

Malaysia Consumer Price Index

Cooled further in October to its lowest level in 31 months on subdued price pressure

- **The headline inflation continued to fall below its 10-year average of 2.0% in October (1.8%; Sep: 1.9%), matching house forecast but slightly lower than market estimate of 1.9%**

- The moderation was primarily driven by a reduction in food inflationary pressure, due to the base effect and the continued decline in the prices of food at home. On a monthly basis, inflation was relatively unchanged or a marginal growth rate of just 0.08%, as muted housing costs were offset by increases in the transport and restaurant & hotel subcomponents.
- Core CPI is also on a downward trajectory, moderating to 2.4% (Sep: 2.5%). On a MoM basis, it recorded a flat growth of 0.0% MoM (Sep: 0.3%), primarily attributed to the absence of price pressure in most subcomponents.

- **The uptick in transport and restaurant costs fell short of offsetting the moderation in food prices**

- Food & non-alcoholic beverages (3.6%; Sep: 3.9%): cooled for the eight straight month, reaching its lowest level since December 2021. This is primarily due to continued MoM deflation in the prices of food at home, driven mainly by lower prices for fresh fish, frozen meat and flour.
- Transport (0.0%; Sep: -0.1%): rebounded out of deflation due to a MoM increase in fuel and lubricant prices, along with higher costs for the repair and maintenance of personal transport.
- Restaurant & hotels (4.6%; Sep: 4.4%): returned to an uptrend after four straight months of decline. On a MoM basis, it gained 0.5% (Sep: 0.1%) due to an increase in expenditure at restaurants and cafes.

- **Decelerating inflation trend across economies, yet central banks remain vigilant amid upside price risks**

- US (3.2%; Sep: 3.7%): cooled more than anticipated, primarily driven by a moderation in owners' equivalent rent and a decline in energy, used cars, airline fares, and hotel prices. Notably, both headline and core rates decelerated to 0.0% MoM (Sep: 0.4%) and 0.2% MoM (Sep: 0.3%), respectively. This, combined with a softening US labour market, strengthens the argument that Fed rates have peaked.
- EU (2.9%; Sep: 4.3%): decelerated to its lowest level since July 2021, mainly due to an 11.2% decline in energy prices (Sep: -4.6%). Nevertheless, ECB's Chair Lagarde resisted expectations of rate cuts, citing upside risks to prices.
- Thailand (-0.3%; Sep: 0.3%): fell into deflation for the first time in 26 months, primarily attributed to the descent in energy and goods prices due to government support measures. Despite this, the Bank of Thailand remains vigilant, highlighting increased global risks and expressing concerns over the Middle East war.

- **We revised our 2023 headline inflation forecast back to 2.5% (2022: 3.3%) from 2.9% due to dissipating price pressure**

- The stabilisation in the prices of chicken and eggs following the removal of government price controls, combined with the delayed impact of El Niño, and falling crude oil prices, may continue to keep headline CPI below 2.0% in the coming months, resulting in a full-year average of around 2.5%. Moving forward, despite multiple risks to prices, especially on the geopolitical front, a potential decrease in key food items due to increased production may help to anchor inflation. However, Malaysia's subsidy rationalisation and the 2.0% increase in services tax could push inflation higher to 2.7% in 2024, but slower than our earlier forecast of 3.1%.
- With inflation projected to hover between 2.0-3.0% and GDP growth expected to remain firm, expanding as high as 5.0% in 2024, it is likely that the BNM will maintain the overnight policy rate at 3.00% over the next 12-15 months.

Table 1: Global Inflation (% YoY)

	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
US	4.0	3.0	3.2	3.7	3.7	3.2
EU	6.1	5.5	5.3	5.2	4.3	2.9
UK	8.7	7.9	6.8	6.7	6.7	4.6
Japan	3.2	3.3	3.3	3.2	3.0	3.3
Korea	3.3	2.7	2.3	3.4	3.7	3.8
Singapore	5.1	4.5	4.1	4.0	4.1	4.7
China	0.2	0.0	-0.3	0.1	0.0	-0.2
Indonesia	4.0	3.5	3.1	3.3	2.3	2.6
Thailand	0.5	0.2	0.4	0.9	0.3	-0.3

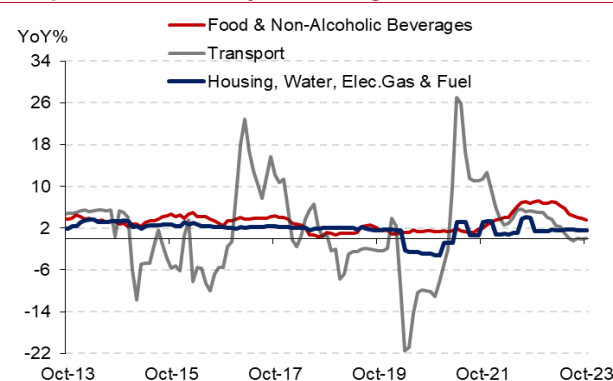
Source: Bloomberg, Kenanga Research

Graph 1: Real Interest Rate, Inflation Rates and OPR



Source: Dept. of Statistics, Kenanga Research

Graph 2: CPI Growth by Main Categories



Source: Bloomberg, Kenanga Research

27 November 2023

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

Base 2010=100	weight	2020	2021	2022	Oct-22	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
CPI	100.0	-1.2	2.5	3.3	4.0	2.8	2.4	2.0	2.0	1.9	1.8
Core Inflation	70.5	1.1	0.7	3.0	4.1	3.5	3.1	2.8	2.5	2.5	2.4
Food & Non-Alcoholic Beverages	29.5	1.3	1.7	5.8	7.1	5.9	4.7	4.4	4.1	3.9	3.6
Alcoholic Beverages & Tobacco	2.4	0.3	0.5	0.5	0.8	0.7	0.6	0.5	0.5	0.7	0.6
Clothing & Footwear	3.2	-0.8	-0.4	0.1	0.4	0.4	0.1	0.1	0.0	0.1	0.0
Housing, Water, Electricity, Gas & Other Fuels	23.8	-1.7	1.5	1.8	1.5	1.8	1.8	1.7	1.6	1.6	1.6
Furnishing, Household Equipment & Routine Household Maintenance	4.1	0.2	1.6	3.5	4.1	2.7	2.3	1.9	1.7	1.5	1.4
Health	1.9	1.2	0.4	0.7	1.0	1.9	2.0	2.0	2.4	2.2	2.4
Transport	14.6	-10.0	11.0	4.7	5.2	1.0	0.0	-0.4	0.0	-0.1	0.0
Communication	4.8	1.1	0.0	0.0	0.0	-3.7	-3.6	-3.7	-3.7	-3.7	-3.7
Recreation Services & Culture	4.8	0.5	0.4	2.3	3.4	1.8	1.6	1.1	1.0	0.6	0.7
Education	1.3	1.0	0.2	1.1	1.4	1.9	1.9	2.0	2.1	2.0	2.1
Restaurants & Hotels	2.9	0.4	0.4	5.0	6.8	6.7	5.4	5.0	4.7	4.4	4.6
Miscellaneous Goods & Services	6.7	2.6	0.5	2.0	2.4	2.9	2.6	2.6	2.4	2.5	2.3

Source: Dept. of Statistics, Kenanga Research

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