

26 September 2022

Malaysia Consumer Price Index

Rising food and rent prices pushed inflation to a 16-month high in August

- The headline inflation jumped to a 16-month high of 4.7% YoY in August, matching consensus, but lower than house forecast (KIBB: 4.9%; Consensus: 4.7%; Jul: 4.4%)

- The continued increase in the inflation rate was mainly driven by higher food prices and increasing restaurant and hotel costs, partly due to the influx of tourists into Malaysia. On top of that, the rise was also attributable by the continuing rise in rental rates. However, on a MoM basis, CPI moderated by 0.2% MoM (Jul: 0.4%).
- Underlying price pressures as measured by the core inflation soared to a record high of 3.8% (Jul: 3.4%), mainly due to a broad-based increase across all sub-components, especially food, transport, housing and restaurants and hotels.

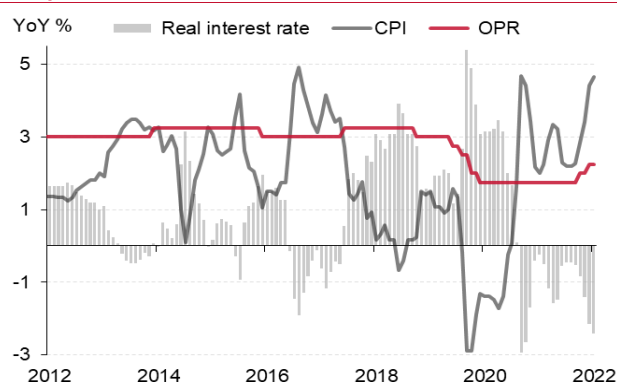
Table 1: Global Inflation (% YoY)

	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Eurozone	7.4	7.4	8.1	8.6	8.9	9.1
China	1.5	2.1	2.1	2.5	2.7	2.5
South Korea	4.1	4.8	5.4	6.0	6.3	5.7
Indonesia	2.6	3.5	3.6	4.4	4.9	4.7
Japan	1.2	2.5	2.5	2.4	2.6	3.0
Singapore	5.4	5.4	5.6	6.7	7.0	7.5
Thailand	5.7	4.7	7.1	7.7	7.6	7.9
USA	8.5	8.3	8.6	9.1	8.5	8.3

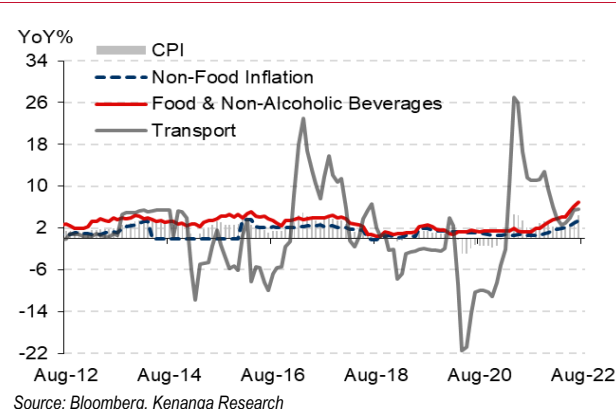
Source: Bloomberg, Kenanga Research

- Higher inflation reading in food and housing components outweighed a decrease in transport inflation
 - Food & non-alcoholic beverages (7.2%; Jul: 6.9%): accelerated to its highest level since April 2009 due to a spike in prices of food away from home (8.4%; Jul: 7.8%). It was also driven by higher flour & other cereals grains price.
 - Housing, water, electricity, gas & other fuels (4.1%; Jul: 3.8%): surged to a new record high amid rising rental costs.
 - Transport (5.2%; Jul: 5.6%): eased to a three-month low due to a decrease in costs of fuels and lubricating equipment (4.9%; Jul: 6.0%) and transport services (-0.7%; Jul: -0.3%) amid a moderation in Brent crude oil price.
- Inflationary pressure remained strong across advanced and developing economies
 - US (8.3%; Jul: 8.5%): eased for the second straight month due to a 10.6% decline in gasoline prices. However, core inflation surged to a five-month high of 6.3% (Jul: 5.9%) due to rising costs of rents, healthcare and new cars.
 - EU (9.1%; Jul: 8.9%): surged to a new record high in August, driven by a continued rise in food prices (10.6%; Jul: 9.8%) and persistently elevated energy costs (38.6%; Jul: 39.6%), mainly due to the Russia-Ukraine crisis and heatwaves.
 - Indonesia (4.7%; Jul: 4.9%): moderated for the first time in six months due to a dip in food inflation (8.2%; Jul: 10.3%). However, core inflation edged up to 3.0% (Jul: 2.9%) due to an increase in services inflation.
- We maintained our 2022 headline inflation at 3.3% (2021: 2.5%) due to unfavourable external factors
 - The rise of imported inflation due to the persistent USD strength, coupled with negative supply shock due to the intensification of geopolitical tension between Russia and Ukraine may continue to exert upward pressure on prices and put a dent in household spending. However, improving supply chain constraints due to slowing global consumer demand amid tighter financial conditions may help to cap inflation in the 4Q22 and 2023. Domestically, Bank Negara Malaysia (BNM) pre-emptive measure to curb emerging demand-pull inflation and government's subsidies may continue to keep consumer prices under control.
 - BNM is expected to continue to hike the overnight policy rate by another 25 basis points in November to realign itself with the global monetary policy rate trend and to soften growing domestic inflationary pressure.

Graph 1: Real Interest Rate



Graph 2: CPI Growth by Main Categories



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

Base 2010=100	weight	2019	2020	2021	Aug -21	Mar- 22	Apr- 22	May -22	Jun- 22	Jul- 22	Aug -22
CPI	100.0	0.7	-1.2	2.5	2.0	2.2	2.3	2.8	3.4	4.4	4.7
Core Inflation	70.5	1.1	1.1	0.7	0.6	2.0	2.1	2.4	3.0	3.4	3.8
Food & Non-Alcoholic Beverages	29.5	1.6	1.3	1.8	1.2	4.0	4.1	5.2	6.1	6.9	7.2
Alcoholic Beverages & Tobacco	2.4	1.5	0.3	0.5	0.4	0.5	0.5	0.4	0.4	0.6	0.7
Clothing & Footwear	3.2	-1.9	-0.8	-0.4	-0.4	-0.3	-0.2	0.0	0.2	0.3	0.3
Housing, Water, Electricity, Gas & Other Fuels	23.8	1.9	-1.7	1.6	0.6	0.9	0.8	1.2	1.2	3.8	4.1
Furnishing, Household Equipment & Routine Household Maintenance	4.1	1.4	0.2	1.6	1.7	3.0	2.7	2.9	3.4	4.0	4.3
Health	1.9	0.6	1.2	0.4	0.3	0.2	0.2	0.4	0.6	0.8	0.9
Transport	14.6	-3.1	-10.0	11.0	11.0	2.6	3.0	3.9	5.4	5.6	5.2
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	0.7	1.1	1.3	1.8	2.2	2.5	2.7
Education	1.3	1.4	1.0	0.1	0.0	0.9	1.0	1.0	1.1	1.2	1.2
Restaurants & Hotels	2.9	1.2	0.4	0.4	0.6	2.9	3.2	3.7	5.0	5.8	6.4
Miscellaneous Goods & Services	6.7	0.4	2.6	0.5	-0.6	1.9	1.8	1.9	2.2	2.1	2.4

Source: Dept. of Statistics, Kenanga Research

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