Inflation to be contained at 1.9%

The inflation rate is expected to be contained at 1.9% for 2002 while the Producer Price Index (PPI), which has been experiencing negative growth since mid-2000, has turned around in 2001, putting some pressure on prices. Imported inflation is, however, expected to remain low.

For the first seven months this year, fewer number of categories in the Consumer Price Index (CPI) recorded increases in prices compared to the same period last year. Out of the nine major CPI categories, six recorded increases in prices while the other three recorded declines. Generally, the increase in the indices for these major categories were lower, except for transport and communication, beverages and tobacco as well as miscellaneous goods and services, which recorded a higher rate of increase.

The overall CPI registered an increase of 1.8%, compared to 1.5% for January to July last year. The increase was largely due to a significant increase of 6.4% in transport and communication category.

Under the telecommunications tariff rebalancing in March, the higher tariff for local calls, which were revised to 8 sen for the first two minutes and 4 sen for each subsequent minute, pushed the index upwards, accounting for 45% of the increase in the overall CPI.

In May, the government announced small increases of 2 sen per litre for petrol and one sen per kg for cooking gas, when the international price of crude oil soared.

Under the automatic pricing mechanism, consumers are charged a fixed price for petrol, diesel and cooking gas as the government absorbs price increases in the form of subsidies for oil. However, when the price of crude oil rose to RM24.92 (US$46.96) per barrel at its height in 2001, the government subsidy became RM3.3bil, making it necessary to increase the prices of the two commodities.

Food, which accounts for about a third of the total household expenditure, recorded only a small increase in prices. The higher prices for fish, milk, eggs and food away from home were offset by declines in the prices of meat, sugar, fruits and vegetables, and oils and fats. With the marginal price increase, food accounted for about 10% of the rise in the CPI compared with 17% last year.

The price increase had less impact on the CPI by lower income groups compared to the national average.

For income groups earning less than RM1,000 per month, the increase in price was 1.2%, while for those earning less than RM1,500, the increase was 1.4% compared to the higher national average of 1.8%.

The higher tariff for local calls had a smaller impact on the lower income group, contributing between 56% and 59% to the increase in their total CPI, compared to 71% for the national CPI.

But the higher prices for liquor and tobacco, especially the latter following the 20% increase in sales tax in the 2002 Budget, accounted significantly for the increase in the CPI for the lower income group.

Although beverages and tobacco constitute only about 41% of the expenditure of the lower income group, it accounts for the second largest increase of between 18.8% and 21.8% in the CPI for this group, compared to the national level of 9.4%.

The CPI for the peninsula increased by 2% — higher than the national average of 1.8%; while for Sabah and Sarawak, the increase was significantly lower at 0.8% and 0.9% respectively. During the first seven months this year, food prices increased by 0.8% in the peninsula despite a well-developed food marketing system due to constraints in the supply of fish, seafood and vegetables.

In contrast, prices remained fairly stable in Sabah and Sarawak. Hence, food prices in Sabah recorded a marginal decline of 0.7%, while in Sarawak, it remained stable.

Rents for residential housing properties account for 81% of consumer expenditure on gross rent, fuel and power.

The CPI for the peninsula rose higher at 6.9%; whereas in Sabah and Sarawak, with limited road infrastructure and a smaller number of private vehicles, the increase was only 4.6% and 4% respectively.

The CPI in selected urban areas was higher at 2% compared to the national average of 1.8%; while for rural areas, it was 1.5% mainly due to price differentials for food, transport, communication and rent.

Producer prices continued to increase significantly except for oils and fats which recorded a significant turnaround from a decline of 3.3% for January to July last year to an increase of 50%.

The sharp turnaround was attributed to a significant increase in the price of crude palm oil (CPO), due to a large stock overhang following a bumper harvest in the 1999-2000 period, and exacerbated by a glut in the world oil and fats market. CPO prices fell to a record low of US$240 (RM912) per tonne last year. The price recovered to reach US$383 per tonne last month.

The current dry weather is expected to affect the production and supply of palm oil and hence the price of palm oil is projected to remain high at US$75 for the remainder of the year. The index for crude materials also recorded a turnaround from a decline of 6.7% to an increase of 3.4%. The food and live animals chiefly for food, and animal and vegetable oils and fats categories also experienced similar trends. With these significant increases, these three categories accounted for 42.4% of the increase in the PPI for the period.

The PPI for local production increased marginally by 1.8% during the first seven months this year while that of imports declined by 0.6%. The small increase in the PPI for local production was mainly due to the higher prices of crude palm oil.

Imported inflation remains low as major trading countries experienced subdued inflation. Overall, the PPI for the first seven months this year increased moderately at 1.3% compared to a negative 4.6% during the same period last year.