

Although inflation 'under control', people continue to suffer from food price increases

ALTHOUGH the inflation rate in Malaysia is claimed to be "lower" than the world average and remains "under control", it doesn't reflect the reality of ordinary people who continue to suffer from rising food and fuel price inflation.

The Department of Statistics stated that the Consumer Price Index (CPI), which measures the rate of change in the cost of purchasing a constant basket of goods and services by households in a specified time period, increased to 2.3 per cent year on year from 123.1 in April last year to 125.9 in April this year.

Officially, Malaysia's CPI is lower than that in India, the United States, the United Kingdom and Singapore, at 7.04, 8.6, 9.1 and 5.6 per cent, respectively.

However, the fuel subsidy, together with other subsidies and price ceiling and control measures, would have contributed to ensuring that the actual inflation in Malaysia is lower than it otherwise would be.

As producers have to bear the brunt of price increases in feed ingredients and labour shortages, this has translated into a double-digit percentage rise in the Producer Price Index (PPI) at 11.0 per cent in April.

PPI measures the prices of goods at the factory gate, that is, finished products but minus transport and logistics and other post-production charges, such as wholesale, distribution and marketing.

This by itself is an indicator that, even minus logistic and transport costs, food inflation should realistically be much higher.

To substitute the ceiling price adjustment and variation for chicken and eggs, as well as the removal of subsidies for cooking oil in 2kg, 3kg and 5kg bottles from July 1, the government will provide additional cash aid to B40 households.

An additional RM630 million of cash aid is to be diverted from the original RM729 million subsidy for chicken farmers, whereby an additional RM100 and RM50 will be given to B40 households and singles, respectively.

However, this wouldn't be a sustainable solution to alleviate people's cost-of-living concerns in the long run.

The question is how long would such a paltry cash allowance last for B40 households, who spent a minimum of 25 per cent of their disposable income on food and non-alcoholic beverages even before the Covid-19 pandemic?

According to the Department of Statistics' Household Expenditure Survey Report 2019, B40 households allocated more from their income on food and beverages compared with Middle 40 households at 18 per cent and Top 20 households at 12.6 per cent.

With the increasing food price inflation in recent months, B40 households could have been spending more than 50 per cent of their income on food.

The middle-to-upper M40 households are also a vulnerable income group since their spending patterns are comparable to the B40 in relation to food consumption.

In short, inflation has eroded their purchasing power since their wages haven't kept up.

They also usually don't have a sufficient cash buffer or savings relative to their income unlike the T20 group.

Since middle-and-upper M40 households lack access to cash aid, will we see more people having cash flow problems or tightening their belts, thereby leading to a decline in living standards?

Already the Department of Statistics' Household Income Estimates and Incidence of Poverty Report (2020) showed that around 20 per cent, or 580,000 households, fell from the M40 to B40 income category in 2020.

A basket of groceries that cost RM79.90 in 2010 has gone up to RM100 in April this year, meaning the household purchasing power had decreased by 20.1 per cent, said chief statistician Datuk Seri Mohd Uzir Mahidin.

This is why it's important to revisit the CPI and ensure that it's more reflective of the reality on the ground.

<https://www.nst.com.my/opinion/columnists/2022/07/810394/although-inflation-under-control-people-continue-suffer-food-price>