

# KERATAN AKHBAR

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## Inflation remains high at 3.2%

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*It attributes to rising costs in food, fuel prices*

by FAYYADH JAAFAR

THE current headline inflation in Malaysia is still high at 3.2%, which is attributed to the rising cost of various commodities.

Julia Goh and Loke Siew Ting, economists from UOB Research, stated that the rise in inflation was due to higher prices of food and non-alcoholic beverages — with all food items seeing a significant hike in prices — except for rice, flour and sweetened products.

"Food prices as a whole posted the largest gain in nearly four years, at 3.4% last month, with a broad-based increase across prices of food at home and away from home," their report said.

According to them, the biggest contributors to the overall increase in food prices were fresh meat and eggs, with a double-digit increase in prices during the month.

Non-food prices, however, moderated to 3.3% (from 3.6% in November), suggesting further improvement in domestic demand following the reopening of economic and social activities since mid-August 2021.

Core inflation, which covers all goods and services except for volatile items like fresh food and government-controlled prices, jumped to a 16-month high of 1.1% (from 0.9% in November). It also



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rose above its rolling 12-month moving average of 0.7%.

Service inflation also edged up to a seven-month high of 0.9% (November 0.5%), moving closer to its two-year moving average of 1%, signifying continued growth in service sector employment.

The Department of Statistics Malaysia (DoSM) reported that the Consumer Price Index (CPI) for December 2021 increased 3.2% to 124.5, compared to 120.6 in the same month the previous year.

It cites heavy rains that occurred in several states, such as Selangor, Kelantan, Terengganu, Pahang and Johor throughout December 2021, as having led to an increase in food prices. The increase is attributed to a direct effect of supply shortages due to the weather factor.

However, the implementation of Skim Harga Maksimum Keluarga

Malaysia has eased the inflation of this group.

All states recorded increases in CPI, with eight states showing an increase above the national inflation level of 3.2%.

Inflation for the group income below RM3,000 increased by 3.2% in December 2021 compared to December 2020. Food and non-alcoholic beverages increased 3.5%, 0.3% more than the same group in headline inflation.

The highest increase was recorded by Selangor and Putrajaya (4.3%), followed by Johor (3.7%), Perak (3.3%) and Pahang (3.2%). Meanwhile, other states showed an increase below the national inflation rate for food and non-alcoholic beverages of 3.2% in December 2021.

The subgroups that contributed to the increase were meat (8.2%), followed by oils and fats (6.7%),

and milk, cheese and eggs (4.4%). In regards to fuel prices, DoSM said that inflation without fuel rose 2% in December 2021 to 115.1 in comparison to 112.8 in the same month of the preceding year.

Datuk Seri Dr Mohd Uzir Mahidin added that the discontinuation of electricity discounts under the Pemulih Package, which ended in September, had an impact on the inflation rate for group income.

The annual inflation rate in 2021 showed an increase of 2.5%, compared to a -1.2% in 2020. The government's setting of the unleaded petrol RON95 ceiling price by the government starting in March 2021 at RM2.05 was the main contributor to the increase in the inflation rate.

Commenting on inflation in other countries, Mohd Uzir said the increase in the inflation rate is not only happening in Malaysia but it is also occurring in other countries.

"The inflation rate in the US accelerated to 7% in December 2021, the highest inflation since June 1982. Energy was the biggest contributor to the gain in December 2021 (29.3%)," he added.

Meanwhile, the eurozone inflation rate accelerated for a sixth straight month to a higher record of 5% in December 2021 (November: 4.9%).

Returning to UOB's report, economists expect inflation to average 3% in 2022 (Ministry of Finance estimates 2.1%) amid upside risks coming from prolonged global supply chain bottlenecks, post-

pandemic labour shortages, volatile commodity prices, the expiry of the government's price control schemes and potential subsidy rationalisation programmes.

"That said, a sanguine outlook on the economic recovery coupled with more aggressive monetary policy tightening by the Federal Reserve could trigger a more hawkish tilt in Bank Negara Malaysia's policy stance this year."

MIDF Amanah Investment Bank Bhd has maintained its headline inflation forecast to average at 2.1% this year.

In a note recently, it said that the projection is based on the view that the global supply chain constraint is expected to ease and commodity prices to normalise by the middle of 2022.

"On top of that, tightening monetary policy is likely to take place next year with recovery in domestic demand and labour market continuing smoothly.

"If inflation were to spike, we believe the government has enough fiscal policy space to contain inflation, among others, via its subsidy approaches," said MIDF.

MIDF expects the recently reduced pressure on production costs would consequently lower the pressure on general consumer prices in the coming months along with the fading low-base effects.

However, Covid-19 outbreaks in many economies pose a downside risk to the ongoing supply constraints, it added.