

ECONOMIC REVIEW | February 2024 Consumer Price Index**Malaysia's Inflation Hit Turning Point**

- *Headline inflation rate was recorded at +1.8%yoy in Feb-24, the highest in 4-month and outpaced market expectations of +1.4%yoy. We opine Feb-24 is the turning point for Malaysia's inflation as non-food price growth surged to 10-month high at +1.6%yoy. The factors of non-food among others the readjustment of water tariff rates across many states. Water supply inflation skyrocketed by +28.8%yoy while waste collection jumped by +58.7%yoy.*
- *Looking into 1HCY24, we should expect a gradual pick-up in overall prices following increase in utility charges, implementation of higher SST rate to 8.0% on selected items and 10% for low value goods tax (LVGT). In the later half, we opine that it is possible that the roll-out of fuel targeted-subsidy may see higher retail fuel prices of both RON95 and Diesel.*
- *We keep the headline inflation rate forecast at +3.2% for 2024. Moving into 2024, we expect overall inflation rate to average at +3.2% on the assumption that the targeted-fuel subsidy would possibly be rolled-out as early as Jun-24. Non-food inflation to come in at +2.9% while better domestic supply and normalised global commodity prices shall push food inflation rate lower at +3.7% in 2024.*

Malaysia's inflation hit turning point. Headline inflation rate was recorded at +1.8%yoy in Feb-24, the highest in 4-month and outpaced market expectations of +1.4%yoy. We opine Feb-24 is the turning point for Malaysia's inflation as non-food price growth surged to 10-month high at +1.6%yoy. The factors of non-food among others the readjustment of water tariff rates across many states. Water supply inflation skyrocketed by +28.8%yoy while waste collection jumped by +58.7%yoy. Mar-24 onwards, non-food inflation to stay on uptrend following the implementation of +2% hike of SST on selected items. Even though food inflation moderated further, prices of food away from home increased by +3.5%yoy, the highest in 3-month. This food segment is expected to see continuous pick-up amid rise of logistics and operating charges. Core inflation rate maintained at +1.8%yoy and positive sequential month basis. Looking into 1HCY24, we should expect a gradual pick-up in overall prices following increase in utility charges, implementation of higher SST rate to 8.0% on selected items and 10% for low value goods tax (LVGT). In the later half, we opine that it is possible that the roll-out of fuel targeted-subsidy may see higher retail fuel prices of both RON95 and Diesel.

Transport inflation still low. After 8-consecutive months below +1.0%, transport price growth registered +1.2%yoy in Feb-24. Strong demand for transport following Chinese New Year Holiday celebration was among the upside factors. However, the transport inflation to stay muted at least in 1QCY24 since we expect the government will keep the current fuel subsidy mechanism status quo. Based Brent crude oil price in Feb-24, we estimate the actual retail RON95 would have been RM3.18 per litre.

Global food prices still on contractionary. Food price fell by -10.5%yoy in Feb-24, registering 15-straight months of contraction. By component, meat price deflated by -0.8%yoy, dairy price down by -13.4%yoy, cereals price lower by -22.4%yoy, oils price nosedived by -11.0%yoy, but sugar price grew double-digit pace by +12.5%yoy. Following that, Malaysia's food inflation rate recorded lower 30-month low at +1.8%yoy. Price growth of Food at Home receded to 4-year low at +0.5%yoy while Food Away from Home improved to 3-month high at +3.5%yoy. Nevertheless, Malaysia is highly exposed to external factors and currency movements as a net importer of food country. In Jan-24, food imports to total imports ratio surged to more than 3-year high at 7.6%. On the flip side, food exports ratio down to 4-month low at 3.3%.

Table 1: Consumer price index by component

	Weightage %	MoM%			YoY%		
		Dec-23	Jan-24	Feb-24	Dec-23	Jan-24	Feb-24
Core CPI	-	0.0	0.3	0.2	1.9	1.8	1.8
Headline CPI	100.0	0.2	0.2	0.5	1.5	1.5	1.8
Food and Beverages	29.8	0.3	0.3	0.3	2.3	2.0	1.9
Food	29.0	0.3	0.3	0.3	2.3	2.0	1.8
Food at Home	15.6	0.4	0.3	0.0	1.3	1.1	0.5
Food Away from Home	13.4	0.1	0.4	0.7	3.4	3.1	3.5
Non-alcoholic Beverages	0.8	0.1	0.2	0.2	2.8	2.7	2.6
Non-Food	70.2	0.2	(0.1)	0.7	1.2	1.1	1.6
Alcoholic Beverages & Tobacco	1.9	(0.1)	(0.1)	0.0	0.6	0.4	0.4
Clothing & Footwear	2.7	0.0	(0.1)	0.0	0.0	(0.2)	(0.2)
Housing, Water, Electricity, Gas & Other Fuels	23.2	0.0	0.4	1.3	1.6	2.0	2.7
Furnishings, Household Equip & Maintenance	4.3	0.0	0.0	0.1	1.4	1.0	0.9
Health	2.7	0.2	0.2	0.3	2.5	2.4	2.2
Transport	11.3	0.3	(0.1)	0.4	0.3	0.7	1.2
Information and Communication	6.6	(0.1)	0.0	0.0	(3.7)	(2.4)	(2.4)
Recreation, Sport, and Culture	3.0	0.4	0.0	0.3	1.9	0.8	1.6
Education	1.3	0.0	0.2	0.2	2.0	1.7	1.5
Restaurants & Accommodation Services	3.4	0.1	(0.1)	0.6	3.7	3.2	2.9
Insurance & Financial Services	4.0	0.0	0.0	0.0	-	0.0	(0.1)
Personal Care, Social Protect & Misc. Goods & Services	5.8	0.2	0.1	0.3	-	2.5	2.5

Source: DOSM, MIDFR

Highest inflation saw in Penang. Overall price growth in Peninsular Malaysia rose by +1.7%yoy, the fastest pace since Nov-23. Across state, Penang recorded the highest rate of +2.7%yoy while Kedah the lowest of +0.9%yoy in Feb-24. Inflation pressure in Sabah and Sarawak remain stable, +1.5%yoy and +1.9%yoy respectively. The pick-up of inflation in Peninsular Malaysia among others due to the water tariff adjustment. In terms of 1st 20 cubic meters rate, Penang is the highest with +181.8% increase from RM0.22 to RM0.62. Nevertheless, lower food inflation and subsidised fuel prices are factors keeping stable overall price growth across state and region.

Table 2: Inflation by state (YoY%)

	MoM%			YoY%		
	Dec-23	Jan-24	Feb-24	Dec-23	Jan-24	Feb-24
Urban	0.2	0.2	0.5	1.5	1.5	1.7
Rural	0.2	0.2	0.4	1.5	1.6	1.7
Peninsular Malaysia	0.2	0.2	0.5	1.5	1.5	1.7
Kedah	0.2	0.2	(0.1)	1.3	1.3	0.9
Perlis	0.2	0.3	0.5	1.6	1.6	2.0
Pulau Pinang	0.2	0.2	1.3	1.8	1.8	2.7
Perak	0.2	(0.1)	0.2	1.9	1.3	1.2
Selangor	0.2	0.2	0.7	1.7	1.8	2.1
Putrajaya	0.2	0.2	0.4	2.1	2.7	1.6
Kuala Lumpur	0.2	0.3	0.3	0.9	1.2	1.3
Melaka	0.2	0.2	0.4	1.1	1.0	1.3
Negeri Sembilan	0.2	0.1	0.3	1.0	0.9	1.0
Johor	0.2	0.2	0.4	1.4	1.5	1.5
Pahang	0.2	0.5	0.9	1.4	1.7	2.4
Kelantan	0.2	0.2	0.5	0.9	0.9	1.3
Terengganu	0.3	0.1	0.6	1.2	1.1	1.4
Sabah	0.1	0.2	0.2	1.3	1.5	1.5
Sarawak	0.2	0.1	0.2	2.4	1.9	1.9

Source: DOSM, MIDFR

Input deflation continues. Malaysia's PPI recorded another month of deflation for 4-straight months in Jan-24, declining by -0.6%yoy. By stage of processing, the PPI for intermediate materials remained in deflation for 10-consecutive months while finished goods increased by +0.5%yoy and crude materials by +2.3%yoy. Compared to Dec-23, overall PPI edged lower by -0.6%mom for 4-straight months. Looking ahead, we foresee PPI to trend higher amid readjustment of utility tariff rates, higher SST rate and targeted-fuel subsidy measures.

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Nov-23	Dec-23	Jan-24	Nov-23	Dec-23	Jan-24
PPI	(0.7)	(0.2)	(0.1)	(1.5)	(1.3)	(0.6)
Crude Materials	(2.4)	(2.3)	0.0	0.3	0.4	2.3
Foodstuffs	(0.6)	1.3	0.5	1.9	4.3	3.5
Non-food	(2.7)	(3.1)	(0.1)	(0.1)	(0.4)	2.1
Non-food ex fuel	2.4	(0.8)	2.9	(1.9)	(0.6)	2.9
Crude Fuel	(4.8)	(4.1)	(1.5)	0.7	(0.2)	1.7
Intermediate Materials	(0.5)	0.2	0.1	(3.4)	(3.0)	(2.0)
Manufactured Goods	0.1	(0.2)	0.1	(2.6)	(2.2)	(1.1)
Construction	0.1	(0.8)	0.3	6.8	5.6	4.6
Processed Fuel & Lubricants	(2.7)	0.6	(0.4)	(14.7)	(13.8)	(12.9)
Containers	(0.2)	0.2	(0.4)	(2.5)	(2.6)	(2.3)

Supplies	0.2	1.3	0.3	5.9	5.9	7.2
Finished Goods	0.2	0.3	(0.5)	1.7	1.1	0.5
Consumer Goods	(0.3)	(0.1)	(0.3)	0.3	0.1	(0.7)
Consumer Goods ex. Foods	(0.5)	(0.3)	(0.6)	0.3	0.1	(0.9)
Capital Equipment	0.6	0.7	(0.6)	2.9	2.0	1.4

Source: DOSM, MIDFR

Turnaround in China's inflation trends. China's overall consumer price surged to 11-month high at +0.7%yoy. Thanks to robust spending during Lunar New Year Holiday celebration, core inflation rate hit 2-year high at +1.2%yoy in Feb-24. Across the globe, the US headline CPI inflation rate improved slightly to +3.2%yoy in Feb-24, higher than market expectations of +3.1%yoy. Food inflation rate moderated to +2.2%yoy, the softest increase since May-21. Meanwhile, energy prices continued to deflate at -1.9%yoy. Excluding volatile price items, the core CPI inflation rate eased to +3.8%yoy (Jan-24: +3.9%yoy), the lowest since May-21. The continued rise in consumer prices was contributed by higher service charges such as rent of shelter (+5.8%yoy), transport services (+9.9%yoy) and recreation services (+4.5%yoy). As for Euro Area, headline inflation rate edged lower to +2.6%yoy while core inflation rate 3.1%yoy, lowest since Mar-22.

Table 4: Global Headline Inflation (YoY%)

	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
Malaysia	2.0	1.9	1.8	1.5	1.5	1.5	1.8
Indonesia	3.3	2.3	2.6	2.9	2.6	2.6	2.8
Singapore	4.0	4.1	4.7	3.6	3.7	2.9	
Thailand	0.9	0.3	(0.3)	(0.4)	(0.8)	(1.1)	(0.8)
Philippines	5.3	6.1	4.9	4.1	3.9	2.8	3.4
Taiwan	2.5	2.9	3.0	2.9	2.7	1.8	3.1
South Korea	3.4	3.7	3.8	3.3	3.2	2.8	3.1
China	0.1	0.0	(0.2)	(0.5)	(0.3)	(0.8)	0.7
Japan	3.2	3.0	3.3	2.8	2.6	2.2	2.8
Euro Area	5.2	4.3	2.9	2.4	2.9	2.8	2.6
US	3.7	3.7	3.2	3.1	3.4	3.1	3.2

Source: Macrobond, MIDFR


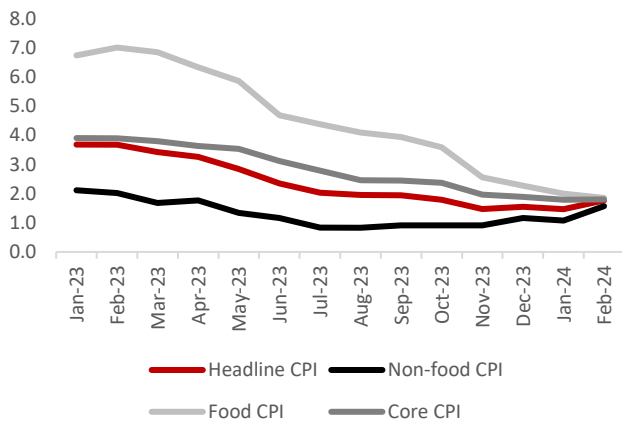
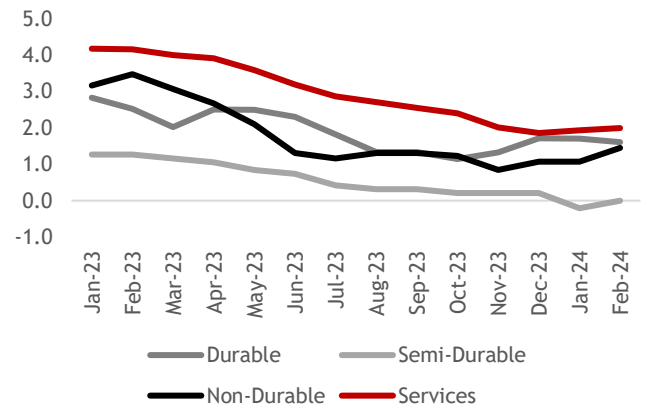
We keep the headline inflation rate forecast at +3.2% for 2024. Moving into 2024, we expect overall inflation rate to average at +3.2% on the assumption that the targeted-fuel subsidy would possibly be rolled-out as early as Jun-24. We opine the government may introduce a managed-float price mechanism for RON95 and provide cash assistance to those eligible as guided by the PADU database. Thus, we may see non-food inflation to come in at +2.9% while better domestic supply and normalised global commodity prices shall push food inflation rate lower at +3.7% in 2024. 

Chart 1: Key CPI Data (YoY%)



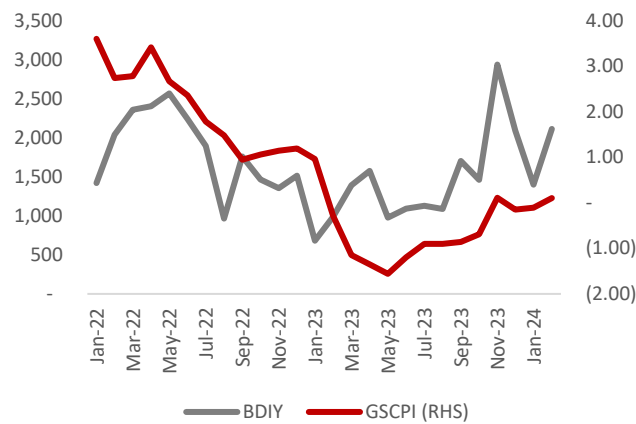
Source: Macrobond, MIDFR

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



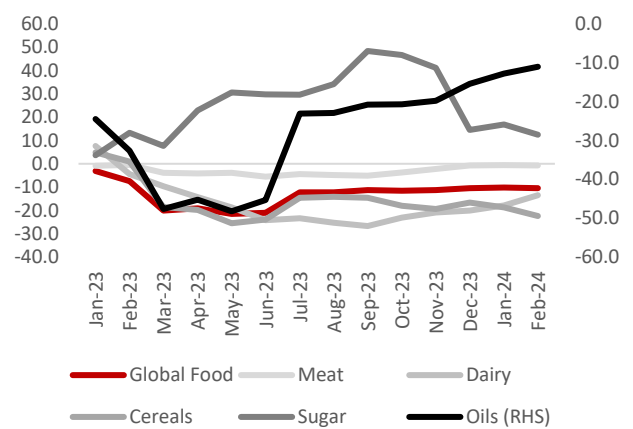
Source: Macrobond, MIDFR

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



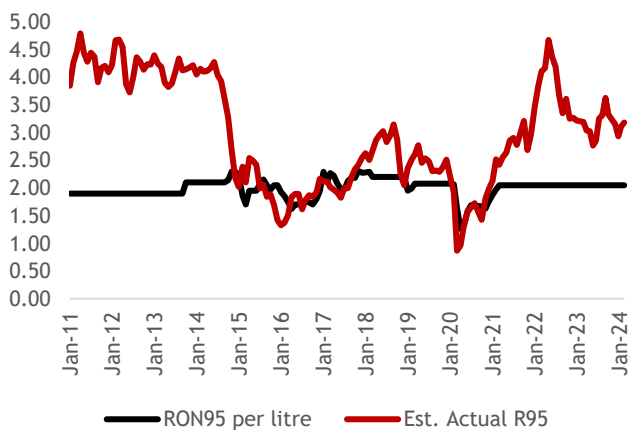
Source: Macrobond, MIDFR

Chart 4: Global Food Inflation (YoY%)



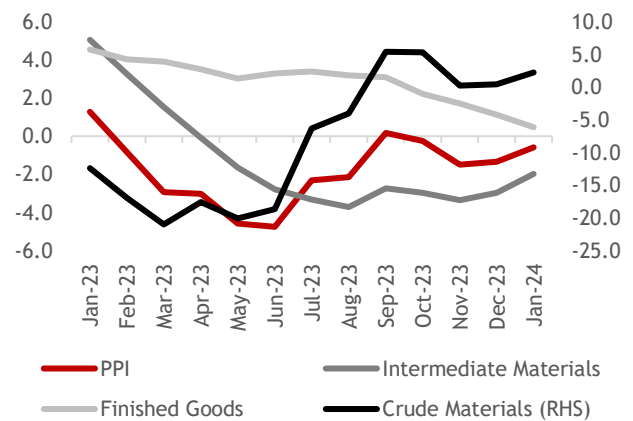
Source: FAO of UN, MIDFR

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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