

Malaysia Consumer Price Index

Increasing signs of disinflation in June, but upside risk to prices remains

- The headline inflation cooled further to 2.4% in June (May: 2.8%), a 14-month low, matching consensus, but slightly higher than house forecast (Consensus: 2.4%; KIBB: 2.3%)**
 - The sustained decline in price pressure can be attributed mainly to a moderation in food prices and restaurant and hotel costs. However, it is important to note that prices for the transport component have increased. On a monthly basis, headline CPI remained unchanged at 0.2% (May: 0.2%).
 - Similarly, core inflation has also decelerated, reaching a one-year low of 3.1% YoY (May: 3.5%). The core component eased by 0.2% MoM (May: 0.3%), mainly due to a decline in core transport items (-0.4% MoM; May: 0.2%).

Table 1: Global Inflation (% YoY)

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
US	6.4	6.0	5.0	4.9	4.0	3.0
EU	8.6	8.5	6.9	7.0	6.1	5.5
UK	10.1	10.4	10.1	8.7	8.7	7.9
Japan	4.3	3.3	3.2	3.5	3.2	3.3
Korea	5.2	4.8	4.2	3.7	3.3	2.7
Singapore	6.6	6.3	5.5	5.7	5.1	4.5
China	2.1	1.0	0.7	0.1	0.2	0.0
Indonesia	5.3	5.5	5.0	4.3	4.0	3.5
Thailand	5.0	3.8	2.8	2.7	0.5	0.2

Source: Bloomberg, Kenanga Research

- The softer growth in consumer prices was mainly driven by a moderation in the food & non-alcoholic beverages and restaurant & hotel components**

- Food & non-alcoholic beverages (4.7%; May: 5.9%): eased further to a 14-month low due to a moderation in prices of food at home (3.2%; May: 4.3%) and food away from home (6.8%; May: 8.1%). On a MoM basis, food inflation slowed by 0.1% (May: 0.5%) due to cheaper fish (-0.3%; May: 0.6%) and vegetables (-0.1%; May: 0.9%) prices.
- Restaurant & hotel (5.4%; May: 6.7%): despite a MoM increase in consumer expenditure in restaurants and cafes (0.3%; May: 0.2%), the component softened to its lowest level since July 2022 due to base effect and a muted MoM increase in the accommodation services index (0.0%; May: 2.1%).
- Transport (0.0%; May: 1.0%): almost fell into a deflation on cheaper vehicle prices (1.9%; May: 2.0%) and a decline in the cost of operation of personal transport equipment (-0.6%; May: 0.5%). Nevertheless, a rebound in price of air fares (6.8% MoM; May: -8.3%) has pushed the component to record a 0.2% MoM increase (May: -0.2%).

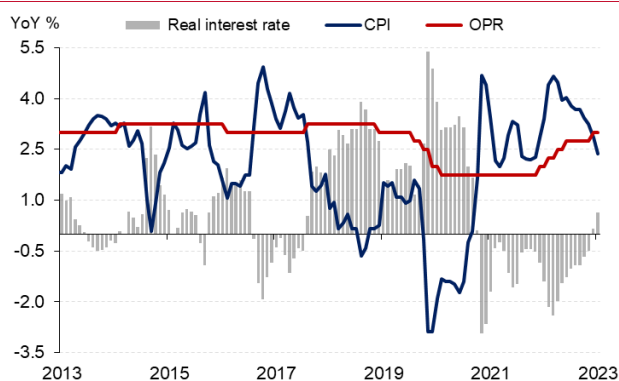
- Inflationary pressure remained mixed across advanced and developing economies**

- US (3.0%; May: 4.0%): cooled to a 27-month low, mainly driven by a broad slowdown in prices of services excluding housing. Most importantly, core CPI slowed by 0.16% MoM (May: 0.44%), signalling that disinflation is taking hold and the Fed may soon put an end to its tightening cycle.
- Japan (3.3%; May: 3.2%): trended higher due to rising food and durable goods prices. This may prompt the BoJ to raise its inflation outlook and potentially expand the target band for the long-term interest rate.
- China (0.0%; May: 0.2%): eased further to the brink of deflation due to weak demand and falling factory-gate prices. As a result, pressure is rising on the government and PBoC to take further measures to prop up the economy.

- 2023 headline inflation forecast maintained at 2.9% (2022: 3.3%), but upside risk to inflation remains**

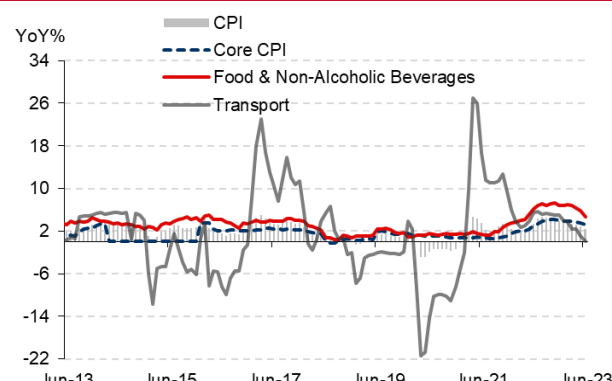
- Despite the continuous fall in global food prices, the upcoming period of extreme weather (El Niño), along with Russia's withdrawal from the Black Sea grain deal and India's rice export ban are expected to have a negative impact on food security in Asia. As a result, food prices in Malaysia may rise in 4Q23 and 1H24. However, the headline CPI is still projected to trend lower in the coming months, primarily due to the favourable base effect.
- Nevertheless, BNM is expected to keep the overnight policy rate unchanged at 3.00% for the next 6 to 12 months, considering that both headline and core inflation have continued to trend lower. However, looking ahead, uncertainties surrounding government policies, geopolitical risks, and weather conditions may alter the price outlook, prompting the BNM to reassess and take appropriate action if needed.

Graph 1: Real Interest Rate



Source: Dept. of Statistics, Kenanga Research

Graph 2: CPI Growth by Main Categories



Source: Bloomberg, Kenanga Research

25 July 2023

Table 2: Malaysia Consumer Price Index Growth Trend (% YoY)

Base 2010=100	weight	2020	2021	2022	Jun-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
CPI	100.0	-1.2	2.5	3.3	3.4	3.7	3.7	3.4	3.3	2.8	2.4
Core Inflation	70.5	1.1	0.7	3.0	3.0	3.9	3.9	3.8	3.6	3.5	3.1
Food & Non-Alcoholic Beverages	29.5	1.3	1.7	5.8	6.1	6.7	7.0	6.9	6.3	5.9	4.7
Alcoholic Beverages & Tobacco	2.4	0.3	0.5	0.5	0.4	0.8	0.8	0.6	0.6	0.7	0.6
Clothing & Footwear	3.2	-0.8	-0.4	0.1	0.2	0.5	0.4	0.5	0.5	0.4	0.1
Housing, Water, Electricity, Gas & Other Fuels	23.8	-1.7	1.5	1.8	1.2	1.5	1.7	1.6	1.6	1.8	1.8
Furnishing, Household Equipment & Routine Household Maintenance	4.1	0.2	1.6	3.5	3.4	3.5	3.4	3.1	3.0	2.7	2.3
Health	1.9	1.2	0.4	0.7	0.6	1.6	1.8	2.2	2.1	1.9	2.0
Transport	14.6	-10.0	11.0	4.7	5.4	4.0	3.7	2.4	2.3	1.0	0.0
Communication	4.8	1.1	0.0	0.0	0.0	-1.4	-1.4	-1.4	-1.4	-3.7	-3.6
Recreation Services & Culture	4.8	0.5	0.4	2.3	2.2	2.7	1.7	1.9	1.8	1.8	1.6
Education	1.3	1.0	0.2	1.1	1.1	1.3	1.6	1.7	1.6	1.9	1.9
Restaurants & Hotels	2.9	0.4	0.4	5.0	5.0	6.8	7.4	7.2	6.6	6.7	5.4
Miscellaneous Goods & Services	6.7	2.6	0.5	2.0	2.2	2.3	2.5	2.1	2.5	2.9	2.6

Source: Dept. of Statistics, Kenanga Research

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