

Malaysia Consumer Price Index

Remained unchanged in August; potential upside risks to prices amid growing food insecurity

- The headline inflation remained at a two-year low of 2.0% in August, matching house forecast and market consensus**

- Despite plateauing around its 10-year average on a YoY basis, prices increased by 0.23% MoM (Jul: 0.08%) due to a sharp increase in housing (weight: 18.1%), water (0.9%), electricity (2.7%) and health (1.9%) indices. However, food (28.4%) inflation continued to moderate by 0.07% MoM (Jul: 0.39%).
- After hitting a peak of 4.2% in November 2022, core inflation has steadily moderated to 2.5% YoY (Jul: 2.8%), its lowest level since May 2022. However, the core component increased to a three-month high of 0.2% MoM (Jul: 0.0%).

- Moderation in food prices was offset by an increase in the housing and health indices**

- Food & non-alcoholic beverages (4.1%; Jul: 4.4%): slowed for the sixth straight month to its lowest level since March 2022, primarily due to a broad-based drop in key food items (i.e. meat, vegetables and cooking oil). Of note, prices of food at home recorded its first MoM deflation (-0.1%; Jul: 0.1%) in four months.
- Housing, water, electricity, gas & other fuels (1.8%; Jul: 1.7%): increased marginally to a two-month high. On a MoM basis, the component rose by 0.5% (Jul: 0.0%), mainly driven by an increase in rental (0.3%; Jul: 0.0%), water supply (2.1%; Jul: 0.0%) and electricity (2.0%; Jul: 0.0%) indices.
- Health (2.4%; Jul: 2.0%): surged to its highest level since October 2017 due to an increase in prices of pharmaceutical products (2.8%; Jul: 1.8%). It was up 0.5% MoM, the highest since February this year.

- The return of inflation across advanced and developing economies due to a temporary push from higher energy prices**

- US (3.7%; Jul: 3.2%): rose to a three-month high due to a sharp increase in gasoline prices (10.6% MoM; Jul: 0.2%). This blip in the disinflation path, coupled with solid US activity data, should support the Fed's higher-for-longer narrative for the time being. However, heightened uncertainties continue to cast doubt on the Fed's hawkish persistence.
- Korea (3.4%; Jul: 2.3%): beat market expectations (2.7%) and soared to a four-month high due to a sharp rise in petroleum products and agricultural prices amid rising global crude oil prices and adverse weather conditions.
- China (0.1%; Jul: -0.3%): returned to positive territory due to an increase in non-food costs amid China's domestic travel recovery. However, consumer spending continued to remain weak. This, coupled with the worsening property sector, may continue to spell trouble for growth and inflation, prompting Beijing to implement more economic stimulus measures.

- 2023 headline inflation forecast maintained at 2.9% (2022: 3.3%) amid rising food insecurity and geopolitical tensions**

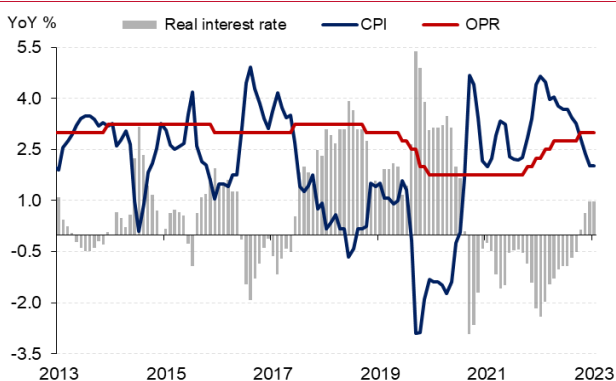
- According to the World Bank's latest food security update, as of September 11, 19 countries have implemented 27 food exports bans. This includes India's non-basmati rice export ban, which is expected to exert upward pressure on Malaysia's rice price due to our heavy reliance on India. Also, the potential increase in domestic vegetable prices due to the monsoon transition phase, coupled with the termination of the Black Sea Grain deal, the El Niño's phenomenon and rising crude oil prices, may pose upside risk to prices in the coming months.
- Despite these risks to prices, the BNM is still expected to keep the overnight policy rate unchanged at 3.00% for the next 12 to 15 months due to waning domestic demand momentum and weakening global economic prospects.

Table 1: Global Inflation (% YoY)

	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23
US	5.0	4.9	4.0	3.0	3.2	3.7
EU	6.9	7.0	6.1	5.5	5.3	5.2
UK	10.1	8.7	8.7	7.9	6.8	6.7
Japan	3.2	3.5	3.2	3.3	3.3	3.2
Korea	4.2	3.7	3.3	2.7	2.3	3.4
Singapore	5.5	5.7	5.1	4.5	4.1	N/A
China	0.7	0.1	0.2	0.0	-0.3	0.1
Indonesia	5.0	4.3	4.0	3.5	3.1	3.3
Thailand	2.8	2.7	0.5	0.2	0.4	0.9

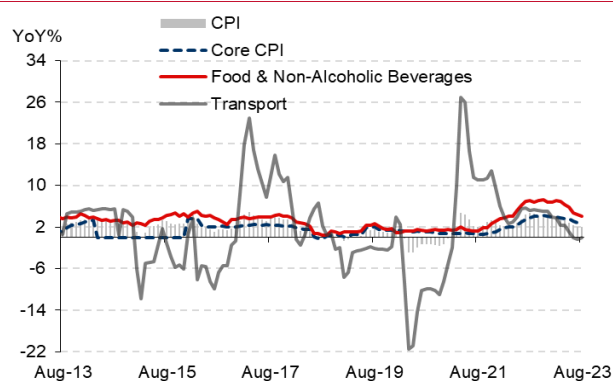
Source: Bloomberg, Kenanga Research

Graph 1: Real Interest Rate



Source: Dept. of Statistics, Kenanga Research

Graph 2: CPI Growth by Main Categories



Source: Bloomberg, Kenanga Research

25 September 2023

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

Base 2010=100	weight	2020	2021	2022	Aug -22	Mar-23	Apr-23	May -23	Jun-23	Jul-23	Aug -23
CPI	100.0	-1.2	2.5	3.3	4.7	3.4	3.3	2.8	2.4	2.0	2.0
Core Inflation	70.5	1.1	0.7	3.0	3.8	3.8	3.6	3.5	3.1	2.8	2.5
Food & Non-Alcoholic Beverages	29.5	1.3	1.7	5.8	7.2	6.9	6.3	5.9	4.7	4.4	4.1
Alcoholic Beverages & Tobacco	2.4	0.3	0.5	0.5	0.7	0.6	0.6	0.7	0.6	0.5	0.5
Clothing & Footwear	3.2	-0.8	-0.4	0.1	0.3	0.5	0.5	0.4	0.1	0.1	0.0
Housing, Water, Electricity, Gas & Other Fuels	23.8	-1.7	1.5	1.8	4.1	1.6	1.6	1.8	1.8	1.7	1.8
Furnishing, Household Equipment & Routine Household Maintenance	4.1	0.2	1.6	3.5	4.3	3.1	3.0	2.7	2.3	1.9	1.7
Health	1.9	1.2	0.4	0.7	0.9	2.2	2.1	1.9	2.0	2.0	2.4
Transport	14.6	-10.0	11.0	4.7	5.2	2.4	2.3	1.0	0.0	-0.4	0.0
Communication	4.8	1.1	0.0	0.0	0.0	-1.4	-1.4	-3.7	-3.6	-3.7	-3.7
Recreation Services & Culture	4.8	0.5	0.4	2.3	2.7	1.9	1.8	1.8	1.6	1.1	1.0
Education	1.3	1.0	0.2	1.1	1.2	1.7	1.6	1.9	1.9	2.0	2.1
Restaurants & Hotels	2.9	0.4	0.4	5.0	6.4	7.2	6.6	6.7	5.4	5.0	4.7
Miscellaneous Goods & Services	6.7	2.6	0.5	2.0	2.4	2.1	2.5	2.9	2.6	2.6	2.4

Source: Dept. of Statistics, Kenanga Research

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