THE EDGE MARKETS
MAKE BETTER DECISIONS

Recovering domestic activities, higher wages to pose upside risks to inflation, say economists

KUALA LUMPUR (May 25): Recovering domestic economic activities and higher private-sector wages amid ongoing labour shortages are expected to pose upside risks to inflation, according to UOB Global Economic & Markets Research.

In a note on Wednesday (May 25), the research house opined that overall price pressure is expected to pick up on the back of persistent global supply shortages, higher commodity prices, the lapse of favourable base effects and currency weakness.

UOB also maintained its headline inflation forecast at 3% after taking into account the government's short-term measures to tackle the rising cost of living and supply shortage issues.

“Headline inflation reverted higher to 2.3% year-on-year (y-o-y) in April after moderating for its fourth straight month to 2.2% in March.

“The small uptick in April inflation was mainly attributed to costlier food & non-alcoholic beverages, transportation, recreation services & culture, expenditure in restaurants & cafés, as well as education,” it said.

Earlier on Wednesday, the **Department of Statistics Malaysia (DOSM)** highlighted Malaysia's inflation, as measured by the consumer price index (CPI), increased 2.3% in April 2022 from a year earlier.

DOSM chief statistician Datuk Seri Dr Mohd Uzir Mahidin said that food inflation in April 2022 was higher at 4.1% y-o-y with 89.1% of food items in the CPI's food and non-alcoholic beverages group recording increases.

Among other CPI components, the restaurants and hotels segment rose 3.2% while the transport portion climbed 3%, he said.

Meanwhile, UOB pointed out that backed by the government’s non-monetary interventions to tame the broadening inflation risks, it continues to believe that Bank Negara Malaysia (BNM) will remain mindful of raising rates aggressively in lockstep with the US Fed.

“We keep to our current projections for the next 25bps rate hike in 3Q22, bringing the overnight policy rate (OPR) to 2.25% by year-end. The Monetary Policy Committee (MPC) will next meet on July 5-6,” it said.

Separately, MIDF Research said Malaysia's inflationary pressure was indirect, especially via higher food inflation at 3.5% on the back of elevated global commodity prices.

The research house also opined that as long as the government keeps the current fuel subsidy mechanism, fuel inflation is expected to continue to moderate and decelerate in the second half of the year.

“Food inflation remained above 4%. As a a net-food importer, Malaysia is highly exposed and affected by the strong rise in global food inflation.

“Looking ahead, we expect Malaysia’s domestic food inflation to stay on an increasing trend following the rise of global food CPI amid elevated commodity prices and supply chain disruptions in EU and China,” MIDF said.

It added as domestic demand strengthened, core inflation rose to more than a four-year high and the continuous upward trend in core CPI indicates the underlying price pressures from surging domestic demand, underpinned by improving labour market condition and domestic reopening effects.

The research house also maintained its average CPI forecast at 2.5% for the rest of the year.

https://www.theedgemarkets.com/article/recovering-domestic-activities-higher-wages-pose-upside-risks-inflation-say-economists