

ECONOMIC REVIEW | November 2023 Consumer Price Index**Headline Inflation Rate Close to 3-Year Low amid Moderating Food & Non-Food Prices Growth**

- *Malaysia's headline inflation rate registered at +1.5%yoy in Nov-23, the lowest since Feb-21. The inflation rate was below consensus' expectations of +1.7%yoy. Non-food inflation rate maintained at +0.9%yoy while food inflation rate dived to 2-year low at +2.6%yoy. The softening inflationary pressure among others was due to high base effects, normalization of global commodity prices and supportive fiscal policies. Core inflation rate recorded lower at +2.0%yoy yet still above pre-pandemic average of +1.7%.*
- *Global food inflation continued on moderation. Global food inflation stayed on deflationary mode registering -10.7%yoy in Nov-23, marking 13-straight months of contraction. On consequential month basis, the global food inflation declined by -0.02%mom (Oct-23: -0.9%mom). As of 11MCY23, the food price contracted by -14.0%yoy (2022: +14.3%). Following that, Malaysia's food inflation rate recorded lower at +2.6%yoy. Price growth of Food at Home receded to more than 2-year low at +1.4%yoy while Food Away from Home stayed at 21-month low +3.9%yoy.*
- *Moving into 2024, overall inflation rate is predicted to trade higher at +3.2% as the fuel-targeted subsidy to be rolled-out as early as May-24. In our opinion, the government may introduce a managed-float price mechanism for RON95 at RM2.25-2.35 per litre and provide cash-handouts to those eligible as guided by the PADU database. Thus, non-food inflation is set to rise by +2.5% while better domestic supply and normalized global commodity prices shall push food inflation rate lower at +4.5% in 2024.*

Overall inflation rate dipped close to 3-year low. Malaysia's headline inflation rate registered at +1.5%yoy in Nov-23, the lowest since Feb-21. The inflation rate was below consensus' expectations of +1.7%yoy. Non-food inflation rate maintained at +0.9%yoy while food inflation rate dived to 2-year low at +2.6%yoy. The softening inflationary pressure among others was due to high base effects, normalisation of global commodity prices and supportive fiscal policies. Core inflation rate recorded lower at +2.0%yoy yet still above pre-pandemic average of +1.7%. Average 11MCY23 headline inflation was +2.6% (2022: +3.4%) and core inflation rate was +3.1% (2022: +3.0%). The softening inflationary pressure is a positive signal especially for domestic demand to stay on expansionary path in 4QCY23 onwards. Also the moderating trend of core CPI provides more reason for BNM to keep its OPR status quo in 2024.

Fuel price deflation for 9-consecutive months. Fuel inflation rate recorded at -1.3%yoy in Nov-23. However, the contraction rate was the smallest in 7-month. 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 Nov-23, the estimated actual RON95 was RM3.15 per liter. If the government were to roll-out the fuel-targeted subsidy mechanism in Jun-24, we opine that the RON95 will be a managed-float, priced at a range of RM2.30~2.50 per liter rather free-float price.

Global food inflation continued on moderation. Global food inflation stayed on deflationary mode registering -10.7%yoy in Nov-23, marking 13-straight months of contraction. On consequential month basis, the global food inflation declined by -0.02%mom (Oct-23: -0.9%mom). As of 11MCY23, the food price contracted by -14.0%yoy (2022: +14.3%). However, global sugar price jumped by +41.1%yoy, marking 8-straight months of double-digit expansion rate. Other components such as meat inflation rate fell by -2.4%yoy (11-straight months of contraction), dairy inflation by -16.9%yoy (10-straight months of contraction), cereals inflation by -19.4%yoy (9-straight months of contraction) and oils inflation by -19.8%yoy (16-straight months of contraction). Following that, Malaysia's food inflation rate recorded lower at +2.6%yoy. Price growth of Food at Home receded to more than 2-year low at +1.4%yoy while Food Away from Home stayed at 21-month low +3.9%yoy. Nevertheless, Malaysia is highly exposed to external factors and currency movements as a net importer of food country. As of 10MCY23, 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%		
	Sep-23	Oct-23	Nov-23	Sep-23	Oct-23	Nov-23
CPI	0.1	0.1	0.0	1.9	1.8	1.5
Non-Food	(0.1)	0.1	0.1	0.9	0.9	0.9
Food and Non-Alcoholic Beverages	0.1	0.1	(0.3)	3.9	3.6	2.6
Alcoholic Beverages and Tobacco	0.4	0.0	0.1	0.7	0.6	0.6
Clothing and Footwear	0.1	(0.1)	0.0	0.1	0.0	0.0
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	0.2	1.6	1.6	1.7
Furnishings, Household Equipment and Maintenance	0.0	0.1	0.1	1.5	1.4	1.4
Health	(0.1)	0.2	0.2	2.2	2.4	2.3
Transport	0.0	0.2	0.1	(0.1)	0.0	0.1
Communication	0.0	0.0	0.0	(3.7)	(3.7)	(3.7)
Recreation and Culture	(0.1)	0.0	0.1	0.6	0.7	0.6
Education	0.0	0.2	0.0	2.0	2.1	2.0
Restaurants and Hotels	0.1	0.5	0.1	4.4	4.6	4.3
Miscellaneous Goods and Services	0.2	0.0	0.4	2.5	2.3	2.3
Core CPI	0.3	0.0	0.0	2.5	2.4	2.0

Source: DOSM, MIDFR

Softening inflation pressures across all states. Sarawak's overall inflation rate moderated to +2.0%yoy in Nov-23, the lowest in 19-month. Sarawak's housing & utilities' inflation remained at more than 7-year high +3.0%yoy partly due to Sarawakku Sayang Special Assistance (BKSS) electricity bill subsidy which ended in Jun-23. However, electricity bills under the extended BKSS will get the adjustments in Nov-23. According to Sarawak's Utility and Telecommunication Minister, bill discounts for the months of July, August, September, and October will be deducted from the December bill. As for Peninsular Malaysia, headline inflation rate softened to +1.5%yoy

(33-month low) while Sabah's price growth stayed at 19-month low +1.4%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%		
	Sep-23	Oct-23	Nov-23	Sep-23	Oct-23	Nov-23
Peninsular Malaysia	0.0	0.1	0.1	1.9	1.7	1.5
Food & Non-Alcoholic Beverages	0.1	0.1	(0.3)	3.9	3.5	2.5
Housing & Utilities	0.0	0.0	0.3	1.4	1.4	1.5
Transport	0.0	0.2	0.0	(0.1)	0.0	0.1
Sabah	0.1	0.0	0.0	1.8	1.7	1.4
Food & Non-Alcoholic Beverages	0.3	0.0	(0.5)	3.0	2.4	1.5
Housing & Utilities	0.0	0.0	0.4	2.6	2.6	2.7
Transport	(0.1)	0.2	0.3	(0.9)	(0.5)	0.0
Sarawak	0.2	0.1	0.1	2.7	2.5	2.0
Food & Non-Alcoholic Beverages	0.5	0.3	(0.3)	5.2	4.8	3.6
Housing & Utilities	0.0	0.0	0.6	2.5	2.5	3.0
Transport	0.0	0.1	0.2	(0.2)	(0.1)	0.2

Source: DOSM, MIDFR

Malaysia's input inflation pressure remained low. Overall producer prices returned to deflation of -0.3%yoy in Oct-23 as the previous month registered the first inflation in 8-month, +0.2%yoy in Sep-23. The decline was underpinned by moderating PPI inflation of crude materials by +5.3%yoy (Sep-23: +5.4%yoy). Prices of intermediate goods deflated further for 7-month in a row, -3.0%yoy. Input inflation for finished goods softened to 16-month low at +2.2%yoy. Against the previous month, overall producers' prices fell by -0.3%mom while intermediate materials and finished goods costs dropped by -0.2%mom and -0.6%mom respectively. Prices of crude materials were unchanged in terms of month-on-month basis. As of 10MCY23, overall PPI fell by -2.0%yoy while input inflation for crude materials, intermediate materials and finished goods registered -11.4%yoy, -0.8%yoy and +3.4%yoy respectively. Moving forward, we foresee low inflationary pressure to persist at least until 1HCY24 amid better domestic supply chain, stabilisation of interest rate and normalisation of global commodity prices. The downside risks for Malaysia's PPI and CPI in 2024 are prolong weakness in ringgit and surge in petrol & diesel prices following subsidy rationalisation efforts. Also, global supply chain pressure may surge in 4QCY23 onwards following geopolitical tension in the Red Sea, bottleneck in Suez Canal and Panama Canal. For instance, Baltic Dry Index surged to 2-year high at 2,937 in Nov-23.

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Aug-23	Sep-23	Oct-23	Aug-23	Sep-23	Oct-23
PPI	0.0	0.9	(0.3)	(2.2)	0.2	(0.3)

	MoM%			YoY%		
	Aug-23	Sep-23	Oct-23	Aug-23	Sep-23	Oct-23
Crude Materials	1.5	3.9	0.0	(4.0)	5.4	5.3
Foodstuffs	(3.0)	0.2	0.5	3.3	3.0	3.8
Non-food	2.5	4.6	(0.1)	(5.4)	5.9	5.7
Non-food ex fuel	(1.2)	(2.3)	(2.6)	(3.9)	3.0	3.2
Crude Fuel	4.2	8.2	0.9	(6.2)	7.3	6.7
Intermediate Materials	(0.5)	0.2	(0.2)	(3.7)	(2.7)	(3.0)
Manufactured Goods	(0.8)	(0.4)	0.3	(5.6)	(4.3)	(2.7)
Construction	1.0	0.7	0.1	6.4	7.2	7.1
Processed Fuel & Lubricants	(2.0)	2.6	(2.5)	(10.2)	(8.2)	(13.2)
Containers	0.0	1.0	(2.0)	(4.2)	(2.9)	(3.9)
Supplies	1.5	(0.4)	0.9	7.5	6.4	6.7
Finished Goods	0.1	0.1	(0.6)	3.2	3.1	2.2
Consumer Goods	0.1	(0.2)	0.0	1.2	1.2	0.8
Consumer Goods ex. Foods	0.5	(0.2)	0.2	1.0	1.2	0.9
Capital Equipment	0.2	0.2	(1.0)	4.8	4.4	3.4

Source: DOSM, MIDFR

Softening inflationary pressure in major markets. The headline inflation rate of the US moderated to +3.1%yoy in Nov-23, the slowest price increase in 5-month. The easing price pressures was due to deflation in energy prices, which fell sharper by -5.4%yoy (Oct-23: -4.5%yoy); this marked 9-consecutive months of deflation and the steepest in 4-month attributable to lower prices of gasoline, gas and fuel oil. Meanwhile, food inflation rate eased to +2.9%yoy (Oct-23: +3.3%yoy), the lowest in almost 2.5-year. Excluding the volatile items, core inflation was unchanged from the previous month at +4.0%yoy, also conforming to market consensus. As for Euro Area, headline inflation rate eased to +2.4%yoy, the lowest since Jul-21. Across the globe, China's overall consumer price deflated for 2-straight months by -0.5%yoy in Nov-23. Core inflation rate edged down to 4-month low at +0.6%yoy.

Table 4: Global Headline Inflation (YoY%)

	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23
Malaysia	2.8	2.4	2.0	2.0	1.9	1.8	1.5
Indonesia	4.0	3.5	3.1	3.3	2.3	2.6	2.9
Singapore	5.1	4.5	4.1	4.0	4.1	4.7	
Thailand	0.5	0.2	0.4	0.9	0.3	(0.3)	(0.4)
Philippines	6.1	5.4	4.7	5.3	6.1	4.9	4.1
Taiwan	2.0	1.8	1.9	2.5	2.9	3.0	2.9
South Korea	3.3	2.7	2.3	3.4	3.7	3.8	3.3
China	0.2	0.0	(0.3)	0.1	0.0	(0.2)	(0.5)
Japan	3.2	3.3	3.3	3.2	3.0	3.3	2.8
Euro Area	6.1	5.5	5.3	5.2	4.3	2.9	2.4
US	4.1	3.0	3.2	3.7	3.7	3.2	3.1

Source: Macrobond, MIDFR


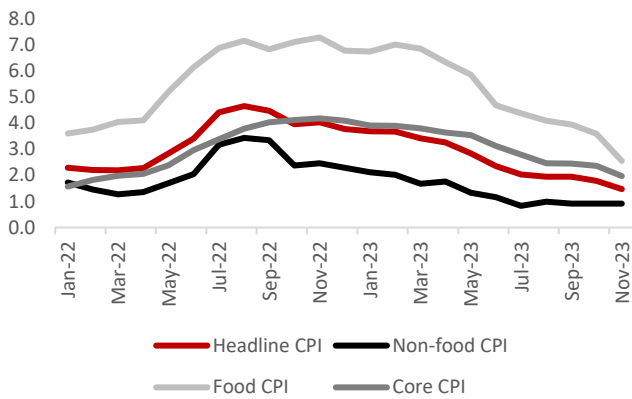
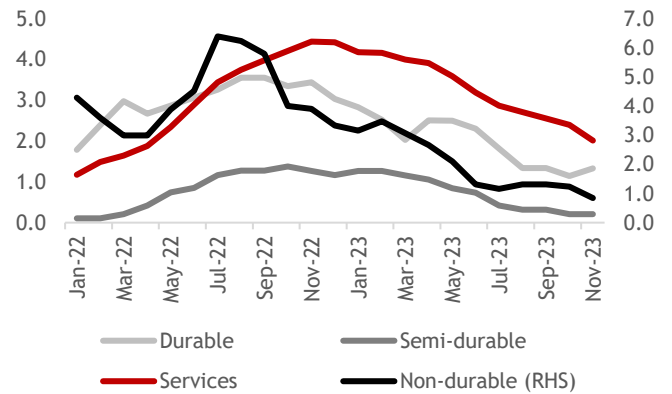
We forecast headline inflation rate at +3.2% for 2024. As of 11MCY23, average food inflation registered at +5.1%yoy, equivalent to previous year's +5.7%. The moderation of food inflation rate was faster than our expectations, hence we foresee overall price growth to average at +2.7% for this year. Non-food inflation is expected to average at +1.5%. Moving into 2024, overall inflation rate is predicted to trade higher at +3.2% as the fuel-targeted subsidy to be rolled-out as early as May-24. In our opinion, the government may introduce a managed-float price mechanism for RON95 at RM2.25-2.35 per litre and provide cash-handouts to those eligible as guided by the PADU database. Thus, non-food inflation is set to rise by +2.5% while better domestic supply and normalised global commodity prices shall push food inflation rate lower at +4.5% in 2024. 

Chart 1: Key CPI Data (YoY%)



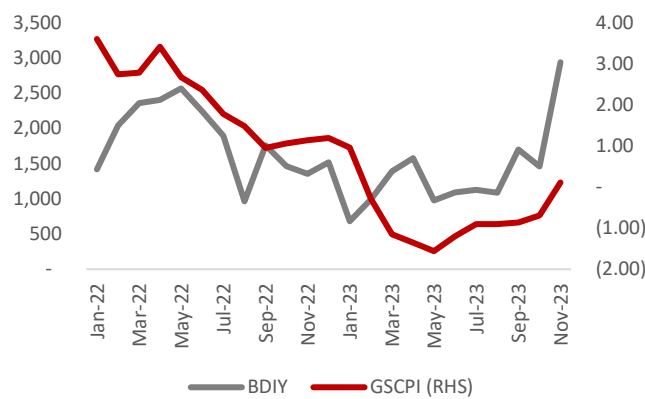
Source: Macrobond, MIDFR

Chart 2: CPI by Type (YoY%)



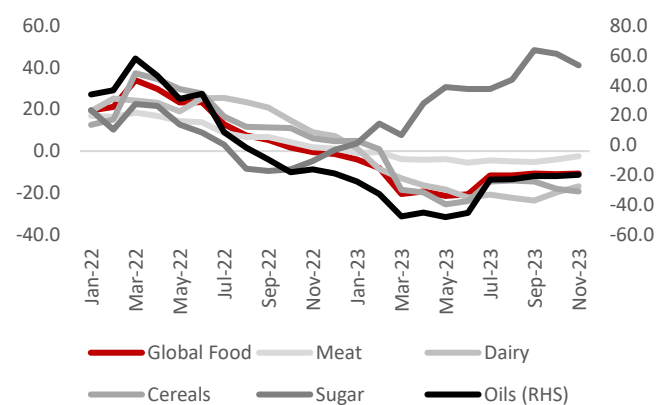
Source: Macrobond, MIDFR

Chart 3: Baltic Dry Index % Global Supply Chain Pressure Index



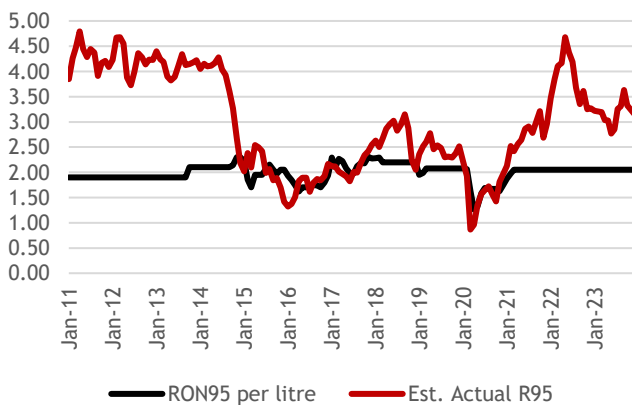
Source: Macrobond, MIDFR

Chart 4: Global Food Inflation (YoY%)



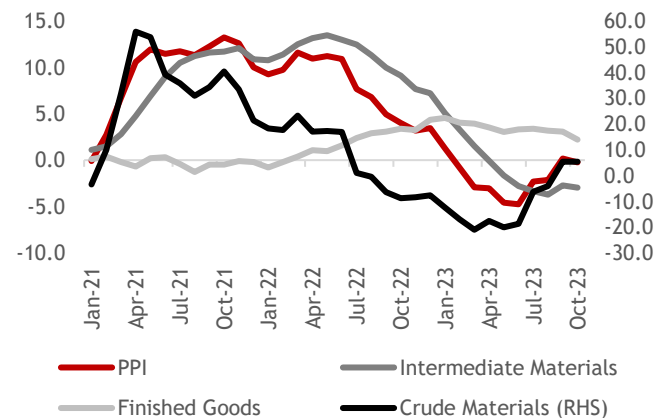
Source: FAO of UN, MIDFR

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



Source: Bloomberg, MIDFR

Chart 6: PPI (YoY%)



Source: Macrobond, MIDFR

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