29 August 2022

ECONOMIC REVIEW | July 2022 Consumer Price Index

Inflation Jumped to +4.4%yoy in Jul-22 Driven by Sharper Rise in Food Prices

- *Core inflation rose further, the highest in 6 years. Core inflation accelerated further to +3.4%yoy, fastest gain since Apr-16, indicating increased underlying price pressures from surging domestic demand. Meanwhile, Malaysia's headline inflation rose higher to +4.4%yoy, similar to Bloomberg consensus.*
- *Food inflation continued to spike. Inflation for the food & non-alcoholic beverages increased further to +6.9%yoy, the highest ever recorded. Rate of price increased for both Food at Home and Away from Home touched new fresh high at +6.4%yoy and +7.8%yoy, respectively. As a net-food importer, further depreciation of MYR against USD by -0.9%yoy in Jul-22 also partially contributed to the spike in food inflation.*
- *We keep our average CPI forecast unchanged at +2.8% for 2022. In the environment of elevated global commodity prices, inflationary pressure in Malaysia is driven by higher food inflation. We expect food price increases to record higher inflation at +4.5% this year (earlier estimate: +3.5%), among others attributable to the removal of subsidies on several food items. Furthermore, increases in production costs will also contribute towards higher selling prices. On a positive note, the slight downward trend in global commodity prices may ease Malaysia's food inflation pressure in 2HCY22.*

Core inflation rose further, the highest in 6 years. As anticipated, core inflation accelerated further to +3.4%yoy, fastest gain since Apr-16. The upward trend in core CPI indicates the underlying price pressures from surging domestic demand, underpinned by improving labour market condition and positive effects from economic reopening. We opine the steady uptick in core inflation, in addition to the robust GDP growth, increases the chances for BNM to consider another rate hike in Sep-22. Malaysia's headline inflation rose higher to +4.4%yoy, similar to Bloomberg consensus. This brings the average headline inflation to +2.8%yoy in first 7 months this year, still within BNM's inflation forecast range +2.3~3.3%. Non-food CPI also rose faster by +3.2%yoy, while food inflation hit new record high of +6.9%yoy. On the month-on-month basis, all major CPI components including core CPI registered monthly increases, with a larger rise in food prices.

Non-fuel inflation surged to a new record high. The pace of increase in transport prices quickened to 6-month high +5.6%yoy in Jul-22 driven by the rise in non-fuel prices. Non-fuel inflation surged to a new record high at +5.0%yoy. We opine the elevated input price inflation due to higher materials cost, disruption in global supply chain and to a certain extent weakness in MYR resulted in increased pressures on the costs of parts & accessories (+7%yoy) and repair & maintenance works (+11.2%yoy). For other non-fuel transport segment, charges of transport services stayed contractionary, which largely reflected reduced charges for airport services. On the other hand, inflation for fuels & lubricants eased to 6%yoy (Jun-22: +6.4%yoy), tracking recent correction in oil prices. Generally, fuel inflation has been limited by the continued cap imposed on retail fuel prices i.e. RON95 and diesel. As long as the Government keeps the current fuel subsidy mechanism, we opine fuel inflation to remain at a moderate pace in 2HCY22.

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

Food inflation continued to spike. Inflation for the food & non-alcoholic beverages increased further to +6.9%yoy, the highest ever recorded. Rate of price increased for both Food at Home and Away from Home touched new fresh high at +6.4%yoy and +7.8%yoy, respectively. Of significance, several food items which recorded higher inflation are meat (+12%yoy; new record high), fruits (+3.9%; nearly 5-year high), and manufactured foods such as sugar, jam, honey, chocolate & confectionary (+3%yoy; 6-year high). As a net-food importer, further depreciation of MYR against USD by -0.9%yoy in Jul-22 also partially contributed to the spike in food inflation. Moving forward, we expect Malaysia's domestic food inflation to decelerate to a more moderate pace in 2HCY22 following the correction in global commodity prices particularly agriculture-related prices. In addition, global food inflation as reported by FAO of UN descended to 18-month low at +13.1%yoy in Jul-22. We expect resumption of grain exports via Ukraine's Black Sea ports will ease global food inflation pressure in the near term. We forecast food inflation to average at +4.5% for 2022 (2021: +1.5%).

Table 1: Consumer price index by component

Indices	MoM%			YoY%		
	May-22	Jun-22	Jul-22	May-22	Jun-22	Jul-22
CPI	0.6	0.6	0.4	2.8	3.4	4.4
Non-Food	0.4	0.3	0.2	1.7	2.0	3.2
Food and Non-Alcoholic Beverages	0.9	1.2	0.7	5.2	6.1	6.9
Alcoholic Beverages and Tobacco	0.0	0.1	0.1	0.4	0.4	0.6
Clothing and Footwear	0.1	0.2	0.1	0.0	0.2	0.3
Housing, Water, Electricity, Gas & Other Fuels	0.3	0.0	0.1	1.2	1.2	3.8
Furnishings, Household Equipment and Maintenance	0.5	0.4	0.6	2.9	3.4	4.0
Health	0.2	0.2	0.2	0.4	0.6	0.8
Transport	1.1	1.3	0.5	3.9	5.4	5.6
Communication	0.0	0.0	0.0	0.0	0.0	0.0
Recreation and Culture	0.3	0.4	0.3	1.8	2.2	2.5
Education	0.0	0.1	0.1	1.0	1.1	1.2
Restaurants and Hotels	0.6	1.3	0.8	3.7	5.0	5.8
Miscellaneous Goods and Services	0.1	0.4	(0.1)	1.9	2.2	2.1
Core CPI	0.4	0.6	0.3	2.4	3.0	3.4

Source: CEIC, MIDFR

Record rise in food prices pushed inflation to all states higher. Headline inflation in Peninsular Malaysia at +4.5% was slightly higher than national CPI inflation because food prices rose faster at +6.4%yoy, a new high. Sarawak also saw fresh high +6.5%yoy in food price increases, pushing the state's headline inflation to 1-year high at +3.6%yoy. Sabah's inflation reached 15-month high at +3.9%yoy in Jul-22, with record food inflation of +6.3%yoy. Apart from food price pressures, rising inflation for states in Malaysia was also due to rising transport and utility charges. Looking ahead, we view inflationary pressure to moderate in 2HCY22 in view of deceleration of global prices inflation, particularly agriculture commodities.

Table 2: Inflation by state (YoY%)

	MoM%			YoY%		
	May-22	Jun-22	Jul-22	May-22	Jun-22	Jul-22
Peninsular Malaysia	**0.6**	**0.6**	**0.4**	**2.9**	**3.5**	**4.5**
Food & Non-Alcoholic Beverages	0.9	1.2	0.6	5.4	6.4	6.9
Housing & Utilities	0.3	0.1	0.0	1.1	1.2	4.0
Transport	1.2	1.3	0.5	4.1	5.6	5.8
Sabah	**0.7**	**0.6**	**0.6**	**2.2**	**2.8**	**3.9**
Food & Non-Alcoholic Beverages	0.9	1.1	1.5	3.9	4.7	6.3
Housing & Utilities	0.7	0.0	0.0	1.2	1.2	3.4
Transport	0.8	1.3	0.3	2.7	4.3	4.7
Sarawak	**0.5**	**0.8**	**0.5**	**2.4**	**3.2**	**3.6**
Food & Non-Alcoholic Beverages	0.7	1.5	1.0	4.0	5.5	6.5
Housing & Utilities	0.5	0.0	0.1	0.9	0.9	1.0
Transport	0.7	1.0	0.3	3.2	4.1	4.4

Source: CEIC, MIDFR

PPI inflation eased to 16-month low. Producer price index (PPI) rose by +7.6%yoy in Jul-22, easing to the slowest inflation since Apr-21. Due to the correction in commodity prices, the PPI inflation for crude materials moderated sharply to +1.1%yoy (Jun-22: +16.9%yoy), the slowest rise since Feb-21. Meanwhile, the cost of intermediate materials continued to rise at a double-digit rate (+12.5yoy%) for the 13th consecutive month. With the rise in raw materials and intermediate inputs, producer prices for finished goods increased faster at +2.4%yoy in Jul-22. By industry, correction in the global crude oil and gas prices led to moderation in PPI inflation for the mining industry (+9.0%yoy), which is the slowest in 16 months. Despite the slower inflation for raw materials and intermediate goods, PPI inflation for the manufacturing sector remained at high level (Jul-22: +9.9%yoy; Jun-22: +10.0%yoy). Agriculture, forestry & fishing industry, on the other hand, registered lowest inflation at -10.3%yoy (Jun-22: +18.3%yoy), in line with the correction in prices of agriculture and food commodities. In coming months, we opine price pressures could ease in anticipation for improved supply of intermediate materials as shown in the decline in the Baltic Dry Index in the recent months, signalling easing pressures on the global supply chain. On another note, producers would keep prices high to cope with rising production costs as PPI inflation remained above CPI inflation since Jan-21.

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	May-22	Jun-22	Jul-22	May-22	Jun-22	Jul-22
PPI	1.2	(0.1)	(2.3)	11.2	10.9	7.6
Crude Materials	2.1	(2.5)	(11.5)	17.3	16.9	1.1
Foodstuffs	1.5	0.8	(0.9)	3.8	4.8	4.2
Non-food	2.3	(3.0)	(13.3)	19.8	19.2	0.4
Non-food ex fuel	0.8	(13.1)	(30.7)	22.1	24.2	(16.8)
Crude Fuel	3.3	4.6	(2.5)	18.1	16.2	10.6

	MoM%			YoY%		
	May-22	Jun-22	Jul-22	May-22	Jun-22	Jul-22
Intermediate Materials	1.2	0.6	0.2	13.5	13.0	12.5
Manufactured Goods	1.6	0.2	(0.9)	15.0	14.1	12.6
Construction	0.8	0.1	(0.2)	5.3	5.3	4.9
Processed Fuel & Lubricants	0.9	1.4	2.0	18.7	18.0	18.4
Containers	0.9	0.7	(0.6)	3.0	3.6	2.4
Supplies	0.4	1.0	1.8	5.7	6.3	8.0
Finished Goods	0.3	0.6	0.0	1.0	1.6	2.4
Consumer Goods	0.6	0.4	0.2	2.6	2.7	3.0
Capital Equipment	0.1	0.7	(0.1)	(0.2)	0.7	1.9

Source: Macrobond, MIDFR

Global inflation to trend lower after hitting peak in Jul-22. The Jul-22 CPI inflation shows rate of price increases in the US decelerated mainly due to slower energy inflation given the recent correction in gasoline prices. The headline CPI inflation eased more than expected to +8.5%yoy (Jun-22: +9.1%yoy), below market consensus (+8.7%yoy). Across the globe, Asian economies experienced higher inflation pressure in Jul-22. Japan's CPI continued to increase in Jul-22 among others due to weaker yen. The headline CPI inflation accelerated to +2.6%yoy in Jul-22 (Jun-22: +2.3%yoy), the highest since Nov-14. Increase in prices of foods (+4.4%yoy) and fuel, light & water charges are the primary components that contributed to higher inflation. Looking ahead, we believe the global inflation hit its peak in Jul-22 and will trend lower gradually in 2HCY22 underpinned by modest deceleration of commodity prices and food prices. For example, 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%)

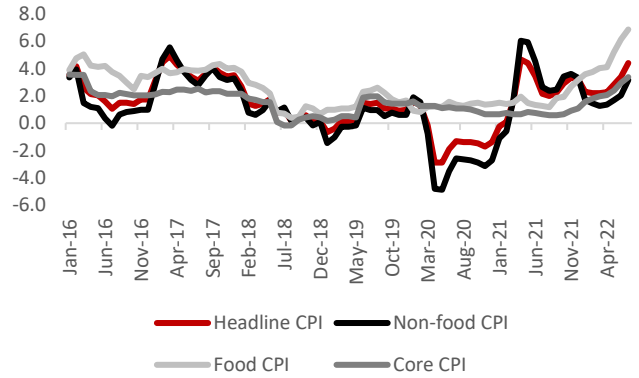
	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
Malaysia	2.3	2.2	2.2	2.3	2.8	3.4	4.4
Indonesia	2.2	2.1	2.6	3.5	3.6	4.4	4.9
Philippines	3.0	3.0	4.0	4.9	5.4	6.1	6.4
Thailand	3.2	5.3	5.7	4.7	7.1	7.7	7.6
Singapore	4.0	4.3	5.4	5.4	5.6	6.7	7.0
China	0.9	0.9	1.5	2.1	2.1	2.5	2.7
South Korea	3.6	3.7	4.1	4.8	5.4	6.0	6.3
Taiwan	2.8	2.3	3.3	3.4	3.4	3.6	3.4
Japan	0.5	0.9	1.2	2.5	2.5	2.4	2.6
Euro Area	5.1	5.9	7.4	7.4	8.1	8.6	8.9
US	7.5	7.9	8.5	8.3	8.6	9.1	8.5

Source: CEIC, MIDFR

We keep our average CPI forecast unchanged at +2.8% for 2022. In the environment of elevated global commodity prices, inflationary pressure in Malaysia is driven by higher food inflation. We expect food price increases to record higher inflation +4.5% this year (earlier estimate: +3.5%), among others, attributable to the removal of subsidies on several food items. Furthermore, increases in production costs will also contribute

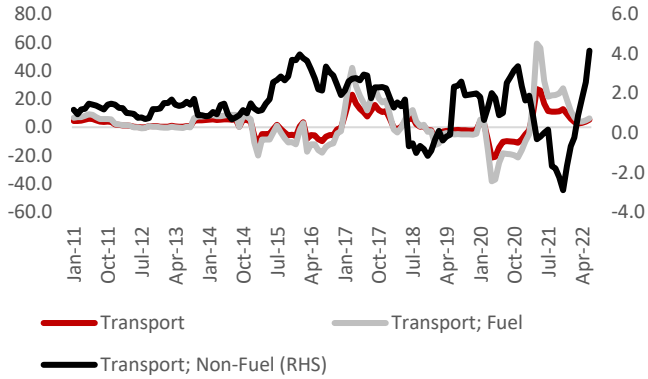
towards higher selling prices. On a positive note, the slight downward trend in global commodity prices may ease Malaysia's food inflation pressure in 2HCY22. As for fuel subsidy, we believe the Government will maintain current mechanism at least until end of this year, capping the potential sharp rise in transport inflation in Malaysia. With domestic demand firming and taking into account higher production costs, we forecast headline CPI to average higher at +2.8% in 2022 (2021: +2.5%).

Chart 1: Key CPI Data (YoY%)



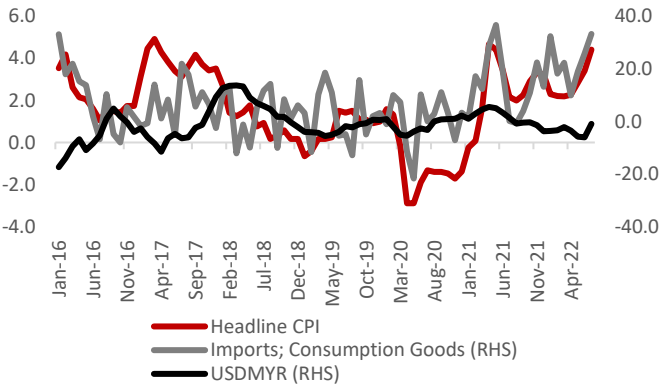
Source: CEIC, MIDFR

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



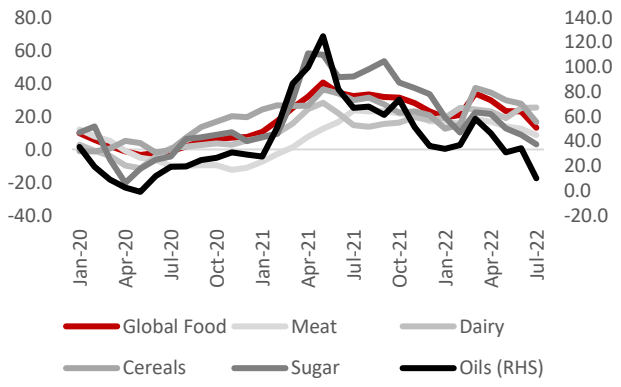
Source: CEIC, MIDFR

Chart 3: Weakening USDMYR (YoY%)



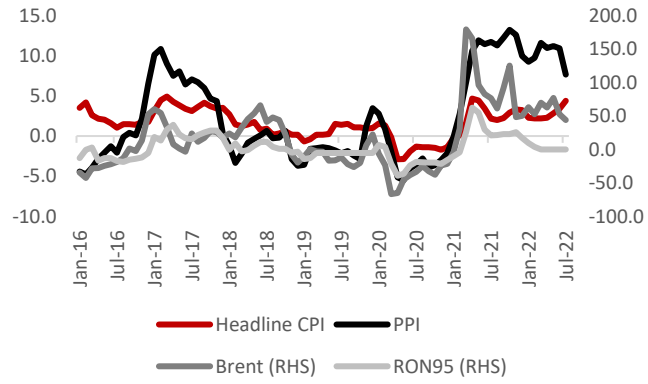
Source: CEIC, MIDFR

Chart 4: Global Food Inflation (YoY%)



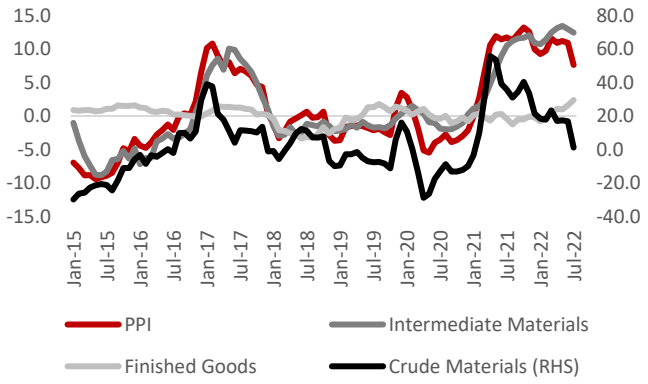
Source: FAO of UN, MIDFR

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



Source: Bloomberg, CEIC, MIDFR

Chart 6: PPI (YoY%)



Source: CEIC, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad 197501002077 (23878-X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD 197501002077 (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.