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'Inflation likely to loosen grip this year'

The CPI eased to 3.8 per cent month-on-month in December from 4.0 per cent in November, according to Economy Minister Rafizi Ramli today. NSTP/MOHD FADLI HAMZAH

KUALA LUMPUR: Malaysians can expect inflation to ease its grip on the economy this year, with the Consumer Price Index (CPI) continuing its downward trend to possibly 2.5 per cent by June, economists said.

The CPI eased to 3.8 per cent month-on-month in December from 4.0 per cent in November, according to Economy Minister Rafizi Ramli today.

Rafizi also said his ministry - together with the Domestic Trade and Cost of Living Ministry, the Ministry of Finance and the Ministry of Agriculture and Food Security - was devising new strategies to increase food supply and rely less on imported products.

The 3.8 per cent was lower than the median forecast of a Reuters poll of economists, which had projected the headline inflation at 3.9 per cent.

Throughout 2022, the average headline inflation stood at 3.3 per cent but economists expect it to average at around 3.25 per cent this year.

Malaysia University of Science and Technology economist Dr Geoffrey Williams expects inflation to continue slowing at around 2.5 per cent by the middle of the year.

Williams said some domestic factors such as the freeze on utility tariffs, which would affect all households and 98 per cent of companies, would help keep inflation down.

"Rafizi is right in encouraging smart consumers to shop around. This will improve the market correction process. Demand behaviour is very important in the price mechanism and smart consumers play a big role.

"Using social media and online price comparisons can be of value in increasing information to consumers about the best deals. Firms will compete more when the information flows become more active.

"We hope utility prices can be maintained or even reduced because costs should be falling. If they were returned to previous levels, it could reduce inflation by 0.3 per cent," Williams told the New Straits Times.

In the long term, Williams said removing monopolies and encouraging consumers to be smarter in spending and switching from companies that overcharge can help the market to moderate inflation and pass on the lower costs with lower prices.

This is important throughout the supply side of the economy and supply chain, not just the final prices to consumers.

Putra Business School associate professor Dr Ahmed Razman Abdul Latiff said inflation would probably hover between 3.5 per cent to 4.0 per cent this year. This was subject to continuing subsidy by the government and higher overnight policy rate (OPR) by Bank Negara Malaysia either in March or May.

Ahmed Razman said the possible quick win solutions alluded to by Rafizi to help the masses cope with rising living costs were expected to be in form of government subsidy and cash assistance to the affected groups and households.

"Long-term solutions are in the form of reducing dependencies on imports by becoming a nation of producers and not consumers to ensure enough supply of products and services in the country," he said.

Meanwhile, Public Investment Bank Bhd (PublicInvest) expects the country's headline inflation to average within the range of 3.0-3.5 per cent in 2023, subject to changes in domestic policy measures.

The firm believes inflationary pressure will remain elevated in the near term but growth rate may trend lower in the first quarter of 2023.

"This is due to a more stable inflation of nonfood items, in tandem with guidance given by Bank Negara in their January MPC meeting," it said.

PublicInvest also expects comprehensive clarification of the timeline and strategies for the deployment of targeted subsidies to support the B40 and M40 groups and small businesses that have been severely affected by the recent price escalations.

This is expected to be mentioned in the 2023 Budget announcement in February.

"With Bank Negara cautioning on the heightened downside risks surrounding the outlook on economic growth, both external and internal, we are of the view that the central bank will likely pause and keep the OPR unchanged at 2.75 per cent at the March and May monetary policy committee meetings.

"However, while the future decision will be data-dependent, we see the likelihood of another 25 basis point (bps) rate hike to 3.00 per cent in the second half of 2023, but this hinges on domestic policy measures, such as the possible introduction of a targeted fuel subsidy and price controls, as well as global commodity price developments," it added.