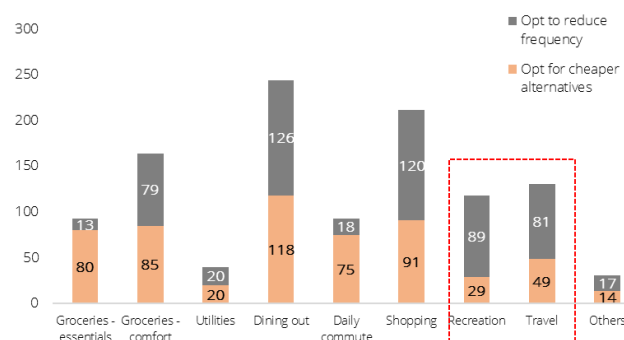
*figure within bar chart depicts # of responses opting for the categories; each respondent to choose up to 3 options only, hence "Top 3" and "Bottom 3" do not add up to total responses.

Note: Groceries – essentials (eg. daily necessities, basic food items); Groceries – comfort items (branded food items, chocolate, alcohol, snacks, etc); Recreation (eg. Fitness, gym membership, cinemas, staycations); Travel (overseas recreation, air tickets, accommodation); Others (include self-enrichment, tuition)

- Necessities spending, not surprisingly, ranks high in spending priorities (groceries, utilities, dining out), while discretionary spending categories (shopping, recreation, travel) ranks low.
- Between opting for cheaper alternatives or reducing consumption frequency, the patterns are not so clear between necessities and discretionary categories. Groceries (essentials) shows respondents are clearly in favour of cheaper alternatives, while groceries (comfort items – branded food items, snacks, etc) have an even mix. This is the same for dining out and shopping.
- Recreation and Travel shows that respondents have a stronger preference to reduce frequency rather than opt for cheaper alternatives in these categories.

Sources of all above charts: DBS Bank

Question: Taking into account the current trend of rising inflation and prices, which 3 categories of spending would you most likely prioritise on (#8)/ have lowest priority on (#9)?



*figure within bar chart depicts # of responses opting for the categories; each respondent to choose up to 3 options only, both options may not add up as a result.

Our views

Consumers taking inflation blow in the chin, but not sitting back. From the survey, it seems that consumers are resigned to a prolonged price uptrend but are ready to adjust their consumption and spending behaviour. While the reopening will provide a boost to Singapore retail sales figures in the

months ahead, particularly for May 2022, we need to be cognizant of potential spending pattern changes ahead. Our views of the respective sectors are detailed below:

Sector	Our views	Stock picks
Consumer	<ul style="list-style-type: none"> Preference towards grocery staples and value food services plays Grocery companies could enjoy a second wind in their sails, with this heightened inflationary environment, as our survey reinforces our view that consumption remains resilient. The availability of house brands, large store network and wide array of products provides pricing and bargaining power, as well as allowing costs to be passed on. We prefer Sheng Siong over Dairy Farm International, given the former's positioning in the mass market and heartland exposure in Singapore. Amongst the food service plays, Kimly is likely to remain resilient We recently downgraded Hour Glass to HOLD, from BUY, despite its record earnings for FYE Mar 2022, on expectations of a weaker macro-economic outlook. 	Sheng Siong Kimly
REITs	<ul style="list-style-type: none"> REITs with exposure to necessity retail spending will continue to benefit on the back of lower price elasticity of demand and higher turnover rents attributable to 'inflated' categories of groceries and F&B Retail landlords with higher trade category concentration within the grocery and F&B space will naturally stand more defensive against consumer price hikes. Sector exposure to groceries and F&B approximate 5% and 32% by gross rental income. Suburban landlords have the upper hand in terms of essential trade exposure, with FCT's exposure to F&B at above average at 38% and exposure to supermarkets at 6%. 	Frasers Centrepoint Trust CapitaLand Integrated Commercial Trust Lendlease Global Commercial REIT
Hospitality	<ul style="list-style-type: none"> While respondents highlighted that travel is one of the discretionary items that could be cut, we see pent-up demand coupled with a line-up of corporate events and F1 returning in Sept'22 driving performance in the next 2 quarters. Inflation and higher labour costs may eat into margins but most of the increases can be passed on through higher room rates (ADR). Prefer CDL HT and ART for their global footprint with a focus in UK/ EUR/ USA where RevPAR recovery is ahead of Singapore. FEHT, being a pure play, will benefit from Singapore's re-opening trajectory. 	Ascott REIT CDL Hospitality Far East Hospitality Trust

Travel

- **Singapore Airlines** is one of our favoured reopening plays at this juncture - we believe that a sharp rebound in passenger volumes, elevated air fares and cargo yields will drive robust top line growth. Additionally, the airline's jet fuel hedging and cost-saving initiatives should keep a lid on inflationary pressures.
- **SATS** is also poised to see stronger revenue growth over the coming quarters as travel activity in the region continues to gain momentum. However, we are neutral on the stock for now as we believe that costs are likely to increase at a faster rate than revenue over the next few quarters due to front-loaded employee headcount additions and the group's susceptibility to inflationary pressures.

Source: DBS Bank

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

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*Share price appreciation + dividends

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Sources for all charts and tables are DBS Bank unless otherwise specified.

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