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Following the publication of ECA's latest cost of living survey results my colleague and guest blogger, Barry Rodin, highlights the major trends observed and looks ahead to what we might see over the next few months.

When making my cost of living predictions earlier this year the focus was on the depreciation of emerging-market currencies and its negative impact on indices for assignees coming from low-inflation and stable-currency countries. The published survey results confirmed the expected impact of the highlighted trends, with any rises in local prices in emerging markets only partly offsetting the weakness of their currencies.

Even the 25% inflation we observed in our basket of goods for Argentina between September and March surveys could not counter the impact of major depreciation of the peso: indices fell by at least 15% on most home bases during that period.

There were some notable exceptions to these trends, which we had anticipated. For example, the Venezuelan index showed a massive 25%+ increase: only a devaluation could offset the raging inflation there – and that has still not happened. Index increases of around 5% for India and Nepal, meanwhile, were due to the stabilising of their currencies, allied with moderate-to-high price inflation.

So what is the outlook

For the next six months? There are signs that we may see a reversal of recent trends in a number of emerging markets. Many currencies there have recovered, particularly so in Chile, India, Mexico, Philippines, Russia and Turkey. Furthermore, the threat of global deflation has diminished (with some exceptions, notably the Eurozone), with moderately rising prices being the general norm instead. If this situation remains, rises of varying magnitude in the indices may well be observed. Assignees posted from stable, developed markets to India or Philippines, for instance, will start to require more home country currency to maintain their home pattern of consumption. Conversely, for assignments in the opposite direction falling indices are to be anticipated. As always there will be exceptions. Currencies in Ghana, Ukraine and Zambia have continued to weaken since March, with price inflation only partly counterbalancing the negative impact on their indices. Furthermore, there remains the potential for a large

devaluation in the Venezuelan bolivar – and Caracas, currently by far the most expensive location for expatriates in our recent cost of living ranking, could drop suddenly down the list.

Any trends we have observed since March could quickly change though. Certainly throughout the years I've been involved in keeping track of global cost of living, currency movements and inflationary trends have been highly volatile and challenging to predict, being influenced by a variety of both short- and long-term political and economic developments (eg credit and sovereign debt crises, volatile food and energy costs, commodity price trends, geo-political tensions, quantitative easing etc).

To illustrate, I have taken the example of an assignment from Germany to Malawi. As the graph below shows the Malawian kwacha was highly unstable between September 2010 and March 2014, with sharp rises and falls punctuating an overall downward trend in its value against the euro, thus lowering the index. In the same period, there was also consistently much higher price inflation in Malawi than in Germany, which had the opposite effect of raising the index. The overall result was to produce a moderate but nevertheless, 'bumpy', decline in the index. It does show the importance of explaining to your expats why a big inflation or currency movement won't always have a big impact on the index.

Malawi is one of the high inflation countries for which we'll be undertaking an interim price survey prior to our next main survey in September. Ukraine, Argentina, Venezuela and Iran will also be included. In the meantime, you will, of course, be able to read about any major developments in currencies and inflation at this blog.

Combined impact of exchange rate movements and inflation on CoL index
Germany to Malawi Sept 2010 - March 2014

