UNIVERSITI TEKNOLOGI MARA

THE IMPLICATION OF ECONOMIC DETERMINANTS ON CONSUMER PRICE INDEX (CPI) IN MALAYSIA: CASE STUDY WITHIN THE PERIOD OF PANDEMIC

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ABSTRACT

Malaysia`s CPI measures the percentage change through time in the cost of purchasing a constant "basket" of goods and services representing the average pattern of purchases made by a particular population group in a specified time period. The rise in poverty will not be due to inflation but due to unemployment and underemployment, which together affect 3.1 million people or 19.4% of the workforce, according to the latest Department of Statistics Malaysia (DOSM) figures. Despite these limitations, the CPI is still the most widely used measurement of the general price level. This is because it is used for indexation purposes for many wage and salary earners, including government employees (Aminu and Anono, 2012). The CPI for 2021 and 2020 would normally be based on spending taking place in 2020. This likely be highly unrepresentative of spending in coming years, so the problems with interpreting the CPI will extend beyond 2020. More importantly, however, there are additional problems in interpreting the CPI as a measure of how the cost of living is changing, even setting these measurement issues aside. The study determined at the relationship between macroeconomic variables and the consumer price index in Malaysia from the October of 2019 to the June of 2021. The main purpose is to look whether the independent variables such as Interest Rates, Unemployment Rates and Export Goods and Services are significantly affected the dependent variable which is Consumer Prices Index where it will answer the research question of what the relationship between all the independent variables and the dependent variable are. Furthermore, there are numerous methods for gathering material for the study, including the internet and journals from prior researchers. All macroeconomic variables are key predictors of Malaysia's consumer price index, according to the paper's empirical findings. The results show that the consumer price index has a significant relationship with the majority of macroeconomic variables. Overall, the study provides new information for future researchers as well as advice on the factors that influence the consumer price index in Malaysia.

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1.1 Introduction

The Consumer Price Index (CPI) is a summary statistic that depicts the frequencydistribution of comparable prices (Kharimah et al, 2015). The change in the general level of prices of a collection of goods is measured by the CPI number. As a result, it tracks changes in money's purchasing power (Monga, 1977; Subhani & Panjwani, 2009). It is frequently used as a litmus test for the efficiency of a government's economic policy because it is a conspicuous mirror of inflationary trends in the economy (Sarangi et al, 2018). Consumer spending on goods and services out of disposable income is the emphasis of the CPI programme (Boskin et al, 1998).

The Consumer Price Index (CPI) is a practical approximation to a "genuine" cost-of-living index and a measure of general inflation for the economy. It measures the cost of purchasing a given basket of items at a fixed sample of outlets across time. Concerns about the likelihood that the CPI overstates the rate of inflation in the United States have developed in recent years. Annual fluctuations in the CPI are used to modify social security payments, and wage contracts are frequently tied to CPI changes. Individuals are paid for changes in the cost of living that have not occurred to the extent that the CPI overstates the rate of inflation, having huge repercussions for government fiscal budgets. Economists have noted for decades that the U.S.

Consumer Price Index (CPI) may tend to overstate changes in the cost of living. But bias in the CPI became an important policy issue only recently when it became part of the debate over a balanced budget. The COVID-19 outbreak, which was declared a pandemic on March 11, 2020, caused global economic disruptions that are still affecting banking and labour markets. Prices altered dramatically at the start of the epidemic when Canadians experienced a continuous period of physical separation and company closures.