

ECONOMIC REVIEW | September 2023 Consumer Price Index**Softening Overall Inflationary Pressure yet Depreciated Ringgit Remain as Downside Risk Factors for Domestic Food Prices**

- *Headline inflation rate descended below +2.0% after 30-month. Headline inflation rate registered at +1.9%yoy in Sep-23, the lowest since Mar-21. The inflation rate was below market consensus of +2.2%yoy. Non-food inflation rate skidded to +0.9%yoy while food inflation rate moderated to 19-month low at +3.9%yoy. Core inflation rate maintained at +2.5%yoy yet still above pre-pandemic average of +1.7%.*
- *Malaysia's food inflation rate recorded lower at +3.9%yoy. Price growth of Food at Home receded to more than 2-year low at +2.5%yoy while Food Away from Home stayed at 15-month low +5.9%yoy. Nevertheless, Malaysia is highly exposed to external factors and currency movements as a net importer of food country.*
- *We keep our CPI forecast at +3.0% for 2023. As of 9M CY23, average food inflation registered at +5.5%yoy, equivalent to previous year's +5.7%. We estimate food inflation to remain at range of +5.5~6.0% in 2H CY23 due to externally challenging environment especially for global agriculture output. Non-food inflation is expected to average at +1.5% (9M CY23: +1.4%yoy). Considering both CPI components, we foresee Malaysia's headline inflation rate to average at +3.0% for 2023.*

Headline inflation rate descended below +2.0% after 30-month. Headline inflation rate registered at +1.9%yoy in Sep-23, the lowest since Mar-21. The inflation rate was below market consensus of +2.2%yoy. Non-food inflation rate skidded to +0.9%yoy while food inflation rate moderated to 19-month low at +3.9%yoy. The softening inflationary pressure among others was due to high base effects. Core inflation rate maintained at +2.5%yoy yet still above pre-pandemic average of +1.7%. Average 9M CY23 headline inflation was +2.8% (2022: +3.4%) and core inflation rate was +3.3% (2022: +3.0%). On sequential month basis, headline and core inflation remained firm registering positive gains of +0.1%mom and +0.3%mom respectively. The softening inflationary pressure is a positive signal especially for domestic demand to stay on expansionary path in 2H CY23. However, recent uptick in global energy prices and further depreciation of ringgit are among downside risk factors especially in pressuring domestic food inflation rate.

Fuel price deflation for 7-straight months. Fuel price continued on contractionary for 7-consecutive months, -2.1%yoy in Sep-23. However, the contraction rate was the smallest in 5-month period. This was in tandem with the normalization of commodity prices and high base effects. The fuel inflation rate to remain in contractionary until year-end since the government is expected to keep the current fuel subsidy mechanism status quo. Also, non-fuel inflation rate softened to +2.6%yoy, the slowest in 16-month.

Global sugar inflation surged to 2-year high. Global food inflation continued on deflationary mode registering -10.7%yoy in Sep-23, marking 11-straight months of contraction. On consequential month basis, the global food inflation declined by -0.1%mom. As of 9M CY23, the food price contracted by -14.6%yoy (2022:

+14.3%). However, global sugar price jumped by +48.4%yoy (+9.8%mom), the highest since Sep-21. Other components such as meat inflation rate fell by -5.0%yoy (9-straight months of contraction), dairy inflation by -23.9%yoy (8-straight months of contraction), cereals inflation by -14.6%yoy (7-straight months of contraction) and oils inflation by -20.8%yoy (14-straight months of contraction). Following that, Malaysia's food inflation rate recorded lower at +3.9%yoy. Price growth of Food at Home receded to more than 2-year low at +2.5%yoy while Food Away from Home stayed at 15-month low +5.9%yoy. Nevertheless, Malaysia is highly exposed to external factors and currency movements as a net importer of food country. As of 8MCY23, 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 3.2%. 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%		
	Jul-23	Aug-23	Sep-23	Jul-23	Aug-23	Sep-23
CPI	0.1	0.2	0.1	2.0	2.0	1.9
Non-Food	(0.1)	0.3	(0.1)	0.8	1.0	0.9
Food and Non-Alcoholic Beverages	0.4	0.1	0.1	4.4	4.1	3.9
Alcoholic Beverages and Tobacco	0.0	0.0	0.4	0.5	0.5	0.7
Clothing and Footwear	0.1	(0.1)	0.1	0.1	0.0	0.1
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.3	0.0	1.7	1.6	1.6
Furnishings, Household Equipment and Maintenance	0.2	0.2	0.0	1.9	1.7	1.5
Health	0.2	0.5	(0.1)	2.0	2.4	2.2
Transport	0.1	0.0	0.0	(0.4)	0.0	(0.1)
Communication	(0.1)	0.0	0.0	(3.7)	(3.7)	(3.7)
Recreation and Culture	(0.3)	0.2	(0.1)	1.1	1.0	0.6
Education	0.2	0.2	0.0	2.0	2.1	2.0
Restaurants and Hotels	0.3	0.3	0.1	5.0	4.7	4.4
Miscellaneous Goods and Services	(0.1)	0.1	0.2	2.6	2.4	2.5
Core CPI	0.0	0.2	0.3	2.8	2.5	2.5

Source: DOSM, MIDFR

Sarawak's inflation rate at 3-month high. Sarawak's overall inflation rate increased by +2.7%yoy in Sep-23, the highest in 3-month. Most notably, housing & utilities' inflation in the state kept at more than 7-year high +2.5%yoy. We believe this could be attributed by Sarawakku Sayang electricity bill subsidy which ended in Jun-23. However, the recent announcement of extension of discounted electricity bills will stabilize the electricity price pressure in 4QCY23. As for Peninsular Malaysia, headline inflation rate skidded to more than 2-year low at +1.9%yoy while Sabah's price growth stayed at 16-month low +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, normalization of global commodity prices and continuous fiscal price-support on selected key items.

Table 2: Inflation by state (YoY%)

	MoM%			YoY%		
	Jul-23	Aug-23	Sep-23	Jul-23	Aug-23	Sep-23
Peninsular Malaysia	0.1	0.2	0.0	2.0	2.0	1.9
Food & Non-Alcoholic Beverages	0.4	0.1	0.1	4.4	4.1	3.9
Housing & Utilities	0.0	0.2	0.0	1.7	1.4	1.4
Transport	0.1	0.0	0.0	(0.3)	0.1	(0.1)
Sabah	0.2	0.2	0.1	1.9	1.8	1.8
Food & Non-Alcoholic Beverages	0.4	0.3	0.3	3.0	2.9	3.0
Housing & Utilities	0.0	0.3	0.0	3.2	2.6	2.6
Transport	0.0	0.4	(0.1)	(1.8)	(0.9)	(0.9)
Sarawak	0.1	0.4	0.2	2.6	2.6	2.7
Food & Non-Alcoholic Beverages	0.2	0.1	0.5	5.5	5.0	5.2
Housing & Utilities	0.0	1.7	0.0	1.0	2.5	2.5
Transport	0.1	0.0	0.0	(0.6)	(0.2)	(0.2)

Source: DOSM, MIDFR

Malaysia's PPI still on deflation mode. Malaysia's producers' prices deflated for 7-straight months declining by -1.8%yoy in Aug-23. By the processing stage, prices for crude materials dropped by -2.4%yoy, the softest in a year. Crude fuel cost contracted further by -6.2%yoy while foodstuffs & feedstuffs inflation rate grew by +3.3%yoy. Cost for intermediate materials, supplies & components declined by -3.7%yoy, the largest drop in more than 7-year. On the other hand, growth in prices for finished goods increased slightly slower by +3.2%yoy. On a month-on-month basis, PPI rose by +0.3%mom as crude materials cost rose by +3.2%mom while intermediate materials deflated by -0.5%mom. 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 and uptick in global energy prices following geopolitical tensions. Even though overall PPI deflated, input inflation for Foodstuffs and Feedstuffs remained on growth momentum. As of 8MCY23, the food PPI grew by +5.0% 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%		
	Jun-23	Jul-23	Aug-23	Jun-23	Jul-23	Aug-23
PPI	(0.3)	0.2	0.3	(4.8)	(2.3)	(1.8)
Crude Materials	(0.8)	1.9	3.2	(18.7)	(6.3)	(2.4)
Foodstuffs	1.1	(0.5)	(3.0)	6.1	6.6	3.3
Non-food	(1.3)	2.5	4.6	(22.9)	(8.7)	(3.5)
Non-food ex fuel	(2.1)	2.3	4.9	(31.6)	1.1	2.1
Crude Fuel	(0.9)	2.7	4.2	(17.4)	(13.1)	(6.2)
Intermediate Materials	(0.6)	(0.4)	(0.5)	(2.8)	(3.3)	(3.7)
Manufactured Goods	(0.2)	(0.5)	(0.8)	(6.6)	(6.2)	(5.6)

	MoM%			YoY%		
	Jun-23	Jul-23	Aug-23	Jun-23	Jul-23	Aug-23
Construction	0.3	0.3	1.0	4.8	5.4	6.4
Processed Fuel & Lubricants	(2.5)	(2.0)	(2.0)	(3.3)	(7.1)	(10.2)
Containers	0.3	(0.5)	0.0	(4.1)	(4.0)	(4.2)
Supplies	0.7	1.5	1.5	8.5	8.2	7.5
Finished Goods	0.9	0.1	0.1	3.3	3.4	3.2
Consumer Goods	0.3	(0.2)	0.1	2.0	1.7	1.2
Consumer Goods ex. Foods	0.2	(0.1)	0.5	1.2	0.9	1.0
Capital Equipment	1.3	0.2	0.2	4.4	4.7	4.8

Source: DOSM, MIDFR

US inflation rate stayed at 3-month high. The US headline consumer inflation rate was unchanged at +3.7%yoy in Sep-23, slightly higher than market expectations +3.6%yoy. Energy prices registered the softest contraction in a 7-month sequence at -0.5%yoy as Brent crude oil prices returned to above USD90pb after 10-month. Meanwhile, food prices registered the softest growth over a 2-year period at +3.7%yoy. Housing inflation rate remained sticky, moderating slightly to +5.6%yoy (Aug-23: +5.7%yoy) as rental rate remained elevated at +7.2%yoy (Aug-23: +7.3%yoy), averaging at +7.9% for 9MCY23 against +5.5% in 9MCY22. On the other hand, core inflation softened to a 2-year low of +4.1%yoy, which was in tandem within market expectations. On a month-on-month basis, headline inflation rate moderated to +0.4%mom (Aug-23: +0.6%mom) but was above market expectations of +0.3%mom. Core inflation rate +0.3%mom, similar to previous month's pace and in line with market consensus. As for Euro Area, headline inflation rate eased to +4.3%yoy, the lowest since Oct-21. Across the globe, China's headline inflation rate unchanged, missed market estimates of +0.2%yoy. Core inflation rate maintained at +0.8%yoy, the highest since Jan-23.

Table 4: Global Headline Inflation (YoY%)

	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23
Malaysia	3.4	3.3	2.8	2.4	2.0	2.0	1.9
Indonesia	5.0	4.3	4.0	3.5	3.1	3.3	2.3
Singapore	5.5	5.7	5.1	4.5	4.1	4.0	
Thailand	2.8	2.7	0.5	0.2	0.4	0.9	0.3
Philippines	7.6	6.6	6.1	5.4	4.7	5.3	6.1
Taiwan	2.4	2.3	2.0	1.8	1.9	2.5	2.9
South Korea	4.2	3.7	3.3	2.7	2.3	3.4	3.7
China	0.7	0.1	0.2	0.0	(0.3)	0.1	0.0
Japan	3.2	3.5	3.2	3.3	3.3	3.2	
Euro Area	6.9	7.0	6.1	5.5	5.3	5.2	4.3
USA	5.0	4.9	4.1	3.0	3.2	3.7	3.7

Source: Macrobond, MIDFR


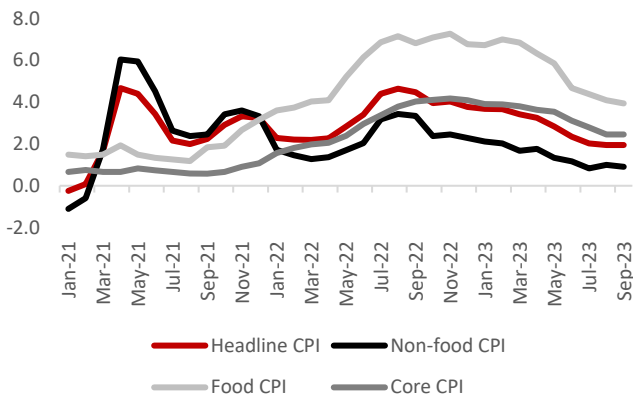
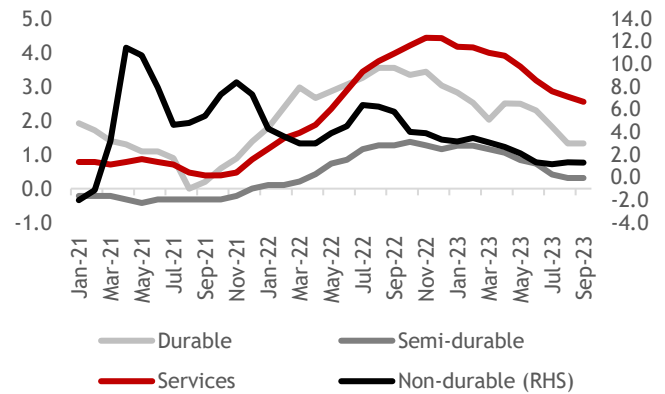
We keep our CPI forecast at +3.0% for 2023. As of 9MCY23, average food inflation registered at +5.5%yoy, equivalent to previous year's +5.7%. We estimate food inflation to remain at range of +5.5~6.0% in 2HCY23 due to externally challenging environment especially for global agriculture output. Plus, prolonged 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% (9MCY23: +1.4%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%)



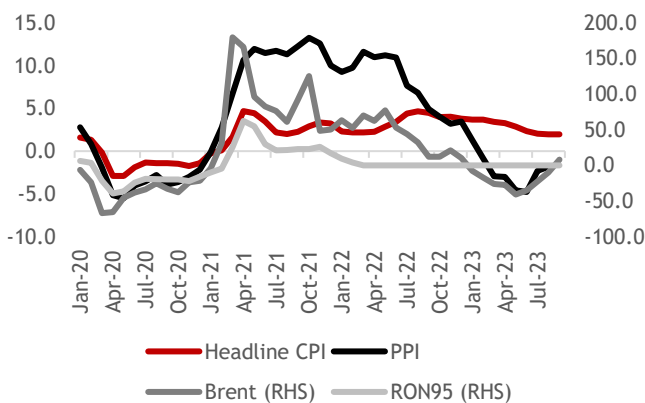
Source: Macrobond, MIDFR

Chart 2: CPI by Type (YoY%)



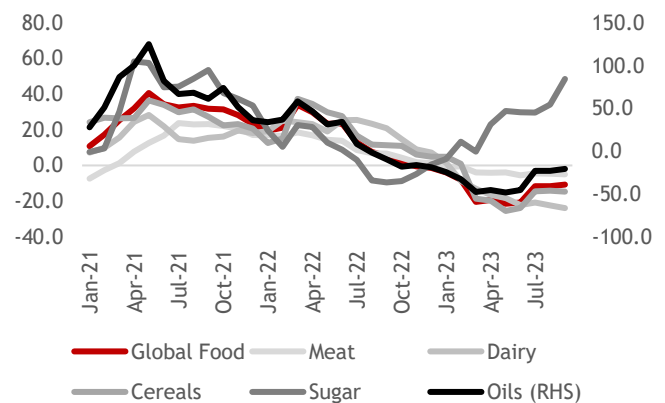
Source: Macrobond, MIDFR

Chart 3: CPI, PPI vs. Fuel Prices (YoY%)



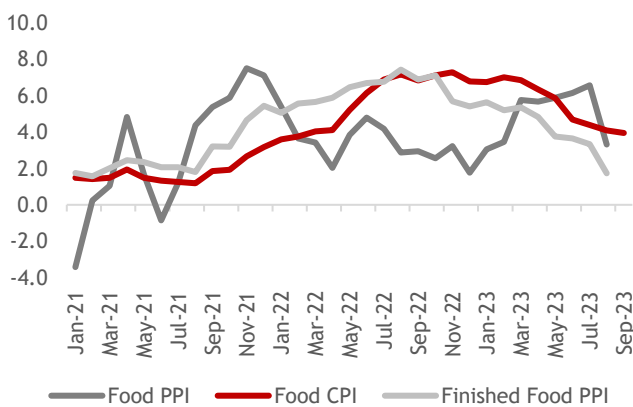
Source: Macrobond, MIDFR

Chart 4: Global Food Inflation (YoY%)



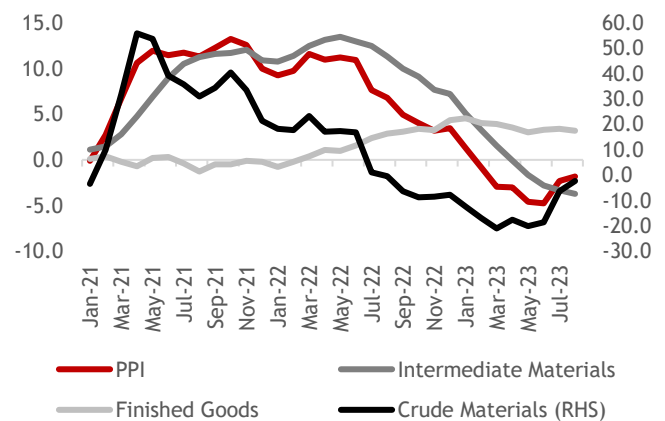
Source: FAO of UN, MIDFR

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



Source: Macrobond, MIDFR

Chart 6: PPI (YoY%)



Source: Macrobond, MIDFR

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