

Are we in an affordability crisis?

Wage growth in many countries has outpaced inflation. So where is the anxiety coming from? LIANG ZIXUAN AND MUKUND KISHORE

"FAMILIES are hurting, people are angry," warned International Monetary Fund managing director Kristalina Georgieva.

Yet, European Central Bank president Christine Lagarde pointed out that real wages in many economies have recovered to, or even surpassed, pre-pandemic levels.

Both statements can be true. And together, they trigger today's affordability debate.

Across the world, households have felt the sting of rising prices. Eurozone consumers now spend roughly one-third more on energy than before the pandemic. In the US, home values have surged by more than 45 per cent since 2020, packing a decade's worth of gains into just a few years.

Globally, food prices have risen faster than overall inflation, placing disproportionate strain on emerging economies.

It is tempting to call this a global affordability crisis. But is it real?

A crisis or a perception?

"Affordability" is not a single metric. It is a shifting concept, shaped by expectations and lived experience. While younger generations are preoccupied with housing affordability, older cohorts worry about healthcare.

The same set of prices can generate very different perceptions of strain among different demographics.

Nor are rising prices always harmful. When households expect prices to edge higher, they may bring spending forward, while firms respond by expanding capacity and raising wages. By contrast, deflation cuts profits, discourages investment and ultimately leads to job losses.

Seen this way, simply claiming that prices are "too high" risks misdiagnosing the problem.

What the data shows

The Asia Competitiveness Institute suggests that affordability pressures have not yet escalated into a global crisis. Inflation has fallen sharply from its 2022-2023 peak, while wages in many countries are now outpacing prices.

Purchasing power, in short, is recovering.

Even in some of the world's most expensive cities such as Hong Kong and London, where housing and transport costs dominate public discourse, real wage growth has outpaced inflation since 2024,



Surveys show that people expect higher inflation than what official data or forecasts say, with grocery and energy prices shaping these views disproportionately. PHOTO: REUTERS

helping to stabilise purchasing power.

The story is similar across key categories of essentials.

Food bills are rising in absolute terms, but their share of the household budget has been declining in many middle and high-income countries. Consumers complain about higher food prices even as they benefit from greater variety and quality.

Housing, the focal point of affordability angst, is also skewed. In many countries, the average share of income spent on housing remains below the commonly cited 30 per cent threshold.

None of this is to deny uneven impacts.

In lower-income economies, where food costs account for more than half of household income, price increases bite far harder. In some countries, tenants or new buyers are more exposed than homeowners who managed to lock in low long-term

mortgage rates.

However, these disparities reflect deeper structural divides rather than simply high prices.

Where is the anxiety coming from?

If the data does not fully support the narrative of a global crisis, why does the anxiety feel so pervasive?

Part of the answer lies in inequality.

In Silicon Valley, stock-based compensation has enabled some senior engineers to convert equity gains into prime real estate. Meanwhile, junior white-collar workers in cities such as New York struggle with rising rents, student debt and job insecurity in the age of artificial intelligence.

When wealth is concentrated in a narrow slice of sectors or cohorts, visible divergence fuels a broader frustration.

The problem is compounded by a demand-supply mismatch.

Housing sits vacant in parts of rural Europe even as demand surges in major cities. Across Asia and Africa, transport costs continue to squeeze households despite rapid infrastructure expansion.

The intensified demand and misallocated supply drive competition for scarce resources, which, in turn, increases anxiety. Also, expectations keep rising.

As societies grow richer, spending shifts from goods to services. Yet, services such as healthcare and childcare remain resistant to productivity gains. As a result, maintaining high living standards feels increasingly costly.

And yet, in some respects, life has become cheaper. Manufactured goods such as smartphones and high-definition televisions no longer require years of saving.

Perception itself also matters. Surveys by the Bank for International Settlements show that households consistently expect

higher inflation than what official data or professional forecasts say, with grocery and energy prices shaping these views disproportionately.

Inflation, more than wages or employment, drives how people feel about their financial well-being.

Geopolitics plays a role

What inflation often misses is volatility. In recent years, geopolitical tensions have injected sharp price movements into the global economy, which risks turning unease into a genuine affordability crisis.

The recent US-Iran conflict illustrates the point. As the Strait of Hormuz is a critical maritime choke point, its closure quickly disrupted oil and other energy supplies, causing price spikes and fuel shortages.

For developing economies, the risks are even greater. High debt burdens and limited fiscal space leave little room to absorb external shocks. Rising energy, transport and food costs can strain public finances and increase pressure on household budgets.

Efforts to build more resilient supply chains, such as through diversification or investment in renewables, may reduce future risks.

But they come at a cost. Large-scale infrastructure spending significantly raises public debt, rendering these countries more vulnerable to the next geopolitical shock.

The policy trap

When angst is harnessed for political gain, the risk is that perception drives policy.

Price controls may offer temporary relief but risk creating shortages and discouraging production. Broad cash handouts can backfire if supply remains constrained, pushing prices even higher.

The more durable solution is to expand supply: building more housing, investing in infrastructure and increasing energy capacity. Smarter land-use regulations and stronger competition enforcement can reduce costs more sustainably than blunt policy interventions.

But supply alone is not enough.

The past decade's asset boom has disproportionately rewarded landlords and investors. Expanding access to homeownership and financial markets can distribute gains more evenly and ease the sense of exclusion that fuels affordability anxiety.

Finally, stability matters. A fragmented global order marked by geopolitical tensions ultimately shows up in household budgets. In that sense, a stable international system is not merely a geopolitical ideal, but also a price anchor.

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