24 February 2023

ECONOMIC REVIEW | January 2023 Consumer Price Index

Core CPI Still Signaling for Possible OPR Hike Soon

- *Malaysia's overall price growth moderated to 7-month low. Headline inflation rate descended to +3.7%yoy, the lowest since Jul-22 and in line with market estimates. Both non-food and food inflation rates softened to +2.1%yoy (7-month low) and +6.7%yoy (7-month low) respectively. Receding base effects and easing supply chain pressure were among contributing factors to the moderating inflation trend.*
- *Global food inflation almost at 3-year low. Global food inflation as reported by FAO of UN recorded at -3.3%yoy in Jan-23, the steepest decline since Jun-20. Among the components, price growth of dairy moderated to 28-month low at +2.7%yoy, cereals inflation +4.8%yoy at 29-month low and oils inflation -24.5%yoy at more than 7-year low. Consequently, Malaysia's food inflation moderated to +6.7%yoy.*
- *We maintain headline inflation forecast at +2.3% for 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 milder commodity prices. We believe the government will keep the current fuel subsidy mechanism until end of this year, hence headline inflation is expected to average at +2.3% for 2023.*

Malaysia's overall price growth moderated to 7-month low. Headline inflation rate descended to +3.7%yoy, the lowest since Jul-22 and in line with market estimates. Both non-food and food inflation rates softened to +2.1%yoy (7-month low) and +6.7%yoy (7-month low) respectively. Receding base effects and easing supply chain pressure were among contributing factors to the moderating inflation trend. However, domestic demand continue firming as core inflation rate remained sticky lingering above +3.5%yoy (Pre-pandemic ave.: +1.7%yoy). On sequential month basis, core prices still recorded growth of +0.4%mom. We opine the strong inflation trend in Malaysia is highly driven by strong consumer demand while indicators for cost inflation are on slowing pace. Services inflation remained above +4%yoy for 5-straight months (Pre-pandemic ave.: +2.6%yoy). Job market has been improving where employment growth has been above +3%yoy for 9-straight months since Apr-22 while distributive trade sales continued to expand by double-digit pace +13.8%yoy respectively in Dec-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 close to 2-year low. Fuel price growth descended to 22-month low at +0.9%yoy and contracted by -0.8%mom in Jan-23, recording 7-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 stay on a deceleration path and alleviate overall inflationary pressure. On the other hand, non-fuel inflation rate softened from new record high at +9.2%yoy in Dec-22 to +8.6%yoy in the first month of 2023.

Global food inflation almost at 3-year low. Global food inflation as reported by FAO of UN recorded at -3.3%yoy in Jan-23, the steepest decline since Jun-20. Among the components, price growth of dairy moderated to 28-month low at +2.7%yoy, cereals inflation +4.8%yoy at 29-month low and oils inflation -24.5%yoy at more

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than 7-year low. Consequently, Malaysia's food inflation moderated to +6.7%yoy. Price growth of Food at Home inched up to 2-month high at +5.1%yoy whereas Food Away from Home eased off slightly to 4-month low at +9.3%yoy. By food products, meat inflation at +8.3%yoy (5-month high), fish & seafood inflation at +3.2%yoy (2-month high), dairy inflation at +7%yoy (10-month low), oils & fats inflation at +0.7%yoy (35-month low), fruits inflation at +4.4%yoy (3-month high) and vegetables inflation +1%yoy (2-month high). 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. 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%		
	Nov-22	Dec-22	Jan-23	Nov-22	Dec-22	Jan-23
CPI	0.3	0.2	0.2	4.0	3.8	3.7
Non-Food	0.1	0.0	0.0	2.5	2.3	2.1
Food and Non-Alcoholic Beverages	0.7	0.5	0.6	7.3	6.8	6.7
Alcoholic Beverages and Tobacco	0.1	(0.1)	0.2	0.8	0.7	0.8
Clothing and Footwear	0.0	0.0	0.1	0.4	0.4	0.5
Housing, Water, Electricity, Gas & Other Fuels	0.2	0.1	0.0	1.4	1.5	1.5
Furnishings, Household Equipment and Maintenance	0.1	0.1	0.4	3.8	3.7	3.5
Health	0.3	(0.1)	0.4	1.4	1.3	1.6
Transport	0.0	0.1	(0.5)	5.0	4.9	4.0
Communication	0.0	(0.1)	(1.3)	0.0	(0.1)	(1.4)
Recreation and Culture	0.2	(0.9)	1.1	3.6	2.4	2.7
Education	0.2	0.0	0.4	1.5	1.4	1.3
Restaurants and Hotels	0.5	0.7	0.4	7.0	7.4	6.8
Miscellaneous Goods and Services	0.3	(0.1)	0.3	2.6	2.3	2.3
Core CPI	0.4	0.1	0.4	4.2	4.1	3.9

Source: Macrobond, MIDFR

Sabah inflation rate increased to 2-month high. Overall price growth in Sabah recorded at +4.3%yoy for Jan-23, the highest in 2-month. Peninsular Malaysia and Sarawak saw descending trends to 7-month low as inflation rates registered at +3.6% and +3.3%yoy respectively. The main contributor for the pick-up in Sabah was elevated food inflation and slight uptick in transport price growth. 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%		
	Nov-22	Dec-22	Jan-23	Nov-22	Dec-22	Jan-23
Peninsular Malaysia	**0.3**	**0.2**	**0.2**	**4.0**	**3.7**	**3.6**
Food & Non-Alcoholic Beverages	0.8	0.5	0.5	7.2	6.7	6.6
Housing & Utilities	0.2	0.0	0.0	1.4	1.4	1.4
Transport	(0.1)	0.1	(0.4)	5.1	5.1	4.1
Sabah	**0.2**	**0.2**	**0.0**	**3.8**	**3.8**	**3.3**
Food & Non-Alcoholic Beverages	0.4	0.4	0.4	7.4	7.4	6.4
Housing & Utilities	0.2	0.0	0.0	2.1	2.1	2.1
Transport	(0.3)	0.1	(0.6)	3.1	2.9	2.3
Sarawak	**0.6**	**(0.2)**	**0.6**	**4.7**	**4.1**	**4.3**
Food & Non-Alcoholic Beverages	0.9	0.6	0.6	8.5	8.4	8.4
Housing & Utilities	0.1	0.0	0.1	1.2	1.2	1.2
Transport	(0.2)	0.2	(0.1)	3.2	3.1	3.3

Source: DOSM, MIDFR

Malaysia's input inflation remained low and supportive. Producer price inflation registered at +3.5%yoy in Dec-22, slightly higher than 21-month low recorded in the previous month, +3.2%yoy. On month-on-month basis, the input inflation fell by -0.3%mom. The moderating price pressures on producers were mainly due to persistent contraction of crude materials cost and moderation of intermediate materials cost. Crude materials inflation stayed on contractionary since Aug-22 while cost growth of intermediate materials moderated to 19-month low at +7.2%yoy in the final month of 2022. We believe the persistent contraction of crude materials inflation was due to mild correction of global energy prices whereas improvement of intermediate materials cost inflation partly attributed by the easing global supply chain pressure. As for 2022, overall PPI inflation recorded at +7.8%, lower than peak point +9.5% in 2021. By component, crude materials inflation softened at +6.7% (2021: +31.9%) while cost growth of intermediate materials and finished goods surged to new high at +11% and +1.9% in 2022 respectively. 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 and better supply of labour and materials globally. However, higher interest rate in major economies, elevated energy prices and continuous geopolitical tensions will continue to be downside risks to global inflation in 2023.

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Oct-22	Nov-22	Dec-22	Oct-22	Nov-22	Dec-22
PPI	0.1	0.6	(0.3)	4.0	3.2	3.5
Crude Materials	0.1	2.6	(2.5)	(8.7)	(8.5)	(7.7)
Foodstuffs	(0.3)	1.4	(1.0)	2.5	3.2	1.8
Non-food	0.1	2.9	(2.8)	(10.8)	(10.6)	(9.4)
Non-food ex fuel	(2.8)	7.7	(2.1)	(27.3)	(27.6)	(25.9)
Crude Fuel	1.5	0.8	(3.2)	(1.0)	0.5	1.0

	MoM%			YoY%		
	Oct-22	Nov-22	Dec-22	Oct-22	Nov-22	Dec-22
Intermediate Materials	0.1	(0.1)	(0.2)	9.1	7.7	7.2
Manufactured Goods	(1.4)	(0.1)	(0.6)	5.4	3.7	2.8
Construction	0.2	0.4	0.4	3.6	3.3	3.6
Processed Fuel & Lubricants	3.1	(1.0)	(0.5)	19.7	17.1	15.3
Containers	(0.9)	(1.6)	0.3	0.2	(0.7)	(0.3)
Supplies	0.6	1.0	1.4	10.2	10.4	12.4
Finished Goods	0.3	0.7	0.9	3.4	3.3	4.4
Consumer Goods	0.4	0.2	0.1	3.6	3.2	3.3
Capital Equipment	0.0	1.0	1.6	3.1	3.2	5.2

Source: Macrobond, MIDFR

Easing global inflationary pressure. The US CPI inflation descended further to +6.4%yoy in Jan-22, the slowest increase in consumer prices since Oct-21. The slower pace of inflation was attributable mainly to slower inflation in food prices and used vehicles. Core CPI also recorded slower increase, to +5.6%yoy, the slowest in a year. Moving to Europe, overall price growth in Euro Area eased to +8.6%yoy in Jan-23, the slowest since May last year amid fading low-base effects and mild correction in energy prices. Due to rise of imported raw material prices and Yen weakness, Japan's headline inflation skyrocketed to more than 40-year high at +4.3%yoy. Looking ahead, we believe the global inflation will soften modestly in 2023 underpin by milder of commodity prices and improving global supply chain amid China's reopening.

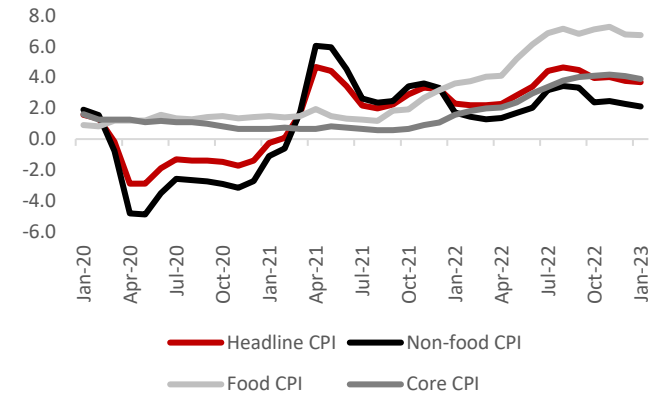
Table 4: Global Headline Inflation (YoY%)

	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23
Malaysia	4.4	4.7	4.5	4.0	4.0	3.8	3.7
Indonesia	4.9	4.7	6.0	5.7	5.4	5.5	5.3
Singapore	7.0	7.5	7.5	6.7	6.7	6.5	6.6
Thailand	7.6	7.9	6.4	6.0	5.6	5.9	5.0
Philippines	6.4	6.3	6.9	7.7	8.0	8.1	8.7
Taiwan	3.4	2.7	2.8	2.7	2.4	2.7	3.0
South Korea	6.3	5.7	5.6	5.7	5.0	5.0	5.2
China	2.7	2.5	2.8	2.1	1.6	1.8	2.1
Japan	2.6	3.0	3.0	3.7	3.8	4.0	4.3
Euro Area	8.9	9.1	9.9	10.6	10.1	9.2	8.6
US	8.5	8.3	8.2	7.7	7.1	6.5	6.4

Source: Macrobond, MIDFR

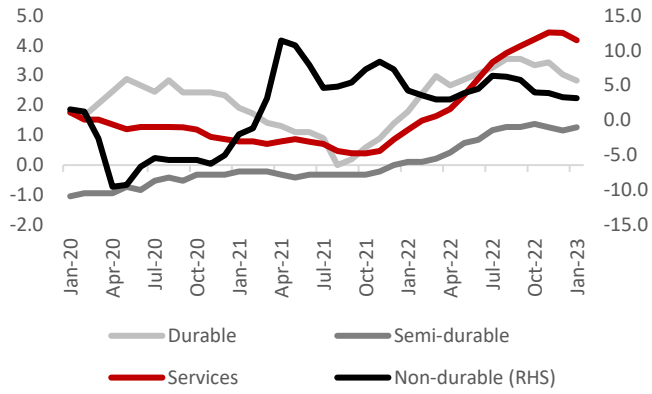
We maintain headline inflation forecast at +2.3% for 2023. In the environment of elevated global commodity prices, global supply chain tightness & improving domestic demand, Malaysia's overall price growth registered at +3.3% for 2022, highest in 5 years. Moving into 2023, supply-push factors on inflation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

Chart 1: Key CPI Data (YoY%)



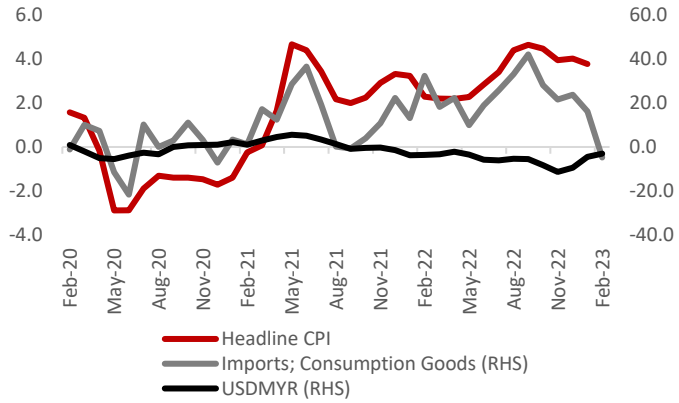
Source: Macrobond, MIDFR

Chart 2: CPI by Type (YoY%)



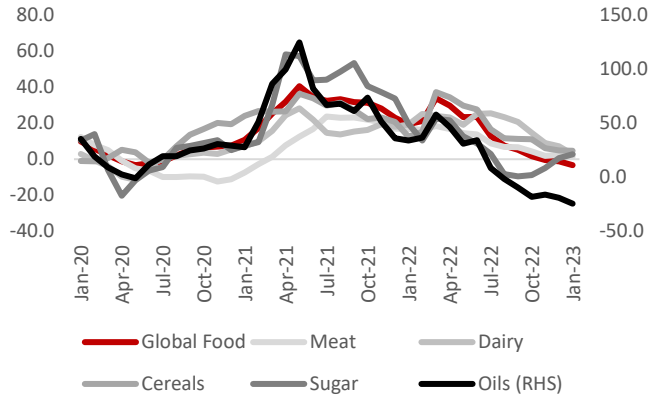
Source: Macrobond, MIDFR

Chart 3: Weakening USDMYR (YoY%)



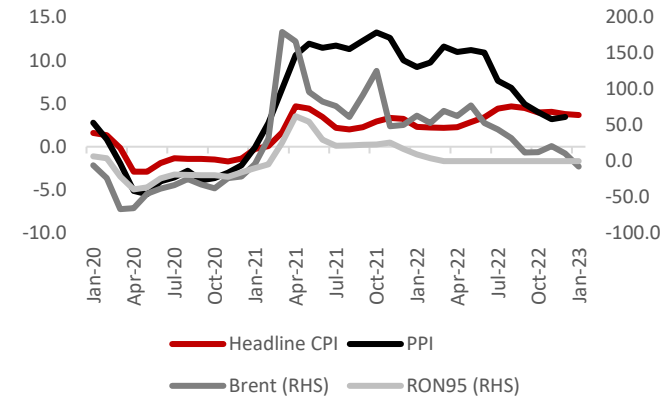
Source: Macrobond, MIDFR

Chart 4: Global Food Inflation (YoY%)



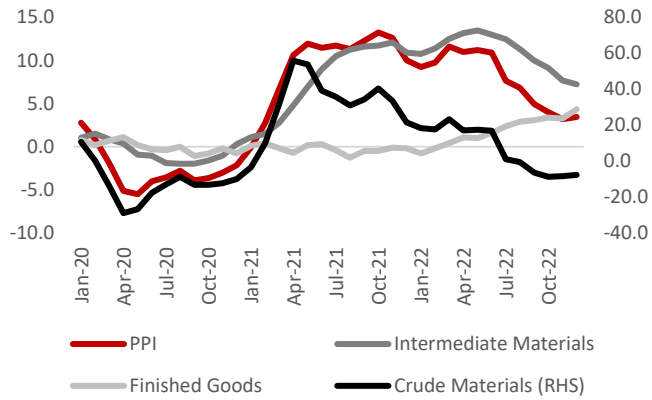
Source: FAO of UN, MIDFR

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



Source: Bloomberg, Macrobond, MIDFR

Chart 6: PPI (YoY%)



Source: Macrobond, MIDFR

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