

The cost of living picture remains elusive

Despite the healthy economic growth, persistent remarks on the rise in the cost of living are heard. The difficult part is that there is elusive, scarce and incomplete info on the cost of living at the national level, since spending is also based on personal priorities.

Malaysia's main economic indicators are looking fairly good in early 2007. Stock market trends aside, the most frequent complain one would hear without fail is the rise in the living costs. Unfortunately, there is no official data on the cost of living although rough estimates are available from the household spending surveys. Living expenses are difficult to measure because apart from common necessities, living costs also depend on household priorities. The widely quoted data that's related to prices is the Consumer Price Index (CPI), which tracks changes in prices but does not deal with the level of prices. This means that even if prices are already high, say at RM100 this year, but if it was also at RM100 last year, there is no inflation in prices at all. So a low inflation rate of 3.2 per cent in January 2007 does not necessarily mean that prices are low but only to show that changes in prices are modest. A good example is Japan where the inflation rate is at a low 0.3 per cent but actual prices are well known to be exorbitantly high by Asian standards.

Malaysia's inflation rate peaked at 4.8 per cent in March last year but has since subsided to 3.2 per cent in January 2007. The data shows that this was due to the slower rise in the transportation price index, which turned milder following the elapse in the impact of the previous oil price hike in 2005. More importantly, the food price index has remained quite stable at around 3.0 per, being reasoned on the presence of a number of controlled food items, and the stronger ringgit exchange rate. Compared to neighbouring countries, Malaysia's rate inflation is still relatively low. In Indonesia's case, its inflation reached a peak of 18.4 per cent last year before decreasing to 6.3 per cent in January. International comparisons on major cities show that Jakarta has a higher cost of living compared to Kuala Lumpur, but this is likely based on executives' lifestyle rather than that of local households.

Living expenses have gone up due to the hikes in oil prices, utilities and toll rates. This has affected the costs of business, but the impact is moderate, judging by the final outcome on consumer prices. The difficult part is that there is elusive and incomplete info on the cost of living at the national level. The only rough indications on living costs come from the Department of Statistics' *Household Expenditure Survey*, which was last conducted around mid-2004 to mid-2005. A average family of four living in the urban area in 2004/05 spent an RM2,503 per month on various expenses, while a similar-size family living in rural area spent RM1,290, almost half that of an urban family. These

figures are not indisputable but they are simply national averages, and may mask other trends that could be more realistic to different groups of people, depending on their lifestyles and priorities. For a household in the income range of RM2,000-RM2,999, the monthly spending bill was at RM2,407 in 2004/05, which means that not much is left for savings.

During an earlier survey in 1998/99, monthly spending for an urban family was RM2,057, and RM1,287 per month for the rural family. Based on these household figures, monthly spending in urban households rose by an average 3.3 per cent per year between 1999 and 2005. This does not look alarming, but the rise would be steeper in 2006 following the price increase in a number of essential items. It appears that the urban family had to cope with a larger rise in expenses, while the rural equal saw a smaller increase.

The reality is that the cost of living varies from one household to another, depending on what the spending priorities are. There are few options to deal with higher living costs. Tightening the budget and cutting down on unnecessary items could be helpful, to some extent. Moving to rural areas just because of lower living costs or taking up a part-time job maybe out of the question for most people. But if neighbouring countries had to go through the same pain, this is not just a local problem. Hopefully, the income gain this year will outpace the rate of inflation and improve purchasing power, easing the burden somewhat.

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