

Malaysia Consumer Price Index

Continued to climb in May due to rising costs of food and transportation

- **The headline inflation rose to a five-month high of 2.8% YoY in May, slightly higher than expectation (KIBB: 2.6%; Consensus: 2.7%; Apr: 2.3%)**

- Food prices remain the primary driver for the higher inflation rate and the rapid rise in the cost of living may be detrimental to the economy. It is to note that the inflation rate in Selangor & W.P Putrajaya reached 3.7% in May (Apr: 3.1%).
- On a monthly basis, CPI hit a seven-month high of 0.6% MoM (Apr: 0.2%) amid surging food (0.9% MoM; Apr: 0.4%) and transport inflation (1.1% MoM; Apr: 0.4%), while core inflation jumped to 2.4% YoY, its highest level since July 2017.

- **The jump in inflation was mainly attributable to increasing food, transport and rental costs**

- Food & non-alcoholic beverages (5.2%; Apr: 4.1%): surged at the fastest pace since October 2011, mainly due to a sharp increase in prices of food at home (5.5%; Apr: 4.1%), especially fresh meat (10.7%; Apr: 6.5%).
- Transport (3.9%; Apr: 3.0%): continued to rise due to a rebound in vehicle purchases (0.2%; Apr: -0.1%) and increasing cost of operation of personal transport equipment (5.4%; Apr: 4.5%).
- Housing, water, electricity, gas & other fuels (1.2%; Apr: 0.8%): increased on higher cost of renting (1.1%; Apr: 0.8%).

- **Rising inflationary pressure across advanced and developing economies as energy and food price surge persists**

- US (8.6%; Apr: 8.3%): soared to its highest level since December 1981 due to rising energy (34.6%; Apr: 30.3%), food (10.1%; Apr: 9.4%) and shelter (5.5%; Apr: 5.1%) costs. The CPI reading came in higher than the consensus view of 8.3%.
- EU (8.1%; Apr: 7.4%): climbed to its highest rate on record, mainly attributable to a 39.2% (Apr: 37.5%) increase in energy prices and rising food costs (7.5%; Apr: 6.3%). This has prompted the European Central Bank to take a hawkish turn.
- Thailand (7.1%; Apr: 4.7%): accelerated to a near 14-year high, driven mainly by rising energy and food prices amid supply-demand imbalance. To note, energy prices surged to 37.2%, partly due to the end of the subsidy on cooking gas.

- **2022 headline inflation forecast revised up to 3.3% from 2.9% (2021: 2.5%) as supply bottlenecks continue to impinge on food prices**

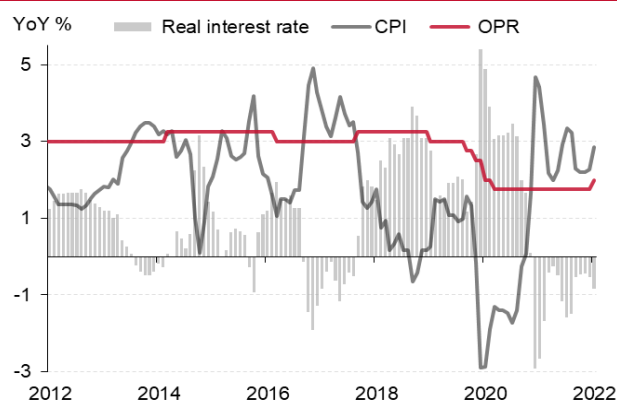
- China's zero-COVID policy uncertainty and the ongoing Russia-Ukraine war may continue to exert pressure on an already stretched global supply chains, worsening inflationary pressures on key consumer goods (i.e. food). As a food importing country, Malaysia will definitely be affected by the rise in global food prices. This, coupled with the removal of subsidies and ceiling prices for certain food items (i.e. chicken, eggs, cooking oil) is expected to push the domestic food inflation near the 7.0% level in July, further reducing consumers' purchasing power.
- This raises the probability that the Bank Negara Malaysia may continue to raise the overnight policy rate in a 25 basis point increments at each of its remaining three monetary policy committee meetings in 2022 on top of emerging inflation fears, improvement in the domestic labour market and expectations of a strong economic recovery. However, growing uncertainty and recession fears may change the central bank tightening narrative.

Table 1: Global Inflation (% YoY)

| | Dec-21 | Jan-22 | Feb-22 | Mar-22 | Apr-22 | May-22 |
|-------------|--------|--------|--------|--------|--------|--------|
| Eurozone | 5.0 | 5.1 | 5.9 | 7.4 | 7.4 | 8.1 |
| China | 1.5 | 0.9 | 0.9 | 1.5 | 2.1 | 2.1 |
| South Korea | 3.7 | 3.6 | 3.7 | 4.1 | 4.8 | 5.4 |
| Indonesia | 1.9 | 2.2 | 2.1 | 2.6 | 3.5 | 3.6 |
| Japan | 0.8 | 0.5 | 0.9 | 1.2 | 2.5 | 2.5 |
| Singapore | 4.0 | 4.0 | 4.3 | 5.4 | 5.4 | 5.6 |
| Thailand | 2.2 | 3.2 | 5.3 | 5.7 | 4.7 | 7.1 |
| USA | 7.0 | 7.5 | 7.9 | 8.5 | 8.3 | 8.6 |

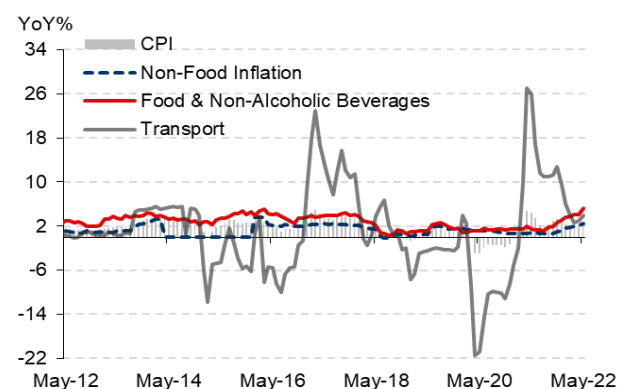
Source: Bloomberg, Kenanga Research

Graph 1: Real Interest Rate



Source: Dept. of Statistics, Kenanga Research

Graph 2: CPI Growth by Main Categories



Source: Bloomberg, Kenanga Research

27 June 2022

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

| Base 2010=100 | weight | 2019 | 2020 | 2021 | May -21 | Dec -21 | Jan- 22 | Feb- 22 | Mar- 22 | Apr- 22 | May -22 |
|---|--------------|------------|-------------|------------|------------|------------|------------|------------|------------|------------|------------|
| CPI | 100.0 | 0.7 | -1.2 | 2.5 | 4.4 | 3.2 | 2.3 | 2.2 | 2.2 | 2.3 | 2.8 |
| Core Inflation | 70.5 | 1.1 | 1.1 | 0.7 | 0.8 | 1.1 | 1.6 | 1.8 | 2.0 | 2.1 | 2.4 |
| Food & Non-Alcoholic Beverages | 29.5 | 1.6 | 1.3 | 1.8 | 1.5 | 3.2 | 3.6 | 3.7 | 4.0 | 4.1 | 5.2 |
| Alcoholic Beverages & Tobacco | 2.4 | 1.5 | 0.3 | 0.5 | 0.7 | 0.3 | 0.4 | 0.4 | 0.5 | 0.5 | 0.4 |
| Clothing & Footwear | 3.2 | -1.9 | -0.8 | -0.4 | -0.5 | -0.4 | -0.3 | -0.2 | -0.3 | -0.2 | 0.0 |
| Housing, Water, Electricity, Gas & Other Fuels | 23.8 | 1.9 | -1.7 | 1.6 | 3.2 | 3.4 | 0.7 | 0.8 | 0.9 | 0.8 | 1.2 |
| Furnishing, Household Equipment & Routine Household Maintenance | 4.1 | 1.4 | 0.2 | 1.6 | 2.1 | 2.7 | 3.1 | 3.2 | 3.0 | 2.7 | 2.9 |
| Health | 1.9 | 0.6 | 1.2 | 0.4 | 0.6 | 0.2 | 0.3 | 0.5 | 0.2 | 0.2 | 0.4 |
| Transport | 14.6 | -3.1 | -10.0 | 11.0 | 26.0 | 9.5 | 6.0 | 3.9 | 2.6 | 3.0 | 3.9 |
| Communication | 4.8 | 0.4 | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Recreation Services & Culture | 4.8 | 0.7 | 0.5 | 0.5 | 0.6 | 0.4 | 1.2 | 1.6 | 1.1 | 1.3 | 1.8 |
| Education | 1.3 | 1.4 | 1.0 | 0.1 | 0.3 | 0.2 | 0.7 | 0.7 | 0.9 | 1.0 | 1.0 |
| Restaurants & Hotels | 2.9 | 1.2 | 0.4 | 0.4 | 0.2 | 1.3 | 2.1 | 2.6 | 2.9 | 3.2 | 3.7 |
| Miscellaneous Goods & Services | 6.7 | 0.4 | 2.6 | 0.5 | 0.7 | 0.4 | 0.6 | 1.1 | 1.9 | 1.8 | 1.9 |

Source: Dept. of Statistics, Kenanga Research

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