

ECONOMIC REVIEW | September 2024 Consumer Price Index**Price Pressures Eased Further as CPI Inflation Slowed to +1.8%yoy in Sep-24**

- *Headline inflation moderated to +1.9%yoy in Aug-24. Malaysia's headline CPI inflation eased to +1.8%yoy in Sep-24, the slowest rise in 5 months. This was slightly lower than ours and market expectations mainly due to slower non-food inflation, which slowed to +2.0%yoy (Aug-24: +2.1%yoy). Core CPI inflation also eased to +1.8%yoy (Aug-24: +1.9%yoy).*
- *Inflation remained stable, though rates at several states are higher than national rates. Inflation across states and regions generally remained stable or moderate in Sep-24. The pace of CPI inflation in several states like Penang, Pahang, Sarawak and Selangor was relatively higher than the national CPI.*
- *Revise our 2024 inflation forecast lower to +2.0% in 2024. In addition to inflation moderation further in Sep-24, we revise our 2024 inflation forecast lower to +2.0% from +2.3% previously because the targeted RON95 subsidy will be rolled out mid-2025. With no significant demand pressure, we foresee OPR will be kept at 3.00% this year and going into next year.*

Headline inflation moderated to +1.9%yoy in Aug-24. Malaysia's headline CPI inflation eased to +1.8%yoy in Sep-24, the slowest rise in 5 months. This was slightly lower than ours and market expectations mainly due to slower non-food inflation, which slowed to +2.0%yoy (Aug-24: +2.1%yoy) due to slower inflation in various components such as transport; information & communication; alcoholic beverages & tobacco; furnishings, household equipment & maintenance; and personal care & miscellaneous goods & services. In addition, clothing prices fell slightly steeper at -0.3%yoy. For transport inflation, the slower rise at +1.1%yoy (Aug-24: +1.3%yoy) reflected the lower retail prices of RON97 and diesel prices in Sep-24. In contrast, food inflation was unchanged at +1.6%yoy as higher prices of foods at home were offset by easing inflation for foods away from home. On another note, core CPI inflation also eased to +1.8%yoy (Aug-24: +1.9%yoy), signalling easing price pressures from underlying demand last month. The easing inflation signals the inflationary effects from policy changes (such as targeted diesel subsidy, higher utility tariffs and SST rate hike) remained under control. As the government indicated the next fuel subsidy rationalisation will be done next year, we anticipate the moderate inflation will continue in 4QCY24, on top of relatively lower crude oil prices.

Global food prices rebounded in Sep-24. Global food prices returned to inflation, rising by +2.0%yoy in Sep-24 and marking the first increase after 21 straight months of declines. The increase was due to higher prices of meat, dairy products and oils. In contrast, prices of cereals and sugar fell further at double-digit rates, having declined for the past 19 and 6 months, respectively, to Sep-24. In 9MCY24, global food prices contracted -4.8% (2023: -13.8%). As comparison, domestic food price inflation was relatively slower in 9MCY24, averaging at +1.8%yoy (2023: +4.8%) and 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 8MCY24, the ratio of food imports to Malaysia's total imports was slightly higher at 6.8% (2023: 6.5%), while the ratio of food exports to total exports was relatively smaller at 3.5% (2023: 3.3%). Despite the recent rise in global food prices, the strengthening of ringgit would help to contain the pressures from higher import costs.

Table 1: Consumer price index by component

	Weightage %	MoM%			YoY%		
		Jul-24	Aug-24	Sep-24	Jul-24	Aug-24	Sep-24
Core CPI	-	0.1	0.2	0.2	1.9	1.9	1.8
Headline CPI	100.0	0.1	0.1	0.0	2.0	1.9	1.8
Food and Beverages	29.8	0.1	0.1	0.1	1.6	1.6	1.6
Food	29.0	0.1	0.0	0.1	1.7	1.6	1.6
Food at Home	15.6	(0.5)	(0.1)	0.1	0.3	0.3	0.4
Food Away from Home	13.4	0.6	0.2	0.0	3.2	3.1	2.8
Non-alcoholic Beverages	0.8	0.2	1.3	0.0	1.4	2.9	2.6
Non-Food	70.2	0.1	0.1	(0.0)	2.2	2.1	2.0
Alcoholic Beverages & Tobacco	1.9	0.2	0.2	0.1	0.9	1.1	0.8
Clothing & Footwear	2.7	0.0	(0.1)	0.0	(0.2)	(0.2)	(0.3)
Housing, Water, Electricity, Gas & Other Fuels	23.2	0.0	0.2	0.0	3.2	3.1	3.1
Furnishings, Household Equip & Maintenance	4.3	0.2	0.0	(0.1)	0.9	0.7	0.6
Health	2.7	0.3	0.2	(0.1)	1.9	1.6	1.6
Transport	11.3	0.2	0.1	(0.2)	1.2	1.3	1.1
Information and Communication	6.6	0.1	0.0	(0.1)	0.5	0.5	0.4
Recreation, Sport and Culture	3.0	0.1	0.0	0.0	2.2	2.0	2.1
Education	1.3	0.2	0.0	0.0	1.7	1.5	1.5
Restaurants & Accommodation Services	3.4	0.4	0.1	0.1	3.4	3.2	3.2
Insurance & Financial Services	4.0	0.5	0.0	0.0	0.5	0.5	0.5
Personal Care, Social Protect & Misc. Goods & Services	5.8	0.3	0.1	0.1	3.2	3.2	3.1

Source: DOSM, MIDFR

Inflation remained stable, though rates at several states higher than national. Inflation across states and regions generally remained stable or moderated in Sep-24. The pace of CPI inflation in several states like Penang, Pahang, Sarawak and Selangor was relatively higher than the national CPI. In Penang, for example, the more visible inflation was recorded in the recreation, sport & culture, in addition to housing & utility. In comparison, the price pressures in Selangor were mainly from increased charges for restaurants & accommodation, and foods & beverages. In Peninsular, as a result of the targeted diesel subsidies, tariff revisions and increased domestic spending, we noticed relatively higher inflation in components such as utilities, transport, and restaurants & accommodation services in Peninsular Malaysia. In contrast, despite less pressures from transport inflation as the diesel price hike was not enforced in East Malaysia, inflation in Sarawak was mainly due to higher electricity tariffs. Meanwhile, inflation in restaurants & accommodation is one of the sources of inflation in both Sabah and Sarawak, which can be due to improved demand following recovery in tourist arrivals and spending.

Table 2: Inflation by state (YoY%)

	MoM%			YoY%		
	Jul-24	Aug-24	Sep-24	Jul-24	Aug-24	Sep-24
Urban	0.1	0.1	0.0	2.0	1.9	1.9
Rural	0.2	0.0	0.0	1.9	1.7	1.7
Peninsular Malaysia	0.1	0.1	0.0	2.0	1.9	1.9
Kedah	0.1	0.0	0.0	1.4	1.4	1.4
Perlis	0.1	0.0	(0.1)	2.0	1.5	1.5

	MoM%			YoY%		
	Jul-24	Aug-24	Sep-24	Jul-24	Aug-24	Sep-24
Pulau Pinang	0.1	0.1	(0.1)	3.4	3.3	3.1
Perak	(0.1)	0.1	0.1	1.0	0.9	0.9
Selangor	0.1	0.1	0.0	2.4	2.3	2.3
Putrajaya	(0.1)	0.1	0.0	1.2	1.3	1.2
Kuala Lumpur	0.4	0.1	0.0	1.5	1.6	1.6
Melaka	0.2	0.1	(0.1)	1.4	1.4	1.3
Negeri Sembilan	0.1	0.3	(0.1)	1.3	1.5	1.5
Johor	0.0	0.1	0.1	1.9	1.8	1.8
Pahang	0.1	0.2	(0.1)	2.6	2.8	2.7
Kelantan	(0.1)	(0.1)	(0.1)	1.0	0.9	0.9
Terengganu	0.2	0.0	(0.1)	1.6	1.7	1.5
Sabah	0.1	0.1	0.1	1.2	1.1	1.1
Sarawak	0.1	0.2	0.1	2.7	2.5	2.3

Source: DOSM, MIDFR

Inflation in input costs eased further in Aug-24. Cost pressures on local producers continued to moderate as PPI inflation eased to +0.3%yoy in Aug-24, the slowest increase since Feb-24. By sector, PPI for the mining sector turned to deflation of -8.3%yoy after 6 months of increases; while the input costs in the agriculture and water supply industries eased to +2.7%yoy and +8.0%yoy, respectively. PPI inflation, on the other hand, accelerated to +1.0%yoy in both manufacturing and electricity & gas sectors. By stage of production, the slower PPI can be explained by reduced prices of crude materials, which declined -3.5%yoy for the first time in 12 months due to lower fuel, closely linked with the decline in oil prices. In addition, prices of intermediate goods eased to +0.2%yoy, dragged down by process fuels & lubricants and slower rise in construction materials. Prices of finished goods, on the other hand, continued to increase at +3.5%yoy, the fastest rise in nearly 1.5 years. While easing PPI inflation which indicates slower rise in cost pressures, which remained below CPI, this suggests limited pressures for local producers to push selling prices higher.

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Jun-24	Jul-24	Aug-24	Jun-24	Jul-24	Aug-24
PPI	(0.1)	(0.2)	(0.9)	1.6	1.3	0.3
Crude Materials	(1.8)	0.8	(3.5)	2.6	1.5	(3.5)
Foodstuffs	(0.3)	(1.5)	(1.2)	(1.1)	(2.1)	(0.3)
Non-food	(2.2)	1.4	(4.0)	3.5	2.3	(4.2)
Non-food ex fuel	1.8	2.8	(2.8)	6.5	7.0	5.3
Crude Fuel	(4.2)	0.6	(4.6)	1.9	(0.2)	(8.6)
Intermediate Materials	0.2	(0.6)	(0.8)	0.7	0.6	0.2
Manufactured Goods	0.3	(0.6)	(0.3)	2.1	2.0	2.5
Construction	1.2	0.2	(0.8)	2.4	2.3	0.3
Processed Fuel & Lubricants	(0.2)	(0.8)	(2.2)	(8.0)	(6.8)	(6.9)
Containers	0.0	(1.3)	2.2	(5.7)	(6.5)	(4.5)
Supplies	0.4	(0.5)	(0.6)	6.4	4.4	2.1
Finished Goods	0.4	0.2	0.6	2.8	2.9	3.5
Consumer Goods	(0.5)	(0.1)	(0.2)	(1.0)	(0.9)	(1.1)

	MoM%			YoY%		
	Jun-24	Jul-24	Aug-24	Jun-24	Jul-24	Aug-24
Consumer Goods ex. Foods	(0.7)	(0.3)	0.0	(1.8)	(2.0)	(2.5)
Capital Equipment	1.0	0.4	1.3	5.8	6.0	7.1

Source: DOSM, Macrobond, MIDFR

Moderating inflation led to policy easing by central banks. In other countries, inflation has been trended lower and moved closer to central banks targets, with continued moderation in Sep-24. In the US, headline CPI inflation eased further to +2.2%yoy in Sep-24, the lowest reading in 3.5 years. However, core CPI accelerated slightly to +3.3%yoy, indicating sticky underlying demand pressure and this eased market expectations for large rate cuts by the Fed. In euro area, as the headline CPI inflation eased further to +1.7%yoy, more than 3-year low. With inflation falling below the +2% target, the ECB reduced its policy interest rates earlier this month, and signalled possibility of more cuts to prop up the economy. In Asia, China's deflationary risk remained amid weak demand as CPI inflation eased again to +0.4%yoy in Sep-24. The PBOC also slashed its loan prime rates to counter slowing growth momentum. Other regional economies such as the Philippines, Japan, South Korea and Taiwan also reported easing inflation last month. Like major central banks, easing inflation supported decisions by regional central banks (e.g. Bangko Sentral ng Pilipinas and Bank of Korea) in reducing their benchmark interest rates. We foresee there will be more policy easing if inflation continues to moderate and

Table 4: Global Headline CPI Inflation (YoY%)

	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
Malaysia	1.8	1.8	2.0	2.0	2.0	1.9	1.8
Indonesia	3.1	3.0	2.8	2.5	2.1	2.1	2.1
Singapore	2.7	2.7	3.1	2.4	2.4	2.2	2.0
Thailand	(0.5)	0.2	1.5	0.6	0.8	0.4	0.6
Philippines	3.7	3.8	3.9	3.7	4.4	3.3	1.9
Taiwan	2.1	2.0	2.2	2.4	2.5	2.4	1.8
South Korea	3.1	2.9	2.7	2.4	2.6	2.0	1.6
China	0.1	0.3	0.3	0.2	0.5	0.6	0.4
Japan	2.7	2.5	2.8	2.8	2.8	3.0	2.5
Euro Area	2.4	2.4	2.6	2.5	2.6	2.2	1.7
UK	3.2	2.3	2.0	2.0	2.2	2.2	1.7
USA	3.5	3.4	3.3	3.0	2.9	2.5	2.2
<i>PCE Prices</i>	2.8	2.7	2.6	2.4	2.5	2.2	-

Source: Macrobond, MIDFR


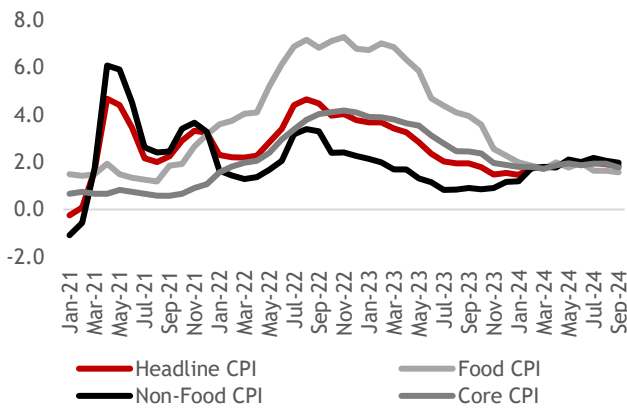
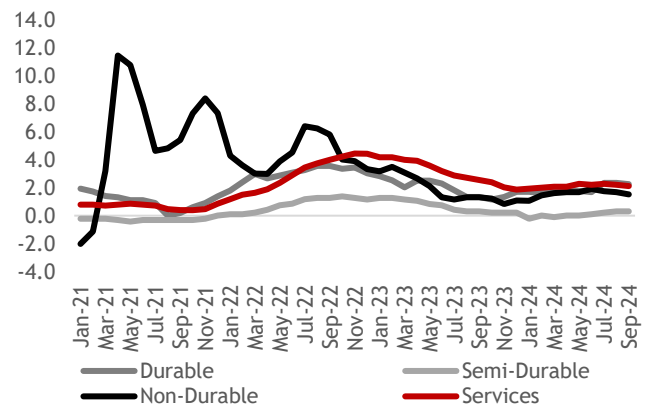
Revise our 2024 inflation forecast lower to +2.0% in 2024. In addition to inflation moderating further in Sep-24, we revise our 2024 inflation forecast lower to +2.0% from +2.3% previously because the targeted RON95 subsidy will be rolled out mid-2025. In other words, we expect inflation will remain stable in the coming months with no hike in RON95 petrol price this year. For the 3QCY24, headline inflation was unchanged at +1.9%yoy (2QCY24: +1.9%yoy), with the one-off diesel price hike having limited upside pressure to overall CPI. Generally, CPI inflation has averaged lower at 1.8%yoy in 9MCY24 (2023: +2.5%) as easing food inflation at +1.8%yoy (2023: +4.8%), offsetting higher inflation from non-food components (9MCY24: +1.8%yoy; 2023: +1.3%). Core CPI inflation also averaged lower at +1.8%yoy in 9MCY24 (2023: +3.0%). In view of the stable inflation and no significant demand pressures, we foresee OPR will be kept at 3.00% this year and going into next year as the current rate is deemed as normal for Malaysia and supportive of sustainable economic growth. 

Chart 1: Key CPI Data (YoY%)



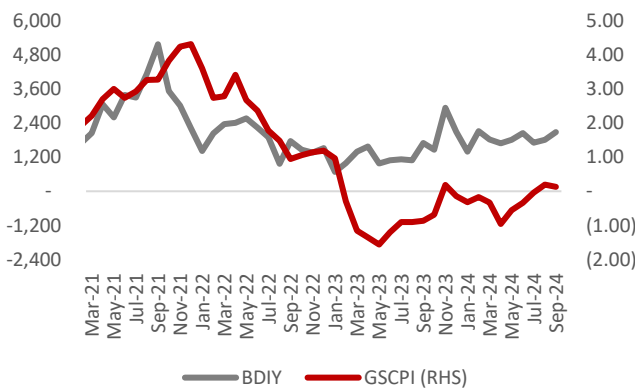
Source: Macrobond, MIDFR

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



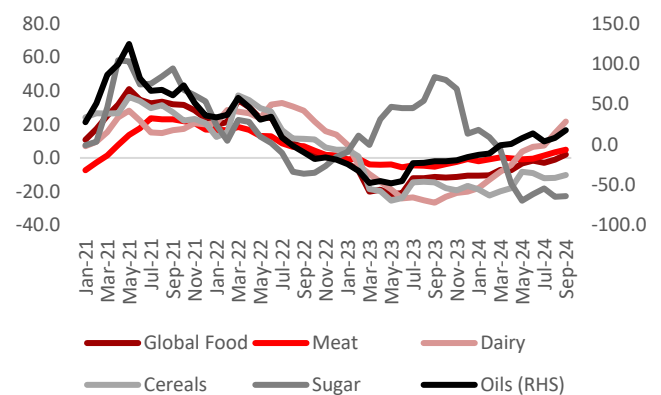
Source: Macrobond, MIDFR

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



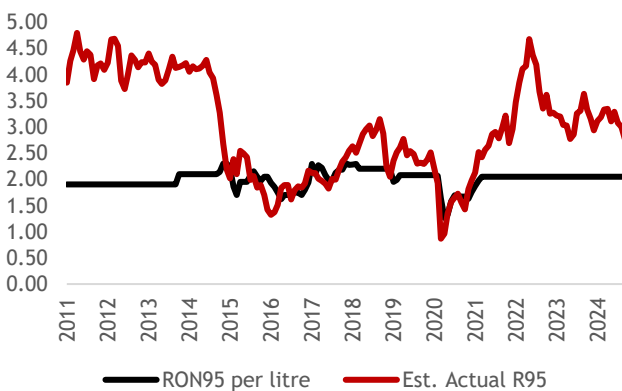
Source: Macrobond, MIDFR

Chart 4: Global Food Inflation (YoY%)



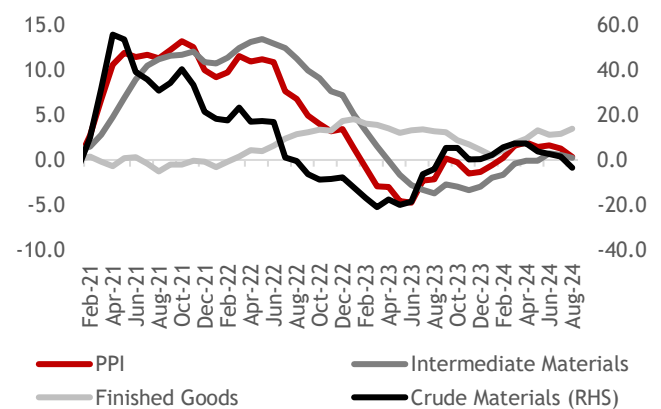
Source: FAO of UN, MIDFR

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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