

Malaysia CPI, Aug 2023

Steady headline inflation, slowing core inflation

Headline inflation rate steady at +2.0% YoY in Aug 2023 (Jul 2023: +2.0% YoY; 8M2023: +2.9% YoY; 2022: +3.3%) while core inflation slowed to +2.5% YoY (Jul 2023: +2.8% YoY; 8M2023: +3.4% YoY; 2022: +3.0%). Keep our 2023 inflation rate forecast of +3.0%, as monthly inflation expected to stay sub-3% for the rest of this year, mainly on base effect, but mindful of upside surprises from food prices due to the El Nino weather phenomenon.

Sub-3% monthly headline and core inflation rates

Headline inflation rate steady at +2.0% YoY in Aug 2023 (Jul 2023: +2.0% YoY; 8M2023: +2.9% YoY; 2022: +3.3% YoY) supported by easing in Restaurants & Hotels (Aug 2023: +4.7% YoY; Jul 2023: +5.0% YoY), Furnishings, Household Equipment & Routine Household Maintenance (Aug 2023: +1.7% YoY; Jul 2023: +1.9% YoY) and Food & Non-Alcoholic Beverages (FNAB - Aug 2023: +4.1% YoY; Jul 2023: +4.4% YoY) while non-food inflation rose to 1.0% YoY (Jul 2023: +0.8% YoY). MoM, headline CPI rose +0.2% (Jul 2023: +0.1% YoY).

Headline inflation rate ex-fuel prices slowed to +2.4% YoY (Jul 2023: +2.5% YoY; 8M2023: +3.3% YoY; 2022: +3.2%). Core inflation continued to trend downwards to +2.5% YoY (Jul 2023: +2.8% YoY; 8M2023: +3.4% YoY; 2022: +3.0% YoY). Services inflation also eased further (Aug 2023: +2.7% YoY; Jul 2023: +2.9% YoY) amid dissipating post-pandemic pent-up discretionary spending from economic opening e.g. restaurants & hotels; recreation services & culture; furniture, household equipment & routine household maintenance (Fig. 17 & 18).

Keep 2023 inflation rate forecast of +3%; mindful of El-Nino-related food inflation risk

Keep our 2023 inflation forecast at +3.0%. We expect monthly inflation rate to stay sub-3% YoY for the rest of the year, mainly on base effect.

However, inflation risk remains biased to the upside amid the fluid policy on price subsidies and controls. The Government has implemented targeted subsidies, beginning with electricity at the start of this year whereby subsidy is given only to domestic (household) and low-voltage users vs non-domestic (industrial, commercial) and medium/high voltage users. This was followed by the exclusion of very high-income households from electricity subsidies at the start of 2H2023 i.e. those with monthly electricity consumption excess of 1,500kWh. Next is the implementation of targeted fuel subsidy in 2024 that will also end the "benefits" to the high-income households.

At the same time, we are mindful of El-Nino-related food inflation risks, especially with the upward pressures in rice prices in recent months (Aug 2023: +3.0% YoY; Jul 2023: +2.4% YoY - see Fig 9). This is attributed to global shortage in rice supply following adverse weather conditions due to El-Nino and major rice producers like India banning rice exports.

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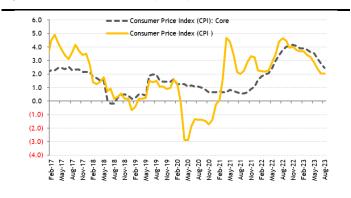
Figure 1: Consumer Price Index (CPI, 2010=100)

% YoY	Apr-23	May-23	Jun-23	Jul-23	Aug-23	4Q 2022	1Q 2023	2Q 2023	8M2023	2022
СРІ	3.3	2.8	2.4	2.0	2.0	3.9	3.6	2.8	2.9	3.3
Food & Non-Alcoholic Beverages (FNAB)	6.3	5.9	4.7	4.4	4.1	7.1	6.9	5.6	5.7	5.8
Alcoholic Beverages & Tobacco	0.6	0.7	0.6	0.5	0.5	0.8	0.7	0.7	0.6	0.5
Clothing & Footwear	0.5	0.4	0.1	0.1	0.0	0.4	0.5	0.4	0.3	0.1
Housing, Water, Electricity, Gas & Other Fuels (HWEGOF)	1.6	1.8	1.8	1.7	1.8	1.5	1.6	1.7	1.7	1.8
Furniture, Household Equipment & Routine Household Maintenance	3.0	2.7	2.3	1.9	1.7	3.8	3.3	2.6	2.7	3.5
Health	2.1	1.9	2.0	2.0	2.4	1.2	1.8	2.0	2.0	0.7
Transport	2.3	1.0	0.0	(0.4)	0.0	5.0	3.4	1.1	1.6	4.7
Communication	(1.4)	(3.7)	(3.6)	(3.7)	(3.7)	0.0	(1.4)	(2.9)	(2.6)	0.0
Recreation Services & Culture	1.8	1.8	1.6	1.1	1.0	3.1	2.1	1.8	1.7	2.3
Education	1.6	1.9	1.9	2.0	2.1	1.4	1.6	1.8	1.8	1.1
Restaurants & Hotels	6.6	6.7	5.4	5.0	4.7	7.1	7.1	6.3	6.2	5.0
Miscellaneous Goods & Services	2.5	2.9	2.6	2.6	2.4	2.4	2.3	2.7	2.5	2.0
CPI without fuel	3.6	3.3	2.8	2.5	2.4	4.1	3.9	3.2	3.3	3.2
Core CPI	3.6	3.5	3.1	2.8	2.5	4.2	3.9	3.4	3.4	3.0

Note: Core CPI excludes nine of the most volatile items of fresh food (i.e. meat, fish, seafood, eggs, coconuts & nuts, vegetables, potatoes & other tubers, spices and fresh fruit) and administered (subsidized and controlled) prices of goods and services (includes cooking oils, flour & other cereal grains, sugar, alcoholic beverages & tobacco, water supply, electricity, gas, fuels & lubricants for personal transport equipment and transport services)

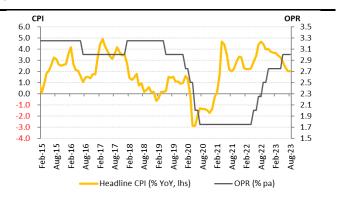
Source: Dept. of Statistics, CEIC

Figure 2: Headline & Core CPI (% YoY)



Sources: Dept. of Statistics, Maybank IBG Research

Figure 3: Headline inflation and OPR



Sources: CEIC, Maybank IBG Research



Slowdown in FNAB inflation

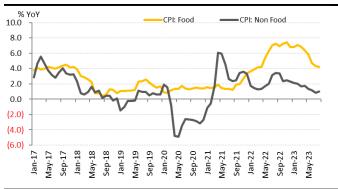
"Food & Non-Alcoholic Beverages" (FNAB) inflation eased to +4.0% YoY in Aug 2023 (Jul 2023: +4.4% YoY; 8M 2023: +5.7% YoY) on the back of slowdown in "food away from home" (Aug 2023: +5.9% YoY; Jul 2023: +6.2% YoY) and "food at home" (Aug 2023: +2.9% YoY; Jul 2023: +3.0% YoY). On MoM basis, FNAB costs increased by +0.1% (Jul 2023: +0.4%). Overall, FNAB's inflation contributed to 56.3% of CPI in 8M2023 vs 49.2% in 2022 (Fig. 4 & Fig 7) and is a key component of CPI to watch going forward on the onset of El Nino and slight fluctuation in the global food price inflation while fertilizer and feedmeal costs stabilized though remained elevated (Fig. 11 & 12). Rice inflation is another key item to watch as it trends upward in recent months (Aug 2023: +3.0% YoY; Jul 2023: +2.4% YoY - see Fig 9).

Figure 4: Inflation - "Food, Utilities/Energy, Fuel" vs "Others"

Period	%	YoY	ppt contrib	ution to CPI	% share of contribution to CPI		
	2022	8M2023	2022	8M2023	2022	8M2023	
Headline Inflation	3.3	2.9	3.3	2.9	100.0	100.0	
FNAB	5.9	5.8	1.7	1.6	49.2	56.3	
Electricity, Gas & Other Fuels	5.4	0.2	0.2	0.0	5.1	0.2	
Transport - Fuels & Lubricants	5.0	(1.7)	0.4	(0.1)	12.6	(5.1)	
Others	1.9	2.4	1.1	1.4	33.0	48.5	

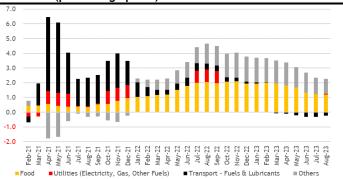
Source: Maybank IBG Research

Figure 5: "Food" inflation



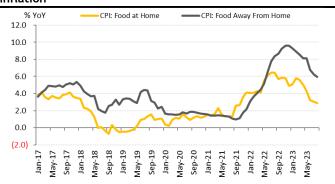
Sources: Dept. of Statistics, CEIC

Figure 7: Contributions to % YoY inflation rate, 2021-YTD2023 (percentage point)



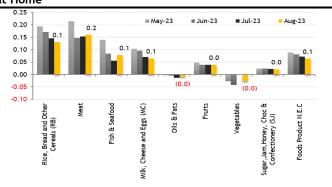
Sources: CEIC, Maybank IBG Research

Figure 6: "Food at Home" and "Food Away From Home" inflation



Sources: Dept. of Statistics, CEIC

Figure 8: Contribution to inflation (percentage point): Food at Home

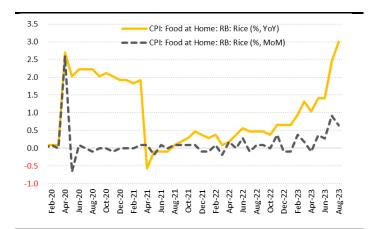


Sources: CEIC, Maybank IBG Research

September 24, 2023

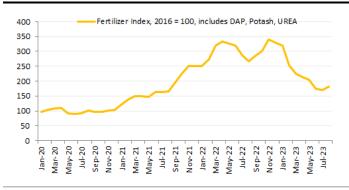
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Figure 9: Rice price (% YoY and % MoM)



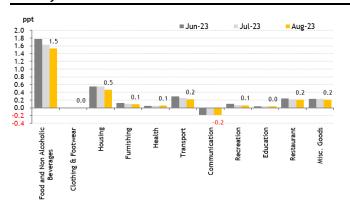
Sources: CEIC

Figure 11: Global fertilizer (urea) price



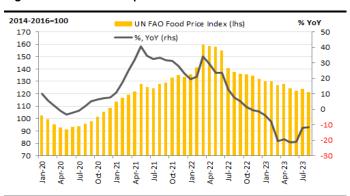
Sources: IMF

Figure 10: Food costs dominated contribution to core monthly inflation



Sources: Maybank IBG Research estimates

Figure 12: Global food price index



Sources: FAO, CEIC

Transport inflation remained low

"Transport" inflation was at 0.0% YoY in Aug 2023 (Jul 2023: -0.4% YoY; 8M 2023: +1.6% YoY), contributed by base effect while global crude oil prices trended upwards. The domestic prices for RON95 and diesel were unchanged on YoY basis (Figs. 13-15) as prices of RON95 and diesel remain capped at MYR2.05/litre and MYR2.15/litre respectively since 10 Feb 2021. Meanwhile, RON97 price is "floated" i.e. unsubsidized and tracks global crude oil price, and currently at MYR3.37/l, significantly lower than the high of MYR4.80/l in Aug 2022. "Transport Services" inflation picked up to +3.5% YoY in Aug 2023 (Jul 2023: +1.4% YoY; 8M 2023: +9.8% YoY) driven by "Passenger Transport by Air" (Aug 2023: +7.2% YoY; Jul 2023: +2.7% YoY; 8M 2023: +22.9% YoY).

Figure 13: Crude oil price, domestic retail fuel prices, transport cost inflation and headline inflation (period average, % YoY)

Period	Brent Crude	RON95	RON97	Diesel	Transport Inflation	Headline Inflation
4Q 2022	11.5	0.0	29.7	0.0	5.0	3.9
1Q 2023	(16.3)	0.0	0.9	0.0	3.4	3.6
2Q 2023	(30.4)	0.0	(21.0)	0.0	1.1	2.8
Jun 2023	(37.4)	0.0	(29.4)	0.0	0.0	2.4
Jul 2023	(29.5)	0.0	(28.6)	0.0	(0.4)	2.0
Aug 2023	(13.7)	0.0	(23.2)	0.0	0.0	2.0

Source: Bloomberg, CEIC

September 24, 2023

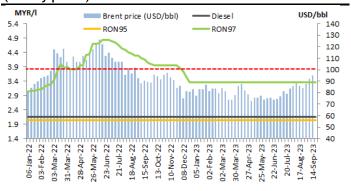


Figure 14: Average monthly domestic fuel prices (MYR/litre)

Month	RON95 Petrol	RON97 Petrol	Diesel
Jun 2022	2.05	4.77	2.15
Jul 2022	2.05	4.72	2.15
Aug 2022	2.05	4.39	2.15
Jun 2023	2.05	3.37	2.15
Jul 2023	2.05	3.37	2.15
Aug 2023	2.05	3.37	2.15
Sep 2023 (MTD)	2.05	3.37	2.15

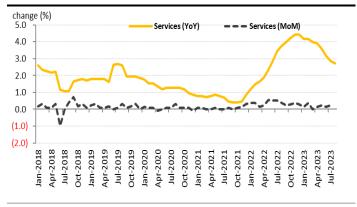
Source: Bloomberg, Ministry of Finance and media reports

Figure 15: RON97, RON95, Diesel and Brent crude oil (weekly prices)



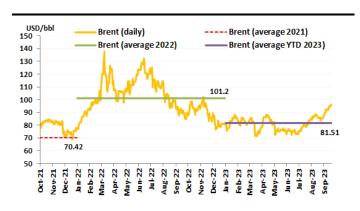
Sources: Bloomberg, Ministry of Finance and media reports

Figure 17: "Services" inflation



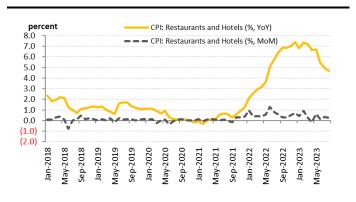
Sources: Dept. of Statistics, CEIC

Figure 16: Brent crude oil price



Sources: Bloomberg

Figure 18: "Restaurants and Hotels" inflation



Sources: Dept. of Statistics, CEIC



Figure 19: Global - Consumer Price Index (% YoY)

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	8M2023	2022
US	6.3	6.0	5.0	5.0	4.1	3.1	3.3	3.7	4.6	8.0
Eurozone	8.6	8.5	6.9	7.0	6.1	5.5	5.3	5.3	6.7	8.4
Japan	4.4	3.3	3.2	3.4	3.2	3.2	3.2	3.1	3.4	2.4
Germany	8.7	8.7	7.4	7.1	6.0	6.4	6.1	6.1	7.1	7.9
UK	10.1	10.4	10.1	8.7	8.7	7.9	6.8	6.7	8.6	9.1
OECD	9.2	8.8	7.7	7.4	6.5	5.7	5.9	-	7.3	9.5
China	2.1	1.0	0.7	0.1	0.2	0.0	(0.3)	0.1	0.5	2.0
India	6.5	6.4	5.7	4.7	4.3	4.8	7.4	6.8	5.8	6.7
Russia	11.8	11.0	3.5	2.3	2.5	3.3	4.3	5.2	5.5	13.8
Brazil	5.8	5.6	4.7	4.2	3.9	3.2	4.0	4.6	4.5	9.3
S. Korea	5.2	4.8	4.2	3.7	3.3	2.7	2.3	3.4	3.7	5.1
Taiwan	2.8	2.8	2.4	2.5	2.2	2.0	1.9	2.3	2.4	3.0
Hong Kong	2.4	1.8	1.7	2.1	2.0	1.9	1.8	1.7	1.9	1.9
Singapore	6.6	6.3	5.5	5.7	5.1	4.5	4.1	-	5.4	6.1
Indonesia	5.3	5.5	5.0	4.3	4.0	3.5	3.1	3.3	4.2	4.2
Thailand	5.0	3.8	2.8	2.7	0.5	0.2	0.4	0.9	2.0	6.1
Malaysia	3.7	3.7	3.4	3.3	2.8	2.4	2.0	2.0	2.9	3.3
Philippines	8.7	8.6	7.6	6.6	6.1	5.4	4.7	5.3	6.6	5.8
Vietnam	4.9	4.3	3.4	2.8	2.4	2.0	2.1	3.0	3.1	3.2

Sources: Bloomberg, CEIC, IMF, Maybank IBG Research

Figure 20: Global - Core Consumer Price Index (%, YoY)

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	8M2023	2022
US	5.6	5.5	5.6	5.5	5.3	4.8	4.7	4.4	5.2	6.2
Eurozone	5.2	5.6	5.7	5.6	5.3	5.4	5.5	5.3	5.5	3.9
Japan	1.9	2.1	2.3	2.5	2.7	2.6	2.7	-	2.4	0.0
UK	5.8	6.2	6.2	6.8	7.1	6.9	6.9	-	6.6	5.9
OECD	7.2	7.3	7.2	7.1	6.9	6.6	6.8	-	7.0	6.6
China	1.2	0.6	0.3	0.1	0.0	(0.6)	0.0	0.5	0.3	1.8
S. Korea	5.0	4.8	4.8	4.6	4.3	4.1	3.9	3.9	4.4	4.1
Taiwan	3.0	2.6	2.5	2.7	2.6	2.6	2.7	2.6	2.7	2.6
Singapore	5.5	5.5	5.0	5.0	4.7	4.2	3.8	-	4.8	4.1
Indonesia	3.3	3.1	2.9	2.8	2.7	2.6	2.4	2.2	2.7	2.8
Thailand	3.0	1.9	1.8	1.7	1.6	1.3	0.9	0.8	1.6	2.5
Malaysia	3.9	3.9	3.8	3.6	3.5	3.1	2.8	2.5	3.4	3.0
Philippines	7.4	7.8	8.0	7.9	7.7	7.4	6.7	6.1	7.4	3.9

 ${\it Sources: Bloomberg, CEIC, Maybank IBG Research}$



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