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Depreciating ringgit, role of middlemen likely reason for price hikes, accelerated inflation, say economists

KUALA LUMPUR, Dec 2 — Several economists have warned that inflation in the country has been rising at an alarming rate mainly due to the depreciating ringgit and the role of middlemen in the trade of various goods.

Speaking to Malay Mail, three economists said middlemen have been raking in profits and creating a domino pricing effect, all at the expense of consumers and traders.

Added to the jeopardy of a weakened ringgit, imports and raw material have now turned costly, they suggested.

Former Malaysian Institute of Economic Research (MIER) chief Zakariah Abdul Rashid made a strong call to the government to address the issue by beefing up enforcement efforts.

“Middlemen offer logistic and haulage services in the marketing and distribution, in some distributive trades, they hold tremendously strong market power. This has become an unpleasant feature in our wholesale and retail trades, which can be dealt with by breaking up the oligopolistic feature; this is a long-term measure and desirable. For immediate measure, we have to resort to the stern enforcement of the acts.

“Rising prices are the concern of many. Rising due to the ongoing domestic and foreign global economic recovery, which is strengthening demand. In addition, electricity rate assistance and rising fuel prices stemmed from rising world crude oil prices.

“There is no doubt that there is also the influence of the current weakness in the ringgit exchange rate which has caused the price of imported goods to become more expensive,” he said.

The independent economist and consultant pointed out that Malaysians rely heavily on imported foodstuff in addition to a similar dependence on intermediate materials, machinery and equipment.

“These, in turn, contribute to the increase in production costs. In addition, unpredictable weather and rainfall at the end of the year, an annual phenomenon, also contributed to the increase in food prices, especially vegetables and fish,” he added.

Zakariah said that the rising consumer price index (CPI) is unavoidable and should be anticipated as Malaysia was in the negative zone of the index.

“In some months of 2022, we shall experience a spike in the index because of a low-based effect, a technical correction. Exorbitant increase in prices on specific products has to be dealt with regulatory measures, such as enforcement,” he said.

Last week, the **Department of Statistics** reported that the CPI went up 2.9 per cent in October 2021 compared to the same period last year. This was mainly driven by the increase of ceiling price of RON95 petrol to RM2.05 per litre in March 2021.

On a monthly basis, it had increased 0.7 per cent compared to September 2021. The increase was exacerbated by the discontinuation of the monthly electricity bill discount given to domestic consumers under the Pemulih Package.

Independent economist Manokaran Mottain also agreed with his industry colleagues.

“It is the trader’s mentality. Any reason they get they will jump and raise the prices although they are not affected directly. However, items such as vegetables and others damaged by the long rain and those factories or businesses involved in manufacturing food are all also affected because of the exchange rate which is not in our favour. The ringgit has been weakening.

“So you can say that the import prices are raising the cost of materials and as a result, after the production, manufacturers have also got to raise prices of food. Like in the case of Gardenia bread varieties,” the former Alliance Bank Malaysia Bhd group chief economist said.

Domestic Trade and Consumer Affairs (KPDNHEP) Minister Datuk Seri Alexander Nanta Linggi had recently acknowledged the rising prices of goods, including chicken, and attributed it to the increased cost of operations and materials.

A trader weighs a chicken at Pasar Awam Moden Seksyen 6 in Shah Alam September 21, 2021. — Picture by Yusof Mat Isa

He said that to remedy the situation, his ministry had held engagement sessions with major chicken farm owners in the country and discussed with the Ministry of Agriculture and Food Industries on implementing a fixed price for standard chicken.

Previously, his deputy, Datuk Rosol Wahid said he was aware of the situation but added that ministry officers found no price hike by up to 200 per cent, as claimed by the Consumer Association of Penang.

Other than vegetables, the price of a standard loaf of bread by popular local maker Gardenia has also been reported to have increased recently.

“Middlemen certainly play a role in it, but how to cut their role? You and I cannot do that but the government can. They have to create distribution channels like the Federal Agricultural Marketing Authority (Fama) and others,” Manokaran said.

“In other words, aggressively cut down all these middlemen. If we do this, at least inflation will not be going up that fast.

UniKL Business School’s economist, Aimi Zulhazmi Abdul Rashid told Malay Mail that the rapid rise of inflation rate was expected as part of the post pandemic impact, pointing out that the Department of Statistics Malaysia had already reported higher inflation rate in the rural area than in urban localities in June this year.

He also concurred with Zakariah and Manokaran that middlemen had a strong role to play in the event.

“The rise is attributed to rising costs in the supply chain, especially transportation and logistics. Lower sales turnover during the three movement control orders also put pressure on the traders to recover their profits and these incremental costs in the supply chain were passed to the consumers, located at the end of the chain.

“The middlemen within the supply chain are the ones who control the price of goods but unfortunately, blame it on the rising cost of having to comply with the standard operating procedures,” he added.

Aimi said that there are traders who take advantage and hike up their prices in tandem with certain increases in some products, knowing that the overall market would be unable to react.

He also predicted that the current inflation rate is expected to rise in 2022 between three and four per cent, as the price of commodities continue to rise owing to a surge in demand, as markets open up and economies recover.

Meanwhile, University of Malaya’s Mohd Nazari Ismail differed on the role of middlemen, asserting that strong evidence is still needed to justify the group’s role in price hikes and the local inflation rate.

“For me, this is totally expected. We had pandemic lockdowns before which will disrupt the supply chain in many sectors including the food sector. Then the government borrowed a lot of money and subsequently spent them to spur demand in the economy,” he said.

Nazari explained that customarily, during or after a pandemic, demand should slow down or decrease, owing to people’s decreased spending power.

“However, in a situation of increased demand; which in a way is not natural because it is caused by borrowed funds and decreased supply of goods, the current price increase is inevitable. The people who will suffer most are the ones earning fixed incomes including pensioners,” he said.

On when would the surge slow down, Nazari said it is hard to predict, given the unpredictability of the Covid-19 pandemic, with the emergence of the new Omicron variant.

Consumers have, in recent days, been flooding social media platforms with stories of their brush with restaurateurs charging exorbitant prices for their meals, questioning the rationale for such a hike in pricing.

Yesterday, Datuk Seri Ismail Sabri Yaakob admitted that the price of essential goods has increased but said it was not caused by traders.

The prime minister attributed the price increase to costs accumulated at various levels of the supply chain before goods reached the traders.

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