

COMMENTARY

The Malaysia CPI: Why the Numbers Don't Add Up

By Mohd Khairul Ramli

For most Malaysians, the rising cost of living is a constant worry that our ringgit just doesn't stretch as far as it used to. Yet, when the government trots out the official inflation rate, a sense of disconnect often sets in. The numbers simply don't seem to capture the daily struggles faced by ordinary citizens. This begs the question: is the inflation rate a reliable indicator of our cost of living, or is it a flawed metric that masks a harsher reality?

The answer, unfortunately, leans towards the latter. The Consumer Price Index (CPI) is the most common measure of inflation and tracks the average price changes of a fixed basket of goods and services and in this case, designed to represent typical Malaysian household spending patterns. But therein lies the challenge: "typical" doesn't necessarily translate to everyone's reality.

In a recent decision, Bank Negara Malaysia (BNM) opted to hold the Overnight Policy Rate (OPR) steady at 3.00%. However, this move may not adequately reflect the rising cost of living felt by many Malaysians. Imagine you're a B40 family, spending a significant portion of your income on essential food items. The CPI report a 3.00% overall inflation rate, but if the price of chicken, rice, and vegetables skyrockets by more than 3.00%, your household budget takes a much bigger hit. This is because the CPI doesn't account for the different spending priorities across income groups. The B40, who allocate a larger share of their income to essentials, experience inflation more acutely.

Furthermore, the CPI is a backward-looking measure. It captures price changes over a specific period, but it doesn't consider future trends or income stagnation. Even if the official inflation rate dips slightly next month, it doesn't magically refill your wallet. The sting of past price hikes lingers, especially when wages fail to keep pace with the rising cost of living.

This income disparity is another crucial factor often overlooked by the CPI. The index assumes a constant income level for all households in which is simply not true. While prices climb steadily, however, salaries often remain stagnant. This creates a financial squeeze, forcing Malaysians to cut back on essentials, reduce leisure activities, or dip into savings just to maintain their standard of living.

Public perception of inflation also plays a role. We tend to remember price hikes more vividly than price drops. The "sticker shock" of a sudden rise in the cost of our favourite vegetables stays with us longer than the occasional discount on clothing. This

"memory bias" fuels a sense that inflation is always higher than the official numbers suggest.

Economists themselves acknowledge the limitations of the CPI. It's a valuable tool for understanding broad economic trends, but it doesn't paint the whole picture for individual Malaysians. The recent phenomenon of "shrinkflation," where manufacturers reduce product size while keeping prices the same, further exposes the shortcomings of the CPI. It captures the price change, but not the decline in value for consumers.

So, what can be done? A more nuanced approach to measuring inflation is needed. Perhaps a basket of goods weighted towards essential items for different income groups could provide a clearer picture for policymakers. Additionally, tracking household income trends alongside price changes would offer a more holistic understanding of the cost of living.

Ultimately, Malaysians need to be aware of the limitations of the inflation rate. INSAP firmly believes that the CPI should not be the sole indicator of our cost-of-living struggles. The disconnect between the official numbers and the daily realities of Malaysians is undeniable. By acknowledging this gap and advocating for more comprehensive metrics that capture the diverse experiences of different income groups, we can ensure that policies truly reflect the challenges faced by ordinary citizens. Only then can we bridge the gap between statistics and the lived experiences of Malaysians striving to make ends meet in this ever-evolving economic landscape.