

# What matters most is stability in price level

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**KOTA KINABALU:** Inflation or deflation is fine as long as the changes in consumer price index is not a persistent sharp change, opined an economist Dr Rafiq Idris (pic).



He noted that some recent reports have suggested that Malaysia has recorded a deflation, which is the first time after 10 years since 2009.

"Some may think inflation or deflation is better than the other. Inflation is said to be good because it contributes to the nominal macroeconomic indicator of a country such as GDP.

"Some may think it is bad because purchasing power will be affected. On the other hand, some would argue that deflation is good because it indicates a general decrease in price level, hence good for consumers where there is a decline in cost of

living, hence, improvement in purchasing power," said the Senior Lecturer from the Financial Economics Program, in the Faculty of Business, Economics and Accountancy, at University Malaysia Sabah (UMS).

"What matters to us is the stability in price level," he added.

Small change he said is acceptable regardless whether it is inflation or deflation but it is also important to look at the root cause of it.

"It can happen due to increase or decrease in supply or demand of any products.

"With regard to recent development where there is a deflation, some may think it is good. In my opinion, we have to wait and look at trend, whether it is persistent or not.

"Or whether there will be a further sharp decline in price level or not. If that is so, it might not be good. In addition, it must be determined whether a fall in demand of products is the cause. If this is the

case, it is not a good signal."

"Moreover, recent deflation does not really reflect what happen on the ground. As a matter of fact, many consumers including myself do not feel any reduction in the cost of living or reduction in many prices of consumer products that we regularly use," he added.

He pointed out that that Inflation refers to the increase in general price level in an economy while deflation refers to the decrease in general price level in an economy.

He said products being taken into account are generally products typically used by consumers in an economy.

According to him, inflation and deflation rate are being derived by computing the change in consumer price index.

In short, he said inflation or deflation rate signals the change in cost of living. Inflation implies increase in cost of living while deflation indicates a decrease in cost of living.