

ECONOMIC REVIEW | August 2023 Consumer Price Index**Overall Inflationary Pressure Remains Stable but Food Price Spike Remains as Downside Risk Factor for 2H23**

- *Headline inflation rate stabilized at +2.0%. Headline inflation rate maintained at +2.0%yoy in Aug-23, registering a 2-year low. The inflation rate matched with market consensus of +2.0%yoy. Non-food inflation rate inched up slightly to +1.0%yoy while food inflation softened to 16-month low at +4.1%yoy. The moderation of inflation among others was due to high base effects. Core inflation rate moderated below +3.0% level at +2.5%yoy but it was still above pre-pandemic average of +1.7%.*
- *Sarawak's housing & utilities' inflation hit new peak. Sarawak's overall inflation rate increased by +3.4%yoy in Aug-23, the highest in 3-month. Most notably, housing & utilities' inflation in the state surged to new high at +6.0%yoy. We believe this could be attributed by Sarawakku Sayang electricity bill subsidy which ended in Jun-23.*
- *We maintain our CPI forecast at +3.0% for 2023. As of 8MCY23, average food inflation registered at +5.7%yoy, equivalent to 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.*

Headline inflation rate stabilized at +2.0%. Headline inflation rate maintained at +2.0%yoy in Aug-23, registering a 2-year low. The inflation rate matched with market consensus of +2.0%yoy. Non-food inflation rate inched up slightly to +1.0%yoy while food inflation softened to 16-month low at +4.1%yoy. The moderation of inflation among others was due to high base effects. Core inflation rate moderated below +3.0% level at +2.5%yoy but it was still above pre-pandemic average of +1.7%. Average 8MCY23 headline inflation was +2.9% (2022: +3.4%) and core inflation rate was +3.4% (2022: +3.0%). On sequential month basis, headline and core inflation remained firm registering positive gains of +0.2%mom. 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 especially with shortages of supply may lead to potential spike in food prices.

Fuel price deflation for 6-straight months. Fuel price continued on contractionary for 6-consecutive months, -2.8%yoy in Aug-23. 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 +4.0%yoy, the slowest in 15-month.

Concerning global food inflation amid shortages and uptick in commodity prices. Global food inflation continued on deflationary mode registering -11.8%yoy in Aug-23, marking 10-straight months of contraction. On consequential month basis, the global food inflation declined by -2.1%mom. As of 8MCY23, the food price contracted by -15.1%yoy (2022: +14.3%). Among the components, meat inflation at -3.7%yoy (2022: +10.3%),

dairy inflation at -15.3%yoy (2022: +19.5%), cereals inflation at -14.5%yoy (2022: +17.9%), oils inflation at -37.7%yoy (2022: +13.9%) and sugar inflation at +21.5%yoy (2022: +4.7%). Following that, Malaysia's food inflation skidded lower at +4.1%yoy. Price growth of Food at Home receded to almost 2-year low at +2.9%yoy while Food Away from Home moderated to 15-month low at +5.9%yoy. Nevertheless, Malaysia is highly exposed to external factors and currency movements as a net importer of food country. As of 7MCY23, food imports to total imports ratio stood at 6.5%, slightly lower than peak 7.0% in 2020. On the flip side, food exports ratio is only 3.1%. We are in the view that food inflation to remain elevated levels in 2HCY23 following global supply shortages and gradual uptick in commodity prices.

Table 1: Consumer price index by component

Indices	MoM%			YoY%		
	Jun-23	Jul-23	Aug-23	Jun-23	Jul-23	Aug-23
CPI	0.2	0.1	0.2	2.4	2.0	2.0
Non-Food	0.2	(0.1)	0.3	1.2	0.8	1.0
Food and Non-Alcoholic Beverages	0.1	0.4	0.1	4.7	4.4	4.1
Alcoholic Beverages and Tobacco	0.0	0.0	0.0	0.6	0.5	0.5
Clothing and Footwear	(0.1)	0.1	(0.1)	0.1	0.1	0.0
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	0.5	1.8	1.7	1.8
Furnishings, Household Equipment and Maintenance	0.0	0.2	0.2	2.3	1.9	1.7
Health	0.2	0.2	0.5	2.0	2.0	2.4
Transport	0.2	0.1	0.0	0.0	(0.4)	0.0
Communication	0.1	(0.1)	0.0	(3.6)	(3.7)	(3.7)
Recreation and Culture	0.3	(0.3)	0.2	1.6	1.1	1.0
Education	0.1	0.2	0.2	1.9	2.0	2.1
Restaurants and Hotels	0.1	0.3	0.3	5.4	5.0	4.7
Miscellaneous Goods and Services	0.2	(0.1)	0.1	2.6	2.6	2.4
Core CPI	0.2	0.0	0.2	3.1	2.8	2.5

Source: DOSM, MIDFR

Sarawak's housing & utilities' inflation hit new peak. Sarawak's overall inflation rate increased by +3.4%yoy in Aug-23, the highest in 3-month. Most notably, housing & utilities' inflation in the state surged to new high at +6.0%yoy. We believe this could be attributed by Sarawakku Sayang electricity bill subsidy which ended in Jun-23. As for Peninsular Malaysia, headline inflation rate remained at close to 2-year low +2.0%yoy while Sabah's price growth moderated further to 16-month low at +1.8%yoy. The softening 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%		
	Jun-23	Jul-23	Aug-23	Jun-23	Jul-23	Aug-23

Peninsular Malaysia	0.2	0.1	0.2	2.3	2.0	2.0
Food & Non-Alcoholic Beverages	0.1	0.4	0.1	4.6	4.4	4.1
Housing & Utilities	0.0	0.0	0.2	1.7	1.7	1.4
Transport	0.2	0.1	0.0	0.1	(0.3)	0.1
Sabah	(0.1)	0.2	0.2	2.3	1.9	1.8
Food & Non-Alcoholic Beverages	(0.1)	0.4	0.3	4.2	3.0	2.9
Housing & Utilities	0.0	0.0	0.3	3.2	3.2	2.6
Transport	0.1	0.0	0.4	(1.6)	(1.8)	(0.9)
Sarawak	0.2	0.1	1.1	3.0	2.6	3.4
Food & Non-Alcoholic Beverages	0.3	0.2	0.1	6.4	5.5	5.0
Housing & Utilities	0.0	0.0	5.2	1.1	1.0	6.0
Transport	0.2	0.1	0.0	(0.3)	(0.6)	(0.2)

Source: DOSM, MIDFR

PPI remains on deflation mode for past 6-month. Malaysia's producers' prices deflated for 6-consecutive months declining by -2.3%yoy in Jul-23. The contraction continued as manufacturing input prices deflated by -2.1%yoy, the steepest in 3-month. Input inflation for the mining sector also contracted by -10.8%yoy (Jun-23: -16.6%yoy). Meanwhile, the production cost for agriculture, forestry & fishing rebounded by +3.6%yoy (Jun-23: -20.4%yoy). The electricity & gas prices rose at the softest pace in 3-month at +0.1%yoy while cost inflation for water supply eased to +3.1%yoy (Jun-23: +3.2%yoy). By the processing stage, prices for crude materials dropped by -6.3%yoy (Jun-23: -18.7%yoy), attributable to the decline in prices of non-food materials. Cost for intermediate materials, supplies & components declined by -3.3%yoy, the largest drop in 4-month. On the other hand, growth in prices for finished goods inched up by +3.4%yoy (Jun-23: +3.3%yoy). On a month-on-month basis, PPI rose +0.2%mom after -0.3%mom decline last month. The contractionary trend of the PPI indicated further moderation in overall inflationary pressure. However, it is worth to monitor the persistent increase in food price pressure. Even though overall PPI deflated, input inflation for Foodstuffs and Feedstuffs surged to 19-month high at +6.6%yoy in Jul-23. As of 7MCY23, the food PPI grew by +5.2% against overall 2022's +3.4%. We expect food inflation pressure to remain elevated in 2HCY23 as Malaysia being a net food importer to be affected negatively amid climate change impacts and external developments on food-export policies.

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	May-23	Jun-23	Jul-23	May-23	Jun-23	Jul-23
PPI	(0.4)	(0.3)	0.2	(4.6)	(4.8)	(2.3)
Crude Materials	(0.9)	(0.8)	1.9	(20.1)	(18.7)	(6.3)
Foodstuffs	1.7	1.1	(0.5)	5.9	6.1	6.6
Non-food	(1.5)	(1.3)	2.5	(24.2)	(22.9)	(8.7)
Non-food ex fuel	(2.4)	(2.1)	2.3	(39.3)	(31.6)	1.1
Crude Fuel	(0.9)	(0.9)	2.7	(12.9)	(17.4)	(13.1)
Intermediate Materials	(0.4)	(0.6)	(0.4)	(1.6)	(2.8)	(3.3)
Manufactured Goods	0.0	(0.2)	(0.5)	(6.2)	(6.6)	(6.2)

	MoM%			YoY%		
	May-23	Jun-23	Jul-23	May-23	Jun-23	Jul-23
Construction	1.1	0.3	0.3	4.6	4.8	5.4
Processed Fuel & Lubricants	(1.6)	(2.5)	(2.0)	0.6	(3.3)	(7.1)
Containers	(0.9)	0.3	(0.5)	(3.7)	(4.1)	(4.0)
Supplies	(0.4)	0.7	1.5	8.8	8.5	8.2
Finished Goods	(0.2)	0.9	0.1	3.0	3.3	3.4
Consumer Goods	(0.1)	0.3	(0.2)	2.0	2.0	1.7
Consumer Goods ex. Foods	(0.1)	0.2	(0.1)	1.3	1.2	0.9
Capital Equipment	(0.2)	1.3	0.2	3.8	4.4	4.7

Source: DOSM, MIDFR

Global headline inflation on the rise again. The US consumer headline inflation rate accelerated to the fastest in 3-month at +3.7%yoy in Aug-23, surpassing market expectations of +3.6%yoy. The quicker inflation was mainly underpinned by energy prices, which deflated at the softest pace in the 6-month contraction sequence at -3.6%yoy. Food prices grew by +4.3%yoy, the smallest gain in 2-year. Meanwhile, demand-driven inflation continued to ease as core inflation rate edged down to the slowest in almost 2-year at +4.3%yoy, just as the market expected. On a monthly basis, headline inflation rate was within market expectations at +0.6%mom (Jul-23: +0.2%mom) while core inflation rate was at +0.3%mom (Jul-23: +0.2%mom), slightly higher than market consensus of +0.2%mom. As for Euro Area, headline inflation rate eased to +5.2%yoy in Aug-23, the lowest since Jan-22. The moderation was mainly attributable to a further deflation in energy prices by -3.3%yoy. Across the globe, China's headline inflation rate improved by +0.1%yoy in Aug-23 (Market expectations: +0.2%yoy) after recording deflation rate in the previous month. Core inflation rate stayed at +0.8%yoy, the highest since Jan-23. On month-on-month, China's CPI improved by +0.3%mom (Jul-23: +0.2%mom), equivalent to the market forecast.

Table 4: Global Headline Inflation (YoY%)

	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23
Malaysia	3.7	3.4	3.3	2.8	2.4	2.0	2.0
Indonesia	5.5	5.0	4.3	4.0	3.5	3.1	3.3
Singapore	6.3	5.5	5.7	5.1	4.5	4.1	
Thailand	3.8	2.8	2.7	0.5	0.2	0.4	0.9
Philippines	8.6	7.6	6.6	6.1	5.4	4.7	5.3
Taiwan	2.4	2.4	2.3	2.0	1.8	1.9	2.5
South Korea	4.8	4.2	3.7	3.3	2.7	2.3	3.4
China	1.0	0.7	0.1	0.2	0.0	(0.3)	0.1
Japan	3.3	3.2	3.5	3.2	3.3	3.3	3.2
Euro Area	8.5	6.9	7.0	6.1	5.5	5.3	5.2
US	6.0	5.0	4.9	4.1	3.0	3.2	3.7

Source: Macrobond, MIDFR


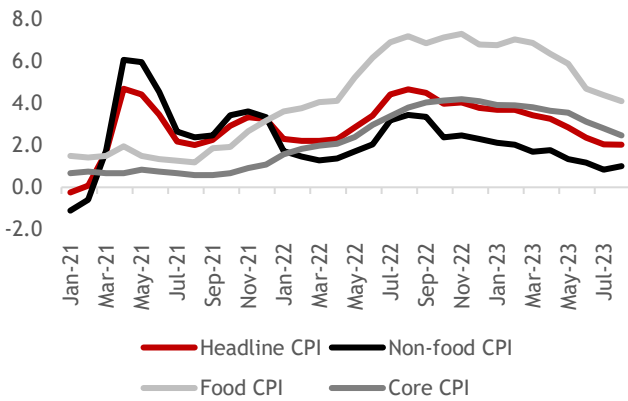
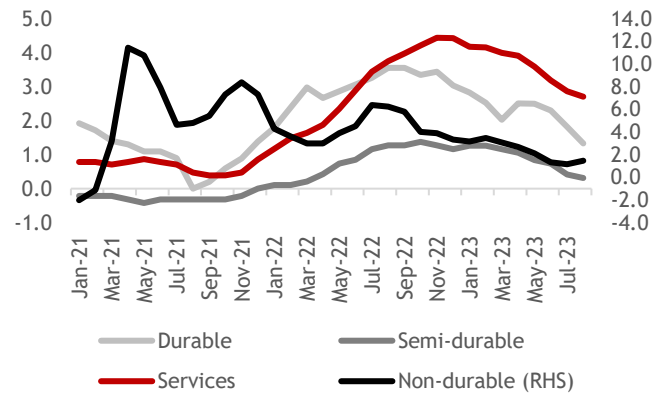
We maintain our CPI forecast at +3.0% for 2023. As of 8MCY23, average food inflation registered at +5.7%yoy, equivalent to previous year's +5.7%. We estimate food inflation to remain at range of +5.5~6.0% in 2HCY23 due to externally challenging environment especially for global agriculture output. Plus, 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% (8MCY23: +1.5%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%)



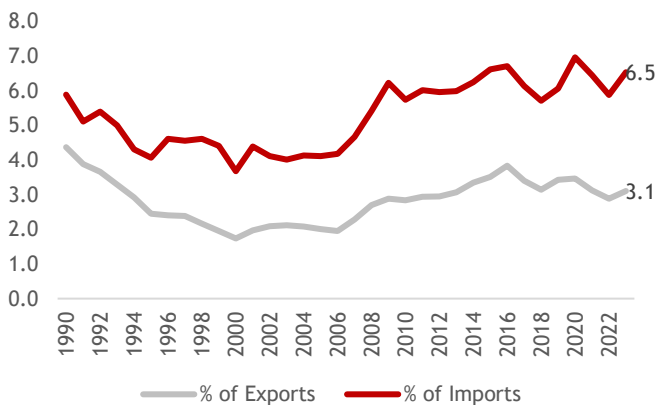
Source: Macrobond, MIDFR

Chart 2: CPI by Type (YoY%)



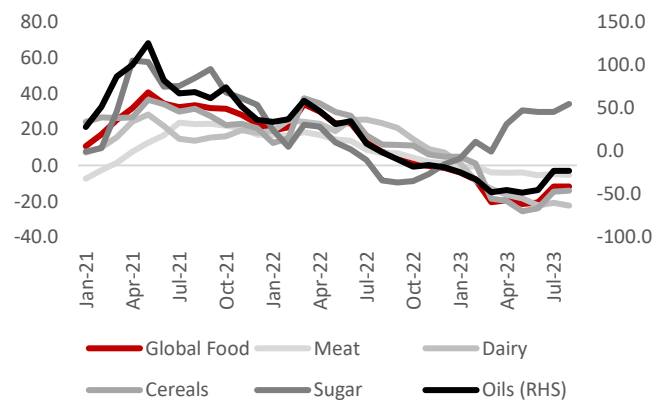
Source: Macrobond, MIDFR

Chart 3: Food Exports & Imports (% of Ex. Trade)



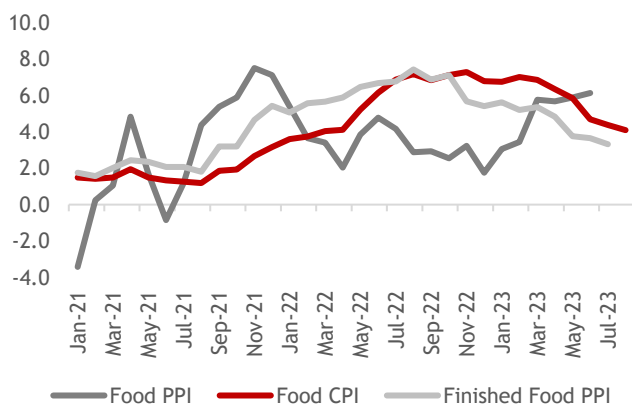
Source: Macrobond, MIDFR

Chart 4: Global Food Inflation (YoY%)



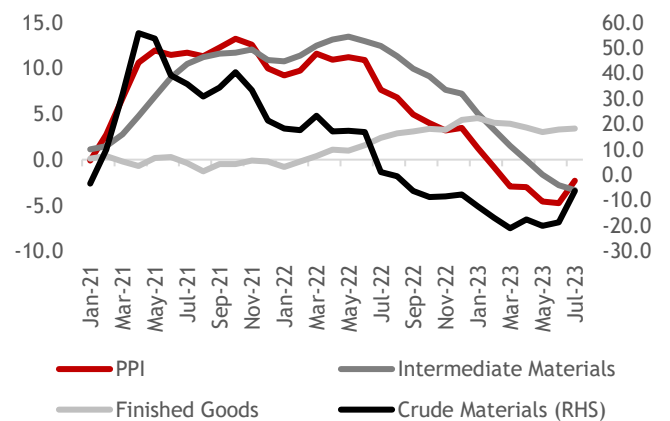
Source: FAO of UN, MIDFR

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



Source: Macrobond, MIDFR

Chart 6: PPI (YoY%)



Source: Macrobond, MIDFR

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