

KERATAN AKHBAR

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CPI falls to 2.8% core inflation on the high side

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Slowing growth likely reduces need for further tightening

ECONOMY

PETALING JAYA: Headline inflation in Malaysia, measured by the consumer price index (CPI), rose at a slower rate of 2.8% in May as compared to the 3.3% growth recorded in April.

The reading was less than forecast by a Reuters poll of economists, who had projected a 3% increase in the index for the month.

While headline inflation decelerated to a year low, core inflation however remained sticky, easing slightly to 3.5% year-on-year (y-o-y) in May from 3.6% in April.

Oversea-Chinese Banking Corp Ltd (OCBC) now expects headline inflation to ease to 2.9% y-o-y in 2023 from 3.4% in 2022 while core inflation remains stable at 3% which is within Bank Negara's 2.8% to 3.8% range forecast for 2023 for headline and core inflation.

"Risks to the inflation outlook remain to the upside from adjustments to subsidised fuel and electricity prices, the ongoing El Nino phenomenon and increased geopolitical tensions."

"From a monetary policy perspective, moderating inflation pressures taken together with slowing growth reduces the need for further tightening by Bank Negara in our view," noted Lavanya Venkateswaran, senior Asean economist at OCBC.

She thus expects the central bank to remain on hold at its July 6 Monetary Policy Committee meeting and indeed for the rest of 2023.

Lavanya anticipates Bank Negara's tone will likely remain hawkish considering greater external volatilities from a more

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Oversea-Chinese Banking Corp Ltd

hawkish US Federal Reserve (Fed) and persistent ringgit depreciation pressures.

The local unit closed at a seven-month low of RM4.681 against the greenback yesterday as the Fed warned of further rate hikes in the months ahead due to the stubbornly sticky core inflation in the American economy.

MIDF Research warned the prolonged weakness in the ringgit could lead to higher imported inflation particularly via food prices as Malaysia is a net importer for most food products.

"As for non-food inflation, we are confident the government will keep retail fuel prices status quo at least until the end of this year.

"Non-food inflation is expected to average at plus 1.5%. Considering both CPI components, we foresee Malaysia's headline inflation rate to touch 3% for 2023, higher than our initial forecast 2.5%," the research house said.

It added the steady core inflation trend in Malaysia is highly driven by strong consumer demand while cost factors are on a slowdown pace.

Steady domestic demand and sticky core

inflation may lead Bank Negara to consider another 25-basis-point hike in the overnight policy rate in the second half of the year, MIDF Research stated.

The Statistics Department, in a statement yesterday, noted the main cause of inflation in May was the increase in restaurant and hotel prices (up 6.7%) and rise in the prices of miscellaneous goods and services (up 2.9%), furnishing, household equipment and routine household maintenance group (2.7%), health (1.9%) and education (1.95%).

Housing, water, electricity, gas and other fuels and recreation services and culture recorded an increase of 1.8%, respectively.

It added the slower increase in some groups such as food and non-alcoholic beverages (5.9%), transport (1%) and furnishings, household equipment and routine household maintenance (2.7%) helped to mitigate the increase in inflation.

"Among the factors that contributed to the slower increase was the lower price of unleaded petrol RON97 (May 2023: RM3.35 per litre) as compared to RM4.26 per litre in May last year (April 2023: RM3.35)," said the Statistics Department.

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