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ECONOMIC REVIEW | February 2023 Consumer Price Index

Food Inflation Remain Major Concerns for Malaysia's Headline CPI

- *Inflationary pressure still burning in Malaysia. Headline inflation rate maintained at +3.7%yoy, slightly higher than market estimates +3.6%yoy. Non-food inflation moderated to 8-month low by +2%yoy whereas food inflation increased to 3-month low by +7%yoy. Elevated global commodity prices, depreciation of MYR vs. USD and firming domestic demand were among factors holding up inflation pressure in Malaysia.*
- *National inflation pressure attributed by Peninsular Malaysia. Overall price growth in Sabah and Sarawak recorded at +3.3%yoy (7-month low) and +4%yoy (5-month low) respectively in Feb-23. Peninsular Malaysia saw headline inflation rate rebound from 7-month low +3.6%yoy to +3.7%yoy. The main contributor for the pick-up in Peninsular Malaysia was elevated food inflation and slight uptick in utilities price growth.*
- *We raise slightly higher inflation forecast at +2.5% for 2023. Moving into 2023, supply-push factors on are expected to ease, among others attributable to the appreciation of the Malaysian Ringgit, mild correction in global commodity prices and better supply chain flows. Judging from the re-tabled Budget 2023, we believe the government will keep fuel subsidies especially RON95 on status quo until end of the year. We raise our headline inflation projection slightly higher by 0.2%pts to +2.5% for 2023 following higher food price growth forecast at +4.5% (Initial prediction: +4%).*

Inflationary pressure still burning in Malaysia. Headline inflation rate maintained at +3.7%yoy, slightly higher than market estimates +3.6%yoy. Non-food inflation moderated to 8-month low by +2%yoy whereas food inflation increased to 3-month low by +7%yoy. Elevated global commodity prices, depreciation of MYR vs. USD and firming domestic demand were among factors holding up inflation pressure in Malaysia. For instance, 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 +0.2%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 6-straight months (Pre-pandemic ave.: +2.6%yoy). Job market has been improving where employment growth has been above +3%yoy for 10-straight months since Apr-22 while distributive trade sales continued to expand by double-digit pace +12.4%yoy respectively in Jan-23.

Fuel inflation decelerated to 2-year low. Fuel price growth descended to +0.5%yoy, the softest gain since Mar-21. 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 moderated further from new record high at +9.2%yoy in Dec-22 to +8.1%yoy in Feb-23.

Global food inflation fell to almost 7-year low. Global food inflation as reported by FAO of UN shrank by -8.1%yoy in Feb-23, the steepest decline since Mar-16. On consequential month basis, the global food inflation contracted by -0.6%mom, marking 11th straight months of negative growth rate. Among the components, prices of meat, dairy and oils fell by -1.7%yoy (2-year low), -7.2%yoy (close to 3-year low) and -32.6%yoy (close to

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14-year low). Cereals inflation moderated to 31-month low at +1.4%yoy while sugar inflation surged to 10-month high at +13%yoy. However, Malaysia's food inflation surged to +7%yoy. Price growth of Food at Home inched up to 3-month high at +5.8%yoy whereas Food Away from Home eased off slightly to 5-month low at +8.9%yoy. By food products, meat inflation at +9%yoy (6-month high), fish & seafood inflation at +3.2%yoy (2-month high), fruits inflation at +4.7%yoy (4-month high) and vegetables inflation +5.8%yoy (5-month high). There were food prices on descending trends, among others rice & bread inflation at +6.7%yoy (5-month low), dairy inflation at +6.6%yoy (1-year low) and oils & fats inflation at +0.6%yoy (3-year 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. In addition, MYR is on appreciating path as the Fed is signaling for a slower rate hike pace, 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%		
	Dec-22	Jan-23	Feb-23	Dec-22	Jan-23	Feb-23
CPI	0.2	0.2	0.2	3.8	3.7	3.7
Non-Food	0.0	0.0	0.2	2.3	2.1	2.0
Food and Non-Alcoholic Beverages	0.5	0.6	0.4	6.8	6.7	7.0
Alcoholic Beverages and Tobacco	(0.1)	0.2	0.0	0.7	0.8	0.8
Clothing and Footwear	0.0	0.1	0.0	0.4	0.5	0.4
Housing, Water, Electricity, Gas & Other Fuels	0.1	0.0	0.6	1.5	1.5	1.7
Furnishings, Household Equipment and Maintenance	0.1	0.4	0.2	3.7	3.5	3.4
Health	(0.1)	0.4	0.5	1.3	1.6	1.8
Transport	0.1	(0.5)	(0.1)	4.9	4.0	3.7
Communication	(0.1)	(1.3)	0.0	(0.1)	(1.4)	(1.4)
Recreation and Culture	(0.9)	1.1	(0.5)	2.4	2.7	1.7
Education	0.0	0.4	0.4	1.4	1.3	1.6
Restaurants and Hotels	0.7	0.4	0.9	7.4	6.8	7.4
Miscellaneous Goods and Services	(0.1)	0.3	0.3	2.3	2.3	2.5
Core CPI	0.1	0.4	0.2	4.1	3.9	3.9

Source: Macrobond, MIDFR

National inflation pressure attributed by Peninsular Malaysia. Overall price growth in Sabah and Sarawak recorded at +3.3%yoy (7-month low) and +4%yoy (5-month low) respectively in Feb-23. Peninsular Malaysia saw headline inflation rate rebound from 7-month low +3.6%yoy to +3.7%yoy. The main contributor for the pick-up in Peninsular Malaysia was elevated food inflation and slight uptick in utilities 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%		
	Dec-22	Jan-23	Feb-23	Dec-22	Jan-23	Feb-23
Peninsular Malaysia	**0.2**	**0.2**	**0.4**	**3.7**	**3.6**	**3.7**
Food & Non-Alcoholic Beverages	0.5	0.5	0.5	6.7	6.6	7.0
Housing & Utilities	0.0	0.0	0.6	1.4	1.4	1.7
Transport	0.1	(0.4)	(0.1)	5.1	4.1	3.9
Sabah	**0.2**	**0.0**	**0.3**	**3.8**	**3.3**	**3.3**
Food & Non-Alcoholic Beverages	0.4	0.4	0.3	7.4	6.4	6.2
Housing & Utilities	0.0	0.0	0.2	2.1	2.1	2.0
Transport	0.1	(0.6)	0.1	2.9	2.3	2.1
Sarawak	**(0.2)**	**0.6**	**0.2**	**4.1**	**4.3**	**4.0**
Food & Non-Alcoholic Beverages	0.6	0.6	0.5	8.4	8.4	8.1
Housing & Utilities	0.0	0.1	0.3	1.2	1.2	1.4
Transport	0.2	(0.1)	(0.2)	3.1	3.3	2.7

Source: DOSM, MIDFR

Malaysia's input inflation at 2-year low. Malaysia's input inflation continued on descending trends. Producer price inflation registered at +1.3%yoy in the first month of 2023, the slowest pace in 2-year. On month-on-month basis, the input inflation fell by -0.8%mom, the biggest monthly contraction in 4-month. 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 21-month low at +5.1%yoy in Jan-23. 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. 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. The continuous decline in PPI inflation provides positive signal especially for CPI trajectory in the near term. However, higher interest rate in major economies, elevated energy prices, currency fluctuations and continuous geopolitical tensions will continue to be downside risks to global inflation including Malaysia's price growth pressure in 2023.

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Nov-22	Dec-22	Jan-23	Nov-22	Dec-22	Jan-23
PPI	0.6	(0.3)	(0.8)	3.2	3.5	1.3
Crude Materials	2.6	(2.5)	(1.8)	(8.5)	(7.7)	(12.4)
Foodstuffs	1.4	(1.0)	1.3	3.2	1.8	3.1
Non-food	2.9	(2.8)	(2.5)	(10.6)	(9.4)	(15.2)
Non-food ex fuel	7.7	(2.1)	(0.6)	(27.6)	(25.9)	(30.8)
Crude Fuel	0.8	(3.2)	(3.3)	0.5	1.0	(4.6)
Intermediate Materials	(0.1)	(0.2)	(0.9)	7.7	7.2	5.1

	MoM%			YoY%		
	Nov-22	Dec-22	Jan-23	Nov-22	Dec-22	Jan-23
Manufactured Goods	(0.1)	(0.6)	(1.0)	3.7	2.8	0.5
Construction	0.4	0.4	1.3	3.3	3.6	4.4
Processed Fuel & Lubricants	(1.0)	(0.5)	(1.4)	17.1	15.3	11.9
Containers	(1.6)	0.3	(0.7)	(0.7)	(0.3)	(0.7)
Supplies	1.0	1.4	(0.9)	10.4	12.4	11.1
Finished Goods	0.7	0.9	0.2	3.3	4.4	4.5
Consumer Goods	0.2	0.1	0.4	3.2	3.3	3.6
Capital Equipment	1.0	1.6	0.0	3.2	5.2	5.3

Source: Macrobond, MIDFR

Softening global inflationary pressure. Inflation in the US already slowed from the highs of last year, with the headline CPI inflation eased to +6%yoy in Feb-23, the lowest since Sep-21. Meanwhile, core CPI inflation touched +5.5%yoy in the same month, the lowest since Dec-21. Although core PCE price inflation unexpectedly rose to +4.7%yoy in Feb-23, it was still lower than the peak of +5.4%yoy in Feb-22. There was no further discussion on what could keep inflation elevated in the coming months. But, the Fed looks committed in its fight to bring down inflation, still stressing on raising rates as the existing rate of inflation remained above the Fed's target. Moving to Europe, overall price growth in Euro Area eased to +8.5%yoy in Jan-23, the slowest since May last year but still above ECB's target rate +2%. Thanks to the removal of zero-Covid policy, China's local activities improved and indirectly lower headline inflation to +1%yoy (market consensus: +1.9%yoy), the slowest price growth in a year. The main downward pressure was food inflation +2.6%yoy (9-month low) while non-food inflation on softening trends.

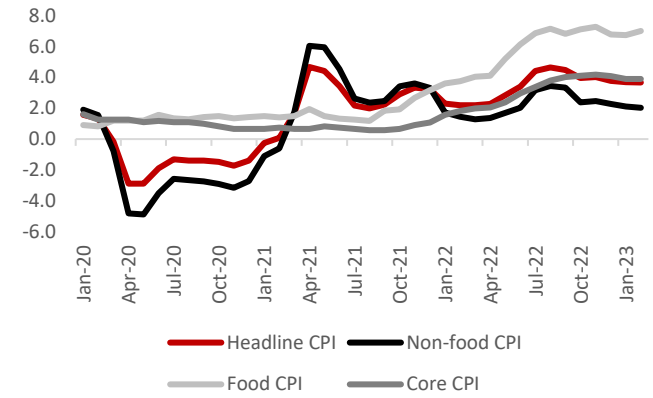
Table 4: Global Headline Inflation (YoY%)

	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
Malaysia	4.7	4.5	4.0	4.0	3.8	3.7	3.7
Indonesia	4.7	6.0	5.7	5.4	5.5	5.3	5.5
Singapore	7.5	7.5	6.7	6.7	6.5	6.6	
Thailand	7.9	6.4	6.0	5.6	5.9	5.0	3.8
Philippines	6.3	6.9	7.7	8.0	8.1	8.7	8.6
Taiwan	2.7	2.8	2.7	2.4	2.7	3.0	2.4
South Korea	5.7	5.6	5.7	5.0	5.0	5.2	4.8
China	2.5	2.8	2.1	1.6	1.8	2.1	1.0
Japan	3.0	3.0	3.7	3.8	4.0	4.3	
Euro Area	9.1	9.9	10.6	10.1	9.2	8.6	8.5
US	8.3	8.2	7.7	7.1	6.5	6.4	6.0

Source: Macrobond, MIDFR

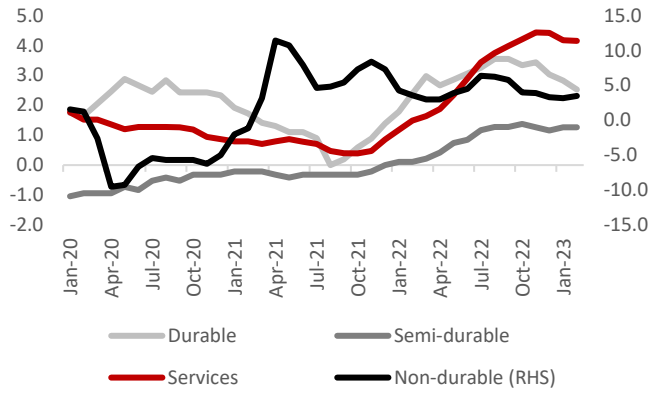
We raise slightly higher inflation forecast at +2.5% for 2023. Moving into 2023, supply-push factors on are expected to ease, among others attributable to the appreciation of the Malaysian Ringgit, mild correction in global commodity prices and better supply chain flows. Judging from the re-tabled Budget 2023, we believe the government will keep fuel subsidies especially RON95 on status quo until end of the year. Any targeted RON95-subsidy measures will be rollout in 2024. We raise our headline inflation projection slightly higher by 0.2%pts to +2.5% for 2023 following higher food price growth forecast at +4.5% (Initial prediction: +4%).

Chart 1: Key CPI Data (YoY%)



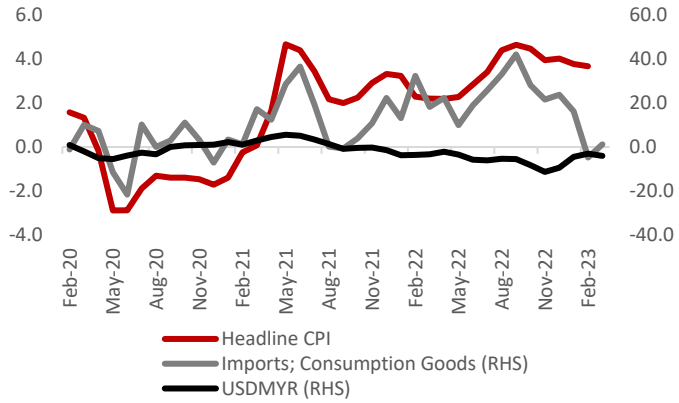
Source: Macrobond, MIDFR

Chart 2: CPI by Type (YoY%)



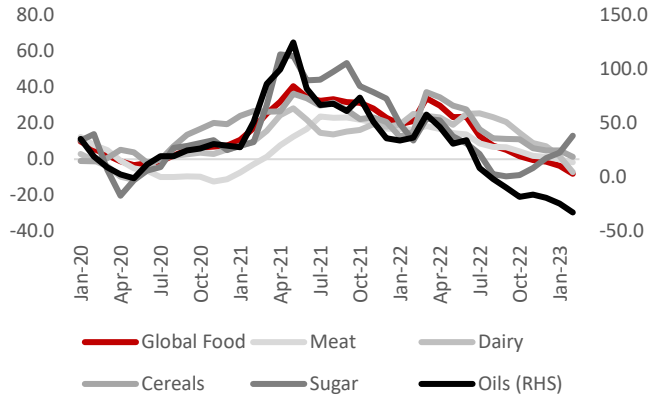
Source: Macrobond, MIDFR

Chart 3: Weakening USDMYR (YoY%)



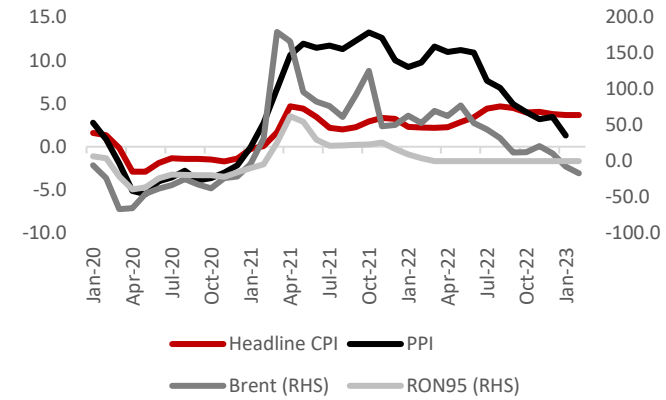
Source: Macrobond, MIDFR

Chart 4: Global Food Inflation (YoY%)



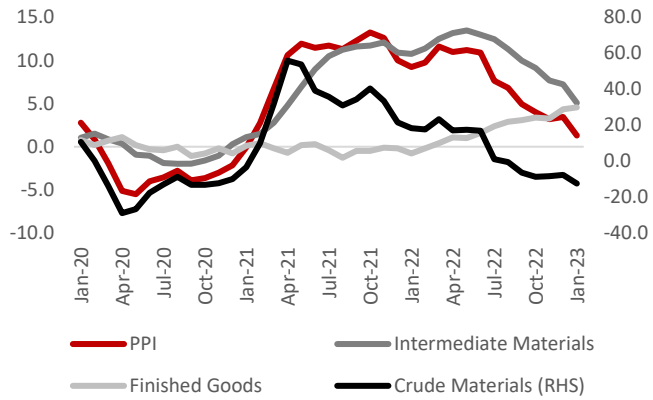
Source: FAO of UN, MIDFR

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



Source: Bloomberg, Macrobond, MIDFR

Chart 6: PPI (YoY%)



Source: Macrobond, MIDFR

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