23 December 2022

ECONOMIC REVIEW | November 2022 Consumer Price Index

Core Inflation Hit New Record High, Expecting Another 25bps OPR Hike in Jan-23

- *Core inflation surged to a new record high again. Reflecting underlying domestic demand, core inflation rate hit a new peak point at +4.2%yoy in Nov-22 (Oct-22: +4.1%yoy). Meanwhile, headline inflation continued on moderating trend, despite remaining at +4%yoy in Nov-22. Non-food inflation edged up slightly to +2.5%yoy while food inflation rose a new record high at +7.3%.*
- *Fuel inflation eased to 21-month low. Fuel price inflation descended to 21-month low at +2.6%yoy and contracted by -0.1%mom in Nov-22, recording five-straight months of month-on-month decline. This was in tandem with normalization of commodity prices.*
- *We expect headline inflation to moderate from +3.2% in 2022 to +2.3% for 2023. In the environment of elevated global commodity prices, inflationary pressure in Malaysia is affected via higher food inflation. With domestic demand firming, we project headline inflation to average +3.2% in 2022. Moving into 2023, supply-push factors on inflation are expected to soften and we expect the coalition government to keep current fuel-subsidy mechanism status quo. Hence, headline inflation is predicted to average at +2.3% for 2023.*

Core inflation surged to a new record high again. Reflecting underlying domestic demand, core inflation rate hit a new peak point at +4.2%yoy in Nov-22 after registering +4.1%yoy in the previous month. On sequential month basis, core prices still recorded +0.4%mom increase. We opine the strong inflation trend in Malaysia is highly driven by robust consumer demand while indicators for cost inflation have eased in recent months. Job market has been on improving performances, with employment growth above +3%yoy for 7-straight months since Apr-22 while imports of consumption goods and distributive trade sales continued to expand by double-digit pace at +21.6%yoy and +15.2%yoy, respectively, in Oct-22. Headline inflation continued on moderating trend, despite remaining at +4%yoy in Nov-22. Non-food inflation edged up slightly to +2.5%yoy while food inflation rose a new record high at +7.3%. With this upbeat momentum, we believe BNM is likely to raise the OPR by another +25bps to 3.00% in the first MPC meeting next year in Jan-23.

Fuel inflation eased to 21-month low. Fuel price inflation descended to 21-month low at +2.6%yoy and contracted by -0.1%mom in Nov-22, recording five-straight months of month-on-month decline. This was in tandem with normalization of commodity prices. We believe the coalition government to keep current fuel subsidy mechanism status quo at least for 2023. Hence, we foresee fuel inflation to stay on decelerating trend and would drag on overall inflationary pressure. On the other hand, non-fuel inflation rate hit new record high at +8.3%yoy among others attributable to the weakening of ringgit (average in Nov-22: RM4.609; Nov-21: RM4.179).

Global food inflation on downhill for the past 5 months. Global food inflation as reported by FAO of UN recorded at +0.3%yoy in Nov-22, the steepest since Aug-20. Among the components, price growth of oils and sugar recorded contraction rate for 4-straight months, -16.2%yoy and -4.9%yoy respectively in Nov-22. However, Malaysia's food inflation soared to a new peak point +7.3%yoy. Price growth of Food at Home surged

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to new record high at +5.8%yoy whereas Food Away from Home touched a new fresh high again at +9.6%yoy. By items, rice & cereals inflation hit highest point at +7.5%yoy while meat inflation +8.2%yoy (3-month high), fish inflation at +3.5%yoy (3-month high) and milk, cheese & eggs inflation at +8.9%yoy (3-month high). As a net-food importer, depreciation of MYR vs. USD by -9.4%yoy in Nov-22 had partially caused the food inflation spike. Moving forward, we expect Malaysia's domestic food inflation to decelerate further following the slight correction of global commodity prices particularly agriculture-related prices and improving supply chain both regionally and domestically. With the focus on resolving cost of living issues, we believe food inflation to ease slightly starting in 1QCY23 amid government intervention on selected food prices. In addition, MYR is expected to be on appreciating path as the Fed is signaling for a slower pace of rate hikes from Dec-22 onwards. With a stable government formed post-GE15, this also provides additional booster for Malaysia's macroeconomic fundamentals to further support MYR's appreciation.

Table 1: Consumer price index by component

Indices	MoM%			YoY%		
	Sep-22	Oct-22	Nov-22	Sep-22	Oct-22	Nov-22
CPI	0.1	0.2	0.3	4.5	4.0	4.0
Non-Food	0.0	0.1	0.1	3.3	2.4	2.5
Food and Non-Alcoholic Beverages	0.3	0.5	0.7	6.8	7.1	7.3
Alcoholic Beverages and Tobacco	0.1	0.1	0.1	0.7	0.8	0.8
Clothing and Footwear	0.0	0.0	0.0	0.4	0.4	0.4
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	0.2	4.0	1.5	1.4
Furnishings, Household Equipment and Maintenance	0.2	0.2	0.1	4.4	4.1	3.8
Health	0.1	0.1	0.3	1.0	1.0	1.4
Transport	0.1	0.1	0.0	5.3	5.2	5.0
Communication	0.0	0.0	0.0	0.0	0.0	0.0
Recreation and Culture	0.3	(0.1)	0.2	3.1	3.4	3.6
Education	0.1	0.1	0.2	1.3	1.4	1.5
Restaurants and Hotels	0.3	0.3	0.5	6.9	6.8	7.0
Miscellaneous Goods and Services	0.1	0.3	0.3	2.4	2.4	2.6
Core CPI	0.3	0.1	0.4	4.0	4.1	4.2

Source: Macrobond, MIDFR

Sarawak headline inflation at highest growth rate. Overall price growth in Sarawak registered at +4.7%yoy in Nov-22, the fastest pace ever seen. We believe the main upside driver was the food inflation in the state which surged to a new record high at +8.5%yoy despite of receding transport inflation. Sabah inflation stayed at +3.8%yoy albeit less price pressure from utilities and transport inflation. For all states, the main upward price pressure is food inflation.

Table 2: Inflation by state (YoY%)

	MoM%			YoY%		
	Sep-22	Oct-22	Nov-22	Sep-22	Oct-22	Nov-22
Peninsular Malaysia	**0.2**	**0.2**	**0.3**	**4.6**	**4.0**	**4.0**
Food & Non-Alcoholic Beverages	0.3	0.5	0.8	6.8	7.1	7.2
Housing & Utilities	0.0	0.0	0.2	4.3	1.4	1.4
Transport	0.2	0.1	(0.1)	5.6	5.5	5.1
Sabah	**0.0**	**0.3**	**0.2**	**4.3**	**3.8**	**3.8**
Food & Non-Alcoholic Beverages	0.2	0.6	0.4	6.7	7.2	7.4
Housing & Utilities	0.0	0.0	0.2	4.2	2.0	2.1
Transport	(0.1)	(0.2)	(0.3)	4.1	3.7	3.1
Sarawak	**0.2**	**0.2**	**0.6**	**4.0**	**4.3**	**4.7**
Food & Non-Alcoholic Beverages	0.4	0.6	0.9	7.2	7.8	8.5
Housing & Utilities	0.0	0.0	0.1	1.2	1.2	1.2
Transport	0.0	(0.1)	(0.2)	4.0	3.7	3.2

Source: DOSM, MIDFR

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Aug-22	Sep-22	Oct-22	Aug-22	Sep-22	Oct-22
PPI	(0.2)	(1.4)	0.1	6.8	4.9	4.0
Crude Materials	(1.0)	(5.4)	0.1	(0.5)	(6.4)	(8.7)
Foodstuffs	0.1	0.5	(0.3)	2.9	2.9	2.5
Non-food	(1.2)	(6.5)	0.1	(1.2)	(8.1)	(10.8)
Non-food ex fuel	3.9	(8.9)	(2.8)	(16.3)	(23.9)	(27.3)
Crude Fuel	(3.4)	(5.5)	1.5	8.2	1.4	(1.0)
Intermediate Materials	(0.1)	(0.8)	0.1	11.3	10.0	9.1
Manufactured Goods	(1.4)	(1.8)	(1.4)	10.3	7.8	5.4
Construction	0.1	(0.1)	0.2	4.8	4.0	3.6
Processed Fuel & Lubricants	1.3	0.3	3.1	17.1	17.1	19.7
Containers	0.2	(0.3)	(0.9)	1.9	1.7	0.2
Supplies	2.1	0.7	0.6	9.5	9.9	10.2
Finished Goods	0.3	0.2	0.3	2.9	3.1	3.4
Consumer Goods	0.5	(0.2)	0.4	3.5	2.9	3.6
Capital Equipment	0.1	0.6	0.0	2.5	3.4	3.1

Source: Macrobond, MIDFR

PPI inflation at 20-month low. Malaysia's producer price inflation eased further to +4%yoy in Oct-22 (Sep-22: +4.9%yoy), the slowest since Feb-21. The slower price pressures on producers were mainly due to declines in PPI for the agriculture (-18.2%yoy) and mining (-0.5%yoy) sectors as a result of commodity price correction, hovering at levels lower than October last year. Similarly, prices of crude materials continued to fall during the month. The easing price pressures were also attributable to slower rise in manufacturing PPI (Oct-22: +7.3%; Sep-22: +8.1%yoy), in line with the slower inflation in intermediate goods. However, PPI for the utility sector accelerated further to +4.9%yoy. Overall, we opine cost pressures on local businesses have eased with the

continued downtrend in prices paid by Malaysian producers. In particular, the easing pressures tracked the changes in global commodity prices and supplies of intermediate materials, hence slower rise in input prices. We believe there is now reduced pressure on Malaysia's firms to continue passing on cost increases to consumers, and this would result in further easing in consumer prices. However, we view the continued rise in PPI for finished goods as a possible indication that risk to inflation outlook remain elevated, apart from growing demand pressures on general prices.

Global inflation eases slightly. The US CPI inflation eased further to +7.1%yoy in Nov-22 (Oct-22: +7.7%yoy), the slowest increase in consumer prices since Dec-21 and better than market consensus of +7.3%yoy. The positive inflation reflects continued rise in shelter, energy and food prices. However, the slower pace of inflation was attributable mainly to slower inflation in energy and food prices, and decline in prices of used cars and trucks. Core CPI also recorded slower increase, slowing to +6%yoy (Oct-22: +6.3%yoy), the slowest increase in 4 months and also better than market expectations of +6.1%yoy. Looking at inflation easing further, we opine this supports for smaller rate hikes by the Fed. In other words, the Fed will start to pivot from Dec-22 as easing price pressure was also a result of smaller rise in core CPI prices. This signal easing demand pressures also contributed to the slower price increases in Nov-22. However, with inflation broadly remains above the longer-term 2% target, the Fed will continue tightening its policy at least until 1HCY23 to ensure price pressures will continue to trend lower. Moving to Europe, overall price growth in Euro Area eased to +10.1%yoy in Nov-22 from record high +10.6%yoy recorded in the previous month amid fading low-base effects and mild correction in energy prices. Looking ahead, we believe the global inflation will soften modestly in 2023 underpinned by slight correction of commodity prices and improving global supply chain especially related to food products.

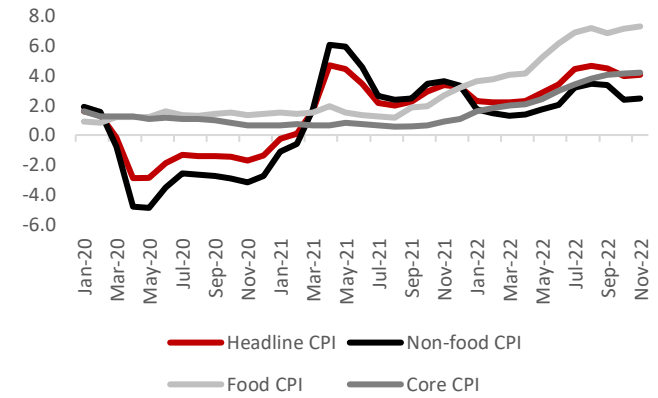
Table 4: Global Headline Inflation (YoY%)

	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22
Malaysia	2.8	3.4	4.4	4.7	4.5	4.0	4.0
Indonesia	3.6	4.4	4.9	4.7	6.0	5.7	5.4
Philippines	5.4	6.1	6.4	6.3	6.9	7.7	8.0
Thailand	7.1	7.7	7.6	7.9	6.4	6.0	5.6
Singapore	5.6	6.7	7.0	7.5	7.5	6.7	n.a.
China	2.1	2.5	2.7	2.5	2.8	2.1	1.6
South Korea	5.4	6.0	6.3	5.7	5.6	5.7	5.0
Taiwan	3.4	3.6	3.4	2.7	2.8	2.7	2.4
Japan	2.5	2.4	2.6	3.0	3.0	3.7	n.a.
Euro Area	8.1	8.6	8.9	9.1	9.9	10.6	10.1
US	8.6	9.1	8.5	8.3	8.2	7.7	7.1

Source: Macrobond, MIDFR

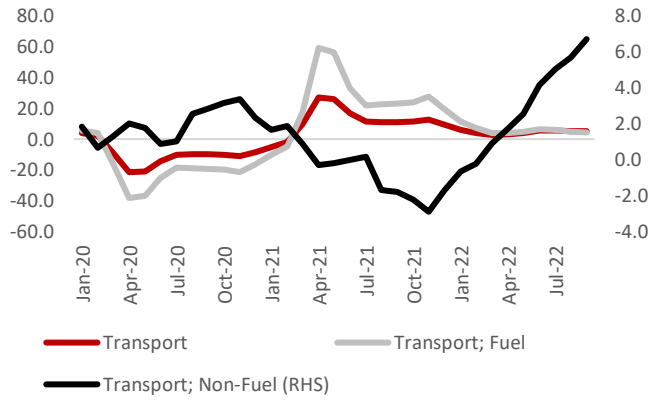
We expect headline inflation to moderate from +3.2% in 2022 to +2.3% for 2023. In the environment of elevated global commodity prices, inflationary pressure in Malaysia is affected via higher food inflation. We expect food price growth to record at +5.5% this year, which is also attributable to the depreciation of ringgit. With domestic demand firming, we project headline inflation to average +3.2% in 2022. Moving into 2023, supply-push factors on inflation are expected to soften among others underpinned by expected appreciation of ringgit, moderation in food prices, further easing in global supply chain pressure and normalising commodity prices. Post-GE15, Malaysia's inflation outlook is much clearer for next year as we expect the coalition government is very likely to keep current fuel-subsidy mechanism status quo. Hence, headline inflation is predicted to average at +2.3% for 2023.

Chart 1: Key CPI Data (YoY%)



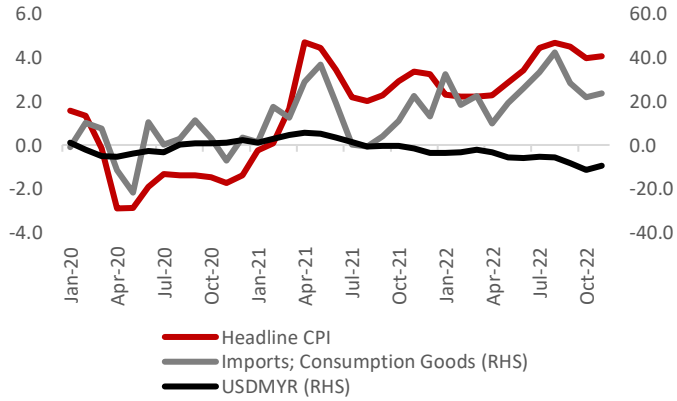
Source: Macrobond, MIDFR

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



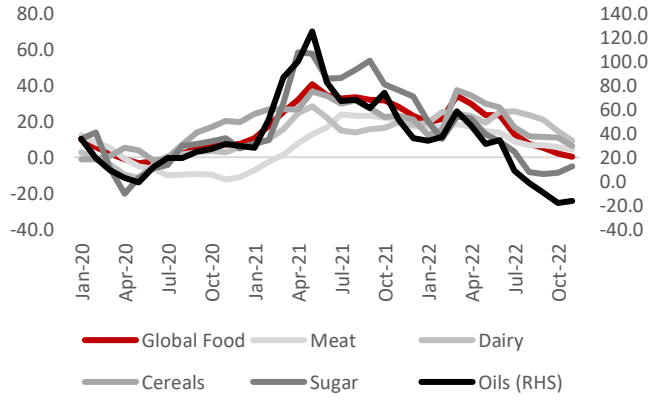
Source: Macrobond, MIDFR

Chart 3: Weakening USDMYR (YoY%)



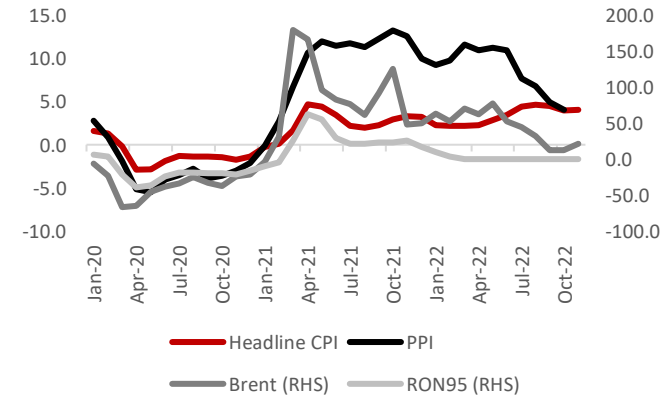
Source: Macrobond, MIDFR

Chart 4: Global Food Inflation (YoY%)



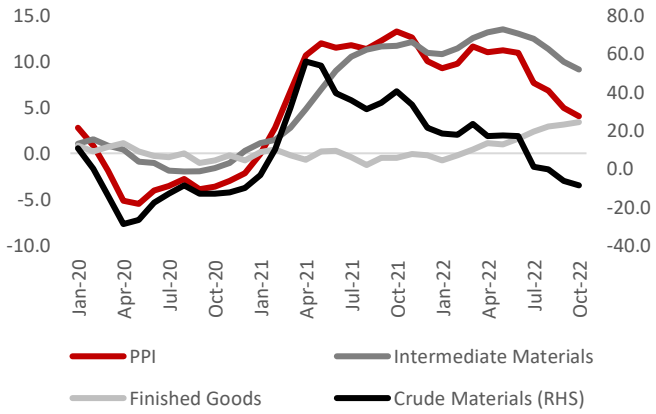
Source: FAO of UN, MIDFR

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



Source: Bloomberg, Macrobond, MIDFR

Chart 6: PPI (YoY%)



Source: Macrobond, MIDFR

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