

Why some things are more expensive in S'pore

By Neo Chai Chin, TODAY | Posted: 19 November 2012 0649 hrs



Pedestrians cross the street along the Orchard Road shopping area in Singapore. (AFP Photo/Roslan Rahman)

SINGAPORE: If you have always wondered why that chair from IKEA or that pair of jeans from Gap is priced higher in Singapore than some other countries, you are not alone. The Monetary Authority of Singapore (MAS) seems just as keen to find out.

Calling a tender to conduct a consumer products price comparison study earlier this month, the MAS said: "Despite these goods being exactly the same in many instances, the law of one price does not appear to hold. Anecdotal evidence suggests that prices of IKEA products and mid-range apparel, including Gap and Abercrombie & Fitch, are higher in Singapore compared to many other countries."

Some factors that could explain the price differentials include productivity and wage differences across countries, variation in non-tradable costs like rental and taxes, transport costs and price stickiness when it comes to exchange rate fluctuations, the MAS stated in its tender document.

The study's aim is to identify which factors, and their significance.

Using case studies of an international mid-range clothing retailer, a consumer electronics retailer and possibly furniture giant IKEA, the MAS also wants to identify the extent of price differentials of the same products between Singapore and at least 10 other countries, the document stated.

As Singapore grapples with inflationary pressures stemming from the tight labour market and rise in global food prices, economists told TODAY that the study would help the country's central bank better understand factors driving prices and inflation here.

It would in turn help the MAS determine "what targeted policies might be needed to help contain inflation", said Singapore Management University economics don Davin Chor.

"It would be useful to know, for example, whether it is operating costs in Singapore that are primarily driving price levels here or whether it is competitive conditions and strategic considerations that are leading firms to mark up their prices in a particular way in the local

market," he added.

Through the study, the MAS could also understand how much of exchange rate movements are passed on to consumers, and how quickly, said Assistant Professor Chor.

Citigroup's Vice-President of Economics and Markets Analysis, Mr Kit Wei Zheng, agreed. "For instance, if for whatever reasons, price mark-ups are kept consistently high, import cost savings from a stronger exchange rate may not be fully passed on to consumers," he said.

Singapore's exchange rate is among the instruments used by the Government to manage inflation, and the MAS last month decided to continue its gradual appreciation against a basket of currencies.

Inflation this year, excluding imputed household rentals on owner-occupied homes, is expected to be slightly below 4 per cent, said Deputy Prime Minister Tharman Shanmugaratnam last week in response to a Parliamentary question.

Previous research on price differentials has been conducted.

A 2001 study using prices of 119 IKEA products across 25 countries - including Singapore - concluded that price differentials were not due to differences in exchange rates, local costs, tariffs or taxes, but were largely due to differences in mark-ups as a result of strategic pricing across countries, said the MAS tender document.

The tender closes on November 27.

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