

ECONOMIC REVIEW | May 2024 Consumer Price Index**Headline Inflation to Stay Above +2.0% in 2HCY24 Amid Targeted-Subsidy Measures**

- *Headline inflation rate touched 9-month high. Headline inflation rate rose to +2.0%yoy in May-24, the highest since Sep-23 and slightly above market estimates of +1.9%yoy. Uptick of non-food inflation rate was the main upside factor which increased by +2.0%yoy, the fastest pace in 15-month. We observed the non-food inflation among others attributed by utilities' cost inflation and turnaround of ICT.*
- *Expecting gradual pick-up of inflationary pressure in Peninsular Malaysia in 2HCY24. As the government embarked the targeted-Diesel subsidy in Jun-24, we opine that there may be a gradual rise of inflationary pressure across all states in Peninsular Malaysia. The direct and indirect effects of the targeted-subsidy will be observed in Jun-24 onwards.*
- *We forecast average headline inflation rate +2.7% for 2024. We postulate that the government may require more time to harness the subsidy distribution and fuel price mechanism especially for RON95. In our opinion, the targeted-RON95 subsidy may kick-off in 4QCY24. Henceforth, we forecast average inflation rate forecast at +2.7% due to gradual phases of targeted-fuel subsidy implementation and moderating food price growth.*

Headline inflation rate touched 9-month high. Headline inflation rate rose to +2.0%yoy in May-24, the highest since Sep-23 and slightly above market estimates of +1.9%yoy. Uptick of non-food inflation rate was the main upside factor which increased by +2.0%yoy, the fastest pace in 15-month. Food price growth remained modest at +1.8%yoy as food at home remained low +0.5%yoy and slight moderation by food away from home at +3.4%yoy. We observed the non-food inflation among others attributed by utilities' cost inflation and turnaround of ICT. As for core inflation rate, the demand-led inflation rate still at 4-month high yet still below +2.0%yoy. Looking into 2HCY24, we should expect a gradual pick-up in overall prices following spillover effects of targeted-Diesel subsidy, increase in utility charges, implementation of higher SST rate to 8.0% on selected items and 10% for low value goods tax (LVGT). Towards 4QCY24, we foresee possible implementation of RON95 targeted-subsidy roll-out which in our opinion may be set in a managed-float mechanism.

Slower deflation pace of global food prices. Global food price decreased slower by -3.4%yoy in May-24, the smallest contraction rate since Feb-23. Only three food products that recorded contraction, meat price deflated by -1.3%yoy, cereals price lower by -8.2%yoy, and sugar price dipped further by -25.5%yoy. Dairy prices up by +3.5%yoy, the first growth since Feb-23 while oils inflation rate surged to almost 2-year high at +7.7%yoy. As of 5MCY24, global food still in contractionary of -7.8% (2023: -13.8%). Following that, domestic food price growth still muted as 5MCY24 average at +1.9%yoy. This is way lower than pre-pandemic average +3.2%pa and post-pandemic average +4.1%pa. Nevertheless, Malaysia is highly exposed to external factors and currency movements as a net importer of food country. As 4MCY24, food imports to total imports ratio at 6.9% (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%		
		Mar-24	Apr-24	May-24	Mar-24	Apr-24	May-24
Core CPI	-	0.2	0.2	0.4	1.7	1.9	1.9
Headline CPI	100.0	0.1	0.2	0.3	1.8	1.8	2.0
Food and Beverages	29.8	0.0	0.1	0.3	1.7	2.0	1.8
Food	29.0	(0.1)	0.1	0.3	1.7	2.0	1.8
Food at Home	15.6	(0.2)	(0.2)	0.3	0.3	0.4	0.5
Food Away from Home	13.4	0.2	0.5	0.2	3.5	4.0	3.4
Non-alcoholic Beverages	0.8	(0.2)	(0.1)	0.3	1.4	1.3	1.3
Non-Food	70.2	0.2	0.2	0.3	1.7	1.7	2.0
Alcoholic Beverages & Tobacco	1.9	0.2	0.1	0.2	0.5	0.5	0.6
Clothing & Footwear	2.7	0.0	(0.1)	0.1	(0.2)	(0.3)	(0.2)
Housing, Water, Electricity, Gas & Other Fuels	23.2	0.3	0.0	0.6	3.0	3.0	3.2
Furnishings, Household Equip & Maintenance	4.3	0.2	0.1	0.0	0.9	1.0	0.8
Health	2.7	0.0	0.2	0.0	2.1	2.3	2.2
Transport	11.3	(0.2)	(0.1)	(0.1)	1.3	0.8	0.9
Information and Communication	6.6	0.0	(0.1)	0.6	(2.4)	(2.5)	0.4
Recreation, Sport and Culture	3.0	(0.2)	0.8	0.3	1.5	2.0	1.9
Education	1.3	0.2	0.2	0.3	1.5	1.4	1.5
Restaurants & Accommodation Services	3.4	0.4	0.3	0.3	3.0	3.5	3.2
Insurance & Financial Services	4.0	0.0	0.0	0.0	(0.1)	(0.1)	(0.1)
Personal Care, Social Protect & Misc. Goods & Services	5.8	0.4	0.9	0.3	2.6	3.1	3.0

Source: DOSM, MIDFR

Expecting gradual pick-up of inflationary pressure in Peninsular Malaysia in 2HCY24. As the government embarked the targeted-Diesel subsidy in Jun-24, we opine that there may be a gradual rise of inflationary pressure across all states in Peninsular Malaysia. The direct and indirect effects of the targeted-subsidy will be observed in Jun-24 onwards. However, in our opinion, the upside pressure to remain manageable thanks to targeted incentives given by the government to selected and eligible industry players. As for Sabah and Sarawak, we should expect minimal transportation price pressure as Diesel price stay status quo.

Table 2: Inflation by state (YoY%)

	MoM%			YoY%		
	Mar-24	Apr-24	May-24	Mar-24	Apr-24	May-24
Urban	0.1	0.2	0.3	1.7	1.8	1.9
Rural	0.1	0.1	0.2	1.6	1.8	1.8
Peninsular Malaysia	0.0	0.1	0.3	1.7	1.8	1.9
Kedah	0.6	0.0	0.2	1.4	1.4	1.4
Perlis	0.0	0.0	0.3	1.9	1.8	2.0
Pulau Pinang	0.1	0.2	0.4	3.0	3.2	3.3
Perak	(0.1)	0.1	0.3	1.0	1.0	1.2
Selangor	0.1	0.2	0.4	2.1	2.2	2.4
Putrajaya	(0.1)	0.2	0.0	1.4	1.6	1.6

	MoM%			YoY%		
	Mar-24	Apr-24	May-24	Mar-24	Apr-24	May-24
Kuala Lumpur	(0.2)	0.2	0.1	1.1	1.4	1.0
Melaka	(0.1)	0.2	0.2	1.1	1.1	1.3
Negeri Sembilan	(0.1)	0.1	0.2	0.9	1.0	1.2
Johor	0.0	0.0	0.4	1.5	1.6	1.9
Pahang	(0.2)	0.2	0.4	2.1	2.4	2.6
Kelantan	0.0	0.0	0.2	1.1	1.0	1.2
Terengganu	0.1	0.0	0.2	1.4	1.4	1.6
Sabah	0.0	0.2	0.1	1.4	1.6	1.2
Sarawak	1.0	0.2	0.2	2.9	2.8	2.8

Source: DOSM, MIDFR

PPI set to fly higher in 2HCY24 amid diesel-subsidy rationalization. Malaysia's PPI inflation rate rose to +1.9%yoy in Apr-24, rising for 3-straight months and the fastest increase since Dec-22. By sector, the manufacturing sector saw input costs rising faster at +0.8%yoy (Mar-24: +0.6%yoy). Meanwhile, the mining sector's inflation was higher at +10.0%yoy (Mar-24: +8.3%yoy), the steepest rise almost 2-year. However, price inflation for the agriculture sector eased slightly to +5.4%yoy (Mar-24: +5.5%yoy). Costs for electricity, gas & water supply expanded faster +1.0%yoy, the highest in 10-month after slow rise of +0.1%yoy in the previous 2-month. By stage of production, the cost of processing crude materials rose at the same pace of +7.4%yoy as in the previous month, still the highest reading since Jun-22. Cost for processing intermediate materials deflated further but marginally at -0.1%yoy, the softest deflation in a year. The processing cost of finished goods increased by +2.4%yoy, the steepest in 7-month. Against the previous month's producers' cost increase slowed to +0.5%mom, lower than the 2-year high of +1.6%mom in the previous month. The growing PPI inflation signalled higher cost pressures to local businesses. Although businesses will be affected by the fluctuations in the global commodity prices, we foresee cost pressures to be higher this year considering the effects of policy changes e.g. subsidy rationalisation and rising fuel prices. On that note, we foresee consumer inflation would be slightly higher at +2.7% this year (2023: +2.5%) mainly due to supply-side changes.

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Feb-24	Mar-24	Apr-24	Feb-24	Mar-24	Apr-24
PPI	0.7	1.6	0.5	0.3	1.6	1.9
Crude Materials	2.7	3.2	0.7	5.6	7.4	7.4
Foodstuffs	0.2	(0.6)	(0.4)	3.6	0.9	0.4
Non-food	3.2	3.9	1.0	6.0	8.8	9.0
Non-food ex fuel	3.8	7.3	1.5	6.9	8.0	8.4
Crude Fuel	2.8	2.3	0.8	5.6	9.2	9.3
Intermediate Materials	0.1	1.3	0.5	(1.7)	(0.4)	(0.1)
Manufactured Goods	0.3	1.2	1.3	(0.5)	0.5	1.2
Construction	(0.3)	0.0	0.4	4.2	3.9	3.2
Processed Fuel & Lubricants	(0.7)	3.1	(1.6)	(12.9)	(9.2)	(9.6)

	MoM%			YoY%		
	Feb-24	Mar-24	Apr-24	Feb-24	Mar-24	Apr-24
Containers	(0.3)	0.1	(2.3)	(2.8)	(2.2)	(4.8)
Supplies	0.5	0.3	0.6	7.2	6.8	7.5
Finished Goods	0.7	0.9	0.4	1.1	1.9	2.4
Consumer Goods	(0.4)	0.3	0.4	(1.0)	(0.5)	(0.5)
Consumer Goods ex. Foods	(0.6)	0.1	0.5	(1.5)	(0.8)	(0.9)
Capital Equipment	1.5	1.6	0.2	2.9	4.0	4.8

Source: DOSM, MIDFR

Further moderation of inflationary pressure in the US. The US consumer headline inflation rate moderated further to +3.3%yoy in May-24, the slowest in 3-month and below market expectations of +3.4%yoy. Among the downside factors were food inflation rate +2.1%yoy (Apr-24: +2.2%yoy), shelter +5.4%yoy (Apr-24: +5.5%yoy) and transportation +10.5%yoy (Apr-24: +11.2%yoy). Easing further, American core inflation rate touched +3.4%yoy, the lowest rate since Apr-21 and below market estimates of +3.5%yoy. The moderation of the demand-driven inflation rate is in tandem with the rising jobless rate in the US, which at more than 2-year high of 4.0% in May-24. As for Euro Area, headline inflation rate rose to 3-month high at +2.6%yoy while core inflation rate edged up slightly to +2.9%yoy (Apr-24: +2.7%yoy). Across the globe, China's consumer inflation rate remained muted less than +1.0% since Feb-24. Similarly, core inflation rate registered at +0.6%yoy (Apr-24: +0.7%yoy).

Table 4: Global Headline Inflation (YoY%)

	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24
Malaysia	1.5	1.5	1.5	1.8	1.8	1.8	2.0
Indonesia	2.9	2.6	2.6	2.8	3.1	3.0	2.8
Singapore	3.6	3.7	2.9	3.4	2.7	2.7	3.1
Thailand	(0.4)	(0.8)	(1.1)	(0.8)	(0.5)	0.2	1.5
Philippines	4.1	3.9	2.8	3.4	3.7	3.8	3.9
Taiwan	2.9	2.7	1.8	3.1	2.1	2.0	2.2
South Korea	3.3	3.2	2.8	3.1	3.1	2.9	2.7
China	(0.5)	(0.3)	(0.8)	0.7	0.1	0.3	0.3
Japan	2.8	2.6	2.2	2.8	2.7	2.5	2.8
Euro Area	2.4	2.9	2.8	2.6	2.4	2.4	2.6
USA	3.1	3.4	3.1	3.2	3.5	3.4	3.3

Source: Macrobond, MIDFR

We forecast average headline inflation rate +2.7% for 2024. We postulate that the government may require more time to harness the subsidy distribution and fuel price mechanism especially for RON95. In our opinion, the targeted-RON95 subsidy may kick-off in 4QCY24. Henceforth, we forecast average inflation rate forecast at +2.7% due to gradual phases of targeted-fuel subsidy implementation and moderating food price growth. As of 5MCY24, headline inflation rate averaged at +1.8% (2023: +2.5%) while non-food at +1.6%


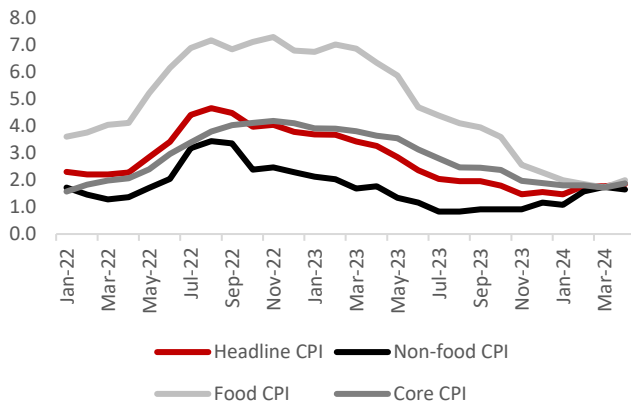
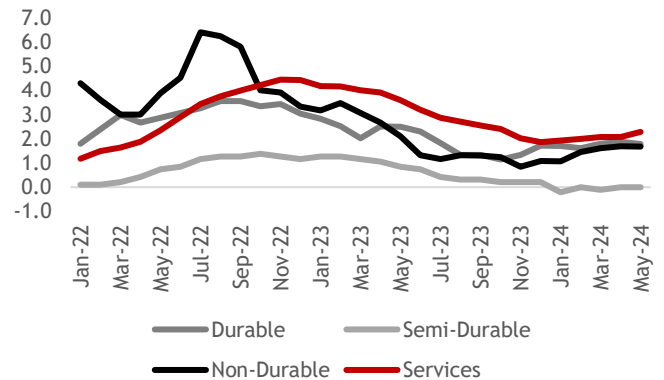
(2023: +1.3%) and food at +1.9% (2023: +4.8%). Average core inflation rate recorded at +1.8% (2023: +3.0%). 

Chart 1: Key CPI Data (YoY%)



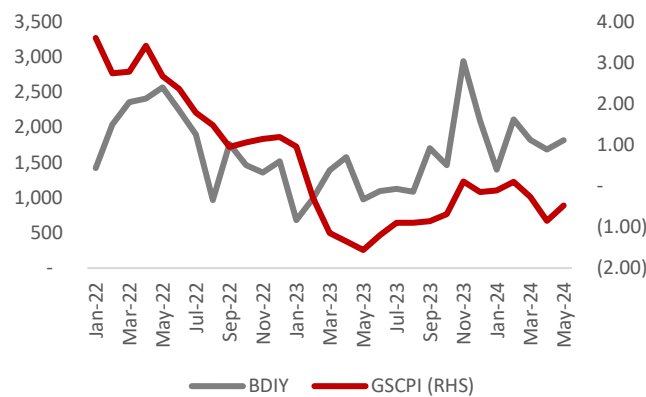
Source: Macrobond, MIDFR

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



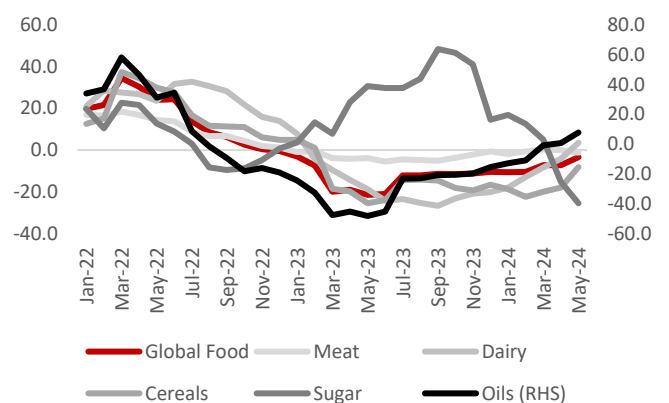
Source: Macrobond, MIDFR

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



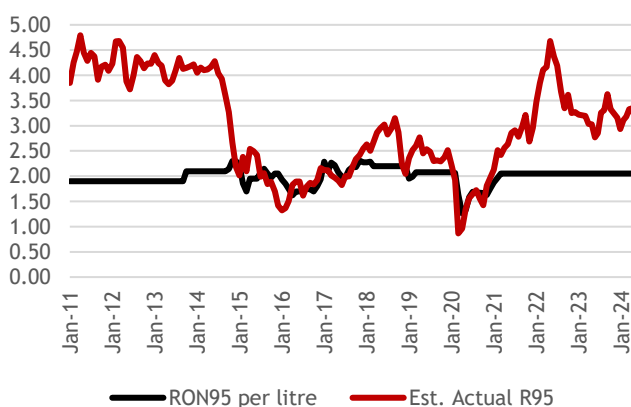
Source: Macrobond, MIDFR

Chart 4: Global Food Inflation (YoY%)



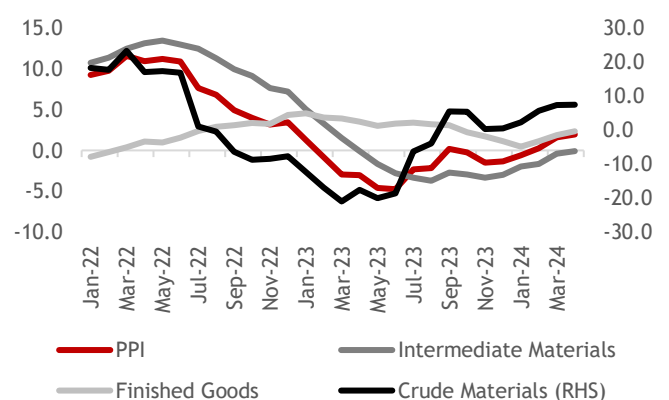
Source: FAO of UN, MIDFR

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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