How much is a burger worth?

Sue-Ann Chia and Alvin Foo,
The Straits Times, 26 September 2009

According to a recent UBS survey, Singaporeans can afford to buy less than what people in many other cities can because prices here have risen more than wages. Sue-Ann Chia and Alvin Foo examine the data and explain this potentially dangerous trend.

If Singaporeans feel they cannot afford to buy as many things as they could a few years ago, they are not imagining it, according to a survey by Swiss bank UBS.

The proof, so to speak, is in a burger.

The survey shows Singapore workers have to slog longer to earn enough money to bite into a Big Mac. Its price is equivalent to about 36 minutes' worth of work, 14 more than three years ago.

It is, however, just one ingredient in the survey which covered the prices of 122 goods and services.

While a burger index is hardly a scientific study of purchasing power, it does provide some meat to the argument that workers here are getting a tougher deal than those in some other countries.

Singapore's worsened placing on the burger index – a proxy for the cost of goods and services – highlights two possibilities: either that consumption has become more costly, or pay packets have become lighter.

Both are worrying trends which could have crept into the country, serving a double whammy to residents who are feeling the pinch from the downturn.

What accounts for the trend? Is it just a blip or here to stay? More importantly, what are the social and political costs if they persist?

Money not enough

The UBS survey tracks prices and earnings of 73 cities this year, including Singapore. It started in 1971 with 31 cities, and has since been conducted every three years, with a growing list of cities.

Now, it includes Asian capitals such as Beijing, Kuala Lumpur and New Delhi along with key Western financial centres like London, New York and Zurich.

Price and wage levels are compared across the different cities with a standard basket of 122 goods and services and a set list of 14 professions.

In its latest survey done in March this year, the picture painted of Singapore is not a cheerful sight. It shows that the country is among First World economies in prices but not necessarily in wages.

Singapore is ranked the 24th most expensive city, moving up eight spots from the last survey in 2006. It is more costly than Chicago, Hong Kong and Sydney.

If rent is included, Singapore is even higher, at No. 15.

But there was no similar progress in wage levels. On the contrary, the average hourly gross wage dipped from US$7.30 (S$10.30) in 2006 to US$7.10 this year.

This led to Singapore slipping two notches to 40th position.

Interestingly, Singapore's wage level is just one rung above Moscow's. But in the price chart, Moscow is way down the list, at No. 56 - or 32 places below Singapore.

With pay increases not keeping pace with price hikes, purchasing power is squeezed. Singapore has declined 10 spots to the 50th position, behind cities like Bratislava in Slovakia, Johannesburg in South Africa and Kuala Lumpur in Malaysia.

Are the findings an accurate reflection of Singapore?

Not quite, says MP Seah Kian Peng, who also chairs the Government Parliamentary Committee for Community Development, Youth and Sports.

'The figures may be right, but the conclusion could be wrong,' he notes.

Rather than look at prices and wages in isolation, he says the key considerations should be: Do Singaporeans lead a better life than they did in the past, and are the poor taken care of?

'If the answer to both is yes, then moving up or down two notches becomes mere semantics,' he says.

He cites a recent government report which found that the salaries of the bottom 20 per cent of wage earners have risen. Their monthly wages increased from $1,200 in 2006 to $1,310 last year.

Like him, MP and labour leader Halimah Yacob questions the survey's validity.

While she is concerned by the findings of declining purchasing power, she wonders whether the indicators include government aid.

This covers a wide range, from the Workfare Income Supplement for low-wage earners, to rebates and subsidies in healthcare, education and housing. These 'are significant and help people to cope better', she says.

The scepticism of both politicians is shared by some analysts and political watchers, who believe that price comparisons across cities tend to be tenuous.

One key problem, they say, is the survey methodology which may not fully capture different consumption habits.

Varying prices

To UBS, the strength of its survey is consistency.

'We measure the same goods across the cities and aggregate these prices in a goods basket that is the same for all the observed cities,' explains Mr Thomas Kaegi, UBS Wealth Management Research's head of macro-economic research for Asia-Pacific.

This enabled its researchers to compare cities on the same indicators.

Using one standard basket of 122 goods and services - from food to Internet connection costs - UBS determined the price levels in various cities.

With that same basket, it analysed the purchasing power of the cities' residents by how much their average incomes - based on 14 professions - can buy from that basket.

Mr Kaegi recognises its weakness - it does not take into account consumer patterns and taste buds that differ across countries.

For instance, veal steak, cheese and frozen pizza are among the 39 food items included in the basket of goods - but these imports from the West are not exactly standard fare for a typical Singaporean.

Diets aside, differences in culture and behaviour are also not captured.

Mr Kaegi observes that many Singaporeans would rather eat out at a hawker centre instead of buying food items and cooking at home, which is what people in Europe generally prefer.

Another example he cites is domestic foreign helpers, who are not included in the reference basket but whose services are widely used here.

'If Europeans were to employ domestic helpers, which they don't, it would make Singapore's price level lower,' he says.

High cost, low wages

Despite the survey limitations, there is no denying its broad conclusion that prices in Singapore have risen faster than wages here in the last three years.

The chief culprit appears to be the global recession which robbed workers of wage gains but did little to suppress high prices left by last year's record inflation.

Inflation peaked at a 26-year high of 6.5 per cent last year, owing to soaring food and fuel prices.

Unlike wages, prices have yet to deflate significantly despite the onslaught of the economic crisis late last year, notes DBS economist Irvin Seah.

'Look at general food prices... We saw some slight adjustment, but not as much as the downward adjustment in wages,' he says.

According to Singapore's consumer price index in March - when the UBS survey was conducted - food prices rose 4.6 per cent over the same period last year due to dearer items, from cooked food to fruit and vegetables.

On the other hand, pay packets shrank in the first three months of this year compared with the same period last year, according to Manpower Ministry figures.

Its quarterly labour report showed that real wages - wages minus inflation - had declined by 5.8 per cent.

The timing of the UBS data collection could be another reason for Singapore's poorer showing in the survey ranking. March was when Singapore was bearing the brunt of the global recession.

'Singapore was one of the worst-hit economies during this recession in terms of growth,' notes Mr Seah.

'If you take the reading then, you'll naturally see lower wages and purchasing power relative to other countries which fared better during this recession.'

The low pay of low-skilled workers here also dragged down Singapore's average wage level.

The salary gap is wide when comparing the net incomes of low-skilled workers here and elsewhere, notes economics professor Basant Kapur from the National University of Singapore (NUS).

Drawing a comparison between workers in Singapore and Sydney, the UBS survey figures are telling.

Women sales assistants in Singapore earn an average of US$7,500 a year, less than half the annual income of US$17,700 for those in Sydney.

It is the same fate for bus drivers. In Singapore, they earn US$11,400 a year, while those in Sydney get US$25,000.

In contrast, there is less of a salary gap between higher-skilled workers here and in Sydney.

Department heads in the metal industries earn US$43,100 a year in Singapore, slightly less than the US$52,600 in Sydney. Product managers get US$45,100 a year in Singapore, while those in Sydney receive US$49,800.

The low wages of the lower-skilled in Singapore are due to many factors, says Prof Kapur, including competition from low-wage countries and technological changes which do not favour them.

The influx of foreign workers in recent years, especially in the services sector, has not helped.

'Their availability reduces the incentive for employers to adopt more technologically advanced and productive methods of production that would enable them to offer higher wages,' he notes.

Associate Professor Shandre Thangavelu from the NUS, however, cautions against attributing the wage decline to foreign workers.

Referring to the UBS 2006 and 2009 surveys, he compared the wage levels for different Asian cities.

The wage level index dipped by 13.9 points for Seoul, six points for Taipei, four points for Tokyo, 1.4 points for Kuala Lumpur, and 5.4 points for Singapore.

However, the wage index rose by 6.3 points for Hong Kong and 2.9 points for Bangkok.

'Since other cities in Asia have also experienced similar decline in the wage level... it is difficult to conclude that Singapore's growth model or influx of foreign workers is the cause of the decline,' he notes.

Regardless of the cause, analysts say policymakers ought to even out the imbalance between price and wage costs.

As Assistant Professor Randolph Tan from the Nanyang Technological University puts it: 'Except for labour costs, most things have become more expensive between 2006 and 2009.

'That could imply that in terms of ensuring Singapore's cost competitiveness, we must look beyond wage restraint.'

Middle-class squeeze

If these troubling trends are not reversed, this could lead to growing discontent, especially among the sizeable group of middle-income earners in Singapore.

This same group tends to receive less government aid and rebates, compared to low-income earners who receive more aid to ease their plight.

With lower purchasing power, it would be harder to maintain a middle-class standard of living, notes sociologist Tan Ern Ser from the NUS.

'If we pride ourselves in being a middle-class society with a large middle class, then we would have a high proportion of people experiencing an expectation gap,' he adds.

While the 'expectation gap' could cause some unhappiness, he does not believe it will result in a backlash against the Government.

His reason: The gap is not primarily attributed to government policy but to globalisation.

'Also, the middle class in Singapore constitutes only a category, not a united, highly charged political force.'

But for a government whose mandate rests on delivering a better life for citizens, it will need to ameliorate the pain, note analysts.

'If the Government can convince the middle class they are doing better than the middle classes elsewhere, and that the problem lies with global competition, then the political consequences could be moderated somewhat, or even become non-existent,' says Dr Tan.

Placating the people

For now, it could still be possible to lay the bulk of the blame on external forces like globalisation, because fiscal measures are fuelling the slowly recovering economy.

But not forever.

'If the situation of falling wage levels and declining purchasing power deteriorates rapidly, then it would undermine the performance legitimacy of the Government,' says political observer Eugene Tan.

Economic growth which prospers people is a fundamental basis of the Government's legitimacy, he notes.

'A continual decline in purchasing power will deflate the Government's bragging rights that it fosters shared economic growth.

'In turn, public opinion that the Government's economic policy is not working will be stoked, accompanied by the greater likelihood that voters may be bolder in wanting to try alternatives,' he adds.

If this happens, 'the possibility of a significant swing against the ruling party cannot be ruled out', says the law lecturer from Singapore Management University.

To keep any such eventuality at bay, Singapore needs to fine-tune strategies to ensure that it not only remains competitive but also mitigates the constant downward pressure on wages, notes Dr Gillian Koh, a senior research fellow at the Institute of Policy Studies.

During the depth of crisis, the Government went swiftly to the aid of Singaporeans and companies, unveiling a $20.5 billion Resilience Package in its January Budget.

Families received twice the amount of goods and services tax (GST) credits. Those living in HDB flats also received increased rebates for service and conservancy charges, with one- to three-roomers getting an extra month of rebate and owners of bigger flats receiving half a month more.

In addition, low-wage earners received 50 per cent more Workfare grants to supplement their income as well as more transport vouchers.

Dr Koh says the challenge for the Government lies in convincing people it is doing all it can to improve the economy which, in turn, will increase the number of well-off citizens.

However, Singaporeans too must take the initiative to improve their lives, she adds.

CIMB-GK regional economist Song Seng Wun believes Singaporeans should be better off by 2012, especially if inflation stabilises to around 1.5 per cent.

'With asset inflation, more stable food prices, we'll see affordability moving up if economic growth returns to normal. Wages will be pulled up as well,' he says.