

ECONOMIC REVIEW | June 2023 Consumer Price Index**Demand-Push Inflation Remains Strong as Core CPI at +3.6% in 1HCY23, Higher than Last Year's +3%**

- *Headline inflation decelerated to 14-month low. Headline inflation rate moderated to +2.4%yoy in Jun-23, the slowest rate since Apr-22. Non-food inflation rate inched down marginally to +1.2%yoy while food inflation softened to more than 1-year low at +4.7%yoy. Core inflation rate remained sticky lingering above +3%yoy (Pre-pandemic ave.: +1.7%yoy). We opine the steady domestic demand and sticky core inflation may lead BNM to consider another 25bps of OPR hike in 2HCY23.*
- *Global food inflation fell by -16.1%yoy in 1HCY23. Global food inflation as reported by FAO of UN shrank further by -20.9%yoy in Jun-23. Following that, Malaysia's food inflation skidded lower at +4.7%yoy. Price growth of Food at Home receded to 20-month low at +3.2%yoy while Food Away from Home stayed at 1-year low at +6.8%yoy.*
- *We maintain our CPI forecast at +3.0% for 2023. As of 6MCY23, average food inflation registered at +6.2%yoy, much higher than previous year's +5.7%. As for non-food inflation, we expect 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% (6MCY23: +1.7%yoy). Considering both CPI components, we foresee Malaysia's headline inflation rate to touch +3% for 2023.*

Headline inflation decelerated to 14-month low. Headline inflation rate moderated to +2.4%yoy in Jun-23, the slowest rate since Apr-22. Non-food inflation rate inched down marginally to +1.2%yoy while food inflation softened to more than 1-year low at +4.7%yoy. The moderation of inflation among others was due to high base effects. 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%yoy (Pre-pandemic ave.: +1.7%yoy). Services inflation rate of +3.2%yoy remained above pre-pandemic average of +2.6%yoy. Average 6MCY23 headline inflation was +3.2% (2022: +3.4%) and core inflation rate was +3.6% (2022: +3%). On monthly basis, headline and core inflation remained firm registering positive gains of +0.2%mom. 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 20-straight months since Oct-21 while distributive trade sales growth at double-digit pace +10.2%yoy in 5MCY23 (2022: +19.6%).

Fuel deflation rate at more than 2-year low. Fuel price growth shrank further by -3.8%yoy, the weakest since Mar-21. 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 +5.3%yoy, the slowest in 11-month.

Global food inflation fell by -16.1%yoy in 1HCY23. Global food inflation as reported by FAO of UN shrank further by -20.9%yoy in Jun-23. The inflation rate has been on contractionary form since Nov-22. On consequential month basis, the global food inflation reduced by -1.6%mom. As of 1HCY23, the food price contracted by -16.1%yoy (2022: +14.3%). Among the components, meat inflation at -3.4%yoy (2022: +10.3%), dairy inflation at -13%yoy (2022: +19.5%), cereals inflation at -14.5%yoy (2022: +17.9%), oils inflation at -41.4%yoy (2022: +13.9%) and sugar inflation at +18.3%yoy (2022: +4.7%). Following that, Malaysia's food inflation skidded lower at +4.7%yoy. Price growth of Food at Home receded to 20-month low at +3.2%yoy while Food Away from Home stayed at 1-year low at +6.8%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. Nevertheless, Malaysia as a net importer of food country is highly exposed to external factors and currency movements. Apart from depreciated Ringgit, Malaysia's food prices are exposed to the recent Russia's withdrawal from grain deal, El-Nino impacts and changes of food-exports policy by other countries.

Table 1: Consumer price index by component

Indices	MoM%			YoY%		
	Apr-23	May-23	Jun-23	Apr-23	May-23	Jun-23
CPI	0.1	0.2	0.2	3.3	2.8	2.4
Non-Food	0.2	0.0	0.2	1.8	1.3	1.2
Food and Non-Alcoholic Beverages	(0.1)	0.5	0.1	6.3	5.9	4.7
Alcoholic Beverages and Tobacco	0.1	0.1	0.0	0.6	0.7	0.6
Clothing and Footwear	0.0	0.0	(0.1)	0.5	0.4	0.1
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.5	0.0	1.6	1.8	1.8
Furnishings, Household Equipment and Maintenance	0.0	0.2	0.0	3.0	2.7	2.3
Health	0.0	0.1	0.2	2.1	1.9	2.0
Transport	0.3	(0.2)	0.2	2.3	1.0	0.0
Communication	0.0	(2.3)	0.1	(1.4)	(3.7)	(3.6)
Recreation and Culture	0.3	0.3	0.3	1.8	1.8	1.6
Education	0.2	0.2	0.1	1.6	1.9	1.9
Restaurants and Hotels	(0.1)	0.6	0.1	6.6	6.7	5.4
Miscellaneous Goods and Services	0.4	0.4	0.2	2.5	2.9	2.6
Core CPI	0.0	0.3	0.2	3.6	3.5	3.1

Source: Macrobond, MIDFR

Moderating inflationary pressure across all states. Overall price growth in Peninsular Malaysia recorded at +2.3%yoy (15-month low) while Sarawak and Sabah registered at +3%yoy and +2.3%yoy respectively, both at more than 1-year low. The moderating pace of food and transport inflation were main downside drivers for the overall inflation across all states. Looking ahead, we foresee further moderation of inflationary pressure in all states due to high-base effect factor and stabilization of global commodity prices.

Table 2: Inflation by state (YoY%)

	MoM%			YoY%		
	Apr-23	May-23	Jun-23	Apr-23	May-23	Jun-23
Peninsular Malaysia	0.1	0.2	0.2	3.2	2.8	2.3
Food & Non-Alcoholic Beverages	(0.2)	0.5	0.1	6.2	5.8	4.6
Housing & Utilities	0.0	0.4	0.0	1.7	1.8	1.7
Transport	0.3	(0.2)	0.2	2.5	1.1	0.1
Sabah	0.0	0.5	(0.1)	3.2	3.0	2.3
Food & Non-Alcoholic Beverages	(0.2)	0.1	(0.1)	6.2	5.5	4.2
Housing & Utilities	0.0	1.9	0.0	1.9	3.2	3.2
Transport	0.3	(0.5)	0.1	1.0	-0.4	-1.6
Sarawak	0.2	0.2	0.2	3.9	3.5	3.0
Food & Non-Alcoholic Beverages	0.0	0.3	0.3	8.0	7.6	6.4
Housing & Utilities	0.0	0.3	0.0	1.4	1.1	1.1
Transport	0.3	(0.2)	0.2	1.4	0.5	-0.3

Source: Macrobond, MIDFR

PPI deflation at 3-year low. Malaysia's PPI dropped for the 4-straight months by -4.6%yoy in May, attributable to a steeper decline in PPI for agriculture, forestry & fishing (May-23: -27.2%yoy) and mining (-10.7%yoy) sectors. In addition, manufacturing PPI also contracted by -1.1yoy (Apr-23: +0.1%yoy), the first decline since Dec-20. By the processing stage, the price of crude materials declined by -20.1%yoy. To us, this was expected in line with the steeper PPI deflation in the primary sectors, given the relatively lower commodity prices compared to a year ago. Similarly, prices by producers for intermediate materials, supplies, & components contracted sharper by -1.6%yoy. The rise in producer prices for finished goods also moderated to +3%yoy, the 4-consecutive months of easing after peaking at +4.5%yoy in Jan-23. On month-on-month basis, producers' inflation contracted by -0.4%mom. Going forward, given commodity prices remaining below the high levels last year, we expect the reduced cost pressures signalling further moderation in consumer price inflation.

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Mar-23	Apr-23	May-23	Mar-23	Apr-23	May-23
PPI	0.3	0.2	(0.4)	(2.9)	(3.0)	(4.6)
Crude Materials	1.5	0.7	(0.9)	(21.0)	(17.6)	(20.1)
Foodstuffs	2.0	0.1	1.7	5.8	5.7	5.9
Non-food	1.3	0.8	(1.5)	(25.2)	(21.3)	(24.2)
Non-food ex fuel	6.2	1.1	(2.4)	(40.4)	(37.3)	(39.3)
Crude Fuel	(1.0)	0.7	(0.9)	(13.6)	(9.2)	(12.9)
Intermediate Materials	0.0	0.2	(0.4)	1.5	(0.1)	(1.6)
Manufactured Goods	0.2	0.7	0.0	(3.2)	(4.7)	(6.2)
Construction	0.3	1.2	1.1	3.8	4.4	4.6
Processed Fuel & Lubricants	(1.1)	(1.2)	(1.6)	6.0	3.1	0.6
Containers	(0.6)	0.4	(0.9)	(2.3)	(2.0)	(3.7)
Supplies	0.7	(0.1)	(0.4)	10.6	9.6	8.8

	MoM%			YoY%		
	Mar-23	Apr-23	May-23	Mar-23	Apr-23	May-23
Finished Goods	0.2	(0.1)	(0.2)	3.9	3.5	3.0
Consumer Goods	(0.3)	0.4	(0.1)	2.6	2.8	2.0
Consumer Goods ex. Foods	(0.6)	0.6	(0.1)	1.4	1.9	1.3
Capital Equipment	0.5	(0.5)	(0.2)	5.0	4.1	3.8

Source: Macrobond, MIDFR

Global inflation on downward trend. US consumer inflation decelerated to +3.0%yoy in Jun-23, the lowest level since Mar-21. The inflation rate was marginally lower than market expectations of +3.1%yoy. The softening headline inflation was mainly attributable to the continuous decline in energy prices, which deflated the steepest in 4-month at -16.7%yoy. Food inflation also descended to +5.7%yoy, the lowest level since Oct-21. Core inflation eased to +4.8%yoy, lower than market expectations of +5.0%yoy and the softest in 20-month. On month-on-month basis, headline inflation ascended to +0.2%mom (May-23: +0.1%mom) while core inflation slowed to +0.2%mom (May-23: +0.4%mom). The easing inflation among others due to high-base effects, softer labour market and negative effects of the aggressive tightening by the Fed. Across the globe, China's headline inflation remained muted while Euro Area's inflation rate moderated to +5.5%yoy, the slowest since Jan-22. Nevertheless, food-related inflation risk still remains especially due to El-Nino effects and Russia's withdrawal from the grain deal.

Table 4: Global Headline Inflation (YoY%)

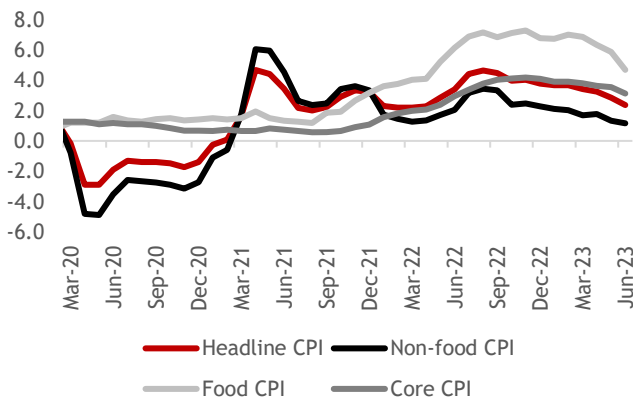
	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
Malaysia	3.8	3.7	3.7	3.4	3.3	2.8	2.4
Indonesia	5.5	5.3	5.5	5.0	4.3	4.0	3.5
Singapore	6.5	6.6	6.3	5.5	5.7	5.1	
Thailand	5.9	5.0	3.8	2.8	2.7	0.5	0.2
Philippines	8.1	8.7	8.6	7.6	6.6	6.1	5.4
Taiwan	2.7	3.0	2.4	2.4	2.3	2.0	1.8
South Korea	5.0	5.2	4.8	4.2	3.7	3.3	2.7
China	1.8	2.1	1.0	0.7	0.1	0.2	
Japan	4.0	4.3	3.3	3.2	3.5	3.2	3.3
Euro Area	9.2	8.6	8.5	6.9	7.0	6.1	5.5
US	6.5	6.4	6.0	5.0	4.9	4.1	3.0

Source: Macrobond, MIDFR

We maintain our CPI forecast at +3.0% for 2023. As of 6M CY23, average food inflation registered at +6.2%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

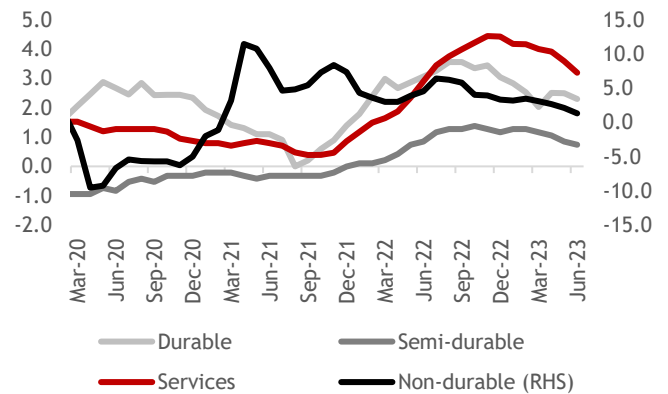
most food products. As for non-food inflation, we expect the government will keep retail fuel prices status quo at least until the end of this year. Non-food inflation is expected to average at +1.5% (6MCY23: +1.7%yoY). Considering both CPI components, we foresee Malaysia's headline inflation rate to touch +3% for 2023. 📈

Chart 1: Key CPI Data (YoY%)



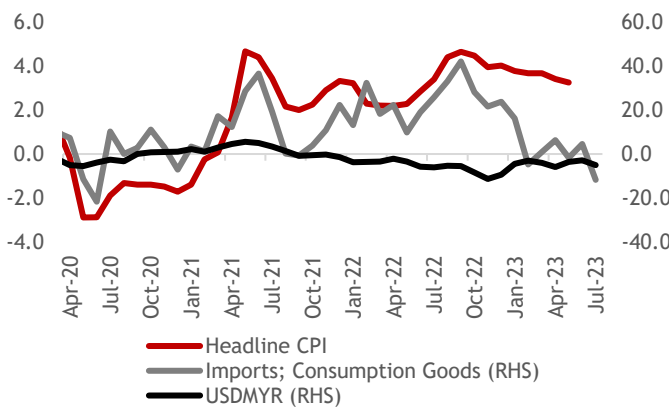
Source: Macrobond, MIDFR

Chart 2: CPI by Type (YoY%)



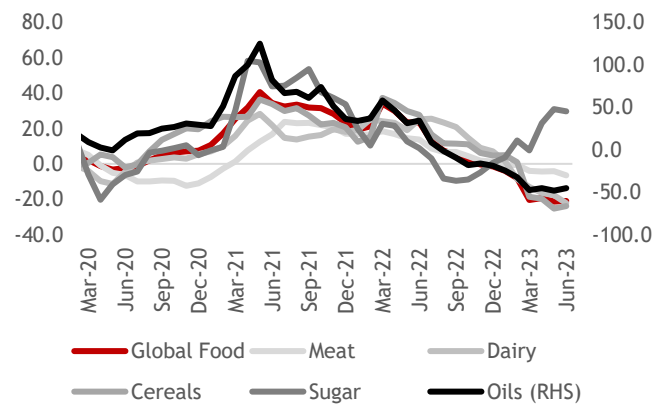
Source: Macrobond, MIDFR

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



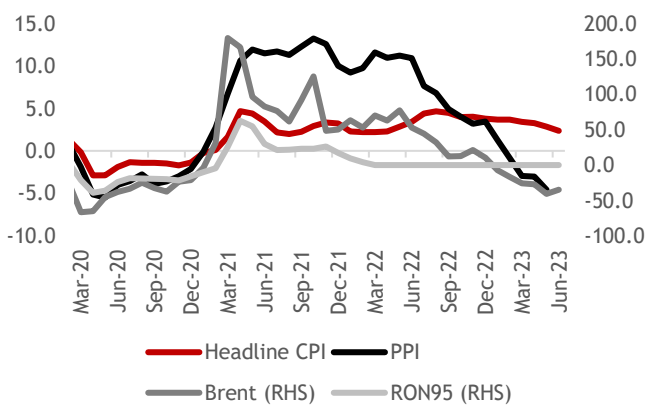
Source: Macrobond, MIDFR

Chart 4: Global Food Inflation (YoY%)



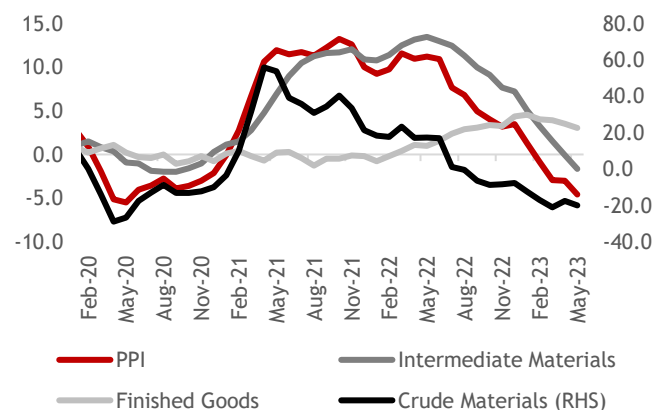
Source: FAO of UN, MIDFR

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



Source: Bloomberg, Macrobond, MIDFR

Chart 6: PPI (YoY%)



Source: Macrobond, MIDFR

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