

**ECONOMIC REVIEW | January 2024 Consumer Price Index****Low Inflationary Pressure Continues yet Upside Factors Remain**

- *Malaysia's headline inflation rate came in at +1.5%yoy the first month of 2024. The rate plateaued since Nov-23, the lowest since Mar-21. The inflation rate was slightly lower than market consensus of +1.6%yoy. Non-food inflation rate stabilised at +1.1%yoy while food inflation rate moderated to 27-month low at +2.0%yoy. The continued softening inflationary pressure among others was due to normalisation of global commodity prices and supportive fiscal policies.*
- *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 it is possible that the roll-out of fuel targeted-subsidy may see higher retail fuel prices.*
- *We forecast headline inflation rate at +3.2% for 2024. Moving into 2024, we expect overall inflation rate may register at +3.2% on the assumption that the fuel-targeted subsidy would possibly be rolled-out as early as Jun-24. We opine the government may introduce a managed-float price mechanism for RON95 and provide cash assistance to those eligible as guided by the PADU database.*

**Low inflation rate continues.** Malaysia's headline inflation rate came in at +1.5%yoy the first month of 2024. The rate plateaued since Nov-23, the lowest since Mar-21. The inflation rate was slightly lower than market consensus of +1.6%yoy. Non-food inflation rate stabilised at +1.1%yoy while food inflation rate moderated to 27-month low at +2.0%yoy. The continued softening inflationary pressure among others was due to normalisation of global commodity prices and supportive fiscal policies. Core inflation rate recorded lower at +1.8%yoy, almost 2-year low. Hence, we believe BNM will keep its OPR status quo throughout 2024. 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 it is possible that the roll-out of fuel targeted-subsidy may see higher retail fuel prices.

**Transport inflation still under control.** For 8-consecutive months, transport price growth remained below +1.0%yoy. The transport inflation to stay muted at least in 1QCY24 since we expect the government will keep the current fuel subsidy mechanism status quo. Based Brent crude oil price in Jan-24, we estimate the actual retail RON95 would have been RM3.11 per litre. In our opinion, it is possible that the RON95 will be a managed-float rather than a free-float price if the fuel-targeted subsidy mechanism is rolled out later.

**Global food deflation continues.** Food price fell by -10.4%yoy in Jan-24, marking 14-straight months of contraction. By component, meat price deflated by -1.2%yoy, dairy price down by -17.8%yoy, cereals price lower by -18.6%yoy, oils price nosedived by -12.8%yoy but sugar price surged by +15.9%yoy. Following that, Malaysia's food inflation rate recorded lower at +2.0%yoy. Price growth of Food at Home receded to more than 3-year low at +1.1%yoy while Food Away from Home hit 2-year low at +3.1%yoy. Nevertheless, Malaysia is highly exposed to external factors and currency movements as a net importer of food country. As of 2023, 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%		
	Nov-23	Dec-23	Jan-24	Nov-23	Dec-23	Jan-24
<b>CPI</b>	0.0	0.2	0.2	1.5	1.5	1.5
Non-Food	0.1	0.2	(0.1)	0.9	1.2	1.1
Food and Non-Alcoholic Beverages	(0.3)	0.3	0.3	2.6	2.3	2.0
Alcoholic Beverages and Tobacco	0.1	(0.1)	(0.1)	0.6	0.6	0.4
Clothing and Footwear	0.0	0.0	(0.1)	0.0	0.0	(0.2)
Housing, Water, Electricity, Gas & Other Fuels	0.2	0.0	0.4	1.7	1.6	2.0
Furnishings, Household Equipment and Maintenance	0.1	0.0	0.0	1.4	1.4	1.0
Health	0.2	0.2	0.2	2.3	2.5	2.4
Transport	0.1	0.3	(0.1)	0.1	0.3	0.7
Communication	0.0	(0.1)	0.0	(3.7)	(3.7)	(2.4)
Recreation and Culture	0.1	0.4	0.0	0.6	1.9	0.8
Education	0.0	0.0	0.2	2.0	2.0	1.7
Restaurants and Hotels	0.1	0.1	(0.1)	4.3	3.7	3.2
Miscellaneous Goods and Services	0.4	0.2	0.1	2.3	2.7	2.5
<b>Core CPI</b>	0.0	0.0	0.3	2.0	1.9	1.8

Source: DOSM, MIDFR

**Stable inflationary pressure across the country.** Sarawak's overall inflation rate moderated to +1.9%yoy in Jan-24, the lowest since May-22. Peninsular Malaysia and Sabah recorded lower at +1.5%yoy. Key CPI components were moderating across the country. However, we foresee steady uptick in inflation of housing & utilities amid readjustment of utilities tariffs announced early this year. 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%		
	Nov-23	Dec-23	Jan-24	Nov-23	Dec-23	Jan-24
<b>Peninsular Malaysia</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>
Food & Non-Alcoholic Beverages	(0.3)	0.3	0.3	2.5	2.2	2.0
Housing & Utilities	0.3	0.0	0.5	1.5	1.5	2.0
Transport	0.0	0.3	(0.1)	0.1	0.3	0.7

	MoM%			YoY%		
	Nov-23	Dec-23	Jan-24	Nov-23	Dec-23	Jan-24
<b>Sabah</b>	<b>0.0</b>	<b>0.1</b>	<b>0.2</b>	<b>1.4</b>	<b>1.3</b>	<b>1.5</b>
Food & Non-Alcoholic Beverages	(0.5)	0.1	0.4	1.5	1.1	1.2
Housing & Utilities	0.4	0.0	0.0	2.7	2.7	2.7
Transport	0.3	0.0	(0.2)	0.0	(0.1)	0.4
<b>Sarawak</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>	<b>2.0</b>	<b>2.4</b>	<b>1.9</b>
Food & Non-Alcoholic Beverages	(0.3)	0.0	0.3	3.6	2.9	2.7
Housing & Utilities	0.6	0.0	0.0	3.0	3.0	2.9
Transport	0.2	0.5	(0.2)	0.2	0.6	0.4

Source: DOSM, MIDFR

**Malaysia's input deflation remains.** Malaysia's PPI recorded another month of deflation for the 3rd straight month in Dec-23, falling by -1.3%yoy (Nov-23: -1.5%yoy). The deflation was attributable to continued declines in PPI in the manufacturing (-1.5%yoy), mining (-3.4%yoy) and electricity & gas (-0.6%yoy) industries. By stage of processing, the PPI for intermediate materials, supplies & components remained in deflation for 9th consecutive month (-3.0%yoy), in contrast to rising PPI for finished goods (+1.1%yoy) and crude materials (+0.4%yoy). Compared to Nov-23, PPI fell by -0.2%mom for the 3rd straight month, which reflected monthly PPI deflation in sectors such as manufacture of foods products (-0.4%mom), extraction of crude petroleum & natural gas (-1.6%mom) and manufacture of coke & refined petroleum products. For the whole 2023, PPI registered -1.9% deflation (2022: +7.8%) due to lower cost pressures in agriculture (-13.8%) and mining (-5.9%) sectors, and small decline for manufacturing PPI (-0.2%). We view the reduced cost pressures as another contributor to the moderating CPI inflation. Although underlying demand pressure has eased as shown in the easing core CPI inflation, we opine consumer prices could register higher inflation this year considering changes such as subsidy rationalization as well as tariff and fuel price adjustments.

**Table 3: Producer Price Indices by Stage of Processing**

	MoM%			YoY%		
	Oct-23	Nov-23	Dec-23	Oct-23	Nov-23	Dec-23
<b>PPI</b>	(0.3)	(0.7)	(0.2)	(0.3)	(1.5)	(1.3)
<b>Crude Materials</b>	0.0	(2.4)	(2.3)	5.3	0.3	0.4
Foodstuffs	0.5	(0.6)	1.3	3.8	1.9	4.3
Non-food	(0.1)	(2.7)	(3.1)	5.7	(0.1)	(0.4)
Non-food ex fuel	(2.6)	2.4	(0.8)	3.2	(1.9)	(0.6)
Crude Fuel	0.9	(4.8)	(4.1)	6.7	0.7	(0.2)
<b>Intermediate Materials</b>	(0.2)	(0.5)	0.2	(3.0)	(3.4)	(3.0)
Manufactured Goods	0.3	0.1	(0.2)	(2.7)	(2.6)	(2.2)
Construction	0.1	0.1	(0.8)	7.1	6.8	5.6
Processed Fuel & Lubricants	(2.5)	(2.7)	0.6	(13.2)	(14.7)	(13.8)
Containers	(2.0)	(0.2)	0.2	(3.9)	(2.5)	(2.6)
Supplies	0.9	0.2	1.3	6.7	5.9	5.9
<b>Finished Goods</b>	(0.6)	0.2	0.3	2.2	1.7	1.1

	MoM%			YoY%		
	Oct-23	Nov-23	Dec-23	Oct-23	Nov-23	Dec-23
Consumer Goods	0.0	(0.3)	(0.1)	0.8	0.3	0.1
Consumer Goods ex. Foods	0.2	(0.5)	(0.3)	0.9	0.3	0.1
Capital Equipment	(1.0)	0.6	0.7	3.4	2.9	2.0


Source: DOSM, MIDFR

**Global inflation on moderating trend.** The headline inflation rate of the US turned lower in Jan-24 yet still higher than market expectations of +2.9%yoy. On month-on-month basis, the CPI rose by +0.3%mom. Slower price growth of energy and food items among factors contributed the inflation trend. Excluding the volatile items, core inflation rate maintained at 2.5-year low at +3.9%yoy (market estimates: +3.7%yoy. As for Euro Area, headline inflation rate edged lower to +2.8%yoy while core inflation rate 3.3%yoy, lowest since Mar-22. Across the globe, China's overall consumer price deflated for 4-straight months by -0.8%yoy. Core inflation rate moderated further to 7-month low at +0.4%yoy in Jan-24.

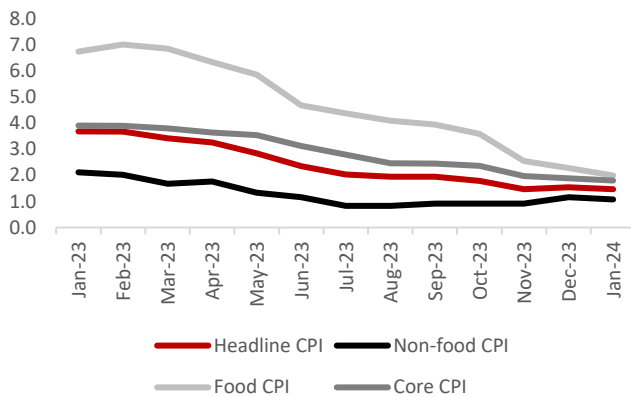
**Table 4: Global Headline Inflation (YoY%)**

	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
Malaysia	2.0	2.0	1.9	1.8	1.5	1.5	1.5
Indonesia	3.1	3.3	2.3	2.6	2.9	2.6	2.6
Singapore	4.1	4.0	4.1	4.7	3.6	3.7	
Thailand	0.4	0.9	0.3	(0.3)	(0.4)	(0.8)	(1.1)
Philippines	4.7	5.3	6.1	4.9	4.1	3.9	2.8
Taiwan	1.9	2.5	2.9	3.0	2.9	2.7	1.8
South Korea	2.3	3.4	3.7	3.8	3.3	3.2	2.8
China	(0.3)	0.1	0.0	(0.2)	(0.5)	(0.3)	(0.8)
Japan	3.3	3.2	3.0	3.3	2.8	2.6	
Euro Area	5.3	5.2	4.3	2.9	2.4	2.9	2.8
US	3.2	3.7	3.7	3.2	3.1	3.4	3.1

Source: Macrobond, MIDFR

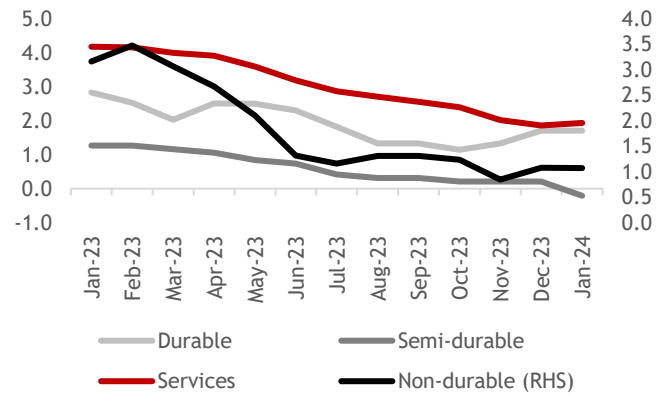
**We forecast headline inflation rate at +3.2% for 2024.** Moving into 2024, we expect overall inflation rate may register at +3.2% on the assumption that the fuel-targeted subsidy would possibly be rolled-out as early as Jun-24. We opine the government may introduce a managed-float price mechanism for RON95 and provide cash assistance to those eligible as guided by the PADU database. Thus, we may see non-food inflation to come in at +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%)**



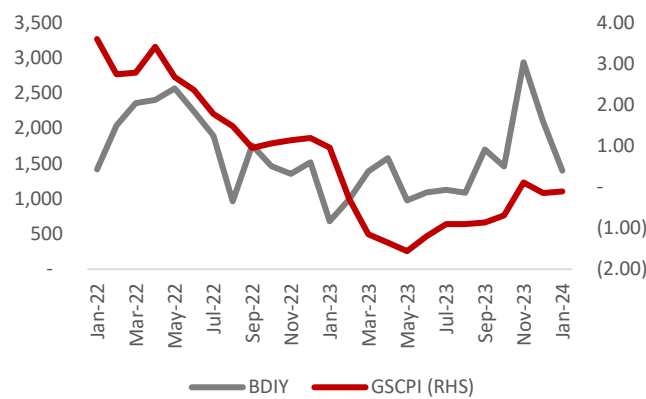
Source: Macrobond, MIDFR

**Chart 2: CPI by Type of Product (YoY%)**



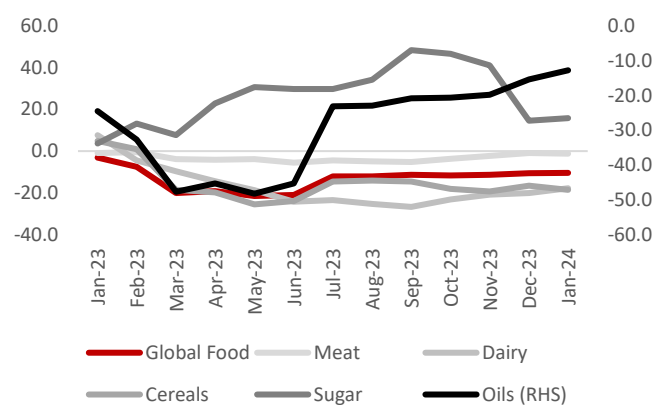
Source: Macrobond, MIDFR

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



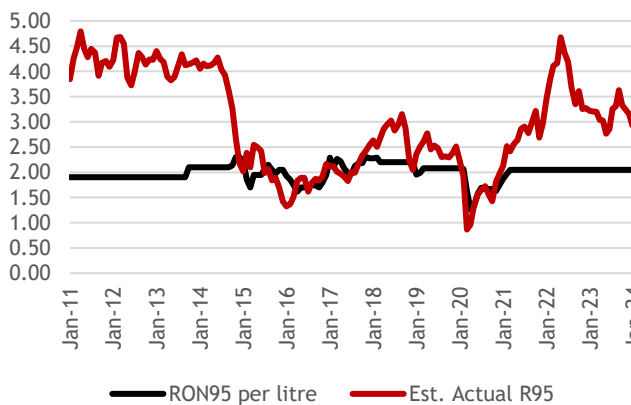
Source: Macrobond, MIDFR

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



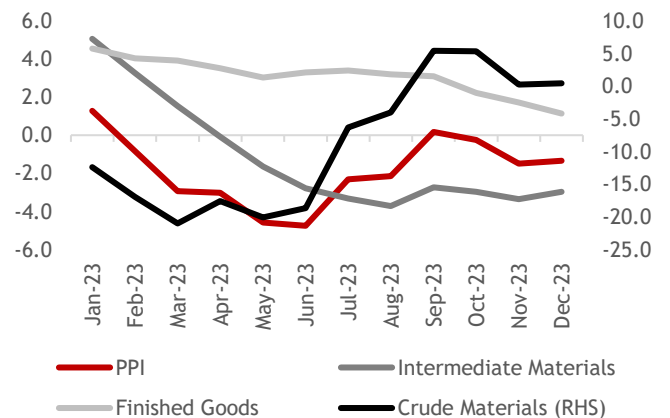
Source: FAO of UN, MIDFR

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



Source: Bloomberg, MIDFR

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



Source: Macrobond, MIDFR

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