



## **Economic/Thematic Research: Analysis On Inflation, Food Import & Food Security**

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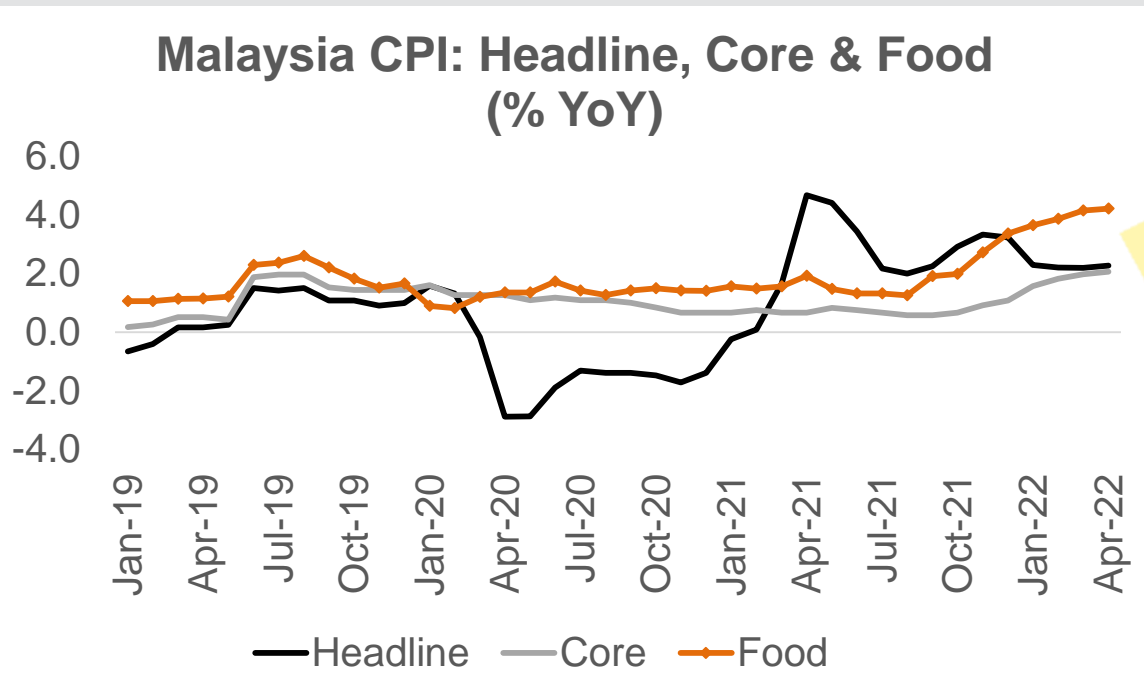


# Analysis on Inflation, Food Import & Food Security

## Inflation has been relatively benign but the general public is feeling the pinch of rising cost of living

- Different concepts:
  - Inflation** = an **increase in price levels** of goods & services over time. Also known as Consumer Price Index (CPI).
  - Cost of living** = cost associated with maintaining a **certain lifestyle** which **varies with places and persons**. Rising cost of living happens when **income does not rise** in tandem with cost, leading to an **erosion of purchasing power**.
- Public perceptions of inflation are **subject to biases** hence measures of perceived inflation > CPI inflation. **Everyday Price Index (EPI)** is an index which comprises frequently purchased goods & services that incorporate the perception bias.
- CPI's covers a wider basket of goods & services which reflects average consumption patterns of the Malaysian household and average prices in the economy.

Categories	CPI weights	EPI weights
Food & non-alcoholic beverages	30.2	50.2
Transport	13.7	15.8
Communication	5.2	7.8
Housing & Utility	23.8	7.0
Recreation	4.9	5.9
Alcoholic beverages & tobacco	2.9	4.1
Restaurant & hotel	2.9	4.1
Miscellaneous	6.5	2.0
Education	1.1	1.6
Furnishing	3.8	1.5
Clothing & Footwear	3.3	0.0
Health	1.7	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>



While headline inflation remains benign, **food inflation is surging**, not limited to “food at home” but also “food away from home”.

**NEWS**

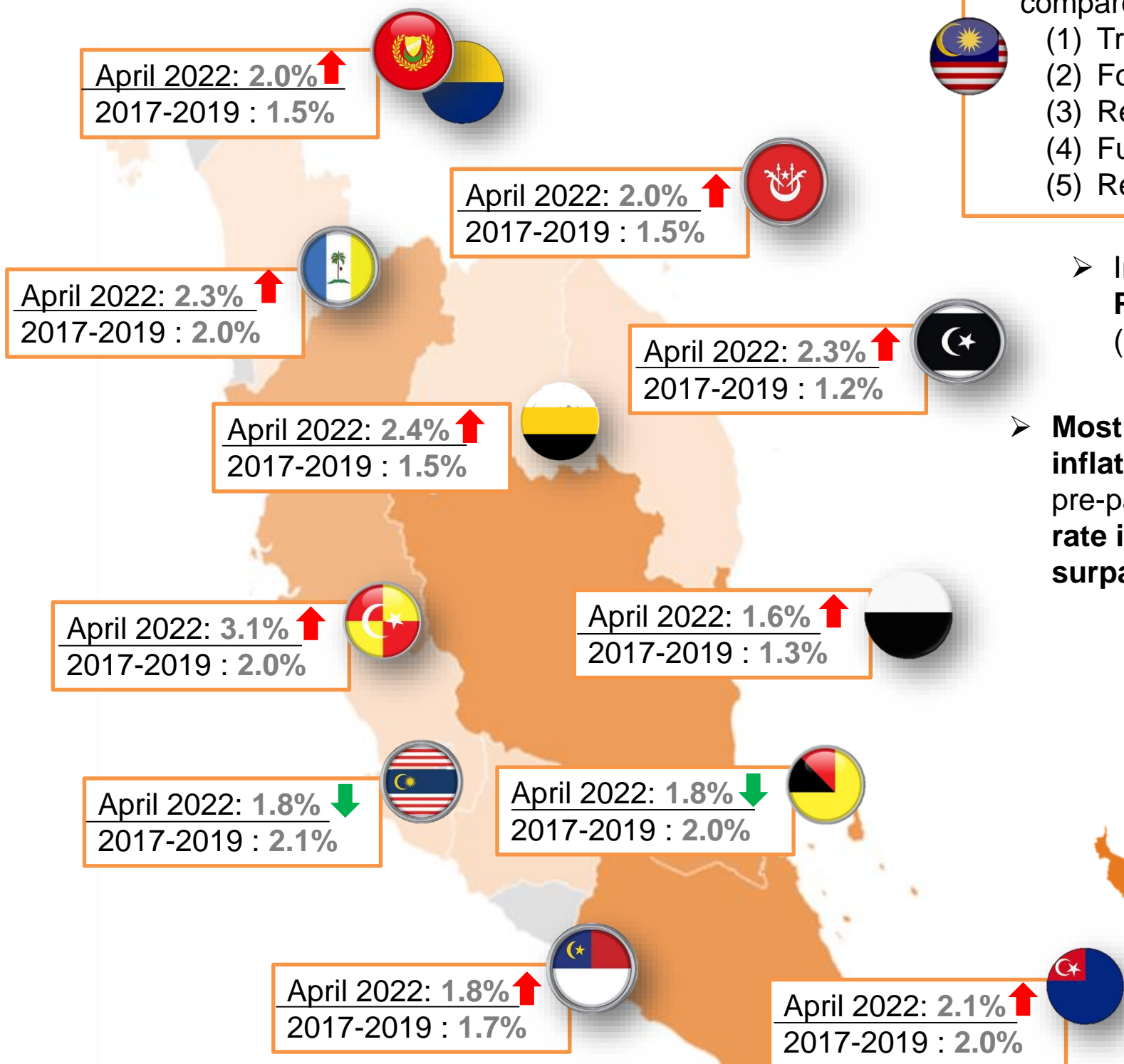
The increase in food & non-alcoholic beverages group was largely due to an increase in the component for food away from home which [increased] 4.4% as compared to 4% as recorded in March 2022. For instance, both satay and rice with side dishes recorded higher increase of 7.1% (March 2022: 6.6%).

Note (BNM's 1Q 2017 Quarterly Bulletin):  
 The EPI index is calculated by BNM staff and accounts for 60% of the CPI basket. It excludes infrequently purchased and big ticket items such as clothing, household appliances and holiday expenses. Rentals are also excluded too due to less frequent variation in prices.



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## Inflation rate by States in Malaysia



➤ Malaysia's **overall inflation rate** rose significantly to **2.3% in April 2022** as compared to the average of 1.9% over 2017 to 2019, due to higher prices of:

- (1) Transport
- (2) Food & Beverages
- (3) Restaurants & Hotels
- (4) Furnishings, Household Equipment & Routine Household Maintenance
- (5) Recreation, Services & Culture

➤ Inflation in **Selangor & Putrajaya (3.1%) & Perak (2.4%)** were the highest while Pahang (1.6%) and Sabah (1.4%) were the lowest.

➤ **Most states experienced higher inflation** in April 2022 as opposed to pre-pandemic years and **inflation rate in 2 states (Selangor & Perak) surpassed the national level.**

April 2022: **1.4%** ↑  
2017-2019 : 1.3%

➤ **All states** registered an increase in the **inflation of Food & Beverages**. The highest increase were:

➤ The increase was due to higher prices of **Food Away from Home** in April-22.

Rural  

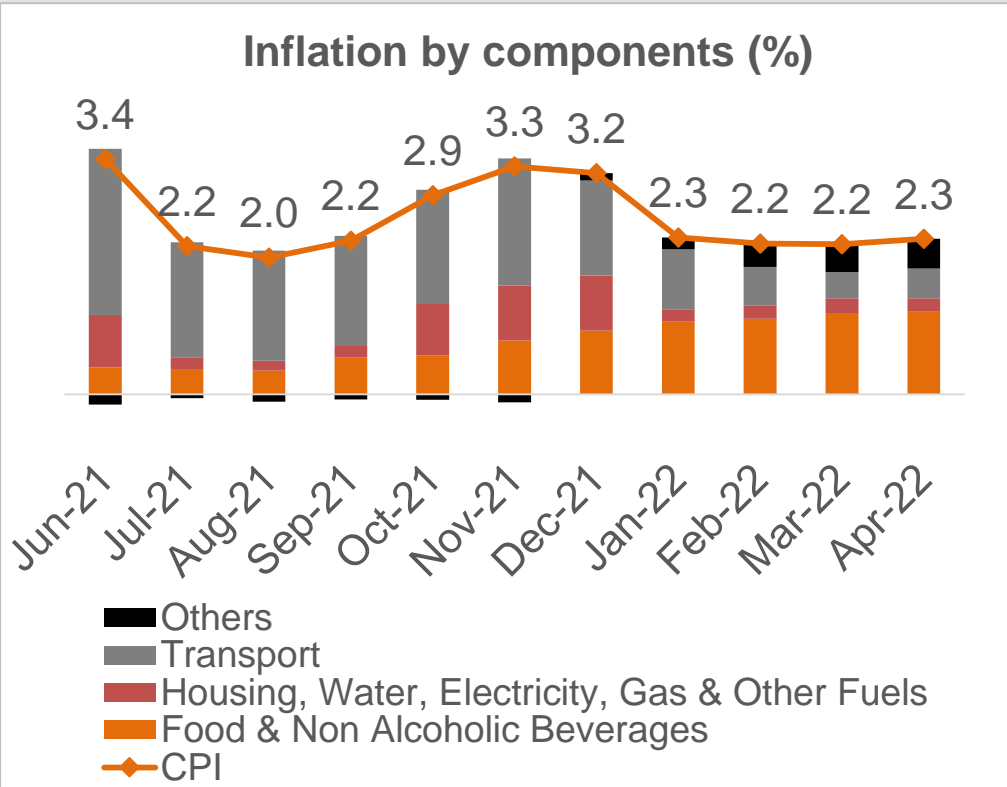
 April 2022: **1.7%** ↑  
2017-2019 : 1.6%

Urban  

 April 2022: **2.4%** ↑  
2017-2019 : 1.9%

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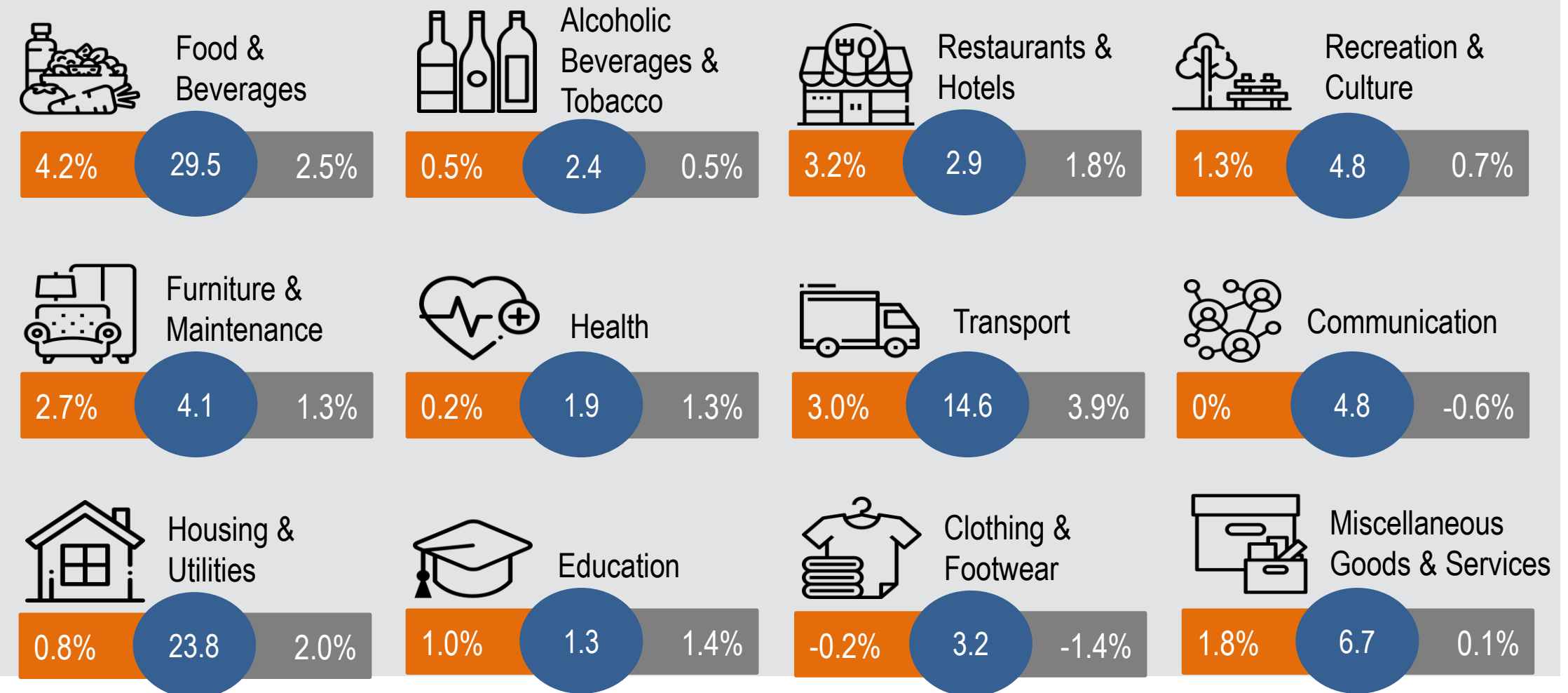
## CPI by basket of goods/ sectors



- Contribution of **F&B inflation** to the overall headline inflation has been **rising significantly** since end of last year.
- Meanwhile, **transport component** is **contributing less** to the overall inflationary pressure despite skyrocketing global crude oil prices, attributable to the current domestic **price cap for RON95 and Diesel**.

- According to an average consumer's basket of goods in Malaysia, 29.5% of consumption is spent on **F&B**, followed by **Housing & Utilities** (23.8%) and **Transportation** (14.6%).
- Higher inflation will disproportionately affect households. As the **B40 group** spends relatively more on **food** (35% of monthly consumption expenditure) as opposed to M40 (30%) and T20 (23%), price pressures driven by food items will be felt more severely by lower income households.

- As the economy reopens and consumers **pivot** from expenditure in goods to **services** sectors, demand for **transport, hotels, recreation & culture** has risen.
- Government's move towards more **targeted subsidy** could result in removal of fuel caps - a direct hit to inflation in the **transportation** sector.

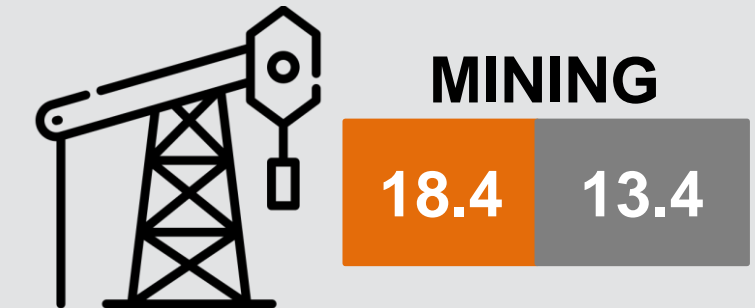
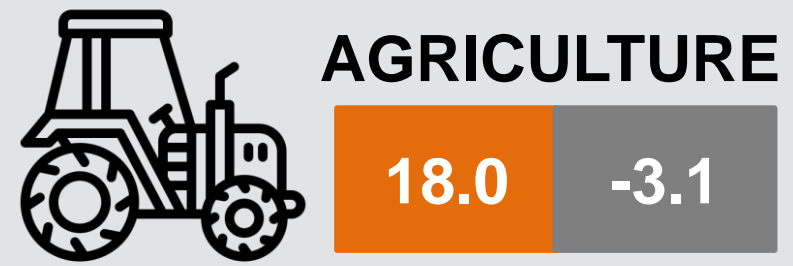
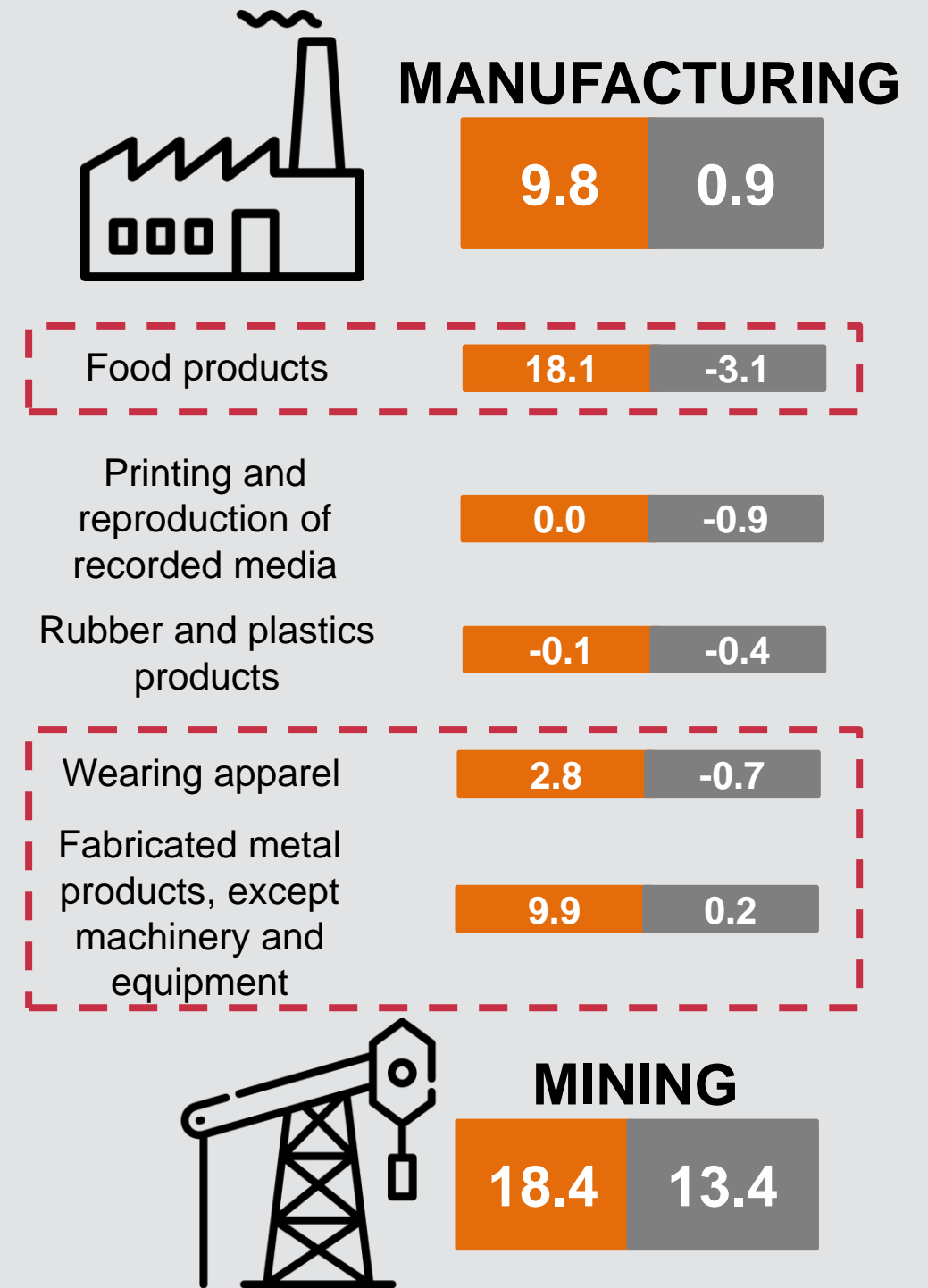
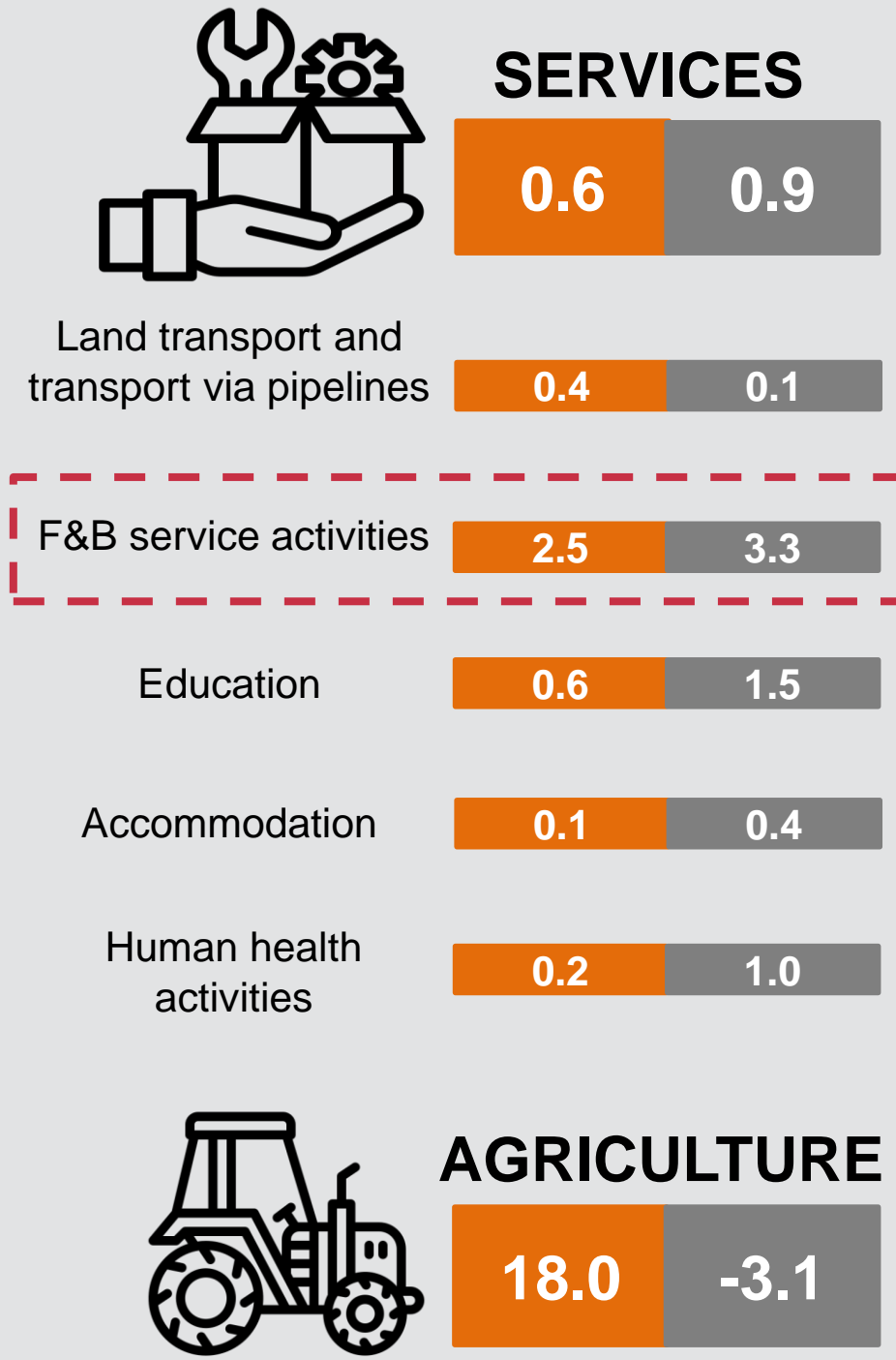


Apr-22 2017-19 Weightage

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## Producer Price Index (PPI) inflation by sectors

- 1Q 2022 **services PPI** growth demonstrated almost flat readings, suggesting that **most of the services subsectors were less affected by the rising cost of raw materials** experienced by the Manufacturing industry.
- However, with **minimum wage** that came into force in May 2022 and inflation spillover effects from the primary & manufacturing sectors, **2Q services PPI should rise.**
- In contrast, **PPI for manufacturing** recorded **significant increases** compared to pre-pandemic trend. **Double digit growth in PPI** was observed in the **manufacture of food products.**

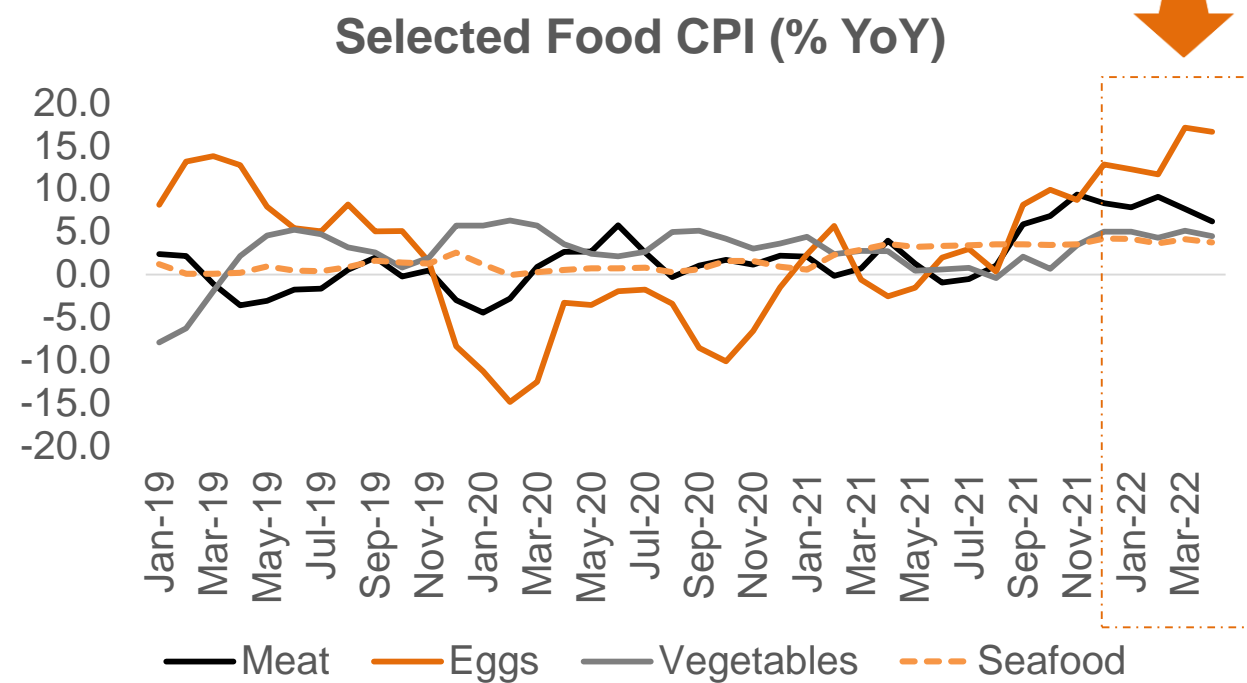
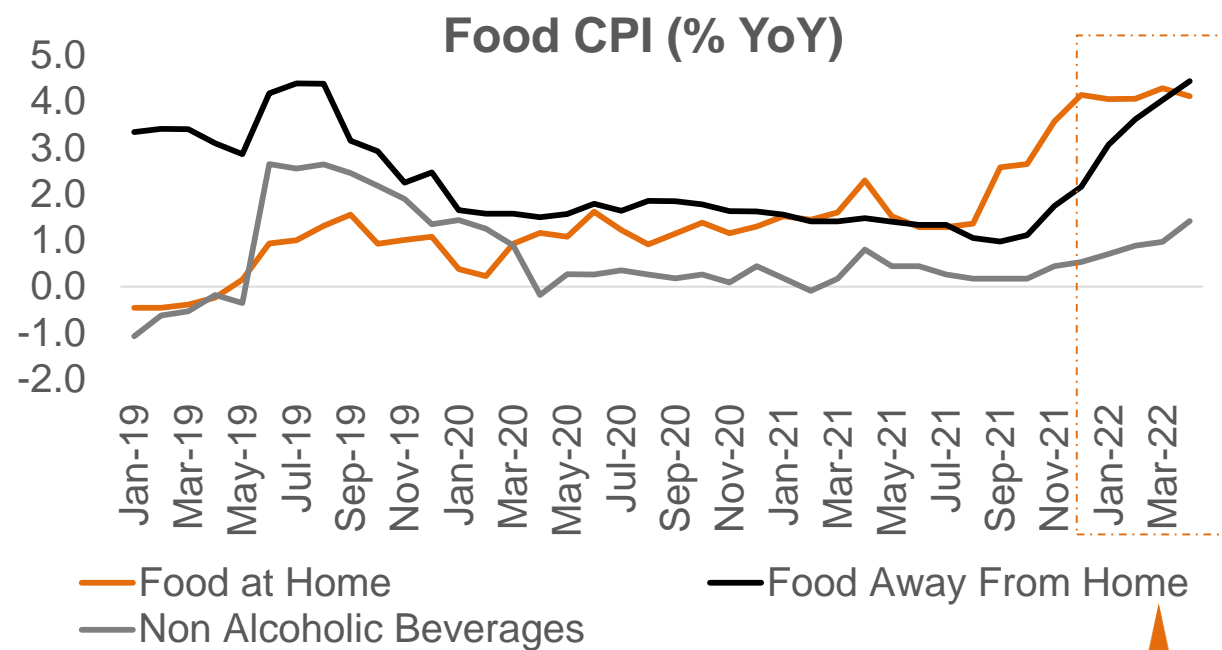


■ PPI y-o-y Apr-22 (1Q22 for services)

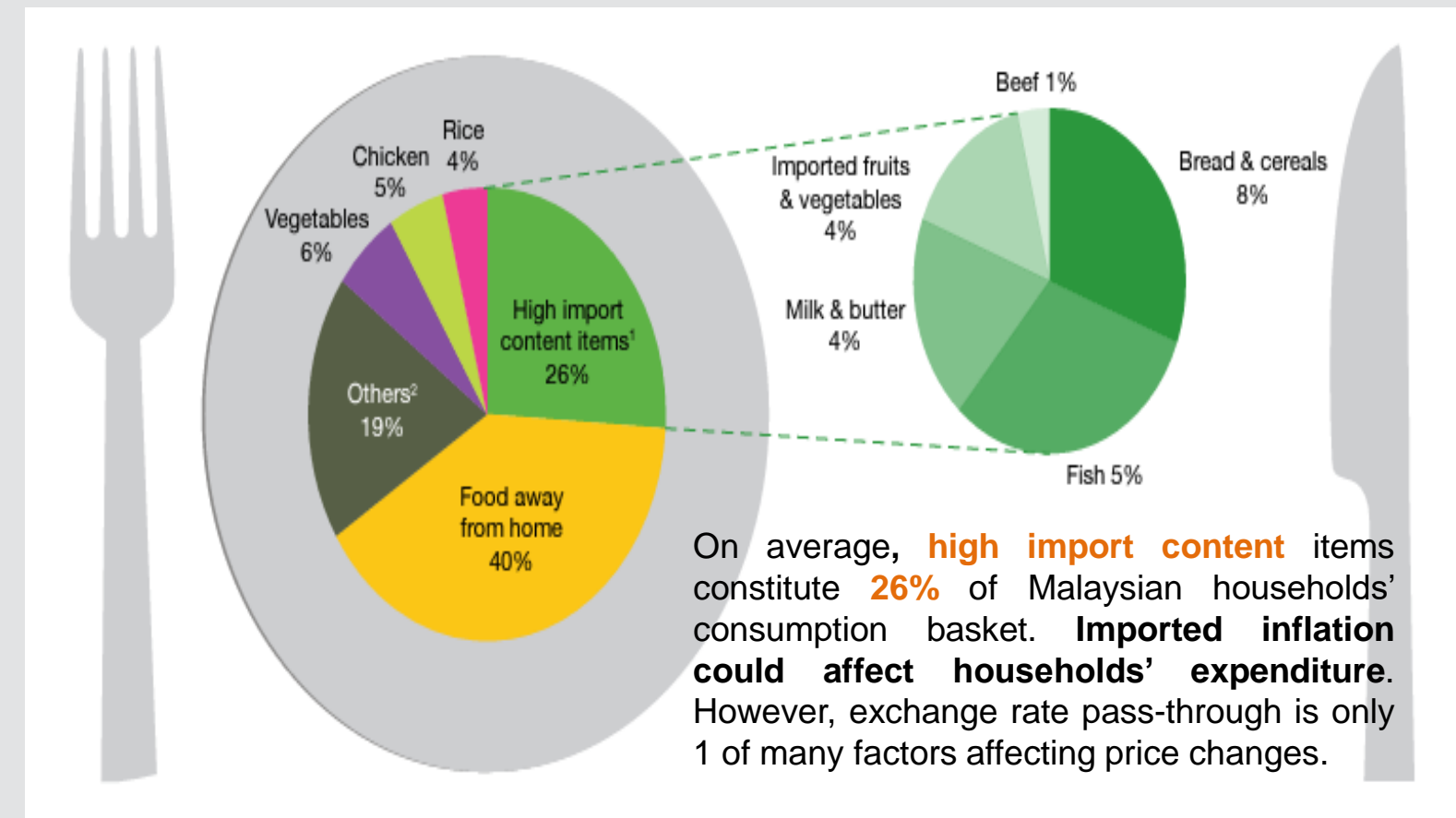
■ PPI y-o-y 2017-19 average



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BNM expects **headline inflation** to average between **2.2% - 3.2% in 2022** (2021: 2.5%) while **core inflation** to trend higher between **2.0% - 3.0%** (2021: 0.7%).

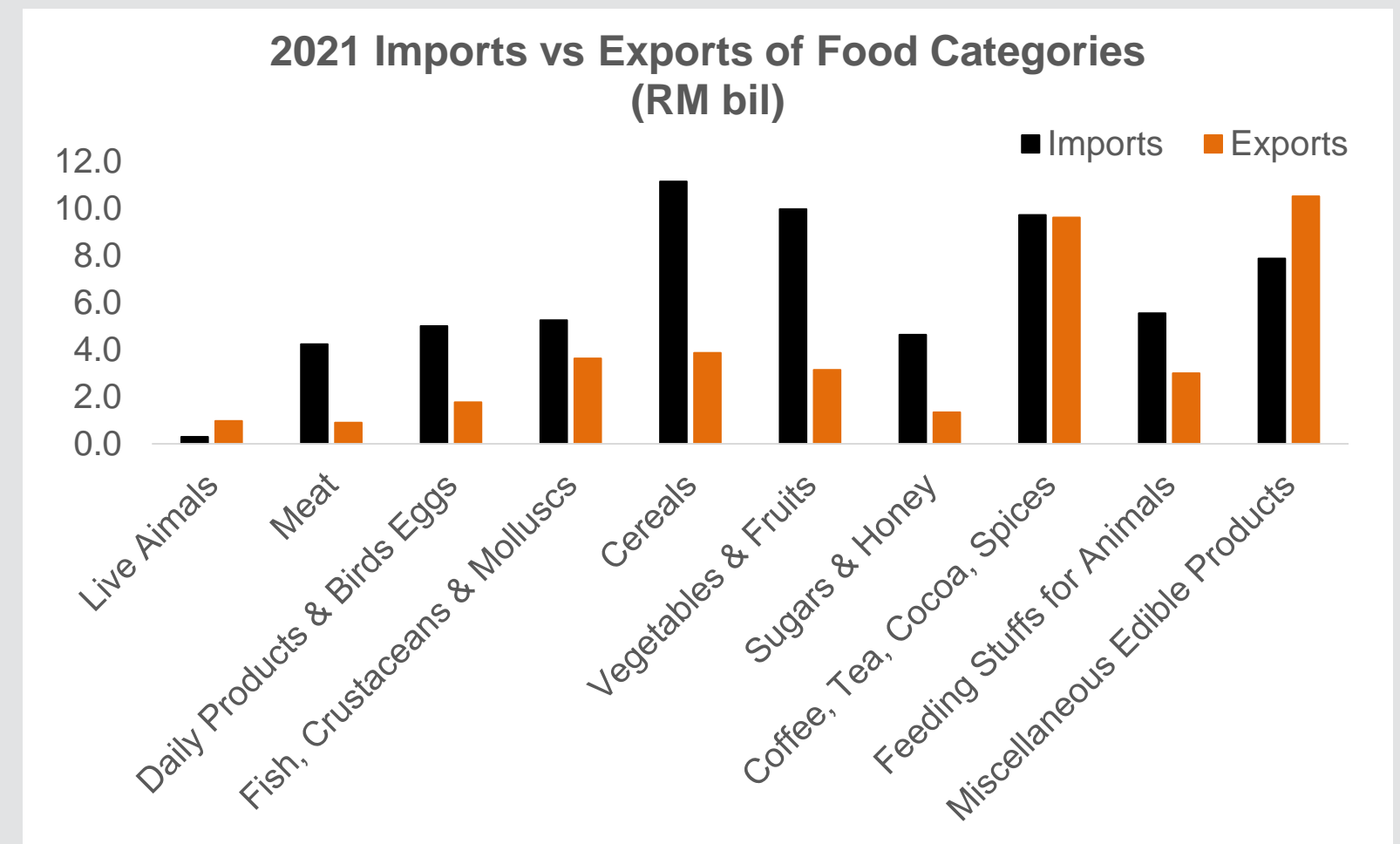


- The **upward trend in prices** was mainly recorded for **food items** that are mainly **imported** or have low self sufficiency ratio (SSR) such as **meat**. Refer next slide on SSR.
- Conversely, items such as **poultry meat and eggs** prices have also surged despite having SSR ≥ 100% as its production require intermediate inputs (corn for chicken feed) which are insufficiently produced domestically.

# Analysis on Inflation, Food Import & Food Security

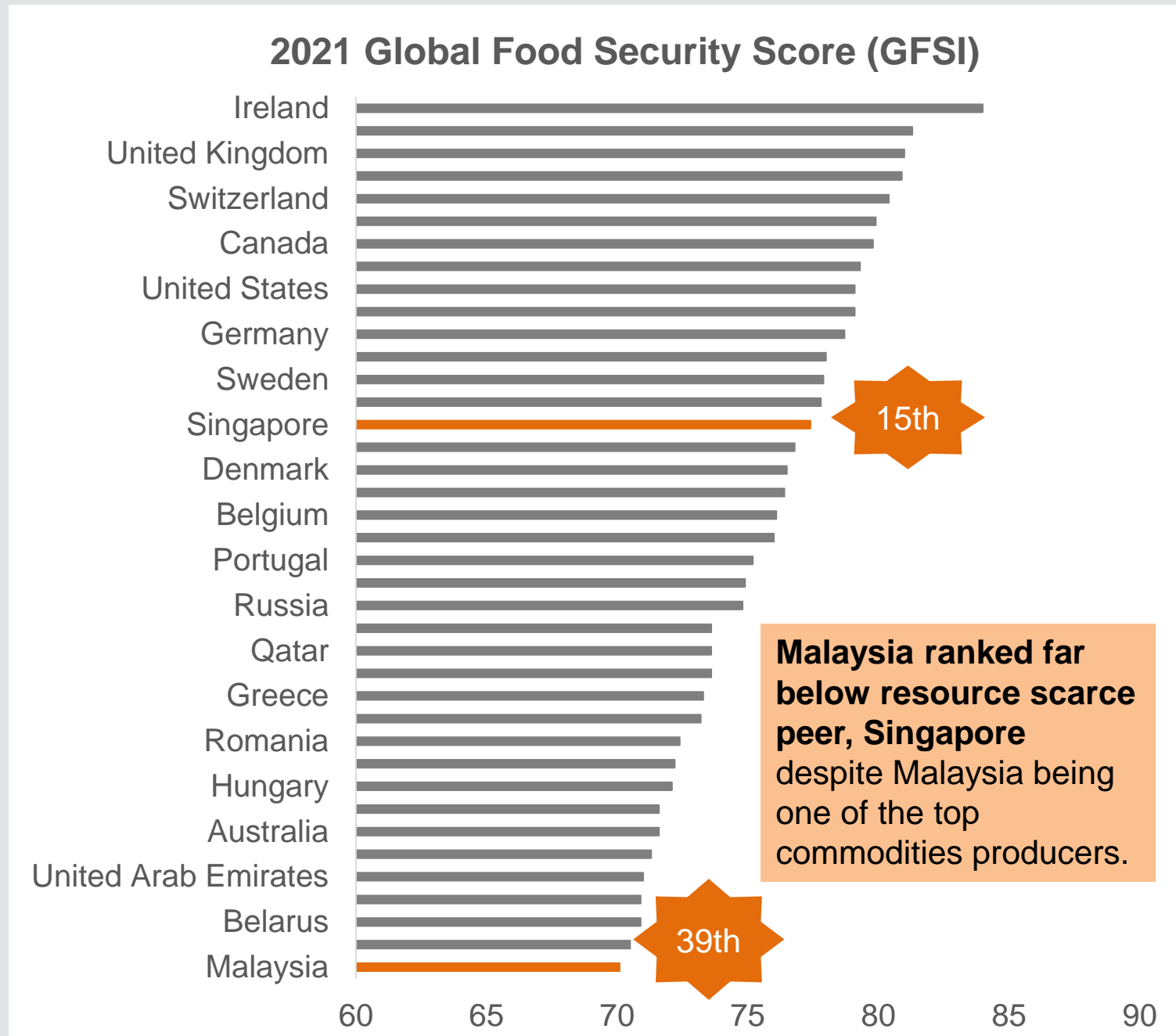


- Items that have **high SSR  $\geq 100\%$**  indicates the production of agricultural commodities is **sufficient to meet the country's demands**.
- Items that have **low SSR  $\leq 100\%$**  have high import dependency ratio (IDR), which means more of these items are **imported to meet domestic needs**. The supply of mutton, mango, beef and round cabbage is met largely by imports.
- Out of 45 selected agriculture commodities in 2020, **19 items recorded SSR  $\geq 100\%$** , a deterioration from 25 items in 2019.

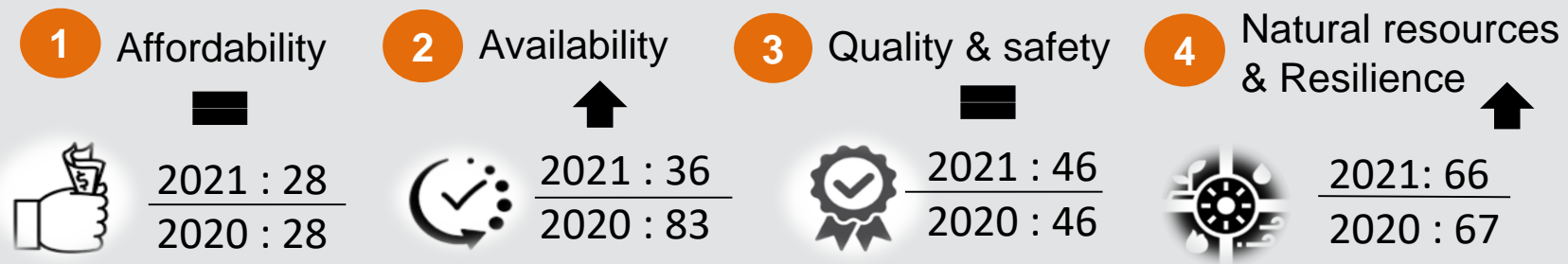


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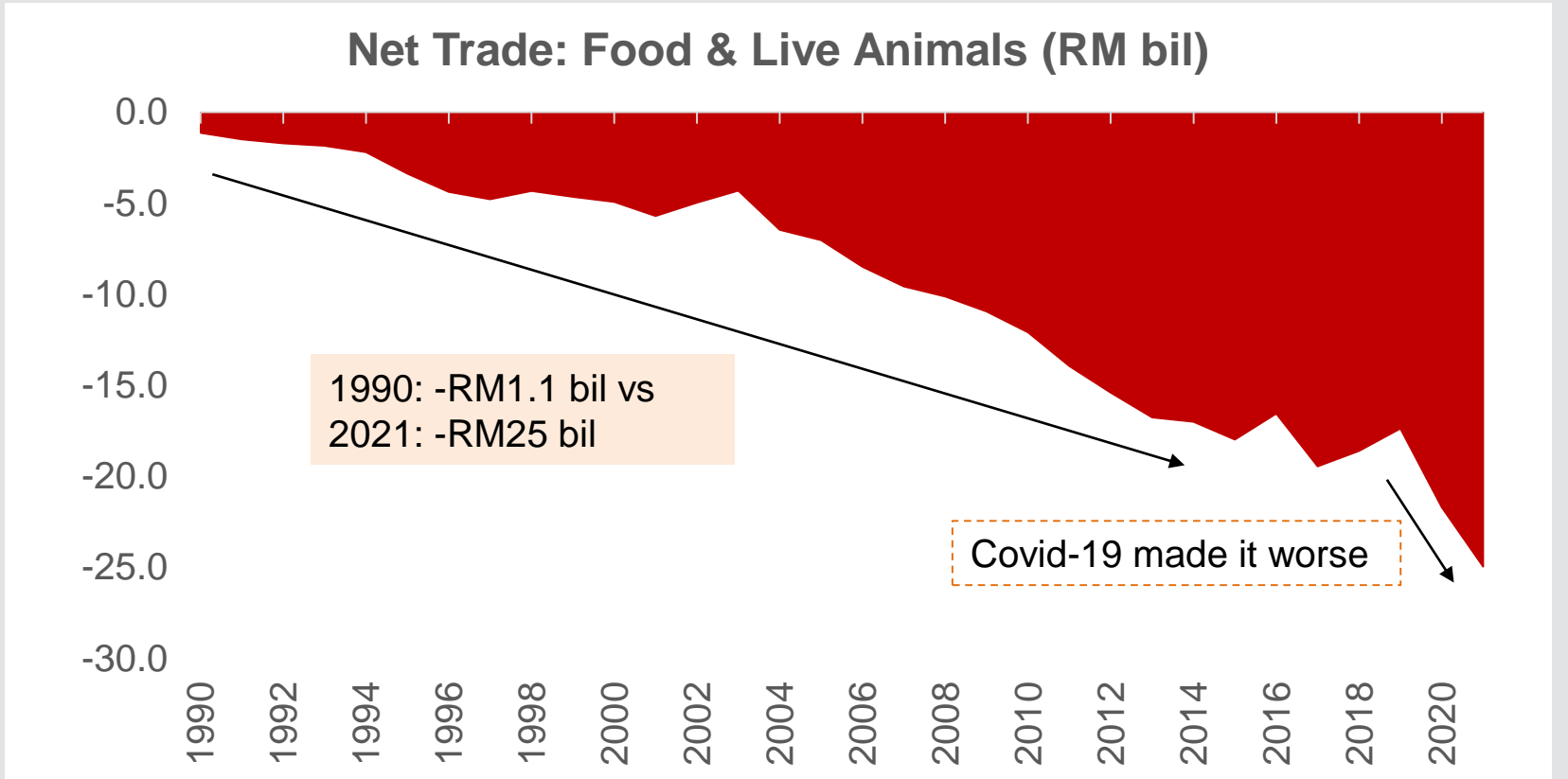
Malaysia ranked **39th out of 113 countries** in the **Global Food Security Index (GFSI) in 2021**, scoring 70.1 (2020: 65.0)



GFSI comprises 4 categories in measuring food security



Malaysia has been a **net importer of food** for decades & the dependency had increased significantly over time





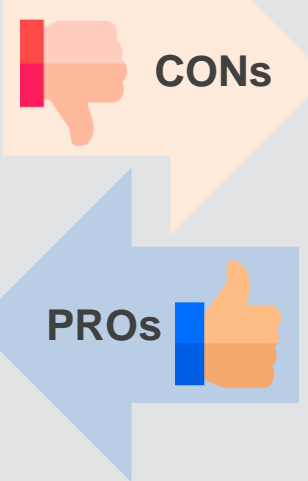
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**Chicken shortage** has been a serious issue in Malaysia lately. Short-term measures taken include:

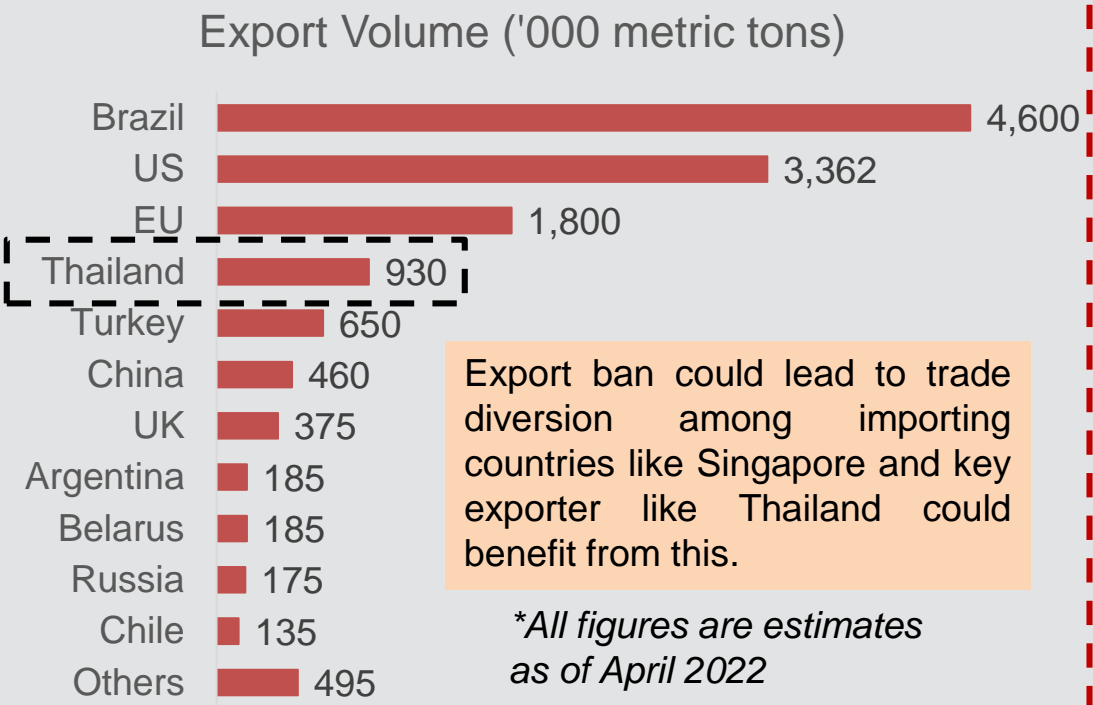


- **Set ceiling price** of a standard chicken at RM8.90/kg which could reach RM12/kg if the price was floated, **expiring on July 1.**
- Allocate a **subsidy** of RM720 mil for producers but take up rate is low hence it will be discontinued from July 1.
- **Halt export of 3.6 mil chickens** per month from **June 1.**

Supplies can be redirected to domestic markets, pushing down local prices as a short-term solution

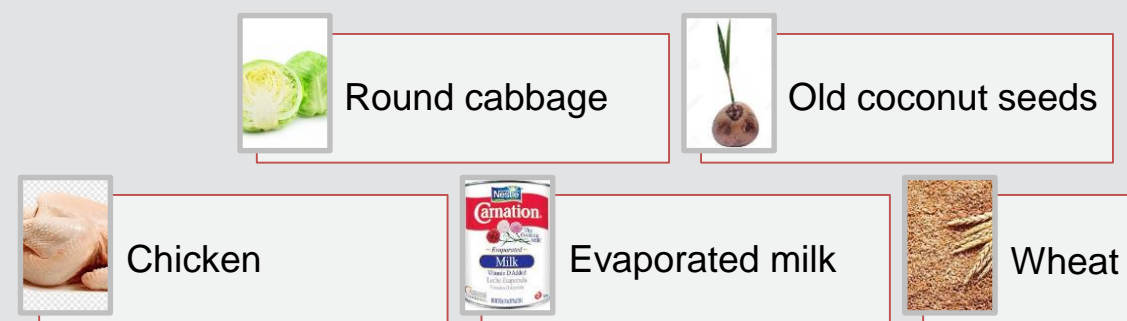


Cause higher prices for imported chicken and the loss of significant market share in the long-term



As a proactive short-term measure to combat the shortages in food supplies and rising food inflation, the government removed Approved Permits (APs) for certain agro-food commodities but maintained for rice.

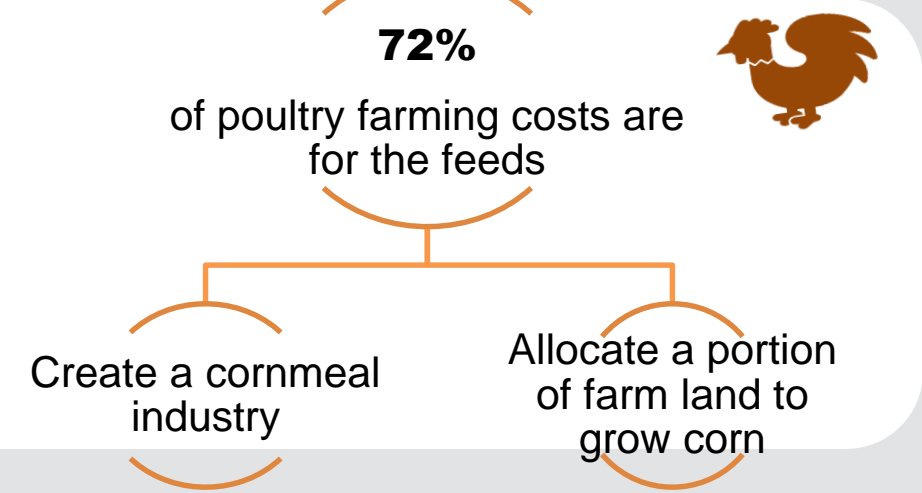
### 4 types of foods excluded from AP



APs for rice remain as Government had extended Padiberas Nasional Bhd's concession as the sole gatekeeper of rice imports until 2031.

Nonetheless, companies are **only allowed to import based on the IP issued**, which has to be in line with the Malaysian Quarantine and Inspection Services Act.

Long-term measure to ensure adequate supply of chicken is to secure its feed.

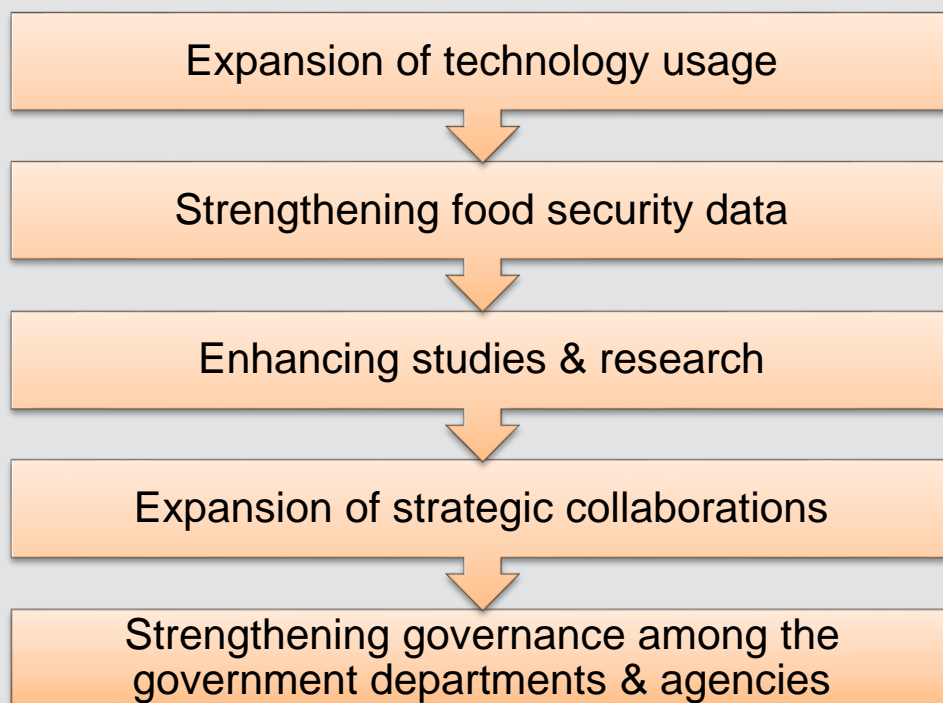


Malaysia is in a dilemma when it comes to imported food, summed by the phrase **'holding a tiger by the tail'**, where both doing nothing and doing something to resolve a problem may result in unintended consequences...

# Analysis on Inflation, Food Import & Food Security

## National Food Security Policy Action Plan (DSMN) 2021-2025

5 core Strategies :



Action Plan includes efforts to address:

- Instability in agricultural production
- Food import dependence
- Economic dependence on natural resources
- Access to mobile data and financing
- Sustainability of natural resources

## National Agrofood Policy 2021-2030 (NAP 2.0)

### OBJECTIVES



### SELF SUFFICIENCY LEVEL TARGET

Major Food Commodities	2019	2025	2030
Rice	63%	75%	80%
Fruits	78%	80%	83%
Vegetables	45%	70%	79%
Food Fish	93%	95%	98%
Beef	22%	50%	50%
Poultry Meat	104%	120%	140%
Poultry Egg	119%	114%	123%
Fresh Milk	63%	100%	100%

NAP 2.0 will introduce modern technology such as the **Internet of Things (IoT)**, as well as digitisation, mechanisation, and automation technologies into the agro-food industry.

### Some ongoing projects:

#### THE LARGE-SCALE SMART PADI FIELD (SMART SBB)

- To develop Padi cultivation areas by optimising land usage & increasing the efficiency of padi production.
- Until Mar-2022, a total of 4,123 farmers had participated, involving >10,000ha of land.

#### KEBUNTI AGRICULTURE

- An urban farming initiative aimed at promoting self-sufficiency & providing an additional source of income.
- To enhance economic activities in order to ensure the country's food supply remains stable & to create revenue possibilities for farmers, breeders and fishers.

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