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Call for a 'more representative' CPI

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THE Consumer Price Index is often misconstrued as "unrepresentative" of the woes of the average housewife - who faces difficulties getting her regular household supplies with her tight budget.

Such uncertainties are felt all the more now as there are growing fears of unemployment, lower wages as well as incomes. And these uncertainties are affecting purchasing power adversely.

The fears are there despite assurances from Bank Negara that inflation in the region has stabilised at about 5.5 per cent in April and May.

When the CPI rose by 5.1 per cent in March over the same month in 1997, several eyebrows were raised as it indicated the highest single-month rise since November 1992 as the weakened ringgit raised the price of imported goods, especially food.

Economists and analysts have, however, indicated that this is no surprise as it is a continuation of the trend.

The depreciation of the ringgit will have the biggest impact on the CPI.

A spokesman for the Department of Statistics said the CPI measured the average rate of change in a fixed basket of goods and services with the base year set at 1994 and defined inflation as the average increase in prices of the basket of goods.

Inflation usually takes place when there is too much money chasing too few goods or in other words, when the value of money has shrunk.

Currently the demand for many food items has exceeded supply, and this has caused prices to spiral upwards.

Food is the primary contributor to the rise in the CPI (40 to 60 per cent) which can lead to inflation if it is not properly managed.

For the first four months of the year, food, gross rent, fuel and power accounted for about 80 per cent of the overall increase recorded.

The indices for all subgroups - sugar, fruits and vegetables, fish, coffee and tea, meat, oil and fats - rose between 5.3 per cent and 16.8 per cent.

There has however been a general consensus among academicians, economists and trade unionists that the CPI must be thoroughly reviewed as it does not provide a true picture of the changes in prices of goods and services.

Elayne Yee Siew Lin from the Malaysian Institute of Economic Research recently said the CPI might need a complete review on the process of its construction to answer allegations of the critics.

Some feel that the real rate of inflation, particularly during the slowdown, may not be reflected in the CPI which is heavily weighted in favour of food, most of which are controlled.

There are also disagreements over retail outlets from where the prices are collected.

The overall CPI is an average for the entire economy but, to a large extent, proper comparisons have to be made if a rural-urban CPI is constructed to show inflation in the various regions.

There are already two CPIs separating the rural and urban areas which is for the Economic Planning Unit although the department comes out with a national price index monthly.

A spokesman said the inflation rate was not obtained by comparing month to month price differences as it was actually done on a 12-month comparison.

Asked how the sampling stations were determined, the spokesman said it was linked to the popular shopping outlets and was quick to say that these places were not shrouded in secrecy.

"Meanwhile the locations for different food items depend on our judgment ... for example, foodstuff like vegetables and fish are sampled from the wet markets."

The Department of Statistics, he said, had 116 sampling stations.

"Sourcing the prices takes about three days while captioning takes another three. It is the processing which takes time as the subject matter will have to be edited by the price division sector before it can be released for the monthly announcement."

It also comes out with indices for total and selected main groups and a separate one for selected sub groups in the food groups.

There are separate ones for Peninsular Malaysia, Sabah and Sarawak.

Economists have called for transparency in the indices for the rural and urban areas as the bulk of the national income comes from the urban areas.

The department is quite happy with its various indices which also allow comparison between the different years (starting from the base year 1994).

Professor Mohamad Hamdan Adnan, the president of the Federation of the Malaysian Consumer Association (Fomca), feels the CPI is not well focused and that the basket of goods is too "broad".

"It is not reflective of the actual prices in the eye of the average consumer, who is irked by the high prices at the pasar malam, and those in the kampung.

"One must ensure that the items in the basket are not price-controlled items as they do not reflect the true picture," he said.

As public funds are utilised to undertake studies on prices of items, it is only fair that the details be made known to the public.

"This is most important especially during the current economic situation," Hamdan said

He added that in order for the CPI to reflect some credibility, the relevant authorities had to be more pro-active.

"The Department of Statistics should not just churn out figures ... it should also analyse and show the interest to solve the problems of the average consumer, be it prices for food, transportation, education or healthcare."

He said the Domestic Trade and Consumer Affairs Ministry could complement the department by suggesting substitutes for the items found expensive.

He said there should be a national food policy to ensure we had enough stockpile for items like rice, sugar and wheat.

Responding to the Prime Minister Datuk Seri Dr Mahathir Mohamad's call for the consumer movement to assist the Government in checking inflation as a means to counter the impact of the ringgit depreciation, he said Fomca was having discussions with the various government agencies.

He said academicians should come forward and provide "intellectual input" which can go a long way in helping the Government as well as the consumers at large.

Fomca also met Domestic Trade and Consumer Affairs Minister Datuk Seri Megat Junid Megat Ayob recently.

Economists have also stressed the importance of the supply side adequacy in order to ease supply disparities.

Economist Anthony Dass said the Government's projection of the CPI at 7 to 8 per cent was attainable this year.

While the monetary side has been checked and the fiscal aspects are taken care of by the Government, it is the administrative side which needs to look at the CPI.

He uses the CPI as a yardstick to measure inflation and money supply (M3) growth vis-a-vis the Gross Domestic Product.

Dass said it was possible to bring the inflation rate down especially if it was possible to substitute goods, reduce imports and produce goods locally.

Distribution costs, he added, must be justified.

"With the weaker ringgit, many groups have jumped on the backwagon and hiked prices ... these have to be constantly checked."

Projecting the inflation rate to be between 6.5 and 7 per cent next year, Dass said it would take quite a while before Malaysia could touch the three per cent barrier which it did in 1997.

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