

INCOME DISPARITY AND RISING COST OF LIVING

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Abstract: Rising cost of living is happening not only in Malaysia but also occurs globally. The amount of money needed by households is insufficient to cover basic expenses like housing and food. Higher-income earners suffer from the shortage of their wealth due to higher living costs, let alone the family below poverty. The objective of the study was to examine factors that contribute to the mismatch between salary increments and the rising cost of living. This study used cross-sectional research in analyzing the data. To find the result of the research question, a survey has been carried out using a Likert scale questionnaire. Descriptive, ANOVA, and multiple regression data analysis were performed utilizing SPSS. The finding reveals that the Inflation rate, Housing Prices, and Income significantly contribute to the mismatch between salary increments and the rising cost of living. It is therefore recommended that future studies should explore the solutions according to these findings.

Keywords: Inflation, Housing price, Income, Cost of Living

INTRODUCTION

The rising cost of living is a global phenomenon (Mohd Aqmin et al., 2018). For example,

Singapore, is the country listed as having the highest cost of living in the world. In fact, five out of the ten highest living-cost cities were predominantly conquered by Asia. Economists believe the main root cause of housing and goods price influence the cost of living there, thus creating economic instability and a wide gap between higher and lower income earners. Malaysia experiences exact problems like many other countries. The issue here occurred redundantly, apart from the recent historical shift in government and political reforms, but it remains unresolved and worsened by the hike of property prices, slower growth income, and a weak ringgit (TheEdgeMarkets, 2019). According to the Department of Statistics Malaysia (DOSM), in its Salaries and Wages Report 2016, the median monthly salaries and wages of paid employees increased 6.2 percent from RM1,600 in the previous year to RM1,703. However, Standard Chartered Global Research observed otherwise. It states that the real wage growth was slightly negative during the first half of 2017.

Property prices like housing spiked in the past 10 years. As much as everyone acknowledges, possessing a home for shelter and comfort is the ultimate goal for most families out there. It is also considered a personal success (Zainal Abidin, 2010). However, the hike in Malaysia's property prices influences potential consumers in

acquiring a house. Simply because of the economic fundamentals where price and demand are inversely proportional. Based on Malaysia House Price Index (MHPI), housing prices have increased by 9.1 percent from the first quarter of 2010 until the second quarter of 2012. Consequently, the cost of basic necessities like living places and transportation in Malaysia escalates.

The rising cost of living greatly impacts and varies according to the level of income. Research from Bank Negara Malaysia (2013) found that lower-income earners are the ones most exposed to this issue and at risk. BNM also explains that higher-income earners spent only RM0.25 for every RM1. On the other hand, the B40 groups spend RM0.80 for every addition of RM1. It clearly shows that the former household income is higher than their monthly expenditure and the latter earnings are equivalent to their expenses. Following the Covid-19 outbreak, the government has imposed the Restrictive Movement Control Order (RMCO) to contain the virus and to stop people from mass gatherings. Such measures led to an unstable economy, and the deadly virus worsens the situation, especially for the B40 groups who have to temporarily shut down their small businesses where their life greatly depend on it.

The objective of this research is to identify factors that contribute to a mismatch between the cost of living and salary increment, thus, the research question; what factors contribute to the mismatch between salary increment and rising cost of living? Despite the main factors mentioned numerous times by previous researchers, the authors presume there are many other contributing determinants that will be revealed. Is the cost of living increasing or the growth of income diminishing? Are there any significant changes in spending patterns over the little income increment? Concerns will be answered in this research.

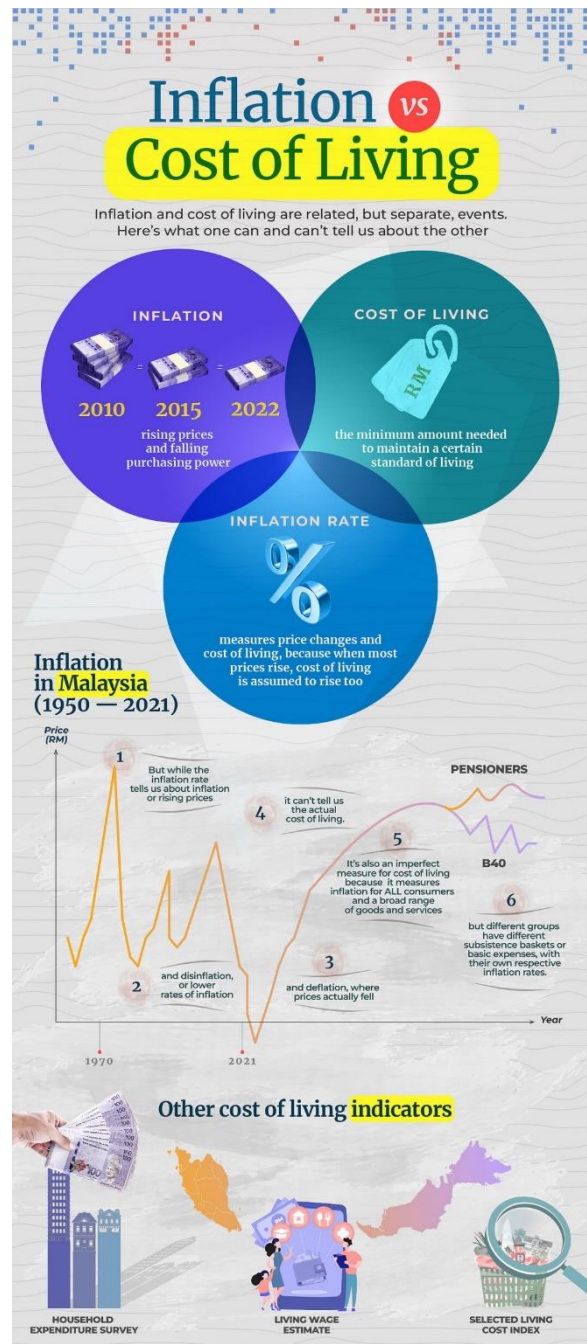


Figure 1. Inflation vs Cost of Living

METHODS

This study has utilized a cross-sectional method in collecting and analyzing the data. To find the result of the research question, a survey has been carried out using a Likert scale questionnaire Google form. The questionnaire was then distributed through multiple social media including WhatsApp, Facebook, and LinkedIn.

This enables respondents to answer the form easily without going to certain places. In fact, the implementation of MCO has restricted people from traveling around. All the respondents in the sample were employees from the government and private sector, self-employed, students, and retirees from urban and sub-urban areas. These groups are targeted in answering the survey due to several reasons. Most of them have earned incomes and pay each expense for their own households. Simply put, all the economic fluctuations are experienced by them, thus, the results will be unbiased. The respondents also came from various income levels and were dominated by the RM5000 to RM10000 group. This will give clearer insights into the salary speculation whether RM5000 is worth earning or otherwise.

The collected data then were labeled into numbers and transferred to SPSS, a fundamental software for beginners in finding the end result. This study has a few drawbacks too. Even though the respondents live in different areas, the exact state e.g., Selangor remains unknown. Hence, the result will not resemble the whole nation.

RESULTS AND DISCUSSION

Table 1. Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.768a	.590	.583	2.53801

Table 1 provides the R and R² values of this study. The R-value represents the simple correlation and is 0.768, which indicates a high degree of correlation. The R² value indicates how much of the total variation in the dependent variable, mismatch, can be explained by the independent variable, income, housing price, and inflation rate. In this case, 59% can be explained, which is very large. Using the enter method it was found that intelligence and extroversion levels explain a

significant amount of the variance in the value of sales made per week ($F(3, 198) = 94.849, p < 0.05, R^2 = 0.77, R^2 \text{ Adjusted} = 0.58$).

Besides that, the estimated regression equation is generated as:

$$Y_i = 0.383 + 0.262X_1 + 0.226X_2 + 0.226X_3$$

The coefficient of independent variables X₁ (income), X₂ (housing price), and X₃ (inflation rate) are significant because the p is less than 0.05 ($p < 0.05$). The relative importance of independent variables is the most important variable with its standardized coefficient of 0.38, (income) followed by inflation rate (0.262) and housing price (0.226) respectively.

CONCLUSIONS

This research was conducted mainly to show and prove that the inflation rate, housing prices, and slow growth of income have influenced the disparity of income and the rising cost of living in Malaysia. All three hypotheses are supported in this study. This indicates that the economic structure of the country requires immediate reforms to ensure the well-being of the people is protected.

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