

ECONOMIC REVIEW | July 2023 Consumer Price Index

Inflationary Pressure Moderated Yet Food Price Level Remains A Concern

- *Headline inflation almost at 2-year low. Headline inflation rate moderated to +2.0%yoy in Jul-23, the slowest rate since Aug-21. The inflation rate was slightly lower than market consensus of +2.1%. Non-food inflation rate decelerated to 29-month low at +0.8%yoy while food inflation softened to more than 1-year low at +4.4%yoy. The moderation of inflation among others was due to high base effects. Core inflation rate moderated below +3.0% level at +2.8%yoy yet still above pre-pandemic average of +1.7%. Similarly, services inflation rate of +2.9%yoy remained above pre-pandemic average of +2.6%yoy.*
- *Following that, Malaysia's food inflation skidded lower at +4.4%yoy. Price growth of Food at Home receded to 21-month low at +3.0%yoy while Food Away from Home moderated to 14-month low at +6.2%yoy. Even though on downward trends, average food inflation for 7MCY23 at +6.0% (2022: +5.7%) is almost double to pre-pandemic average of +3.2%. Food at Home +4.6% for 7MCY23 (2022: +5.3%) against pre-pandemic average +3.0%. Food Away from Home +8.0% for 7MCY23 (2022: +6.7%) against pre-pandemic average +3.8%.*
- *We keep our CPI forecast at +3.0% for 2023. As of 7MCY23, average food inflation registered at +6.0%yoy, much higher than previous year's +5.7%. We estimate food inflation to remain at range of +5.5~6.0% in 2HCY23 due to externally challenging environment especially for global agriculture output. Plus, 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. Non-food inflation is expected to average at +1.5% (7MCY23: +1.6%yoy). Considering both CPI components, we foresee Malaysia's headline inflation rate to average at +3.0% for 2023%.*

Headline inflation almost at 2-year low. Headline inflation rate moderated to +2.0%yoy in Jul-23, the slowest rate since Aug-21. The inflation rate was slightly lower than market consensus of +2.1%. Non-food inflation rate decelerated to 29-month low at +0.8%yoy while food inflation softened to more than 1-year low at +4.4%yoy. The moderation of inflation among others was due to high base effects. Core inflation rate moderated below +3.0% level at +2.8%yoy yet still above pre-pandemic average of +1.7%. Similarly, services inflation rate of +2.9%yoy remained above pre-pandemic average of +2.6%yoy. Average 7MCY23 headline inflation was +3.0% (2022: +3.4%) and core inflation rate was +3.5% (2022: +3.0%). On monthly basis, headline inflation remained firm registering positive gains of +0.1%mom core inflation stagnant. Steady core inflation trend in Malaysia is highly driven by strong consumer demand while cost factors are on slowdown pace. The moderation of inflationary pressure is a positive signal especially for domestic demand to stay on expansionary path in 2HCY23. However, persistent high domestic food inflation to remain as downside risk factor amid climate change and geopolitical war impacts on global agriculture output.

The first deflation for transport inflation. Since Mar-21, transport price registered its first contraction of -0.4%yoy in Jul-23. Fuel price growth shrank further by -3.7%yoy (Jun-23: -3.8%yoy), 5-straight months of negative rate. 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 +4.2%yoy, the slowest more than 1-year low.

Global food inflation fell by -15.6%yoy in 7MCY23. Global food inflation as reported by FAO of UN shrank further by -11.8%yoy in Jul-23, marking 9-straight months of contraction. However, Jul-23 was the slowest rate since Mar-23. On consequential month basis, the global food inflation improved by +1.3%mom, rebound after 2-consecutive months of contraction. As of 7MCY23, the food price contracted by -15.6%yoy (2022: +14.3%). Among the components, meat inflation at -3.6%yoy (2022: +10.3%), dairy inflation at -14.2%yoy (2022: +19.5%), cereals inflation at -14.6%yoy (2022: +17.9%), oils inflation at -39.3%yoy (2022: +13.9%) and sugar inflation at +19.8%yoy (2022: +4.7%). Following that, Malaysia's food inflation skidded lower at +4.4%yoy. Price growth of Food at Home receded to 21-month low at +3.0%yoy while Food Away from Home moderated to 14-month low at +6.2%yoy. 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. Even though on downward trends, average food inflation for 7MCY23 at +6.0% (2022: +5.7%) is almost double to pre-pandemic average of +3.2%. Food at Home +4.6% for 7MCY23 (2022: +5.3%) against pre-pandemic average +3.0%. Food Away from Home +8.0% for 7MCY23 (2022: +6.7%) against pre-pandemic average +3.8%.

Table 1: Consumer price index by component

Indices	MoM%			YoY%		
	May-23	Jun-23	Jul-23	May-23	Jun-23	Jul-23
CPI	0.2	0.2	0.1	2.8	2.4	2.0
Non-Food	0.0	0.2	(0.1)	1.3	1.2	0.8
Food and Non-Alcoholic Beverages	0.5	0.1	0.4	5.9	4.7	4.4
Alcoholic Beverages and Tobacco	0.1	0.0	0.0	0.7	0.6	0.5
Clothing and Footwear	0.0	(0.1)	0.1	0.4	0.1	0.1
Housing, Water, Electricity, Gas & Other Fuels	0.5	0.0	0.0	1.8	1.8	1.7
Furnishings, Household Equipment and Maintenance	0.2	0.0	0.2	2.7	2.3	1.9
Health	0.1	0.2	0.2	1.9	2.0	2.0
Transport	(0.2)	0.2	0.1	1.0	0.0	(0.4)
Communication	(2.3)	0.1	(0.1)	(3.7)	(3.6)	(3.7)
Recreation and Culture	0.3	0.3	(0.3)	1.8	1.6	1.1
Education	0.2	0.1	0.2	1.9	1.9	2.0
Restaurants and Hotels	0.6	0.1	0.3	6.7	5.4	5.0
Miscellaneous Goods and Services	0.4	0.2	(0.1)	2.9	2.6	2.6
Core CPI	0.3	0.2	0.0	3.5	3.1	2.8

Source: Macrobond, MIDFR

Softening inflationary pressure across all states. Overall price growth in Peninsular Malaysia recorded at +2.0%yoy (23-month low) while Sarawak and Sabah registered at +2.6%yoy (19-month low) and +1.9%yoy (15-month low) respectively. 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%		
	May-23	Jun-23	Jul-23	May-23	Jun-23	Jul-23
Peninsular Malaysia	0.2	0.2	0.1	2.8	2.3	2.0
Food & Non-Alcoholic Beverages	0.5	0.1	0.4	5.8	4.6	4.4
Housing & Utilities	0.4	0.0	0.0	1.8	1.7	1.7
Transport	(0.2)	0.2	0.1	1.1	0.1	(0.3)
Sabah	0.5	(0.1)	0.2	3.0	2.3	1.9
Food & Non-Alcoholic Beverages	0.1	(0.1)	0.4	5.5	4.2	3.0
Housing & Utilities	1.9	0.0	0.0	3.2	3.2	3.2
Transport	(0.5)	0.1	0.0	(0.4)	(1.6)	(1.8)
Sarawak	0.2	0.2	0.1	3.5	3.0	2.6
Food & Non-Alcoholic Beverages	0.3	0.3	0.2	7.6	6.4	5.5
Housing & Utilities	0.3	0.0	0.0	1.1	1.1	1.0
Transport	(0.2)	0.2	0.1	0.5	(0.3)	(0.6)

Source: Macrobond, MIDFR

PPI deflation at more than 3-year low. Malaysia's PPI recorded the 5-straight months of deflation in Jun-23, falling by -4.8%yoy which was the fastest decline in more than 3 years. The sharper decline was underpinned by continued declines in PPI for agriculture, forestry & fishery (-20.7%yoy); mining & quarrying (-16.6%yoy), and manufacturing (-1.8%yoy). On the contrary, producer prices for electricity & gas and water supply continued to record inflation of +1.0%yoy (May-23: +1.2%yoy) and +3.2%yoy (May-23: +3.0%yoy), respectively. By the processing stage, the high base last year as a result of high commodity prices continued to cause deflation for prices of crude materials at -18.7%yoy, mainly due to deflation in non-food prices (both fuel and non-fuel) more than offset the increase in foodstuffs and feedstuffs. To highlight, the prices of crude materials have been on a decline nearly a year since Aug-22. Meanwhile, prices for intermediate materials, supplies & components also declined further for 3-consecutive months at -2.8%yoy, where the pace of decline was the sharpest since Mar-18. Prices for finished goods, on the other hand, rose faster by +3.3%yoy, attributable to the higher inflation in capital equipment prices for the non-manufacturing industries. Relative to May-23, PPI fell by -0.3%mom, mainly because of deflated prices in the primary sectors. The continued deflation in producers' prices was expected given the relatively lower commodity prices. Given the decline in production costs, this points to further moderation in CPI inflation in the coming months.

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Apr-23	May-23	Jun-23	Apr-23	May-23	Jun-23
PPI	0.2	(0.4)	(0.3)	(3.0)	(4.6)	(4.8)
Crude Materials	0.7	(0.9)	(0.8)	(17.6)	(20.1)	(18.7)
Foodstuffs	0.1	1.7	1.1	5.7	5.9	6.1
Non-food	0.8	(1.5)	(1.3)	(21.3)	(24.2)	(22.9)
Non-food ex fuel	1.1	(2.4)	(2.1)	(37.3)	(39.3)	(31.6)
Crude Fuel	0.7	(0.9)	(0.9)	(9.2)	(12.9)	(17.4)
Intermediate Materials	0.2	(0.4)	(0.6)	(0.1)	(1.6)	(2.8)
Manufactured Goods	0.7	0.0	(0.2)	(4.7)	(6.2)	(6.6)
Construction	1.2	1.1	0.3	4.4	4.6	4.8
Processed Fuel & Lubricants	(1.2)	(1.6)	(2.5)	3.1	0.6	(3.3)
Containers	0.4	(0.9)	0.3	(2.0)	(3.7)	(4.1)
Supplies	(0.1)	(0.4)	0.7	9.6	8.8	8.5
Finished Goods	(0.1)	(0.2)	0.9	3.5	3.0	3.3
Consumer Goods	0.4	(0.1)	0.3	2.8	2.0	2.0
Consumer Goods ex. Foods	0.6	(0.1)	0.2	1.9	1.3	1.2
Capital Equipment	(0.5)	(0.2)	1.3	4.1	3.8	4.4

Source: Macrobond, MIDFR

Mixed signals in global inflation data. The US consumer inflation accelerated to +3.2%yoy in Jul-23, slightly below market expectations (+3.3%yoy). This marks the first rise in the headline inflation after moderating steadily in the previous year. The higher inflation was attributable mainly to the slower fall in energy prices - 12.5%yoy (Jun-23: -16.7%yoy), registering deflation for 5-straight months. This was explained by the slower deflation in prices of fuel oil and gasoline which fell by -26.5%yoy (Jun-23: -36.6%yoy) and -19.9%yoy (Jun-23: -26.5%yoy) respectively. Core inflation eased to +4.7%yoy (Jun-23: +4.8%yoy), the slowest increase since Oct-21 and below market expectations (+4.8%yoy). As for Euro Area, headline inflation rate eased to +5.3%yoy in Jul-23), the lowest in 1.5-year. The moderation was mainly attributable to a further deflation in energy prices by -6.1%yoy, the steepest in 3-month sequence. Food inflation also registered the softest pace over a year at +11.6%yoy. However, core inflation remained unchanged from Jun-23's +5.5%yoy. Across the globe, China's consumer prices recorded the first deflation since Feb-21 as prices contracted by -0.3%yoy in Jul-23. The decline was dragged by deflation in food cost as it also marked a first drop by -1.7%yoy after 15-successive months of inflation. On the monthly basis, China's CPI registered inflation at +0.2%mom (Jun-23: -0.2%mom), missing the market forecast of -0.1%mom fall.

Table 4: Global Headline Inflation (YoY%)

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
Malaysia	3.7	3.7	3.4	3.3	2.8	2.4	2.0
Indonesia	5.3	5.5	5.0	4.3	4.0	3.5	3.1
Singapore	6.6	6.3	5.5	5.7	5.1	4.5	4.1
Thailand	5.0	3.8	2.8	2.7	0.5	0.2	0.4
Philippines	8.7	8.6	7.6	6.6	6.1	5.4	4.7
Taiwan	3.0	2.4	2.4	2.3	2.0	1.8	1.9
South Korea	5.2	4.8	4.2	3.7	3.3	2.7	2.3
China	2.1	1.0	0.7	0.1	0.2	0.0	(0.3)
Japan	4.3	3.3	3.2	3.5	3.2	3.3	3.3
Euro Area	8.6	8.5	6.9	7.0	6.1	5.5	5.3
US	6.4	6.0	5.0	4.9	4.1	3.0	3.2

Source: Macrobond, MIDFR


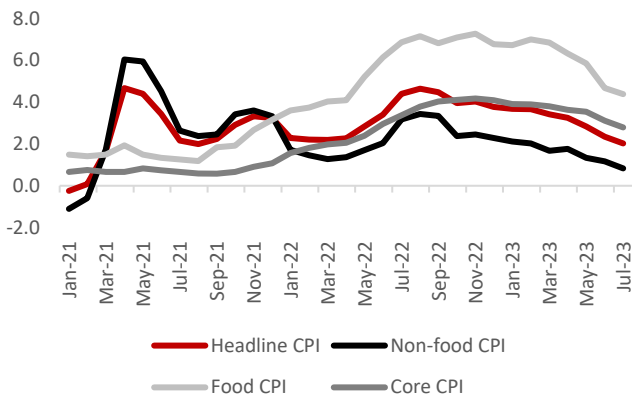
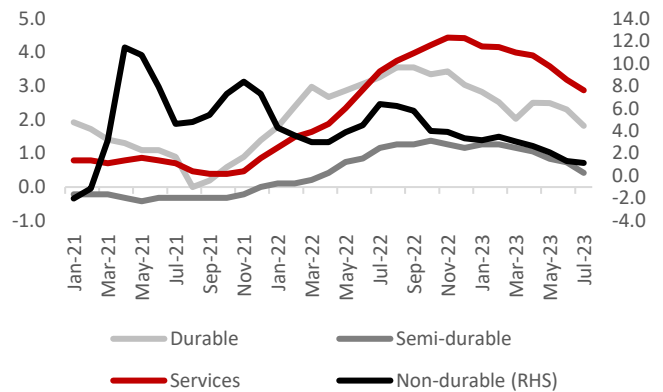
We keep our CPI forecast at +3.0% for 2023. As of 7MCY23, average food inflation registered at +6.0%yoy, much higher than previous year's +5.7%. We estimate food inflation to remain at range of +5.5~6.0% in 2HCY23 due to externally challenging environment especially for global agriculture output. Plus, 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% (7MCY23: +1.6%yoy). Considering both CPI components, we foresee Malaysia's headline inflation rate to average at +3.0% for 2023. 

Chart 1: Key CPI Data (YoY%)



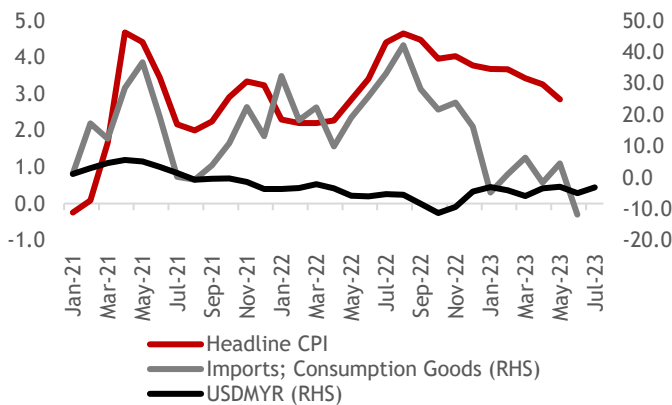
Source: Macrobond, MIDFR

Chart 2: CPI by Type (YoY%)



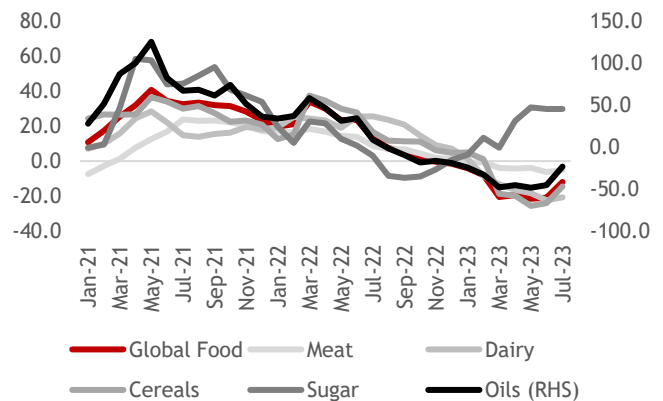
Source: Macrobond, MIDFR

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



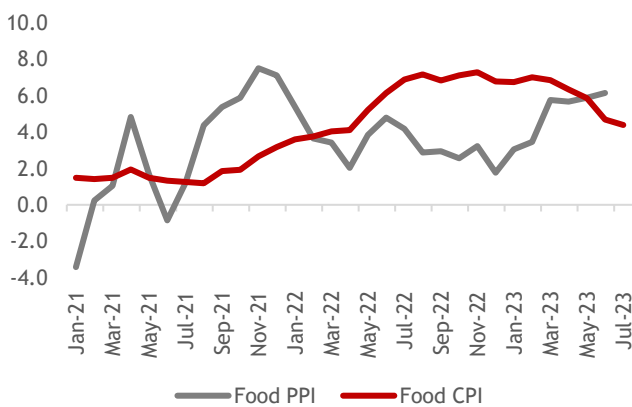
Source: Macrobond, MIDFR

Chart 4: Global Food Inflation (YoY%)



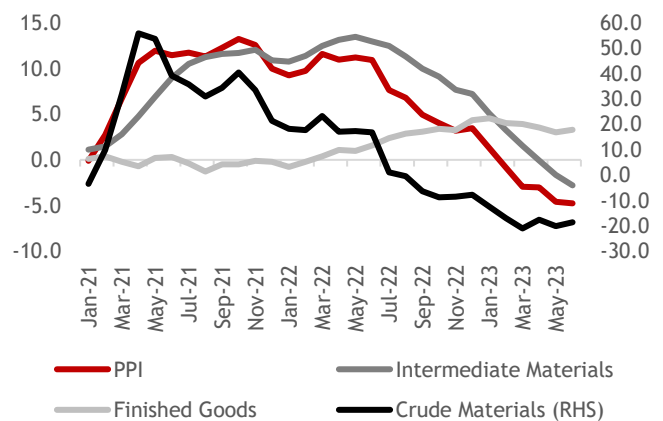
Source: FAO of UN, MIDFR

Chart 5: Food PPI vs. Food CPI (YoY%)



Source: Macrobond, MIDFR

Chart 6: PPI (YoY%)



Source: Macrobond, MIDFR

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