

## ECONOMIC REVIEW | October 2023 Consumer Price Index

# Supportive Conditions for Consumer Demand as Overall Inflation Rate Stayed Below +2% Level

- *Headline inflation rate close to 3-year low. Headline inflation rate registered at +1.8%yoy in Oct-23, the lowest since Mar-21. The inflation rate was below market consensus of +1.9%yoy. Core inflation rate recorded lower at +2.4%yoy yet still above pre-pandemic average of +1.7%. Average 10MCY23 headline inflation was +2.7% (2022: +3.4%) and core inflation rate was +3.2% (2022: +3.0%). The softening inflationary pressure is a positive signal especially for domestic demand to stay on expansionary path in 4QCY23 onwards.*
- *Global food inflation continued on moderation. Global food inflation continued on deflationary mode registering -10.9%yoy in Oct-23, marking 12-straight months of contraction. On consequential month basis, the global food inflation declined by -0.5%mom (Sep-23: -0.2%mom). As of 10MCY23, the food price contracted by -14.3%yoy (2022: +14.3%). Malaysia's food inflation rate recorded lower at +3.6%yoy. Price growth of Food at Home receded to more than 2-year low at +2.1%yoy while Food Away from Home stayed at 17-month low +5.6%yoy.*
- *We expect headline inflation to average at +2.7% for 2023. As of 10MCY23, average food inflation registered at +5.3%yoy, equivalent to previous year's +5.7%. The moderation of food inflation rate was faster than our expectations, hence we foresee overall price growth to average at +2.7% for this year. Non-food inflation is expected to average at +1.5%.*

**Headline inflation rate close to 3-year low.** Headline inflation rate registered at +1.8%yoy in Oct-23, the lowest since Mar-21. The inflation rate was below market consensus of +1.9%yoy. Non-food inflation rate maintained at +0.9%yoy while food inflation rate moderated to almost 2-year low at +3.6%yoy. The softening inflationary pressure among others was due to high base effects and normalisation of global commodity prices. Core inflation rate recorded lower at +2.4%yoy yet still above pre-pandemic average of +1.7%. Average 10MCY23 headline inflation was +2.7% (2022: +3.4%) and core inflation rate was +3.2% (2022: +3.0%). The softening inflationary pressure is a positive signal especially for domestic demand to stay on expansionary path in 4QCY23 onwards.

**Fuel price deflation for 8-straight months.** Fuel price continued on contractionary for 8-consecutive months, -1.4%yoy in Oct-23. However, the contraction rate was the smallest in 6-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. Based Brent crude oil price in Oct-23, the estimated actual RON95 was RM3.33 per liter. If the government were to roll-out the fuel-targeted subsidy mechanism in May-24, we anticipate the RON95 will a managed-float price at range of RM2.30~2.50 per liter rather free-float price.

**Global food inflation continued on moderation.** Global food inflation continued on deflationary mode registering -10.9%yoy in Oct-23, marking 12-straight months of contraction. On consequential month basis, the global food inflation declined by -0.5%mom (Sep-23: -0.2%mom). As of 10MCY23, the food price contracted by -14.3%yoy (2022: +14.3%). However, global sugar price jumped by +46.6%yoy, marking 7-straight months of double-digit expansion rate. Other components such as meat inflation rate fell by -3.4%yoy (10-straight months of contraction), dairy inflation by -20.1%yoy (9-straight months of contraction), cereals inflation by -17.9%yoy (8-straight months of contraction) and oils inflation by -20.7%yoy (15-straight months of contraction). Following that, Malaysia's food inflation rate recorded lower at +3.6%yoy. Price growth of Food at Home receded to more than 2-year low at +2.1%yoy while Food Away from Home stayed at 17-month low +5.6%yoy. Nevertheless, Malaysia is highly exposed to external factors and currency movements as a net importer of food country. As of 9MCY23, 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%.

**Table 1: Consumer price index by component**

Indices	MoM%			YoY%		
	Aug-23	Sep-23	Oct-23	Aug-23	Sep-23	Oct-23
<b>CPI</b>	0.2	0.1	0.1	2.0	1.9	1.8
Non-Food	0.3	(0.1)	0.1	1.0	0.9	0.9
Food and Non-Alcoholic Beverages	0.1	0.1	0.1	4.1	3.9	3.6
Alcoholic Beverages and Tobacco	0.0	0.4	0.0	0.5	0.7	0.6
Clothing and Footwear	(0.1)	0.1	(0.1)	0.0	0.1	0.0
Housing, Water, Electricity, Gas & Other Fuels	0.3	0.0	0.0	1.6	1.6	1.6
Furnishings, Household Equipment and Maintenance	0.2	0.0	0.1	1.7	1.5	1.4
Health	0.5	(0.1)	0.2	2.4	2.2	2.4
Transport	0.0	0.0	0.2	0.0	(0.1)	0.0
Communication	0.0	0.0	0.0	(3.7)	(3.7)	(3.7)
Recreation and Culture	0.2	(0.1)	0.0	1.0	0.6	0.7
Education	0.2	0.0	0.2	2.1	2.0	2.1
Restaurants and Hotels	0.3	0.1	0.5	4.7	4.4	4.6
Miscellaneous Goods and Services	0.1	0.2	0.0	2.4	2.5	2.3
<b>Core CPI</b>	0.2	0.3	0.0	2.5	2.5	2.4

Source: DOSM, MIDFR

**Softening inflation pressures across all states.** Sarawak's overall inflation rate moderated to +2.5%yoy in Oct-23, the lowest in 17-month. Sarawak's housing & utilities' inflation remained at more than 7-year high +2.5%yoy partly due to 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 softened to +1.7%yoy (32-month low) while Sabah's price growth stayed at 18-month low +1.7%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%		
	Aug-23	Sep-23	Oct-23	Aug-23	Sep-23	Oct-23
<b>Peninsular Malaysia</b>	<b>0.2</b>	<b>0.0</b>	<b>0.1</b>	<b>2.0</b>	<b>1.9</b>	<b>1.7</b>
Food & Non-Alcoholic Beverages	0.1	0.1	0.1	4.1	3.9	3.5
Housing & Utilities	0.2	0.0	0.0	1.4	1.4	1.4
Transport	0.0	0.0	0.2	0.1	(0.1)	0.0
<b>Sabah</b>	<b>0.2</b>	<b>0.1</b>	<b>0.0</b>	<b>1.8</b>	<b>1.8</b>	<b>1.7</b>
Food & Non-Alcoholic Beverages	0.3	0.3	0.0	2.9	3.0	2.4
Housing & Utilities	0.3	0.0	0.0	2.6	2.6	2.6
Transport	0.4	(0.1)	0.2	(0.9)	(0.9)	(0.5)
<b>Sarawak</b>	<b>0.4</b>	<b>0.2</b>	<b>0.1</b>	<b>2.6</b>	<b>2.7</b>	<b>2.5</b>
Food & Non-Alcoholic Beverages	0.1	0.5	0.3	5.0	5.2	4.8
Housing & Utilities	1.7	0.0	0.0	2.5	2.5	2.5
Transport	0.0	0.0	0.1	(0.2)	(0.2)	(0.1)

Source: DOSM, MIDFR

**Malaysia's PPI returned to inflation mode after 7-straight months of contraction.** Malaysia's producer prices registered the first inflation in 8-month, rising by +0.2%yoy in Sep-23. The increase was underpinned by PPI inflation in the mining sector, which rose by +6.9%yoy (Aug-23: -3.8%yoy). Similarly, production cost for agriculture, forestry & fishing also pivoted to inflation rate at +3.2%yoy (Aug-23: -1.0%yoy) and electricity, gas & water supply at +0.5%yoy (Aug-23: -0.1%yoy). In contrast, input inflation for the manufacturing sector continued to decline by -0.8%yoy (Aug-23: -2.3%yoy), yet the slowest decline in 5-month. By the stage of production, production costs for crude materials ended a deflationary run which started since Aug-22, recorded +5.4%yoy. Prices of intermediate goods deflated further for 6-month in a row yet at a slower pace of -2.7%yoy (Aug-23: -3.7%yoy). Cost of production for finished goods continued to increase by +3.1%yoy. Against the previous month, overall producers' inflation accelerated by +0.9%mom. Moving forward, we foresee pressures on local producers to increase selling prices is limited given that the PPI inflation still remained below CPI inflation (Sep-23: +1.9%yoy). However, we expect elevated commodity prices will continue to influence cost pressures in the primary sectors and prices of crude materials. Moreover, we opine that the effects from weak ringgit and inflation in global food prices would also lead to stronger imported inflation in the coming months.

**Table 3: Producer Price Indices by Stage of Processing**

	MoM%			YoY%		
	Jul-23	Aug-23	Sep-23	Jul-23	Aug-23	Sep-23
<b>PPI</b>	0.2	0.0	0.9	(2.3)	(2.2)	0.2
<b>Crude Materials</b>	1.9	1.5	3.9	(6.3)	(4.0)	5.4
Foodstuffs	(0.5)	(3.0)	0.2	6.6	3.3	3.0
Non-food	2.5	2.5	4.6	(8.7)	(5.4)	5.9

	MoM%			YoY%		
	Jul-23	Aug-23	Sep-23	Jul-23	Aug-23	Sep-23
Non-food ex fuel	2.3	(1.2)	(2.3)	1.1	(3.9)	3.0
Crude Fuel	2.7	4.2	8.2	(13.1)	(6.2)	7.3
<b>Intermediate Materials</b>	(0.4)	(0.5)	0.2	(3.3)	(3.7)	(2.7)
Manufactured Goods	(0.5)	(0.8)	(0.4)	(6.2)	(5.6)	(4.3)
Construction	0.3	1.0	0.7	5.4	6.4	7.2
Processed Fuel & Lubricants	(2.0)	(2.0)	2.6	(7.1)	(10.2)	(8.2)
Containers	(0.5)	0.0	1.0	(4.0)	(4.2)	(2.9)
Supplies	1.5	1.5	(0.4)	8.2	7.5	6.4
<b>Finished Goods</b>	0.1	0.1	0.1	3.4	3.2	3.1
Consumer Goods	(0.2)	0.1	(0.2)	1.7	1.2	1.2
Consumer Goods ex. Foods	(0.1)	0.5	(0.2)	0.9	1.0	1.2
Capital Equipment	0.2	0.2	0.2	4.7	4.8	4.4

Source: DOSM, MIDFR

**Moderating inflationary pressure in developed markets.** The US consumer inflation rate moderated to +3.2%yoy in Oct-23 after remaining at +3.7%yoy for the past 2-consecutive months. The inflation rate was lower than market expectations of +3.3%yoy. The descent was mainly underpinned by a larger contraction in energy prices by -4.5%yoy, the steepest deflation rate in 3-month. Food inflation rate also receded to +3.3%yoy, the slowest pace since Jun-21. Core inflation rate registered at +4.0%yoy, the lowest in 2-year and below market expectations of +4.1%yoy. As of 10MCY23, average core inflation rate is +4.9% (2019 average: +2.2%). As for Euro Area, headline inflation rate eased to +2.9%yoy, the lowest since Jul-21. Across the globe, China's headline inflation fell by -0.2%yoy, missed market estimates of -0.1%yoy. Core inflation rate edged down to 4-month low at +0.6%yoy.

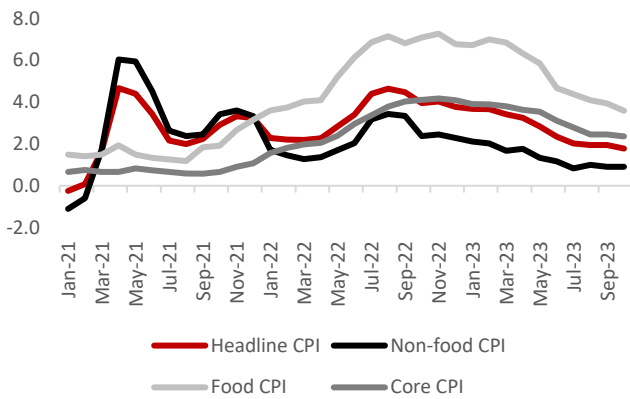
**Table 4: Global Headline Inflation (YoY%)**

	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
Malaysia	3.3	2.8	2.4	2.0	2.0	1.9	1.8
Indonesia	4.3	4.0	3.5	3.1	3.3	2.3	2.6
Singapore	5.7	5.1	4.5	4.1	4.0	4.1	4.7
Thailand	2.7	0.5	0.2	0.4	0.9	0.3	(0.3)
Philippines	6.6	6.1	5.4	4.7	5.3	6.1	4.9
Taiwan	2.3	2.0	1.8	1.9	2.5	2.9	3.0
South Korea	3.7	3.3	2.7	2.3	3.4	3.7	3.8
China	0.1	0.2	0.0	(0.3)	0.1	0.0	(0.2)
Japan	3.5	3.2	3.3	3.3	3.2	3.0	3.3
Euro Area	7.0	6.1	5.5	5.3	5.2	4.3	2.9
US	4.9	4.1	3.0	3.2	3.7	3.7	3.2

Source: Macrobond, MIDFR

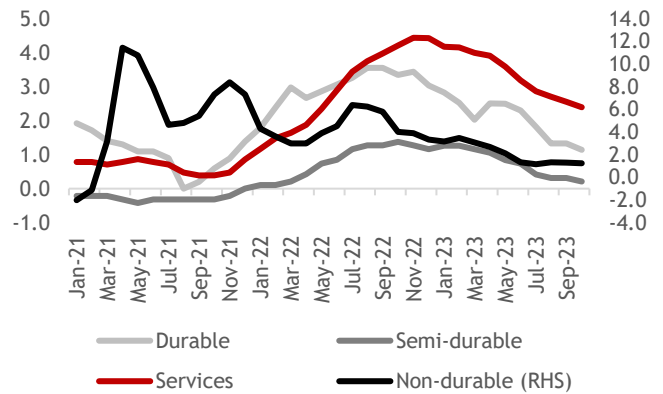
**We expect headline inflation to average at +2.7% for 2023.** As of 10MCY23, average food inflation registered at +5.3%yoy, equivalent to previous year's +5.7%. The moderation of food inflation rate was faster than our expectations, hence we foresee overall price growth to average at +2.7% for this year. Non-food inflation is expected to average at +1.5%. Looking ahead, we view Malaysia's inflation outlook to stay on upside despite of moderating food inflation pressure and stabilising global commodity prices. The changes of price control mechanism will determine the speed of inflation for 2024 onwards. 

**Chart 1: Key CPI Data (YoY%)**



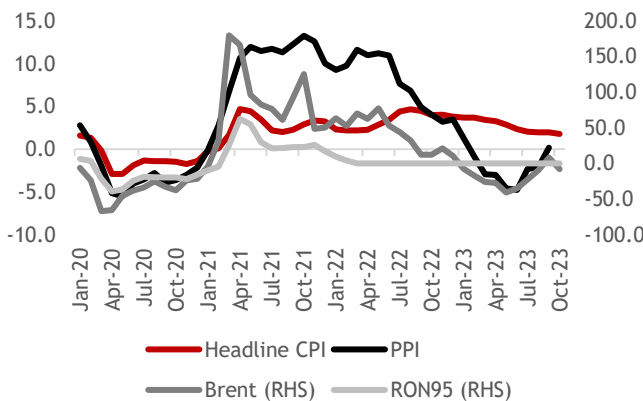
Source: Macrobond, MIDFR

**Chart 2: CPI by Type (YoY%)**



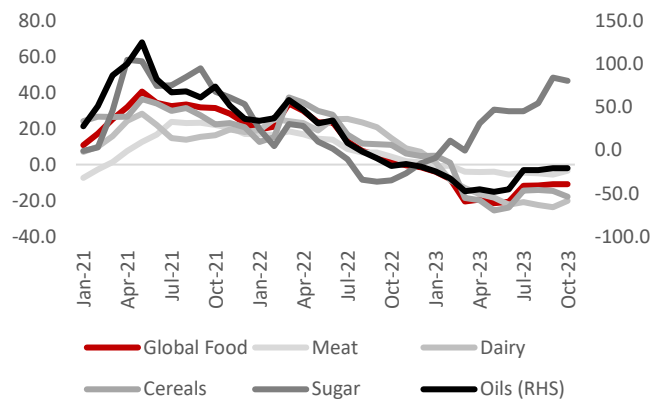
Source: Macrobond, MIDFR

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



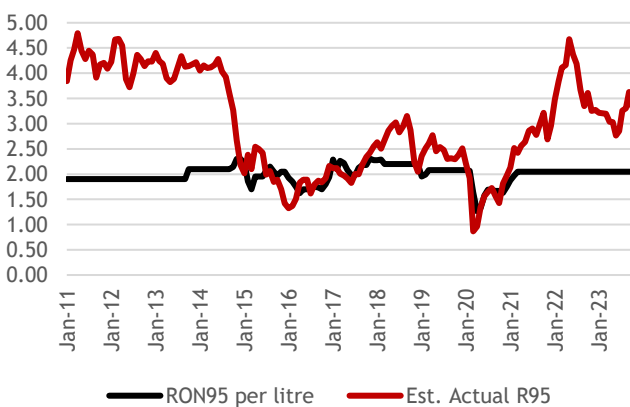
Source: Macrobond, MIDFR

**Chart 4: Global Food Inflation (YoY%)**



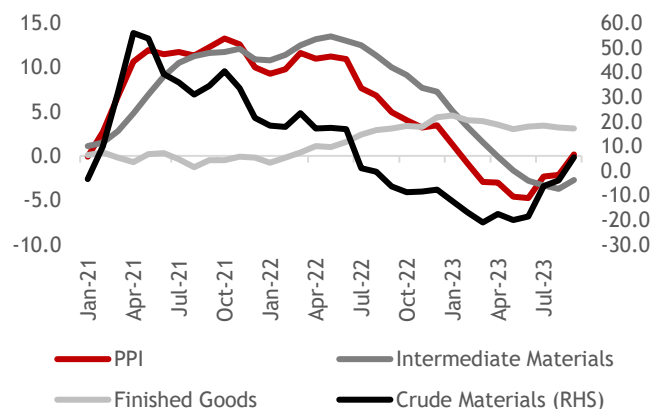
Source: FAO of UN, MIDFR

**Chart 5: Subsidized vs. Actual R95 Price (RM per litre)**



Source: Bloomberg, MIDFR

**Chart 6: PPI (YoY%)**



Source: Macrobond, MIDFR

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