

Malaysia Consumer Price Index

Hits 10-month high at 2.0% YoY in May, surpassing forecasts

- **The inflation rate rose to a 10-month high of 2.0% YoY in May (Apr: 1.8%), slightly higher than both the house forecast and market consensus of 1.9%, partly due to higher-than-expected housing cost**

- In addition to higher rents for primary residences, a resurgence in food prices, and a sharp increase in communication costs have contributed to the above-consensus inflation reading.
- On a MoM basis, headline inflation doubled to 0.30% (Apr: 0.15%), mainly driven by higher food (0.26%; Apr: 0.13%) and housing prices (0.62%; Apr: 0.00%).
- Core inflation remained steady at 1.9% YoY (Apr: 1.9%) due to the high base effect but climbed by 0.4% MoM (Apr: 0.2%), marking the highest increase in 16 months due to significant rises in core housing and communication costs.

- **A marginal MoM drop in the transport component did little to slow the pace of broad-based increases across all other subcomponents**

- Food & non-alcoholic beverages (1.8%; Apr: 2.0%): eased to a two-month low, but food prices accelerated by 0.3% MoM (Apr: 0.1%) due to increases in meat (1.5%; Apr: -1.0%) and vegetables (6.2%; Apr: 0.7%) prices.
- Housing, water, electricity, gas & other fuels (3.2%; Apr: 3.0%): increased to its highest level since September 2022 due to a rise in rental costs (1.7% YoY or 0.8% MoM; Apr: 1.5% YoY or 0.0% MoM). Higher water supply costs (0.5% MoM; Apr: 0.0% MoM) due to the water tariff hike in Perak also contributed to the higher rate.
- Communication (0.4%; Apr: -2.5%): rebounded to a 44-month high, driven mainly by a notable increase in subscription costs for audio-visual content, streaming services and rentals of audio-visual content (5.3%; Apr: 0.0%).
- Transport (0.9%; Apr: 0.8%): increased marginally but dropped for the third straight month on a MoM basis (-0.1%; Apr: -0.1%) due to cheaper air travel costs.

- **Mixed inflationary trends across advanced economies, with the Fed and BoE en route for rate cuts while BoJ is expected to hike in 2H24**

- US (3.3%; Apr: 3.4%): slowed marginally below consensus mainly due to a drop in airfares. Muted MoM price growth for headline inflation and below 0.2% for core prices strengthen the case for a September rate cut by the Fed.
- UK (2.0%; Apr: 2.3%): returned to the 2.0% BoE's target for the first time since July 2021 due to a moderation in food and household goods prices. However, higher-than-expected services inflation complicates the BoE's decision making.
- Japan (2.8%; Apr: 2.5%): accelerated to a three-month high due to a jump in utility costs. Coupled with solid wage growth, this may well be a precursor to another rate hike by the BoJ soon.

- **2024 headline CPI forecast maintained at 2.7% (2023: 2.5%) anticipating RON95 rationalisation in 4Q24**

- While we remain cautious of external upside risks to inflation, such as extreme weather conditions, geopolitical issues, and rising commodity costs, Malaysia's inflation is expected to stay controlled. As previously highlighted, we expect that the floating of diesel prices in June may not have too much of a significant impact on inflation due to various exemptions by the government. A significant spike is anticipated only when the RON95 subsidy rationalisation is announced, potentially pushing headline inflation to an average near 5.0% in 4Q24.
- The BNM is expected to monitor the pass-through effects of the subsidy rationalisation and the civil servant salary hike, both anticipated in 4Q24. For the time being, we reckon that the central bank is likely to maintain the overnight policy rate (OPR) at 3.00% until the end of 2025, given the relatively stable prices and positive growth outlook.

Table 1: Global Inflation (% YoY)

	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24
US	3.4	3.1	3.2	3.5	3.4	3.3
EU	2.9	2.8	2.6	2.4	2.4	2.6
UK	4.0	4.0	3.4	3.2	2.3	2.0
Japan	2.6	2.2	2.8	2.7	2.5	2.8
Korea	3.2	2.8	3.1	3.1	2.9	2.7
Singapore	3.7	2.9	3.4	2.7	2.7	3.1
China	-0.3	-0.8	0.7	0.1	0.3	0.3
Indonesia	2.6	2.6	2.8	3.1	3.0	2.8
Thailand	-0.8	-1.1	-0.8	-0.5	0.2	1.5

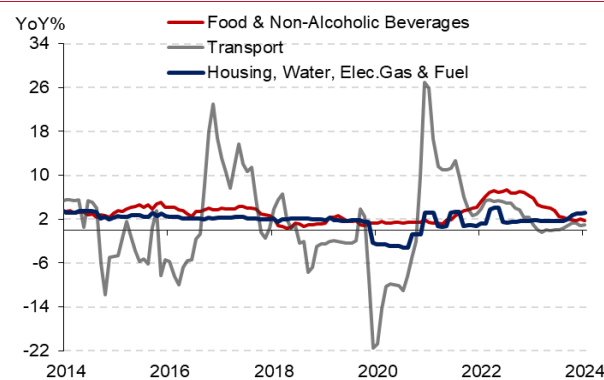
Source: Bloomberg, Kenanga Research

Graph 1: Real Interest Rate, Inflation Rates and OPR



Source: Dept. of Statistics, Kenanga Research

Graph 2: CPI Growth by Main Categories



Source: Bloomberg, Kenanga Research

26 June 2024

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

Base 2010=100	weight	2021	2022	2023	May -23	Dec -23	Jan- 24	Feb- 24	Mar- 24	Apr- 24	May -24
CPI	100.0	2.5	3.3	2.5	2.8	1.5	1.5	1.8	1.8	1.8	2.0
Core Inflation		0.7	3.0	3.0	3.5	1.9	1.8	1.8	1.7	1.9	1.9
Food & Non-Alcoholic Beverages	29.8	1.7	5.8	4.8	5.9	2.3	2.0	1.9	1.7	2.0	1.8
Alcoholic Beverages & Tobacco	1.9	0.5	0.5	0.7	0.7	0.6	0.4	0.4	0.5	0.5	0.6
Clothing & Footwear	2.7	-0.4	0.1	0.2	0.4	0.0	-0.2	-0.2	-0.2	-0.3	-0.2
Housing, Water, Electricity, Gas & Other Fuels	23.2	1.5	1.8	1.7	1.8	1.6	2.0	2.7	3.0	3.0	3.2
Furnishing, Household Equipment & Routine Household Maintenance	4.3	1.6	3.5	2.3	2.7	1.4	1.0	0.9	0.9	1.0	0.8
Health	2.7	0.4	0.7	2.1	1.9	2.5	2.4	2.2	2.1	2.3	2.2
Transport	11.3	11.0	4.7	1.1	1.0	0.3	0.7	1.2	1.3	0.8	0.9
Communication	6.6	0.0	0.0	-2.9	-3.7	-3.7	-2.4	-2.4	-2.4	-2.5	0.4
Recreation Services & Culture	3.0	0.4	2.3	1.5	1.8	1.9	0.8	1.6	1.5	2.0	1.9
Education	1.3	0.2	1.1	1.9	1.9	2.0	1.7	1.5	1.5	1.4	1.5
Restaurants & Hotels	3.4	0.4	5.0	5.5	6.7	3.7	3.2	2.9	3.0	3.5	3.2
Miscellaneous Goods & Services	9.8	0.5	2.0	2.5	2.9	2.7	2.5	2.5	2.6	3.1	3.0

Source: Dept. of Statistics, Kenanga Research

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