20 April 2023

ECONOMIC REVIEW | March 2023 Consumer Price Index

Headline Inflation Averaged at +3.6%yoy in 1QCY23, The Slowest Pace in 3 Quarters

- *Headline inflation moderated to 9-month low. Headline inflation rate descended to +3.4%yoy, lower than market estimates +3.6%yoy. Non-food inflation decelerated further to 10-month low of +1.7%yoy while food inflation softened to +6.9%yoy. Elevated global commodity prices, high food prices and firming domestic demand were among factors holding up inflation pressure in Malaysia.*
- *Sabah inflation hit 3-month high. Overall price growth in Sabah rose by +3.4%yoy in Mar-23, the fastest pace since Jan-23. The main pressure was food inflation while non-food inflation is cooling off. Peninsular Malaysia saw headline inflation rate moderated to 10-month low, whereas Sarawak's inflation at 8-month low.*
- *We keep our headline inflation forecast at +2.5% for 2023. Moving into 2023, supply-push factors 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 status quo until end of the year.*

Headline inflation moderated to 9-month low. Headline inflation rate descended to +3.4%yoy, lower than market estimates +3.6%yoy. Non-food inflation decelerated further to 10-month low of +1.7%yoy while food inflation softened to +6.9%yoy. Elevated global commodity prices, high food prices 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 cost factors are slowing down. Services inflation remained above +4%yoy for 7-straight months (pre-pandemic ave.: +2.6%yoy). Job market has been improving where employment growth has been above +2%yoy (pre-pandemic ave.: +1.7%yoy) for 18-straight months since Oct-21, while distributive trade sales continued to expand by double-digit pace +14.7%yoy in Feb-23.

First contraction of fuel inflation. Fuel prices declined for the first time in 2 years by -0.9%yoy. This was in tandem with the normalization of commodity prices. We believe the government to keep the current fuel subsidy mechanism status quo at least for 2023. Hence, we foresee fuel inflation to stay on a deceleration path and reduce overall inflationary pressure. On the other hand, non-fuel inflation rate moderated to 6-month low at +7.1%yoy in the final month of 1QCY23.

Global food inflation fell to almost 14-year low. Global food inflation as reported by FAO of UN shrank further by -21.9%yoy in Mar-23, the steepest decline since Aug-09. On sequential monthly basis, the global food inflation contracted by -2.1%mom, marking 12th straight months of negative growth. Among the components, prices of meat, dairy, cereals and oils fell by -6.9%yoy (more than 2-year low), -12.2%yoy (more than 4-year low), -19.9%yoy (more than 9-year low) and -48.6%yoy (14-year low), respectively. Global sugar inflation moderated from 10-month high +11.3%yoy in Feb-23 to +5.9%yoy in the following month. Malaysia's food

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inflation recorded slightly lower at +6.9%yoy. Price growth of Food at Home receded to 1-month low at +5.6%yoy while Food Away from Home eased off slightly to 7-month low at +8.6%yoy. By food products, rice & bread inflation was at +6.9%yoy (3-month high), meat inflation at +9.2%yoy (7-month high), fish & seafood inflation at +3.4%yoy (4-month high), dairy products inflation at +7.1%yoy (3-month high) and fruits inflation at +5.5%yoy (5-month high). Some food prices were on descending trends, among others oils & fats inflation at +0.1%yoy (more than 3-year low) and vegetables inflation at +3.4%yoy (1-month low). Moving forward, we expect Malaysia's domestic food inflation to decelerate further following the mild correction of global commodity prices particularly agriculture-related prices and improving supply chain both regionally and domestically. In addition, MYR is predicted to appreciate better than last year once the Fed hit the pause button on its monetary policy tightening. Appreciated MYR would be supportive in reducing imported-inflation pressure as Malaysia is a net food importer for most food products.

Table 1: Consumer price index by component

Indices	MoM%			YoY%		
	Jan-23	Feb-23	Mar-23	Jan-23	Feb-23	Mar-23
CPI	0.2	0.2	0.1	3.7	3.7	3.4
Non-Food	0.0	0.2	0.0	2.1	2.0	1.7
Food and Non-Alcoholic Beverages	0.6	0.4	0.1	6.7	7.0	6.9
Alcoholic Beverages and Tobacco	0.2	0.0	0.1	0.8	0.8	0.6
Clothing and Footwear	0.1	0.0	0.0	0.5	0.4	0.5
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.6	0.0	1.5	1.7	1.6
Furnishings, Household Equipment and Maintenance	0.4	0.2	0.2	3.5	3.4	3.1
Health	0.4	0.5	0.1	1.6	1.8	2.2
Transport	(0.5)	(0.1)	(0.2)	4.0	3.7	2.4
Communication	(1.3)	0.0	0.0	(1.4)	(1.4)	(1.4)
Recreation and Culture	1.1	(0.5)	0.0	2.7	1.7	1.9
Education	0.4	0.4	0.2	1.3	1.6	1.7
Restaurants and Hotels	0.4	0.9	0.3	6.8	7.4	7.2
Miscellaneous Goods and Services	0.3	0.3	0.2	2.3	2.5	2.1
Core CPI	0.4	0.2	0.2	3.9	3.9	3.8

Source: Macrobond, MIDFR

Sabah inflation hit 3-month high. Overall price growth in Sabah rose by +3.4%yoy in Mar-23, the fastest pace since Jan-23. The main pressure was food inflation while non-food inflation is cooling off. Peninsular Malaysia saw headline inflation rate moderated to 10-month low, whereas Sarawak's inflation at 8-month low. Moving forward, we foresee slower inflation rate for 2023 across all regions underpinned by moderate food inflation, stable fuel prices and appreciation of USDMYR.

Table 2: Inflation by state (YoY%)

	MoM%			YoY%		
	Jan-23	Feb-23	Mar-23	Jan-23	Feb-23	Mar-23
Peninsular Malaysia	**0.2**	**0.4**	**0.0**	**3.6**	**3.7**	**3.4**
Food & Non-Alcoholic Beverages	0.5	0.5	0.1	6.6	7.0	6.7
Housing & Utilities	0.0	0.6	0.0	1.4	1.7	1.7
Transport	(0.4)	(0.1)	(0.2)	4.1	3.9	2.6
Sabah	**0.0**	**0.3**	**0.1**	**3.3**	**3.3**	**3.4**
Food & Non-Alcoholic Beverages	0.4	0.3	0.1	6.4	6.2	6.8
Housing & Utilities	0.0	0.2	0.0	2.1	2.0	2.0
Transport	(0.6)	0.1	(0.1)	2.3	2.1	1.2
Sarawak	**0.6**	**0.2**	**0.0**	**4.3**	**4.0**	**3.8**
Food & Non-Alcoholic Beverages	0.6	0.5	0.3	8.4	8.1	8.2
Housing & Utilities	0.1	0.3	0.0	1.2	1.4	1.4
Transport	(0.1)	(0.2)	(0.2)	3.3	2.7	1.7

Source: DOSM, MIDFR

First contraction of Malaysia's PPI since 2021. Malaysia's input inflation contracted for the first time in 2 years. Malaysia's input inflation continued on descending trend, shrinking by -0.8%yoy in Feb-23. On month-on-month basis, the input inflation fell by -0.2%mom, marking the 3rd straight months of negative growth. The tapering price pressures on producers were mainly due to persistent contraction in 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 almost 2-year low at +3.3%yoy in Feb-23. We believe the persistent contraction of crude materials inflation was due to lower global energy prices whereas improvement of intermediate materials cost inflation was partly attributed to the easing global supply chain pressure and better USDMYR levels. Looking ahead, we foresee lower cost pressure for Malaysia's producers amid mild correction of commodity prices and easing supply chain pressure especially with the reopening of China. The continuous decline in PPI inflation provides positive signal particularly 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 pose downside risks to global inflation including Malaysia's price growth pressure in 2023.

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Dec-22	Jan-23	Feb-23	Dec-22	Jan-23	Feb-23
PPI	(0.3)	(0.8)	(0.2)	3.5	1.3	(0.8)
Crude Materials	(2.5)	(1.8)	(0.6)	(7.7)	(12.4)	(16.9)
Foodstuffs	(1.0)	1.3	0.1	1.8	3.1	3.4
Non-food	(2.8)	(2.5)	(0.6)	(9.4)	(15.2)	(20.3)
Non-food ex fuel	(2.1)	(0.6)	(0.2)	(25.9)	(30.8)	(37.3)
Crude Fuel	(3.2)	(3.3)	(1.0)	1.0	(4.6)	(8.2)
Intermediate Materials	(0.2)	(0.9)	(0.2)	7.2	5.1	3.3
Manufactured Goods	(0.6)	(1.0)	(0.3)	2.8	0.5	(1.3)

Construction	0.4	1.3	0.0	3.6	4.4	4.3
Processed Fuel & Lubricants	(0.5)	(1.4)	(0.7)	15.3	11.9	8.9
Containers	0.3	(0.7)	0.3	(0.3)	(0.7)	(1.1)
Supplies	1.4	(0.9)	0.5	12.4	11.1	10.8
Finished Goods	0.9	0.2	0.0	4.4	4.5	4.0
Consumer Goods	0.1	0.4	(0.1)	3.3	3.6	3.0
Capital Equipment	1.6	0.0	0.0	5.2	5.3	4.9

Source: Macrobond, MIDFR

Downward shift in global inflation patterns. The recent inflation data in the US indicated continuous moderation. Headline inflation grew by +5%yoy in Mar-23, lowest since May-21 and softer than market expectations of +5.2%yoy. On monthly basis, headline inflation reduced from +0.4%mom in Feb-23 to +0.1%mom (market estimates: +0.2%mom). Core inflation edged up slightly to +5.6%yoy from 14-month low recorded in the previous month at +5.5%yoy. Moving forward, we believe the Fed will consider another 25bps rate hike in May-23 and hit pause button onwards. Banking and financial stability is one of the factors which also influence future policy decisions, in tandem with the softening inflation rate. Moving to Europe, overall price growth in Euro Area eased to +6.9%yoy in Mar-23, the slowest since Feb-22 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 +0.7%yoy (market consensus: +1%yoy), the slowest price growth since Sep-21. The main downward pressure was food inflation +2.4%yoy (10-month low), and non-food inflation was also on softening trends.

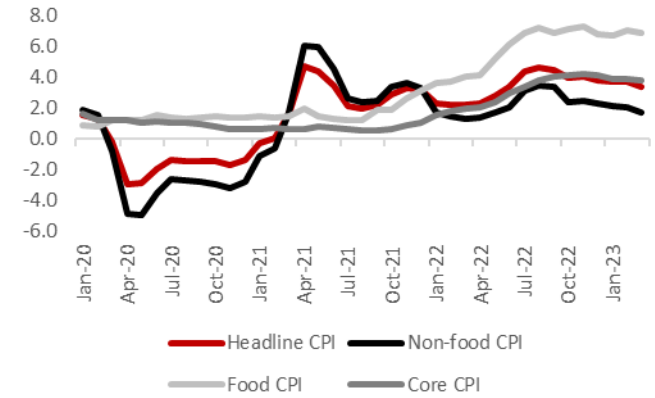
Table 4: Global Headline Inflation (YoY%)

	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
Malaysia	4.5	4.0	4.0	3.8	3.7	3.7	3.4
Indonesia	6.0	5.7	5.4	5.5	5.3	5.5	5.0
Singapore	7.5	6.7	6.7	6.5	6.6	6.3	
Thailand	6.4	6.0	5.6	5.9	5.0	3.8	2.8
Philippines	6.9	7.7	8.0	8.1	8.7	8.6	7.6
Taiwan	2.8	2.7	2.4	2.7	3.0	2.4	2.4
South Korea	5.6	5.7	5.0	5.0	5.2	4.8	4.2
China	2.8	2.1	1.6	1.8	2.1	1.0	0.7
Japan	3.0	3.7	3.8	4.0	4.3	3.3	
Euro Area	9.9	10.6	10.1	9.2	8.6	8.5	6.9
US	8.2	7.7	7.1	6.5	6.4	6.0	5.0

Source: Macrobond, MIDFR

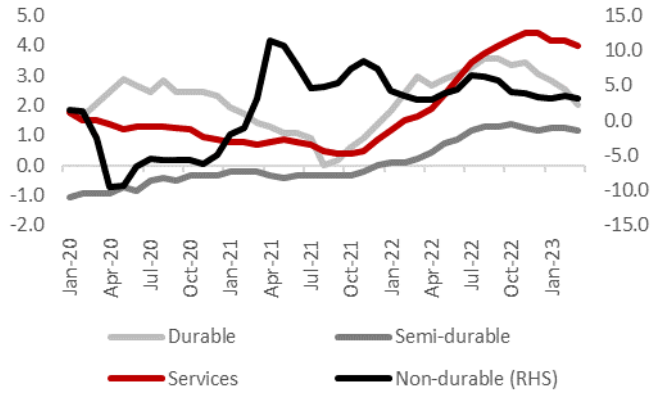
We keep our headline inflation forecast at +2.5% for 2023. Moving into 2023, supply-push factors are expected to ease, among others attributable to the appreciation of the Malaysian Ringgit, mild correction in global commodity prices and better supply chain flows. Judging from the re-tabled Budget 2023, we believe the government will keep fuel subsidies especially RON95 status quo until end of the year. We anticipate that any targeted-subsidy measures for RON95 and Diesel will be rolled out in 2024. The main downside risks to Malaysia's inflation are persistent high food inflation, heightened geopolitical conflict in EU, spike of commodity prices, weak Ringgit and natural disaster impacts could affect negatively towards the trajectory of food prices in Malaysia.

Chart 1: Key CPI Data (YoY%)



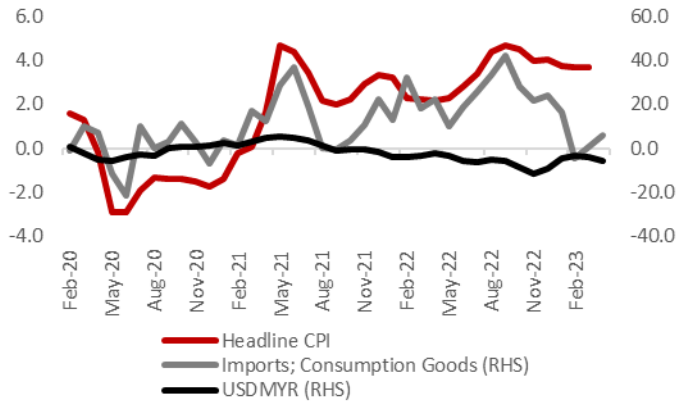
Source: Macrobond, MIDFR

Chart 2: CPI by Type (YoY%)



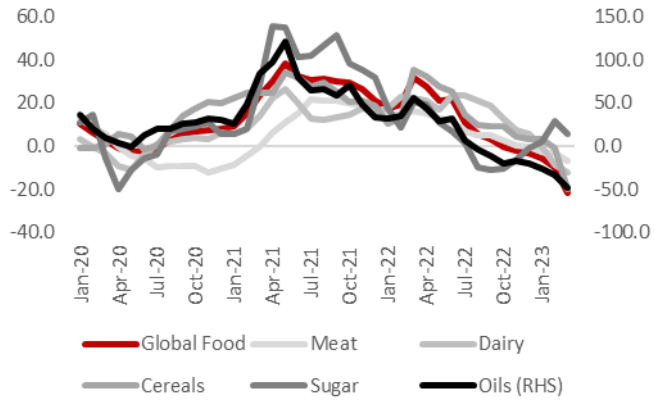
Source: Macrobond, MIDFR

Chart 3: USDMYR vs. Headline CPI (YoY%)



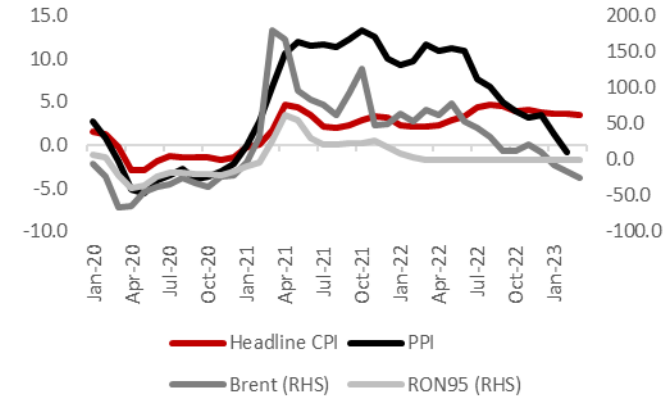
Source: Macrobond, MIDFR

Chart 4: Global Food Inflation (YoY%)



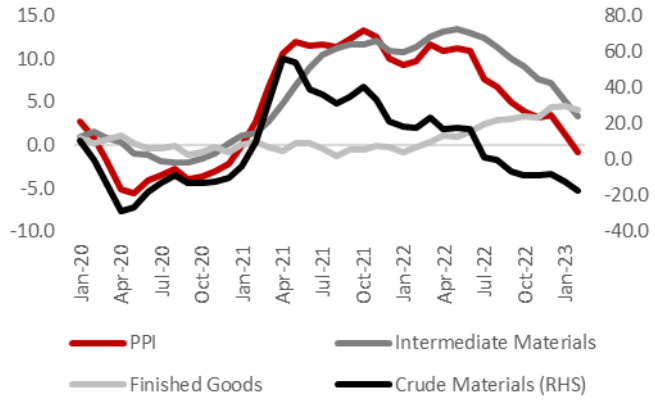
Source: FAO of UN, MIDFR

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



Source: Bloomberg, Macrobond, MIDFR

Chart 6: PPI (YoY%)



Source: Macrobond, MIDFR

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