

ECONOMIC REVIEW | July 2024 Consumer Price Index**Inflation Steadied at +2.0%yoy in Jul-24 Despite Higher Non-Food Inflation**

- *Headline inflation steadied at +2.0%yoy in Jul-24. Headline CPI inflation remained at +2.0%yoy for the 3rd consecutive month in Jul-24, missing market expectations of +2.1%yoy. Food inflation eased to a 4-month low of +1.7%yoy (Jun-24: +1.9%yoy), with food-at-home prices rising by a mere +0.3%yoy. Non-food inflation quickened to +2.1%yoy, the fastest in 16 months.*
- *Maintain outlook for gradual rise in inflation across Peninsular Malaysia in 2HCY24. Although inflation stabilized in Jul-24, we continue to anticipate rising inflationary pressures across all states, largely influenced by the implementation of the targeted diesel subsidy. However, we expect this upward pressure to remain contained.*
- *We foresee more moderate inflation at 2.3% in 2024. Given the still meek consumer inflation in 7MCY24, we now expect the CPI inflation to moderate to +2.3% in 2024 (2023: +2.5%yoy). We still maintain our expectations the targeted RON95 subsidy will commence in 4QCY24, but the relatively moderate price increases in the earlier part of the year suggest the spillover from policy changes thus far have been limited.*

Headline inflation steadied at +2.0%yoy in Jul-24. Headline CPI inflation remained at +2.0%yoy for the 3rd consecutive month in Jul-24, missing market expectations of +2.1%yoy. Food inflation eased to a 4-month low of +1.7%yoy (Jun-24: +1.9%yoy), with food-at-home prices rising by a mere +0.3%yoy. Non-food inflation quickened to +2.1%yoy, the fastest in 16 months. The rise in non-food inflation was predominantly due to the uptick in prices of personal care, social protection & miscellaneous goods & services at +3.2%yoy, which was the highest since 2016 and rebound in prices of insurance & financial services. Meanwhile, transport inflation was unchanged at +1.2%yoy, despite a more pronounced impact of diesel subsidy rationalisation pushing diesel prices soaring by +22.6%yoy (Jun-24: +15.8%yoy). Underlying demand pressure is still contained as core CPI inflation steadied at +1.9%yoy for the 4th consecutive month, the highest since end-2023. In the first 7MCY24, consumer inflation averaged at +1.8%yoy (2023: +2.5%yoy). In 2HCY24, we foresee a gradual rise in prices, attributed to targeted diesel subsidies, increased utility charges, the higher SST rate of 8.0% on selected items, and the 10% low-value goods tax (LVGT). As we approach 4QCY24, we anticipate the potential implementation of a managed-float mechanism for the RON95 prices as a result of targeted subsidy roll-out.

Global food prices deflated faster. Global food price declined faster by -3.0%yoy in Jul-24 after slowing to -1.8%yoy in the previous month. Prices for meat rose by +0.8%yoy, while prices of cereals and sugar prices fell by -12.0%yoy and -17.8%yoy, respectively. Dairy prices rose by +7.2%yoy, the fastest inflation in 3 months, while prices of edible oils rose +4.0%yoy, a sharp moderation from previous month's 2-year high of +13.8%yoy. In 7MCY24 global food prices contracted -6.3% (2023: -13.8%). Subsequently, domestic food price growth has remained subdued as of 7MCY24, with an average increase of +1.8%yoy. This is significantly lower than the pre-pandemic average of +3.2% per annum and the post-pandemic average of +4.1% per annum. Nonetheless, as a net food importer, Malaysia remains particularly susceptible to external factors and currency fluctuations. As of

1HCY24 the ratio of food imports to total imports was 6.7% (2023: 6.5%), while the ratio of food exports to total exports was relatively smaller at 3.4% (2023: 3.3%).

Table 1: Consumer price index by component

	Weightage %	MoM%			YoY%		
		May-24	Jun-24	Jul-24	May-24	Jun-24	Jul-24
Core CPI	-	0.4	0.1	0.1	1.9	1.9	1.9
Headline CPI	100.0	0.3	0.2	0.1	2.0	2.0	2.0
Food and Beverages	29.8	0.1	0.0	0.1	1.8	2.0	1.6
Food	29.0	0.3	0.3	0.0	1.8	1.9	1.7
Food at Home	15.6	0.3	0.5	0.0	0.5	0.9	0.3
Food Away from Home	13.4	0.2	0.0	0.0	3.4	3.3	3.2
Non-alcoholic Beverages	0.8	0.3	0.2	0.0	1.3	1.3	1.4
Non-Food	70.2	0.3	0.1	0.1	2.0	1.9	2.1
Alcoholic Beverages & Tobacco	1.9	0.2	0.1	0.2	0.6	0.7	0.9
Clothing & Footwear	2.7	0.1	0.0	0.0	(0.2)	(0.1)	(0.2)
Housing, Water, Electricity, Gas & Other Fuels	23.2	0.6	0.5	0.3	3.2	3.2	3.2
Furnishings, Household Equip & Maintenance	4.3	0.0	0.1	0.2	0.8	0.9	0.9
Health	2.7	0.0	(0.2)	0.3	2.2	1.8	1.9
Transport	11.3	(0.1)	0.5	0.2	0.9	1.2	1.2
Information and Communication	6.6	0.6	0.0	0.1	0.4	0.3	0.5
Recreation, Sport and Culture	3.0	0.3	0.3	0.1	1.9	1.9	2.2
Education	1.3	0.4	0.2	0.2	1.5	1.7	1.7
Restaurants & Accommodation Services	3.4	0.3	0.3	0.4	3.2	3.3	3.4
Insurance & Financial Services	4.0	0.0	0.0	1.0	(0.1)	(0.1)	0.5
Personal Care, Social Protect & Misc. Goods & Services	5.8	0.3	(0.1)	0.3	3.0	2.8	3.2

Source: DOSM, MIDFR

Maintain outlook for gradual rise in inflation across Peninsular Malaysia in 2HCY24. Although inflation stabilized in Jul-24, we continue to anticipate rising inflationary pressures across all states, largely influenced by the implementation of the targeted diesel subsidy. However, we expect this upward pressure to remain contained, supported by targeted government incentives for selected and eligible industry players and a more proactive actions to monitor price changes. In contrast, for Sabah and Sarawak, we foresee minimal impact on transportation costs, as diesel prices are expected to remain unchanged. Thus far, higher charges for restaurants & hotels have been the main sub-component which contributes to the rising prices in Sarawak and Sabah.

Table 2: Inflation by state (YoY%)

	MoM%			YoY%		
	May-24	Jun-24	Jul-24	May-24	Jun-24	Jul-24
Urban	0.3	0.1	0.1	1.9	1.9	2.0
Rural	0.2	0.2	0.2	1.8	1.9	1.9
Peninsular Malaysia	0.3	0.1	0.1	1.9	1.9	2.0
Kedah	0.2	0.1	0.1	1.4	1.4	1.4
Perlis	0.3	0.2	0.1	2.0	2.0	2.0

	MoM%			YoY%		
	May-24	Jun-24	Jul-24	May-24	Jun-24	Jul-24
Pulau Pinang	0.4	0.1	0.1	3.3	3.3	3.4
Perak	0.3	0.2	(0.1)	1.2	1.3	1.0
Selangor	0.4	0.0	0.1	2.4	2.4	2.4
Putrajaya	0.0	0.1	(0.1)	1.6	1.4	1.2
Kuala Lumpur	0.1	0.3	0.4	1.0	1.1	1.5
Melaka	0.2	0.2	0.2	1.3	1.3	1.4
Negeri Sembilan	0.2	0.2	0.1	1.2	1.2	1.3
Johor	0.4	0.3	0.0	1.9	2.0	1.9
Pahang	0.4	0.3	0.1	2.6	2.7	2.6
Kelantan	0.2	0.2	(0.1)	1.2	1.3	1.0
Terengganu	0.2	0.2	0.2	1.6	1.6	1.6
Sabah	0.1	0.1	0.1	1.2	1.3	1.2
Sarawak	0.2	0.2	0.1	2.8	2.7	2.7

Source: DOSM, MIDFR

Diesel subsidy rationalisation led to higher PPI inflation in Jun-24. The producer price index accelerated to +1.6%yoy in Jun-24 (May-24: +1.4%yoy), marking the fifth consecutive month of inflation. By sector, forestry & fishing experienced a production cost increase of +3.4%yoy (May-24: +1.3%yoy), while the mining sector saw its producer price inflation moderating for the 3rd consecutive month to +4.6%yoy (May-24: +6.6%yoy). Manufacturing costs rose +1.1%yoy (May-24: +1.0%yoy), the highest increase in its 4-month expansionary trend. In contrast, electricity & gas costs inflated by +1.0%yoy, easing from +1.5%yoy in the previous month. Water supply costs continued to climb, up by +7.8%yoy (May-24: +8.7%yoy), staying above 5% for the fourth consecutive month following the water tariff hike in Feb-24. The higher PPI inflation in Jun-24 was anticipated following the implementation of diesel subsidy rationalization early in the month. However, PPI inflation remains below CPI inflation indicating that producers have been able to absorb additional costs without having to transfer them to their consumers. Nevertheless, we expect growing cost pressures may force some businesses to raise selling prices in 2HCY24, gradually passing on the increased costs to consumers.

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Apr-24	May-24	Jun-24	Apr-24	May-24	Jun-24
PPI	0.5	(0.9)	(0.1)	1.9	1.4	1.6
Crude Materials	0.7	(4.3)	(1.8)	7.4	3.7	2.6
Foodstuffs	(0.4)	1.5	(0.3)	0.4	0.2	(1.1)
Non-food	1.0	(5.6)	(2.2)	9.0	4.4	3.5
Non-food ex fuel	1.5	(7.8)	1.8	8.4	2.4	6.5
Crude Fuel	0.8	(4.4)	(4.2)	9.3	5.5	1.9
Intermediate Materials	0.5	(0.4)	0.2	(0.1)	(0.1)	0.7
Manufactured Goods	1.3	0.4	0.3	1.2	1.6	2.1
Construction	0.4	(0.6)	1.2	3.2	1.5	2.4
Processed Fuel & Lubricants	(1.6)	(2.2)	(0.2)	(9.6)	(10.1)	(8.0)
Containers	(2.3)	(1.5)	0.0	(4.8)	(5.5)	(5.7)

	MoM%			YoY%		
	Apr-24	May-24	Jun-24	Apr-24	May-24	Jun-24
Supplies	0.6	(1.0)	0.4	7.5	6.7	6.4
Finished Goods	0.4	0.7	0.4	2.4	3.3	2.8
Consumer Goods	0.4	0.3	(0.5)	(0.5)	(0.1)	(1.0)
Consumer Goods ex. Foods	0.5	(0.1)	(0.7)	(0.9)	(0.9)	(1.8)
Capital Equipment	0.2	1.0	1.0	4.8	6.1	5.8

Source: DOSM, MIDFR

US inflation slowed to over 1-year low. US consumer inflation eased to +2.9%yoy in Jul-24 (Jun-24: +3.0%yoy), the lowest in over a year and softer than market expectations of +3.0%yoy. Food inflation remained at +2.2%yoy, while energy prices rose marginally faster at +1.1%yoy (Jun-24: +1.0%yoy). Goods prices continued to decline at -0.4%yoy, consistent with previous months, and services inflation softened to +4.9%yoy (Jun-24: +5.0%yoy), the mildest in six months. Excluding volatile items, the US core CPI inflation eased to +3.2%yoy (Jun-24: +3.3%yoy), the lowest since Apr-21 and in line with market expectations. In euro area, the bloc's headline CPI inflation accelerated to +2.6%yoy while the core inflation was unchanged at +2.9%yoy. Across the globe, China continued to face deflationary risk as its inflation reading remained low albeit rising to +0.5%yoy in Jul-24, while core inflation slowed to a 6-month low of +0.4%yoy.

Table 4: Global Headline Inflation (YoY%)

	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24
Malaysia	1.5	1.8	1.8	1.8	2.0	2.0	2.0
Indonesia	2.6	2.8	3.1	3.0	2.8	2.5	2.1
Singapore	2.9	3.4	2.7	2.7	3.1	2.4	-
Thailand	(1.1)	(0.8)	(0.5)	0.2	1.5	0.6	0.8
Philippines	2.8	3.4	3.7	3.8	3.9	3.7	4.4
Taiwan	1.8	3.1	2.1	2.0	2.2	2.4	2.5
South Korea	2.8	3.1	3.1	2.9	2.7	2.4	2.6
China	(0.8)	0.7	0.1	0.3	0.3	0.2	0.5
Japan	2.2	2.8	2.7	2.5	2.8	2.8	-
Euro Area	2.8	2.6	2.4	2.4	2.6	2.5	2.6
USA	3.1	3.2	3.5	3.4	3.3	3.0	2.9

Source: Macrobond, MIDFR


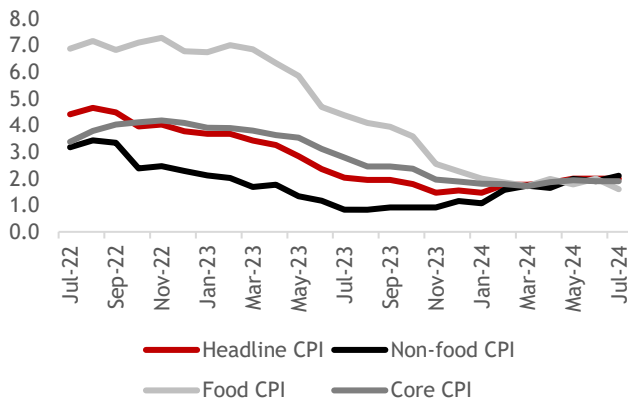
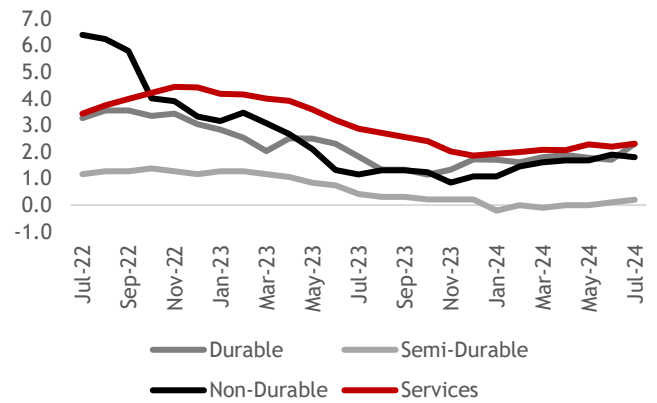
We foresee more moderate inflation at 2.3% in 2024. Given the still meek consumer inflation in 7MCY24, we now expect the CPI inflation to moderate to +2.3% in 2024 (2023: +2.5%yoy). We still maintain our expectations the targeted RON95 subsidy will commence in 4QCY24, but the relatively moderate price increases in the earlier part of the year suggest the spillover from policy changes thus far have been limited. Consequently, this will also keep the overall full-year CPI under control, mitigating possibly higher inflationary pressures in the latter part of the year. The headline CPI inflation has averaged relatively lower at 1.8%yoy in 7MCY24 (2023: +2.5%), with non-food inflation at +1.7%yoy (2023: +1.3%) and food inflation at +1.8%yoy (2023: +4.8%). In the same period, the average core CPI inflation stood at +1.8%yoy (2023: +3.0%). 

Chart 1: Key CPI Data (YoY%)



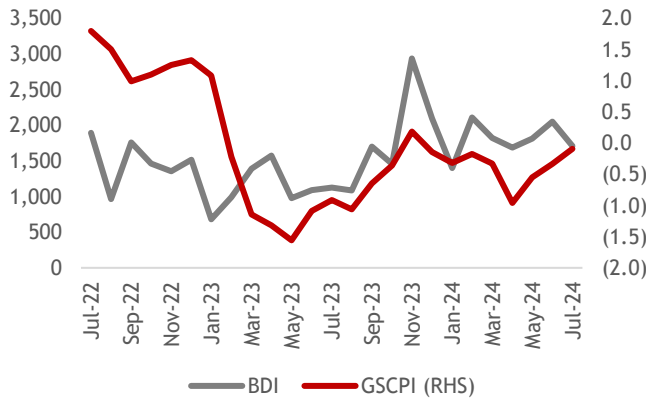
Source: Macrobond, MIDFR

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



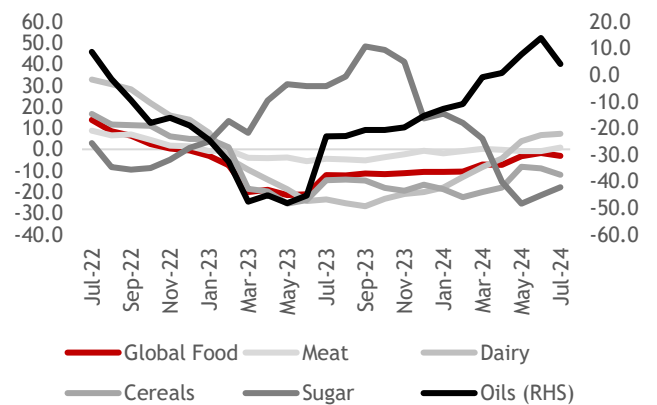
Source: Macrobond, MIDFR

Chart 3: Baltic Dry Index (BDI) vs Global Supply Chain Pressure Index (GSCPI)



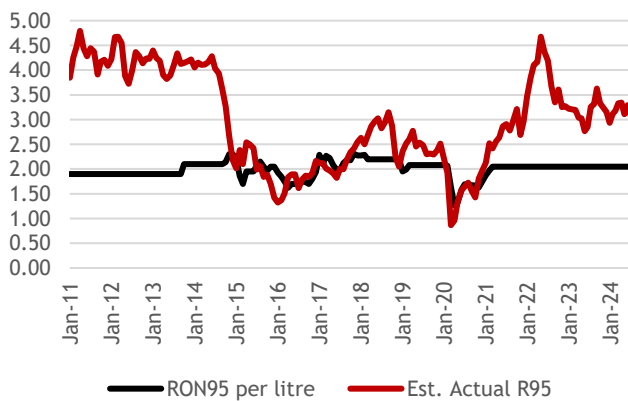
Source: Macrobond, MIDFR

Chart 4: Global Food Inflation (YoY%)



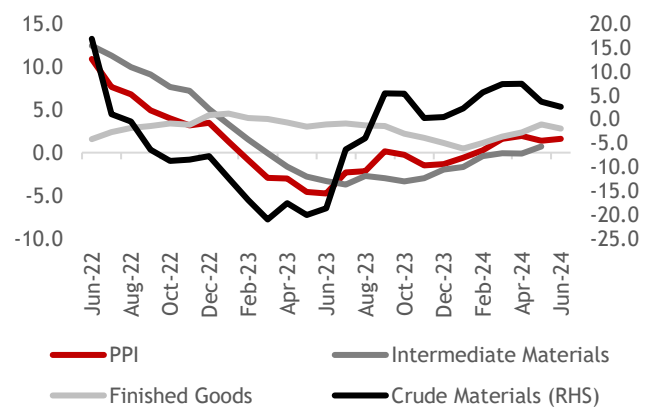
Source: FAO of UN, MIDFR

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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