

**ECONOMIC REVIEW** | August 2024 Consumer Price Index**Price Pressures Remained Under Control as Headline CPI Eased to +1.9%yoy in Aug-24**

- *Headline inflation moderated to +1.9%yoy in Aug-24. Malaysia's headline CPI inflation moderated to +1.9%yoy in Aug-24, marginally slower than our estimate and market expectations. Food inflation eased further to a 3-year low of +1.6%yoy, while non-food inflation slowed to +2.1%yoy. Transport inflation, on the other hand, rose faster at +1.3%yoy, capturing the effect of higher diesel prices and targeted subsidies.*
- *Potential stable but gradual rise in inflation across Peninsular Malaysia in 2HCY24. We continue to anticipate a gradual rise in inflationary pressures across all states in the coming months, taking into account policy changes such as the implementation of targeted subsidy and tariff hikes. Thus far, the upward pressure has been well-contained.*
- *Inflation will moderate to 2.3% in 2024. Given the relatively lower rise in CPI in 8MCY24, we maintain our projection that headline CPI inflation would moderate to +2.3% in 2024 (2023: +2.5%). Although we still expect the targeted subsidy for RON95 will be implemented in 4QCY24, if the subsidy rationalisation were to be delayed to next year, the full-year CPI inflation could be -0.2ppt lower than our existing forecast.*

**Headline inflation moderated to +1.9%yoy in Aug-24.** Malaysia's headline CPI inflation moderated to +1.9%yoy in Aug-24 after remaining stable at +2.0%yoy in the previous 3 months. This was marginally slower than our estimate and market expectations because as food inflation eased further to a 3-year low of +1.6%yoy (Jul-24: +1.7%yoy), with inflation for foods at home remaining low at +0.3%yoy and the prices of foods away from home rising slower at 7-month low of +3.1%yoy. Meanwhile, non-food inflation also slowed to +2.1%yoy (from 19-month high of +2.2%yoy in Jul-24) due to slower inflation for utility charges; furnishing, household equipment & maintenance; health; and restaurants & accommodation services. Transport inflation, on the other hand, rose faster at +1.3%yoy, including the increase in diesel prices following the implementation of targeted subsidies. Underlying demand pressure remained contained in Aug-24 as core CPI inflation steadied at +1.9%yoy for the 5th consecutive month. We view the limited rise in CPI suggests the policy adjustments such as subsidy re-targeting, tariff hikes and SST rate increase so far did not lead to a sharp spike in general prices. Nevertheless, we continue to expect the policy changes will be the main factor that would gradually push inflation higher, particularly the non-food component. As we approach 4QCY24, we foresee further subsidy rationalisation, involving the roll-out of targeted RON95 subsidies, will also add to inflationary pressures. Subject to further announcement by the government, we expect the RON95 price adjustment will be incremental based on the managed float mechanism.

**Global food prices deflated faster.** Global food prices declined further in Aug-24 for the 21st consecutive month but the pace was slower at -1.1%yoy (Jul-24: -3.0%yoy). Higher inflation in prices of meat, dairy products and oils contributed to the slower decline. However, prices of cereals and sugar sustained contraction at double-digit rates, having declined for the past 18 and 5 months, respectively, until Aug-24. In 8MCY24, global food prices contracted -5.6% (2023: -13.8%). Subsequently, domestic food price inflation remained subdued in 8MCY24, averaging at +1.8%yoy (2023: +4.8%). 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 (e.g. changes in global food prices) and fluctuations in ringgit exchange rates. Based on trade data for 7MCY24, the ratio of food imports to Malaysia's total imports

was slightly higher at 6.7% (2023: 6.5%), while the ratio of food exports to total exports was relatively smaller at 3.5% (2023: 3.3%). On a positive note, the strengthening of ringgit recently to a certain extent would limit pressures from higher import costs.

**Table 1: Consumer price index by component**

	Weightage %	MoM%			YoY%		
		Jun-24	Jul-24	Aug-24	Jun-24	Jul-24	Aug-24
<b>Core CPI</b>	-	0.1	0.1	0.2	1.9	1.9	1.9
<b>Headline CPI</b>	100.0	0.2	0.1	0.1	2.0	2.0	1.9
Food and Beverages	29.8	0.3	0.1	0.1	2.0	1.6	1.6
Food	29.0	0.3	0.1	0.0	1.9	1.7	1.6
Food at Home	15.6	0.5	(0.5)	(0.1)	0.9	0.3	0.3
Food Away from Home	13.4	0.0	0.6	0.2	3.3	3.2	3.1
Non-alcoholic Beverages	0.8	0.2	0.2	1.3	1.3	1.4	2.9
Non-Food	70.2	0.1	0.1	0.1	2.0	2.2	2.1
Alcoholic Beverages & Tobacco	1.9	0.1	0.2	0.2	0.7	0.9	1.1
Clothing & Footwear	2.7	0.0	0.0	(0.1)	(0.1)	(0.2)	(0.2)
Housing, Water, Electricity, Gas & Other Fuels	23.2	0.0	0.0	0.2	3.2	3.2	3.1
Furnishings, Household Equip & Maintenance	4.3	0.1	0.2	0.0	0.9	0.9	0.7
Health	2.7	(0.2)	0.3	0.2	1.8	1.9	1.6
Transport	11.3	0.5	0.2	0.1	1.2	1.2	1.3
Information and Communication	6.6	0.0	0.1	0.0	0.3	0.5	0.5
Recreation, Sport and Culture	3.0	0.3	0.1	0.0	1.9	2.2	2.0
Education	1.3	0.2	0.2	0.0	1.7	1.7	1.5
Restaurants & Accommodation Services	3.4	0.3	0.4	0.1	3.3	3.4	3.2
Insurance & Financial Services	4.0	0.0	0.5	0.0	(0.1)	0.5	0.5
Personal Care, Social Protect & Misc. Goods & Services	5.8	(0.1)	0.3	0.1	2.8	3.2	3.2

Source: DOSM, MIDFR

**Potential stable but gradual rise in inflation across Peninsular Malaysia in 2HCY24.** We continue to anticipate a gradual rise in inflationary pressures across all states in the coming months, taking into account policy changes such as the implementation of targeted subsidy and tariff hikes. Thus far, the upward pressure has been well-contained, supported by targeted government incentives given to selected and eligible individuals and industry players as well as proactive actions to monitor prices and curb profiteering. In contrast, we foresee more moderate pressures from transportation costs for Sarawak and Sabah because diesel prices remained unchanged. However, the main concern would be higher charges for restaurants & hotels given the stronger demand from increased tourist spending. For Sarawak, source of inflation also came from higher electricity tariff, while food price increases remained one of contributors to inflation in Sabah.

**Table 2: Inflation by state (YoY%)**

	MoM%			YoY%		
	Jun-24	Jul-24	Aug-24	Jun-24	Jul-24	Aug-24
<b>Urban</b>	0.1	0.1	0.1	1.9	2.0	1.9
<b>Rural</b>	0.2	0.2	0.0	1.9	1.9	1.7
Peninsular Malaysia	0.1	0.1	0.1	1.9	2.0	1.9
Kedah	0.1	0.1	0.0	1.4	1.4	1.4

	MoM%			YoY%		
	Jun-24	Jul-24	Aug-24	Jun-24	Jul-24	Aug-24
Perlis	0.2	0.1	0.0	2.0	2.0	1.5
Pulau Pinang	0.1	0.1	0.1	3.3	3.4	3.3
Perak	0.2	(0.1)	0.1	1.3	1.0	0.9
Selangor	0.0	0.1	0.1	2.4	2.4	2.3
Putrajaya	0.1	(0.1)	0.1	1.4	1.2	1.3
Kuala Lumpur	0.3	0.4	0.1	1.1	1.5	1.6
Melaka	0.2	0.2	0.1	1.3	1.4	1.4
Negeri Sembilan	0.2	0.1	0.3	1.2	1.3	1.5
Johor	0.3	0.0	0.1	2.0	1.9	1.8
Pahang	0.3	0.1	0.2	2.7	2.6	2.8
Kelantan	0.2	(0.1)	(0.1)	1.3	1.0	0.9
Terengganu	0.2	0.2	0.0	1.6	1.6	1.7
Sabah	0.1	0.1	0.1	1.3	1.2	1.1
Sarawak	0.2	0.1	0.2	2.7	2.7	2.5

Source: DOSM, MIDFR

**Input prices continued to rise albeit slower at in Jul-24.** Cost pressures on local producers continued to rise but the rise in PPI was relatively slower at +1.3%yoy in Jul-24, sustaining increases for the 6th straight month. By stage of production, PPI increases for crude and intermediate goods moderated to +1.5%yoy (Jun-24: +2.6%yoy) and +0.6%yoy (Jun-24: +0.7%yoy), respectively. For the crude materials, the upward pressures mainly came from higher prices of non-food inputs, especially non-fuel materials. Meanwhile, prices of finished goods rose faster at +2.9%yoy (Jun-24: +2.8%yoy) mainly due to higher prices of capital goods. By sector, positive but slower PPI inflation was recorded in the mining (Jul-24: +2.2%yoy; Jun-24: +4.6%yoy), manufacturing (Jul-24: +0.9%yoy; Jun-24: +1.1%yoy) and electricity & gas (Jul-24: +0.3%yoy; Jun-24: +1.0%yoy) industries. The effect of water tariff hikes kept PPI prices for the water industry rising faster at +9.0%yoy (Jun-24: +7.8%yoy), with the uptrend continuing particularly since Mar-24. While input price inflation remained positive, the rate of PPI inflation remained below CPI and thus we expect limited pressures to push selling prices higher. At the same time, the easing PPI inflation pointed to limited upward pressures from one-off diesel price adjustments as we noticed the effect of policy changes on business costs was mainly felt from water tariff hikes. Lower commodity prices (against one year ago) will also keep cost pressures under control.

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

	MoM%			YoY%		
	May-24	Jun-24	Jul-24	May-24	Jun-24	Jul-24
<b>PPI</b>	(0.9)	(0.1)	(0.2)	1.4	1.6	1.3
<b>Crude Materials</b>	(4.3)	(1.8)	0.8	3.7	2.6	1.5
Foodstuffs	1.5	(0.3)	(1.5)	0.2	(1.1)	(2.1)
Non-food	(5.6)	(2.2)	1.4	4.4	3.5	2.3
Non-food ex fuel	(7.8)	1.8	2.8	2.4	6.5	7.0
Crude Fuel	(4.4)	(4.2)	0.6	5.5	1.9	(0.2)
<b>Intermediate Materials</b>	(0.4)	0.2	(0.6)	(0.1)	0.7	0.6
Manufactured Goods	0.4	0.3	(0.6)	1.6	2.1	2.0
Construction	(0.6)	1.2	0.2	1.5	2.4	2.3
Processed Fuel & Lubricants	(2.2)	(0.2)	(0.8)	(10.1)	(8.0)	(6.8)

	MoM%			YoY%		
	May-24	Jun-24	Jul-24	May-24	Jun-24	Jul-24
Containers	(1.5)	0.0	(1.3)	(5.5)	(5.7)	(6.5)
Supplies	(1.0)	0.4	(0.5)	6.7	6.4	4.4
<b>Finished Goods</b>	0.7	0.4	0.2	3.3	2.8	2.9
Consumer Goods	0.3	(0.5)	(0.1)	(0.1)	(1.0)	(0.9)
Consumer Goods ex. Foods	(0.1)	(0.7)	(0.3)	(0.9)	(1.8)	(2.0)
Capital Equipment	1.0	1.0	0.4	6.1	5.8	6.0

Source: DOSM, Macrobond, MIDFR


**Further moderation in the US inflation.** For most countries, inflation moderated further in Aug-24. In the US, headline CPI inflation eased further to +2.5%yoy in Aug-24, the lowest reading in 3.5 years. Excluding volatile items, the US core CPI inflation remained on moderating trend, despite remaining unchanged at 3-year low of +3.2%yoy. In euro area, the headline CPI inflation eased to +2.2%yoy, the lowest in 3 years weighed down by energy price deflation. The core inflation slowed to +2.8%yoy after remaining at +2.9%yoy in the previous 3 months. In Asia, China's weak demand pressures still highlighted possible deflationary risk although its inflation reading accelerated slightly to +0.6%yoy in Aug-24, with the core CPI inflation decelerating to +0.3%yoy, last seen in Mar-21. Other regional economies like South Korea, Taiwan, Thailand and the Philippines also recorded slower inflation. In Japan, however, CPI inflation accelerated to +3.0%yoy, a 10-month high, as the end of energy subsidies pushed utility charges higher. The easing inflation in general supported decisions by major central banks to begin shifting to policy easing.

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

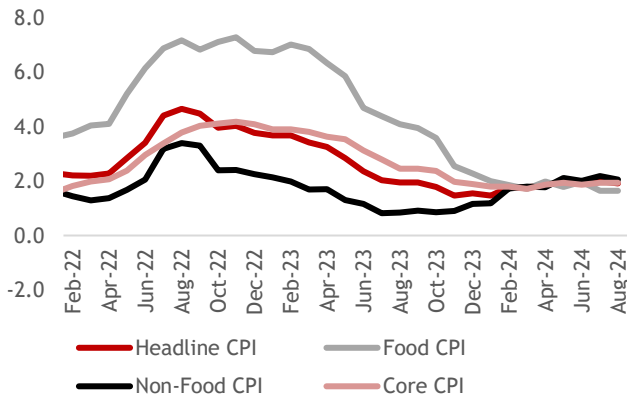
	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24
Malaysia	1.8	1.8	1.8	2.0	2.0	2.0	1.9
Indonesia	2.8	3.1	3.0	2.8	2.5	2.1	2.1
Singapore	3.4	2.7	2.7	3.1	2.4	2.4	-
Thailand	(0.8)	(0.5)	0.2	1.5	0.6	0.8	0.4
Philippines	3.4	3.7	3.8	3.9	3.7	4.4	3.3
Taiwan	3.1	2.1	2.0	2.2	2.4	2.5	2.4
South Korea	3.1	3.1	2.9	2.7	2.4	2.6	2.0
China	0.7	0.1	0.3	0.3	0.2	0.5	0.6
Japan	2.8	2.7	2.5	2.8	2.8	2.8	3.0
Euro Area	2.6	2.4	2.4	2.6	2.5	2.6	2.2
UK	3.4	3.2	2.3	2.0	2.0	2.2	2.2
USA	3.2	3.5	3.4	3.3	3.0	2.9	2.5
<i>PCE Prices</i>	2.5	2.7	2.7	2.6	2.5	2.5	-

Source: Macrobond, MIDFR

**Inflation will moderate to 2.3% in 2024.** Given the relatively lower rise in CPI in 8M CY24, we maintain our projection that headline CPI inflation would moderate to +2.3% in 2024 (2023: +2.5%). While we still expect the targeted subsidy for RON95 will be implemented in 4Q CY24, the stable inflation thus far suggests the spillover inflationary pressures from policy changes have been limited. On the other hand, if the government decides to delay the subsidy rationalisation for RON95, the full-year CPI inflation could be -0.2ppt lower than our existing forecast. The headline CPI inflation has been averaging relatively lower at 1.8%yoy in 8M CY24 (2023: +2.5%), where higher non-food inflation at +1.9%yoy (2023: +1.3%) was mitigated by more moderate food inflation at

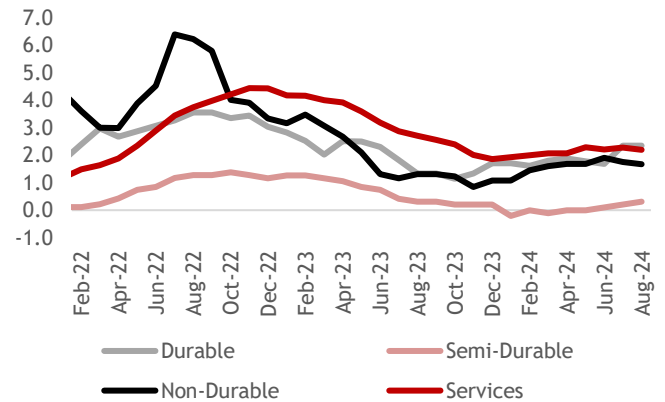
+1.8%yoy (2023: +4.8%). Core CPI inflation also averaged lower at +1.9%yoy in 8MCY24 (2023: +3.0%). Given the stable inflation, we foresee OPR will be kept at 3.00% as it remains supportive of economic growth. 

**Chart 1: Key CPI Data (YoY%)**



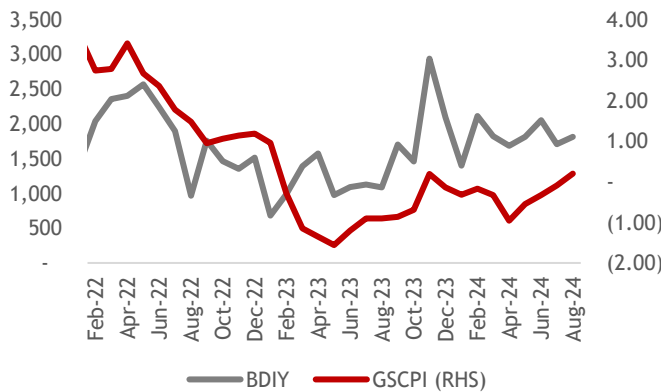
Source: Macrobond, MIDFR

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



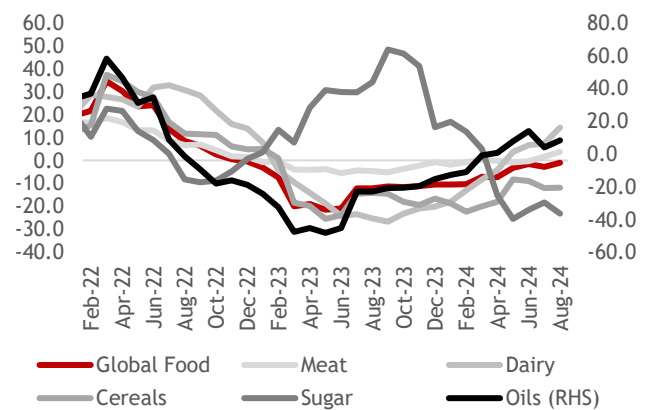
Source: Macrobond, MIDFR

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



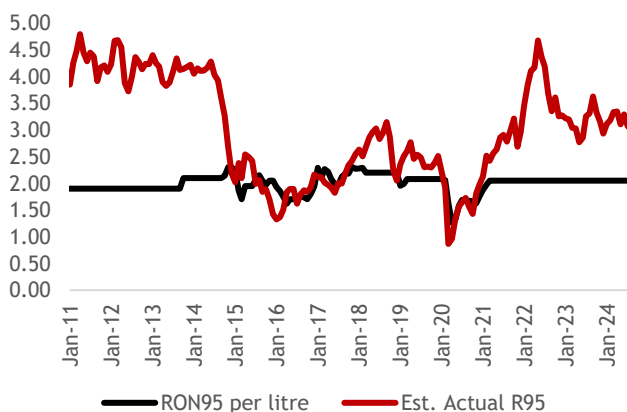
Source: Macrobond, MIDFR

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



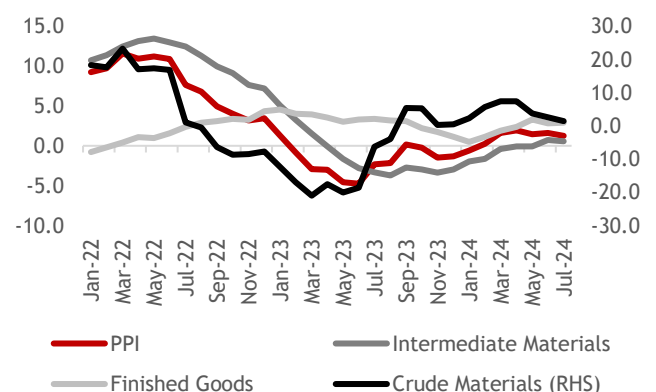
Source: FAO of UN, MIDFR

**Chart 5: Subsidized vs. Estimated Actual RON95 Price (RM per litre)**



Source: Bloomberg, MIDFR

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



Source: Macrobond, MIDFR

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