

ECONOMIC REVIEW | June 2024 Consumer Price Index**Stable Inflation in Jun-24 Despite Diesel Price Surge**

- *Headline inflation was unchanged at +2.0%yoy in Jun-24, still the highest since Sep-23, though it was lower than market expectations of +2.2%yoy. Non-food inflation moderated to +1.9%yoy (May-24: +2.0%yoy), easing from the 15-month high seen in the previous month. Meanwhile, transport inflation rose to +1.2%yoy, a 3-month high as diesel prices soared +15.8%yoy in view of the targeted diesel subsidies.*
- *We continue to foresee a gradual rise in inflationary pressure across all states in Peninsular Malaysia, mainly driven by the implementation of the targeted diesel subsidy. However, we believe the upward pressure will remain manageable, supported by the targeted incentives provided by the government to selected and eligible industry players.*
- *We predict an average headline inflation rate of +2.7% for 2024. We believe the government may need more time to refine the subsidy distribution and fuel price mechanisms, particularly for RON95. In our view, the targeted-RON95 subsidy may commence in 4QCY24. Therefore, we anticipate an average inflation rate of +2.7% due to the gradual implementation of targeted fuel subsidies and moderating food price growth.*

Headline inflation remained at +2.0%yoy in Jun-24 despite rationalisation of diesel-subsidy.

Headline inflation was unchanged at +2.0%yoy in Jun-24, still the highest since Sep-23 and lower than market expectations of +2.2%yoy. Non-food inflation moderated to +1.9%yoy (May-24: +2.0%yoy), easing from the 15-month high in the previous month. Conversely, food inflation ticked up to +1.9%yoy (May-24: +1.8%yoy), with food-at-home prices rising +0.9%yoy, the fastest in 5 months. Due to targeted diesel subsidies, transport inflation rose to +1.2%yoy, a 3-month high as diesel prices soared +15.8%yoy. However, health inflation descended to +1.8%yoy, the lowest in 16 months, driven by the decline in prices of medical products, diagnostic products, and protective devices (i.e. COVID-19 screening and protective items), leading to moderation in non-food inflation. Demand-driven inflation was steady, with core inflation at +1.9%yoy for the 3rd consecutive month, the highest since end-2023. Quarterly inflation stood at +1.9%yoy in 2QCY24, up from +1.7%yoy in the previous quarter. In 2HCY24, we expect a gradual pick-up in prices due to targeted diesel subsidies, increased utility charges, a higher SST rate of 8.0% on selected items, and a 10% low-value goods tax (LVGT). As we approach 4QCY24, we anticipate the possible implementation of a managed-float mechanism for the RON95 targeted subsidy roll-out.

Global food prices deflation continued to slow. Global food price decreased slower by -2.0%yoy in Jun-24, the smallest contraction rate since Dec-22. Prices for meat declined -1.8%yoy, while prices of cereals and sugar contracted -9.0%yoy and -21.6%yoy respectively. Dairy prices rose by +6.6%yoy, for the second consecutive while prices of edible oils ticked up +13.8yoy, the fastest in 2 years. In 1HCY24 global food prices contracted -6.9% (2023: -13.8%). Following that, domestic food price growth still muted as of 1HCY24, averaging at +1.9%yoy. This is way lower than pre-pandemic average +3.2%pa and post-pandemic average +4.1%pa. However, as a net importer of food, Malaysia remains highly vulnerable to external factors and currency fluctuations. As of 5MCY24, the ratio of food imports to total imports was 6.8% (2023: 6.5%), while the ratio of food exports to total exports was 3.4% (2023: 3.3%).

Table 1: Consumer price index by component

	Weightage %	MoM%			YoY%		
		Apr-24	May-24	Jun-24	Apr-24	May-24	Jun-24
Core CPI	-	0.2	0.4	0.1	1.9	1.9	1.9
Headline CPI	100.0	0.2	0.3	0.2	1.8	2.0	2.0
Food and Beverages	29.8	0.4	0.1	0.0	2.0	1.8	2.0
Food	29.0	0.1	0.3	0.3	2.0	1.8	1.9
Food at Home	15.6	(0.2)	0.3	0.5	0.4	0.5	0.9
Food Away from Home	13.4	0.5	0.2	0.0	4.0	3.4	3.3
Non-alcoholic Beverages	0.8	(0.1)	0.3	0.2	1.3	1.3	1.3
Non-Food	70.2	0.2	0.3	0.1	1.7	2.0	1.9
Alcoholic Beverages & Tobacco	1.9	0.1	0.2	0.1	0.5	0.6	0.7
Clothing & Footwear	2.7	(0.1)	0.1	0.0	(0.3)	(0.2)	(0.1)
Housing, Water, Electricity, Gas & Other Fuels	23.2	0.2	0.6	0.5	3.0	3.2	3.2
Furnishings, Household Equip & Maintenance	4.3	0.1	0.0	0.1	1.0	0.8	0.9
Health	2.7	0.2	0.0	(0.2)	2.3	2.2	1.8
Transport	11.3	(0.1)	(0.1)	0.5	0.8	0.9	1.2
Information and Communication	6.6	(0.1)	0.6	0.0	(2.5)	0.4	0.3
Recreation, Sport and Culture	3.0	0.8	0.3	0.3	2.0	1.9	1.9
Education	1.3	0.1	0.4	0.2	1.4	1.5	1.7
Restaurants & Accommodation Services	3.4	0.3	0.3	0.3	3.5	3.2	3.3
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	0.9	0.3	(0.1)	3.1	3.0	2.8

Source: DOSM, MIDFR

We maintain our expectation for a gradual inflation pickup in Peninsular Malaysia in 2HCY24.

Despite inflation steadying in Jun-24, we continue to foresee a gradual rise in inflationary pressure across all states in Peninsular Malaysia, driven by the implementation of the targeted Diesel subsidy. However, we believe the upward pressure will remain manageable due to targeted incentives provided by the government to selected and eligible industry players. As for Sabah and Sarawak, we expect minimal transportation price pressure as Diesel prices remain unchanged.

Table 2: Inflation by state (YoY%)

	MoM%			YoY%		
	Apr-24	May-24	Jun-24	Apr-24	May-24	Jun-24
Urban	0.2	0.3	0.1	1.8	1.9	1.9
Rural	0.1	0.2	0.2	1.8	1.8	1.9
Peninsular Malaysia	0.1	0.3	0.1	1.8	1.9	1.9
Kedah	0.0	0.2	0.1	1.4	1.4	1.4
Perlis	0.0	0.3	0.2	1.8	2.0	2.0
Pulau Pinang	0.2	0.4	0.1	3.2	3.3	3.3
Perak	0.1	0.3	0.2	1.0	1.2	1.3
Selangor	0.2	0.4	0.0	2.2	2.4	2.4
Putrajaya	0.2	0.0	0.1	1.6	1.6	1.4

	MoM%			YoY%		
	Apr-24	May-24	Jun-24	Apr-24	May-24	Jun-24
Kuala Lumpur	0.2	0.1	0.3	1.4	1.0	1.1
Melaka	0.2	0.2	0.2	1.1	1.3	1.3
Negeri Sembilan	0.1	0.2	0.2	1.0	1.2	1.2
Johor	0.0	0.4	0.3	1.6	1.9	2.0
Pahang	0.2	0.4	0.3	2.4	2.6	2.7
Kelantan	0.0	0.2	0.2	1.0	1.2	1.3
Terengganu	0.0	0.2	0.2	1.4	1.6	1.6
Sabah	0.2	0.1	0.1	1.6	1.2	1.3
Sarawak	0.2	0.2	0.2	2.8	2.8	2.7

Source: DOSM, MIDFR

PPI to rise faster in 2HCY24 on diesel-subsidy rationalization. Producer price inflation in Malaysia continued to increase albeit softer at +1.4%yoy in May-24, down from 16-month high of +1.9%yoy in the preceding month. The increase continued to suggest rising cost pressures for the local companies for the 3rd straight month. The moderation in May-24 was mainly attributed to softer PPI inflation in the agriculture, forestry, & fishing (May-24: +1.3%yoy; Apr-24: +5.4%yoy) and mining (May-24: +6.6%yoy; Apr-24: +10%yoy) sectors. In contrast, manufacturing costs picked up to +1.0%yoy (Apr-24: +0.8%yoy), in line with the higher prices of electricity and gas supply (May-24: +1.5%yoy; Apr-24: +1.0%yoy) and water supply (May-24: +8.7%yoy; Apr-24: +7.2%yoy), following the water tariff hike in Feb-24. At the moment PPI inflation remains below CPI, posing limited pressures to pass on price increases to consumers. However, we foresee businesses may hike selling prices following the recent hike in diesel prices.

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Mar-24	Apr-24	May-24	Mar-24	Apr-24	May-24
PPI	1.6	0.5	(0.9)	1.6	1.9	1.4
Crude Materials	3.2	0.7	(4.3)	7.4	7.4	3.7
Foodstuffs	(0.6)	(0.4)	1.5	0.9	0.4	0.2
Non-food	3.9	1.0	(5.6)	8.8	9.0	4.4
Non-food ex fuel	7.3	1.5	(7.8)	8.0	8.4	2.4
Crude Fuel	2.3	0.8	(4.4)	9.2	9.3	5.5
Intermediate Materials	1.3	0.5	(0.4)	(0.4)	(0.1)	(0.1)
Manufactured Goods	1.2	1.3	0.4	0.5	1.2	1.6
Construction	0.0	0.4	(0.6)	3.9	3.2	1.5
Processed Fuel & Lubricants	3.1	(1.6)	(2.2)	(9.2)	(9.6)	(10.1)
Containers	0.1	(2.3)	(1.5)	(2.2)	(4.8)	(5.5)
Supplies	0.3	0.6	(1.0)	6.8	7.5	6.7
Finished Goods	0.9	0.4	0.7	1.9	2.4	3.3
Consumer Goods	0.3	0.4	0.3	(0.5)	(0.5)	(0.1)
Consumer Goods ex. Foods	0.1	0.5	(0.1)	(0.8)	(0.9)	(0.9)
Capital Equipment	1.6	0.2	1.0	4.0	4.8	6.1

Source: DOSM, MIDFR

Further moderation of inflationary pressure in the US. The US headline CPI inflation moderated to +3.0%yoy in Jun-24 (May-24: +3.3%yoy), a 1-year low and softer than market expectations of +3.1%yoy. Energy prices rose by +1.0%yoy, the slowest increase in 4 months of inflationary sequence weighed down by lower gasoline prices. Food inflation, on the other hand, accelerated slightly to +2.2%yoy from +2.1%yoy in the previous month, which was the lowest since the start of the Covid-19 pandemic. Excluding volatile price items, the underlying inflation decelerated further to +3.3%yoy (May-24: +3.4%yoy), the softest reading in more than 3 years. The moderation of the demand-driven inflation rate is in tandem with the rising jobless rate in the US, which stood at 4.1% in Jun-24, highest since Nov-21. As for Euro Area, headline inflation moderated to +2.5%yoy while core inflation rate was unchanged at +2.9%yoy. Across the globe, China continued to face deflationary risk as inflation slowed to +0.2%yoy, a 3-month low while core inflation remained steady at +0.6%yoy.

Table 4: Global Headline Inflation (YoY%)

	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Malaysia	1.5	1.5	1.8	1.8	1.8	2.0	2.0
Indonesia	2.6	2.6	2.8	3.1	3.0	2.8	2.5
Singapore	3.7	2.9	3.4	2.7	2.7	3.1	2.4
Thailand	(0.8)	(1.1)	(0.8)	(0.5)	0.2	1.5	0.6
Philippines	3.9	2.8	3.4	3.7	3.8	3.9	3.7
Taiwan	2.7	1.8	3.1	2.1	2.0	2.2	2.4
South Korea	3.2	2.8	3.1	3.1	2.9	2.7	2.4
China	(0.3)	(0.8)	0.7	0.1	0.3	0.3	0.2
Japan	2.6	2.2	2.8	2.7	2.5	2.8	2.8
Euro Area	2.9	2.8	2.6	2.4	2.4	2.6	2.5
USA	3.4	3.1	3.2	3.5	3.4	3.3	3.0

Source: Macrobond, MIDFR


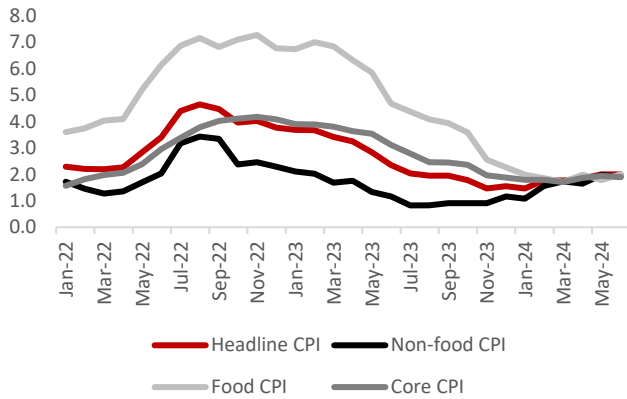
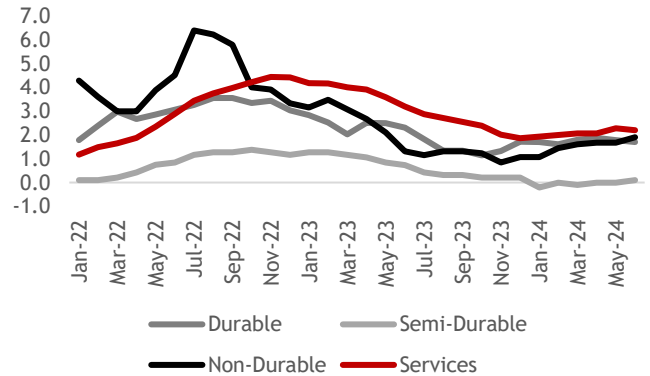
We predict an average headline inflation rate of 2.7% for 2024. We believe the government may need more time to refine the subsidy distribution and fuel price mechanisms, particularly for RON95. In our view, the targeted-RON95 subsidy may commence in 4QCY24. Therefore, we anticipate an average inflation rate of +2.7% due to the gradual implementation of targeted fuel subsidies and moderating food price growth. As of 6MCY24, headline inflation rate averaged at +1.8% (2023: +2.5%) while non-food at +1.7% (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%)



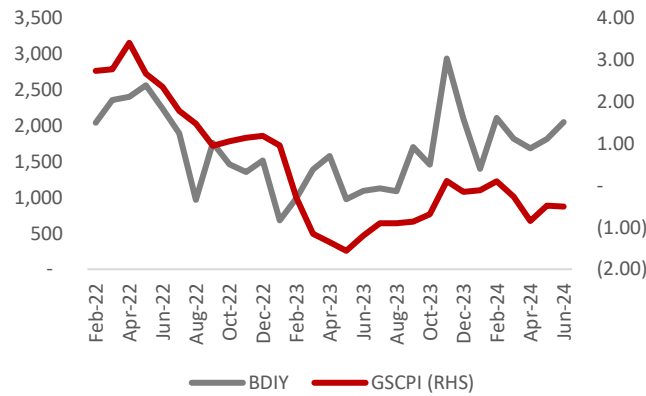
Source: Macrobond, MIDFR

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



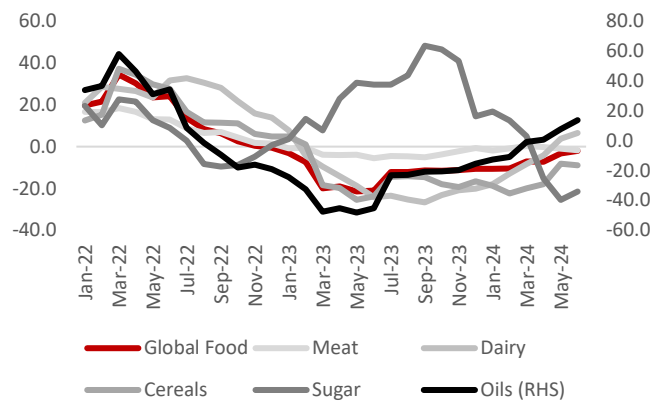
Source: Macrobond, MIDFR

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



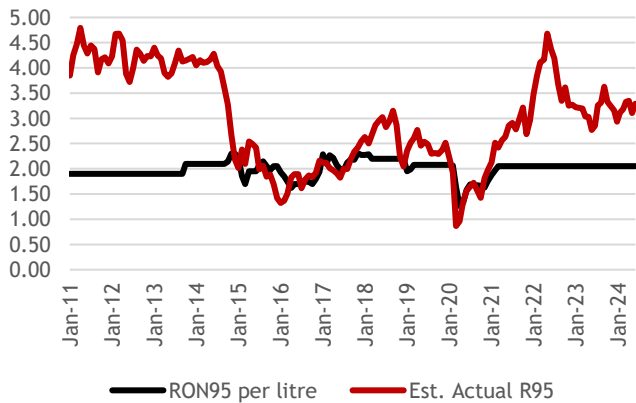
Source: Macrobond, MIDFR

Chart 4: Global Food Inflation (YoY%)



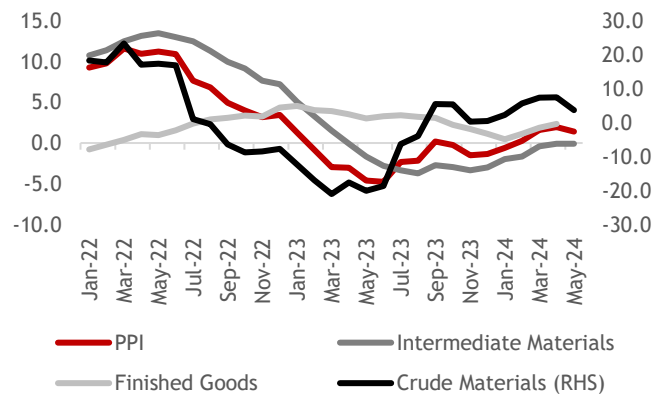
Source: FAO of UN, MIDFR

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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