22 July 2022

ECONOMIC REVIEW | June 2022 Consumer Price Index

Overall Inflation Rate Averaged at +2.5%YoY in 1HCY22, Within BNM's Forecast Range

- *Core inflation rushed to more than 6-year high. As domestic demand strengthened, core inflation rose by +3.0%yoy, fastest gain since Apr-16. The continuous upward trend in core CPI indicates the underlying price pressures from surging domestic demand, underpinned by improving labour market condition and domestic reopening effects. We opine the steady uptick in core inflation will increase the chances that BNM will consider for another rate hike in Sep-22. Malaysia's headline inflation rose slightly higher than Bloomberg's consensus, to +3.4%yoy vs. +3.1%yoy. As of 1HCY22, average headline inflation is +2.5%yoy (1HCY21: +2.3%yoy), still within BNM's inflation forecast range +2.3~3.3%.*
- *Food inflation spike continues. Malaysia's food inflation increased to +6.1%yoy, the highest ever recorded. Similarly, price growth of Food at Home and Away from Home touched new fresh high at +6.1%yoy and +6.6%yoy respectively. Among the food items, meat inflation at +11.9%yoy (record high) while fruits and vegetables inflation at more than 4-year high. As a net-food importer, depreciation of MYR vs. USD by -6.0%yoy in Jun-22 (close to 5-year low) had partially caused the food inflation spike.*
- *We keep our average CPI forecast to +2.8% for 2022. In the environment of elevated global commodity prices, inflationary pressure in Malaysia is affected via higher food inflation. We expect food price growth to record at +4.5% this year (beginning year estimate: +3.5%) among others attributed by the removal of subsidies on several food items. On a different note, the slight downward trend in global commodity prices may ease Malaysia's food inflation pressure in 2HCY22.*

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Non-fuel inflation surged to record-high. The pace of increase in transport prices seen higher in Jun-22 albeit stronger fuel and non-fuel CPI. Non-fuel inflation surged to record high at +4.2%yoy. We opine rise in input inflation is due to higher materials cost, disruption in global supply chain and depreciation of MYR in which add pressure on the costs of parts & accessories and repair & maintenance works. For other non-fuel transport segment, price growth of transport services stayed in contractionary. On the other hand, fuel inflation increased to 4-month high by +6.4%yoy (May-22: +4.9%yoy), limited by the cap imposed on retail fuel prices and diminishing low-base effect. As long as the Government keeps the current fuel subsidy mechanism, we opine fuel inflation to remain at a moderate pace in 2HCY22.

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Table 1: Consumer price index by component

Indices	MoM%			YoY%		
	Apr-22	May-22	Jun-22	Apr-22	May-22	Jun-22
CPI	0.2	0.6	0.6	2.3	2.8	3.4
Non-Food	0.2	0.4	0.3	1.4	1.7	2.0
Food and Non-Alcoholic Beverages	0.4	0.9	1.2	4.1	5.2	6.1
Alcoholic Beverages and Tobacco	0.1	0.0	0.1	0.5	0.4	0.4
Clothing and Footwear	0.0	0.1	0.2	(0.2)	0.0	0.2
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.3	0.0	0.8	1.2	1.2
Furnishings, Household Equipment and Maintenance	0.1	0.5	0.4	2.7	2.9	3.4
Health	0.1	0.2	0.2	0.2	0.4	0.6
Transport	0.4	1.1	1.3	3.0	3.9	5.4
Communication	0.0	0.0	0.0	0.0	0.0	0.0
Recreation and Culture	0.4	0.3	0.4	1.3	1.8	2.2
Education	0.2	0.0	0.1	1.0	1.0	1.1
Restaurants and Hotels	0.4	0.6	1.3	3.2	3.7	5.0
Miscellaneous Goods and Services	0.0	0.1	0.4	1.8	1.9	2.2
Core CPI	0.2	0.4	0.6	2.1	2.4	3.0

Source: CEIC, MIDFR

Peninsular Malaysia saw the highest food inflation rate. Food inflation surged to record-high +6.4%yoy in Jun-22 for Peninsular Malaysia. Sarawak too saw fresh high at +5.5%yoy of food price growth. Peninsular Malaysia hit 6-month high while Sabah and Sarawak recorded 1-year high of headline inflation rate. The main contributor among others are food and transport inflation rates. Looking ahead, we view inflationary pressure to moderate in 2HCY22 amid deceleration of global prices particularly agriculture-related prices.

Table 2: Inflation by state (YoY%)

	MoM%			YoY%		
	Apr-22	May-22	Jun-22	Apr-22	May-22	Jun-22
Peninsular Malaysia	**0.2**	**0.6**	**0.6**	**2.4**	**2.9**	**3.5**
Food & Non-Alcoholic Beverages	0.3	0.9	1.2	4.3	5.4	6.4
Housing & Utilities	0.0	0.3	0.1	0.9	1.1	1.2
Transport	0.4	1.2	1.3	3.2	4.1	5.6
Sabah	**0.2**	**0.7**	**0.6**	**1.4**	**2.2**	**2.8**
Food & Non-Alcoholic Beverages	0.3	0.9	1.1	2.7	3.9	4.7
Housing & Utilities	0.1	0.7	0.0	0.6	1.2	1.2
Transport	0.5	0.8	1.3	2.0	2.7	4.3
Sarawak	**0.2**	**0.5**	**0.8**	**1.9**	**2.4**	**3.2**
Food & Non-Alcoholic Beverages	0.1	0.7	1.5	3.2	4.0	5.5
Housing & Utilities	0.0	0.5	0.0	0.5	0.9	0.9
Transport	0.7	0.7	1.0	2.5	3.2	4.1

Source: CEIC, MIDFR

PPI inflation at 6-month high. The producer price index in Malaysia rose by +11.2%yoy in May-22, highest since Dec-21. Intermediate materials inflation surged to a new record high at +13.5%yoy, thanks to solid cost increase of manufactured goods, construction and processed fuel & lubricants. Crude materials inflation remained on double digit rate amid elevated global commodity prices. Moving forward, PPI to stay on high-side particularly fuelled by crude materials cost. Supply of intermediate materials may see slight betterment as China's government eased containment measures in most cities. For instance, the Baltic Dry Index declined to 4-month low in Jun-22, reflecting trivial easing in global supply chain pressure.

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Mar-22	Apr-22	May-22	Mar-22	Apr-22	May-22
PPI	2.4	0.2	1.2	11.6	11.0	11.2
Crude Materials	6.7	(3.5)	2.1	23.3	17.1	17.3
Foodstuffs	(0.2)	0.2	1.5	3.4	2.0	3.8
Non-food	7.9	(4.1)	2.3	27.1	19.9	19.8
Non-food ex fuel	11.8	(3.9)	0.8	34.3	24.9	22.1
Crude Fuel	5.2	(4.3)	3.3	22.1	16.3	18.1
Intermediate Materials	1.7	1.8	1.2	12.5	13.1	13.5
Manufactured Goods	2.1	2.3	1.6	12.8	14.3	15.0
Construction	0.7	0.6	0.8	4.6	4.5	5.3
Processed Fuel & Lubricants	1.7	1.5	0.9	20.1	19.5	18.7
Containers	0.6	0.1	0.9	2.5	0.8	3.0
Supplies	0.9	0.8	0.4	5.7	5.8	5.7
Finished Goods	0.3	0.3	0.3	0.4	1.1	1.0

Consumer Goods	0.1	0.3	0.6	1.9	2.2	2.6
Capital Equipment	0.4	0.3	0.1	(0.9)	0.1	(0.2)

Source: Macrobond, MIDFR

Skyrocket global inflation. As Brent crude oil price remained above USD100pbd, inflationary pressure surged in most countries. The US saw headline inflation hit 41-year high at +9.1%yoy while Euro Area's inflation registered fresh new high at +8.6%yoy. In fact, inflation in Euro Area is projected to trend higher amid gas cut threat by Russia and coupled with upcoming Winter season. Across the globe, Asian economies experienced high inflation pressure in Jun-22. For instance, Indonesia's headline inflation rate +4.4%yoy, surpassed Bank Indonesia's target rate +2.0~4.0%. South Korea's inflation rate is almost at 24-year high, Thailand's at 14-year high and Philippines' at 4-year. Looking ahead, we expect global inflation to trend slightly lower in 2HCY22 underpin by modest deceleration of commodity prices and food cost. Malaysia's crude palm oil price among others has moderated from above RM6,000 per tonne in early Jun-22 to below RM4,000 in Jul-22.

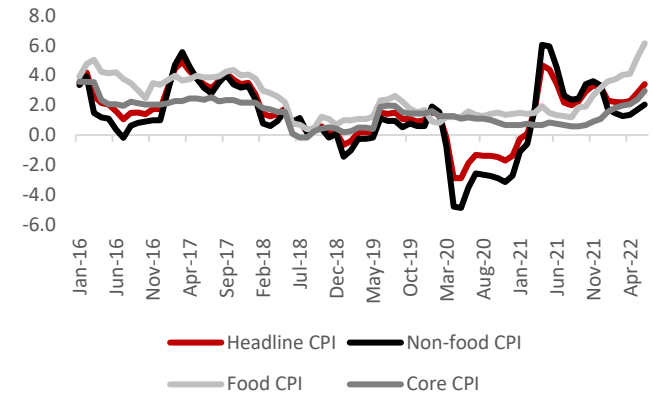
Table 4: Global Headline Inflation (YoY%)

	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
Malaysia	3.2	2.3	2.2	2.2	2.3	2.8	
Indonesia	1.9	2.2	2.1	2.6	3.5	3.6	4.4
Philippines	3.1	3.0	3.0	4.0	4.9	5.4	6.1
Thailand	2.2	3.2	5.3	5.7	4.7	7.1	7.7
Singapore	4.0	4.0	4.3	5.4	5.4	5.6	
China	1.5	0.9	0.9	1.5	2.1	2.1	2.5
South Korea	3.7	3.6	3.7	4.1	4.8	5.4	6.0
Taiwan	2.6	2.8	2.3	3.3	3.4	3.4	3.6
Japan	0.8	0.5	0.9	1.2	2.5	2.5	2.4
Euro Area	5.0	5.1	5.9	7.4	7.4	8.1	8.6
US	7.0	7.5	7.9	8.5	8.3	8.6	9.1

Source: CEIC, MIDFR

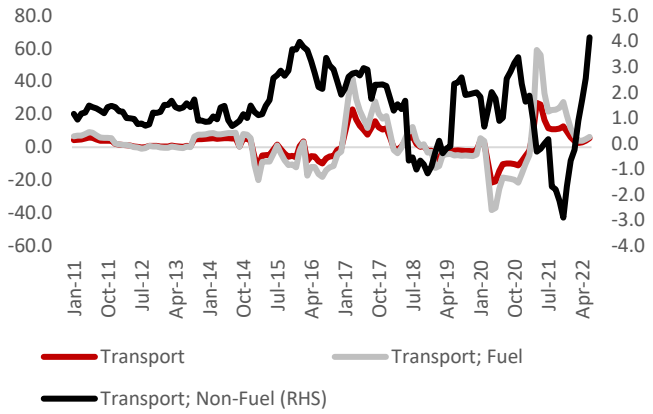
We keep our average CPI forecast to +2.8% for 2022. In the environment of elevated global commodity prices, inflationary pressure in Malaysia is affected via higher food inflation. We expect food price growth to record at +4.5% this year (beginning year estimate: +3.5%) among others attributed by the removal of subsidies on several food items. On a different note, the slight downward trend in global commodity prices may ease Malaysia's food inflation pressure in 2HCY22. As for fuel subsidy, we believe the Government to maintain current mechanism at least until end of this year. With domestic demand firming, we forecast headline CPI to average at +2.8% for 2022.

Chart 1: Key CPI Data (YoY%)



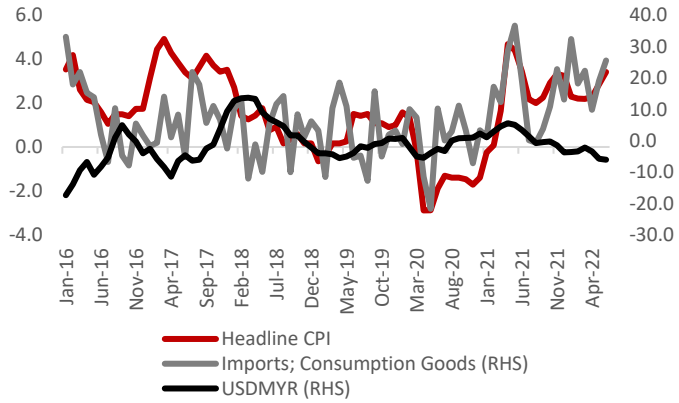
Source: CEIC, MIDFR

Chart 2: Transport CPI; Fuel vs. Non-Fuel (YoY%)



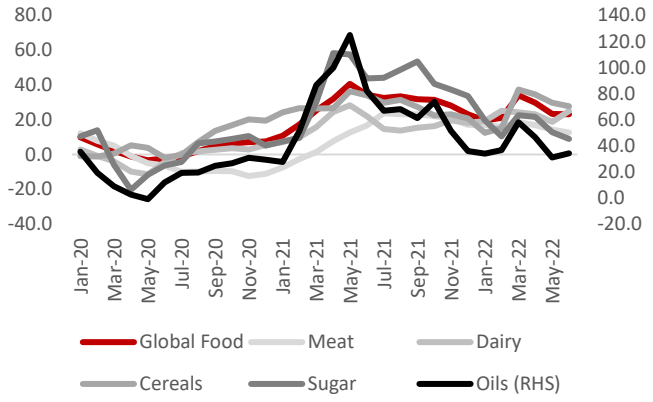
Source: CEIC, MIDFR

Chart 3: Weakening USDMYR (YoY%)



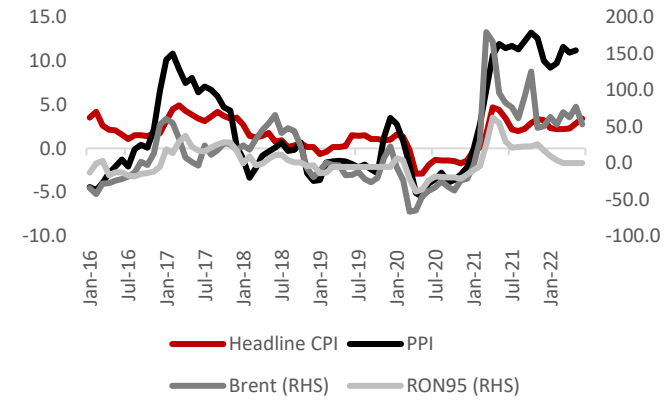
Source: CEIC, MIDFR

Chart 4: Global Food Inflation (YoY%)



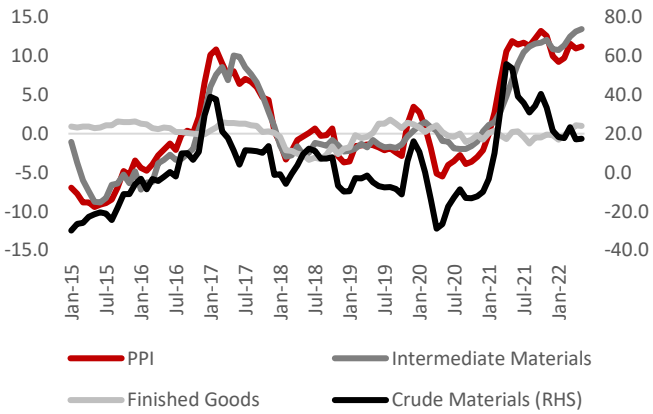
Source: FAO of UN, MIDFR

Chart 5: Oil & Fuel Drive up CPI & PPI (YoY%)



Source: Bloomberg, CEIC, MIDFR

Chart 6: PPI (YoY%)



Source: CEIC, MIDFR

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