



Malaysia – Headline inflation receded to 3.8% in December 2022

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Latest numbers showed that Malaysia's headline inflation slightly receded from 4.0% y/y in November 2022 to 3.8% y/y in December 2022. This brings the full-year 2022 inflation to 3.3% (2021: 2.5%), which is in line with our forecast.

Core inflation (excluding volatile items and controlled prices) also slowed down from 4.2% y/y in November 2022 to 4.1% y/y in December 2022. This brings the full-year 2022 core inflation to 3.0%, which is the highest reading since the inception of the data in 2015.

Inflation for F&B slowed down

Inflation for food & non-alcoholic beverages slowed to 6.8% y/y in December 2022 (November 2022: 7.3% y/y), as illustrated on Exhibit 1. Nonetheless, prices for several food items continued to accelerate, including flour & cereal (+17.2% y/y), processed meat (+8.4% y/y), and margarine (+10.2% y/y).

Prices for some other food items however did slow down, including fish & seafood (+2.9% y/y), fruits (+4.0% y/y), and vegetables (0.9% y/y). For the record, we also noticed that the International Monetary Fund (IMF) had projected for lower food price index in 2023.

Demand-pull inflation is still strong

On the other items, inflation for durable goods slowed down from 3.4% y/y in November 2022 to 3.0% y/y in December 2022. Services inflation however, remained at 4.4% y/y, the highest reading ever recorded since the pandemic. All of these point to persistent demand-pull inflation in the economy, as illustrated in Exhibit 2.

Maintain 2023 inflation forecast at 3.0%

Overall, we forecast the headline inflation to be modest at 3.0% in 2023. The slowdown in inflation is partly reflecting to the Ringgit, which has been appreciating by 9.7% against the Dollar since the low of 4.75 seen in November 2022 while lower commodity prices also helped in containing the headline price pressure.

Core inflation meanwhile is expected to decline in tandem with slower rate of private consumption expected over the same period. But the risks on core inflation tilts to the upside given that the private consumption remains strong judging from the higher distributive trade sales in the 2H2022.

Furthermore, the labour market in Malaysia is somewhat tight in our view based on potential employment growth. Exhibit 3 shows that the employment growth is highly correlated with the core inflation. Coincidentally, total job vacancy in Malaysia is still 2-3 times higher than the pre-pandemic levels, as illustrated in Exhibit 4. This means the labour market in Malaysia has more room for improvement and could sustain the demand-driven inflation in Malaysia.

AmBank Economic Research

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Figure 1: Malaysia – Inflation and Core Inflation (%)



Source: CEIC, AmBank Research

Nevertheless, our view will change if one of these materialises:

- 1) The implementation of targeted subsidy that could remove the price cap on RON95 and diesel. Our analysis shows a 1 cent increase in RON95 could push the consumer price index by 0.04%.
- 2) Frequent flooding or any climate-related disaster that disrupts logistics and food prices.
- 3) Unexpected weakening of the Ringgit that will push import prices higher.

Our OPR expectation

On the interest rates outlook, we currently maintain the call for another 25 bps rate hike in the remaining months of this year, pushing the Overnight Policy Rate (OPR) to 3.00% largely driven by the need to anchor core inflation. The latest slowdown in core inflation, in our opinion, is too early to conclude that core inflation may have peaked back in November 2022.

That said, domestic demand situation in 1H2023 is likely to influence our assessment on the OPR as well, meaning any revision to our current baseline view is possible should the situations we envisage regarding inflation and consumption do not materialise.

Table 1: Overall Inflation

	%y/y			%m/m		
	Oct-22	Nov-22	Dec-22	Oct-22	Nov-22	Dec-22
Consumer Price Index	4.0	4.0	3.8	0.2	0.3	0.2
Food and Non Alcoholic Beverages	7.1	7.3	6.8	0.5	0.7	0.5
Clothing & Footwear	0.4	0.4	0.4	0.0	0.0	0.0
Housing & Utilities	1.5	1.4	1.5	0.0	0.2	0.1
Furnishings, Household, & Maintenance	4.1	3.8	3.7	0.2	0.1	0.1
Health	1.0	1.4	1.3	0.1	0.3	(0.1)
Transport	5.2	5.0	4.9	0.1	0.0	0.1
Communication	0.0	0.0	(0.1)	0.0	0.0	(0.1)
Recreation and Culture	3.4	3.6	2.4	(0.1)	0.2	(0.9)
Education	1.4	1.5	1.4	0.1	0.2	0.0
Restaurants & Hotels	6.8	7.0	7.4	0.3	0.5	0.7
Miscellaneous Goods & Services	2.4	2.6	2.3	0.3	0.3	(0.1)

Source: CEIC, AmBank Research

Table 2: Overall Core Inflation

	%y/y			%m/m		
	Oct-22	Nov-22	Dec-22	Oct-22	Nov-22	Dec-22
Core CPI	4.1	4.2	4.1	0.1	0.4	0.1
Food and Non Alcoholic Beverages	7.9	8.2	8.1	0.6	0.7	0.5
Clothing & Footwear	0.4	0.4	0.4	0.0	0.0	0.0
Housing & Utilities	1.8	1.8	1.7	0.0	0.2	0.0
Furnishings, Household, & Maintenance	4.1	3.8	3.7	0.2	0.1	0.1
Health	1.0	1.4	1.3	0.1	0.3	(0.1)
Transport	7.7	7.9	7.3	0.5	(0.2)	0.6
Communication	0.0	0.0	(0.1)	0.0	0.0	(0.1)
Recreation and Culture	3.4	3.6	2.4	(0.1)	0.2	(0.9)
Education	1.4	1.5	1.4	0.1	0.2	0.0
Restaurants & Hotels	6.8	7.0	7.4	0.3	0.5	0.7
Miscellaneous Goods & Services	2.4	2.6	2.3	0.3	0.3	(0.1)

Source: CEIC, AmBank Research

Table 3: Inflation by Goods and Services

	%y/y			%m/m		
	Oct-22	Nov-22	Dec-22	Oct-22	Nov-22	Dec-22
Durable Goods	3.3	3.4	3.0	0.1	0.3	(0.1)
Semi Durable Goods	1.4	1.3	1.2	0.1	0.0	0.0
Non Durable Goods	4.0	3.9	3.3	0.1	0.4	0.0
Services	4.2	4.4	4.4	0.3	0.4	0.3

Source: CEIC, AmBank Research

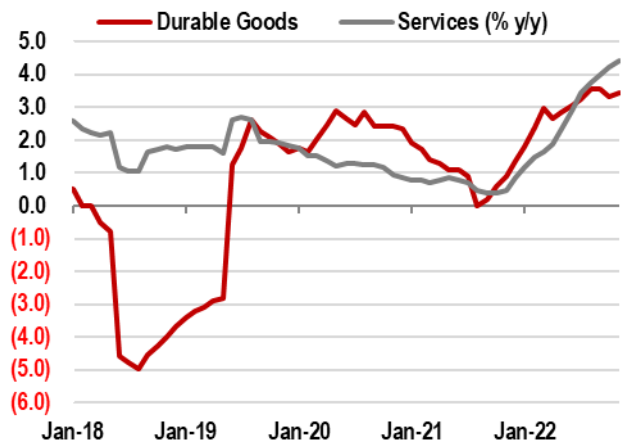
Exhibit 1: Malaysia Food Inflation



Malaysia's core inflation is on the upward trend throughout 2022.

Source: CEIC, AmBank Research

Exhibit 2: Malaysia Services and Durable Goods Inflation



Inflation for durable goods did slow down, but services inflation is still at its highest level.

Source: CEIC, AmBank Research

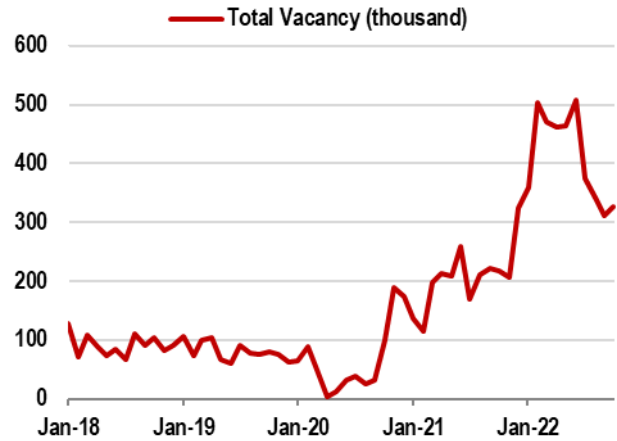
Exhibit 3: Malaysia Employment Growth and Core Inflation



There is a strong relation between the employment growth and core inflation

Source: CEIC, AmBank Research

Exhibit 4: Malaysia Total Job Vacancy



Total job vacancy is still 2-3 times higher than pre-pandemic levels. This means the labour market has more room for improvement.

Source: CEIC, AmBank Research

Indicator calendar

Monday January 09 2023			Consensus	Previous
8:30 AM	AU	Building Permits MoM Prel NOV		-6%
8:30 AM	AU	Building Permits YoY Prel NOV		-6.40%
8:30 AM	AU	Private House Approvals MoM Prel NOV		-2.20%
5:00 PM	SG	Foreign Exchange Reserves DEC		\$5399.1B
6:00 PM	EA	Unemployment Rate NOV		6.50%
7:00 PM	GB	BBA Mortgage Rate DEC		5.88%
Tuesday January 10 2023			Consensus	Previous
12:00 AM	US	Consumer Inflation Expectations DEC		5.20%
12:30 AM	US	3-Month Bill Auction		
12:30 AM	US	6-Month Bill Auction		
4:00 AM	US	Consumer Credit Change NOV	\$25B	\$27.08B
7:00 AM	KR	Current Account NOV		\$0.88B
7:30 AM	JP	Household Spending YoY NOV		1.20%
7:30 AM	JP	Household Spending MoM NOV		1.10%
7:30 AM	JP	Tokyo Core CPI YoY DEC		3.60%
7:30 AM	JP	Tokyo CPI YoY DEC		3.80%
7:30 AM	JP	Tokyo CPI Ex Food and Energy YoY DEC		1.20%
8:01 AM	GB	BRC Retail Sales Monitor YoY DEC		4.10%
12:00 PM	MY	Unemployment Rate NOV		3.60%
7:00 PM	US	NFIB Business Optimism Index DEC		91.9
9:55 PM	US	Redbook YoY JAN/07		
11:00 PM	US	IBD/TIPP Economic Optimism JAN		42.9
11:00 PM	US	Wholesale Inventories MoM NOV		0.50%
Wednesday January 11 2023			Consensus	Previous
2:00 AM	US	3-Year Note Auction		4.09%
5:30 AM	US	API Crude Oil Stock Change JAN/06		
7:00 AM	KR	Unemployment Rate DEC		2.90%
7:50 AM	JP	Foreign Exchange Reserves DEC		\$1226.3B
8:30 AM	AU	Monthly CPI Indicator NOV		6.90%
8:30 AM	AU	Retail Sales MoM NOV		-0.20%
11:35 AM	JP	30-Year JGB Auction		1.48%
12:00 PM	MY	Industrial Production YoY NOV		4.60%
12:00 PM	MY	Retail Sales YoY NOV		26.00%
1:00 PM	JP	Coincident Index Prel NOV		99.6
1:00 PM	JP	Leading Economic Index Prel NOV		98.6
8:00 PM	US	MBA 30-Year Mortgage Rate JAN/06		
8:00 PM	US	MBA Mortgage Refinance Index JAN/06		
8:00 PM	US	MBA Mortgage Market Index JAN/06		
8:00 PM	US	MBA Purchase Index JAN/06		
8:00 PM	US	MBA Mortgage Applications JAN/06		
11:30 PM	US	EIA Gasoline Stocks Change JAN/06		
11:30 PM	US	EIA Crude Oil Stocks Change JAN/06		
11:30 PM	US	EIA Crude Oil Imports Change JAN/06		
11:30 PM	US	EIA Refinery Crude Runs Change JAN/06		
11:30 PM	US	EIA Distillate Stocks Change JAN/06		
11:30 PM	US	EIA Heating Oil Stocks Change JAN/06		
11:30 PM	US	EIA Gasoline Production Change JAN/06		
11:30 PM	US	EIA Cushing Crude Oil Stocks Change JAN/06		
11:30 PM	US	EIA Distillate Fuel Production Change JAN/06		

Source: Trading Economics

Thursday January 12 2023			Consensus	Previous
2:00 AM	US	10-Year Note Auction		3.63%
5:45 AM	NZ	Building Permits MoM NOV		-10.70%
7:50 AM	JP	Current Account NOV		¥-64.1B
7:50 AM	JP	Bank Lending YoY DEC		2.70%
8:30 AM	AU	Balance of Trade NOV		A\$12.217B
8:30 AM	AU	Exports MoM NOV		-1%
8:30 AM	AU	Imports MoM NOV		-1%
9:30 AM	CN	Inflation Rate YoY DEC		1.60%
9:30 AM	CN	Inflation Rate MoM DEC		-0.20%
9:30 AM	CN	PPI YoY DEC		-1.30%
1:00 PM	JP	Eco Watchers Survey Current DEC		48.1
1:00 PM	JP	Eco Watchers Survey Outlook DEC		45.1
9:30 PM	US	Core Inflation Rate YoY DEC		6%
9:30 PM	US	Inflation Rate YoY DEC		7.10%
9:30 PM	US	Inflation Rate MoM DEC	0.10%	0.10%
9:30 PM	US	Initial Jobless Claims JAN/07		
9:30 PM	US	Core Inflation Rate MoM DEC	0.30%	0.20%
9:30 PM	US	CPI DEC		297.711
9:30 PM	US	Continuing Jobless Claims DEC/31		
9:30 PM	US	Jobless Claims 4-week Average JAN/07		
11:30 PM	US	EIA Natural Gas Stocks Change JAN/06		
	CN	Vehicle Sales YoY DEC		-7.90%
	CN	New Yuan Loans DEC		CNY1210B
	CN	Outstanding Loan Growth YoY DEC		11%
	CN	Total Social Financing DEC		CNY1990B
	CN	M2 Money Supply YoY DEC		12.40%
Friday January 13 2023			Consensus	Previous
12:30 AM	US	4-Week Bill Auction		
12:30 AM	US	8-Week Bill Auction		
1:00 AM	US	WASDE Report		
1:00 AM	US	Quarterly Grain Stocks - Corn DEC		1.377B
1:00 AM	US	Quarterly Grain Stocks - Soy DEC		0.274B
1:00 AM	US	Quarterly Grain Stocks - Wheat DEC		1.776B
2:00 AM	US	30-Year Bond Auction		3.51%
3:00 AM	US	Monthly Budget Statement DEC		\$-249B
5:00 AM	KR	Export Prices YoY DEC		8.60%
5:00 AM	KR	Import Prices YoY DEC		14.20%
7:50 AM	JP	Foreign Bond Investment DEC/31		
7:50 AM	JP	Foreign Bond Investment JAN/07		
7:50 AM	JP	Stock Investment by Foreigners DEC/31		
7:50 AM	JP	Stock Investment by Foreigners JAN/07		
8:30 AM	AU	Home Loans MoM NOV		-2.90%
8:30 AM	AU	Investment Lending for Homes NOV		-2.20%
9:00 AM	KR	Interest Rate Decision		3.25%
11:35 AM	JP	3-Month Bill Auction		
11:35 AM	JP	5-Year JGB Auction		0.12%
3:00 PM	GB	GDP MoM NOV		0.50%
3:00 PM	GB	Industrial Production MoM NOV		0%
3:00 PM	GB	GDP 3-Month Avg NOV		-0.30%
3:00 PM	GB	Manufacturing Production MoM NOV		0.70%
3:00 PM	GB	Goods Trade Balance NOV		£-14.476B
3:00 PM	GB	Goods Trade Balance Non-EU NOV		£-4.823B
3:00 PM	GB	Industrial Production YoY NOV		-2.40%
3:00 PM	GB	Balance of Trade NOV		£-1.785B
3:00 PM	GB	Construction Output YoY NOV		7.40%
3:00 PM	GB	Manufacturing Production YoY NOV		-4.60%
3:00 PM	GB	GDP YoY NOV		1.50%
6:00 PM	EA	Industrial Production MoM NOV		-2%
6:00 PM	EA	Balance of Trade NOV		€-26.5B
6:00 PM	EA	Industrial Production YoY NOV		3.40%
9:00 PM	GB	NIESR Monthly GDP Tracker DEC		-0.30%
9:30 PM	US	Export Prices MoM DEC		-0.30%
9:30 PM	US	Import Prices MoM DEC		-0.60%
9:30 PM	US	Import Prices YoY DEC		2.70%
9:30 PM	US	Export Prices YoY DEC		6.30%
11:00 PM	US	Michigan Consumer Sentiment Prel JAN		59.7
11:00 PM	US	Michigan 5 Year Inflation Expectations Prel JAN		2.90%
11:00 PM	US	Michigan Consumer Expectations Prel JAN		59.9
11:00 PM	US	Michigan Current Conditions Prel JAN		59.4
11:00 PM	US	Michigan Inflation Expectations Prel JAN		4.40%
	CN	FDI (YTD) YoY DEC		9.90%

Source: Trading Economics

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