

ECONOMIC REVIEW | May 2023 Consumer Price Index

Possible of Another Rate Hike in OPR as Core Inflation Rate Remains Sticky

- Core inflation rate remained sticky lingering above +3.5%yoy (Pre-pandemic average: +1.7%yoy). Services inflation rate of +3.5%yoy remained above pre-pandemic average of +2.6%yoy. Average 5MCY23 headline inflation was +3.4% (2022: +3.4%) and core inflation rate was +3.8% (2022: +3%). In a way, we opine the steady domestic demand and sticky core inflation may lead BNM to consider for another 25bps of OPR hike in 2HCY23.
- Global food inflation fell by more than -20%yoy. Global food inflation as reported by FAO of UN shrank further by -21.3yoy in May-23. The inflation rate has been on contractionary form since Nov-22. Malaysia's food inflation skidded lower at +5.9%yoy. Price growth of Food at Home receded to 13-month low at +4.3%yoy while Food Away from Home stayed at 9-month low at +8.1%yoy.
- Stubborn food prices to push headline inflation rate at +3.0%. As of 5MCY23, average food inflation registered at +6.6%yoy, much higher than previous year's +5.7%. As for non-food inflation, we are confident the government will keep retail fuel prices status quo at least until the end of this year. Non-food inflation is expected to average at +1.5% (5MCY23: +1.8%yoy). Considering both CPI components, we foresee Malaysia's headline inflation rate to touch +3% for 2023, higher than our initial forecast +2.5%.

Headline inflation decelerated to 1-year low. Headline inflation rate descended below +3%yoy level in May-23, the slowest rate since May-22. Non-food inflation inched up marginally by +1.3%yoy while food inflation softened to 1-year low at +5.9%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 inflationary pressure in Malaysia. Core inflation rate remained sticky lingering above +3.5%yoy (Pre-pandemic ave.: +1.7%yoy). Services inflation rate of +3.5%yoy remained above pre-pandemic average of +2.6%yoy. Average 5MCY23 headline inflation was +3.4% (2022: +3.4%) and core inflation rate was +3.8% (2022: +3%). Steady core inflation trend in Malaysia is highly driven by strong consumer demand while cost factors are on slowdown pace. In a way, we opine the steady domestic demand and sticky core inflation may lead BNM to consider for another 25bps of OPR hike in 2HCY23. Job market has been improving where employment growth has been above +2%yoy (Pre-pandemic average: +1.7%yoy) for 19-straight months since Oct-21 while retail trade sales continued to expand by double-digit pace +12.9%yoy respectively in Apr-23.

Fuel inflation rate at more than 2-year low. Fuel inflation shrank further by -2.4%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. Also, non-fuel inflation rate softened to +5.9%yoy, the slowest in 9-month.

Global food inflation fell by more than -20%yoy. Global food inflation as reported by FAO of UN shrank further by -21.3yoy in May-23. The inflation rate has been on contractionary form since Nov-22. On

consequential month basis, the global food inflation reduced by -2.6%mom. Among the components, meat inflation at -4.1%yoy (5-straight months of contraction), dairy inflation at -17.7%yoy (7-year low), cereals inflation at -25.3%yoy (close to 14-year low) and oils inflation at -48.2%yoy, marking the 10-consecutive months of negative rate. However, global sugar inflation surged to 17-month high at +30.9%yoy in May-23. Following that, Malaysia's food inflation skidded lower at +5.9%yoy. Price growth of Food at Home receded to 13-month low at +4.3%yoy while Food Away from Home stayed at 9-month low at +8.1%yoy. 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 lead to higher and longer imported-inflation especially food items in the near term.

Table 1: Consumer price index by component

Indices	MoM%			YoY%		
	Mar-23	Apr-23	May-23	Mar-23	Apr-23	May-23
CPI	0.1	0.1	0.2	3.4	3.3	2.8
Non-Food	0.0	0.2	0.0	1.7	1.8	1.3
Food and Non-Alcoholic Beverages	0.1	(0.1)	0.5	6.9	6.3	5.9
Alcoholic Beverages and Tobacco	0.1	0.1	0.1	0.6	0.6	0.7
Clothing and Footwear	0.0	0.0	0.0	0.5	0.5	0.4
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	0.5	1.6	1.6	1.8
Furnishings, Household Equipment and Maintenance	0.2	0.0	0.2	3.1	3.0	2.7
Health	0.1	0.0	0.1	2.2	2.1	1.9
Transport	(0.2)	0.3	(0.2)	2.4	2.3	1.0
Communication	0.0	0.0	(2.3)	(1.4)	(1.4)	(3.7)
Recreation and Culture	0.0	0.3	0.3	1.9	1.8	1.8
Education	0.2	0.2	0.2	1.7	1.6	1.9
Restaurants and Hotels	0.3	(0.1)	0.6	7.2	6.6	6.7
Miscellaneous Goods and Services	0.2	0.4	0.4	2.1	2.5	2.9
Core CPI	0.2	0.0	0.3	3.8	3.6	3.5

Source: Macrobond, MIDFR

All states recorded slower inflation rate. Overall price growth in Peninsular Malaysia recorded at +2.8%yoy (13-month low) while Sarawak and Sabah registered at +3.5%yoy and +3%yoy respectively, both at 11-month low. The moderating pace of food and transport inflation were main downside drivers for the overall inflation across all states. Looking ahead, continuous weakness in MYR and targeted-subsidy of electricity mechanism may see trivial uptick especially in food and housing & utilities CPI growth rates.

Table 2: Inflation by state (YoY%)

	MoM%			YoY%		
	Mar-23	Apr-23	May-23	Mar-23	Apr-23	May-23
Peninsular Malaysia	0.0	0.1	0.2	3.4	3.2	2.8
Food & Non-Alcoholic Beverages	0.1	(0.2)	0.5	6.7	6.2	5.8
Housing & Utilities	0.0	0.0	0.4	1.7	1.7	1.8

Transport	(0.2)	0.3	(0.2)	2.6	2.5	1.1
Sabah	0.1	0.0	0.5	3.4	3.2	3.0
Food & Non-Alcoholic Beverages	0.1	(0.2)	0.1	6.8	6.2	5.5
Housing & Utilities	0.0	0.0	1.9	2.0	1.9	3.2
Transport	(0.1)	0.3	(0.5)	1.2	1.0	-0.4
Sarawak	0.0	0.2	0.2	3.8	3.9	3.5
Food & Non-Alcoholic Beverages	0.3	0.0	0.3	8.2	8.0	7.6
Housing & Utilities	0.0	0.0	0.3	1.4	1.4	1.1
Transport	(0.2)	0.3	(0.2)	1.7	1.4	0.5

Source: Macrobond, MIDFR

Malaysia's PPI stays on contractionary. Malaysia's producer price index dropped slightly faster by -3%yoy in Apr-23 (Mar-23: -2.9yoy), marking 3-consecutive month of contraction. This was the largest decline since Nov-20. Among the sectors, the fall in prices was mainly dragged by the continued deflation in agriculture, forestry & fishery (Mar-23: -26%yoy, Apr-23: -28.7%yoy) and mining (Mar-23: -4.7%yoy, Apr-23: -11.5%yoy). Moreover, the inflation for both manufacturing and electricity & gas sectors softened to +0.1%yoy, from preceding month's price increase of +1.4%yoy. Meanwhile, PPI for water supply increased mildly by +3.2% (Mar-23: +3.3%yoy), 8-month low. Considering the stage of production, the deflation for producer price was owed by the fall in cost to process the crude materials for further procession by -17.6%yoy and slight decrease in price for processing intermediate materials, supplies & components by -0.1%yoy. Notably, the PPI inflation for finished goods eased to +3.5%yoy. Compared to prior month, the monthly increase in producer prices continued but marginally slower at +0.2%mom (Mar-23: +0.3%mom). Looking at the trend of PPI inflation, the consumer's inflation is expected to ease further in the coming months, given the reduced cost pressures. In addition, the government's intervention and price controls will remain another crucial factor that will keep inflation under control this year. We opine the reduction in PPI will continue given the current level of commodity prices such as crude oil and CPO are lower than last year. Nevertheless, we expect significant pick-up in electricity cost inflation as the government shift towards targeted electricity subsidy.

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Feb-23	Mar-23	Apr-23	Feb-23	Mar-23	Apr-23
PPI	(0.2)	0.3	0.2	(0.8)	(2.9)	(3.0)
Crude Materials	(0.6)	1.5	0.7	(16.9)	(21.0)	(17.6)
Foodstuffs	0.1	2.0	0.1	3.4	5.8	5.7
Non-food	(0.6)	1.3	0.8	(20.3)	(25.2)	(21.3)
Non-food ex fuel	(0.2)	6.2	1.1	(37.3)	(40.4)	(37.3)
Crude Fuel	(1.0)	(1.0)	0.7	(8.2)	(13.6)	(9.2)
Intermediate Materials	(0.2)	0.0	0.2	3.3	1.5	(0.1)
Manufactured Goods	(0.3)	0.2	0.7	(1.3)	(3.2)	(4.7)
Construction	0.0	0.3	1.2	4.3	3.8	4.4
Processed Fuel & Lubricants	(0.7)	(1.1)	(1.2)	8.9	6.0	3.1

Containers	0.3	(0.6)	0.4	(1.1)	(2.3)	(2.0)
Supplies	0.5	0.7	(0.1)	10.8	10.6	9.6
Finished Goods	0.0	0.2	(0.1)	4.0	3.9	3.5
Consumer Goods	(0.1)	(0.3)	0.4	3.0	2.6	2.8
Consumer Goods ex. Foods	(0.1)	(0.6)	0.6	2.1	1.4	1.9
Capital Equipment	0.0	0.5	(0.5)	4.9	5.0	4.1

Source: Macrobond, MIDFR

Continued downtrend in global inflation. The recent inflation data in the US indicated continuous moderation. Headline inflation grew by +4%yoy in May-23, lowest since Mar-21 and below market expectations of +4.1%yoy. Core inflation recorded slightly lower at +5.3%yoy (Apr-23: +5.5%yoy). Euro area inflation descended for the second consecutive month to +6.1%yoy in May-23, well within market expectations as energy prices fell by -1.8%yoy (Apr-23: +2.3%yoy). Meanwhile, the increases in prices of food, including alcohol and tobacco slowed to +12.5%yoy (Apr: +13.5%yoy). Core inflation also decelerated further to +5.3%yoy (Apr-23: +5.6%yoy), in line with market forecasts which was attributable to slower inflation in transport (+0.1%yoy; Apr-23: +3.1%yoy) and utilities (+4.1%yoy; Apr-23: +4.8%yoy). On a month-on-month basis, the headline CPI was unchanged from previous month (Apr-23: +0.6%mom), similar to market consensus. Across the globe, China's headline inflation remained low levels at +0.2%yoy in May-23. The easing inflation signalled a slow recovery in domestic demand for both food and non-food.

Table 4: Global Headline Inflation (YoY%)

	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
Malaysia	4.0	3.8	3.7	3.7	3.4	3.3	2.8
Indonesia	5.4	5.5	5.3	5.5	5.0	4.3	4.0
Singapore	6.7	6.5	6.6	6.3	5.5	5.7	
Thailand	5.6	5.9	5.0	3.8	2.8	2.7	0.5
Philippines	8.0	8.1	8.7	8.6	7.6	6.6	6.1
Taiwan	2.4	2.7	3.0	2.4	2.4	2.4	2.0
South Korea	5.0	5.0	5.2	4.8	4.2	3.7	3.3
China	1.6	1.8	2.1	1.0	0.7	0.1	0.2
Japan	3.8	4.0	4.3	3.3	3.2	3.5	
Euro Area	10.1	9.2	8.6	8.5	6.9	7.0	6.1
US	7.1	6.5	6.4	6.0	5.0	4.9	4.0

Source: Macrobond, MIDFR

Stubborn food prices to push headline inflation rate at +3.0%. As of 5MCY23, average food inflation registered at +6.6%yoy, much higher than previous year's +5.7%. In our initial estimation, we expect food inflation to trend lower at +5% for this year, banking on easing global supply chain pressure, normalised commodity prices and appreciation of USDMYR. However, recent market developments especially the further tightening of monetary policy by major economies have indirectly delay the appreciation of MYR. Henceforth, prolong depreciated MYR among others will lead to higher imported inflation particularly via food prices as


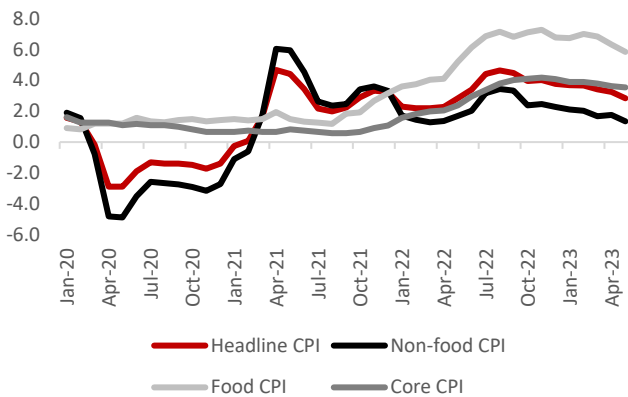
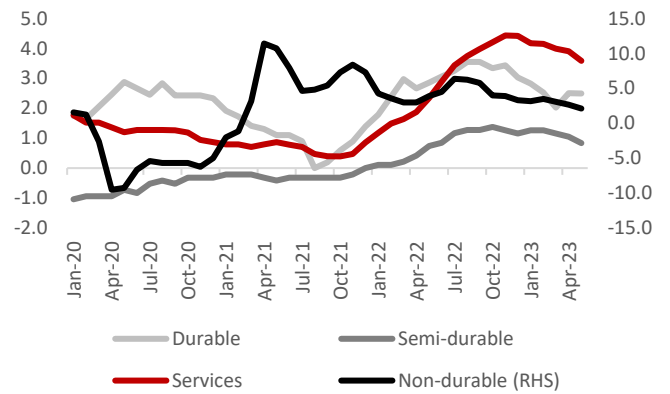
Malaysia is a net importer for most food products. As for non-food inflation, we are confident the government will keep retail fuel prices status quo at least until the end of this year. Non-food inflation is expected to average at +1.5% (5MCY23: +1.8%yoy). Considering both CPI components, we foresee Malaysia's headline inflation rate to touch +3% for 2023, higher than our initial forecast +2.5%. 

Chart 1: Key CPI Data (YoY%)



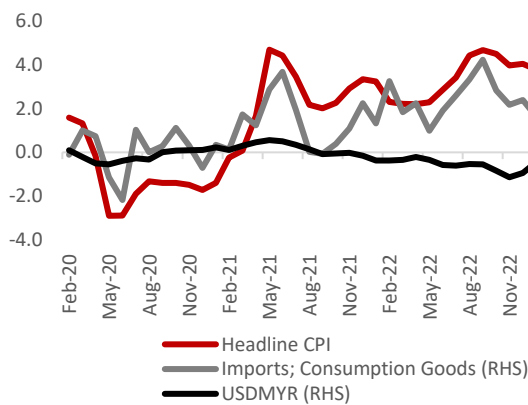
Source: Macrobond, MIDFR

Chart 2: CPI by Type (YoY%)



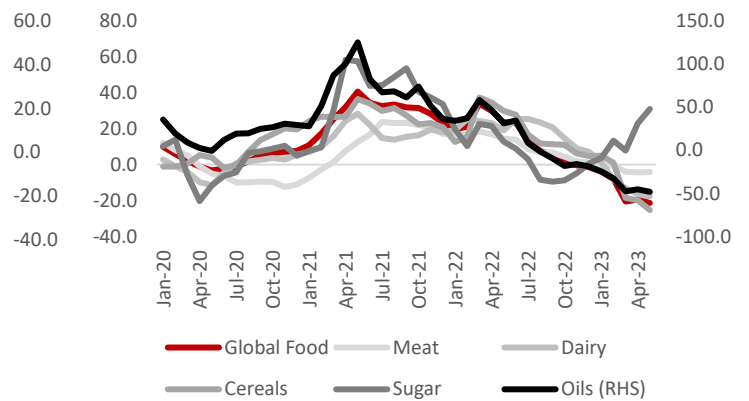
Source: Macrobond, MIDFR

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



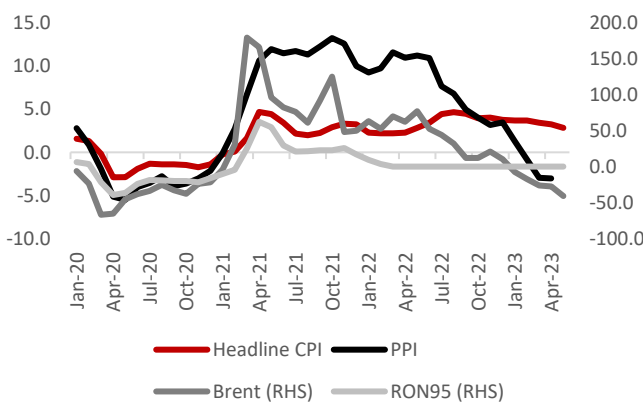
Source: Macrobond, MIDFR

Chart 4: Global Food Inflation (YoY%)



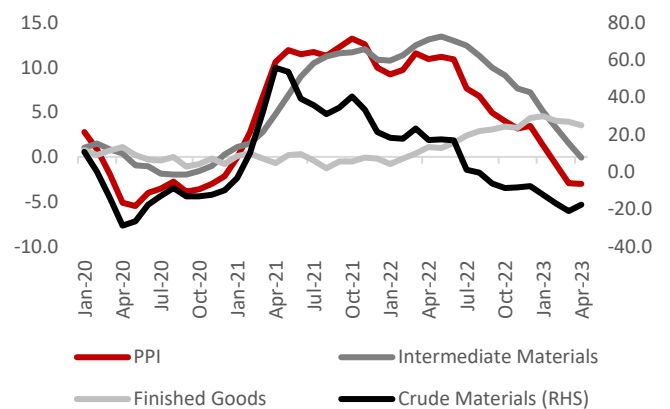
Source: FAO of UN, MIDFR

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



Source: Bloomberg, Macrobond, MIDFR

Chart 6: PPI (YoY%)



Source: Macrobond, MIDFR

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