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# Power rate hike unlikely to stoke inflation



## Making A Point

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ON the day when some journalists were briefed on the reasons for raising electricity prices, and I was present at that meeting, there was a blackout in my housing area that night until 8am the next day.

Sleep was interrupted and not having the air-conditioner blasting cold air into my room made the night very unpleasant. In fact, life without air-conditioning is intolerable for many who have got used to chilled gusts of air streaming steadily. I blame development for making the nights warmer than they used to be.

The thing was that many of us are used to having white goods and electronic devices in our daily lives. Today's homes are filled with electronics that were not there when I was growing up. There was no mobile phone, wifi, satellite TV, tablet, high-power computer, game console, multiple televisions and air-conditioners in my house when I was a teenager. Today's devices, almost essential in today's world, consume a lot of power to keep running and make our lives easier and entertaining.

The immediate result of a power hike planned for next year will mean that the electricity bill in my house is going up. I am not one of those 4.6 million or 70.7% of the population who will not be directly affected by the rise in power charges.

While many will not see a rise in their electricity bills, you can bet that the price of goods and service they pay for is going to go up.

As it stands, the jump in inflation is forecast to be muted. Economists do not expect inflation to jump dramatically despite a near 15% increase in power rates as the weightage of electricity in the basket of goods and services that inflation is calculated from is just a mere 2.88%.

Past hikes in electricity tariffs had also not led to a spike in inflation, giving more confidence that inflation will not be stoked too much with power charges going up.

But the thing is that the hike in electricity

charges is not independent. Businesses will see their costs go up and they will have a few choices on what to do.

They can absorb the cost increase and whether their margins will be affected depends on whether they can improve productivity and efficiency to offset higher electricity charges.

The other way of dealing with that is increasing prices and pass on some or all of the cost increases to customers. My guess is that you will see more of this and the trickle down effect can be interesting to see.

The quantum of that effect though will depend on industry. A report by CIMB notes that transport and commercial building will be hit the most. Building material makes such

as cement and steel too will be affected and just about every industry will see a rise in cost.

With demand still anaemic and not all industries are at full capacity, I hope there will not be a total pass-through of cost.

The fact remains that inflation, which has gone up by 2.8% in October from a year ago, is predominantly cost-pushed.

That means higher input prices are being passed on and the implication is that as costs keep being pushed onto customers and consumers, people will feel the sting.

Expectations are that as inflation goes north, what will happen with interest rates? The stand is that as long as inflation is not demand-driven, then the pressure to deal with inflation without raising interest rates remains.

But with subsidies being rationalised, and the general tendency of the past to raise the price of *roti canai* just because other costs have gone up, inflation will be uncomfortably high next year.

Just how high it will go and how that will affect real returns on investments will also need to be managed. With interest rates at near historical low, there is a need to give a positive return to savers and investors. I wonder just how much can interest rates be raised now without affecting the cost of debt most households need to service.

Whatever the situation, higher inflation and cost increases is going to be yet another burden on people.

Business editor (features) JAGDEV SINGH SIDHU wonders what people will do to minimise their electricity bills.

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