

Fresh Take

How inflation impacts life in Malaysia.



Inflation affects everyone, just not equally. Most people feel that the cost of living is getting more expensive every year. It's true, but some items are more affected than others.

Our take on this: We've written about global inflation before; you can [read that article here](#). In this article, we go through inflation from a local perspective — what triggers it, and how you can better prepare for it.

Inflation can look scary



Teh Tarik
1957: 5 cents 2022: RM2-3

Source: CompareHero, 1957 prices in Malaya and British Borneo Dollars

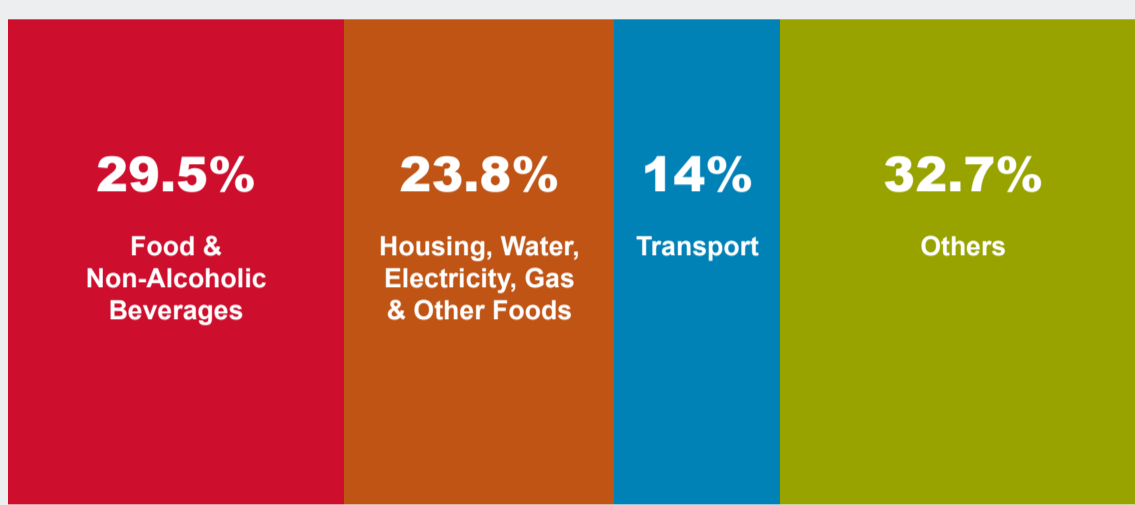
The general definition of inflation: The decline of purchasing power of your money over time. In other words, what can you buy with RM10 today will be less than what it could buy you 10 years ago. Look even further back and the difference can be shocking.

The inflation figures that we see reported are calculated using a weighted average price level of a basket of selected goods and services over a set period of time: this is the Consumer Price Index or CPI. It is a national average — therefore, the prices in an urban area are likely to be higher than in rural areas. Also, this 'basket of goods' only contains primary consumer goods, not luxury or premium goods.

Understanding Malaysia's CPI

When households spend more of their income on a particular item, that item ends up having a larger 'weight' (therefore, it affects the CPI more). The larger the weight, the more effect a change in price of the item would have on overall inflation. This gives us as a good gauge of what most households spend their money on, and where inflationary pressures are coming from.

Top 3 contributors to Malaysian CPI weightage:



Source: Department of Statistics Malaysia, as at Dec 2021.

Shortcomings of the CPI as a measure:

According to the Department of Statistics Malaysia, prices were taken from 17,000 retail outlets in states of Peninsular Malaysia, 2,500 outlets in Sabah and 2,300 outlets in Sarawak. This may not reflect where you live, your consumption habits, and what you choose to spend your money on.

The important thing to remember here is the CPI is used to paint a picture of the current trends and at least give you an idea of what you need to prepare for in the future or to adjust your spending habits.

Three types of inflation:

There are a number of factors that drive inflation — some are easy to manage, while others are ingrained in our society's structure and will likely be around for a while.

Demand-Pull Inflation

The 'good times' indicator:

Usually seen in times of strong economic growth, when demand surpasses supply, forcing an increase in the cost of living. It may be a sign of rising salaries, lower unemployment and a growing desire for better standards of living.

Real-life example:

It's like what happens to hotel room rates (and even certain food types for festive occasions) during peak and off-peak seasons.

Cost-Push Inflation

Higher costs of goods sold:

Increased production cost due to rising raw material costs driven by global shocks, geopolitical unrest and trade wars. A blockage of shipping routes (like 2021's Suez canal obstruction) can do the same.

Real-life example:

Due to global geopolitical issues, climate change and other factors, the prices of fertiliser, flour and grain have risen due to supply shortages.

Built-In Inflation

It keeps spiralling, and is hard to reverse:

Even expectations that inflation will persist into the future can drive prices; workers will demand higher wages to maintain their standard of living, leading to even higher production costs, driving an upward wage-price spiral.

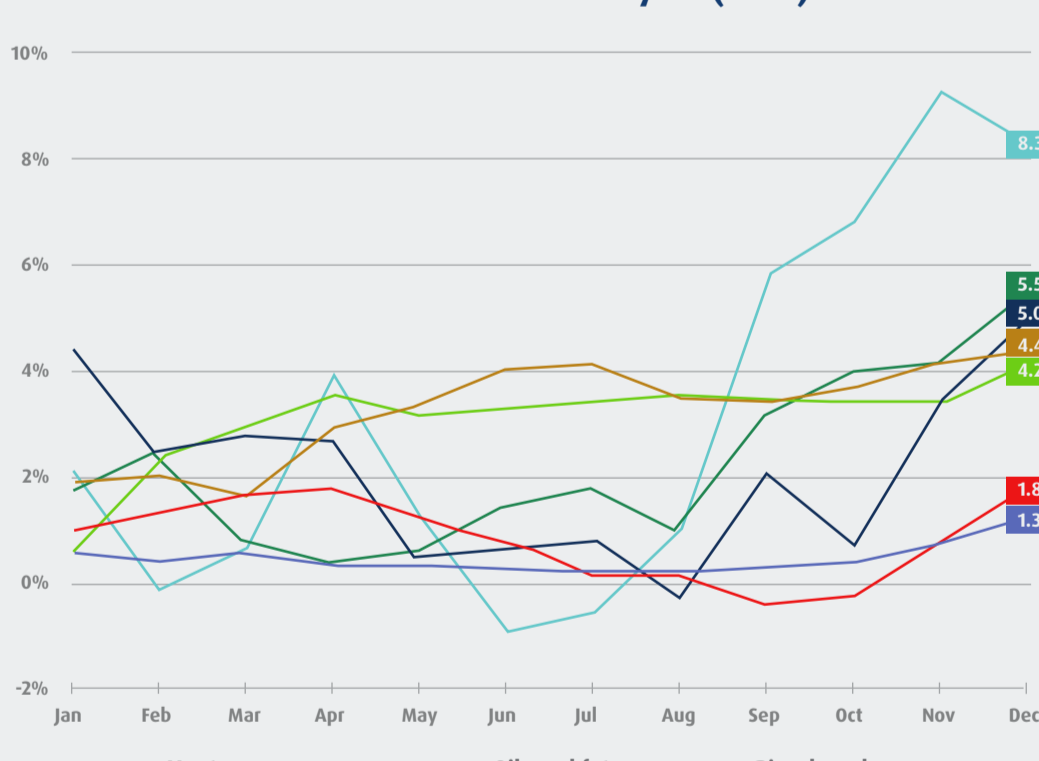
Real-life example:

While property prices rise due to construction costs (raw materials and labour), it still remains an attractive investment vehicle for many who accept higher prices as a reality that they have to live with.

Malaysia's Food Inflation; a breakdown

Which food items are actually driving inflation in Malaysia?

Selected Food Y-o-Y% Inflation in Malaysia (2021)



Source: Department of Statistics Malaysia

Heavy rains throughout December 2021 directly impacted the supply of vegetables, fish and other seafood — the most common foods for Malaysians. External factors such as global prices of animal feed and other grains ended up driving chicken prices, while the ongoing Ukraine war is driving oil, gas, grains and fertilisers — bad news for agriculture.

Some good news: It's good to remember that a controlled level of inflation is a sign of a healthy economy. It's like the earlier described demand-pull inflation — a signal that people have the means and confidence to spend. Economic theory such as the Phillips Curve also suggests that higher inflation leads to lower unemployment, at least in the short term.

Some goods tend to appreciate during inflationary times: Property and luxury goods tend to see a rise in prices. As an investor or a collector, you could find your prized possessions have risen in value.

Work your money harder than inflation

Can you escape this trap? Or at least stay ahead of the curve? You can, but only if your money is growing at a rate that is higher than or at least equal to the inflation rate. Leaving your money in a savings account might not achieve this, but properly thought out investments may be able to.

You could also relook into the funds or investments you currently hold, and take stock of their performance. As long as your money is growing at a higher rate than inflation (or at least equal to it), you're doing ok. Otherwise, it may be time to check out some alternatives that can help you through them all [here](#).

This article is part of Hong Leong Bank's educational series, called 'Fresh Take'. Here, we seek to present you a fresh, unbiased perspective of all matters financial. We'll be uploading more educational content moving forward, so do watch out for the next piece.

In a world that's awash with information that may be either true, false or anywhere in between, Fresh Take aims to cut through the clutter, and help you on your journey as an investor who's seeking to build a strong financial future.

Please reach out if you need to know more, or need personalised help.

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