

## **The Ugly Truth: Why Lower CPI Doesn't Mean Cheaper Prices**

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Recent data from the Department of Statistics Malaysia (DOSM) released on October 2024 shows that the consumer price index (CPI) recorded a slight decrease, with September's monthly inflation rate easing to 1.8% down from 2.0% in July. This cooling inflation rate might seem like a light at the end of a long tunnel of rising costs for the average Malaysian, especially considering the high inflation period following the COVID-19 pandemic. However, a lower inflation rate often leads to misunderstandings about what it actually means for prices and purchasing power.

In economic terms, this nuance is crucial. A lower CPI value, which indicates a lower inflation rate means that prices are rising more slowly than before, not that they are decreasing. This distinction might seem subtle, but its implications are far-reaching.

### **Why are Things still so “expensive” then?**

Often when inflation numbers show a smaller figure, the normal expectation would be that 'things would be cheaper'. That scenario only happens in an environment of 'deflation' like what took place in year 2000s when China came out with mass produced products which flooded the global markets for the next decade or so.

Suffice to say, today's households hoping for relief at the grocery store will still find prices uncomfortably high. Why? This is because reduced inflation rates only signal that they will not rise as rapidly. In other words, slowing inflation offers little assurance that prices would actually fall. In fact, they don't. They just remain as just high with the difference that it is not rising rapidly or even galloping as in the case of 'hyperinflation'.

### ***The Limitations of Statistics and Census***

The CPI commonly used as the official measure of inflation which reflect the average change in prices over time for a set basket of goods and services purchased by typical consumers. In Malaysia, DOSM calculates the CPI monthly, offering insight into price trends for goods like housing, utilities, groceries, health and other essentials. The CPI's basket is standardized, providing an average that doesn't always align with the price increases individuals might face based on where they live or what they buy. Even though, this index is widely used by policymakers and economists, it falls short in capturing the lived experiences of many Malaysians.

## Statistics Often Fail to Capture Lived Experiences of the Citizens

One reason for the CPI's perceived inadequacy is that it often overlooks differences in consumption patterns across demographic groups. For instance, retirees have different spending habits than young professionals, and urban residents face different price pressures than rural populations. The CPI captures prices mostly in urban settings, which may not reflect price changes in less densely populated areas. This disconnect can make the CPI seem inaccurate to those experiencing sharper price increases in goods that matter more to their daily lives. Consequently, while CPI data shows the economy as a whole, it may not reflect every consumer's experience and can sometimes be manipulated for political and economic purposes, leading to an index that may not always align with the inflationary experiences of everyday Malaysians.

## *Silent Rise in Inflation has hurt the low-middle class in the Last Decade*

Over the past ten years, inflation has gradually eroded the purchasing power of many Malaysians. Everyday essentials, from groceries to housing and transportation, have seen price hikes that strain household budgets. This silent rise in prices is felt most strongly by low- and middle-income households who dedicate a larger portion of their income to these essentials, leaving little room to absorb increases without feeling a pinch. For most, the term "inflation" resonates only when they notice their grocery bills creeping up or utility bills cutting deeper into their wallets.

Figure 1: Consumer Price Index (CPI)



Source: DOSM Dashboard, September 2024

## ***Conclusion***

With many Malaysians struggling with the effects of inflation, it is essential to understand what the Consumer Price Index (CPI) actually represents. While lower CPI means prices are not climbing as quickly, it doesn't mean they're falling. Despite these limitations, it remains a useful tool for measuring economic conditions even though it cannot capture the full experience of inflation as felt by different demographic groups or regions. As global and domestic factors continue to influence Malaysia's economic landscape, the CPI will remain an important albeit a rudimentary guide.

Despite its crudity of application, CPI continues to be used by policymakers to navigate in the environs of hyperinflation, inflation and deflation - all of which have its consequences on the purchasing power of individual households.