Malaysia's Inflation Remained Mild Despite Slight Acceleration in Core CPI

ECONOMIC REVIEW:
Feb-25
Consumer Price Index



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Economic Review

- Headline inflation moderated to +1.5%yoy in Feb-25. Malaysia's headline inflation moderated to +1.5%yoy in Feb-25, slightly below our estimate of 1.6%yoy, on the back of the easing inflation in both food and non-food prices
- Inflation moderated in both rural and urban areas. By strata, the urban and rural areas saw a slight inflation downtick to +1.6%yoy (Jan-25: +1.7%yoy) and +1.2%yoy (Jan-25: +1.2%yoy) respectively in Feb-25.
- Adjusting our forecast, still expecting inflation to accelerate to +2.5% in 2025. We continue to expect inflation will accelerate to +2.5% this year, although this is a slight adjustment compared to our previous projection of +2.8%. This forecast is underpinned by the expected effects of government policy adjustments, specifically subsidy rationalisation

Headline inflation moderated to +1.5%yoy in Feb-25. Malaysia's headline inflation moderated to +1.5%yoy in Feb-25, slightly below our estimate of 1.6%yoy on the back of easing inflation in both food and non-food prices. Food inflation eased to +2.4%yoy (Jan-25: +2.5%yoy) due to slower inflation for food away from home (+4.6%yoy; Jan-24: +5.0%yoy), while prices for food at home slightly picked up to +0.5%yoy (Jan-24: +0.4%yoy), with a broad-based increase across all components except for meat (-0.3%yoy), and milk, other dairy products & eggs (-0.8%yoy) among others. Non-food inflation eased further to +1.0%yoy (Jan-25: +1.2%yoy) due to the deflation in clothing and footwear, information and communication and slower inflation in housing, water, electricity, gas & other fuels, furnishings, household Equipment & maintenance, health, transport, recreation, and sports and culture. Meanwhile, core CPI increased slightly faster at +1.9%yoy (Jan-25: +1.8%yoy) and continued to reverse higher from the 35-month low of +1.6%yoy recorded back in Dec-24. Nevertheless, we view this a mild increase in underlying price pressure. The still mild inflation as shown by the food, non-food, and core CPI suggests limited price pressures from last year's government policy changes (targeted subsidies, higher utility tariffs, and the SST rate hike), thus having limited upside impacts on the overall inflation. Even with planned government fuel subsidy rationalisation and policy shifts this year, we project moderate inflation to continue into 1QCY25. Controlled cost pressures and steady crude oil prices are expected to mitigate significant inflation increases.

Global food prices continue to grow in Feb-25. Global food price inflation increased to +8.2%yoy in Feb-25 (Jan-25: +6.3%yoy), hitting the highest level since Aug-22, as prices for oil products and dairy products grew faster at +29.1%yoy (Jan-25: +25.0%yoy) and +23.2%yoy (Jan-25: +20.5%yoy), respectively. Meanwhile, increases in prices of meat and poultry eased to +4.8%yoy (Jan-25: +8.4%yoy) and +6.2%yoy (Jan-25: +12.8%yoy), respectively. On the other hand, prices of cereals and sugar continued to contract by -1.1%yoy and -15.8%yoy, respectively. Despite other factors, Malaysia's reliance on food imports exposes its vulnerability to global food price volatility and currency fluctuations. Furthermore, domestic food inflation could be exacerbated by adverse weather impacting production.

Table 1: Consumer price index by component

		MoM%			YoY%		
	Weightage %	Dec-24	Jan-25	Feb-25	Dec-24	Jan-25	Jan-25
Core CPI	-	(0.2)	0.5	0.4	1.6	1.8	1.9
Headline CPI	100.0	0.1	0.1	0.4	1.7	1.7	1.5
Food and Beverages	29.8	0.4	0.1	0.2	2.7	2.5	2.5
Food	29.0	0.4	0.1	0.4	2.7	2.5	2.4
Food at Home	15.6	0.7	-0.2	0.3	0.9	0.4	0.5
Food Away from Home	13.4	0.2	0.5	0.1	4.8	5.0	4.6
Non-alcoholic Beverages	0.8	0.3	0.4	0.2	3.0	3.3	3.3
Non-Food	70.2	(0.1)	0.2	0.4	1.3	1.2	1.0
Alcoholic Beverages & Tobacco	1.9	(0.1)	0.1	0.0	0.8	0.9	0.9
Clothing & Footwear	2.7	(0.2)	0.1	0.0	(0.5)	(0.3)	(-0.2)
Housing, Water, Electricity, Gas & Other Fuels	23.2	0.0	0.1	0.7	3.2	2.8	2.3
Furnishings, Household Equip & Maintenance	4.3	(-0.1)	0.1	-0.1	0.4	0.5	0.3
Health	2.7	0.1	0.3	0.2	1.1	1.2	1.0
Transport	11.3	0.3	0.4	0.2	0.4	0.9	0.7
Information and Communication	6.6	(1.7)	0.1	0.0	(5.4)	(5.3)	(5.3)
Recreation, Sport and Culture	3.0	0.1	0.1	0.1	1.7	1.8	1.5
Education	1.3	0.0	0.2	0.5	1.5	1.6	1.9
Restaurants & Accommodation Services	3.4	0.3	0.5	0.6	2.9	3.5	3.5
Insurance & Financial Services	4.0	0.0	0.1	0.8	0.5	0.6	1.5
Personal Care, Social Protect & Misc. Goods & Services	5.8	0.0	0.2	0.7	3.2	3.3	3.7

Source: DOSM, MIDFR

Inflation moderated in both rural and urban areas. By strata, the urban and rural areas saw a slight inflation downtick to +1.6%yoy (Jan-25: +1.7%yoy) and +1.2%yoy (Jan-25: +1.2%yoy), respectively, in Feb-25. Among the states, inflation in Johor was recorded at the highest rate of +2.1%yoy (Jan-25: +1.9%yoy), followed by Sarawak at +1.9%yoy (Jan-25: +1.7%yoy), making inflation in both states higher than the national level. Meanwhile, Penang's inflation eased significantly to +1.2%yoy (Jan-24: +2.4%yoy), the weakest rate since Mar-21, while Pahang's inflation also moderated to +1.1%yoy (Jan-25: +1.9%yoy).

Table 2: Inflation by state (YoY%)

	MoM%			YoY%		
	Dec-24	Jan-25	Feb-25	Dec-24	Jan-25	Feb-25
Urban	0.1	0.2	0.4	1.7	1.7	1.6
Rural	0.0	0.2	0.2	1.4	1.3	1.2
Peninsular Malaysia	0.1	0.1	0.4	1.7	1.7	1.5
Kedah	(0.1)	0.2	0.2	1.0	0.9	1.3
Perlis	0.00	0.2	0.2	1.3	1.1	0.9
Pulau Pinang	(0.1)	0.1	0.1	2.6	2.4	1.2
Perak	0.1	0.1	0.2	1.1	0.9	1.0
Selangor	0.1	0.2	0.6	2.0	2.0	1.9
Putrajaya	0.1	0.0	0.1	0.9	0.7	0.4
Kuala Lumpur	0.2	0.0	0.2	1.5	1.2	1.1
Melaka	0.2	0.2	0.3	1.6	1.7	1.6
Negeri Sembilan	0.2	0.2	0.2	1.4	1.5	1.5

	MoM%			YoY%		
	Dec-24	Jan-25	Feb-25	Dec-24	Jan-25	Feb-25
Johor	0.1	0.3	0.7	1.8	1.9	2.1
Pahang	0.1	0.2	0.1	2.3	1.9	1.1
Kelantan	0.0	0.2	0.2	0.7	0.8	0.5
Terengganu	0.0	0.2	0.1	1.6	1.7	1.3
Sabah	(0.1)	0.2	0.3	0.9	0.9	1.0
Sarawak	0.0	0.1	0.3	1.8	1.7	1.9

Source: DOSM, MIDFR

PPI increased for the second consecutive month after three months of contraction. Malaysia's PPI increased faster by +0.8%yoy in Jan-25 (Dec-24: +0.5%yoy), the quickest rate since Jul-24. By sector, agriculture, forestry & fishing; electricity & gas supply; and water supply increased by +16.5%yoy (Dec-24: +23.8%yoy), +0.4%yoy (Dec-24: +0.9%yoy), and +7.6%yoy (Dec-24: +6.7%yoy). Meanwhile, the PPI deflation slowed for the mining sector to -1.3%yoy (Dec-24: -7.0%yoy) and the manufacturing sector to -0.6%yoy (Dec-24: -1.0%yoy). By stage of processing, the PPI inflation was driven by the pickup in all three stages, namely the crude materials, intermediate materials, and finished goods which grew by +2.4%yoy (Dec-24: +1.9%yoy), +0.2%yoy (Dec-24: +0.2%yoy), and finished goods grew by +1.1%yoy (Dec-24: +0.2%yoy), respectively. Under the crude material component, crude fuels contracted the most by -8.9%yoy (Dec-24: -14.9%yoy) while foodstuff also contracted by -0.9%yoy (Dec-24: -1.0%yoy). Under intermediate materials, the processed fuel & lubricants contracted the most by -8.2%yoy (Dec-24: -6.4%yoy). Meanwhile, PPI for finished goods materials grew in Jan-25, with faster rise in prices of capital equipment (+2.1%yoy; Dec-24: +1.2%yoy). Given the current muted upward momentum in producer prices, we foresee that sellers will generally refrain from passing on cost increases to consumers, thereby maintaining price stability in the near term. Nevertheless, we acknowledge a potential short-term price pressure, particularly within the food sector, where this risk is attributed to adverse weather conditions impacting agricultural production and the prevailing elevated crude palm oil (CPO) prices in the final quarter of 2024.

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Nov-24	Dec-24	Jan-25	Nov-24	Dec-24	Jan-25
PPI	1.4	0.8	0.3	(0.4)	0.5	0.8
Crude Materials	4.8	1.5	0.5	(2.0)	1.9	2.4
Foodstuffs	(0.7)	0.5	0.6	(0.2)	(1.0)	(0.9)
Non-food	6.0	1.7	0.5	(2.3)	2.4	3.1
Non-food ex fuel	13.3	2.0	(6.0)	35.7	39.5	27.5
Crude Fuel	(1.2)	1.6	5.5	(19.6)	(14.9)	(8.9)
Intermediate Materials	1.15	0.6	0.2	(0.2)	(0.1)	0.2
Manufactured Goods	0.5	1.4	1.2	1.7	3.3	4.4
Construction	0.0	(0.3)	(0.4)	(1.3)	(0.9)	(1.5)
Processed Fuel & Lubricants	4.4	(1.7)	??	(4.2)	(6.4)	(8.2)
Containers	1.0	(1.2)	0.4	(4.7)	(6.0)	(5.3)
Supplies	0.2	(0.9)	0.0	(0.7)	(1.2)	(1.5)
Finished Goods	(0.6)	(0.4)	0.2	0.4	0.5	1.1
Consumer Goods	0.2	0.4	(0.3)	(0.8)	(0.4)	(0.3)
Consumer Goods ex. Foods	0.0	0.2	(0.5)	(2.3)	(2.0)	(1.9)
Capital Equipment	(1.3)	(0.6)	0.4	1.3	1.2	2.1

Source: DOSM, Macrobond, MIDFR

Slight moderation of inflation in other economies. Inflation in other countries slightly moderated in Feb-25, and investors continue to adjust their expectations of the pace of rate cuts by the major central banks. In the US, the headline CPI inflation eased to +2.8%yoy in Feb-25 (Jan-25: +3.0%yoy); while core CPI also moderated to +3.1%yoy (Jan-25: +3.3%yoy), being the lowest level Apr-21. Similarly, headline CPI inflation for the euro area eased to +2.4%yoy in Feb-25 (Jan-25: +2.5%yoy), while core CPI fell to +2.7%yoy in Feb-24 (Jan-25: +2.6%). On the other hand, in the UK, both headline and core CPI accelerated to +3.0%yoy

(Dec-24: +2.5%yoy) and +3.7%yoy (Dec-24: +3.2%yoy), respectively. Despite the reading exceeding the Bank of England's inflation target, the BOE recently cut its Bank Rate by -25bps to 4.5% in Feb-25, marking the third rate cut since Aug-24, to support economic activities. In Asia, China's deflationary risk remained amid concerns over weak demand as the country's headline CPI turned deflationary, falling by -0.7%yoy in Feb-25 (Jan-25: +0.5%yoy). Meanwhile, in other regional economies, CPI inflation moderated in Thailand and the Philippines but contracted marginally in Indonesia. With inflation remaining rather moderate than in previous years, we continue to expect the central bank's monetary policy to be more on an easing bias.

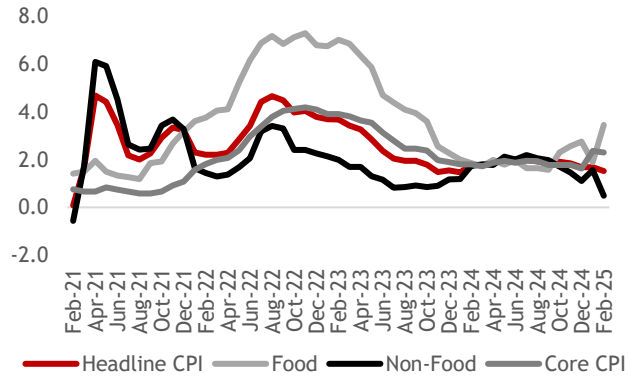
Table 4: Global Headline CPI Inflation (YoY%)

	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25
Malaysia	1.9	1.8	1.9	1.8	1.7	1.7	**1.5**
Indonesia	2.1	1.8	1.7	1.5	1.6	0.8	**(0.1)**
Singapore	2.2	2.0	1.4	1.6	1.5	1.2	**n.a.**
Thailand	0.4	0.6	0.8	0.9	1.2	1.3	**1.1**
Philippines	3.3	1.9	2.3	2.5	2.9	2.9	**2.1**
Taiwan	2.4	1.8	1.7	2.1	2.0	2.0	**2.2**
South Korea	2.0	1.6	1.3	1.5	1.9	2.2	**2.0**
China	0.6	0.4	0.3	0.2	0.1	0.5	**(0.7)**
Japan	3.0	2.5	2.3	2.9	3.6	3.6	**n.a.**
Euro Area	2.2	1.7	2.0	2.2	2.4	2.5	**2.4**
UK	2.2	1.7	2.3	2.6	2.5	3.0	**n.a**
USA	2.5	2.4	2.6	2.7	2.9	3.0	
PCE Prices	2.3	2.1	2.3	2.4	2.6	2.5	**n.a.**

n.a. = not available
Source: Macrobond, MIDFR

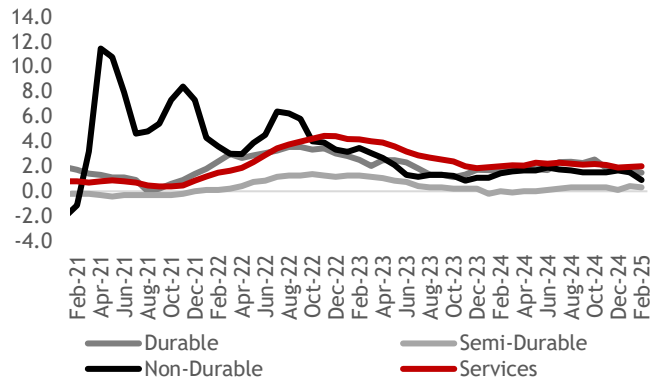
Adjusting our forecast, still expecting inflation to accelerate to +2.5% in 2025. We continue to expect inflation will accelerate to +2.5% this year, although this is a slight adjustment compared to our previous projection of +2.8%. This forecast is underpinned by the expected effects of government policy adjustments, specifically subsidy rationalisation. Nevertheless, we continue to foresee the OPR will be held steady at its current 3.00% throughout 2025, given the absence of significant demand-led inflationary pressures and our view that the current rate remains supportive of Malaysia's economic growth.

Chart 1: Key CPI Data (YoY%)



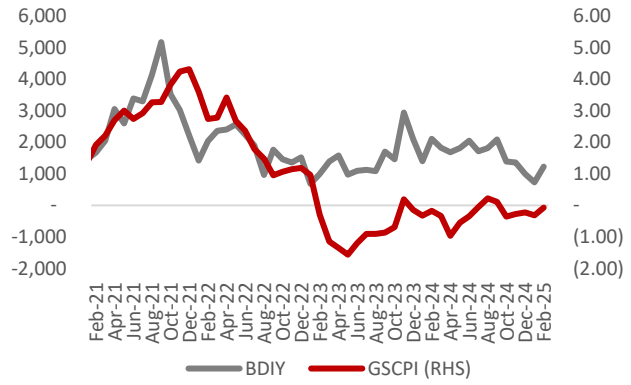
Source: Macrobond, MIDFR

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



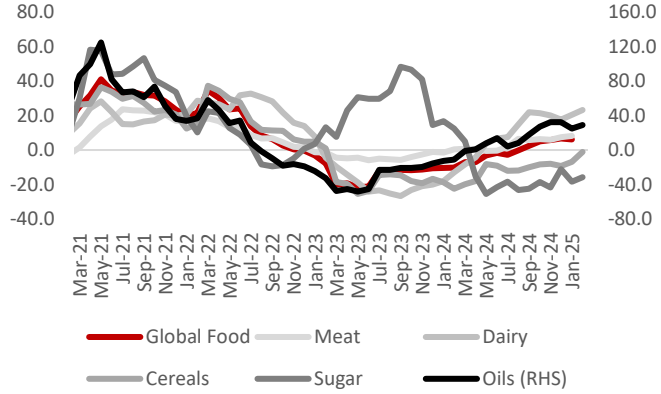
Source: Macrobond, MIDFR

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



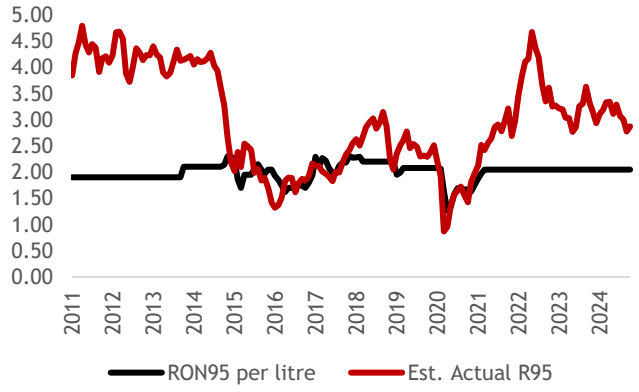
Source: Macrobond, MIDFR

Chart 4: Global Food Inflation (YoY%)



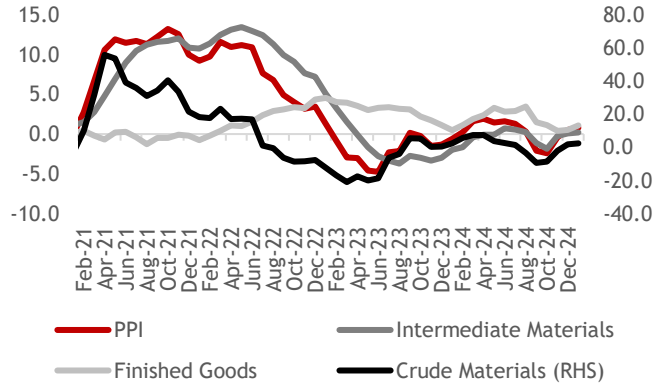
Source: FAO of UN, MIDFR

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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