

# Malaysia Consumer Price Index

Eased to a nine-month low in March due to cheaper transport and food prices

- **The headline inflation cooled to a nine-month low of 3.4% YoY in March (Feb: 3.7%), below the house's estimate and market expectation of 3.6%**

- The steeper moderation in consumer prices was mainly due to a slowdown in food (0.1% MoM; Feb: 0.4%) prices and a continued decline in transport prices (-0.2% MoM; Feb: -0.1%).
- 1Q23 (3.6%; 4Q22: 3.9%): moderated for the second consecutive quarter due to a deceleration in transport costs.
- To add, CPI increased by 0.1% MoM (Feb: 0.2%), its lowest rate since August 2021, while core inflation eased to 3.8% YoY due to a moderation in core food and transport items.

- **The lower inflation rate was mainly due to a moderation in transport, food and restaurant costs**

- Transport (2.4%; Feb: 3.7%): dropped to a 25-month low, primarily due to a sharp decline in prices of fuels and lubricating equipment (-0.9%; Feb: 0.5%) and continued moderation in the cost of air transport (34.8%; Feb: 48.2%).
- Food & non-alcoholic beverages (6.9%; Feb: 7.0%): fell marginally on cheaper prices of both food away (8.6%; Feb: 8.9%) and at home (5.6%; Feb: 5.8%), especially fresh seafood and vegetables.
- Restaurant & hotel (7.2%; Feb: 7.4%): despite Ramadhan that began in mid-March, the component decreased marginally, mainly due to reduced expenses in restaurants and cafes (7.0%; Feb: 7.3%). However, spending is expected to increase in April.

- **Despite a moderation in headline inflation across economies, central banks are still expected to hike rates in May**

- US (5.0%; Feb: 6.0%): decelerated to an almost two-year low due to a continued drop in energy (-3.5% MoM; Feb: -0.6%) and a moderation in shelter (0.6% MoM; Feb: 0.8%) costs. Despite this slowdown, the rate of inflation remains well above the Fed's target of 2.0%. Coupled with a relatively strong labour market, the Fed is likely to continue to hike in May.
- EU (6.9%; Feb: 8.5%): dropped to its lowest level since February 2022, mainly due to the energy base effect. However, core inflation soared to an all-time high of 7.5% (Feb: 7.4%), further reinforcing the case of another rate hike by the ECB.
- Thailand (2.8%; Feb: 3.8%): cooled below the upper end of the central bank's target of 3.0% for the first time in 15 months. Nevertheless, the BoT is still expected to hike in May as core inflation is expected to remain higher for longer.

- **2023 headline inflation forecast revised up to 2.9% from 2.5% (2022: 3.3%) amid potential subsidy rationalisation**

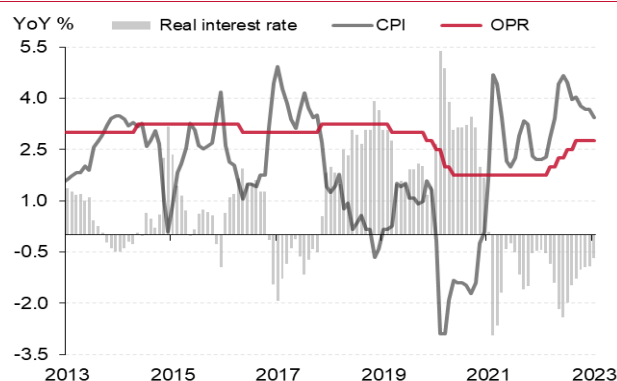
- While price pressure appears to be cooling down, there is a possibility of a one-time increase in prices due to the highly possible implementation of targeted subsidies for selected items (such as diesel, chicken, and eggs) in 2H23, as well as a new minimum wage order for micro enterprises in July. Additionally, an uptick in tourism activity and heightened geopolitical uncertainty could also contribute to higher inflation. Nevertheless, inflation is expected to maintain a downward trend, averaging 3.3% in 2Q23 and 2.9% in 3Q23, partly because of the base effect.
- Due to our projected average core inflation rate of 2.9% in 2023 (2022: 3.0%), Bank Negara Malaysia (BNM) is expected to maintain its current policy stance by keeping the overnight policy rate unchanged at 2.75% at its policy meeting in May. Our assessment is that the central bank has concluded its policy normalisation cycle, primarily due to the imminent slowdown in the global economy and easing price pressure. Unless any unforeseen circumstances arise in the global or domestic economy, it is likely that BNM will maintain its current policy stance until the end of the year.

**Table 1: Global Inflation (% YoY)**

	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
Eurozone	10.6	10.1	9.2	8.6	8.5	6.9
China	2.1	1.6	1.8	2.1	1.0	0.7
South Korea	5.7	5.0	5.0	5.2	4.8	4.2
Indonesia	5.7	5.4	5.5	5.3	5.5	5.0
Japan	3.7	3.8	4.0	4.3	3.3	3.2
Singapore	6.7	6.7	6.5	6.6	6.3	5.5
Thailand	6.0	5.6	5.9	5.0	3.8	2.8
USA	7.7	7.1	6.5	6.4	6.0	5.0

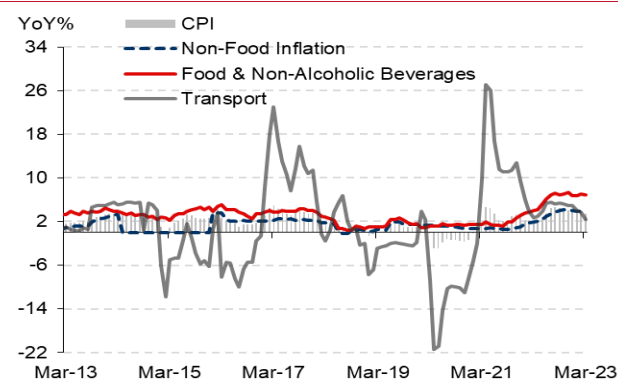
Source: Bloomberg, Kenanga Research

**Graph 1: Real Interest Rate**



Source: Dept. of Statistics, Kenanga Research

**Graph 2: CPI Growth by Main Categories**



Source: Bloomberg, Kenanga Research

25 April 2023

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

Base 2010=100	weight	2020	2021	2022	Mar-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Mar-23
<b>CPI</b>	<b>100.0</b>	<b>-1.2</b>	<b>2.5</b>	<b>3.3</b>	<b>2.2</b>	<b>4.5</b>	<b>4.0</b>	<b>4.0</b>	<b>3.8</b>	<b>3.7</b>	<b>3.4</b>
Core Inflation	70.5	1.1	0.7	3.0	2.0	4.0	4.1	4.2	4.1	3.9	3.8
Food & Non-Alcoholic Beverages	29.5	1.3	1.7	5.8	4.0	6.8	7.1	7.3	6.8	6.7	6.9
Alcoholic Beverages & Tobacco	2.4	0.3	0.5	0.5	0.5	0.7	0.8	0.8	0.7	0.8	0.6
Clothing & Footwear	3.2	-0.8	-0.4	0.1	-0.3	0.4	0.4	0.4	0.4	0.5	0.5
Housing, Water, Electricity, Gas & Other Fuels	23.8	-1.7	1.5	1.8	0.9	4.0	1.5	1.4	1.5	1.5	1.6
Furnishing, Household Equipment & Routine Household Maintenance	4.1	0.2	1.6	3.5	3.0	4.4	4.1	3.8	3.7	3.5	3.1
Health	1.9	1.2	0.4	0.7	0.2	1.0	1.0	1.4	1.3	1.6	2.2
Transport	14.6	-10.0	11.0	4.7	2.6	5.3	5.2	5.0	4.9	4.0	2.4
Communication	4.8	1.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-1.4	-1.4
Recreation Services & Culture	4.8	0.5	0.4	2.3	1.1	3.1	3.4	3.6	2.4	2.7	1.9
Education	1.3	1.0	0.2	1.1	0.9	1.3	1.4	1.5	1.4	1.3	1.7
Restaurants & Hotels	2.9	0.4	0.4	5.0	2.9	6.9	6.8	7.0	7.4	6.8	7.2
Miscellaneous Goods & Services	6.7	2.6	0.5	2.0	1.9	2.4	2.4	2.6	2.3	2.3	2.1

Source: Dept. of Statistics, Kenanga Research

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