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Inflation remains moderate at 1.8%

Prices expected to rise faster in the coming months on higher import costs and fuel subsidy rationalisation

ECONOMY

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PETALING JAYA: With ample opportunities to assess the state of the economy given the monthly data released by the Statistics Department, economists are taking a big-picture view with their outlook.

While remaining hopeful that broader inflation would remain close to 2% for 2024, they are cautious that macro events would still be a major determinant, on top of the much-discussed impending targeted fuel subsidy initiative.

The Statistics Department's latest consumer price index (CPI) figures for March revealed yesterday showed that inflation had remained at 1.8% year-on-year (y-o-y) for the month, with the index recorded at 132.2 points compared with 129.9 in the same corresponding month of 2023.

It reported that the increase in inflation for March was driven by housing, water, electricity, gas and other fuels, restaurant and accommodation services, as well as transport, among other segments.

According to veteran economist Prof Geoffrey Williams, the unchanged inflation rate for February and March reflected higher water bills, whose effects cascaded down to the aforementioned sectors.

Notably, he told *StarBiz* that while elevated water tariffs had a short-term consequence of raising costs directly to households and in pass-through to consumers from businesses, it should not affect price increases hereafter.

"The data for the other categories is either flat or marginally reduced and this is more reflective of the general price environment, which is also evidenced by core inflation being fractionally lower at 1.7% in March compared to 1.8% in February," he said.

> "On average, for the year, inflation may reach around 2.2%, which is still low by global standards"
>
> Frederic Neumann

On another note, despite maintaining that it is difficult to formulate an exact quantification of the impact of targeted subsidies, Centre for Market Education (CME) chief executive Carmelo Ferlito gave his thumbs up to the announcement of implementation details by Economy Minister Rafizi Ramli yesterday.

"We at CME have stressed on several occasions that the lack of details was making it difficult to advance evaluations and impact studies.

"It is a necessary move but we all know that implementation will not be easy," he said.

Subsidies apart, he said the darkest clouds on CPI horizon are the international tensions, which affect the ringgit and the eventual price distortions coming from supply chain constraints.

At the same time, chief Asia economist and co-head of Global Research Asia at HSBC, Frederic Neumann, who concurred with Williams, noted that inflation in Malaysia has been "remarkably well behaved", especially when compared to other economies in the region.

Still, he is expecting a mild uptick in inflation in the coming months, not least given higher import costs and the targeting of some fuel subsidies.

"However, on average, for the year, inflation may reach around 2.2%, which is still low by global standards," he said.

Separately, the Statistics Department has released leading, coincident and lagging indexes for February 2024 on the Malaysian economy, which together served as the country's economic indicators.

The department said the leading index (LI) provides an early indication of significant turning points in the business cycle and the direction of the economy in the near term.

Chief Statistician Datuk Seri Dr Mohd Uzir Mahidin observed that the annual growth rate of the LI had kept up its increasing momentum with a 2% expansion, registering 112.7 points in February 2024 as compared to 110.5 points in the corresponding month of the previous year.

Believing that this positive growth for three consecutive months is reflective of an optimistic economic outlook in the second quarter of 2024 (2Q24), Mohd Uzir said the annual performance of the LI was supported by the rise in the Bursa Malaysia Industrial Index by 28%, followed by the real imports of other basic precious and non-ferrous metals.

The data notwithstanding, economist Williams is keeping a prudent tone on his outlook, being cautious of the external demand headwinds that could scupper the growth target attainment of 4% to 5%.

On the flipside, he said moderate growth will keep the inflation environment low, forecasting that economic expansion will more likely be similar to the 3% to 4% range of 2023.

Furthermore, he said: "The restructuring of the Employees' Provident Fund (EPF) will potentially allow for RM20bil to RM30bil worth of withdrawals, which will boost consumer spending and push growth to 4%.

"The economy is in a new phase of lower underlying growth potential and normalised inflation. It might not be a bed of roses but it is at least stable."

HSBC's Neumann, meanwhile, said the growth outlook for Malaysia is certainly improving, in part due to the uptick in the global industrial cycle, including electronics, which should support production in the country.

Concurrently, he said foreign direct investment continues to be robust, helping to strengthen local demand.

On the other hand, he reckoned that the country would need to further prune subsidies and improve the availability of trained engineers and other skilled professionals to fully capture the opportunities that beckon.

CME's Ferlito believes that the Producer Price Index (PPI), which in February rose for the first time since September 2023, is another element that must be kept in consideration in the price equation.

> TURN TO PAGE 2