



Investment Insight

“In spite of the cost of living, it’s still popular”

10 September 2015

We are in the midst of another year characterised by massive moves in global currency markets. Central bankers hope their policies of quantitative easing and induced currency weakness will prove the essential ingredients in producing the growth that has proved so elusive since the onset of the global financial crisis.

But central bankers can hope all they like. At some point, when a currency gets to the ‘wrong’ price, the ‘invisible hand’ of the market dictates its future, rather than policymakers’ whims and aspirations. With this in mind, the annual *Cost of Living Survey* report from Mercer Consulting is a useful guide. It analyses the affordability of major global cities from the point of view of real businesses that locate themselves there. It compiles the prices of goods and services in a country, enabling businesses to assess how they might deploy their people.

After three years of Japanese currency debasement, Tokyo has dropped out of the top ten most expensive cities for expatriates. This finding chimes with anecdotal evidence of those that have visited the city recently, and perhaps provides some explanation as to why the yen has stabilised at its current, lower level.

Meanwhile, all of Australia’s major cities have become cheaper places to live over the last year – a weakening currency and falling prices for virtually everything that Australia sells has resulted in Sydney, Melbourne and Perth tumbling down the rankings, thereby offering a little better value to their foreign residents.

At the other end of the currency scoreboard, Zurich, Geneva and Bern all find themselves in the top ten. Switzerland has always been an expensive place to live, but your francs will buy you a little less this year following the revaluation of the Swiss currency against the euro at the start of 2015.

Chinese cities also now feature heavily in the top ten most expensive – with Beijing, Shanghai and Hong Kong all rising up the ranking. Among other factors, they have all (until recently) paid the price of a currency pegged to a rising dollar while many of the countries around them “enjoyed” significant currency depreciation. The loss of competitiveness implied by the ranking in this report will no doubt have weighed on policymakers’ minds when the decision was made last month to devalue the Chinese currency.

And the most expensive city? It’s not London, but Luanda, the capital of Angola. Vast mineral and oil reserves, an end to the civil war, and a shortage of the offices, hotels and other accoutrements of a growing market economy have all led to significant cost of living inflation. But this accolade seems like something of an anomaly and the country’s new-found ‘wealth’ will certainly have passed by the majority of Luanda’s population, who still reside in poverty.

But what of the country whose currency others are most commonly judged against? While the US is not a contender for the most expensive place to live and work, the rise in the dollar contributed to sweeping rises in the cost of living in many of its cities, from Los Angeles to Chicago and from Seattle to Honolulu. With the world’s investors keeping a keen eye on the path of US rates, perhaps Janet Yellen holds a key to the appeal of her nation’s cities to overseas businesses in the coming year.

As we can see, this interesting but sometimes overlooked survey provides some real insight into how changes in monetary and fiscal policy around the globe affect the real actions and reactions of the business world.

Richard Dunbar
Investment Solutions

The value of investments and the income from them can go down as well as up and you may get back less than the amount invested.

Contact details

Should you require any further information, please visit aberdeen-asset.com for details of your local Aberdeen representative.

Important information

The above marketing document is strictly for information purposes only and should not be considered as an offer, or solicitation, to deal in any of the investments or funds mentioned herein and does not constitute investment research as defined under EU Directive 2003/125/EC.

Aberdeen Asset Managers Limited ("Aberdeen") does not warrant the accuracy, adequacy or completeness of the information and materials contained in this document and expressly disclaims liability for errors or omissions in such information and materials.

Any research or analysis used in the preparation of this document has been procured by Aberdeen for its own use and may have been acted on for its own purpose. The results thus obtained are made available only coincidentally and the information is not guaranteed as to its accuracy. Some of the information in this document may contain projections or other forward looking statements regarding future events or future financial performance of countries, markets or companies. These statements are only predictions and actual events or results may differ materially. The reader must make their own assessment of the relevance, accuracy and adequacy of the information contained in this document and make such independent investigations, as they may consider necessary or appropriate for the purpose of such assessment. Any opinion or estimate contained in this document is made on a general basis and is not to be relied on by the reader as advice. Neither Aberdeen nor any of its employees, associated group companies or agents have given any consideration to nor have they or any of them made any investigation of the investment objectives, financial situation or particular need of the reader, any specific person or group of persons.

Accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the reader, any person or group of persons acting on any information, opinion or estimate contained in this document. Aberdeen reserves the right to make changes and corrections to any information in this document at any time, without notice.

Issued by Aberdeen Asset Managers Limited which is authorised and regulated by the Financial Conduct Authority in the United Kingdom.