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How to beat inflation

With the rising cost of living and lower bank deposit rates, risk-averse Singaporeans are seeing their savings eroded by inflation. Lorna Tan looks at 10 ways to tackle increasing prices.

It is ironic. Singaporeans who are uncomfortable with taking financial risks and who prefer to leave their cash untouched in savings deposits are in fact taking a big risk by not protecting themselves against inflation.

The continued rise in the cost of goods and services is a clear indication that inflation is creeping up on everyone and eroding the value of their money.

For instance, a movie ticket cost \$1 in the early 1970s. Fast forward to today and a weekend movie outing will set you back by \$10.

If you are one of those risk-averse investors whose money is mainly in bank deposits and you think you are 'playing safe', think again.

In the long run, your savings will actually shrink and you could become poorer, not richer, because of inflation.

Said IPP Financial Advisers investment director Albert Lam: 'With inflation, your dollar buys a smaller percentage of an item over time, meaning its purchasing power is reduced.'

Recent figures released by the Department of Statistics do not paint a rosy picture.

In January, the Consumer Price Index (CPI) rose to a 25-year high of 6.6 per cent from a year earlier, as the cost of housing, food, transport and communication rose.

In February, it was up 6.5 per cent from a year earlier. The rise was led by higher prices for cooked food, milk products, fresh poultry, fruit and bread, as well as higher petrol prices, taxi fares and car costs.

Meanwhile, banks have slashed their annual rates to about 1.2 per cent a year for a 12-month deposit. And bank savings are attracting meagre rates of about 0.3 per cent.

If your money is sitting idle in a bank and earning interest that is lower than the rate of inflation, you are not making it work hard enough for you.

Over time, your nest egg will be eroded by inflation. For instance, if the inflation rate is 5 per cent and your fixed deposit is earning 1.2 per cent, you are looking at a shortfall of 3.8 per cent.

What triggered this spike in inflation?

Mr Joseph Chong, the chief executive of financial advisory firm New Independent, pointed out that the current bout of high inflation is concentrated in energy, especially crude oil and food.

He said that under-investment in oil exploration and conservation in the 1980s and 1990s when crude oil fell to US\$10 a barrel led to a lack of supply as demand kicked in from a strong global economy.

'In order to diversify away from crude oil, the United States doled out big subsidies for farmers to produce ethanol from corn.

'Acreage previously used for food and feed production was converted to ethanol production, which created a food supply squeeze,' he added.

The increase in Singapore's Goods and Services Tax (GST) to 7 per cent from 5 per cent last July was a one-off factor that contributed to the spike in inflation, said Mr Lam.

Another one-off factor was the Government's revision of annual home values.

The good news is that this jump in inflation is expected to be contained within the first half of this year.

The Government's official inflation forecast for this year is 4.5 to 5.5 per cent.

Inflation averaged 2 per cent from 1980 to last year.

How does inflation affect your purchasing power?

You should factor in the impact of inflation on your purchasing power when you lay out your long-term financial goals.

If not, you will underestimate the amount that you need to set aside to save or invest in order to achieve your desired standard of living upon retirement.

Mr Stanley Sim, the financial advisory manager of New Independent, worked out that in just 20 years, inflation of 2 per cent a year would reduce \$10,000 to \$6,676 in terms of purchasing power, which translates into a loss of 33 per cent in monetary value.

If inflation reaches 5 per cent, it will reduce \$10,000 to \$3,585, a loss of 64 per cent in value.

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