25 November 2022

ECONOMIC REVIEW | October 2022 Consumer Price Index

Core CPI Touched a New Peak Point Again as Domestic Demand Strengthened

- *Headline inflation moderated to 4-month low. Malaysia's headline inflation continued on moderating trend, recording +4%yoy in Oct-22, slightly higher than market consensus +3.9%. Non-food inflation edged lower to +2.4%yoy while food inflation rose to almost record high seen in Aug-22. Apart from cost-push factors, continued strengthening of domestic demand contributed to a new peak point for core inflation rate at +4.1%yoy in Oct-22.*
- *PPI inflation at 19-month low. Malaysia's producer price index (PPI) inflation softened to +4.9%yoy in Sep-22, the slowest rise since Feb-21. Due to further correction in commodity prices in Sep-22, the PPI inflation for crude materials declined by -6.4%yoy, the largest contraction since Jan-21. On month-on-month basis, the crude materials cost continued on declining trend.*
- *We maintain our CPI forecast at +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. With domestic demand firming, we upgrade our headline CPI forecast slightly by +0.2% point to +3.0% for 2022.*

Headline inflation moderated to 4-month low. Malaysia's headline inflation continued on moderating trend, recording +4%yoy in Oct-22, slightly higher than market consensus +3.9%. Non-food inflation edged lower to +2.4%yoy while food inflation rose to almost record high seen in Aug-22. Apart from cost-push factors, continued strengthening of domestic demand contributed to a new peak point for core inflation rate at +4.1%yoy in Oct-22. On sequential month basis, core prices still recorded growth of +0.1%mom. With this upbeat momentum, we believe BNM is very likely to raise the OPR by another +25bps in the first MPC meeting for next year, in Jan-23.

Fuel inflation eased to 20-month low. Fuel price growth descended to 20-month low at +3.4%yoy and contracted by -0.5%mom in Oct-22, recording four-straight months of month-on-month decline. This was tandem with normalization of commodity prices. We believe the newly-formed government to keep current fuel subsidy mechanism status quo in Dec-22. Hence, we foresee fuel inflation to stay on deceleration and drag on overall inflationary pressure. On the other hand, non-fuel inflation rate hit new record high at +7.8%yoy among others attributed by weakening Ringgit.

Global food inflation at more than 2-year low. Global food inflation as reported by FAO of UN recorded at +2%yoy in Oct-22, the slowest since Sep-20. Among the components, global inflation of oils and sugar recorded contraction rate of -18.8%yoy and -8.5%yoy respectively. However, Malaysia's food inflation edged up to +7.1%yoy, 0.1%pts lower than the record high. Price growth of Food at Home inched up to +5.8%yoy (Sep-22: +5.7%yoy) whereas Food Away from Home touched new fresh high at +9.3%yoy. As a net-food importer, depreciation of MYR vs. USD by -11.4%yoy in Oct-22 (more than 5-year low) had partially caused the food inflation spike. Moving forward, we expect Malaysia's domestic food inflation to decelerate at moderate pace in Nov-22 onwards following the slight correction of global commodity prices particularly agriculture-related prices

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and improving supply chain in both regionally and domestically. In addition, MYR is on appreciating path as the Fed is signaling for a slower rate hike pace in Dec-22 onwards. With a new government formed post-GE15, this provides additional booster for Malaysia's macroeconomic fundamentals to further support MYR's appreciation.

Table 1: Consumer price index by component

Indices	MoM%			YoY%		
	Aug-22	Sep-22	Oct-22	Aug-22	Sep-22	Oct-22
CPI	0.2	0.1	0.2	4.7	4.5	4.0
Non-Food	0.2	0.0	0.1	3.4	3.3	2.4
Food and Non-Alcoholic Beverages	0.3	0.3	0.5	7.2	6.8	7.1
Alcoholic Beverages and Tobacco	0.1	0.1	0.1	0.7	0.7	0.8
Clothing and Footwear	0.0	0.0	0.0	0.3	0.4	0.4
Housing, Water, Electricity, Gas & Other Fuels	0.4	0.0	0.0	4.1	4.0	1.5
Furnishings, Household Equipment and Maintenance	0.3	0.2	0.2	4.3	4.4	4.1
Health	0.1	0.1	0.1	0.9	1.0	1.0
Transport	(0.4)	0.1	0.1	5.2	5.3	5.2
Communication	0.0	0.0	0.0	0.0	0.0	0.0
Recreation and Culture	0.3	0.3	(0.1)	2.7	3.1	3.4
Education	0.0	0.1	0.1	1.2	1.3	1.4
Restaurants and Hotels	0.6	0.3	0.3	6.4	6.9	6.8
Miscellaneous Goods and Services	0.3	0.1	0.3	2.4	2.4	2.4
Core CPI	0.6	0.3	0.1	3.8	4.0	4.1

Source: Macrobond, MIDFR

Headline inflation hit more than one-year high in Sarawak. Overall price growth in Sarawak registered at +4.3%yoy in Oct-22, the fastest pace since May-17. We believe the main upside driver was the food inflation in the state which surged to a new record high at +7.8%yoy despite of receding transport inflation. After two-consecutive months recording peak point at +4.3%yoy, Sabah's CPI decelerated to +3.8%yoy. The main upward pressure factors are food inflation for all states.

Table 2: Inflation by state (YoY%)

	MoM%			YoY%		
	Aug-22	Sep-22	Oct-22	Aug-22	Sep-22	Oct-22
Peninsular Malaysia	**0.2**	**0.2**	**0.2**	**4.7**	**4.6**	**4.0**
Food & Non-Alcoholic Beverages	0.3	0.3	0.5	7.2	6.8	7.1
Housing & Utilities	0.4	0.0	0.0	4.3	4.3	1.4
Transport	(0.4)	0.2	0.1	5.4	5.6	5.5
Sabah	**0.3**	**0.0**	**0.3**	**4.3**	**4.3**	**3.8**
Food & Non-Alcoholic Beverages	0.4	0.2	0.6	6.6	6.7	7.2
Housing & Utilities	0.8	0.0	0.0	4.2	4.2	2.0
Transport	(0.6)	(0.1)	(0.2)	4.2	4.1	3.7
Sarawak	**0.3**	**0.2**	**0.2**	**3.9**	**4.0**	**4.3**

Food & Non-Alcoholic Beverages	0.6	0.4	0.6	7.0	7.2	7.8
Housing & Utilities	0.3	0.0	0.0	1.2	1.2	1.2
Transport	(0.3)	0.0	(0.1)	4.0	4.0	3.7

Source: DOSM, MIDFR

PPI inflation at 19-month low. Malaysia's producer price index (PPI) inflation softened to +4.9%yoy in Sep-22, the slowest rise since Feb-21. Due to further correction in commodity prices in Sep-22, the PPI inflation for crude materials declined by -6.4%yoy, the largest contraction since Jan-21. On month-on-month basis, the crude materials cost continued on declining trend. Meanwhile, cost inflation of intermediate materials moderated to 15-month low at +10%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 moderation in the Baltic Dry Index in Oct-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%		
	Jul-22	Aug-22	Sep-22	Jul-22	Aug-22	Sep-22
PPI	(2.3)	(0.2)	(1.4)	7.6	6.8	4.9
Crude Materials	(11.5)	(1.0)	(5.4)	1.1	(0.5)	(6.4)
Foodstuffs	(0.9)	0.1	0.5	4.2	2.9	2.9
Non-food	(13.3)	(1.2)	(6.5)	0.4	(1.2)	(8.1)
Non-food ex fuel	(30.7)	3.9	(8.9)	(16.8)	(16.3)	(23.9)
Crude Fuel	(2.5)	(3.4)	(5.5)	10.6	8.2	1.4
Intermediate Materials	0.2	(0.1)	(0.8)	12.5	11.3	10.0
Manufactured Goods	(0.9)	(1.4)	(1.8)	12.6	10.3	7.8
Construction	(0.2)	0.1	(0.1)	4.9	4.8	4.0
Processed Fuel & Lubricants	2.0	1.3	0.3	18.4	17.1	17.1
Containers	(0.6)	0.2	(0.3)	2.4	1.9	1.7
Supplies	1.8	2.1	0.7	8.0	9.5	9.9
Finished Goods	0.0	0.3	0.2	2.4	2.9	3.1
Consumer Goods	0.2	0.5	(0.2)	3.0	3.5	2.9
Capital Equipment	(0.1)	0.1	0.6	1.9	2.5	3.4

Source: Macrobond, MIDFR

Inflation in the US softened to 9-month low. American headline inflation rate reportedly at +7.7%yoy in Oct-22, the slowest since Jan-22 and below market expectations of +8%yoy. The main dragging factors were deceleration in energy and food inflation rates. On sequential month basis, CPI growth was maintained at +0.4%mom (Sep-22: +0.4%mom) and missed market consensus of +0.6%mom. Slight decline in global energy prices and improvements in supply chain were among positive factors contributing to the softening inflationary pressure. Excluding volatile prices, core inflation rate recorded at +6.3%yoy, lower than 40-year high +6.6%yoy registered in the previous month. We opine the moderation in core inflation among others is due to tightening

monetary policy by the Fed. Moving to Europe, overall price growth in Euro Area skyrocketed to a new record high at +10.6%yoy amid weakness in EUR and surging energy prices. Looking ahead, we believe the global inflation will soften modestly in 4QCY22 and 2023 underpin by slight correction of commodity prices and improving global supply chain especially related to food products.

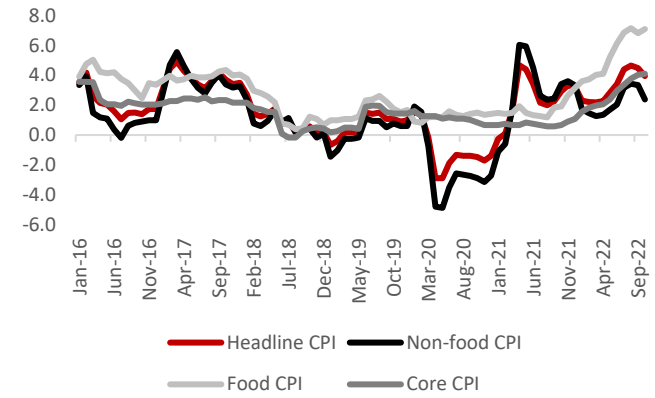
Table 4: Global Headline Inflation (YoY%)

	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
Malaysia	2.3	2.8	3.4	4.4	4.7	4.5	4.0
Indonesia	3.5	3.6	4.4	4.9	4.7	6.0	5.7
Philippines	4.9	5.4	6.1	6.4	6.3	6.9	7.7
Thailand	4.7	7.1	7.7	7.6	7.9	6.4	6.0
Singapore	5.4	5.6	6.7	7.0	7.5	7.5	6.7
China	2.1	2.1	2.5	2.7	2.5	2.8	2.1
South Korea	4.8	5.4	6.0	6.3	5.7	5.6	5.7
Taiwan	3.4	3.4	3.6	3.4	2.7	2.8	2.7
Japan	2.5	2.5	2.4	2.6	3.0	3.0	3.7
Euro Area	7.4	8.1	8.6	8.9	9.1	9.9	10.6
US	8.3	8.6	9.1	8.5	8.3	8.2	7.7

Source: Macrobond, MIDFR

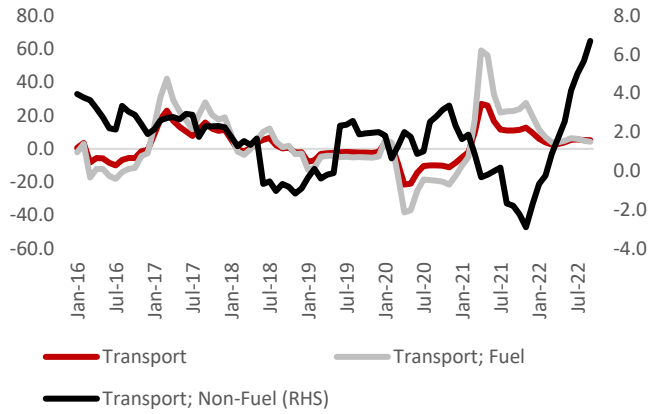
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Chart 1: Key CPI Data (YoY%)



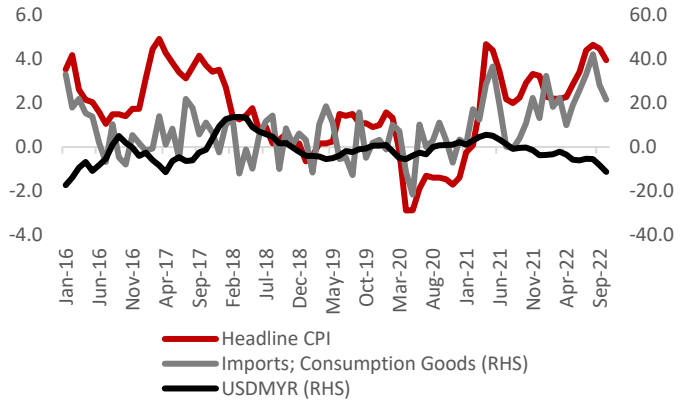
Source: Macrobond, MIDFR

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



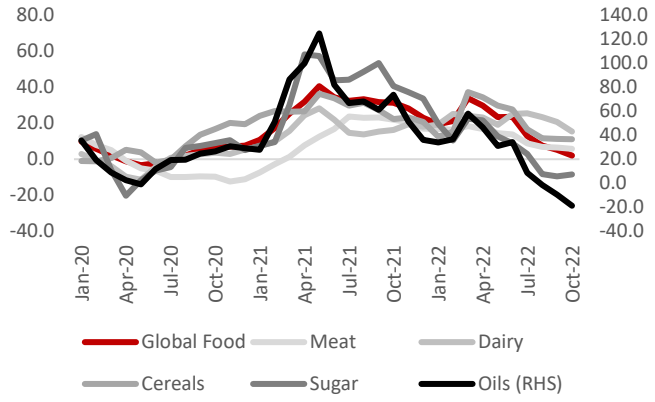
Source: Macrobond, MIDFR

Chart 3: Weakening USDMYR (YoY%)



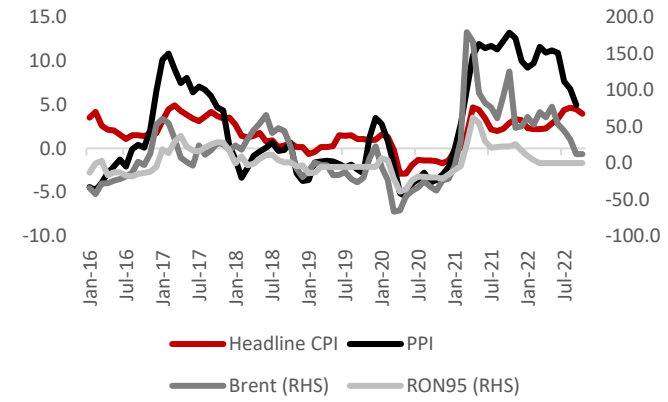
Source: Macrobond, MIDFR

Chart 4: Global Food Inflation (YoY%)



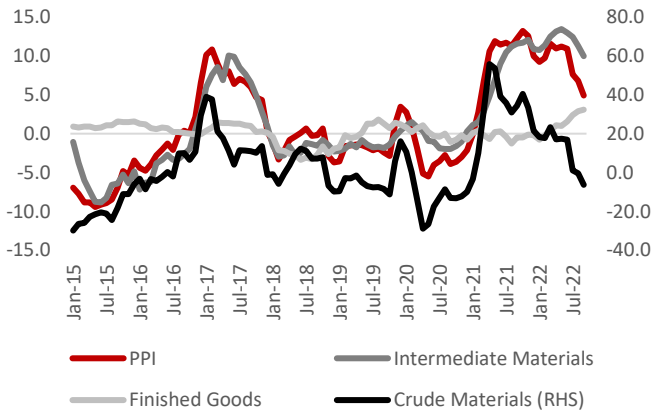
Source: FAO of UN, MIDFR

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



Source: Bloomberg, Macrobond, MIDFR

Chart 6: PPI (YoY%)



Source: Macrobond, MIDFR

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