The low-down on inflation

Is there cause for concern that Singapore recorded its highest inflation rate in 12 years, ask Li Xueying and Goh Chin Lian

WHO'S AFFECTED?

THE other side of the globalisation coin, however, is not pretty. Lowest-income Singaporeans have consistently been hardest hit by inflation.

In 2004, those in the lowest 20 per cent income bracket saw an inflation rate of 2.3 per cent. Compare this to 0.3 per cent for richer households in the top 20 per cent, and 1.5 per cent for those in the middle bracket.

In the first half of this year, the inflation rate for the poor fell to 1.1 per cent, but it is still higher than the 0.7 per cent for the higher-income.

Why? Essentials such as food and public transport cost more and form a larger part of the poor's expenditure, says economist Hoon Hian Teck.

The poor spend relatively more on food (29.6 per cent) compared to the rich (17 per cent). "The rise in the price of food thus had a greater impact on the CPI for the lowest quintile," he says.

Their stagnating incomes exacerbate the situation. Says union leader Victor Pang: "Look at the cleaners. In the 1990s, they were earning $600 to $800.

"Today, they earn the same, while everyone else's salaries are moving up."

Thus, the poor are doubly squeezed: depressed wages and yet higher costs.

Cleaner Mari Joseph, 55, feels it. His pay has remained at $700, but he spends more on bus fares, milk and rental. "My spending is tight and I'm fed up," he says.

So what can be done?

HDB can keep rentals for neighbourhood shops affordable, even as rentals elsewhere move up, suggests Mr. Liang. "This will allow competition among retailers and give the residents a choice besides the mega-marts."

He and the other ruling party MPs also maintain that the impact has been offset by government handouts.

Says MP Matthias Yao: "If we net off the subsidies, rebates, offsets and Workfare bonuses from the price increases, I think the lower-income groups are not so much worse off compared to the higher income households."

A better long-term solution, says academic Gillian Koh, is for the Government to "redouble its efforts to help those in the lower-wage level find jobs that pay better."

Allowing the Singapore dollar to appreciate more and keeping domestic cost pressures down will also help in lowering imported inflation and the cost of non-traded goods and services, says economist Tilak. Rentals and other fees should also be reassessed.

Another group being penalised are savers, says economist Chua Hak Bin. "Bank deposit rates - typically below 1 per cent - have not risen despite higher inflation rates. That implies that bank deposits face negative interest rates as inflation is higher than deposit rates."

"The purchasing power of savings is being eroded."

Stocks and property are thus better hedges against inflation, but volatile market conditions may dissuade savers from investing money in risky assets, he adds.