

Disaggregated consumer prices and oil prices pass-through: evidence from Malaysia

ABSTRACT

The present paper analyzes the oil price pass-through into consumer price inflation for a developing country, Malaysia, using an augmented Phillips curve framework. The focus is on whether aggregate consumer prices and different consumer price components or sub-price indexes are related in different ways to oil price in the long run and in the short run. We find evidence for a long run relation or cointegration of the oil price with only the aggregate consumer price and food price indexes. Moreover, in the short run, the oil price changes have significant bearings on the consumer price inflation, the food price inflation, the rent, fuel and power price inflation and the transportation and communication price inflation. In addition, the short-run asymmetry in the oil price-food price inflation is also evident. Finally, we observe the neutrality of the medical care and health price index to the oil price changes. Our result that the inflationary consequence of oil price hikes is likely to work mainly through the food prices has important implications on the effects of oil price changes on the poor and policy directions to contain inflation.

Keyword: Oil price pass-through; Disaggregated consumer prices; Augmented Phillips curve; Malaysia