20 January 2023

ECONOMIC REVIEW | December 2022 Consumer Price Index

OPR Rate Hike Still Possible as Core CPI Remains Elevated

- *Headline inflation moderated to 6-month low. Malaysia's overall price growth moderated to +3.8%yoy, the lowest since Jul-22 and in line with market estimates. Both non-food and food inflation rates softened to +2.3%yoy (6-month low) and +6.8%yoy (3-month low) respectively. As for 2022, headline inflation averaged at +3.3% (2021: +2.5%) while non-food at +2.2% (2021: +2.8%) and food at +5.7% (2021: +1.8%). Core inflation hit +3% for 2022, the highest ever recorded.*
- *Global food inflation on downhill for the past 6 months. Global food inflation as reported by FAO of UN recorded at -1%yoy in Dec-22, the steepest decline since Aug-20. Among the components, price growth of dairy moderated to 23-month low at +7.9%yoy, cereals inflation +4.8%yoy at 29-month low and oils inflation -19.1%yoy at 4-year low. Consequently, Malaysia's food inflation moderated to +6.8%yoy. Price growth of Food at Home receded to 8-month low at +4.9%yoy whereas Food Away from Home remained at record high +9.6%yoy.*
- *We forecast headline inflation to average at +2.3% for 2023. In the environment of elevated global commodity prices, global supply chain tightness & improving domestic demand, Malaysia's overall price growth registered at +3.3% for 2022, highest in 5 years. Moving into 2023, supply-push factors on inflation are expected to soften among others underpin by appreciation of USD/MYR, moderation in food prices, further easing in global supply chain pressure and lower commodity prices. As long as the government keep current fuel subsidy mechanism, we shall expect headline inflation to average at +2.3% for 2023.*

Headline inflation moderated to 6-month low. Malaysia's overall price growth moderated to +3.8%yoy, the lowest since Jul-22 and in line with market estimates. Both non-food and food inflation rates softened to +2.3%yoy (6-month low) and +6.8%yoy (3-month low) respectively. As for 2022, headline inflation averaged at +3.3% (2021: +2.5%) while non-food at +2.2% (2021: +2.8%) and food at +5.7% (2021: +1.8%). Receding low-base effects, mild correction of commodity prices, government intervention policies and appreciation of MYR were among the contributing factors. However, domestic demand continue to firm as core inflation rate remained sticky lingering above +4%yoy for 4-straight months. On sequential month basis, core prices still recorded growth of +0.1%mom. Core inflation hit +3% for 2022, the highest ever recorded. We opine the strong inflation trend in Malaysia is highly driven by strong consumer demand while indicators for cost inflation are on slowing pace. Job market has been improving where employment growth has been above +3%yoy for 8-straight months since Apr-22 while imports of consumption goods and distributive trade sales continued to expand by double-digit pace, +23.9%yoy and +13.9%yoy respectively in Nov-22. With this upbeat momentum, we believe BNM may consider to raise the OPR by another +25bps to 3.00% in the second MPC meeting in Mar-23.

Fuel inflation remains low, thanks to fuel subsidy mechanism. Fuel price growth descended to 22-month low at +1.8%yoy and contracted by -0.9%mom in Dec-22, recording 6-straight months of month-on-month decline. This was in tandem with the normalization of commodity prices. We believe the government to keep the status quo regarding the current fuel subsidy mechanism at least for 2023. Hence, we foresee fuel inflation to

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stay on a deceleration path and alleviate overall inflationary pressure. On the other hand, non-fuel inflation rate hit new record high at +9.2%yoy among others attributed by global supply chain tightness and weak USD/MYR.

Global food inflation on downhill for the past 6 months. Global food inflation as reported by FAO of UN recorded at -1%yoy in Dec-22, the steepest decline since Aug-20. Among the components, price growth of dairy moderated to 23-month low at +7.9%yoy, cereals inflation +4.8%yoy at 29-month low and oils inflation -19.1%yoy at 4-year low. Consequently, Malaysia's food inflation moderated to +6.8%yoy. Price growth of Food at Home receded to 8-month low at +4.9%yoy whereas Food Away from Home remained at record high +9.6%yoy. By food products, meat inflation at +7.8%yoy (1-month low), fish & seafood inflation at +2.9%yoy (21-month low), dairy inflation at +7.1%yoy (9-month low), oils & fats inflation at +1%yoy (32-month low), fruits inflation at +4%yoy (5-month low) and vegetables inflation +0.9%yoy (14-month low). Moving forward, we expect Malaysia's domestic food inflation to decelerate further following the lower of global commodity prices particularly agriculture-related prices and improving supply chain in 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 on appreciating path as the Fed is signaling for a slower rate hike pace in Dec-22 onwards, supporting in reduction of imported-inflation pressure as Malaysia is a net-food importer for most food products.

Table 1: Consumer price index by component

Indices	MoM%			YoY%		
	Oct-22	Nov-22	Dec-22	Oct-22	Nov-22	Dec-22
CPI	0.2	0.3	0.2	4.0	4.0	3.8
Non-Food	0.1	0.1	0.0	2.4	2.5	2.3
Food and Non-Alcoholic Beverages	0.5	0.7	0.5	7.1	7.3	6.8
Alcoholic Beverages and Tobacco	0.1	0.1	(0.1)	0.8	0.8	0.7
Clothing and Footwear	0.0	0.0	0.0	0.4	0.4	0.4
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.2	0.1	1.5	1.4	1.5
Furnishings, Household Equipment and Maintenance	0.2	0.1	0.1	4.1	3.8	3.7
Health	0.1	0.3	(0.1)	1.0	1.4	1.3
Transport	0.1	0.0	0.1	5.2	5.0	4.9
Communication	0.0	0.0	(0.1)	0.0	0.0	(0.1)
Recreation and Culture	(0.1)	0.2	(0.9)	3.4	3.6	2.4
Education	0.1	0.2	0.0	1.4	1.5	1.4
Restaurants and Hotels	0.3	0.5	0.7	6.8	7.0	7.4
Miscellaneous Goods and Services	0.3	0.3	(0.1)	2.4	2.6	2.3
Core CPI	0.1	0.4	0.1	4.1	4.2	4.1

Source: Macrobond, MIDFR

Sarawak headline inflation at 12-year high. Overall price growth in Sarawak recorded at +3.1% for 2022, the highest inflation rate. Penisular Malaysia and Sabah hit 5-year high at +3.5% and +3%yoy respectively. The main contributor for the surge is food inflation which registered above +5% for all regions. Less pressure from

fuel inflation as compared to 2021, thanks to the fuel subsidy mechanism. Moving forward, we foresee slower inflation rate for 2023 across all regions underpin by lower food inflation, stable fuel prices and appreciation of USD/MYR.

Table 2: Inflation by state (YoY%)

	MoM%			YoY%		
	Oct-22	Nov-22	Dec-22	Oct-22	Nov-22	Dec-22
Peninsular Malaysia	**0.2**	**0.3**	**0.2**	**4.0**	**4.0**	**3.7**
Food & Non-Alcoholic Beverages	0.5	0.8	0.5	7.1	7.2	6.7
Housing & Utilities	0.0	0.2	0.0	1.4	1.4	1.4
Transport	0.1	(0.1)	0.1	5.5	5.1	5.1
Sabah	**0.3**	**0.2**	**0.2**	**3.8**	**3.8**	**3.8**
Food & Non-Alcoholic Beverages	0.6	0.4	0.4	7.2	7.4	7.4
Housing & Utilities	0.0	0.2	0.0	2.0	2.1	2.1
Transport	(0.2)	(0.3)	0.1	3.7	3.1	2.9
Sarawak	**0.2**	**0.6**	**(0.2)**	**4.3**	**4.7**	**4.1**
Food & Non-Alcoholic Beverages	0.6	0.9	0.6	7.8	8.5	8.4
Housing & Utilities	0.0	0.1	0.0	1.2	1.2	1.2
Transport	(0.1)	(0.2)	0.2	3.7	3.2	3.1

Source: DOSM, MIDFR

Input inflation continues on softening trend. Malaysia's producer price inflation eased further to +3.2%yoy in Nov-22, the slowest since Feb-21. The slower price pressures on producers were mainly due to persistent contraction of crude materials cost and moderation of intermediate materials cost. Thanks to lower global energy prices, input inflation of crude materials shrank for the 4th consecutive months since Aug-22. Intermediate materials inflation moderated to 18-month low at +7.7%yoy, partly due to easing of global supply chain pressure. Overall, we opine cost pressures on local businesses have eased with the continued downtrend in prices paid by Malaysian producers. Looking ahead, we foresee lower cost pressure for Malaysia's producers especially with lower global commodity prices and easing global supply chain pressure in particular with the reopening of China's economy. However, higher interest rate pressure still lingers as monetary policy in major economies to stay on tightening path even with lesser pace.

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Sep-22	Oct-22	Nov-22	Sep-22	Oct-22	Nov-22
PPI	(1.4)	0.1	0.6	4.9	4.0	3.2
Crude Materials	(5.4)	0.1	2.6	(6.4)	(8.7)	(8.5)
Foodstuffs	0.5	(0.3)	1.4	2.9	2.5	3.2
Non-food	(6.5)	0.1	2.9	(8.1)	(10.8)	(10.6)
Non-food ex fuel	(8.9)	(2.8)	7.7	(23.9)	(27.3)	(27.6)
Crude Fuel	(5.5)	1.5	0.8	1.4	(1.0)	0.5
Intermediate Materials	(0.8)	0.1	(0.1)	10.0	9.1	7.7

	MoM%			YoY%		
	Sep-22	Oct-22	Nov-22	Sep-22	Oct-22	Nov-22
Manufactured Goods	(1.8)	(1.4)	(0.1)	7.8	5.4	3.7
Construction	(0.1)	0.2	0.4	4.0	3.6	3.3
Processed Fuel & Lubricants	0.3	3.1	(1.0)	17.1	19.7	17.1
Containers	(0.3)	(0.9)	(1.6)	1.7	0.2	(0.7)
Supplies	0.7	0.6	1.0	9.9	10.2	10.4
Finished Goods	0.2	0.3	0.7	3.1	3.4	3.3
Consumer Goods	(0.2)	0.4	0.2	2.9	3.6	3.2
Capital Equipment	0.6	0.0	1.0	3.4	3.1	3.2

Source: Macrobond, MIDFR

Reduction of global inflationary pressure. The US CPI inflation eased further to +6.5%yoy in Dec-22, the slowest increase in consumer prices since Oct-21. The slower pace of inflation was attributable mainly to slower inflation in energy and food prices. Core CPI also recorded slower increase, to +5.7%yoy, the slowest in a year. Looking at inflation easing further, we opine this supports for smaller rate hikes by the Fed for 2023. Moving to Europe, overall price growth in Euro Area eased to 4-month low +9.2%yoy in Dec-22 amid fading low-base effects and mild correction in energy prices. Looking ahead, we believe the global inflation will soften modestly in 2023 underpin by lower of commodity prices and improving global supply chain amid China's reopening.

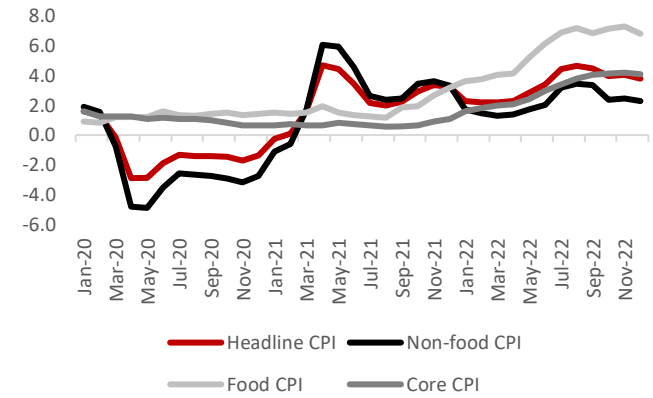
Table 4: Global Headline Inflation (YoY%)

	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Malaysia	3.4	4.4	4.7	4.5	4.0	4.0	
Indonesia	4.4	4.9	4.7	6.0	5.7	5.4	5.5
Philippines	6.1	6.4	6.3	6.9	7.7	8.0	8.1
Thailand	7.7	7.6	7.9	6.4	6.0	5.6	5.9
Singapore	6.7	7.0	7.5	7.5	6.7	6.7	
China	2.5	2.7	2.5	2.8	2.1	1.6	1.8
South Korea	6.0	6.3	5.7	5.6	5.7	5.0	5.0
Taiwan	3.6	3.4	2.7	2.8	2.7	2.4	2.7
Japan	2.4	2.6	3.0	3.0	3.7	3.8	4.0
Euro Area	8.6	8.9	9.1	9.9	10.6	10.1	9.2
US	9.1	8.5	8.3	8.2	7.7	7.1	6.5

Source: Macrobond, MIDFR

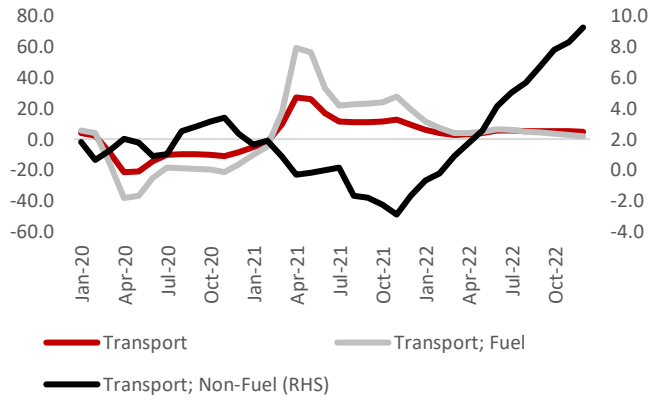
We forecast headline inflation to average at +2.3% for 2023. In the environment of elevated global commodity prices, global supply chain tightness & improving domestic demand, Malaysia's overall price growth registered at +3.3% for 2022, highest in 5 years. Moving into 2023, supply-push factors on inflation are expected to soften among others underpin by appreciation of USD/MYR, moderation in food prices, further easing in global supply chain pressure and lower commodity prices. As long as the government keep current fuel subsidy mechanism, we shall expect headline inflation to average at +2.3% for 2023.

Chart 1: Key CPI Data (YoY%)



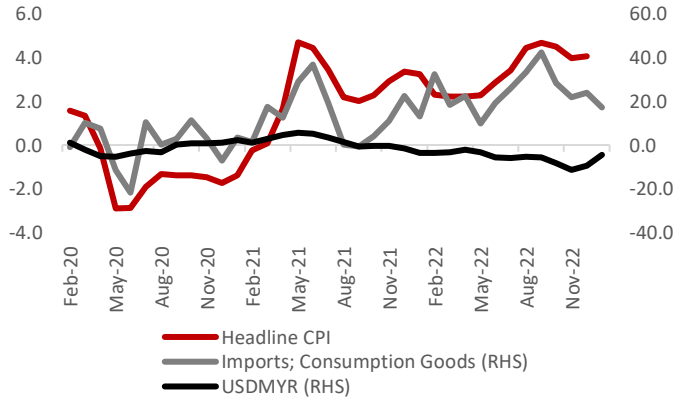
Source: Macrobond, MIDFR

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



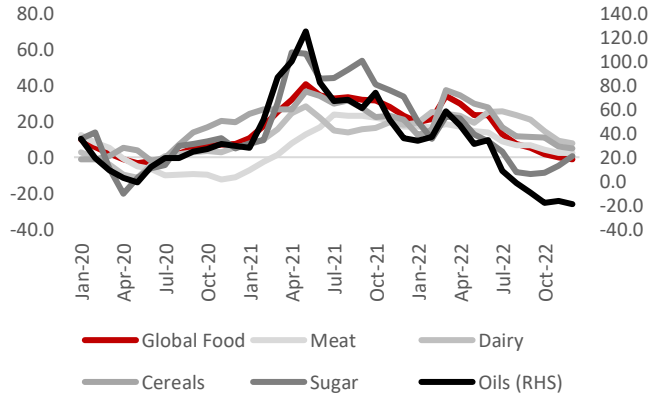
Source: Macrobond, MIDFR

Chart 3: Weakening USDMYR (YoY%)



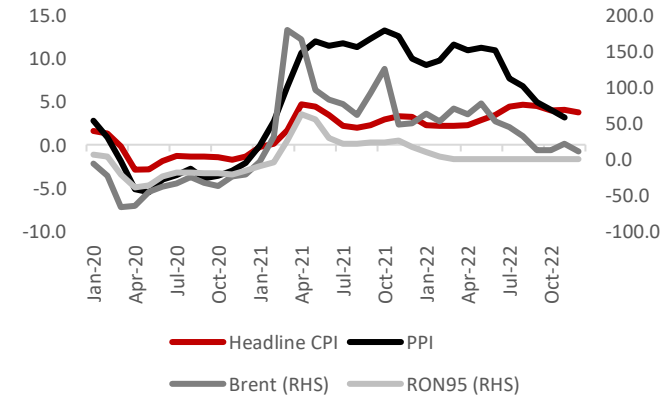
Source: Macrobond, MIDFR

Chart 4: Global Food Inflation (YoY%)



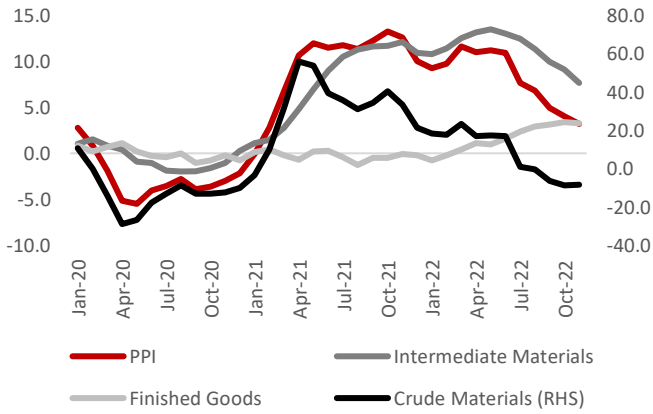
Source: FAO of UN, MIDFR

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



Source: Bloomberg, Macrobond, MIDFR

Chart 6: PPI (YoY%)



Source: Macrobond, MIDFR

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