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China's Rising Cost of Living

December 22, 2010

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by prchovanec

China used to be cheap. According to [figures the World Bank uses](#) to calculate Purchasing Power Parity (PPP), in 2003, a dollar's worth of currency bought nearly five times as much in China as it did the U.S. A bag of groceries, or a hairdo, or a hotel room that would have cost \$50 in the U.S. cost only RMB 90, or roughly \$11, in China.

Talk to anyone in China, though — local or expatriate — and they'll tell you that, lately, things have been getting a lot more expensive. When I went back to the U.S. a few months ago, I had the strange sensation — for the first time — that a lot of things were actually *cheaper* there than in Beijing.

The bloggers at *Caixin* magazine, one of China's leading financial publications, must have had the same feeling, because they called some friends in the U.S. and put together a chart directly comparing prices for the same goods in [Hangzhou](#) and in Boston (which happen to be sister cities). They found, for a shopping list of groceries and fuel, that the total bill was actually larger in China (\$32.44) than in the U.S. (\$29.81). The price of a dozen eggs was over twice as expensive, and a liter of milk was nearly three times as costly, in China as in America.

The original chart (in Chinese) [can be found here](#). I've translated an English version below. Prices are stated in both RMB and USD, at a conversion rate of 6.7 RMB per dollar, and unless otherwise noted, refer to the price per 500g. Products that were reported as more expensive in China than in the U.S. are highlighted in red.

	<u>RMB</u>		<u>USD</u>	
	<u>Hangzhou</u>	<u>Boston</u>	<u>Hangzhou</u>	<u>Boston</u>
<u>Food</u>				
Lotus Root	3.48	7.29	0.52	1.09
Chinese Cabbage	1.68	7.37	0.25	1.10
Red Fuji Apple	5.99	7.37	0.89	1.10
Golden Delicious Apple	5.99	4.37	0.89	0.65
Shrimp	35.80	37.12	5.34	5.54
Bak Choy	1.68	3.64	0.25	0.54
String Beans	5.99	5.13	0.89	0.77
Tofu	2.00	11.99	0.30	1.79
Chives	5.68	11.08	0.85	1.65
Rice	4.33	6.28	0.65	0.94
Celery	4.28	3.62	0.64	0.54
Banana	4.99	4.37	0.74	0.65
Grapefruit	3.88	3.70	0.58	0.55
Tomato	4.48	7.37	0.67	1.10
Eggs (dozen)	16.90	6.60	2.52	0.99
Whole Milk (liter)	11.50	4.03	1.72	0.60
Beef Brisket	45.00	22.12	6.72	3.30
Minced Pork Filling	18.61	13.24	2.78	1.98
Pork Tenderloin	22.60	22.12	3.37	3.30
<u>Fuel</u>				
Gasoline (93-Octane)	6.27	5.09	0.94	0.76
Diesel (No. 0)	6.24	5.80	0.93	0.87
Total Shopping Basket	217.37	199.70	32.44	29.81

Of course, the bloggers at *Caixin* admit from the outset that theirs was not a scientific survey. They note the fact that several of the food items, such as tofu and bak choy, are readily-available staples in China, versus niche specialty products in America, may account for why they are more expensive in the U.S. I don't know why beef brisket (which is not considered a particularly desirable cut in the U.S.) is so much more expensive in China — perhaps it's a matter of taste (the ultimate example of this would be chicken feet, which are worthless in the U.S. but highly prized in China).

Fuel prices in China are regulated, and while higher than in the U.S., are lower than in Europe. Public transport, which was not included on the list, is much cheaper in China. The point-to-point fare on Beijing's subway is two yuan (30 cents U.S.), compared to \$2.25 in New York City. A taxi from the airport to the city center costs RMB 100 (\$15) in Beijing, compared to about twice that (\$30) in Boston.

Personal services are also much cheaper in China, where labor is plentiful. I can still get a simple men's haircut here for less than \$10, compared to a typical \$20 in the U.S. A full-time, live-in nanny costs around RMB 3,000 (US\$ 450) per month (plus room and board), a price hard-stretched American parents could only dream of. On the other hand, in my experience, clothing in China costs at least as much — and often more — than clothing of

comparable quality in the U.S. (there is plenty of low-quality, cheaper clothing to be had in China, but I find it tends to fray quickly).

Selective as they may be, the prices that are presented — for eggs, milk, fruits, and vegetables — do not present a picture of a Chinese economy where the cost of living is 1/5 that of more developed countries. For many products, it seems, the Chinese — who still earn far less than Americans — are now paying as much or more than Americans do. It would seem that at least some of the hard-earned income gains the Chinese have won over the past several years have been whittled away by inflation, rather than adding to their quality of life. This impression is reinforced by another back-of-the-envelope exercise conducted by the folks at ChinaHush, comparing what RMB 100 will buy you today in Beijing, compared to last year (answers include: 30 fewer apples, 90 fewer eggs, 4.5 fewer bags of instant noodles, 4.5kg less flour, and one less fish). You can check out [the full story here](#).

Which brings us to the question of economic adjustment. Many in China who argue *against* moving towards a more flexible exchange rate, and allowing the RMB to appreciate in value, contend that a stronger currency (which would make Chinese exports more expensive abroad) would just be too painful for the Chinese economy to accept. In principle, they accept the need for China's economy to shift from reliance on exports towards domestic-driven growth, but they want to find a less painful way to do it, which means keep the exchange rate where it is, or appreciating very, very slowly.

The problem is that, to keep the exchange rate pegged (more or less) to the dollar, China's central bank must continually buy all the excess dollars China earns from its trade surplus and brings in from net foreign investment, and issue RMB in exchange. Unless it runs a constantly tightening monetary policy as a counterbalance—something that China has *not* been doing since the start of the global financial crisis — all this new RMB being flushed into the system will generate inflation. [As I've pointed out before](#), China's money supply has expanded an astounding 50% over the past two years. The reason there's so much liquidity in the system can be traced — both directly and indirectly — to the maintenance of the RMB-USD peg. All this new money is fueling both asset and consumer inflation.

The point is, if a country is running a chronic imbalance of payments, you're going to get adjustment, one way or another. If you allow the exchange rate to appreciate, the adjustment will come via external prices (exports become more expensive, imports become cheaper). If you accumulate foreign exchange (FX) reserves to keep the exchange rate from moving, and you don't keep tightening to compensate, adjustment will come via internal prices (inflation). Either way, China becomes more expensive relative to the rest of the world.

The difference is who bears the burden of adjustment. With a stronger RMB, the burden falls on producers who have to adjust to retain their competitiveness (and, admittedly, by their employees, who also have to become more competitive or find new jobs). With inflation, the burden falls on Chinese savers and consumers who find their buying power whittled away. In a sense, the RMB-USD peg is a tax — an inflation tax — on China's *laobaixing* (common people) to maintain China's export industries (but only for a time, because eventually wage and input inflation at home will undermine those exporters' cost advantage as surely as a stronger currency would have).

I find it incredibly ironic that the two hot populist issues among Chinese citizens these days are the high price of housing and U.S. pressure for a stronger RMB. People are hot under the collar about both issues, but they never draw stop to think that China's position on currency (maintaining a weak RMB) might be fueling inflation in the form of rising housing and other living costs. Of course, I don't expect average citizens to draw the

connection, but economists should.

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1.

But What Do I Know? [permalink](#)

December 22, 2010 9:49 pm

“China’s money supply has expanded an astounding 50% over the past two years.”

Yep, there’s your problem.

Seriously, thanks for this. The kind of money supply increases you refer to have only previously happened in wars—and wars are well-known for causing inflation. The question is, when does the “war” end?

[Reply](#)



2.

Terry Crossman [permalink](#)

December 22, 2010 11:47 pm

Excellent Analysis Patrick except I don’t really think that the lao bai xing are really all that concerned

about the RMB peg.

[Reply](#)



3.

Jack [permalink](#)

December 23, 2010 12:26 am

Patrick, Some of these food items in the Caijing survey from the US (where I live) look pretty widely off the mark. Given that 500g is about 1.10 pounds, we can just use a pound as a general reference and checking on Fresh Direct (a high quality on-line grocery with free delivery) beef brisket is \$6.99 per pound, four Fuji apples for \$2.99, pork tenderloin is \$5.99 per pound, wild shrimp for \$14.99 per pound and farm raised shrimp for \$8.99 per pound, tofu is less than \$3.00 per pound, etc. This is Manhattan pricing with free delivery. Anyway, just a reference point, but if the Chinese numbers are accurate, the analysis and inflationary impact may be even more acute than this table suggests.

[Reply](#)



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prchovanec [permalink](#)*

December 23, 2010 10:02 pm

I mistakenly stated that the prices are in USD, when they actually are in RMB. I've corrected this, and added the USD conversions to the chart. I don't personally know what prices are in the US, since I live in Beijing, but based on the data I've been able to gather online, the milk and egg prices quoted for the US, once converted, appear a bit on the cheap side. But the gasoline price, once converted from liters to gallons, is right on the money. Apologies for any confusion caused.

[Reply](#)



4.

Houhui79 [permalink](#)

December 23, 2010 2:10 am

Brilliant post Patrick!

BTW do you have any estimates for how much new credit has been given (off balance, official, underground, etc) for 2009 and 2010?

Terry Crossman i think they are not concerned about it, but they get bombarded with conspiracy stories about how the US (and only the US!!!, no mention of any other countries) is trying to bully China about it, at least if they read the more nationalist papers they do. CCTV plays its part from what i have seen also.

[Reply](#)



5.

Andy Stahl [permalink](#)

December 23, 2010 2:15 am

Might a fraction of the huge difference between the U.S. and China prices for milk, eggs and beef be attributed to U.S. farm subsidy payments? These subsidies generally lead to over-production, which reduces consumer prices.

[Reply](#)


6.

Michael A. Robson [permalink](#)

December 23, 2010 5:51 am

Just use the Big Mac Index... No need to trace Bok Choi prices. Most of this 'imbalance' is due to the fact that the USD has plummeted in value, so yeah, US shopping is relatively cheaper.

Again, so many US businesses operate in China, and so many Americans import from China (ahem) that an increase in the RMB would ultimately hurt the US, as import prices skyrocket, and profit margins shrink.

Rather than shuffling papers and moving numbers around, the US needs to find its identity as an Economic power and work themselves out of this hole.... you know, this hole?

http://www.brillig.com/debt_clock/

[Reply](#)


7.

Joe Joe [permalink](#)

December 23, 2010 9:39 am

China is getting more and more expensive, there is absolutely no doubt about that. Recently rents in the big cities have shot up as well, not just the food.

The list mentioned is really skewed in many ways and shouldn't be taken that seriously, even if it were it misses one of the most important aspects which is WHAT do you get for what you pay.

Yes, pork might seem to be the same price, but what kind of pork? The USA has many issues with food safety which led to the recent changes, however can you imagine how it is in China? When you compare not only the price but the quality of what you get China is in fact MUCH more expensive.

[Reply](#)



8.

[Tom permalink](#)

December 23, 2010 11:10 am

Great post. I've long noticed the difference in prices, and there might be another factor to consider. In the US we expect meat to make up about 30% or more of a meal so we demand a low price, while in China they would expect it to only be 5-10% (this estimate is according to a class of students here in Nanjing) so meat can be more expensive in China, since they eat less of it.

Also with all the talk recently of inflation in China, I have found local food sellers more and more interested in American food prices, and point out that much more of our food is produced in huge factory farms, where as Chinese farmers only have a few acres to subsist on. As China mechanizes farming I would expect to see some of these prices come down, but for now unemployment is a greater fear than inflation.

All of this isn't to say that China isn't getting more expensive, just raising some issues with only comparing food costs. What's surprising too is that those are nearly the same prices you would have to pay in rural China, where the salaries might only be \$1,000 a year.

<http://seeingredinchina.wordpress.com/>
[Reply](#)


9.

[dannytchii permalink](#)

December 23, 2010 2:18 pm

Pricing is relative, brisket might not be a good cut, but Chinese love it; dice it, making into a delicious bowl of beef noodle soup; hot pot or whatever.

Same as investing in housing property, albiet leaving it empty.

Nothing seems that imperative until it's life-threatening.

Same as inflation, American lives paycheck to paycheck; mortgage, rent, food bills etc., and etc., crushing wave after wave, all within assumed expectation; but Chinese lives at a different pace, sequence and environs; unless you could transform into a reliable formula of economics.

Yes, inflation is a problem—according to Professor's predictment, but one must also take other factors into consideration, such as politics, ethnic difference etc. There's really no danger, until it's life-threatening—in Chinese sense.

Chinese history always changes so abruptly and within brink of an eye.

[Reply](#)

10.

lewis husain [permalink](#)

December 23, 2010 8:18 pm

There appear to be problems with (at least) some of the food prices here: I spend around half the year in Beijing at the moment, and do a lot of my shopping in a wet market in Dong Si Shi Tiao.

Some things here are about right: eggs and milk are ok. Some things are very wrong, at least in Beijing prices: a) doufu costs 2.5 RMB (up from 2 RMB until a few weeks back) for a block (250g, I think); that would give a price per 500g of 0.76 USD b) good rice from the NE of China (i.e. what Chinese consume for preference) costs between 2.8 and 3.8 RMB per jin / 500g c) meat prices in the table are just plain wrong d) tomatoes in Beijing: 1.5kg for 10 RMB, or 1.5 USD ... I could go on: e.g. spinach: 1-1.5 RMB, or approx. 0.15 USD, per bunch; lets say 250g. I don't know how that compares with the US, but in the UK a (smaller) bag of spinach in a supermarket is 1-2 GBP. And so on.

I know Hangzhou, and Hangzhou is pricey. However, there is something wrong with these numbers. The point is not that the trend is wrong: food prices are clearly rising, but this overstates the issue. My guess (only a guess as no methodology is given here) is that prices are based on western supermarkets in Hangzhou, not on local outlets. This is how the Economist and similar publications do international comparisons, but it doesn't necessarily reflect either a) actual consumption patterns (mentioned in the article) or b) actual outlets used.

Clarification of the methodology used would be helpful.

[Reply](#)

11.

Karen [permalink](#)

December 24, 2010 8:30 am

After just recently having read the book "When Money Dies" (by Adam Fergusson, available for free download on some websites) about the great inflation in Weimar Germany, it strikes me as scary for China's future that the people are apparently not connecting the dots and have no idea that inflation is the fault of their own government.

The Germans in 1920-1923 had no idea their inflation was caused by their own government's increasingly energetic printing of new currency to meet its expenses and at the same time maintain full employment. A lot of Germans blamed foreigners and even more of them thought it was somehow the Jews' doing. Even the officials doing the printing claimed to believe the real problem was wrong foreign exchange ratios, which they had to print money to correct.

[Reply](#)



12.

Paul s. [permalink](#)

December 24, 2010 10:09 am

yes money supply has expanded by 50%. China engaged in a stimulus program distributed THROUGH the banks — not through a fiscal giveaway as was done in the west. that was a one off and will not be repeated. If it id distributed through the banks, the deposits go up as loans are created. ALSO DO NOT FORGET! China's RRR is 18% — one of the highest int he postwar world. Basicallt about 18% of deposits (M2) is sitting unused and unusab;e in the central banks as mandatopry deposits. This amounts fo about \$2 trillion — almost 50% of GDP. The problem is that china has too much cash — not that it has too much debt.

[Reply](#)

o

dannytchii [permalink](#)

December 24, 2010 1:13 pm

Interesting observation. Since this measure is inflationary, why Chinese government used it ? neglegence, perhaps; but I don't believe they are so inept. Why ? please enlighten me.

[Reply](#)

13.

[Kunal Kothari](#) [permalink](#)

December 26, 2010 12:37 am

Mr. Chovanec, you say

“If you accumulate foreign exchange (FX) reserves to keep the exchange rate from moving, and you don't keep tightening to compensate, adjustment will come via internal prices (inflation).”

What are the dynamics involved if you DO keep tightening to compensate?

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- [May 2010](#)
- [April 2010](#)
- [March 2010](#)
- [February 2010](#)
- [January 2010](#)
- [December 2009](#)
- [November 2009](#)
- [October 2009](#)
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