HIGHER RETAIL DIESEL PRICE

UPWARD PRESSURE EXPECTED

OCBC projects inflation to rise to 2.3pc in June, but keeps full-year average headline inflation forecast at 2.5pc

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THERE will be some upside pressure on inflation in the coming months following the higher retail diesel price, said an economist.

Inflation edged up 2.0 per cent year-on-year in May, on the back of higher utility charges and dining out expenses, a report by the Statistics Department indicated yesterday.

The final figure for inflation in May is the highest in eight months, surpassing April's 1.8 per cent and outpacing the forecast of 1.9 per cent made by a group of economists in a Reuters poll.

Inflation had stayed at 1.8 per cent for three consecutive months since February.

The Statistics Department report noted that the prices of 331 out of 573, or nearly 58 per cent, of items in the Consumer Price Index went up in May. Among these, the prices of 320 items increased less than 10 per cent, and prices of 11 items rose by more than 10 per cent.

Lavanya Venkateswaran

OCBC senior Asean economist Lavanya Venkateswaran pointed out that the main drivers were utilities (3.2 per cent year-on-year in May versus 3.0 per cent in April), transportation (0.9 per cent versus 0.8 per cent), communication (0.4 per cent in May versus -2.5 per cent in April) and education (1.5 per cent versus 1.4 per cent) inflation. These more than offset lower food (1.8 per cent versus 2.0 per cent) and restaurants/hotels (3.2 per cent versus 3.5 per cent) inflation.

"We expect headline inflation to rise in the coming months. The retail diesel price was adjusted 55.8 per cent higher effective June 10, implying an additional 0.1 percentage points to annual inflation, by our estimates.

"For June, our initial estimates suggest inflation will rise to 2.3 per cent year-on-year," Venkateswaran said, keeping OCBC's full-year 2024 average headline inflation forecast of 2.5 per cent.She said OCBC's base case remains for Bank Negara Malaysia to keep its policy rate unchanged at 3.0 per cent for the rest of this year.

"The diesel subsidy rationalisation suggests that inflationary pressures will remain contained. Bank Negara will, however, remain vigilant of the second-round impact of price changes," she said.