Malaysia's Headline CPI Inflation Edged Down in May-25, Hitting a 51-Month Low

ECONOMIC REVIEW:
May-25 Consumer Price Index



Author
MIDF Research
research@midf.com.my

Economic Review

- Headline inflation edged lower to +1.2%yoy in May-25. Malaysia's headline CPI inflation moderated to +1.2%yoy in May-25, and below our estimate and market consensus of +1.4%yoy and marking the lowest print since Mar-21. The inflation for food away from home ticked higher to +4.4%yoy (Apr-25: +4.3%yoy), while prices of foods at home were flat last month.
- Inflation moderated in both rural and urban areas. By strata, inflation in the urban areas eased to +1.3%yoy in May-25, but higher than the national inflation rate. The inflation for rural areas also moderated slightly to +1.0%yoy.
- Still expecting inflation to accelerate to +2.2% this year. We continue to expect inflation will accelerate to +2.2% this year (2024: +1.8%). We anticipate the expansion of the SST list will exert upward pressure, contributing an additional 0.35-0.40ppts to the headline inflation, with potential spillover effects across other components in the CPI basket.

Headline inflation edged lower to +1.2%yoy in May-25. Malaysia's headline CPI inflation moderated to +1.2%yoy in May-25, and below our estimate and market consensus of +1.4%yoy and marking the lowest print since Mar-21. The inflation for food away from home ticked higher to +4.4%yoy (Apr-25: +4.3%yoy), while prices of foods at home were flat last month as vegetable prices contracted by -5.5%yoy and the milk and other dairy products & eggs also fell by -1.9%yoy. Meanwhile, prices of fish & other seafood and oils & fats both increased by +1.9%yoy and +1.7%yoy, respectively. On the other hand, non-food inflation moderated to +0.7%yoy in May-25 (Apr-25: +1.0%yoy) due to the slower inflation for housing, water, electricity, gas & other fuels (+1.7%yoy; Apr-25: +2.0%yoy); personal care, social protection & miscellaneous goods & services (+3.8%yoy; Apr-25: +4.1%yoy); and recreation, sports and culture (+0.9%yoy; Apr-25: +1.3%yoy). Meanwhile, core CPI moderated to +1.8%yoy in May-25 (Apr-25: +2.0%yoy), still signaling mild underlying price pressure. The observed low-price pressures across food, non-food, and core inflation suggest that minimal the impact of last year's government policy changes (specifically the shift to targeted subsidies, higher utility tariffs and the SST rate hike) on overall inflation. Despite anticipated fuel subsidy rationalisation and other policy adjustments this year, we forecast that moderate inflation will likely extend into 2HCY25. On top of that, the expansion of the SST coverage may provide upward price pressures which can be stronger than previously expected. This projection is underpinned by expectations of contained cost pressures and moderating crude oil prices in the previous month, which effectively limit significant upward inflationary forces.

Global food prices eased lower in May-25. Global food prices moderated to +6.0%yoy in Apr-25 (Mar-25: +7.9%yoy), the lowest level for the year. The growth in food inflation were driven by the increase in the prices of meat (+6.8%yoy; Mar-25: +5.5%yoy), dairy (+23.0%yoy; Mar-25: +21.5%yoy) as well as sustained but slower rise for oils (+20.8%yoy; Mar-25: +19.1%yoy) and poultry (+3.2%yoy; Mar-25: +2.6%yoy). Malaysia's dependence on imported foods leaves the economy susceptible to swings in global food prices and currency exchange rates. We think the latest SST announcement due to start in Jul-25 could impact food prices domestically as a number of imported food items are included in the expanded SST list. Nevertheless, the recent strength in the ringgit could limit the upside price pressures from higher import costs. On the other hand, bad weather disrupting local production could worsen the domestic food inflation.

Table 1: Consumer price index by component

		MoM%			YoY%		
	Weightage %	Mar-25	Apr-25	May25	Mar-25	Apr-25	May25
Core CPI	-	0.2	0.2	0.2	1.9	2.0	1.8
Headline CPI	100.0	0.0	0.1	0.1	1.4	1.4	1.2
Food and Beverages	29.8	0.1	(0.1)	0.1	2.5	2.3	2.1
Food	29.0	(0.1)	0.0	0.0	2.4	2.3	2.0
Food at Home	15.6	(0.1)	(0.3)	(0.1)	0.6	0.5	0.0
Food Away from Home	13.4	0.1	0.3	0.3	4.5	4.3	4.4
Non-alcoholic Beverages	0.8	2.0	0.0	0.2	5.6	5.6	5.5
Non-Food	70.2	0.0	0.2	0.1	0.9	1.0	0.7
Alcoholic Beverages & Tobacco	1.9	0.0	0.1	0.1	0.8	0.8	0.6
Clothing & Footwear	2.7	0.0	0.0	0.0	(0.2)	(0.1)	(0.2)
Housing, Water, Electricity, Gas & Other Fuels	23.2	0.0	0.1	0.3	1.9	2.0	1.7
Furnishings, Household Equip & Maintenance	4.3	-0.1	(0.1)	0.1	0.2	0.1	0.2
Health	2.7	0.0	0.1	0.2	1.0	0.9	1.1
Transport	11.3	(0.2)	0.0	(0.2)	0.7	0.7	0.7
Information and Communication	6.6	(0.1)	0.9	(0.1)	(5.4)	(4.5)	(5.2)
Recreation, Sport and Culture	3.0	0.0	0.4	(0.1)	1.7	1.3	0.9
Education	1.3	0.5	0.2	0.2	2.2	2.3	2.2
Restaurants & Accommodation Services	3.4	(0.1)	0.3	0.4	2.9	2.9	3.0
Insurance & Financial Services	4.0	0.0	0.0	0.0	1.5	1.5	1.5
Personal Care, Social Protect & Misc. Goods & Services	5.8	0.3	1.3	0.0	3.6	4.1	3.8

Source: DOSM, MIDFR

Inflation moderated in both rural and urban areas. By strata, inflation in the urban areas eased to +1.3%yoy in May-25, but higher than the national inflation rate. The inflation for rural areas also moderated slightly to +1.0%yoy. Among states, inflation in Johor recorded the highest rate of +1.8%yoy; followed by Negeri Sembilan at +1.6%yoy (Apr-25: +1.6%yoy), and Selangor at +1.5%yoy (Apr-25: +1.7%yoy).

Table 2: Inflation by state (YoY%)

	MoM%			YoY%		
	Mar-25	Apr-25	May-25	Mar-25	Apr-25	May-25
Urban	0.0	0.1	0.1	1.5	1.5	1.3
Rural	0.1	0.0	0.2	1.2	1.1	1.0
Peninsular Malaysia	0.0	0.1	0.1	1.5	1.5	1.3
Kedah	(0.1)	0.2	(0.1)	0.6	0.9	0.6
Perlis	0.1	0.2	0.2	1.0	1.1	1.0
Pulau Pinang	0.1	0.2	0.1	1.1	1.1	0.9
Perak	0.0	0.1	0.0	1.1	1.1	0.8
Selangor	0.0	0.1	0.2	1.8	1.7	1.5
Putrajaya	0.2	0.0	0.0	0.7	0.5	0.5
Kuala Lumpur	(0.1)	0.4	0.1	1.1	1.4	1.4
Melaka	(0.1)	0.1	0.2	1.6	1.6	1.5
Negeri Sembilan	0.2	0.1	0.2	1.7	1.7	1.6

	MoM%			YoY%		
	Mar-25	Apr-25	May-25	Mar-25	Apr-25	May-25
Johor	(0.1)	0.1	0.0	2.1	2.2	1.8
Pahang	(0.1)	0.0	0.1	1.1	1.0	0.7
Kelantan	0.0	0.1	(0.1)	0.5	0.5	0.3
Terengganu	0.0	0.2	0.0	1.2	1.3	1.1
Sabah	0.1	0.2	0.2	1.1	1.1	1.2
Sarawak	0.1	0.1	0.0	1.0	1.0	0.8

Source: DOSM, MIDFR

PPI deflated for the second month. Malaysia's producer prices continued to contract, declining further by -3.4%yoy in Apr-25 (Mar-25: -1.9%yoy), marking the second month of deflation and the sharpest drop since Jun-23. The weaker price pressure was mainly attributable to the steeper double-digit price decline in the mining sector (-17.8%yoy; Mar-25: -15.0%yoy) due to a sharper drop in crude petroleum prices (-19.8%yoy; Mar-25: -14.5%yoy) and further decline in natural gas prices albeit at a more moderate pace (-11.6%yoy; Mar-25: -16.2%yoy). The manufacturing PPI also fell quicker by -2.6%yoy (Mar-25: -1.8%yoy), marking eight consecutive months of deflation, largely due to sustained drop in costs for the production of coke and refined petroleum products (-15.7%yoy). Electricity & gas supply prices fell slightly faster by -0.6%yoy (Mar-25: -0.5%yoy). In contrast, prices in the agriculture, forestry, and fishing sector continued to grow, albeit at a slower pace of +2.6%yoy (Mar-25: +9.0%yoy), largely driven by the perennial crops sub-sector (+5.9%yoy). Water supply prices grew slightly faster by +0.9%yoy (Mar-25: +0.7%yoy). On a monthly basis, PPI fell quicker by -1.0%mom in Apr-25 (Mar-25: -0.6%mom). The main contributors to the weaker price pressure were the PPI deflation in agriculture, forestry, and fishing (-6.0%mom), the mining sector (-1.2%mom), and manufacturing (-0.5%mom) sectors. In contrast, water supply prices rebounded by +1.3%mom (Mar-25: -0.1%mom), while electricity and gas supply prices rose marginally by +0.3%mom, unchanged from the previous month. PPI for all stages of processing recorded deflation in Apr-25, including crude materials for further processing (-9.2%yoy); intermediate materials, supplies & components (-2.2%yoy); and finished goods (-1.4%yoy). The gap between PPI deflation and CPI inflation widened further as CPI continued to grow modestly by +1.4%yoy in Apr-25, maintaining its lowest level since Feb-21. As such, we believe it is unlikely that consumers will face any significant pass-through price pressures in the near term. The delayed rollout of targeted RON95 subsidy will offer additional relief to both producers and consumers, supporting private consumption amid stable inflation. While the Ministry of Finance still targets the rollout to be in 2HCY25, we anticipate implementation will likely be in 4QCY25 due to unresolved issues like eligibility and the delivery mechanism. However, inflationary pressures could emerge later in the year, driven by the potential pickup in price pressure stemming from the subsidy reforms and the higher utility costs for businesses.

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Feb-25	Mar-25	May-25	Feb-25	Mar-25	May-25
PPI	0.1	(0.6)	(1.0)	0.3	(1.9)	(3.4)
Crude Materials	0.3	(1.5)	(4.2)	0.0	(4.5)	(9.2)
Foodstuffs	1.2	(0.6)	(0.6)	0.1	0.1	(0.1)
Non-food	0.1	(1.8)	(5.1)	0.0	(5.4)	(11.2)
Non-food ex fuel	1.5	(0.4)	(7.8)	24.7	15.8	5.3
Crude Fuel	(1.0)	(2.6)	(3.1)	(12.3)	(16.5)	(19.7)
Intermediate Materials	(0.1)	(0.3)	(0.2)	0.0	(1.5)	(2.2)
Manufactured Goods	0.2	(0.7)	(0.7)	4.3	2.9	1.0
Construction	0.0	0.1	1.0	(1.2)	(1.1)	(0.6)
Processed Fuel & Lubricants	(0.8)	(0.8)	0.0	(8.3)	(11.7)	(10.3)
Containers	0.3	(0.7)	(0.1)	(4.8)	(5.5)	(3.5)
Supplies	(0.4)	0.0	0.4	(2.4)	(2.8)	(3.0)
Finished Goods	0.3	(0.4)	(0.5)	0.7	(0.6)	(1.4)
Consumer Goods	(0.5)	(0.1)	0.4	(0.4)	(0.7)	(0.8)
Consumer Goods ex. Foods	(0.7)	(0.1)	0.2	(1.9)	(2.0)	(2.3)

	MoM%			YoY%		
	Feb-25	Mar-25	May-25	Feb-25	Mar-25	May-25
Capital Equipment	1.0	(0.7)	(1.1)	1.7	(0.6)	(1.9)

Source: DOSM, Macrobond, MIDFR

Inflation in other countries is mostly eased. Inflation in several countries moderated slightly in May-25, as investors are recalibrating their expectations for the pace of interest rate cuts by major central banks, all while cautiously awaiting the outcome of trade negotiations with the US. Geopolitical concerns are also fuelling inflationary pressures, evidenced by recent increases in oil prices. In the US, the headline CPI inflation was slightly faster at +2.4%yoy in May-25 (Apr-25: +2.3%yoy); while core CPI inflation remained unchanged at +2.8%yoy, the lowest level since May-21. This signals limited impact of tariff hikes on the overall prices, thus far. Likewise, headline CPI inflation for the euro area eased to +1.9%yoy in May-25 (Apr-25: +1.9%yoy). Based on the ECB staff macroeconomic projection in Jun-25, the bloc's headline inflation is expected to average at +2.0% in 2025 and +1.6% in 2026 (previous forecast: 2025: +2.3%). The ECB slashed the borrowing costs again in the Jun-25 meeting to the lowest level since late 2022, warning that growth would take a big hit from the higher US tariffs. On the other hand, in the UK, the headline inflation slightly moderated to +3.4%yoy in May-25 (Apr-25: +2.5%yoy), and core inflation eased to +3.5%yoy in May-25 (Apr-25: +3.8%yoy), respectively. The slowdown was primarily driven by the slowdown in the services inflation. In Asia, the China's deflationary risk remains a concern, as the headline CPI contracted further by -0.2%yoy in May-25 (Apr-25: +0.1%yoy). Among regional economies, CPI inflation moderated in Philippines, Singapore, and Indonesia moderated to +1.3%yoy (Apr-25: +1.4%yoy), +0.8%yoy (Apr-25: +0.9%yoy), +1.6%yoy in May-25 (Apr-25: +2.0%yoy). Overall, we continue to expect that the central bank's monetary policy will remain on an easing bias, given the potential slowdown in global economic activities and more moderate inflation readings.

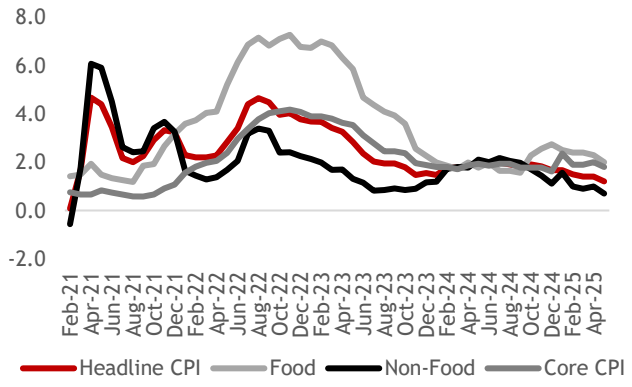
Table 4: Global Headline CPI Inflation (YoY%)

	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25
Malaysia	1.8	1.7	1.7	1.5	1.4	1.4	1.2
Indonesia	1.5	1.6	0.8	(0.1)	1.0	2.0	1.6
Singapore	1.6	1.5	1.2	0.9	0.9	0.9	0.8
Thailand	0.9	1.2	1.3	1.1	0.8	(-0.2)	(0.6)
Philippines	2.5	2.9	2.9	2.0	1.7	1.4	1.3
Taiwan	2.1	2.0	2.0	2.2	2.0	1.9	1.6
South Korea	1.5	1.9	2.2	2.0	2.1	2.1	1.9
China	0.2	0.1	0.5	(0.7)	(0.1)	(0.1)	(0.2)
Japan	2.9	3.6	3.6	3.7	3.6	3.6	3.5
Euro Area	2.2	2.4	2.5	2.3	2.2	2.2	1.9
UK	2.6	2.5	3.0	2.8	2.6	3.5	3.4
USA	2.7	2.9	3.0	2.8	2.4	2.3	2.4
PCE Prices	2.4	2.6	2.5	2.5	2.3	2.1	n.a

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

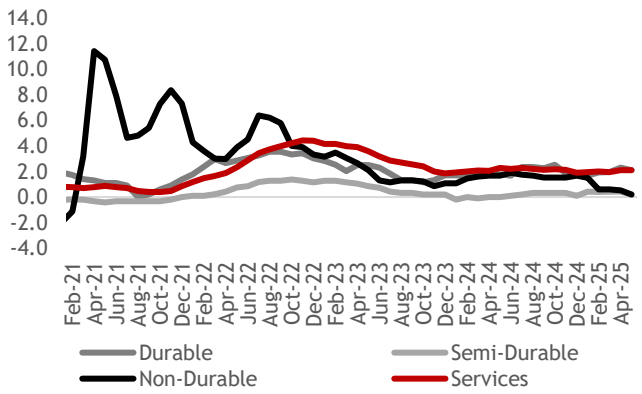
Still expecting inflation to accelerate to +2.2% this year. We continue to expect inflation will accelerate to +2.2% this year (2024: +1.8%). We anticipate the expansion of the SST list will exert upward pressure, contributing an additional 0.35-0.40ppts to the headline inflation, with potential spillover effects across other components in the CPI basket. Furthermore, recent geopolitical tensions, particularly those impacting the Strait of Hormuz, pose a risk of elevated global oil prices. Should the government proceed with subsidy rationalisation amidst such elevated oil prices, the upside risk to inflation would be more significant. We recognise a downside risk to our inflation forecast, primarily stemming from potential delays in government policy adjustments. This includes the implementation of the targeted RON95 subsidy, which may be postponed to later part this year or even deferred to next year. We opine changes in the supply side factors will be the predominant driver of price pressures. Consequently, we expect the Overnight Policy Rate (OPR) to remain at 3.00% throughout 2025. This outlook is based on the current absence of strong demand-pull inflationary pressures, and the existing policy setting is deemed supportive of sustainable economic growth.

Chart 1: Key CPI Data (YoY%)



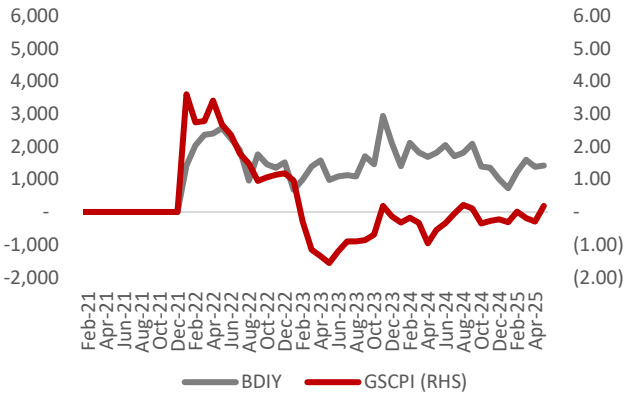
Source: Macrobond, MIDFR

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



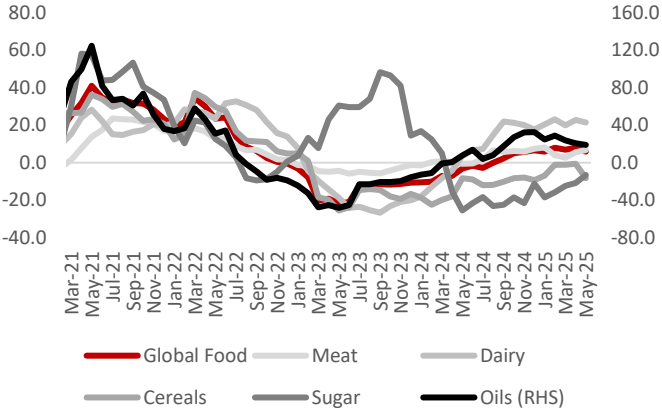
Source: Macrobond, MIDFR

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



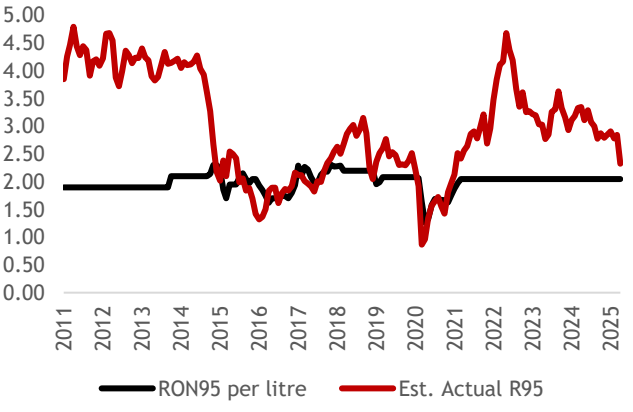
Source: Macrobond, MIDFR

Chart 4: Global Food Inflation (YoY%)



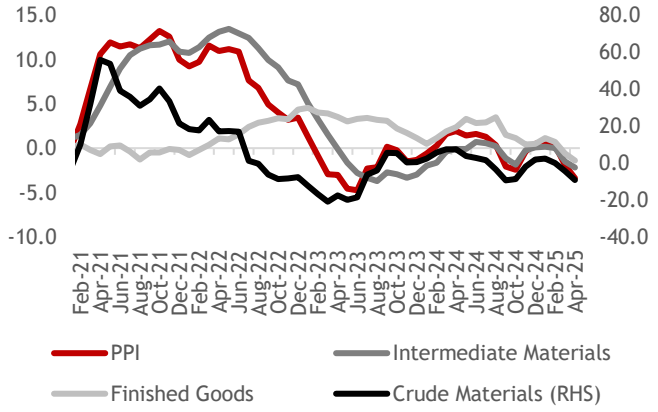
Source: FAO of UN, MIDFR

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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