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‘Let market forces decide’

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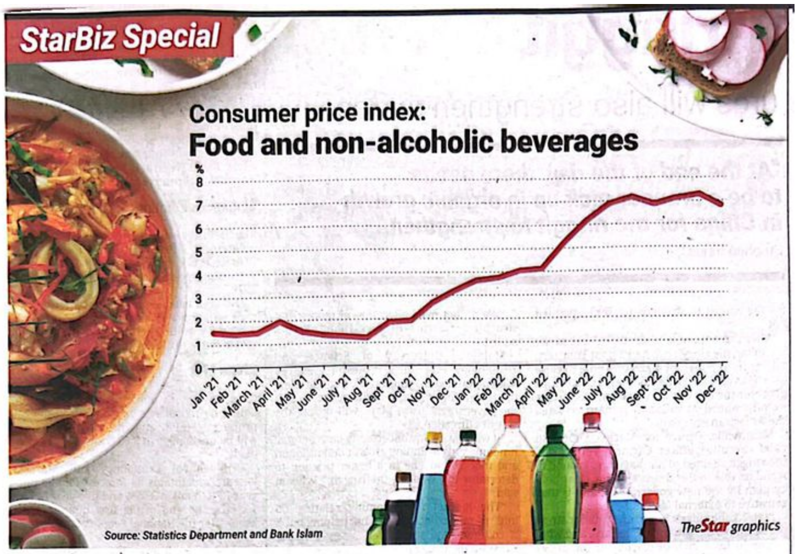

‘Let market forces decide’

Lift price controls for food items, say experts

ECONOMY

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PETALING JAYA: With food prices continuing to affect the lower income group, there are growing calls for price controls to be lifted and that prices be dictated by market forces.

Most economists viewed price controls as a short-term measure but allowing market forces to come into play is a more realistic way of ensuring stability in food prices.

Food and beverage, accounting for nearly 30% of the consumer price index (CPI) basket, together with transport component that make up nearly 15%, will likely drive headline inflation this year.

According to economist Geoffrey Williams, price controls are effective in the short-term but not the long-term.

If prices are held down too long, suppliers will tend to cut production as they cannot afford to sell at low prices.

Eventually, he said the government should remove price controls to allow prices to adjust to the market so that suppliers would produce more and prices could moderate.

“We also need to increase supply by removing restrictions on imports and allowing retailers and wholesalers to source from wherever they can in the international market with import restrictions.

“At the same time, we need to remove cartels and anti-competition practices among wholesalers and retailers to make sure that prices for the consumers are not manipulated,” he added.

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Williams, who is the economics professor at the Malaysia University of Science and Technology, said consumers should shop around and change their spending habits as well as manage their budgets effectively.

This would help slow the increase in prices, he said and hopefully, they would also come down as supplies improve.

To ensure that food is affordable, the government should look at ways to support the income of those affected instead of imposing price controls.

Professor of economics at Sunway University Yeah Kim Leng agreed that price controls should be gradually dismantled to allow market forces to operate more efficiently and drive agricultural productivity and innovations.

“Where markets are dominated by a few players that exhibit pricing power, efforts will be needed to reduce entry barriers and encourage greater investments to expand the food supply chain, achieve economies of scale and provide decent and sustainable income for farmers and agropreneurs,” he said.

Yeah, who is one of the appointed finance advisers to Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim, said increased food prices would have a disproportionately higher impact on the lower income groups due to the rising share of food in the total household expenditure.

The expected easing of food prices this year is in line with the downtrend of inflation globally and domestically.

He said the government’s focus on enhancing food security and stronger efforts to boost farm production by easing the recruitment of foreign worker would help to lower food prices.

Last year, the country’s headline inflation rate jumped 3.3% year-on-year (y-o-y) compared with 2.5% in 2021.

This was mainly attributed to the prices of food and transport due to, among others, the geopolitical unrest between Russia and Ukraine as well as the rising commodity prices globally.

On the other hand, core inflation remained persistent at 4.1% y-o-y in the final month of 2022, barely moving from the 4.2% recorded in November.

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Imports likely to keep food and fertiliser prices elevated

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Headline inflation had eased to a six-month low of 3.8% y-o-y in December 2022 from 4% y-o-y in November due primarily to slower price increases of food, transport and recreation services.

Headline inflation, as measured by the CPI, takes into account the whole basket of goods and services produced in a country for a specific period.

Core inflation, on the other hand, exclude items such as food and energy (petrol) due to the volatility of the prices.

Ernst & Young Consulting Sdn Bhd partner Mohd Husin Mohd Nor said food inflation could potentially remain high, if the country continues to depend on imported food, fertilisers and animal feed as local producers struggle to meet demands.

He said the bottom 40% group has been hit the hardest by food inflation in the country as households spend up to 32% of their incomes on food items.

He said the government, among others, should introduce interventions in both the supply and demand sides to ensure that the vulnerable groups are taken care of without impacting the local producers.

"On the supply front, it is recommended that the government gradually remove price ceilings. This may work as a short-term tactical strategy but not as a long-term solution. While price ceilings have allowed the lower income population to afford essential food items including the price of chicken which is capped at RM9.40 per kg, this is not a sustainable solution.

"In the long run, it would be unprofitable for farmers to continue their operations. If price ceilings are removed, market demand will determine the price.

"This would result in profitability and encourage production.

"Food prices will normalise when supply surges to meet demand.

"It is also imperative for the government to increase its efforts to improve the productivity of the agricultural sector," he said.

Centre for Market Education chief executive officer Carmelo Ferlito viewed price controls as a "political tool" with no economic logic.

He said they do not control prices but instead they hide price tensions under the carpet, hence prolonging the agony, delaying the adjustment between supply and demand.

"The longer they last, the more painful the adjustment process will be. Let's not forget that inflation was created by the government with the lockdowns and the ensuing expansive policies.

"Do they want prices to stabilise? Then remove price controls immediately, remove import and export bans, and further liberalise international trade," Ferlito said.

However, Bank Islam chief economist Firdaos Rosli said subsidies and price controls were effective in keeping food inflation at bay.

They had also allowed domestic demand to remain high amid global inflation and rising borrowing costs, pushing Malaysia's growth rate to the region's highest in 2022, according to Firdaos.

"There is only so much we can do apart from the two policies. To be clear, the government was able to offer higher subsidies to the rakyat due to the high global oil prices.

"We will have problems in the event global oil prices trend lower as food prices return to the new market rate," he opined.

As to whether the inflation rate would be fuelled by food as one of the main components that would hike prices, he said since there are no signs of the Russia-Ukraine military conflict abating, food prices would likely remain high.

At this juncture, he said there is uncertainty as to the government's plan to pursue subsidy rationalisation this year as it would effectively push inflation higher amid the increasing retail oil prices.

Firdaos, who is closely monitoring fuel price movements to ascertain the inflation trend this year, said he is pencilling in a 3% inflation rate y-o-y for 2023.

At the national level, the country's food and non-alcoholic beverages CPI has been trending upwards since September 2021 but has started to plateau since August 2022. It may have peaked in November 2022.

Mohd Husin said food and non-alcoholic beverage would continue to be one of the main drivers to influence headline inflation in 2023.

Yeah, who is forecasting an inflation rate at between 2.5% and 3.5% this year, said food and beverage together with transport are expected to drive headline inflation this year.

Fuel prices would be largely determined by global energy markets and the pace of subsidy rationalisation that the government is expected to implement this year, he noted.

"There is considerable uncertainty in the country's growth and inflation outlook for 2023 and the global economy.

"Nonetheless, the recent US job data has affirmed the continuing low unemployment that portrays a less gloomy outlook for the US economy.

"With the continuing Russia-Ukraine war and higher production costs due to supply chain reconfiguration as a result of the heightened US-China rivalry, global inflation may remain at an elevated level for a longer period thereby influencing Malaysia's inflation trajectory," Yeah added.

Ferlito said the movement of prices would depend on economic and extra-economic factors.

"For the extra-economic factors, weather and geopolitical factors will play a role.

"With regard to the economy, it will depend on whether the government would keep on controlling prices or supply and demand.

"Furthermore, the pace of money supply had slowed down which is good for price tensions.

"If a recession comes as a consequence of the Covid-19 lockdown policies, as CME anticipated almost two years ago, and the government implements expansive policies, then price tensions will remain," he noted.

Williams said the increase in food prices slowed in December to 6.8% compared with 7.3% in November.

The only main subgroup where prices rose faster was in restaurants and hotels.

"When we look at the components of food prices, the pace of price rises slowed except for food away from home and sugary products.

"So prices may not be falling but the trend is slowing. As supplies improve, we hope the slowdown will continue and the prices of many categories will become more affordable," he added.

On another note, Williams said the freeze on the prices of utilities and various policies to improve supply to address the cost of living issue and lower oil prices would help moderate inflation.

Bringing forward the income assistance payments would also go a long way to assist the B40 group.

"As prices are higher now there is an affordability issue which we need to address through raising incomes. A universal basic income policy will be of help," he said.