

Figures that matter

The reported CPI in Malaysia has been increasing by about 3% per annum for the last three decades, while the world CPI has gone up 3,000 times over the same period. A more realistic mechanism for the computation of CPI is needed in an open and globally connected economy like ours.

By **DR FONG CHAN ONN**
sunday@thestar.com.my

MUCH has been articulated about how the Consumer Price Index (CPI) is not reflective of the purchases of ordinary Malaysians any more. This is especially true for the low to middle income wage earners, where the bulk of the population sits.

The reported CPI in Malaysia has been increasing by about 3% per annum for the last three decades, while the world CPI has gone up 3,000 times over the same period (see table on the far right). So much so that housewives scoff when they

are told that prices of goods and services are only increasing at 3% a year.

Taxi drivers scream every time their vehicles are up for a service because they are charged for spare parts and servicing, which go up by at least 10% annually.

Their scepticism stems not from disbelief in the institution's calculation but the sheer stress that they have to bear from having to make ends meet, particularly those living in the urban areas.

It also makes the ordinary citizens think that politicians and policy-makers are completely disconnected from the realities of Malay-

CPI weightage	
Groups	Weightage
Food and non-alcoholic beverages	31.4
Alcoholic beverages and tobacco	1.9
Clothing and footwear	3.1
Housing, water, electricity, gas and other fuels	21.4
Furnishings, household equipment and routine	4.3
Health	1.4
Transport	15.9
Communication	5.1
Recreation services and culture	4.6
Education	1.9
Restaurant and hotels	3.0
Miscellaneous goods and services	6.0
Total	100

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sian life, cocooned in making decisions that do not reflect the hardship they have to bear.

Employers and trade unions, when making yearly adjustments to wage levels, use the CPI as the basis for salary increments. Trade unions' grouses are justified in the case of arguing that wage levels are not enough for a typical household to survive. However, they are equally frustrated with the system, as there is no other index or basis for greater wage increments.

It must be recognised that the "middle income trap" is, in fact, directly due to the way the CPI is being skewed and suppressed.

The table above shows the breakdown of the weightage allotted for the various broad categories of items consumed on a daily basis.

"Food and non-alcoholic beverages" and "Housing, water, electricity, gas and others fuels" make up over 52.8% of the weightage. Without going into the finer details of what the actual items are in these two categories, it is suffice to say that most of the items are either heavily subsidised or price controlled, like sugar, flour, water, petrol, electricity and so forth.

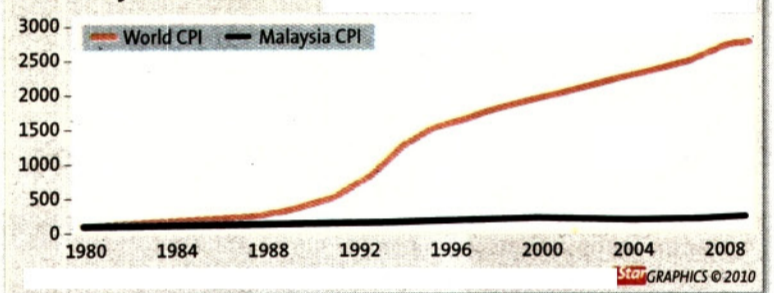
The dislocation in the CPI and the real prices paid by a household becomes more obvious when we consider that we do not just consume flour and sugar in its raw form, but in value-added items like cooked food and beverages. Eating out in coffee-shops or *warung* certainly include prepared items such as cooked fish, vegetable and prawns which are always levied at market prices but not captured in the CPI.

Transport, which makes up 15.9% of the weightage, does not take into



A price to bear: Eating out in coffee-shops or *warung* certainly include prepared items such as cooked fish, vegetable and prawns which are always levied at market prices but not captured in the CPI.

Consumer price index Constant year 1980



account hire purchase for cars or motorcycles or the cost of imported spare parts for their repair.

Construction materials such as cement and clinker may be price controlled but the prices of houses and rental are determined at market rates, which are not subjected to regulations.

Mobile devices have become an integral part of our daily lives. Most of us have to pay bills for SMS, telephone calls and data download that are not included in the communication category.

The impact of an artificially low inflation rate is as follows:

> Important business decisions are based on the inflation rate, and this can mislead the private sector into making business judgments that are off the mark, costing the economy billions in losses.

> It leads to wages being artificially suppressed, creating a widening income gap between Malaysians working domestically and those working outside the country. This, in turn, exacerbates the "brain drain" problem.

> With low wages, we are not able to attract outside talent into Malaysia even though our goods and services are supposedly cheaper.

> It creates a technology gap, making Malaysia uncompetitive. Technology goods and services become expensive for Malaysians to purchase, including things like iPhones, Blackberry, and iPads which are soon becoming everyday items.

> We will have to depend on a low foreign exchange rate to ensure that Malaysian goods remain competitive but this is an unsustainable strategy in the long run.

> With a cheap currency, we cannot afford to purchase the most

advanced machinery and technology, leading to poor fixed asset/capital build-up. This also explains part of the problem of sluggish private sector investments.

The implication of having an unrealistic CPI is a very serious matter and cannot be brushed aside as mere grumbings of the rakyat. However, just like in the treatment of the removal of subsidies and price controls, proper safety nets must be in place to protect the lower income and vulnerable groups.

The general price levels of the basket of goods and services will no doubt adjust itself as subsidies and controlled items are subsequently removed but this has to be done gradually to prevent hyper-inflation.

And additional items such as communication devices and computers will have to be introduced to reflect a more competitive and advanced Malaysia.

Next to the Gross Domestic Product (GDP), the CPI is probably the most important economic indicator that all governments use to gauge the health of an economy. As the CPI is the basis of many policy benchmarks with very far-reaching implications in the management of an economy and the wealth of a nation, a strong case of a more realistic mechanism for the computation of CPI is timely and much needed in an open and globally connected economy like Malaysia.

> *Tan Sri Dr Fong Chan Onn was Prof of Applied Economics and Dean of Faculty of Economics and Administration, Universiti Malaya. He served in the Government as Deputy Minister of Education (1990-1999) and as Minister of Human Resources (1999-2008). Currently, he is the MP for Alor Gajah.*