26 May 2023

ECONOMIC REVIEW | April 2023 Consumer Price Index

Headline Inflation Continued on Descending Trend as Food Price Growth Moderated to 10-Month Low

- *Headline inflation reduced further to 11-month low. Headline inflation rate continued descending to +3.3%yoy, the slowest rate since May-22. Non-food inflation inched up marginally by +1.8%yoy while food inflation softened to a 10-month low at +6.3%yoy. The moderation of inflation among others was due to high base effect. Nevertheless, elevated global commodity prices, high food prices and firming domestic demand were among factors holding up inflation pressure in Malaysia.*
- *Global food inflation remained on contractionary for the past 6 months. Global food inflation as reported by FAO of UN shrank further by -19.8%yoy in Apr-23. The inflation rate has been on contractionary form since Nov-22. On a consequential month basis, the global food inflation inched up by +0.6%mom.*
- *We maintain our headline inflation forecast at +2.5% for 2023. Easing input inflation, improving global supply chain activity, normalizing commodity prices and slight betterment in MYR will benefit Malaysia's inflation outlook in 2023. Judging from the re-tabled Budget 2023, we believe the government will keep fuel subsidies especially RON95 and Diesel on status quo until end of the year. We anticipate that any targeted-subsidy measures on RON95 and Diesel will be rollout in 2024. The main downside risks to Malaysia's inflation are persistent high food inflation.*

Headline inflation reduced further to 11-month low. Headline inflation rate continued descending to +3.3%yoy, the slowest rate since May-22. Non-food inflation inched up marginally by +1.8%yoy while food inflation softened to 10-month low at +6.3%yoy. The moderation of inflation among others was due to high base effect. Nevertheless, 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). Services inflation remained above pre-pandemic average of +2.6%yoy. Steady core inflation trend in Malaysia is highly driven by strong consumer demand while cost factors are on slowdown pace. 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 +11.9%yoy respectively in Mar-23.

Deeper contraction of fuel inflation. Fuel inflation shrank further by -1.3%yoy, the weakest rate in more than 2-year. This was in tandem with the normalization of commodity prices and high base effects. We believe the government to keep the current fuel subsidy mechanism status quo particularly on RON95 and Diesel at least until year-end 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 registered at +7.4%yoy in the first month of 2QCY23.

Global food inflation remained on contractionary for the past 6 months. Global food inflation as reported by FAO of UN shrank further by -19.8%yoy in Apr-23. The inflation rate has been on contractionary form since Nov-22. On consequential month basis, the global food inflation inched up by +0.6%mom. Among the

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components, meat inflation at -6.1%yoy (more than 2-year low), dairy inflation at -15.1%yoy (close to 7-year low), cereals inflation at -19.8%yoy (close to 8-year low) and oils inflation at -45.3%yoy, marking the 9-consecutive months of negative rate. However, global sugar inflation surged to 16-month high at +22.9%yoy in Apr-23. Following that, Malaysia's food inflation skidded lower at +6.3%yoy. Price growth of Food at Home receded to 4-month low at +5%yoy while Food Away from Home eased off to 9-month low at +8.1%yoy. By food products, oils & fats inflation at -0.4%yoy (more than 3-year low), rice & bread inflation at +6.4%yoy (8-month low), vegetables inflation at +0.7%yoy (18-month low), dairy products inflation at +7%yoy (1-month low) and fruits inflation at +5.5%yoy (5-month high). 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 in both regionally and domestically. Meanwhile, current weakness in MYR may cause temporary spike on imported-inflation especially food items in May-23 and Jun-23.

Table 1: Consumer price index by component

Indices	MoM%			YoY%		
	Feb-23	Mar-23	Apr-23	Feb-23	Mar-23	Apr-23
CPI	0.2	0.1	0.1	3.7	3.4	3.3
Non-Food	0.2	0.0	0.2	2.0	1.7	1.8
Food and Non-Alcoholic Beverages	0.4	0.1	(0.1)	7.0	6.9	6.3
Alcoholic Beverages and Tobacco	0.0	0.1	0.1	0.8	0.6	0.6
Clothing and Footwear	0.0	0.0	0.0	0.4	0.5	0.5
Housing, Water, Electricity, Gas & Other Fuels	0.6	0.0	0.0	1.7	1.6	1.6
Furnishings, Household Equipment and Maintenance	0.2	0.2	0.0	3.4	3.1	3.0
Health	0.5	0.1	0.0	1.8	2.2	2.1
Transport	(0.1)	(0.2)	0.3	3.7	2.4	2.3
Communication	0.0	0.0	0.0	(1.4)	(1.4)	(1.4)
Recreation and Culture	(0.5)	0.0	0.3	1.7	1.9	1.8
Education	0.4	0.2	0.2	1.6	1.7	1.6
Restaurants and Hotels	0.9	0.3	(0.1)	7.4	7.2	6.6
Miscellaneous Goods and Services	0.3	0.2	0.4	2.5	2.1	2.5
Core CPI	0.2	0.2	0.0	3.9	3.8	3.6

Source: Macrobond, MIDFR

Slower inflation pressures all states in Malaysia. Overall price growth in Peninsular Malaysia recorded at +3.2%yoy (11-month low) while Sarawak and Sabah registered at +3.9%yoy (9-month low) and +3.2%yoy (10-month low) respectively. The moderating pace of food and transport inflation were main downside drivers for the overall inflation across all states. Moving forward, we foresee a slower inflation rate for 2023 across all states underpin by moderate food inflation, stable fuel prices and appreciation of USD/MYR in 2HCY23.

Table 2: Inflation by state (YoY%)

	MoM%			YoY%		
	Feb-23	Mar-23	Apr-23	Feb-23	Mar-23	Apr-23
Peninsular Malaysia	**0.4**	**0.0**	**0.1**	**3.7**	**3.4**	**3.2**
Food & Non-Alcoholic Beverages	0.5	0.1	(0.2)	7.0	6.7	6.2
Housing & Utilities	0.6	0.0	0.0	1.7	1.7	1.7
Transport	(0.1)	(0.2)	0.3	3.9	2.6	2.5
Sabah	**0.3**	**0.1**	**0.0**	**3.3**	**3.4**	**3.2**
Food & Non-Alcoholic Beverages	0.3	0.1	(0.2)	6.2	6.8	6.2
Housing & Utilities	0.2	0.0	0.0	2.0	2.0	1.9
Transport	0.1	(0.1)	0.3	2.1	1.2	1.0
Sarawak	**0.2**	**0.0**	**0.2**	**4.0**	**3.8**	**3.9**
Food & Non-Alcoholic Beverages	0.5	0.3	0.0	8.1	8.2	8.0
Housing & Utilities	0.3	0.0	0.0	1.4	1.4	1.4
Transport	(0.2)	(0.2)	0.3	2.7	1.7	1.4

Source: Macrobond, MIDFR

Malaysia's PPI contraction rate at more than 2-year low. Malaysia's input inflation contracted for the second consecutive month, recording a larger deflation of -2.9%yoy in Mar-23 (Feb-23: -0.8%yoy). Although producer prices recorded a monthly rebound of +0.3%mom from previous month (Feb-23: -0.2%mom), the Mar-23 price levels remained below that a year ago. In particular, prices of crude materials extended its contractionary trend since Aug-22, with a more significant deflation of -21%yoy (Feb-23: -16.9%yoy). Apart from the high base, the continued decline reflected sharper fall in crude fuel prices (-13.6%yoy; Feb-23: -8.2%yoy). In line with this, PPI for the agriculture and mining sectors dropped sharper at -28.7%yoy (Feb-23: -26.1%yoy) and -11.5% (Feb-23: -6.5%yoy), respectively. In addition, PPI inflation for intermediate materials and finished goods eased to +1.5%yoy (Feb-23: +3.3%yoy) and +3.9%yoy (Feb-23: +4.0%yoy), respectively; and similar trend was observed in the manufacturing PPI which rose at the slowest pace (+1.4%yoy) in 2 years. Given the level of commodity prices remaining below last year, we expect the lower cost pressure on Malaysia's producers will seep into consumer prices in the near term and this will lead to further moderation in CPI inflation. Furthermore, we are optimistic that the reopening of China's economy and post-pandemic recovery will further ease global inflation on the back of improved global supply chain. On the other hand, we remain cautious about the further strengthening of US dollars on the back of continued tightening by the Fed and rising geopolitical tensions, which will pose downside risks to global inflation outlook and upward price pressures in Malaysia.

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Jan-23	Feb-23	Mar-23	Jan-23	Feb-23	Mar-23
PPI	(0.8)	(0.2)	0.3	1.3	(0.8)	(2.9)
Crude Materials	(1.8)	(0.6)	1.5	(12.4)	(16.9)	(21.0)
Foodstuffs	1.3	0.1	2.0	3.1	3.4	5.8
Non-food	(2.5)	(0.6)	1.3	(15.2)	(20.3)	(25.2)
Non-food ex fuel	(0.6)	(0.2)	6.2	(30.8)	(37.3)	(40.4)
Crude Fuel	(3.3)	(1.0)	(1.0)	(4.6)	(8.2)	(13.6)
Intermediate Materials	(0.9)	(0.2)	0.0	5.1	3.3	1.5
Manufactured Goods	(1.0)	(0.3)	0.2	0.5	(1.3)	(3.2)
Construction	1.3	0.0	0.3	4.4	4.3	3.8
Processed Fuel & Lubricants	(1.4)	(0.7)	(1.1)	11.9	8.9	6.0
Containers	(0.7)	0.3	(0.6)	(0.7)	(1.1)	(2.3)
Supplies	(0.9)	0.5	0.7	11.1	10.8	10.6
Finished Goods	0.2	0.0	0.2	4.5	4.0	3.9
Consumer Goods	0.4	(0.1)	(0.3)	3.6	3.0	2.6
Consumer Goods ex. Foods	0.5	(0.1)	(0.6)	2.6	2.1	1.4
Capital Equipment	0.0	0.0	0.5	5.3	4.9	5.0

Source: Macrobond, MIDFR

Global inflation on downtrend. The recent inflation data in the US indicated continuous moderation. Headline inflation grew by +4.9%yoy in Apr-23, hitting 2-year low and missed market expectations of +5%yoy. Core inflation recorded slightly lower at +5.5%yoy (Mar-23: +5.6%yoy). Looking ahead, we expect slower headline and core inflation pace in the US amid normalised global energy prices, tightening monetary policy effects, slowdown of economic growth and high-base factor. Moving to Europe, overall price growth in Euro Area remained above ECB's target rate +2%, registered at +7%yoy. Across the globe, China's headline inflation moderated to +0.1%yoy in Apr-23 (Mar-23: 0.7%), marking the lowest since Feb-21. The easing inflation signalled a slow recovery in domestic demand for both food and non-food. The growth of price in food increased softer by +0.4%yoy (13-month low), owing by steep changes in price of porks (+4%yoy), eggs (+1.2%) and fresh vegetables (-13.5%yoy). On monthly basis, the consumer price changes deflated by -0.1%mom.

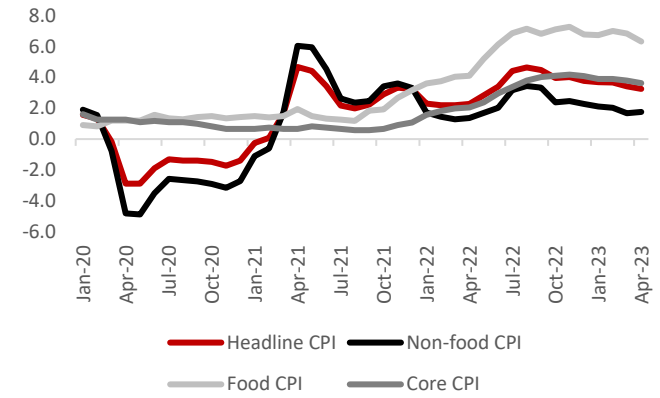
Table 4: Global Headline Inflation (YoY%)

	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23
Malaysia	4.0	4.0	3.8	3.7	3.7	3.4	3.3
Indonesia	5.7	5.4	5.5	5.3	5.5	5.0	4.3
Singapore	6.7	6.7	6.5	6.6	6.3	5.5	5.7
Thailand	6.0	5.6	5.9	5.0	3.8	2.8	2.7
Philippines	7.7	8.0	8.1	8.7	8.6	7.6	6.6
Taiwan	2.7	2.4	2.7	3.0	2.4	2.4	2.4
South Korea	5.7	5.0	5.0	5.2	4.8	4.2	3.7
China	2.1	1.6	1.8	2.1	1.0	0.7	0.1
Japan	3.7	3.8	4.0	4.3	3.3	3.2	3.5
Euro Area	10.6	10.1	9.2	8.6	8.5	6.9	7.0
US	7.7	7.1	6.5	6.4	6.0	5.0	4.9

Source: Macrobond, MIDFR

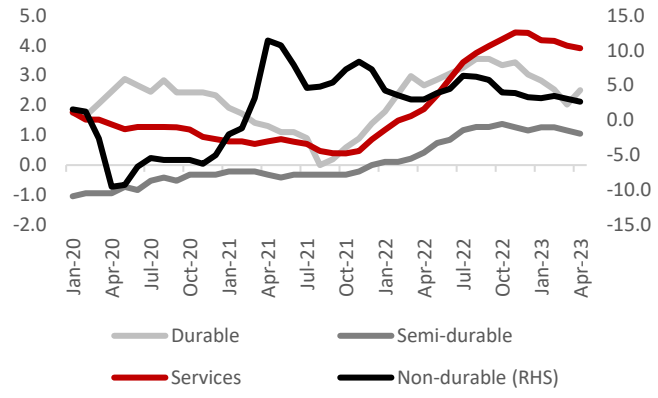
We maintain our headline inflation forecast at +2.5% for 2023. Easing input inflation, improving global supply chain activity, normalising commodity prices and slight betterment in MYR will benefit Malaysia's inflation outlook in 2023. Judging from the re-tabled Budget 2023, we believe the government will keep fuel subsidies especially RON95 and Diesel on status quo until end of the year. We anticipate that any targeted-subsidy measures on RON95 and Diesel will be rollout in 2024. The main downside risks to Malaysia's inflation is persistent high food inflation.

Chart 1: Key CPI Data (YoY%)



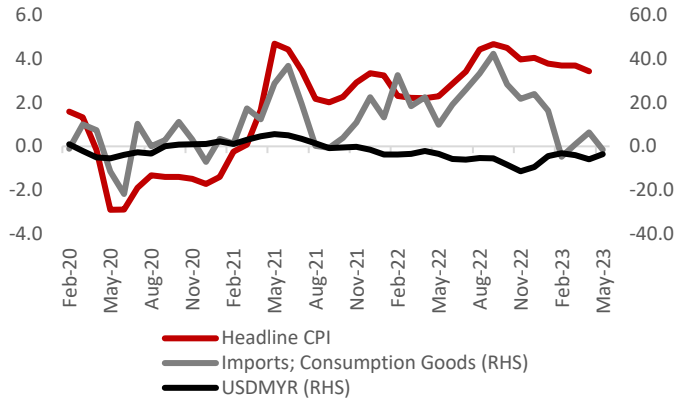
Source: Macrobond, MIDFR

Chart 2: CPI by Type (YoY%)



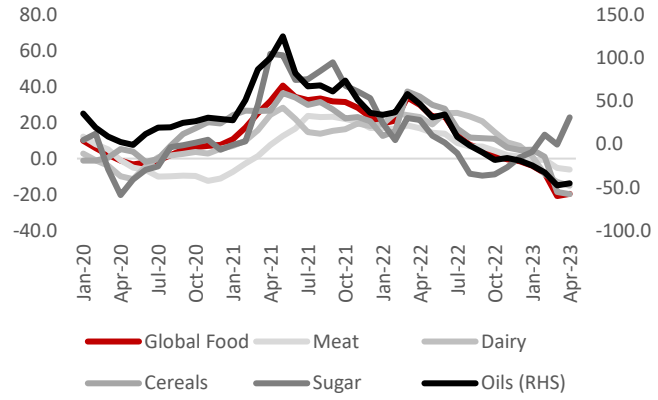
Source: Macrobond, MIDFR

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



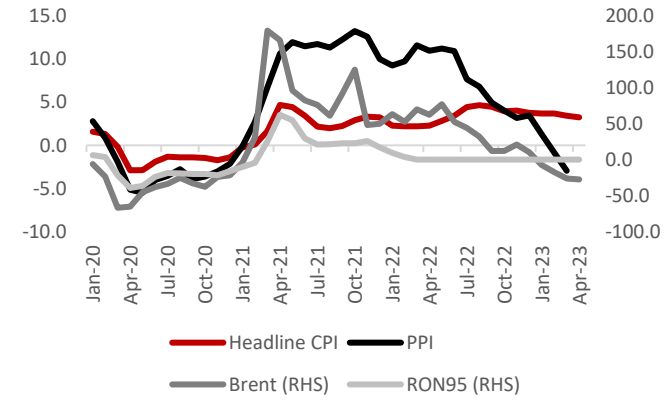
Source: Macrobond, MIDFR

Chart 4: Global Food Inflation (YoY%)



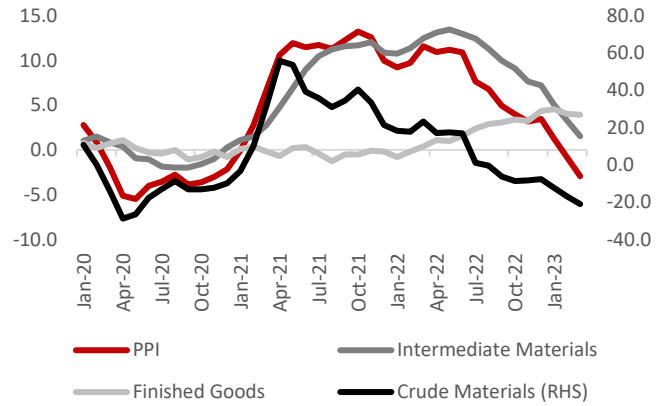
Source: FAO of UN, MIDFR

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



Source: Bloomberg, Macrobond, MIDFR

Chart 6: PPI (YoY%)



Source: Macrobond, MIDFR

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