

ECONOMIC REVIEW | March 2024 Consumer Price Index**Malaysia's 1QCY24 Inflation Rate +1.7%, Remains Supportive & Conducive for Domestic Demand**

- *Headline inflation rate kept at +1.8%yoy in Mar-24, registering 7-straight months below +2.0% level. Non-food inflation rate edged up slightly at +1.7%yoy, the highest in 11-month while food price growth at +1.7%yoy, the softest pace in more than 2-year. The slight uptick of non-food prices among others due to readjustment of utility tariff rates as inflation rate of "Housing, Water, Electricity, Gas & Other Fuels" recorded at 18-month high.*
- *Core inflation rate skid to more than 2-year low at +1.7%yoy, indirectly reducing the possibility of potential OPR hike. Looking into 2QCY24, we should expect a gradual pick-up in overall prices following increase in utility charges, implementation of higher SST rate to 8.0% on selected items 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 of both RON95 and Diesel.*
- *We maintain our headline CPI forecast at +3.2% for 2024. As of 3MCY24, headline inflation rate averaged at +1.7% (2023: +2.5%) while non-food at +1.5% (2023: +1.3%) and food at +1.9% (2023: +4.8%). Average core inflation rate recorded at +1.8% (2023: +3.0%). Moving into 2024, we expect overall inflation rate to average at +3.2% on the assumption that the targeted-fuel subsidy would possibly be rolled-out as early as Jun-24.*

Malaysia's inflation remained below +2.0% level for 7-straight months. Headline inflation rate kept at +1.8%yoy in Mar-24, registering 7-straight months below +2.0% level. Non-food inflation rate edged up slightly at +1.7%yoy, the highest in 11-month while food price growth at +1.7%yoy, the softest pace in more than 2-year. The slight uptick of non-food prices among others due to readjustment of utility tariff rates as inflation rate of "Housing, Water, Electricity, Gas & Other Fuels" recorded at 18-month high. Water supply inflation rate hit +31.4%yoy while electricity up by +2.0%yoy. Looking ahead, non-food inflation to stay on uptrend following the implementation of +2.0% hike of SST on selected items. Even though food inflation moderated further, prices of food away from home maintained at 3-month high at +3.5%yoy. This food segment is expected to see continuous pick-up amid rise of logistics and operating charges. Core inflation rate skid to more than 2-year low at +1.7%yoy, indirectly reducing the possibility of potential OPR hike. Looking into 2QCY24, we should expect a gradual pick-up in overall prices following increase in utility charges, implementation of higher SST rate to 8.0% on selected items 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 of both RON95 and Diesel.

Transport inflation improved to almost 1-year high. Transport price growth registered +1.3%yoy in Mar-24. Following last minute inclusion of maintenance and repair (M&R) jobs under the expanded scope of new SST rate, inflation rate of repair & maintenance increased by +5.0%yoy in Mar-24, the fastest pace in 5-month. Other transportation components such as purchase of vehicles and transport services remained stable. Moving forward, the transport inflation to stay modest at least in 1HCY24 since we expect the government will keep the current

fuel subsidy mechanism status quo. Based Brent crude oil price in Mar-24, we estimate the actual retail RON95 would have been RM3.17 per litre.

Global food prices remained on contractionary. Food price fell by -7.7%yoy in Feb-24, registering 16-straight months of contraction. By component, meat price deflated by -1.5%yoy, dairy price down by -8.2%yoy, cereals price lower by -20.0%yoy, oils price nosedived by -0.9%yoy, but sugar price grew yet at slower pace of +4.8%yoy. Following that, Malaysia's food inflation rate recorded lower 31-month low at +1.7%yoy. Price growth of Food at Home receded to more than 4-year low at +0.3%yoy while Food Away from Home kept at 3-month high at +3.5%yoy. Nevertheless, Malaysia is highly exposed to external factors and currency movements as a net importer of food country. As of 2MCY24, food imports to total imports ratio at 7.0% (2023: 6.5%). On the flip side, food exports ratio at 3.4% (2023: 3.3%).

Table 1: Consumer price index by component

	Weightage %	MoM%			YoY%		
		Jan-24	Feb-24	Mar-24	Jan-24	Feb-24	Mar-24
Core CPI	-	0.3	0.2	0.2	1.8	1.8	1.7
Headline CPI	100.0	0.2	0.5	0.1	1.5	1.8	1.8
Food and Beverages	29.8	0.3	0.3	0.0	2.0	1.9	1.7
Food	29.0	0.3	0.3	(0.1)	2.0	1.8	1.7
Food at Home	15.6	0.3	0.0	(0.2)	1.1	0.5	0.3
Food Away from Home	13.4	0.4	0.7	0.2	3.1	3.5	3.5
Non-alcoholic Beverages	0.8	0.1	0.2	0.2	2.8	2.7	2.6
Non-Food	70.2	(0.1)	0.7	0.2	1.1	1.6	1.7
Alcoholic Beverages & Tobacco	1.9	(0.1)	0.0	0.2	0.4	0.4	0.5
Clothing & Footwear	2.7	(0.1)	0.0	0.0	(0.2)	(0.2)	(0.2)
Housing, Water, Electricity, Gas & Other Fuels	23.2	0.4	1.3	0.3	2.0	2.7	3.0
Furnishings, Household Equip & Maintenance	4.3	0.0	0.1	0.2	1.0	0.9	0.9
Health	2.7	0.2	0.3	0.0	2.4	2.2	2.1
Transport	11.3	(0.1)	0.4	(0.2)	0.7	1.2	1.3
Information and Communication	6.6	0.0	0.0	0.0	(2.4)	(2.4)	(2.4)
Recreation, Sport and Culture	3.0	0.0	0.3	(0.2)	0.8	1.6	1.5
Education	1.3	0.2	0.2	0.2	1.7	1.5	1.5
Restaurants & Accommodation Services	3.4	(0.1)	0.6	0.4	3.2	2.9	3.0
Insurance & Financial Services	4.0	0.0	0.0	0.0	0.0	(0.1)	(0.1)
Personal Care, Social Protect & Misc. Goods & Svs.	5.8	0.1	0.3	0.4	2.5	2.5	2.6

Source: DOSM, MIDFR

Penang still the winner. Overall price growth in Peninsular Malaysia maintained at +1.7%yoy. Across state, Penang recorded the highest rate of +3.0%yoy while Negeri Sembilan the lowest of +0.9%yoy in Mar-24. Sarawak saw the fastest pick-up in terms of month-on-month, +1.0%mom and +2.9%yoy. Overall, lower food inflation and continued subsidised fuel prices are factors keeping stable overall price growth across state and region.

Table 2: Inflation by state (YoY%)

	MoM%			YoY%		
	Jan-24	Feb-24	Mar-24	Jan-24	Feb-24	Mar-24
Urban	0.2	0.5	0.1	1.5	1.7	1.7
Rural	0.2	0.4	0.1	1.6	1.7	1.6
Peninsular Malaysia	0.2	0.5	0.0	1.5	1.7	1.7
Kedah	0.2	(0.1)	0.6	1.3	0.9	1.4
Perlis	0.3	0.5	0.0	1.6	2.0	1.9
Pulau Pinang	0.2	1.3	0.1	1.8	2.7	3.0
Perak	(0.1)	0.2	(0.1)	1.3	1.2	1.0
Selangor	0.2	0.7	0.1	1.8	2.1	2.1
Putrajaya	0.2	0.4	(0.1)	2.7	1.6	1.4
Kuala Lumpur	0.3	0.3	(0.2)	1.2	1.3	1.1
Melaka	0.2	0.4	(0.1)	1.0	1.3	1.1
Negeri Sembilan	0.1	0.3	(0.1)	0.9	1.0	0.9
Johor	0.2	0.4	0.0	1.5	1.5	1.5
Pahang	0.5	0.9	(0.2)	1.7	2.4	2.1
Kelantan	0.2	0.5	0.0	0.9	1.3	1.1
Terengganu	0.1	0.6	0.1	1.1	1.4	1.4
Sabah	0.2	0.2	0.0	1.5	1.5	1.4
Sarawak	0.1	0.2	1.0	1.9	1.9	2.9

Source: DOSM, MIDFR

Marginal pick-up of overall input prices. Malaysia's PPI returned to positive territory after 4-month, rose marginally by +0.3%yoy in Feb-24. By stage of processing, the PPI for intermediate materials remained in deflation for 11-consecutive months while finished goods increased by +1.1%yoy and crude materials by +5.6%yoy. Compared to Jan-24, overall PPI edged higher by +0.7%mom. Looking ahead, we foresee PPI to trend higher amid readjustment of utility tariff rates, higher SST rate and targeted-fuel subsidy measures.

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Dec-23	Jan-24	Feb-24	Dec-23	Jan-24	Feb-24
PPI	(0.2)	(0.1)	0.7	(1.3)	(0.6)	0.3
Crude Materials	(2.3)	0.0	2.7	0.4	2.3	5.6
Foodstuffs	1.3	0.5	0.2	4.3	3.5	3.6
Non-food	(3.1)	(0.1)	3.2	(0.4)	2.1	6.0
Non-food ex fuel	(0.8)	2.9	3.8	(0.6)	2.9	6.9
Crude Fuel	(4.1)	(1.5)	2.8	(0.2)	1.7	5.6
Intermediate Materials	0.2	0.1	0.1	(3.0)	(2.0)	(1.7)
Manufactured Goods	(0.2)	0.1	0.3	(2.2)	(1.1)	(0.5)
Construction	(0.8)	0.3	(0.3)	5.6	4.6	4.2
Processed Fuel & Lubricants	0.6	(0.4)	(0.7)	(13.8)	(12.9)	(12.9)
Containers	0.2	(0.4)	(0.3)	(2.6)	(2.3)	(2.8)
Supplies	1.3	0.3	0.5	5.9	7.2	7.2
Finished Goods	0.3	(0.5)	0.7	1.1	0.5	1.1

Consumer Goods	(0.1)	(0.3)	(0.4)	0.1	(0.7)	(1.0)
Consumer Goods ex. Foods	(0.3)	(0.6)	(0.6)	0.1	(0.9)	(1.5)
Capital Equipment	0.7	(0.6)	1.5	2.0	1.4	2.9

Source: DOSM, MIDFR

American inflation made a surprise again. The US headline CPI inflation rate surged to +3.5%yoy, higher than market expectations of +3.4%yoy. Excluding volatile price items, the core CPI inflation rate remained at 3-year low at +3.8%yoy. The continued rise in core consumer prices among others contributed by steady service charges such as rent of shelter (+5.7%yoy). As for Euro Area, headline inflation rate edged lower to more than 2-year low at +2.4%yoy while core inflation rate at +2.8%yoy, lowest since Feb-22. Across the globe, China's consumer inflation rate moderated to +0.1%yoy in Mar-24, lower than market expectations of +0.4%yoy. Against the previous month, consumer prices deflated by -1.0%mom, steeper than market expectation of -0.5%mom. Food prices registered a larger deflation of -2.7%yoy (Feb-24: -0.9%yoy), a 9-month contraction run. Prices of goods deflated by -0.4%yoy (Feb-24: -0.1%yoy), marking a 1-year contractionary sequence. Meanwhile, services inflation rate eased to +0.8%yoy. Meanwhile, core inflation fell by -0.6%mom, the first contraction in 4-month.

Table 4: Global Headline Inflation (YoY%)

	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
Malaysia	1.9	1.8	1.5	1.5	1.5	1.8	1.8
Indonesia	2.3	2.6	2.9	2.6	2.6	2.8	3.1
Singapore	4.1	4.7	3.6	3.7	2.9	3.4	2.7
Thailand	0.3	(0.3)	(0.4)	(0.8)	(1.1)	(0.8)	(0.5)
Philippines	6.1	4.9	4.1	3.9	2.8	3.4	3.1
Taiwan	2.9	3.0	2.9	2.7	1.8	3.1	2.1
South Korea	3.7	3.8	3.3	3.2	2.8	3.1	3.1
China	0.0	(0.2)	(0.5)	(0.3)	(0.8)	0.7	0.1
Japan	3.0	3.3	2.8	2.6	2.2	2.8	2.7
Euro Area	4.3	2.9	2.4	2.9	2.8	2.6	2.4
US	3.7	3.2	3.1	3.4	3.1	3.2	3.5

Source: Macrobond, MIDFR


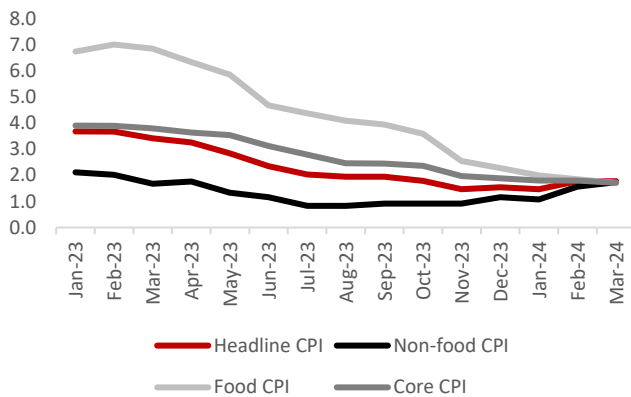
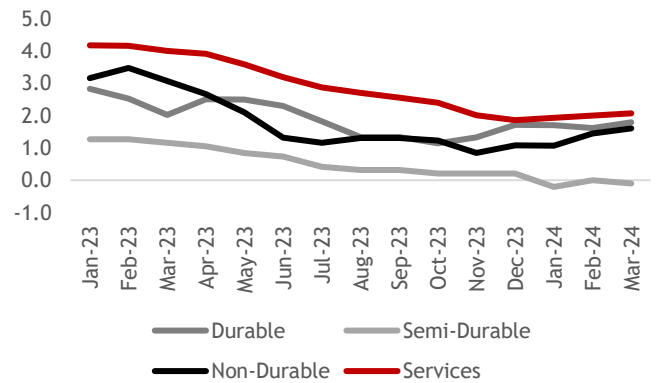
We maintain our headline CPI forecast at +3.2% for 2024. As of 3MCY24, headline inflation rate averaged at +1.7% (2023: +2.5%) while non-food at +1.5% (2023: +1.3%) and food at +1.9% (2023: +4.8%). Average core inflation rate recorded at +1.8% (2023: +3.0%). Moving into 2024, we expect overall inflation rate to average at +3.2% on the assumption that the targeted-fuel 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 +2.9% while better domestic supply and normalised global commodity prices shall push food inflation rate lower at +3.7% in 2024. 

Chart 1: Key CPI Data (YoY%)



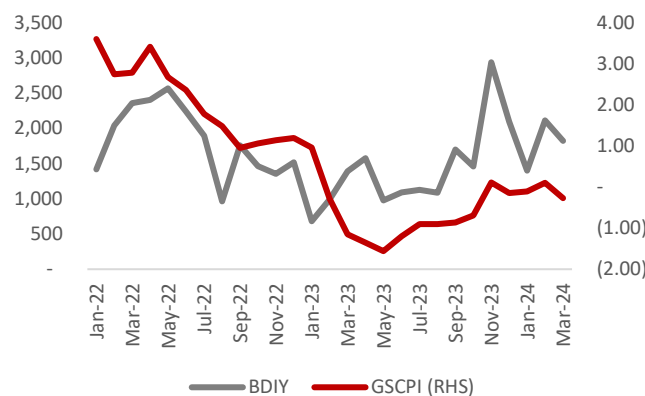
Source: Macrobond, MIDFR

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



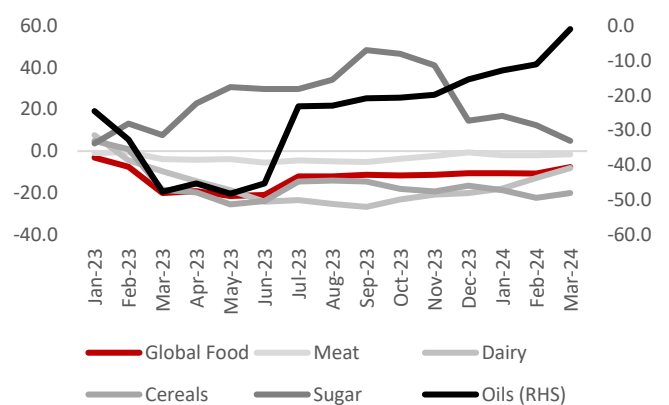
Source: Macrobond, MIDFR

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



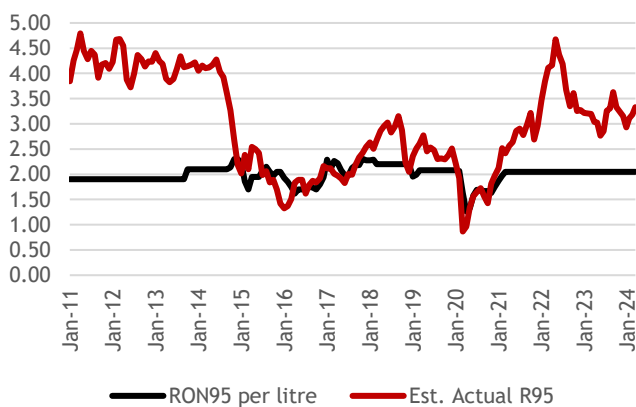
Source: Macrobond, MIDFR

Chart 4: Global Food Inflation (YoY%)



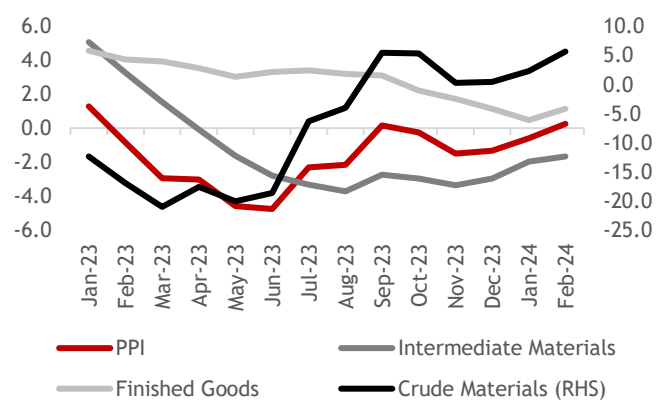
Source: FAO of UN, MIDFR

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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