23 September 2022

ECONOMIC REVIEW | August 2022 Consumer Price Index

Core Inflation Touched New Record High, OPR Hike in November Very Likely

- *Core inflation reached new peak at +3.8%yoy. As domestic demand continued on strengthening, core inflation rate touched new peak point at +3.8%yoy in Aug-22. On month-on-month basis, the core price growth still recorded positive growth of +0.6%mom. With this upbeat momentum, we believe BNM is very likely to raise the OPR by another 25bps in the last 2022 MPC meeting in Nov-22.*
- *Food inflation skyrocketed to +7.2%yoy. Malaysia's food inflation increased firmly to +7.2%yoy, the highest ever recorded. Similarly, price growth of Food at Home and Away from Home touched new fresh high at +6.4%yoy and +8.4%yoy respectively. As a net-food importer, depreciation of MYR vs. USD by -5.5%yoy in Aug-22 (close to 5-year low) had partially caused the food inflation spike.*
- *We maintain our average CPI forecast at +2.8% for 2022. In the environment of elevated global commodity prices and weakening USDMYR, inflationary pressure in Malaysia is affected via higher imported-food inflation. Moving into 3QCY22 onwards, we view the slight downward trend in global commodity prices and easing food inflation regionally may ease Malaysia's food inflation pressure in 2HCY22.*

Core inflation reached new peak at +3.8%yoy. As domestic demand continued on strengthening, core inflation rate touched new peak point at +3.8%yoy in Aug-22. On month-on-month basis, the core price growth still recorded positive growth of +0.6%mom. With this upbeat momentum, we believe BNM is very likely to raise the OPR by another 25bps in the last 2022 MPC meeting in Nov-22. Headline inflation rose further by +4.7%yoy, the highest since Apr-21. Slight uptick in non-food inflation and new record-high food inflation contributed to the +4.7%yoy headline CPI. However, we noticed monthly basis for the three CPI data were already showing signs of moderation. This is line with the slight correction in global commodity prices and easing of supply chain pressures domestically and regionally.

Fuel inflation moderated to 3-month low. Fuel price growth registered at +4.9%yoy and contracted by -0.9%mom in Aug-22, the sharpest monthly decline since Dec-20. This was tandem with easing commodity prices as Brent crude oil price descended to USD96.5pbd in Aug-22 after hovering above USD100pbd since Feb-22. As long as the Government keep current fuel subsidy mechanism, we view fuel inflation as well as overall inflationary pressure to remain stable. On the other hand, non-fuel inflation rate hit new record high at +5.7%yoy among others attributed by weakening Ringgit.

Food inflation skyrocketed to +7.2%yoy. Malaysia's food inflation increased firmly to +7.2%yoy, the highest ever recorded. Similarly, price growth of Food at Home and Away from Home touched new fresh high at +6.4%yoy and +8.4%yoy respectively. As a net-food importer, depreciation of MYR vs. USD by -5.5%yoy in Aug-22 (close to 5-year low) had partially caused the food inflation spike. With the Fed set to raise its funds rate higher than expected, we foresee Ringgit to stay in weakening trend at least until 4QCY22. Moving forward, we expect Malaysia's domestic food inflation to decelerate at moderate pace in 2HCY22 following the steady

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deceleration of global commodity prices particularly agriculture-related prices. In addition, global food inflation as reported by FAO of UN descended to 20-month low at +7.9%yoy in Aug-22. Among the components, global inflation of oils and sugar recorded contraction rate of -1.5%yoy and -8.4%yoy respectively, first decline since mid-20.

Table 1: Consumer price index by component

Indices	MoM%			YoY%		
	Jun-22	Jul-22	Aug-22	Jun-22	Jul-22	Aug-22
CPI	0.6	0.4	0.2	3.4	4.4	4.7
Non-Food	0.3	0.2	0.2	2.0	3.2	3.4
Food and Non-Alcoholic Beverages	1.2	0.7	0.3	6.1	6.9	7.2
Alcoholic Beverages and Tobacco	0.1	0.1	0.1	0.4	0.6	0.7
Clothing and Footwear	0.2	0.1	0.0	0.2	0.3	0.3
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.1	0.4	1.2	3.8	4.1
Furnishings, Household Equipment and Maintenance	0.4	0.6	0.3	3.4	4.0	4.3
Health	0.2	0.2	0.1	0.6	0.8	0.9
Transport	1.3	0.5	(0.4)	5.4	5.6	5.2
Communication	0.0	0.0	0.0	0.0	0.0	0.0
Recreation and Culture	0.4	0.3	0.3	2.2	2.5	2.7
Education	0.1	0.1	0.0	1.1	1.2	1.2
Restaurants and Hotels	1.3	0.8	0.6	5.0	5.8	6.4
Miscellaneous Goods and Services	0.4	(0.1)	0.3	2.2	2.1	2.4
Core CPI	0.6	0.3	0.6	3.0	3.4	3.8

Source: Macrobond, MIDFR

Headline inflation hit 5-year high in Peninsular Malaysia. Overall price growth in Peninsular Malaysia registered at +4.7%yoy in Aug-22, the fastest pace since Apr-17. Sabah's CPI hit new record high at +4.3%yoy while Sarawak's inflationary pressure touched 15-month high. The main upward pressure factors were food inflation for all states. Peninsular Malaysia and Sabah saw record-high for housing & utilities inflation, +4.3%yoy and +4.2%yoy respectively.

Table 2: Inflation by state (YoY%)

	MoM%			YoY%		
	Jun-22	Jul-22	Aug-22	Jun-22	Jul-22	Aug-22
Peninsular Malaysia	**0.6**	**0.4**	**0.2**	**3.5**	**4.5**	**4.7**
Food & Non-Alcoholic Beverages	1.2	0.6	0.3	6.4	6.9	7.2
Housing & Utilities	0.1	0.0	0.4	1.2	4.0	4.3
Transport	1.3	0.5	(0.4)	5.6	5.8	5.4
Sabah	**0.6**	**0.6**	**0.3**	**2.8**	**3.9**	**4.3**
Food & Non-Alcoholic Beverages	1.1	1.5	0.4	4.7	6.3	6.6
Housing & Utilities	0.0	0.0	0.8	1.2	3.4	4.2
Transport	1.3	0.3	(0.6)	4.3	4.7	4.2
Sarawak	**0.8**	**0.5**	**0.3**	**3.2**	**3.6**	**3.9**

	MoM%			YoY%		
	Jun-22	Jul-22	Aug-22	Jun-22	Jul-22	Aug-22
Food & Non-Alcoholic Beverages	1.5	1.0	0.6	5.5	6.5	7.0
Housing & Utilities	0.0	0.1	0.3	0.9	1.0	1.2
Transport	1.0	0.3	(0.3)	4.1	4.4	4.0

Source: DOSM, MIDFR

PPI inflation at 16-month low. Malaysia's producer price index (PPI) inflation softened to +7.6%yoy in Jul-22, the slowest rise since Apr-21. Due to further correction in commodity prices in Aug-22, the PPI inflation for crude materials receded to +1.1%yoy, the lowest reading since Feb-21. On month-on-month basis, the crude materials cost declined by -11.5%. Meanwhile, cost inflation of intermediate materials moderated to 4-month low at +12.5%yoy. We view inflationary pressure stemming from raw materials and intermediate inputs to further soften in coming months, attributed by the correction in commodity prices and easing supply chain pressures. Moving forward, we opine price pressures could ease in anticipation for improved supply of intermediate materials following decline in the Baltic Dry Index in Aug-22, signalling signs of easing pressure on the global supply chain. On another note, softening PPI inflation hint positive signs for Malaysia's CPI to cool off in the 2HCY22.

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
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

Slight easing in global inflation. As expected, the Aug-22 CPI inflation moderated in many economies amid mild correction in global commodity prices. After six-consecutive months above USD100pbd, the Brent crude oil price skid to USD96.5pbd in Aug-22. Hence, inflationary pressure in the US saw continuous decline to 4-month low at +8.3%yoy. Other economies such as Indonesia, Philippines, China, South Korea and Taiwan saw similar downward trend in the inflation rate. On a flip side, overall price growth in Euro Area skyrocketed to a new record high at +9.1%yoy amid Russia's gas threat to the region. Looking ahead, we believe the global inflation will

continue to moderate in 2HCY22 underpin by modest deceleration of commodity prices and food prices. Malaysia's crude palm oil price among others has moderated from above RM6,000 per tonne in early Jun-22 to below RM4,000 since Jul-22.

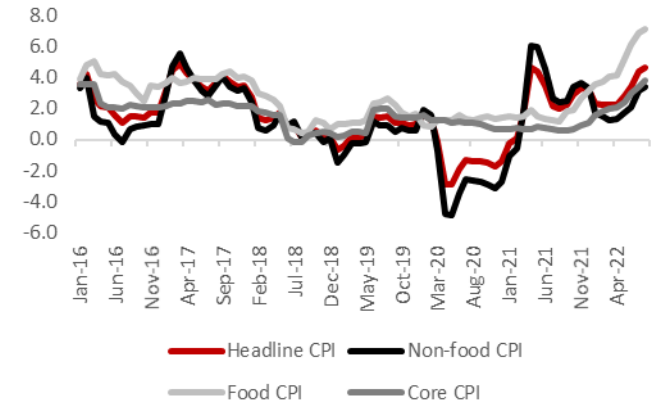
Table 4: Global Headline Inflation (YoY%)

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

Source: Macrobond, MIDFR

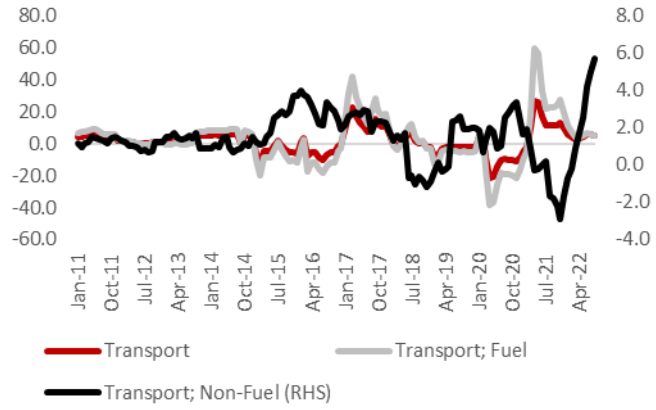
We maintain our average CPI forecast at +2.8% for 2022. In the environment of elevated global commodity prices and weakening USDMYR, inflationary pressure in Malaysia is affected via higher imported-food inflation. Moving into 3QCY22 onwards, we view the slight downward trend in global commodity prices and easing food inflation regionally 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 keep our headline CPI forecast at average at +2.8% for 2022.

Chart 1: Key CPI Data (YoY%)



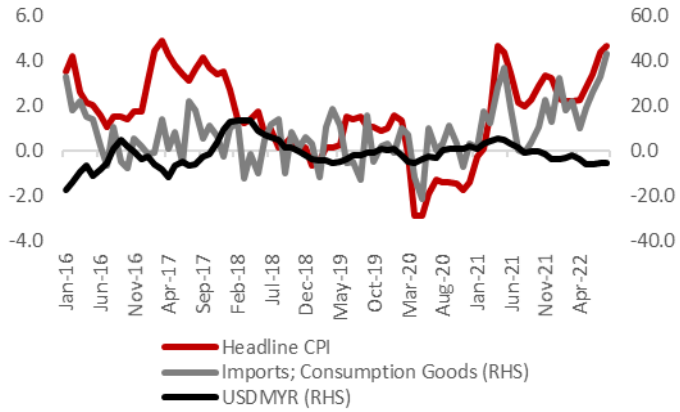
Source: Macrobond, MIDFR

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



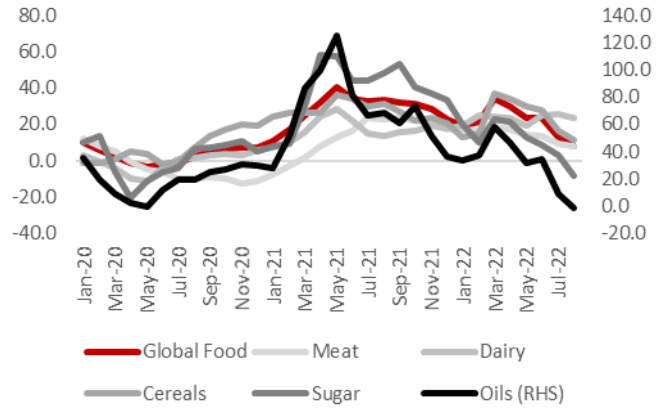
Source: Macrobond, MIDFR

Chart 3: Weakening USDMYR (YoY%)



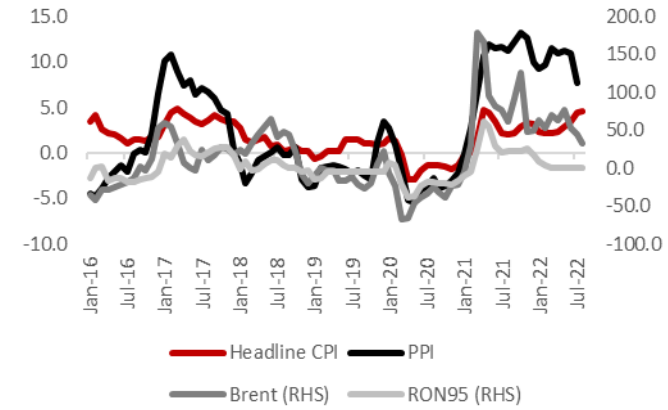
Source: Macrobond, MIDFR

Chart 4: Global Food Inflation (YoY%)



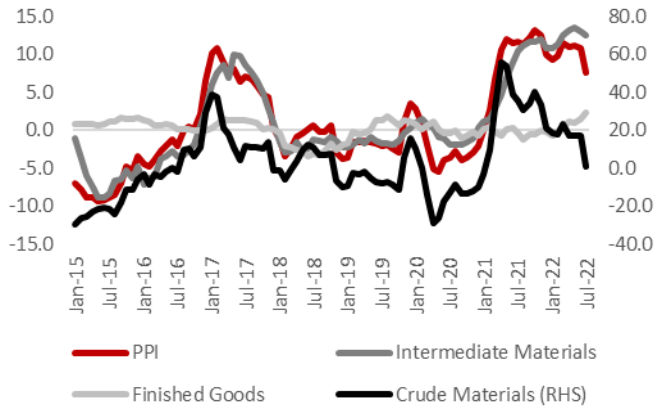
Source: FAO of UN, MIDFR

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



Source: Bloomberg, CEIC, MIDFR

Chart 6: PPI (YoY%)



Source: Macrobond, MIDFR

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