S’pore not necessarily the ‘costliest city’

Appreciation in exchange rate big factor in rise in living costs for expats: ACI

By Kara Quek

The steady appreciation of the Singapore dollar was a significant contributing factor to Singapore being ranked first in living costs for expatriates, according to a study by the Asia Competitiveness Institute (ACI).

The study covered 109 cities, providing cost of living, wage, and purchasing power indices for both expatriates and the average resident from 2005 to 2012. This study is the first of its kind to cover average residents.

In the study, Singapore was ranked most expensive in living costs for expatriates. However, this was partially due to a 25 per cent appreciation of the Singapore dollar against the US dollar.

When comparing the cost of living index for expatriates in Singapore against the index for Hong Kong, where the currency is tied to the US dollar, ACI found that while Singapore’s index value kept rising, Hong Kong’s remained relatively dormant.

“I was curious . . . how could Hong Kong be so flat in the expats’ cost of living index, and Singapore’s . . . be steadily (increasing)?” said Tan Khee Giap, co-director of ACI. “When it comes to average residents, they’re about the same. So that puzzled me . . . and we decided, let’s investigate.”

The “investigation” came in the form of a simulation, where ACI used the Singapore dollar exchange rate from 2005 (US$1 = S$1.66) instead of 2012 (US$1 = S$1.25) to calculate the indices.

Without the 25 per cent exchange rate appreciation effect, Singapore’s ranking fell from first to 16th, not far from its 2005 ranking, where it ranked in the 17th place.

Hong Kong’s simulated result, however, remained in 26th place, as its currency did not appreciate within the same time period.

The rise in cost of living for expatriates, however, is not solely due to the exchange rate appreciation effect, said ACI. There were some other significant contributing factors, including housing costs (118 per cent increase) and transport (49 per cent increase).

In the worldwide rankings for 2012, housing and transport costs for expatriates in Singapore were ranked highest in the world.

Even with the rise in exchange rate, housing costs still ranked second highest in the world, and transport costs remained in first place.

This does not mean that Singapore is the world’s most expensive city, as it is still relatively affordable for locals to live in Singapore.

The study placed Singapore’s cost of living index for average residents at 60th in the 2012 world rankings – a position unaffected by the appreciation in exchange rate, and a far cry from its ranking in the expatriates’ cost of living index.

However, cautioned Dr Tan Khee Giap, the difference in the indices for expatriates and local residents was not indicative of income disparity or wealth disparity, as the indices were based purely on prices.

The cost of living being much higher for expatriates than average residents was a trend observed in cities of other Asian countries like Seoul and Beijing.

“Ts is a duality effect . . . the filet mignon versus pork chop effect,” said Tan Khee Giap, co-director of ACI, explaining that the highly different consumption patterns of expatriates and average residents gave rise to the disparity in rankings.

He also noted that in cities such as Paris and New York this difference was not as apparent, as it was “roughly equally expensive for expats and domestic residents” to live there.

Indeed, in comparison to New York – which was used as the base for the study – the average Singaporean’s cost of living was 35 per cent lower. Dr Tan Kong Yam pointed out three key areas that were much cheaper for Singaporeans than New Yorkers: healthcare (75 per cent cheaper), education (73 per cent cheaper), and housing (27 per cent cheaper).

This, he said, was due to government subsidies for Singapore residents in these areas. As expatriates are not covered by these subsidies, they find it more expensive than the local residents.

Looking towards the future, Dr Tan Khee Giap raised the importance of monitoring the affordability of education, housing, healthcare and transport costs for locals over the next decade, mentioning the possibility of ACI doing affordability indices to monitor those four areas.