

Rising inflation affects consumer purchasing power, say economists

KUALA LUMPUR (May 20): The rising inflation threat is expected to lower purchasing power for most Malaysians, as retailers face a double-edged sword between global supply disruptions and rise in commodity prices.

Bank Islam Malaysia Bhd (BIMB) chief economist Dr Mohd Afzanizam Abdul Rashid said from consumers' point of view, the degree of the purchasing power would vary according to income level.

"The high income earners may not be badly impacted as their income would withstand the impact.

"But for the low income earners, it will severely affect their spending power," Dr Afzanizam said when contacted by theedgemarkets.com.

Notably, Malaysia's core inflation as at March 2022 was reported at 2.0% as compared to 1.8% in the previous month, according to the **Department of Statistics Malaysia (DOSM)**.

Based on DOSM's data as at March, among the Consumer Price Index (CPI) basket group, food and non-alcoholic beverages registered an increase of 0.3% on monthly basis (m-o-m) while miscellaneous goods and services posted a 0.8% increase m-o-m, the highest among CPI components.

While consumers may feel the pinch due to the price hike, recently Bank Negara Malaysia (BNM) stressed that Malaysia's inflation has largely been contained as a result of price control measures and fuel subsidies by the government.

However, Dr Afzanizam warned that should the government decide to opt for a targeted fuel subsidy mechanism, it will certainly exert more pressure on the inflation level.

"If the government decides to reduce the fuel subsidies, it will exert pressure on inflation given fuel-related composition in CPI basket is about 8.5%," he said.

Meanwhile, UOB senior economist Julia Goh highlighted that on the ground, people are feeling the trade-off with higher prices, especially on food and essential items.

However, she said that despite the higher cost of living, private consumption grew 5.5% year-on-year as the economy reopened and restrictions were eased.

"This is because household spending has been supported by improving labour market conditions and government support schemes.

"A release of pent-up demand from build-up of savings as well as Employees Provident Fund (EPF) withdrawals helped to counter effects of rising prices.

"Continued fuel subsidies have also brought down transport inflation and offset the persistent rise of other items, particularly food," she said.

Goh added that in order to manage long-term risks of inflation, the government needs to address sufficient food supplies, broader and more direct channels from producers to consumers, and orderly implementation of subsidy reforms.

“A key risk is an abrupt change in domestic policy on administered prices that is not properly implemented and could lead to a larger upward spiral of inflation that is negative for consumers and growth,” she said.

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