

29 November 2022

Malaysia Consumer Price Index

Moderated to a 4-month low in October partly due to a high base effect

- The headline inflation continued to ease in October (4.0% YoY; Sep: 4.5%), reaching its lowest level in four months, but registering slightly above expectations (KIBB: 3.9%; Consensus: 3.9%)

- The sustained moderation in headline CPI was underpinned by easing prices in housing, water, electricity, gas & other fuels and a high base effect from last year. However, on a MoM basis inflation registered a slightly faster expansion at 0.2% (Sep: 0.1%) driven by an uptick in food prices.
- Core inflation: increased to another new all-time high of 4.1% YoY (Sep: 4.0%), partly due to a high base effect as it eased MoM at 0.1% (Sep: 0.3%).

- Softer inflation was primarily attributable to a moderation in housing, water, electricity, gas & other fuel prices, as well as slightly lower transport prices

- Housing, water, electricity, gas & other fuels (1.5%; Sep: 4.0%): eased to a 4-month low due to the absence of base effects following the discontinuation of electricity discounts after September 2021.
- Transport (5.2%; Sep: 5.3%): edged lower due to moderation in costs of fuels & lubricating equipment (3.4%; Sep: 4.3%) and operation of personal transport equipment (5.6%; Sep: 6.0%).
- Food & non-alcoholic beverages (7.1%; Sep: 6.8%): increased as food prices at home edged higher (5.8%; Sep: 5.7%), namely for meat (7.3%; Sep: 6.6%) and fish & seafood (3.4%; Sep: 3.3%).

- Mixed inflationary trend across advanced and developing economies

- EU (10.6%; Sep: 9.9%): rose to another new record high in October as the Russia-Ukraine war continues to drive energy (41.9%; Sep: 40.7%) and food prices (13.1%; Sep: 11.8%).
- US (7.7%; Sep: 8.2%): slowed in October and registered below market expectations, with core-CPI also easing (6.3%; Sep: 6.6%) signalling that US inflation may have peaked but still remaining well above the Fed's 2.0% target.
- China (2.1%; Sep: 2.8%): inflation fell for the first time since December 2020, on lower iron and steel prices.

- 2022 headline inflation forecast maintained at 3.3% (2021: 2.5%)

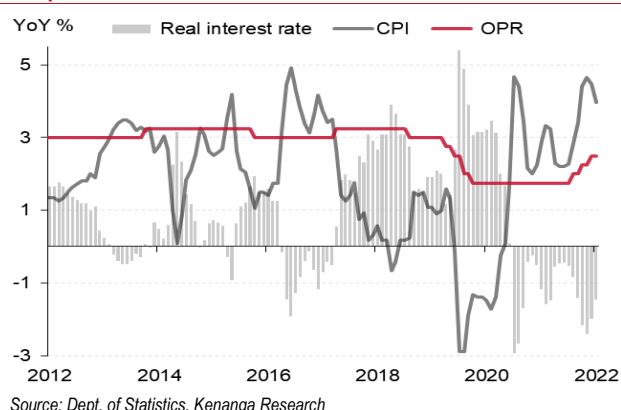
- We still expect headline inflation to trend lower towards the end of the year on falling commodity prices, the government's continued price control policies, and the high base effect from last year. Nonetheless, there remains considerable upside risk to inflationary pressures stemming from the ongoing Russia-Ukraine conflict and China's worsening COVID-19 condition, with daily cases having just reached a new record high. For 2023, we now expect headline inflation to ease to 2.5% from our previous forecast of 4.2%, largely due to the formation of the new unity government. We reckon the coalition government may continue to provide fuel subsidies and other price control measures to curb rising inflationary pressures.
- Given the stronger-than-expected domestic growth and persistently elevated core inflation, we expect Bank Negara Malaysia (BNM) to raise the overnight policy rate by another 25 basis points at its next meeting on January 18-19 2023. However, we reckon BNM will end its tightening cycle there, leaving the policy rate at 3.00% and matching its long-term neutral rate, as it positions itself for a likely economic slowdown next year.

Table 1: Global Inflation (% YoY)

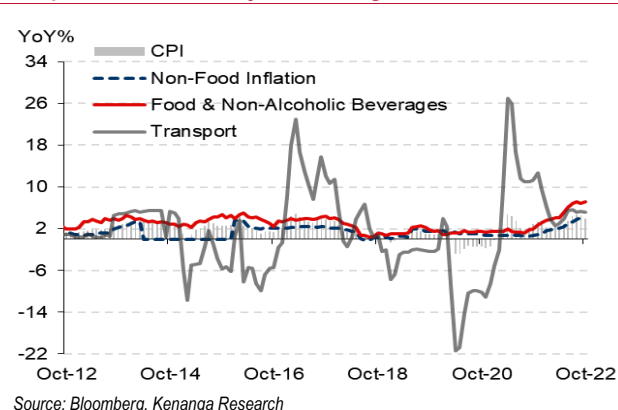
	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
Eurozone	8.1	8.6	8.9	9.1	9.9	10.6
China	2.1	2.5	2.7	2.5	2.8	2.1
South Korea	5.4	6.0	6.3	5.7	5.6	5.7
Indonesia	3.6	4.4	4.9	4.7	6.0	5.7
Japan	2.5	2.4	2.6	3.0	3.0	3.7
Singapore	5.6	6.7	7.0	7.5	7.5	6.7
Thailand	7.1	7.7	7.6	7.9	6.4	6.0
USA	8.6	9.1	8.5	8.3	8.2	7.7

Source: Bloomberg, Kenanga Research

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	Oct-21	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
CPI	100.0	0.7	-1.2	2.5	2.9	2.8	3.4	4.4	4.7	4.5	4.0
Core Inflation	70.5	1.1	1.1	0.7	0.7	2.4	3.0	3.4	3.8	4.0	4.1
Food & Non-Alcoholic Beverages	29.5	1.6	1.3	1.8	1.9	5.2	6.1	6.9	7.2	6.8	7.2
Alcoholic Beverages & Tobacco	2.4	1.5	0.3	0.5	0.3	0.4	0.4	0.6	0.7	0.7	0.8
Clothing & Footwear	3.2	-1.9	-0.8	-0.4	-0.4	0.0	0.2	0.3	0.3	0.4	0.4
Housing, Water, Electricity, Gas & Other Fuels	23.8	1.9	-1.7	1.6	3.2	1.2	1.2	3.8	4.1	4.0	1.5
Furnishing, Household Equipment & Routine Household Maintenance	4.1	1.4	0.2	1.6	2.1	2.9	3.4	4.0	4.3	4.4	4.1
Health	1.9	0.6	1.2	0.4	0.2	0.4	0.6	0.8	0.9	1.0	1.0
Transport	14.6	-3.1	-10.0	11.0	11.3	3.9	5.4	5.6	5.2	5.3	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	0.2	1.8	2.2	2.5	2.7	3.1	3.4
Education	1.3	1.4	1.0	0.1	-0.1	1.0	1.1	1.2	1.2	1.3	1.4
Restaurants & Hotels	2.9	1.2	0.4	0.4	0.6	3.7	5.0	5.8	6.4	6.9	6.8
Miscellaneous Goods & Services	6.7	0.4	2.6	0.5	-0.2	1.9	2.2	2.1	2.4	2.4	2.4

Source: Dept. of Statistics, Kenanga Research

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