Numbers that matter the most

Figures measure the performance of our economy and social development

Wan Ramlah with some of the latest statistic reports

By CECILIA KOK
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FIFTY-ONE ghost chillies in two minutes is a record set by Anandita Dutta Tamuly, a 28-year-old housewife from India, last week. Hers was considered an extraordinary accomplishment because ghost chillies have been categorised as the spiciest chilli in the world with more than one million Scoville units (the scientific measurement of a chilli's spiciness).

Thus far, no one has ever eaten as many ghost chillies as Anandita did within the span of two minutes. For this reason, she has earned herself a spot in the Guinness World Records – the global authority on record-breaking achievements of individuals whose performances are measured by their best numbers, be it in terms of timing, distance, quantity, height or weight.

Truth is, while most of us may not be too interested in those superlatives featured in the Guinness World Records – for instance, do we really care who can swim the longest in ice waters or who can eat and peel lemon the fastest? – numbers rule a large part of our lives.

"Our lives have always been surrounded by numbers since the day we are born. Our birthdate itself is a number," says Malaysia's chief statistician Wan Ramlah Wan Raof.

Numbers always capture our attention, particularly when they are outside the norm. And numbers can tell a thousand stories because they are objective measurements of our strength and performance, and the severity of the challenges that we face. Most of the time, they are also indications of trends or changes happening around us.

Of late, we have been inundated with many numbers, in particular, those of economic matters. We are referring to the statistics relating to GDP (gross domestic product), CPI (consumer price index) and trade, among other major economic indicators, as well as mind-boggling figures such as the trillions of US dollars that have been pumped into the world economy to avert a sharp downturn and the millions of people who have lost their jobs over the last few months.

These are the numbers that are currently making headlines because we are mired in serious economic problems. Tracking the movements of these data gives us an indication of how the current economic crisis could affect our lives – and bank accounts.

Statistical beauty

"If there are no numbers, there will be no indicators, and we will have no direction," Ramlah says.

"We need numbers to measure the performance of our economy and social development, so that we know where we stand and how to respond to the situation around us accordingly."

For instance, in the current economic crisis, numbers are used to gauge the seriousness of the situation so that the Government can respond with the right strategies or stimulus packages. And that is the beauty of numbers – it helps translate into policies that affect our lives, whether directly or indirectly, now or in the future.

Generally, governments use economic and social statistics for policy planning for the health, education and human resource development of the citizens in their countries. Take the country's demographic data. By understanding the structure of the country's population, the Government can formulate the right and targeted policies to benefit its citizens.

Hence, the Statistics Department, established in 1949, bears a very heavy task on its shoulders – that is to collect, interpret and disseminate Malaysia's economic and social numbers for the Government to monitor the progress of the country.

Headquartered in Putrajaya, the department has a staff strength of about 5,000 working across the nation to deliver all the vital statistics in a timely manner.

Big deal

The quality and accuracy of the information provided by the government agency cannot be underestimated because these data are also used by other economic agents such as economists and financial analysts to predict the direction of the economy and the stock market as well as the performances of companies in the next few months or years.

RAM Holdings Bhd chief economist Dr Yeah Kim Leng says that while statistics do not lie, one has to be careful about how they are collected and compiled and understand the underlying bases and assumptions.

"We must be sure that the numbers are correct in the first place or else decisions made on this basis could possibly turn our lives upside down," he explains.

On that, Ramlah emphasises that the data compiled by the Statistics Department do comply with international standards, and hence they are reliable and internationally comparable.

Malaysia has been a subscriber to the International Monetary Fund (IMF)'s Special Data Dissemination Standard (SDDS) since August 1996 and met all its specifications as of September 2000. Both the IMF's SDDS website and a 2007 observance report by the IMF also note that Malaysia meets or exceeds SDDS standards of coverage, timeliness, and periodicity.

"Our emphasis is on two issues – quality and timeliness," Ramlah explains.

The Statistics Department is among the beneficiary of the recently announced RM60bil mini-budget, through which it is allocated with RM93mil between 2009 and 2011 to beef up its workforce.

Under the plan, the Government is targeting a recruitment of 4,500 contract officers as enumerators to carry out a population census next year. In addition, the agency is expected to introduce new indicators such as statistics on domestic tourism soon.

It is a natural progression that as the country's economic and social structure evolves and gets more complicated, more indicators will be needed to track its performance.

This month, the department has started a year-long nationwide Household Income and Expenditure Survey (HIES) to compile data on the people's income and spending patterns as well as accessibility to basic amenities. The Government will use the data for national planning purposes.

While the numbers just keep getting us excited, this week, *StarBizWeek* focuses on several key numbers that are of a matter of concern to most Malaysians.

Some essential figures

By CECILIA KOK and LAALITHA HUNT
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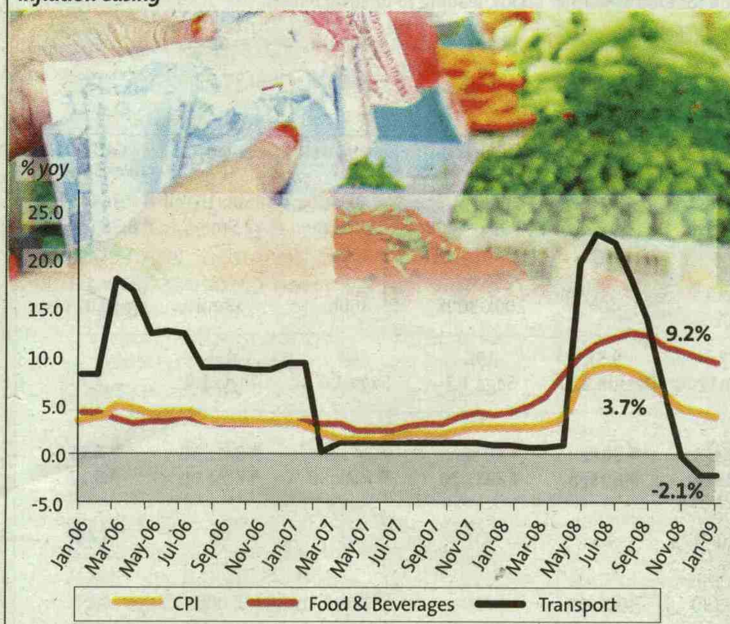
OVERALL CPI, FOOD AND TRANSPORT PRICES

Inflation easing



Source: Department of Statistics

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GDP: Mother of all indicators

WIDELY regarded as the mother of all economic indicators, gross domestic product (GDP) figures are perhaps the most closely scrutinised numbers in the world. It is a measure of a country's national income or aggregate output, which is commonly quantified by summing up four key components of an economy: the consumption of goods and services by private individuals and businesses; gross investments by the private sector; government expenditure; and net exports.

GDP figures have limitations because they exclude certain types of economic activities, such as black market businesses and under-the table transactions. Nevertheless, the GDP is still regarded as the best available indication of the overall health of an economy.

People are usually more obsessed with how the GDP figures are changing, because this shows whether the economy is growing or contracting. Knowing the direction of the GDP supports informed decisions about economic matters.

When a country's GDP slows, stops, or contracts, the country is at the risk of entering a phase of recession. Recession is bad because it can bring a host of other economic problems such as businesses closing down and people losing jobs.

The current global economic crisis has many people talking about a Great Recession, because GDP forecast figures seems to be telling them so. As it is, most developed countries are already in a recession, as signified by the contraction of their GDPs for two or more consecutive quarters.

The International Monetary Fund has forecast world GDP to shrink 0.5% to 1.5% this year, while World Bank expects a 1.7% contraction.

Officially, Malaysia is not in a recession yet, but we know that our economy hardly grew in the last quarter of 2008; the GDP growth for that period was only 0.1% year on year (y-o-y). Malaysia's real GDP for the entire year however grew 4.6% y-o-y to RM528.8bil.

Economists have predicted that Malaysia's economy would feel the pinch in the first half of this year, but recovery is possible in the second half. Bank Negara earlier projected the country's real GDP to grow between -1% and 1% for 2009. This means real GDP this year could range from RM523bil to RM582bil.

CPI: Most misunderstood index

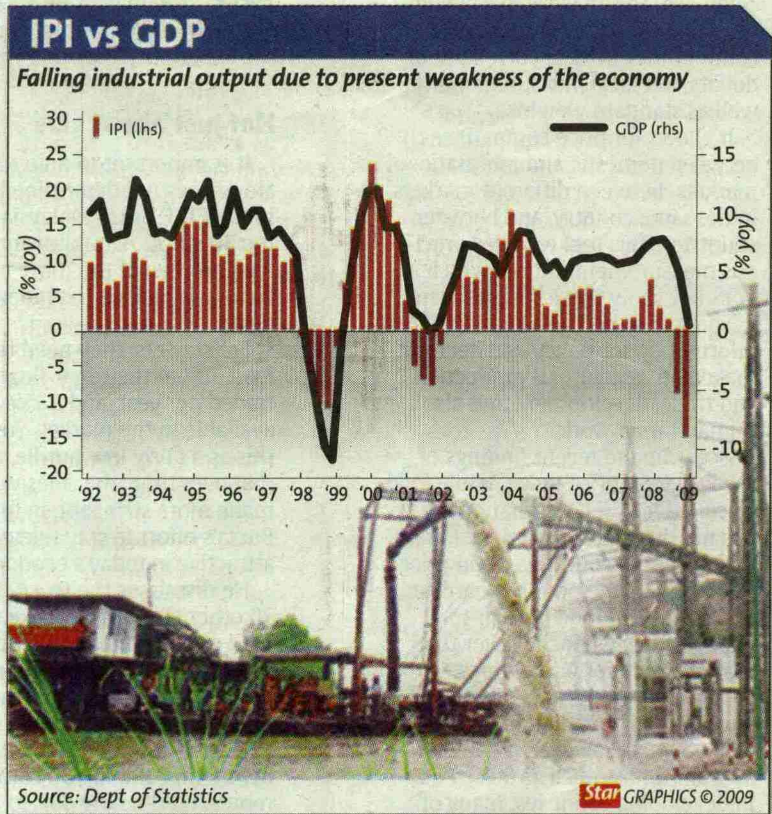
Consumer Price Index (CPI) is a measure of increase in general prices. It is generally used as a proxy to reflect a country's inflation level. This index receives a lot of attention because changes in the prices of goods and services directly impact our lives.

Nevertheless, the CPI is perhaps the most misunderstood economic statistic. The public persistently believes that the index represents the increase in the prices of specific products and services that we consume, when it does not.

It merely represents the average price increase level in a country over time based on a basket of goods and services, which in the case of Malaysia, includes food and beverage; housing, utilities and fuel; transport and communications; clothing and footwear; restaurants and hotels; education and health; as well as alcohol and tobacco. These goods and services are selected based on the consumption pattern of the population. Therefore, a CPI cannot be used to indicate the price increase of, say, food alone.

Malaysia's CPI for 2008 stood at 5.4% y-o-y. Dissect the index, and we will find food, beverages, tobacco and transport were the main culprits behind the inflationary pressure faced by the country. Average prices of these items rose more than 8% y-o-y in 2008.

Nevertheless, Malaysia's monthly CPI has been on a moderating trend following the fall in commodity prices, especially that of crude oil, since the fourth quarter of last year. CPI in February was 3.7% y-o-y, compared with 3.9% y-o-y in



January. The most shocking CPI movements were seen in July to September last year at between 8.2% and 8.5% y-o-y, mainly due to the drastic hikes in petrol and diesel prices then.

CPI may have its limitations, but it is still an important gauge as to the direction of an economy.

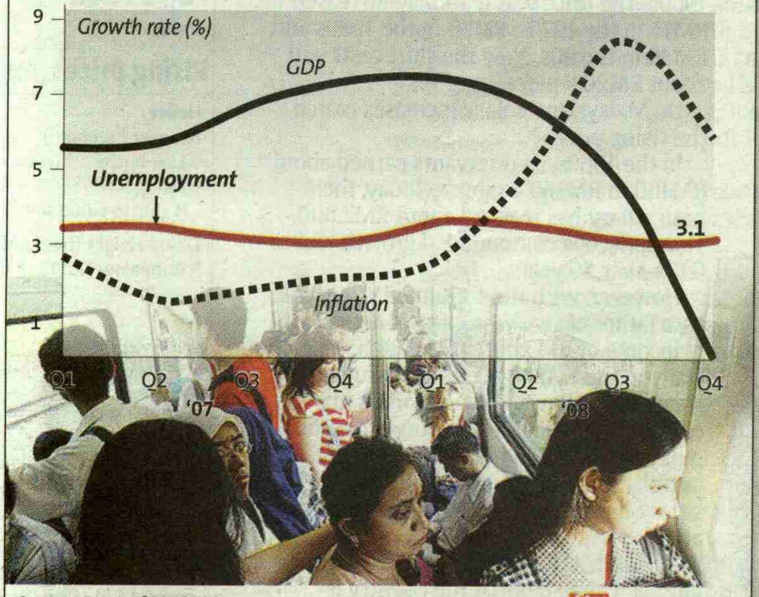
For one, it helps policymakers to set key interest rates. On the other hand, the Government can also control the CPI by means of interest rate movements and money supply.

Economists believe countries should have an optimised inflation rate of between 2% and 3%. A healthy inflation rate provides incentive for producers to increase production and improve the quality of their goods and services, as well as to raise the wages of their staff members. This ultimately translates into the well-being of the economy as a whole.

But inflation poses a challenge for all investors, especially those who hold fixed-income assets such as savings accounts, because the real value or purchasing power of the money can be eroded by the effects of rising inflation.

GDP GROWTH, UNEMPLOYMENT RATE & INFLATION

Jobless rate seems to be holding steady, but as times get tougher, more jobs will be on the chopping block



Source: Dept of Statistics Star GRAPHICS © 2009

Employment: Our 'rice bowl'

Officially, people who are categorised as unemployed are those who are available for work and are actively seeking for employment, but could not find a job.

Malaysia's labour force is estimated to be 11 million. Effectively, a 1% increase in the country's unemployment rate means a job loss of about 110,000.

For the fourth quarter of 2008, the unemployment rate in Malaysia was 3.1%, unchanged from the preceding quarter. That does not look too bad, considering that the global economic crisis was at its height then.

However, the number of people who were unemployed actually rose during that period, from 342,700 to 351,000. The jobless rate remained the same because more people entered the labour force during that quarter, and according to the statistics, most of them found employment. Furthermore, changes in employment commonly lag behind economic shocks.

facing a severe downturn since the fourth quarter of last year, overseas demand for Asian products has waned drastically. The region faced a collapse in exports, and this is evident in their trade figures, with the magnitude of exports contraction ranging from 20%-40% y-o-y in the past few months.

This has had a daunting effect on the region's economies because businesses have shelved their investments or expansion plans and slashed production. To make it worse, consumer confidence in the region has also taken a beating because of the rise in unemployment linked to the production cuts.

Several countries in the region are already mired in recession, and these include Japan, Singapore and Taiwan, while others are experiencing slower growth.

Nevertheless, Malaysia is expected to suffer less than its high-tech producing counterparts in the region because the country's exports are relatively more diversified. Besides electrical and electronic products, Malaysia is also a major exporter of essential commodities and minerals such as crude palm oil

Bank Negara in its recent annual report indicates that the country's unemployment rate this year is expected to rise to 4.5%. With the central bank expecting the size of the country's labour force this year to grow to 12.1 million, this means about 545,000 people are expected to be unemployed this year.

The sector most adversely affected by the current economic downturn is manufacturing, particularly the electrical and electronic subsector.

The sector employs about 10% of the country's labour force. Given the sector's current woes and its significance to the labour market, manufacturing is expected to lead in the increase of the unemployment rate in the months ahead.

Imports-Exports: Trading our sorrows

Trade has played a key role in Asia's economic growth all these years. Businesses in the region thrived because demand for their goods and services from overseas consumer markets, particularly the US and Europe, was strong.

However, with the US and Europe and crude oil.

Trade figures – which comprises exports and import values – are important to help us gauge the direction of our country's economic growth. As it is, present figures are showing us that the current economic slump faced by the region is mainly due to the collapse of trade.

Malaysia's trade figures for February showed that exports declined 15.9% y-o-y, a slower pace compared with the decline of 27.8% y-o-y in January, while imports fell 27.3% y-o-y, compared with 30.4% y-o-y the month before.

The country's decline in imports was mainly due to poor exports outlook. Local manufacturers have been buying less intermediate goods (which account for more than 65% of total imports) in the face of slower demand from the overseas markets.

The deteriorating economic and employment prospects in the country have also caused weaker import of capital and consumption goods.

Hence, Malaysia has been able to maintain its net exporter position with a healthy trade surplus of RM11.09bil in February, up from

January's RM8.1bil. Net exports typically contribute between 25% and 30% of Malaysia's yearly GDP.

The World Trade Organisation recently projected global trade to decline 9% this year as global demand continues to shrink. But economists say the silver lining for Asian countries lie in intra-regional trade, with China and India expected to lead the way.

IPI: Proxy of economic conditions

Representing close to 40% of the total economy, the Industrial Production Index (IPI) is a proxy of economic conditions in the country. It tracks changes in the industrial output covering three key sectors – manufacturing, mining and electricity.

In line with regional trend, Malaysia's IPI has been shrinking since September last year, with double-digit declines being posted since December (-15.9%). Although the decline of IPI at 14.7% y-o-y for February was an improvement from the decline of 19.8% y-o-y in the month before, many believe we are not out of the woods yet.

Based on a cumulative decline of 17.3% y-o-y for the first two months of the year, economists are predicting a real GDP contraction of around 4% for the first quarter of 2009, compared with a growth of 0.1% in the final quarter of last year.

Such a prediction is not surprising because with all key sectors showing decreases in output, the present weakness of the country's economy due to the global economic downturn is evident.

And the manufacturing sector has been reporting the biggest declines in output over the past few months as the sector contends with the sluggish demand for its goods, particularly in the electrical and electronic category.

Generally, the IPI follows the trend of our exports because the bulk of Malaysia's manufactured goods are meant for shipment overseas. Any weakness in external demand will affect the manufacturing sector, which contribute around 70% of the country's total exports. Manufacturing output also has the highest weightage in the IPI at 63.51%.

Corruption Perceptions Index: Measuring abuse of power

Last year, Malaysia emerged 47th out of 180 countries in Transparency International's (TI) Corruption Perceptions Index (CPI), which ranks the countries according to their level of corruption. In 2001 and 2007, we were 36th out of 91 countries and 43rd out of 179 countries.

The country's 2008 CPI score was 5.1 on a scale of zero to 10, the same as in 2007. The score for the last eight years since 2001 had been between 4.9 (2002) and 5.1 (2005, 2007, 2008). A score of zero indicates a perception of highly corrupt practices.

In 2008, Singapore was ranked fourth, behind Denmark, New Zealand and Sweden. Thailand, Vietnam, Indonesia and Myanmar came in 80th, 121st, 126th, and 178th respectively.

Huguette Labelle, who is chair of

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Berlin-based TI said: "The index highlights the fatal link between poverty, failed institutions and graft. But other notable backsliders in the 2008 corruption perception index indicate that the strength of oversight mechanisms is also at risk among the wealthiest.

"In the poorest countries, corruption levels can mean the difference between life and death, when money for hospitals or clean water is in play."

Since 1995, TI has published an annual CPI ordering the countries of the world according to "the degree to which corruption is perceived to exist among public officials and politicians". The organisation defines corruption as "the abuse of entrusted power for private gain".

The 2008 index was based on data collected last year and this year from 13 surveys done by 11 independent institutions.

According to TI, those surveyed in the past were often business people and country analysts from industrialised countries, and thus, the viewpoint of less developed countries was under-represented. This has since changed.

However, there are mounting criticisms that since this index is based on polls, the results are subjective and less reliable for countries with fewer sources.

Also, there are issues arising, such as what is legally defined (or perceived) to be corruption differs between jurisdictions. For example, a political donation legal in some jurisdiction may be illegal in another, while a matter viewed as acceptable tipping in one country may be viewed as bribery in another.

Former TI Malaysia president and DAP vice-chairman Tunku Abdul Aziz Ibrahim says the CPI is the most authoritative index established in the world. "Sources of the CPI includes highly reliable and respected organisations such as the Asian Development Bank," he adds.

He notes that Malaysia fares well in the CPI when compared to some of its regional peers such as Thailand and Indonesia.

"Nevertheless, the fact that our CPI score has never gone beyond 5.1 is an indicator that corruption is still thriving in Malaysia," he says.

Index of Economic Freedom: How free is your country?

Malaysia has been ranked the 58th freest economy in the world in the *2009 Index of Economic Freedom*, published annually by *The Wall Street Journal* and The Heritage Foundation.

Malaysia scored 64.6 overall, 0.7 point better than the previous year due to its slightly better trade and business freedom. It is also ranked ninth out of 41 countries in the Asia Pacific.

The level of economic freedom in 10 categories was rated on a scale of 0 to 100. The higher the score, the lower the level of government interference in the marketplace.

According to the report, Malaysia has enjoyed steady economic growth for the past five years and the overall business climate has been improved by the Government's ongoing reform measures, albeit slowly.

Malaysia scored above the world average in eight of the 10 economic freedoms.

The two economic freedoms in which Malaysia fared below the world average were investment and financial freedoms, which both scored 40 points.

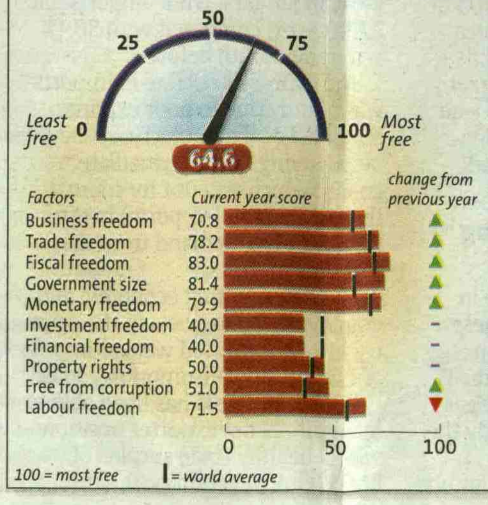
"Foreigners may own 100% of certain kinds of new companies, but a 30% stake in existing firms must be Malay-owned, and foreign ownership is capped in most sectors," the report adds.

Here is how the index defines economic freedom: "The highest form of economic freedom provides an absolute right of property ownership, fully realised freedoms of movement for labor, capital, and goods, and an absolute absence of coercion or constraint of economic liberty beyond the extent necessary for citizens to protect and maintain liberty itself."

The index scores nations on 10 broad factors of economic freedom using statistics from organisations like the World Bank, the International Monetary Fund and the Economist Intelligence Unit.

MALAYSIA'S RANK IN THE INDEX OF ECONOMIC FREEDOM

The index measures the level of government interference.



Regional ranking 2009

Rank	Country	Overall	Change from previous year
1	Hong Kong	90	0.3
2	Singapore	87.1	-0.2
3	Australia	82.6	0.4
4	New Zealand	82	1.2
5	Japan	72.8	-0.2
6	Macau	72	N/A
7	Taiwan	69.5	-0.7
8	South Korea	68.1	-0.5
9	Malaysia	64.6	0.7
10	Thailand	63	0.7

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The methodology has shifted and changed as new data and measurements have become available, especially in the area of labour freedom, which was given its own indicator spot in 2007.

Economist Jeffrey Sachs are among critics who contest the index's assumption that economic openness necessarily leads to better growth.

In his book, *The End of Poverty*, Sachs graphed countries' ratings on the index against GDP per capita growth between 1995 and 2003, claiming to demonstrate no correlation between a country's rating and its rate of economic growth.

He also argued that the report is "unreliable" because its methodology had changed twice in the last two years.

FAO's food price index: Comparisons in a crisis

Food prices have increased sharply in 2007 and 2008. The prices of many staple items such as rice, wheat flour, corn, cooking oil and milk powder have more than doubled globally. Malaysia, too, have not escaped unscathed.

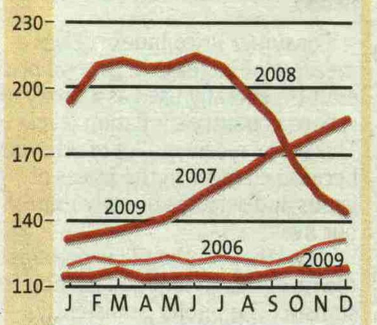
Initial causes of the spike in food prices include unseasonable droughts in grain-producing nations and rising oil prices. The latter in turn pushed up the costs of fertilisers, food transport and industrial agriculture.

Besides the increasing use of biofuels in developed countries, other causes of the food price crisis include the rising demand for a more varied diet across the expanding middle-class population in Asia.

In response, the Food and Agriculture Organisation (FAO) has recently launched an interactive database of staple food prices on national markets in 55 developing countries. The analysis tool shows the prices of different food commodities in local currencies or dollars and local measurements as well as standard weights.

Food and Agriculture Organisation (FAO) Food Price Index

2002-2004-100



Source: FAO

It allows for price comparisons between domestic and international markets, between different markets in the same country, and between countries. This tool replaces previous measurement indices which does not show these comparisons.

The tool would be a source of information for policy and decision-makers in agricultural production and trade, development and also humanitarian work.

According to recent findings of the FAO food price index, while food prices have fallen internationally, it has not dropped as fast or not at all in developing countries. Food price inflation hits the poor the hardest, as the share of food in their total expenditures is much higher than that of wealthier populations.

Food represents about 10% to 20% of consumer spending in industrialised nations. However, it could account for as much as 60% to 80% in developing countries, many of which are net food importers.

Inflation – figures that go up and up

By RACHAEL KAM
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THE prices of basic necessities such as food, clothes, housing and cars are dramatically higher now compared with those of 50 years ago. Of course, Malaysia today is a lot different than what it was in 1957. Back then, it had 6.28 million people. Today, the population is 27.7 million and our lifestyle has vastly improved.

With the strong economic growth since independence, comes the increase in the prices of goods and services.

Based on rough calculations, the prices of food, houses, cars and apparel have seen a compounded annual growth rate of between 3.7% and 9.02% over the past 50 years.

For instance, a Damansara Heights bungalow with 7,000 sq ft built-up area cost about RM40,000 in the 1960s. It has since appreciated to above RM3mil, given that the location is a prime area in Kuala Lumpur.

A popular vehicle in the 1960s, such as the 1.2 litre Datsun 1200, was priced at about RM7,000. Now, the 1.3 litre Perodua Myvi standard model costs RM43,000. It must be noted though that until the 1990s, cars had not come with fancy features such as high-tech fuel injection systems, power steering and windows, airbags and central locking.

In the 1960s, people paid 15 sen for a cup of coffee at a restaurant or coffee shop. Today, they have to fork out RM1.20 to RM1.50. That is a compounded annual growth rate of 4.71%.

Arrow, an American brand of men's shirts was sold for about RM10 in the 1960s. The price was gradually increased to RM15 in the 1970s, RM20 in the 1980s and RM40 in the 90s. Now the shirt costs you about RM90 a piece.

Do Malaysians' salary increases match the rising prices?

In the 1960s, civil servants earned about RM100 to RM150 a month. Today, their basic salary has reached about RM2,000. That reflects a compounded growth rate of 6.17% over 50 years.

However, with the continued rising prices, a father of two who earns a net monthly income of RM3,000 in Malaysia, especially in the Klang Valley, may struggle to stay afloat. After deducting for his EPF contribution, income tax, house and car repayments, and other expenses (meals, petrol, utility and phone bills, daily necessities), he will have little left for savings, if at all.

So, while the uptrend in prices is generally seen as a sign that the country is developing fast and that its people enjoy a higher living standard, can Malaysians cope with the high prices of the necessities, especially during a financial crisis?

According to a property agent contacted by *StarBizWeek*, the average salary is actually very far off the affordability mark for house prices, especially in the strategic locations in Klang Valley. "It is a big gap and it is rather difficult for people to catch up with the rising prices," he says.

INCREASING NUMBERS

Population growth raises demand for food and other goods, leading to price increases

Population* (million)	60s	70s	80s	90s	08	CAGR (%) over 50 years
	10.01	12.30	15.88	20.68	27.73	2.06

Rising prices (RM)

House	60s	70s	80s	90s	09	CAGR (%) over 50 years
Bangsar (freehold)						
■ Link-house	Not yet developed	■ 70k	■ 200k	■ 450k-500k	■ 850k-1.2mil	■ 7.36 (40yrs)
■ Bungalow (5,000 to 6,000 sq ft)		■ 100k	■ 300k -400k	■ 600k-1mil	■ >2.5mil	■ 8.38 (40yrs)
D'sara Height (freehold) ■ Bungalow (7,000 sq ft)	about 40k	40k	200k-300K	800K	>3mil	9.02
Car Most popular car	7k Datsun1200	9.5k Datsun 120Y	19K Saga 1.3	34K Saga 1.3	43k Myvi 1.3	3.7
Food						
■ Coffee (a cup)	■ 15 sen	■ 30 sen	■ 40 sen	■ 80 sen	■ RM1.50	■ 4.71
■ Noodle (a bowl)	■ 20 sen	■ 60 sen	■ RM1.20	■ RM2.50	■ RM4.00	■ 6.17
Apparel Arrow brand shirt	10	15	20	40	90	4.49
Basic salary (mth) Civil servant	100-150	300-400	700	1,000	2,000	6.17

Note: CAGR= Compounded Annual Growth Rate
** Sourced from Department of Statistics*

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