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PETALING JAYA: Actual inflation is not the issue, but the expectation of higher inflation by the consumers, businesses, and investors is the concern that will have an impact on the retail industry, experts say.

Sunway University School of Mathematical Sciences Associate Dean (Employability and Engagement) Associate Professor Dr Jason Ng Wei Jian said consumers do expect inflation to continue to rise, and will or have already begun to make behavioural adjustments in their spending.

"This will have an impact on the retail industry this year due to consumers expecting higher inflation in addition to the impact of interest rate increases by Bank Negara Malaysia," he told *SunBiz*.

Ng said the most direct impact of inflation for the retail industry would be lower sales due to reduced purchasing power of consumers, especially for retailers of non-essential goods and services as consumers will reallocate their budget to more essential goods and services.

Inflation expectations matter because actual inflation depends on what people expect it to be. It is the rate at which the people expect prices to rise in the future.

If everyone expects prices to rise 3% over the next year, businesses will want to raise prices by at least 3%, and workers will want similar-sized raises.

All else being equal, if inflation expectations rise by 3%, actual inflation will tend to rise by 3% as well.

"The retail industry can use this time to reinvent themselves. To reduce overhead costs arising from inflation, they should invest in their ecommerce platform. They can also make data driven decisions on inventory management and market trends," he suggested.

BowerGroupAsia director Arinah Najwa Ahmad Said commented that due to the expected inflation, it is crucial for the government to have practical policies in budget 2023 especially regarding food and fuel subsidies, and intervention on the price of household goods.

"Credit conditions can be expected to tighten as the cost of servicing debt has increased due to the rate hikes, thus putting more pressure on consumers to allocate their disposable income to service those debts," she told *SunBiz*.

As domestic spending is expected to slow down and stabilise in 2023, experts are predicting a dampened recovery with the World Bank predicting the country's gross domestic product (GDP) growth forecast to hover around 4%.

"This is all while the country is still facing external headwinds such as rising living costs and high inflation as supply chain disruptions from China continue as well as the Ukraine-Russia conflict," she added.

According to the Socio-Economic Research Centre earlier this month, Malaysia's headline inflation is expected to moderate to between 2.8% and 3.3% in 2023 from the peak of 4.7% in August last year.

Meanwhile, the Department of Statistics Malaysia said Malaysia's inflation eased to 3.8% in December 2022 compared with 4.0% in November 2022, mainly due to a slower increase in the food & non-alcoholic beverages group.

Chief Statistician Datuk Seri Dr Mohd Uzir Mahidin said overall, inflation for 2022 increased to 3.3% compared with 2.5% recorded in 2021.