

Uneven recovery and rising inflation point to stagflation?

KUALA LUMPUR: Malaysia is not expected to slip into stagflation and ultimately recession, despite rising food and fuel prices, economists said.

Some, however, cautioned that the risk of stagflation could not be completely ruled out given the uneven economic recovery and gradual increase in the consumer price index (CPI) in the past few months.

Malaysia, together with Thailand, was facing stagflation amid drags within supply chains, a lethargic recovery in international tourism and continued pressures on the cost of living from high oil prices, according to a Murray Hunter as per Free Malaysia Today.

"Both countries have seen a rapid increase in inflation, initially spurred on by rising oil prices which jumped from US\$20 plus per barrel mid-2020 to nearly US\$70 per barrel at the end of 2021. This, together with the rising costs of imported inputs for food production, left Malaysia with a 3.3 per cent inflation rate in 2021 and Thailand with 0.8 per cent," he wrote recently.

Stagflation is a condition where the economy is experiencing high inflation, recession and high unemployment, all at the same time.

Bank Islam chief economist Dr Mohd Afzanizam Abdul Rashid does not rule out stagflation in Malaysia completely, due to multiple downside risks in the horizon.

"The economic recovery is expected to be uneven due to supply chain disruption as goods, be it raw material, work-in-progress or finished goods, cannot be delivered on time," Afzanizam told the New Straits Times.

He said there was also difficulty to procure labour and crude oil prices had been at elevated level for a while and prices of other necessities were unlikely to reduce.

"Surely, it will present a great challenge to the policy makers as they are not able to just remain status quo," he said, indirectly referring to the possible monetary policy tightening by Bank Negara Malaysia later this year.

For instance, he said the US Federal Reserve had explicitly indicated its intention to raise its benchmark interest rate.

"This is understandable given the improvement in the labour market and signs of demand-pulled inflation have become increasingly visible," he added.

Malaysia's inflation, as measured by the CPI, increased 3.2 per cent in December 2021 from a year earlier mainly due to the rise in food and fuel prices and on base effect, the **Department of Statistics Malaysia** said on Jan 21.

The CPI's 3.2 per cent year-on-year increase in December 2021 had partly contributed to the nation's leap into an annual 2021 inflation at 2.5 per cent compared to a 1.2 per cent deflation in 2020 as the country contended with factors including Omicron variant and heavy-rain-driven food-supply shortage.

Other economists believe the chances of Malaysia slipping to stagflation is slim.

They said the CPI was not increasing "sharply" and unemployment rate was easing at rate of 4.3 per cent to 694,400 people, which was still below 700,000 since March 2020.

Putra Business School associate professor Dr Ahmed Razman Abdul Latif does not expect Malaysia to slip into stagflation as the country's gross domestic product (GDP) on average grew 3.0 per cent last year, while inflation stood at 3.2 per cent in December 2021.

"For 2022, we expect the GDP to hover between 5.5 per cent and 6.5 per cent. We see the risk of stagflation to happen is low," he told the New Straits Times.

He said inflation rate should not rise substantially, while the government should ensure that unemployment rate could be reduced further.

"At the same time, initiatives to encourage investment and economic sectors in our country should be continued under the current 2022 Budget," he added.

The Employees Provident Fund (EPF) chief strategy officer Nurhisham Hussein said Malaysia would not fall into recession this year.

"Whoever is thinking this (recession) is a bit silly and being alarmist," he told the NST.

He said unemployment and underemployment rates were falling and the labour market was expected to continue improving.

"The EPF internal data shows a strong pickup in incomes and economic activity," he added.

<https://www.nst.com.my/business/2022/02/768146/uneven-recovery-and-rising-inflation-point-stagflation>