

25 January 2023

Malaysia Consumer Price Index

Inflationary pressure softened in December, but upside risk to prices remains

- **The headline inflation softened to 3.8% YoY in December, matching house estimate but a tad lower than market expectation (Consensus: 3.9%)**

- In 2022, inflation soared to an average of 3.3% YoY (2021: 2.5%; KIBB: 3.3%), its highest level in five years, propelled mainly by higher food prices (5.8%; 2021: 1.7%).
- Core inflation: eased for the first time in 15 months to 4.1% YoY (Nov: 4.2%), bringing the full-year rate to 3.0% (2021: 0.7%). The moderation was driven by a marginal fall in core food (8.1%; Nov: 8.2%) and transport (7.3%; Nov: 7.9%) costs.
- 4Q22: remain elevated, albeit at a slower rate of 3.9% (3Q22: 4.5%) due to a moderation in fuel prices.
- On a MoM basis, both headline and core inflation moderated by 0.2% (Nov: 0.3%) and 0.1% (Nov: 0.4%) respectively.

Table 1: Global Inflation (% YoY)

	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Eurozone	8.9	9.1	9.9	10.6	10.1	9.2
China	2.7	2.5	2.8	2.1	1.6	1.8
South Korea	6.3	5.7	5.6	5.7	5.0	5.0
Indonesia	4.9	4.7	6.0	5.7	5.4	5.5
Japan	2.6	3.0	3.0	3.7	3.8	4.0
Singapore	7.0	7.5	7.5	6.7	6.7	N/A
Thailand	7.6	7.9	6.4	6.0	5.6	5.9
USA	8.5	8.3	8.2	7.7	7.1	6.5

Source: Bloomberg, Kenanga Research

- **The softer growth in CPI was mainly driven by a moderation in food and transport costs**

- Food & non-alcoholic beverages (6.8%; Nov: 7.3%): eased to a three-month low due to cheaper prices of food at home (4.9%; Nov: 5.8%), specifically oils (-1.0%; Nov: -0.5%). However, prices of food away from home remained high at 9.6%.
- Transport (4.9%; Nov: 5.0%): continue to edged lower on cheaper vehicle prices (2.0%; Nov: 2.1%) and a moderation in the cost of fuels and lubricating equipment (1.8%; Nov: 2.6%). Nevertheless, the price of air fares surged to 41.1% (Nov: 16.1%) due to high demand and shortage of planes during the holiday season.
- To note, most indices such as alcoholic beverage & tobacco, health, communication, recreation services & culture and miscellaneous goods & services recorded a negative MoM growth in December, reflecting diminishing price pressure.

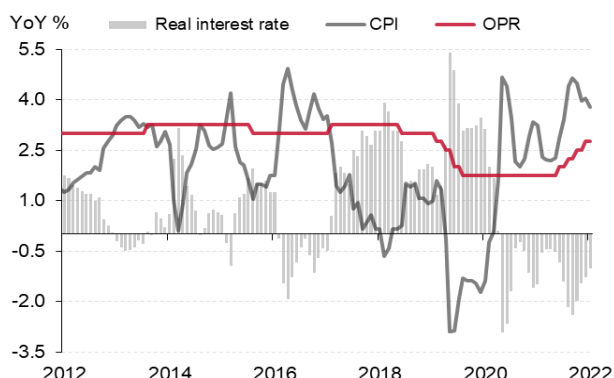
- **Mixed inflation trend across advanced and developing economies**

- US (6.5%; Nov: 7.1%): fell for the sixth straight month in December, attributable mainly to falling energy prices (7.3%; Nov: 13.1%). The continued deceleration in price growth strengthened the case for the Fed to pare down its rate-hike pace.
- EU (9.2%; Nov: 10.1%): slowed for a second consecutive month due to a moderation in energy costs (25.7%; Nov: 34.9%). However, an all-time high core inflation reading of 5.2% (Nov: 5.0%) is expected to pressure the ECB to remain hawkish.
- China (1.8%; Nov: 1.6%): edged up to a two-month high due to an increase in food prices despite restrained economic activity. Moving forward, inflation is expected to trend higher due to China's exit from its zero-COVID-19 policy.

- **2023 headline CPI forecast retained at 2.5% (2022: 3.3%), but upside risk to inflation remains**

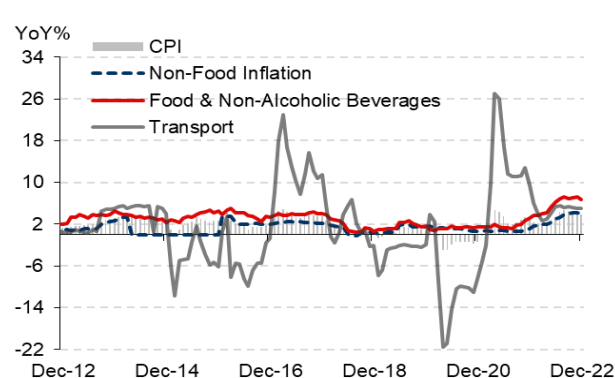
- Headline inflation has already peaked in August 2022 (4.7%) and may continue to trend lower moving ahead due to the strengthening of the ringgit, weaker global demand and supply-chain normalisation. However, a surge in Chinese tourists, coupled with the government's possible partial removal of certain subsidies (i.e. fuel) in 2H23, may push CPI higher on a monthly basis, but without impacting YoY figure by much amid high-base effect. The same may not be the case for core inflation due to price-stickiness.
- After the surprise pause to its normalisation cycle, the BNM is expected to keep the overnight policy rate unchanged at 2.75% for the rest of 2023. Moving forward, the possibility of a rate change decision depends mainly on the inflation trend and growth outlook, as well as any major fiscal policy decision made by the government.

Graph 1: Real Interest Rate



Source: Dept. of Statistics, Kenanga Research

Graph 2: CPI Growth by Main Categories



Source: Bloomberg, Kenanga Research

25 January 2023

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

Base 2010=100	weight	2020	2021	2022	Dec -21	Jul- 22	Aug -22	Sep -22	Oct- 22	Nov -22	Dec -22
CPI	100.0	-1.2	2.5	3.3	3.2	4.4	4.7	4.5	4.0	4.0	3.8
Core Inflation	70.5	1.1	0.7	3.0	1.1	3.4	3.8	4.0	4.1	4.2	4.1
Food & Non-Alcoholic Beverages	29.5	1.3	1.7	5.8	3.2	6.9	7.2	6.8	7.1	7.3	6.8
Alcoholic Beverages & Tobacco	2.4	0.3	0.5	0.5	0.3	0.6	0.7	0.7	0.8	0.8	0.7
Clothing & Footwear	3.2	-0.8	-0.4	0.1	-0.4	0.3	0.3	0.4	0.4	0.4	0.4
Housing, Water, Electricity, Gas & Other Fuels	23.8	-1.7	1.5	1.8	3.4	3.8	4.1	4.0	1.5	1.4	1.5
Furnishing, Household Equipment & Routine Household Maintenance	4.1	0.2	1.6	3.5	2.7	4.0	4.3	4.4	4.1	3.8	3.7
Health	1.9	1.2	0.4	0.7	0.2	0.8	0.9	1.0	1.0	1.4	1.3
Transport	14.6	-10.0	11.0	4.7	9.5	5.6	5.2	5.3	5.2	5.0	4.9
Communication	4.8	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1
Recreation Services & Culture	4.8	0.5	0.4	2.3	0.4	2.5	2.7	3.1	3.4	3.6	2.4
Education	1.3	1.0	0.2	1.1	0.2	1.2	1.2	1.3	1.4	1.5	1.4
Restaurants & Hotels	2.9	0.4	0.4	5.0	1.3	5.8	6.4	6.9	6.8	7.0	7.4
Miscellaneous Goods & Services	6.7	2.6	0.5	2.0	0.4	2.1	2.4	2.4	2.4	2.6	2.3

Source: Dept. of Statistics, Kenanga Research

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

Zalman Basree
Economist
zalman@kenanga.com.my

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may affect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my