

Worldwide Cost of Living 2016

A special report from The Economist Intelligence Unit





The findings of the latest Worldwide Cost of Living Survey

Is the world getting cheaper?

Singapore retains its title as the world's most expensive city for a third year in a row, but its lead over the next two cities in the ranking has nearly evaporated. Zurich and Hong Kong follow closely in joint second place, with Hong Kong climbing seven places up the ranking in the last 12 months. London, New York and Los Angeles also move up the ranking to 6th, 7th and 8th place, respectively, displacing Sydney, Melbourne and Oslo from the ten most expensive cities. New York and Los Angeles move up the ranking because of currency headwinds rather than significant local price rises. In fact, the opposite may be true. With the falling cost of oil and a strong US dollar pushing down prices, local inflation has been relatively low across the US. Despite this, New York is in its highest global position since 2002 and has risen by some 42 places up the cost of living ranking since 2011, when it was barely among the 50 most expensive cities, let alone the top ten.

The stronger US dollar and weaker euro has pushed euro zone cities further down the ranking, especially as weak consumer sentiment and depressed commodity prices have undermined inflation in terms of both supply and demand. The Australian and New Zealand dollars have also weakened significantly from highs of two years ago, making cities in Australasia more affordable to global travellers. The unpegging of the Swiss franc from the euro, coupled with structurally high income and price levels, means that Zurich and Geneva will continue to vie for the unenviable title of Europe's most expensive city. Neither city has suffered from Eurozone austerity or economic fallout from falling oil prices to the degree of their EU or Norwegian peers.

Global prices have been depressed by commodity oversupply, especially oil. Meanwhile, bearish sentiment in China, Latin America and Europe have weighed on demand-side inflation. This has been compounded by a rise in retail competition from online or discount channels, which has had a further impact on prices. As a result, inflation has slowed across many cities, with deflation becoming increasingly prominent during the course of 2015. Given that the ranking uses New York as base city, most cities have also become relatively cheaper. Five years ago the average cost of living index of all the cities surveyed was 87.8% (with New York as 100). Last year this was 79.7%. In the last 12 months it has fallen to just 71.5%.

Despite topping the ranking, Singapore still offers relative value in some categories, especially compared with its regional peers. For general basic groceries, Singapore offers the same value as New York. This compares with Seoul, which is 33% more expensive, Tokyo (26%) and Hong Kong (28%), implying that value for money can be found by those who seek it. However, Singapore remains consistently expensive in other categories. It is the most expensive place in the world to buy and run a car, thanks to Singapore's complex Certificate of Entitlement system. Transport costs in Singapore are 2.7 times higher than in New York. Alongside Seoul, Singapore is also a very expensive city in which to buy clothes and pay for utility costs.



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The ten most expensive cities in the world

Country	City	WCOL index (New York=100)	Rank	Rank movement
Singapore	Singapore	116	1	0
Switzerland	Zurich	114	2	2
Hong Kong	Hong Kong	114	2	7
Switzerland	Geneva	108	4	3
France	Paris	107	5	-3
UK	London	101	6	5
US	New York	100	7	15
Denmark	Copenhagen	99	8	0
South Korea	Seoul	99	8	1
US	Los Angeles	99	8	19

US cities move up the ranking, even if local prices remain stable

An increase in the cost of living in many US locations has seen two US cities move into the top ten most expensive cities in the world, with Western European locations still making up one-half of the total. Three Asian cities complete the top ten. But even in this relationship, the dynamics have changed over time. Stagnant inflation and a devaluation of the Japanese yen, have pushed the cities of Tokyo and Osaka further down the ranking. Both cities have traditionally been the two most expensive globally over the past 20 years, but they now lie in 11th and 14th place, respectively. Conversely, Seoul, which was ranked 36th five years ago, is now among the ten most expensive. The cost of living in Seoul is now on a par with that of Copenhagen and Los Angeles. Meanwhile, a weakened Australian dollar has pushed cities like Sydney and Melbourne (20th and 21st, respectively) out of this year's top ten.

Weak confidence in the euro means that Paris is the only euro zone city in the top ten. Despite a weakening currency, Paris remains structurally extremely expensive to live in, with only alcohol and tobacco offering value for money compared with other European cities. Paris is joined in the list of the most expensive European cities by Zurich, Geneva, Copenhagen and London—the newest addition—perhaps reflecting that non-euro zone cities have become pricier in relation to their neighbours.

When looking at the most expensive cities by category, it is interesting to note that Asian cities tend to form the priciest locations for general grocery shopping, with Seoul the most expensive location for everyday food items. However, European cities tend to be priciest in the recreation and entertainment categories, with Zurich and Geneva the most expensive, perhaps reflecting a greater premium on discretionary spending.

New York continues to rise

A stronger dollar and localised inflation mean that New York continues to become more expensive relative to its global peers. With New York setting the index standard at 100, it is difficult to chart progress without looking at its ranking position and movement in relation to other cities. Over the past 12 months the city has moved up from 22nd place in the ranking to 7th. This reflects a rollercoaster ride for the Big Apple, which was regularly ranked among the ten most expensive cities, peaking in



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sixth place between 2000 and 2002, before falling as far down the ranking as 49th in 2011. A total of 106 cities have seen negative index movement compared with New York in the last year, in contrast with just 16 that have seen a rise in the relative cost of living. All 28 cities surveyed in Western Europe have experienced cost of living declines compared with their US counterparts, highlighting the difference in recovery between the two regions.

Price now and then top ten cities

	City	Singapore	Zurich	Hong Kong	Geneva	Paris	London	New York	Copenhagen	Seoul	Los Angeles
Average US\$ price 1kg loaf of bread	Current	\$3.40	\$5.85	\$4.36	\$7.02	\$7.42	\$2.46	\$8.28	\$3.23	\$12.44	\$5.72
	Last year	\$3.54	\$5.96	\$4.31	\$7.48	\$8.83	\$2.68	\$8.62	\$4.18	\$13.91	\$6.02
	5 years	\$3.10	\$5.75	\$4.64	\$5.72	\$9.09	\$2.78	\$6.57	\$3.91	\$9.31	\$5.94
	10 years	\$2.81	\$6.15	\$3.49	\$4.71	\$6.02	\$1.96	\$5.13	\$2.90	\$5.23	\$4.99
Average US\$ price 1 bottle table wine (750ml)	Current	\$22.39	\$14.17	\$16.47	\$8.06	\$10.71	\$12.47	\$14.03	\$11.57	\$25.43	\$23.53
	Last year	\$25.24	\$15.93	\$15.78	\$8.49	\$12.27	\$13.84	\$12.74	\$12.66	\$27.66	\$22.13
	5 years	\$23.97	\$12.94	\$13.64	\$8.10	\$9.02	\$13.83	\$9.83	\$11.80	\$21.28	\$15.60
	10 years	\$18.12	\$9.13	\$14.67	\$8.95	\$7.11	\$11.71	\$10.49	\$9.34	\$20.46	\$13.10
Average US\$ price 20 branded cigarettes	Current	\$9.15	\$8.57	\$7.48	\$9.08	\$7.85	\$14.30	\$13.67	\$6.41	\$3.71	\$7.74
	Last year	\$10.32	\$9.46	\$7.23	\$9.57	\$9.09	\$14.92	\$13.50	\$7.65	\$2.69	\$7.57
	5 years	\$8.83	\$7.06	\$5.06	\$7.75	\$6.79	\$9.76	\$9.08	\$6.39	\$2.13	\$6.66
	10 years	\$6.55	\$4.88	\$3.95	\$4.66	\$6.00	\$9.73	\$6.67	\$4.97	\$2.44	\$5.29
Average US\$ price 1 litre unleaded petrol	Current	\$1.46	\$1.56	\$1.76	\$1.56	\$1.69	\$1.73	\$0.63	\$1.57	\$1.25	\$0.99
	Last year	\$1.76	\$2.07	\$2.04	\$2.08	\$2.40	\$2.11	\$1.01	\$2.07	\$1.72	\$1.09
	5 years	\$1.29	\$1.61	\$1.97	\$1.59	\$2.14	\$1.86	\$0.75	\$1.92	\$1.47	\$0.83
	10 years	\$1.04	\$1.46	\$1.68	\$1.44	\$1.83	\$1.68	\$0.83	\$1.69	\$1.47	\$0.84

A year of currency fluctuation

Despite the deceptive stability of the most expensive cities, there have been some significant drivers of change that have had an impact on the cost-of-living ranking, with further changes still to come. The ongoing slump in commodity prices since mid-2014 has been a powerful force weakening many currencies. Excess supply and shrinking demand from China have decreased the value of exports from Australia, Brazil and Canada, among others, causing their currencies to wither further. Even China, which has long held a firm grip on its own currency controls, has taken repeated steps to devalue the Renminbi in the last 12 months.

In Venezuela the adoption of multiple exchange rates has made pricing Caracas nearly impossible. Despite repeated devaluations, the official exchange rate of around BsF10:US\$1 remains unsustainable in the face of rampant local inflation and a parallel black market exchange rate trading at 100 times that of the official rate. Even a semi-official rate adopted for this survey, known as the Simadi, trades at around BsF200:US\$1. Using this alternative rate has been enough to push Caracas down from a top-ten city a couple of years ago to a bottom-ten city. The economic difficulties in Venezuela are highlighted



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by the impact of these multiple exchange rates. If the cost of living was calculated using the official rate, Caracas would be more than four times more expensive than New York. Conversely, if black market rates applied then it would be almost ten times cheaper than New York.

In the case of Argentina, price inflation has done much to offset the cost-of-living decline caused by currency weakness over the last few years. Conversely, the collapse of the Russian rouble has caused the cost of living in Moscow and St Petersburg to decline by almost 40% in the last year. Ironically, the cost of living in St Petersburg is now on a par with that of the Ukrainian capital Kiev, which has also seen a currency freefall, thanks to falling oil prices and civil conflict.

The ten cheapest cities in the world

Country	City	WCOL index (New York=100)	Rank	Rank movement
Zambia	Lusaka	41	133	-22
India	Bangalore	42	132	0
India	Mumbai	43	131	-1
Kazakhstan	Almaty	44	127	-9
Algeria	Algiers	44	127	-3
India	Chennai	44	127	2
Pakistan	Karachi	44	127	5
India	New Delhi	45	126	2
Syria	Damascus	46	124	2
Venezuela	Caracas	46	124	6

A bumpy ride ahead

The cost of living is always changing and there are already indications of further changes that are set to take place during the coming year. The fall in the oil price in 2015 and early 2016 will put downward pressure on emerging and oil producing countries' currencies, which will have a significant impact on pricing. On the one hand, falling oil prices will drive down inflation for goods and incomes for exporting countries. On the other hand, it will free up discretionary income in importing countries, which could fuel price rises in other categories. Commodity prices, which are also falling back, could act as further deflators in some markets. While it is clear that oil markets remain oversupplied, there are reasons to believe that there could be a slight rebound in prices in 2016. Recent oil price falls are not a result of fundamental changes in supply and demand, and lower output from struggling US shale firms could result in higher oil prices. Meanwhile, harvests continue to be subject to the whims of global weather systems and the agricultural glut of recent years is expected to moderate.

The impact of exchange-rate movement will also be felt more strongly this year. Argentina, Japan, Zambia, Australia, New Zealand, Canada, Russia and Ukraine have all been susceptible to big currency declines. Conversely, a stronger dollar is raising the ranking of US cities and those that peg to it. The US Federal Reserve Bank raised interest rates in December 2015, which is expected to have a global impact, given the prominent role of US fiscal and monetary policy on an international stage. Moreover, the US dollar is on its fastest rise in 40 years. Meanwhile geopolitical issues, ranging from uncertainty



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over a “Brexit” referendum to sanctions over Ukraine, are compounding currency weakness in Europe and the former Soviet Union, which will also have an impact beyond the countries most affected. The rise of online competition and discount retail channels is also undermining prices in many more mature markets, but as economies recover, expectations of higher spending could see prices moving back up.

Most crucially, instability and conflict around the world could continue to drive localised shortage-driven inflation, which will have an impact on the cost of living within certain cities. However, local inflation driven by instability is often counteracted by economic weakness and slumping exchange rates. As a result, cities that see the highest inflation will see their “relative” cost of living fall.

With emerging economies supplying much of the wage and demand growth, it seems likely that these locations, especially cities in China, will continue to become relatively more expensive. However, Chinese growth is slowing and measures have been taken to weaken its currency amid a stockmarket decline that could prompt a new wave of consumer caution. This could, in turn, drive down spending and undermine the wage and price inflation that has been taking place over the past decade.

Background: about the survey

The Worldwide Cost of Living is a bi-annual (twice yearly) Economist Intelligence Unit survey that compares more than 400 individual prices across 160 products and services. These include food, drink, clothing, household supplies and personal care items, home rents, transport, utility bills, private schools, domestic help and recreational costs.

The survey itself is a purpose-built Internet tool designed to help human resources and finance managers calculate cost-of-living allowances and build compensation packages for expatriates and business travellers. The survey incorporates easy-to-understand comparative cost-of-living indices between cities. The survey allows for city-to-city comparisons, but for the purpose of this report all cities are compared with a base city of New York, which has an index set at 100. The survey has been carried out for more than 30 years.

Methodology

More than 50,000 individual prices are collected in each survey, conducted each March and September and published in June and December. Economist Intelligence Unit researchers survey a range of stores: supermarkets, mid-priced stores and higher-priced speciality outlets. Prices reflect costs for more than 160 items in each city. These are not recommended retail prices or manufacturers’ costs; they are what the paying customer is charged.

Prices gathered are then converted into a central currency (US dollars) using the prevailing exchange rate and weighted in order to achieve comparative indices. The cost-of-living index uses an identical set of weights that is internationally based and not geared toward the spending pattern of any specific nationality. Items are individually weighted across a range of categories and a comparative index is produced using the relative difference by weighted item.

For more information on the Worldwide Cost of Living Survey

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