

## PRESS RELEASE

### ACI Cost of Living indices for expatriates and average residents in world's major 109 cities

The Asia Competitiveness Institute (ACI) announced the upcoming launch of their book “Annual Indices on Cost of Living, Wages and Purchasing Power for Average Residents and Expatriates for World’s Major 109 Cities: 2005-2012”. The book will be available in all major bookshops in April 2014.

### KEY FINDINGS OF ACI COST OF LIVING STUDIES

ACI’s Cost of Living studies have showed that amongst the 109 major cities around the world, Singapore is the most expensive city for **expatriates** to live in in 2012. However, the cost of living for Singapore’s **average residents** only came in at 60<sup>th</sup> position on the ACI rankings.

The cost of living index of **expatriates** and **average residents** are very different due to different basket of consumption goods and services reflecting different life styles and economic well being. Note that consumption items in EIU database are high-end products and services intended for consumption by expatriates in contrast to the World Bank ICP database which are typically meant for average residents.

Cities from developed countries, unlike cities in Asia, the differences in cost of living between average residents and expatriates tend to be small (see Table 1).

Table 1: Cost of Living Ranking in Developed and Asian Cities (2012)

Cities	Average Residents	Expatriates
<b>(1) Developed Countries</b>		
New York	12	15
Paris	6	11
London	14	13
Tokyo	11	3
Geneva	5	7
Sydney	15	8
<b>(2) Asian Countries</b>		
Singapore	60	1
Hong Kong	58	20
Seoul	59	37
Beijing	79	28
Shanghai	82	59

#### *Cost of Living for Expatriates*

Singapore overall cost of living for **expatriates** is the highest in 2012. This is due to high cost of transport and housing for expatriates. Compared to New York City, transport costs 3.53 times more and housing is 1.76 times more expensive in Singapore. However,

medical costs and costs of household supplies and domestic help are significantly cheaper here than in New York City.

Compared to 2005 when the study first started tracking the costs, the costs of living for **expatriates** in Singapore increased by 40% relative to New York. About 25% of the increase is due to exchange rate appreciation effect. Other significant increases are in Housing (118% increase), transport (49%), education (45%) and recreation and sports (48%).

Had the Singapore dollar not appreciated by 25% against the US and HK dollar over the period 2005-2012, the Singapore cost of living for expatriates would rank 16th instead of 1st in 2012, comparable to its original ranking of 17th in 2005.

In 2012, Hong Kong overall cost of living for **expatriates** ranked 20<sup>th</sup>, which is lower than New York by 9% and lower than Singapore by 39%. However, it is important to note that, just as Singapore's ranking was "pushed up" by appreciating Singapore dollar, for decades HK dollar exchange rate which was pegged at US\$1 to HK\$7.8 have helped to "improve" her overall cost of living from 13<sup>th</sup> in 2005.

#### *Cost of Living for Average Residents*

Singapore overall cost of living for **average residents** in 2012 is lower than NY by 35%. Cost of living is higher for alcohol and tobacco (1.86 times of NY), transport (1.22). Singapore cost of living is lower than NY for housing (0.73) clothing (0.76), education (0.27), food (0.90), recreation and sports (0.52), medical (0.25), household supplies and domestic help (0.75) and miscellaneous (0.65).

Hong Kong overall cost of living for **average residents** in 2012 is lower than NY by 32%. Cost of living is higher for transport (1.23 times of NY). Hong Kong cost of living is lower than NY for housing (0.87) clothing (0.62), alcohol and tobacco (0.93), education (0.37), food (0.96), recreation and sports (0.50), medical (0.28), household supplies and domestic help (0.71) and miscellaneous (0.68).

The lower cost of living for Singapore's **average residents** is largely due to the lower cost of education, housing and healthcare. The cost of living for food, clothing and transport are comparable to those of the developed countries. This shows the importance of continued government subsidies for education, housing and health to moderate the cost of living for the average residents in Singapore.

The cost of living for Singapore's **average residents** ranked 60, is comparable to Hong Kong (58) and Seoul (59), and substantially lower than Paris (6), Tokyo (11), New York (12) and London (14), but higher than Beijing (79) and Shanghai (82).

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## **ON ACI'S COST OF LIVING STUDIES: THREE IMPROVED FEATURES**

- a. More comprehensive coverage
  - The cost of living, purchasing power, and wages indices for expatriates and average residents are computed and simultaneously published in our inaugural book
  - ACI Indices on cost of living cover world's major 109 cities for expatriates and average residents.
- b. More rigorous methodology
  - The ACI report distinguishes between the average residents and the expatriates in terms of cost of living.
  - Expatriates tend to purchase high-end products and have western consumption preferences.
  - Average residents purchase typical products and have a local pattern of consumption.
- c. More reliable and consistent data
  - The data on item prices was drawn from EIU, which is considered the most established private source of data on expatriates cost of living by most researchers.
  - Consumer preference profiles (category weights) were taken from the International Comparison Program (ICP) through surveys conducted by the World Bank.
  - Wage data was drawn from the International Labor Organization (ILO), which is considered the most reliable source of data on labor and wage.

## **EXPECTED CONTRIBUTIONS AND POLICY IMPLICATIONS OF ACI STUDIES**

- (i) For transparency and consistency
  - Unless assumptions, methodology and data sources are disclosed publicly, it can lead to spurious or misleading results for cities
- (ii) For multinational corporations:
  - Employers can review and adjust compensation packages according to cities for expatriates.
  - Allowing employers to adopt more competitive compensation packages for workers working abroad given the differences on cost of living between expatriates and average residents in a given city.
- (iii) For government and policy makers:
  - Economic well being and life styles can be measured differently by cost of living and purchasing power of average residents.
  - Differences between average residents and expatriates, which were previously hidden by a national index, are now made salient.
- (iv) For academics:
  - More accurate report of price levels within a given city.
  - Distinction between average residents and expatriates opens up more tools for social research.

## FREQUENTLY ASKED QUESTIONS ON COST OF LIVING INDICES

- 1. Is rising cost of living index equals to or implies higher business costs?**  
No, because some components of business costs such as government fees and charges are not in the categories of prices which reflect consumption baskets and many consumption items are irrelevant for computation of business costs.
- 2. Is rising cost of living index equals to or measures widening income disparity or wealth disparity?**  
No, since cost of living index deals with prices with no wages involved, while measuring income disparity deals with household income by income brackets and wealth disparity measures wealth accumulation by different groupings.
- 3. Given rising cost of living, even if it is meant for expatriates, does not it frustrate those citizens who also aspired to acquire the quality lifestyle of expatriates?**  
These are two separate issues altogether, as expatriates were made possible with this high quality life style through remuneration compensation package by multinational corporations for taking into account not just cost of living but also the inconvenience of having to be relocated abroad. There is nothing to stop citizens from acquiring quality life style if they put in their best effort.
- 4. If rising cost of living for expatriates of a city is largely affected by appreciating / depreciating exchange rate, apart from rising prices, who benefits most from stronger / weakening currency?**  
Stronger currency means larger wealth effect which should benefit assets or property owning class, it would mean cheaper costs for education, probably cost less for holidays package and spending overseas. It should also help to mitigate imported inflation too. If rising cost of living over time is of interests to readers, they may monitor the purchasing power index which is wages divided by prices as featured in ACI studies.