21 October 2022

ECONOMIC REVIEW | September 2022 Consumer Price Index

Strong Core CPI Signaled for Another OPR Hike Soon

- *Core inflation hit new peak at +4.0%yoy. As domestic demand continued on strengthening, core inflation rate touched new peak point again at +4.0%yoy in Sep-22. On sequential month basis, core prices still recorded growth of +0.3%mom. With this upbeat momentum, we believe BNM is very likely to raise the OPR by another +25bps in the last MPC meeting for this year, in Nov-22.*
- *Global food inflation at 2-year low. Global food inflation as reported by FAO of UN recorded at +5.5%yoy in Sep-22, the slowest since Oct-20. Among the components, global inflation of oils and sugar recorded contraction rate of -9.5%yoy each respectively. Malaysia's food inflation moderated slightly to +6.8%yoy, the lowest rate in three-month. Price growth of Food at Home eased to +5.7%yoy whereas Food Away from Home touched new fresh high at +8.7%yoy.*
- *We keep our average CPI forecast to +3.0% 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 +5.5% this year among others attributed by further depreciation of USDMYR. As for fuel subsidy, we believe the Government to maintain current mechanism at least until end of this year. With domestic demand firming, we upgrade our headline CPI forecast slightly by +0.2% point to +3.0% for 2022.*

Core inflation hit new peak at +4.0%yoy. As domestic demand continued on strengthening, core inflation rate touched new peak point again at +4.0%yoy in Sep-22. On sequential month basis, core prices still recorded growth of +0.3%mom. With this upbeat momentum, we believe BNM is very likely to raise the OPR by another +25bps in the last MPC meeting for this year, in Nov-22. On the flip side, headline inflation softened slightly to +4.5%yoy. Non-food inflation and food inflation eased marginally to +3.3%yoy and +6.8%yoy respectively, as compared to the previous month. We had expected that inflationary pressure in Malaysia to moderate after Aug-22 especially with the slight correction in global commodity prices and easing of supply chain pressures domestically and regionally.

Fuel inflation further decline to 5-month low. Fuel price growth descended to 5-month low at +4.3%yoy and contracted by -0.7%mom in Sep-22, recording three-straight months of month-on-month decline. This was tandem with easing commodity prices as Brent crude oil price descended to nine-month low at USD88pbd in Sep-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 +6.7%yoy among others attributed by weakening Ringgit.

Global food inflation at 2-year low. Global food inflation as reported by FAO of UN recorded at +5.5%yoy in Sep-22, the slowest since Oct-20. Among the components, global inflation of oils and sugar recorded contraction rate of -9.5%yoy each respectively. Malaysia's food inflation moderated slightly to +6.8%yoy, the lowest rate in three-month. Price growth of Food at Home eased to +5.7%yoy whereas Food Away from Home touched new fresh high at +8.7%yoy. As a net-food importer, depreciation of MYR vs. USD by -8.3%yoy in Sep-22 (more than 5-year low) had partially caused the food inflation spike. With the Fed set to raise its funds rate higher than

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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 slight correction of global commodity prices particularly agriculture-related prices and improving supply chain in both regionally and domestically.

Table 1: Consumer price index by component

Indices	MoM%			YoY%		
	Jul-22	Aug-22	Sep-22	Jul-22	Aug-22	Sep-22
CPI	0.4	0.2	0.1	4.4	4.7	4.5
Non-Food	0.2	0.2	0.0	3.2	3.4	3.3
Food and Non-Alcoholic Beverages	0.7	0.3	0.3	6.9	7.2	6.8
Alcoholic Beverages and Tobacco	0.1	0.1	0.1	0.6	0.7	0.7
Clothing and Footwear	0.1	0.0	0.0	0.3	0.3	0.4
Housing, Water, Electricity, Gas & Other Fuels	0.1	0.4	0.0	3.8	4.1	4.0
Furnishings, Household Equipment and Maintenance	0.6	0.3	0.2	4.0	4.3	4.4
Health	0.2	0.1	0.1	0.8	0.9	1.0
Transport	0.5	(0.4)	0.1	5.6	5.2	5.3
Communication	0.0	0.0	0.0	0.0	0.0	0.0
Recreation and Culture	0.3	0.3	0.3	2.5	2.7	3.1
Education	0.1	0.0	0.1	1.2	1.2	1.3
Restaurants and Hotels	0.8	0.6	0.3	5.8	6.4	6.9
Miscellaneous Goods and Services	(0.1)	0.3	0.1	2.1	2.4	2.4
Core CPI	0.3	0.6	0.3	3.4	3.8	4.0

Source: Macrobond, MIDFR

Headline inflation hit more than one-year high in Sarawak. Overall price growth in Sarawak registered at +4.0%yoy in Sep-22, the fastest pace since Jun-17. We believe the main upside driver was the food inflation in the state which surged to a new record high at +7.2%yoy. Sabah's CPI maintained at record high at +4.3%yoy. The main upward pressure factors are food inflation for all states.

Table 2: Inflation by state (YoY%)

	MoM%			YoY%		
	Jul-22	Aug-22	Sep-22	Jul-22	Aug-22	Sep-22
Peninsular Malaysia	**0.4**	**0.2**	**0.2**	**4.5**	**4.7**	**4.6**
Food & Non-Alcoholic Beverages	0.6	0.3	0.3	6.9	7.2	6.8
Housing & Utilities	0.0	0.4	0.0	4.0	4.3	4.3
Transport	0.5	(0.4)	0.2	5.8	5.4	5.6
Sabah	**0.6**	**0.3**	**0.0**	**3.9**	**4.3**	**4.3**
Food & Non-Alcoholic Beverages	1.5	0.4	0.2	6.3	6.6	6.7
Housing & Utilities	0.0	0.8	0.0	3.4	4.2	4.2
Transport	0.3	(0.6)	(0.1)	4.7	4.2	4.1
Sarawak	**0.5**	**0.3**	**0.2**	**3.6**	**3.9**	**4.0**

	MoM%			YoY%		
	Jul-22	Aug-22	Sep-22	Jul-22	Aug-22	Sep-22
Food & Non-Alcoholic Beverages	1.0	0.6	0.4	6.5	7.0	7.2
Housing & Utilities	0.1	0.3	0.0	1.0	1.2	1.2
Transport	0.3	(0.3)	0.0	4.4	4.0	4.0

Source: DOSM, MIDFR

PPI inflation at 17-month low. Malaysia's producer price index (PPI) inflation softened to +6.8%yoy in Aug-22, the slowest rise since Apr-21. Due to further correction in commodity prices in Aug-22, the PPI inflation for crude materials declined by -0.5%yoy, the first contraction since Feb-21. On month-on-month basis, the crude materials cost continued on declining trend. Meanwhile, cost inflation of intermediate materials moderated to 7-month low at +11.3%yoy. We view inflationary pressure stemming from raw materials and intermediate inputs to further soften in coming months, thanks to 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 4QCY22.

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Jun-22	Jul-22	Aug-22	Jun-22	Jul-22	Aug-22
PPI	(0.1)	(2.3)	(0.2)	10.9	7.6	6.8
Crude Materials	(2.5)	(11.5)	(1.0)	16.9	1.1	(0.5)
Foodstuffs	0.8	(0.9)	0.1	4.8	4.2	2.9
Non-food	(3.0)	(13.3)	(1.2)	19.2	0.4	(1.2)
Non-food ex fuel	(13.1)	(30.7)	3.9	24.2	(16.8)	(16.3)
Crude Fuel	4.6	(2.5)	(3.4)	16.2	10.6	8.2
Intermediate Materials	0.6	0.2	(0.1)	13.0	12.5	11.3
Manufactured Goods	0.2	(0.9)	(1.4)	14.1	12.6	10.3
Construction	0.1	(0.2)	0.1	5.3	4.9	4.8
Processed Fuel & Lubricants	1.4	2.0	1.3	18.0	18.4	17.1
Containers	0.7	(0.6)	0.2	3.6	2.4	1.9
Supplies	1.0	1.8	2.1	6.3	8.0	9.5
Finished Goods	0.6	0.0	0.3	1.6	2.4	2.9
Consumer Goods	0.4	0.2	0.5	2.7	3.0	3.5
Capital Equipment	0.7	(0.1)	0.1	0.7	1.9	2.5

Source: Macrobond, MIDFR

Mixed directions of inflation across regions. The US headline CPI inflation eased further for the fourth straight month to +8.2%yoy in Sep-22 (Aug-22: +8.3%yoy). Although the rate of inflation was the slowest in 6 months, it indicates inflation in the US remains at high levels. The marginal easing in Sep-22 was again due to slower energy price inflation particularly gasoline, fuel oil and electricity. Prices of foods and used cars also registered slower increases in Sep-22. In contrast, charges for shelter rose at faster pace. With the core CPI

inflation rising at +6.6%yoy that was higher than market consensus and the fastest in 40 years, this suggests broader price pressures despite correction in gasoline prices. Moving to Europe, overall price growth in Euro Area skyrocketed to a new record high at +9.9%yoy amid Russia's gas threat to the region. Looking ahead, we believe the global inflation will soften modestly in 2HCY22 and 2023 underpin by slight correction of commodity prices and improving global supply chain especially related to food products.

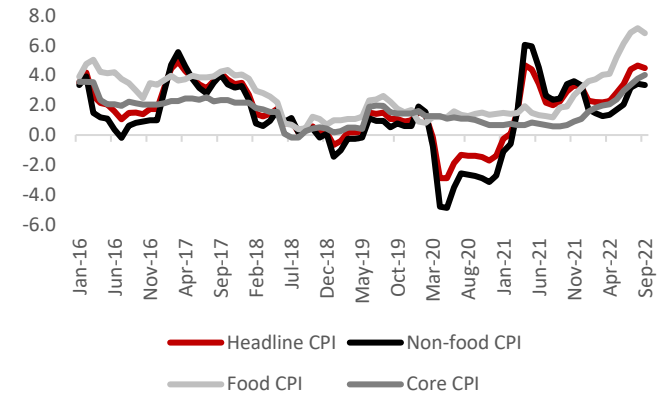
Table 4: Global Headline Inflation (YoY%)

	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
Malaysia	2.2	2.3	2.8	3.4	4.4	4.7	
Indonesia	2.6	3.5	3.6	4.4	4.9	4.7	6.0
Philippines	4.0	4.9	5.4	6.1	6.4	6.3	6.9
Thailand	5.7	4.7	7.1	7.7	7.6	7.9	6.4
Singapore	5.4	5.4	5.6	6.7	7.0	7.5	
China	1.5	2.1	2.1	2.5	2.7	2.5	2.8
South Korea	4.1	4.8	5.4	6.0	6.3	5.7	5.6
Taiwan	3.3	3.4	3.4	3.6	3.4	2.7	2.8
Japan	1.2	2.5	2.5	2.4	2.6	3.0	
Euro Area	7.4	7.4	8.1	8.6	8.9	9.1	9.9
US	8.5	8.3	8.6	9.1	8.5	8.3	8.2

Source: Macrobond, MIDFR

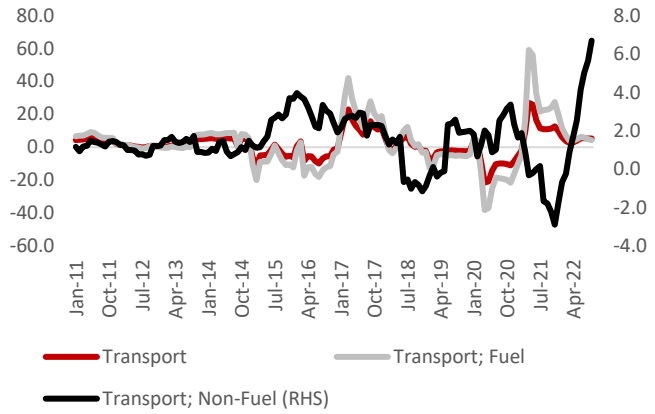
We keep our average CPI forecast to +3.0% for 2022. In the environment of elevated global commodity prices, inflationary pressure in Malaysia is affected via higher food inflation. We expect food price growth to record at +5.5% this year among others attributed by further depreciation of USDMYR. As for fuel subsidy, we believe the Government to maintain current mechanism at least until end of this year. With domestic demand firming, we upgrade our headline CPI forecast slightly by +0.2% point to +3.0% for 2022. Moving into 2023, supply-push factors on inflation are expected to soften among others underpin by appreciation of USDMYR, moderation in food prices, further easing in global supply chain pressure and lower commodity prices. However, Malaysia's inflation outlook remains cloudy for next year, awaiting the post-GE15 government's approach on fuel-subsidy mechanism. If the new Government keep status quo on the fuel subsidy, hence headline inflation to hover between +2.3~2.5% for 2023. If the subsidy mechanism abolished entirely, headline inflation could touch +10% while gradual increase in domestic retail fuel prices would result into +4~5% for next year.

Chart 1: Key CPI Data (YoY%)



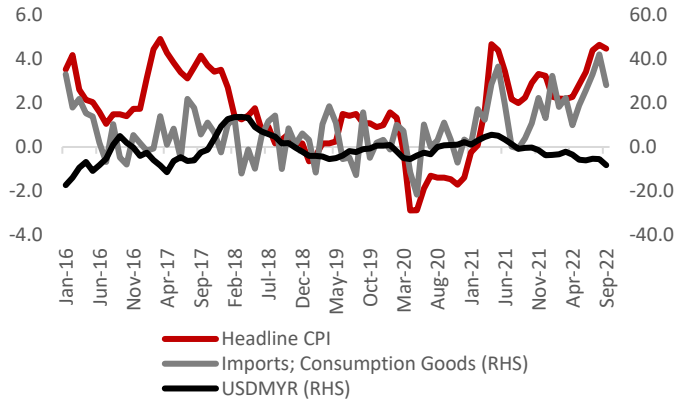
Source: Macrobond, MIDFR

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



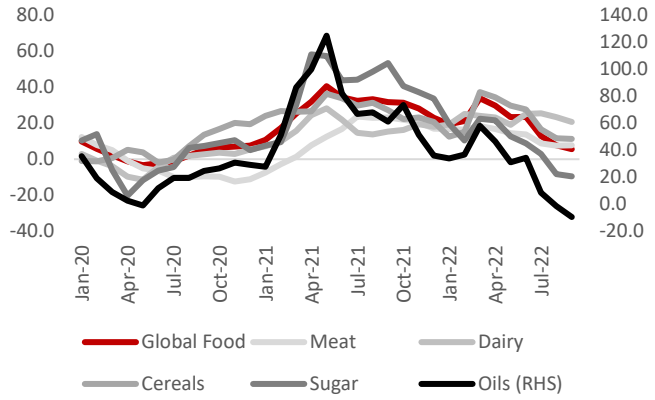
Source: Macrobond, MIDFR

Chart 3: Weakening USDMYR (YoY%)



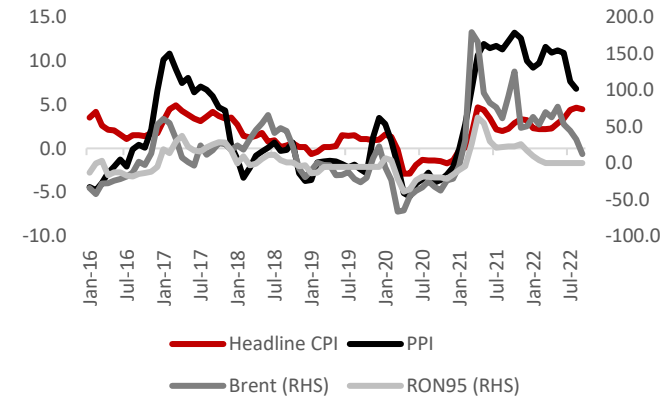
Source: Macrobond, MIDFR

Chart 4: Global Food Inflation (YoY%)



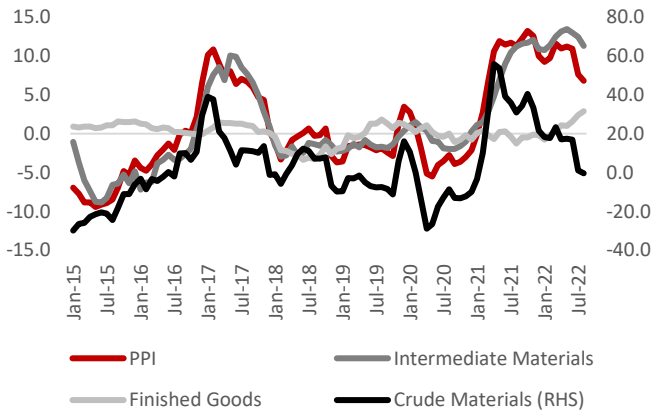
Source: FAO of UN, MIDFR

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



Source: Bloomberg, CEIC, MIDFR

Chart 6: PPI (YoY%)



Source: Macrobond, MIDFR

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