

## ECONOMIC REVIEW | December 2023 Consumer Price Index

### Low Inflation Environment May Last Until 1QCY24

- *As for 2023, headline inflation rate recorded at +2.5% (2022: +3.4%) while core inflation rate at +3.0% (2022: +3.0%). Looking into 1HCY24, we should expect gradual pick-up in overall prices following increase in utility charges, implementation of higher SST rate to 8.0% (except for food & beverage and telecommunications) and 10% for low value goods tax (LVGT). In the later half, we opine that the roll-out of fuel targeted-subsidy may see higher retail fuel prices.*
- *Global food price deflated by -13.7% in 2023. After two-consecutive years of double-digit expansion rate, global food price decreased by -13.7% last year. The long-term average global food inflation (1991-2023) is +2.8% per annum and post-GFC'08 (2010-2019) was +1.0%. As a result of the pandemic-led crisis, the average inflation rate after 2020 is +8.0% among others due to price growth of sugar, oils and cereals. By component, meat price deflated by -3.5%, dairy price down by -16.5%, cereals price lower by -15.4%, oils price nosedived by -32.7% but sugar price surged by +26.7% in 2023.*
- *We project headline inflation rate at +3.2% for 2024. Moving into 2024, we expect overall inflation rate may register higher at +3.2% as the fuel-targeted subsidy is expected to be rolled-out as early as Jun-24. We opine 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.*

**Headline inflation maintained at almost 3-year low.** Malaysia's headline inflation rate registered at +1.5%yoy in Dec-23, the lowest since Feb-21. The inflation rate was in line with consensus' expectations of +1.5%yoy. Non-food inflation rate edged up slightly to +0.9%yoy while food inflation rate dived to more than 2-year low at +2.3%yoy. The continued 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 +1.9%yoy, the lowest since Mar-22. Hence, we believe BNM will keep its OPR status quo in the first MPC meeting amid softening headline and core CPI trends. As for 2023, headline inflation rate recorded at +2.5% (2022: +3.4%) while core inflation rate at +3.0% (2022: +3.0%). Looking into 1HCY24, we should expect gradual pick-up in overall prices following increase in utility charges, implementation of higher SST rate to 8.0% (except for food & beverage and telecommunications) and 10% for low value goods tax (LVGT). In the later half, we opine that the roll-out of fuel targeted-subsidy may see higher retail fuel prices.

**Fuel price deflation for 10-straight months.** Fuel inflation rate recorded at -0.3%yoy in Dec-23. This was in tandem with the normalization of commodity prices and high base effects. The fuel inflation rate to remain in contractionary at least in 1QCY24 since we expect the government will keep the current fuel subsidy mechanism status quo. Based Brent crude oil price in Dec-23, the estimated actual RON95 was RM2.93 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 than a free-float price.

**Global food price deflated by -13.7% in 2023.** After two-consecutive years of double-digit expansion rate, global food price decreased by -13.7% last year. The long-term average global food inflation (1991-2023) is +2.8% per annum and post-GFC'08 (2010-2019) was +1.0%. As a result of the pandemic-led crisis, the average inflation rate after 2020 is +8.0% among others due to price growth of sugar, oils and cereals. By component, meat price deflated by -3.5%, dairy price down by -16.5%, cereals price lower by -15.4%, oils price nosedived by -32.7% but sugar price surged by +26.7% in 2023. Following that, Malaysia's food inflation rate recorded lower at +2.3%yoy. Price growth of Food at Home receded to more than 2-year low at +1.3%yoy while Food Away from Home almost hit 2-year low at +3.4%yoy. Nevertheless, Malaysia is highly exposed to external factors and currency movements as a net importer of food country. As of 11MCY23, 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%		
	Oct-23	Nov-23	Dec-23	Oct-23	Nov-23	Dec-23
<b>CPI</b>	0.1	0.0	0.2	1.8	1.5	1.5
Non-Food	0.1	0.1	0.2	0.9	0.9	1.2
Food and Non-Alcoholic Beverages	0.1	(0.3)	0.3	3.6	2.6	2.3
Alcoholic Beverages and Tobacco	0.0	0.1	(0.1)	0.6	0.6	0.6
Clothing and Footwear	(0.1)	0.0	0.0	0.0	0.0	0.0
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.2	0.0	1.6	1.7	1.6
Furnishings, Household Equipment and Maintenance	0.1	0.1	0.0	1.4	1.4	1.4
Health	0.2	0.2	0.2	2.4	2.3	2.5
Transport	0.2	0.1	0.3	0.0	0.1	0.3
Communication	0.0	0.0	(0.1)	(3.7)	(3.7)	(3.7)
Recreation and Culture	0.0	0.1	0.4	0.7	0.6	1.9
Education	0.2	0.0	0.0	2.1	2.0	2.0
Restaurants and Hotels	0.5	0.1	0.1	4.6	4.3	3.7
Miscellaneous Goods and Services	0.0	0.4	0.2	2.3	2.3	2.7
<b>Core CPI</b>	0.0	0.0	0.0	2.4	2.0	1.9

Source: DOSM, MIDFR

**Inflation rate the highest in Sarawak amid food price pressure.** Sarawak's overall inflation rate registered at +3.1% in 2023 while Malaysia, Peninsular Malaysia and Sabah recorded at +2.5%, +2.5% and +2.3% respectively. One of the key factors is high food inflation in Sarawak, +6.1%. Peninsular Malaysia and Sabah posted food price growth at +4.8% and +4.0% respectively. However, Sarawak recorded lower transport inflation rate of +0.7% against Malaysia's +1.1%. Moving forward, we foresee inflation across all regions and states to rise gradually in line with the expectation of higher inflation at the national level.

**Table 2: Inflation by state (YoY%)**

	MoM%			YoY%		
	Oct-23	Nov-23	Dec-23	Oct-23	Nov-23	Dec-23
<b>Peninsular Malaysia</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>1.7</b>	<b>1.5</b>	<b>1.5</b>
Food & Non-Alcoholic Beverages	0.1	(0.3)	0.3	3.5	2.5	2.2
Housing & Utilities	0.0	0.3	0.0	1.4	1.5	1.5
Transport	0.2	0.0	0.3	0.0	0.1	0.3
<b>Sabah</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>1.7</b>	<b>1.4</b>	<b>1.3</b>
Food & Non-Alcoholic Beverages	0.0	(0.5)	0.1	2.4	1.5	1.1
Housing & Utilities	0.0	0.4	0.0	2.6	2.7	2.7
Transport	0.2	0.3	0.0	(0.5)	0.0	(0.1)
<b>Sarawak</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>2.5</b>	<b>2.0</b>	<b>2.4</b>
Food & Non-Alcoholic Beverages	0.3	(0.3)	0.0	4.8	3.6	2.9
Housing & Utilities	0.0	0.6	0.0	2.5	3.0	3.0
Transport	0.1	0.2	0.5	(0.1)	0.2	0.6

Source: DOSM, MIDFR

**Input deflation continues.** Malaysia producers' prices deflated by -1.5%yoy in Nov-23 (Oct-23: -0.3%yoy), 2-consecutive months of contraction. The deeper deflation rate was underpinned by steeper contraction in manufacturers' input cost, which account for 81.6% of the index weight. The production prices for manufacturing shrank by -1.4%yoy (Oct-23: -0.7%yoy), marking 7-straight months of decline. By stage of processing, prices for intermediaries, which contribute 56.1% of the index weight, registered a faster contraction of -3.4%yoy (Oct-23: -3.0%yoy). Notably, price growth for crude materials moderated steeply to +0.3%yoy (Oct-23: +5.3%yoy). Against the previous month, the PPI contracted faster at -0.7%mom (Oct-23: -0.3%mom), registering 2-consecutive months of decline. Moving forward, we foresee low inflationary pressure to persist at least until 1HCY24 amid better domestic supply chain, stabilisation of interest rate levels 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%		
	Sep-23	Oct-23	Nov-23	Sep-23	Oct-23	Nov-23
<b>PPI</b>	0.9	(0.3)	(0.7)	0.2	(0.3)	(1.5)
<b>Crude Materials</b>	3.9	0.0	(2.4)	5.4	5.3	0.3
Foodstuffs	0.2	0.5	(0.6)	3.0	3.8	1.9
Non-food	4.6	(0.1)	(2.7)	5.9	5.7	(0.1)
Non-food ex fuel	(2.3)	(2.6)	2.4	3.0	3.2	(1.9)
Crude Fuel	8.2	0.9	(4.8)	7.3	6.7	0.7
<b>Intermediate Materials</b>	0.2	(0.2)	(0.5)	(2.7)	(3.0)	(3.4)
Manufactured Goods	(0.4)	0.3	0.1	(4.3)	(2.7)	(2.6)

	MoM%			YoY%		
	Sep-23	Oct-23	Nov-23	Sep-23	Oct-23	Nov-23
Construction	0.7	0.1	0.1	7.2	7.1	6.8
Processed Fuel & Lubricants	2.6	(2.5)	(2.7)	(8.2)	(13.2)	(14.7)
Containers	1.0	(2.0)	(0.2)	(2.9)	(3.9)	(2.5)
Supplies	(0.4)	0.9	0.2	6.4	6.7	5.9
<b>Finished Goods</b>	0.1	(0.6)	0.2	3.1	2.2	1.7
Consumer Goods	(0.2)	0.0	(0.3)	1.2	0.8	0.3
Consumer Goods ex. Foods	(0.2)	0.2	(0.5)	1.2	0.9	0.3
Capital Equipment	0.2	(1.0)	0.6	4.4	3.4	2.9


Source: DOSM, MIDFR

**Stable inflation trend in most economies.** The headline inflation rate of the US remained modest at +3.4%yoy in Dec-23 despite rebounded from the 5-month low recorded in the previous month. Smaller deflation of energy prices and softer pace in non-energy prices contributed the inflation trend. Excluding the volatile items, core inflation rate edged to 2.5-year low at +3.9%yoy in the final month of 2023. Shelter price index which represents 2/3 of the core CPI rose by +6.2%yoy, lower than the previous month +6.5%yoy. As for Euro Area, headline inflation rate increased slightly to +2.9%yoy. Across the globe, China's overall consumer price deflated for 3-straight months by -0.3%yoy. Core inflation rate continued at 4-month low at +0.6%yoy in Dec-23.

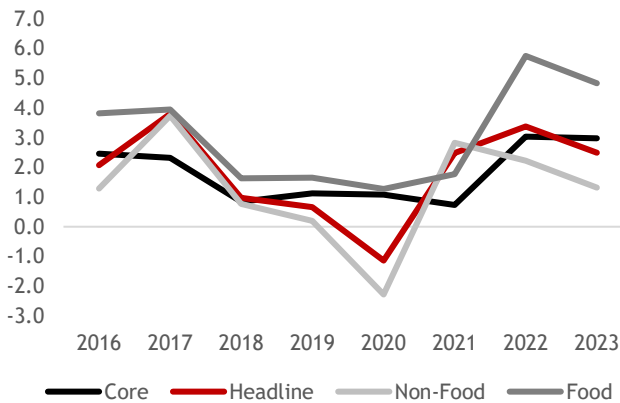
**Table 4: Global Headline Inflation (YoY%)**

	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
Malaysia	2.4	2.0	2.0	1.9	1.8	1.5	1.5
Indonesia	3.5	3.1	3.3	2.3	2.6	2.9	2.6
Singapore	4.5	4.1	4.0	4.1	4.7	3.6	
Thailand	0.2	0.4	0.9	0.3	(0.3)	(0.4)	(0.8)
Philippines	5.4	4.7	5.3	6.1	4.9	4.1	3.9
Taiwan	1.8	1.9	2.5	2.9	3.0	2.9	2.7
South Korea	2.7	2.3	3.4	3.7	3.8	3.3	3.2
China	0.0	(0.3)	0.1	0.0	(0.2)	(0.5)	(0.3)
Japan	3.3	3.3	3.2	3.0	3.3	2.8	2.6
Euro Area	5.5	5.3	5.2	4.3	2.9	2.4	2.9
US	3.0	3.2	3.7	3.7	3.2	3.1	3.4

Source: Macrobond, MIDFR

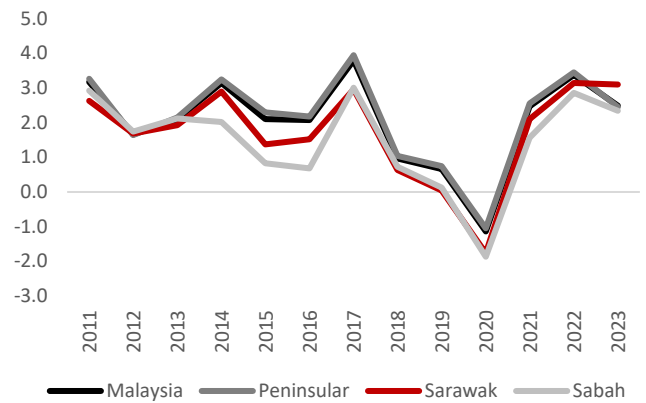
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**Chart 1: Key CPI Data (YoY%)**



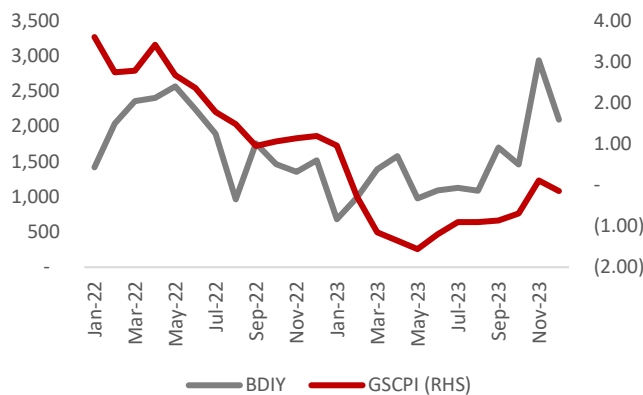
Source: Macrobond, MIDFR

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



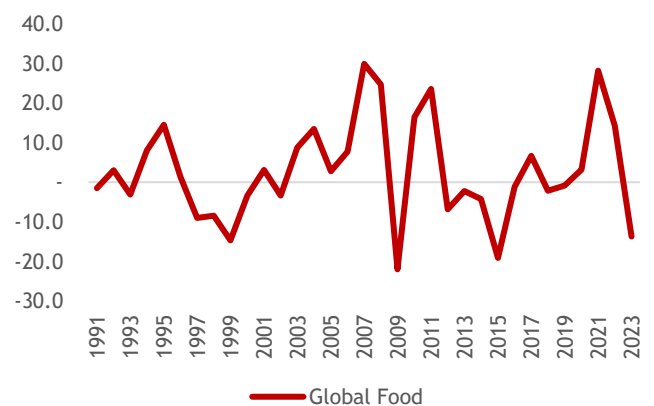
Source: Macrobond, MIDFR

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



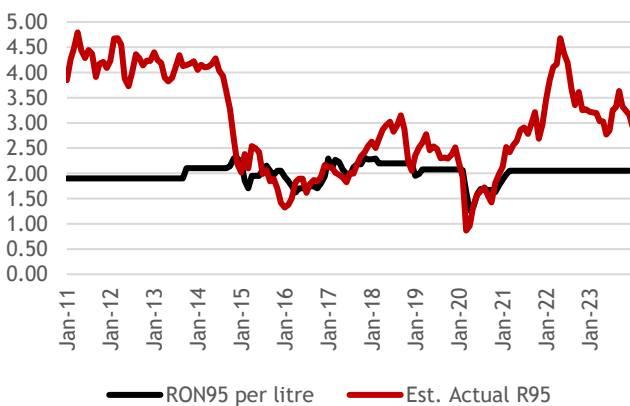
Source: Macrobond, MIDFR

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



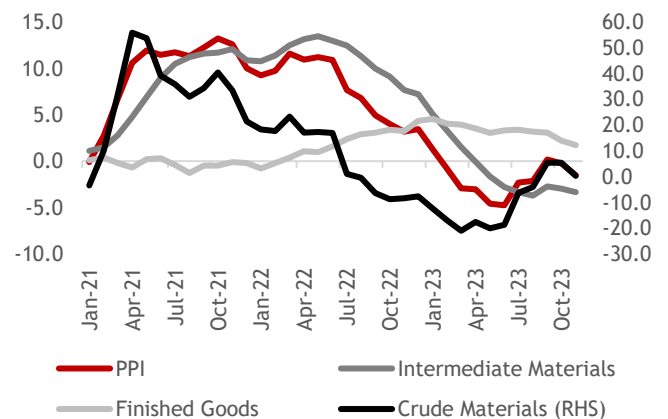
Source: FAO of UN, MIDFR

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



Source: Bloomberg, MIDFR

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



Source: Macrobond, MIDFR

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