

POLITICAL COST OF RISING PRICES?

Some Singaporeans have been lamenting their money does not go as far as it used to. [Insight](#) checks out the issue of cost in the areas of healthcare, education, housing and food.



Ng Jun Sen

The Oh family earns a household monthly income of more than \$10,000 – above the national median income of \$6,913 excluding Central Provident Fund contributions.

"It is a decent wage for my family," says Mr Eric Oh, who left his job as a property agent in 2012 to look after his two sons, aged 12 and 14, and two elderly parents.

His wife, a bank executive, is the sole breadwinner.

But the 52-year-old says he feels poorer than before because of his impression that the cost of living has skyrocketed in recent years.

Asked to give an estimate, Mr Oh says his living costs have risen by 30 per cent while wages have climbed by 20 per cent in the last decade.

Like many others, he draws this conclusion based on his family's expenses. Aside from the \$1,000 he gives his parents each month for maintenance and the \$300 for both children's monthly allowance, nearly every expenditure item on his budget list has increased since 2008, he says.

The largest expense is transport, which soaks up a quarter of the family's income. This includes a second-hand saloon car that Mr Oh uses to drive his family around.

The perceived lower purchasing power is why he insists on thrift: He buys cheaper clothes from Johor outlets, owns an older model smartphone and dismisses any notion of upgrading from his decade-old four-room Nee Soon South flat.

"I might have felt rich 10 years ago, but not today. Nowadays, everything has become more expensive," he says.

But his perception of rising prices does not match the reality measured by the consumer price index (CPI).

CPI is a broad measure that tracks the prices of a weighted basket of goods, such as food, transport and utilities, and reflects the inflation experienced by households in day-to-day spending.

Prices of all items increased by around 17 per cent, not 30 per cent, from 2008 to 2017, according to the index. Meanwhile, the median resident household income rose at a faster rate, by more than 50 per cent in the same period.

But public perception of inflation based on people's personal everyday experience remains persistently higher than the published inflation rate since 2014, says Singapore Management University assistant professor of finance Aurobindo Ghosh.

This overestimation of inflation has not abated even as inflation was at a lower level from 2014 to today, compared with between 2010 and 2013, says Prof Ghosh, who heads the Singapore Index of Inflation Expectations project.

It collects data about public expectations of inflation from around 500 randomly selected individuals representing a cross section of households.

What accounts for this mismatch between public perceptions and the reality reflected by statistical measures like the CPI?

Academics give three reasons people overestimate the rise in general prices.

First, the public perceives that everyone's living standards have increased and feels pressured to match that, says National University of Singapore sociologist Tan Ern Ser.

"In other words, it is not about wants turning into needs, but maintaining what Singaporeans think is the norm," he says.

This was alluded to in Parliament last month when Minister for Trade and Industry Chan Chun Sing said that cost of living pressures can be "an expression of the gap between one's aspirations and one's anticipated means to fulfil them."

Discussions about people from high and low socio-economic status positions, as well as portrayals of abundant lifestyles in popular media, all influence how people decide what is normal, say residents of households whom [Insight](#) interviewed.

This leads to the second reason – that people's exposure to the lifestyles of the wealthy shapes their expectations of life in Singapore.

Here, published studies geared towards expatriate lifestyles paint Singapore as the most expensive city in the world.

But these studies include more expensive items in their calculations, like private school fees and prices of filet mignon, which are not representative of how locals spend.

On the other hand, the Asia Competitiveness Institute (ACI)'s Cost of Living Index 2018 ranks Singapore as the 54th most expensive country in the world for ordinary residents, while it is fourth in the world for expatriates.

Co-director of the ACI Tan Khee Giap says: "The fact is that cost of living for ordinary residents is comparatively lower than many other countries because they have access to low-cost alternatives, such as food."

The full ACI report will be released on Aug 29. ACI, a research centre at the Lee Kuan Yew School of Public Policy, has researched cost of living, wages and purchasing power since 2006.

The third reason stems from the psychological effect that price hikes are more noticeable than the dips, says Professor Ng Yew Kwang, a Nanyang Technological University economist.

Last year's news of a public transport fare reduction of 2.2 per cent following a fare review was eclipsed by news of other hikes, for example.

These price hikes, occurring most recently to water and electricity rates – not to mention, a looming Goods and Services Tax increase – also do not help to ease worries over rising costs, says Prof Tan Ern Ser.

Besides worrying about climbing costs of general consumption goods, people are concerned about increases in other parts of household expenditure, say academics.

Indeed, education, healthcare and housing are three significant items where people worry about rising costs, said Prime Minister Lee Hsien Loong in his National Day message.

While the Government does its part to keep prices in check, Mr Oh says he plans to return to work next year to help his family defray its rising expenses.

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