

March Inflation Remained Steady

- Inflation maintained at 1.8% YoY in March
- Core inflation eased to 1.7%
- Increased water tariff rates boost the Housing and Water category
- Our CPI forecast for 2024 remained at 2.7%
- Malaysia's PPI rebounded into positive territory

OVERVIEW

Table 2: Summary of Malaysian CPI

Growth (YoY)	2023	Jan-24	Feb-24	Mar-24
CPI	2.5	1.5	1.8	1.8
CPI w/o fuel	2.8	1.5	1.7	1.8
Core Inflation	3.0	1.8	1.8	1.7
CPI – Urban	2.6	1.5	1.7	1.7
CPI – Rural	2.1	1.6	1.7	1.6
CPI - < RM3k Income	2.7	1.6	1.7	1.7

Source: DOSM, BIMB Securities

Malaysia's Consumer Price Index (CPI) **remained at 1.8% YoY in March 2024**. Food inflation recorded a 1.7% YoY increase – of the 247 food items, 149 items or 60.3% experienced price hikes compared to March 2023. Yet, the core inflation rate rose at a slower rate of 1.7% YoY.

Urban CPI outpaced the rural CPI, rose by 1.7% YoY in March 2024 steered by Restaurants & Hotels sub-component (March urban: +3.2%; rural: 2.3%) as well as Housing, Water, Electricity, Gas and Other Fuels (March urban: +3.0%; rural: +3.4%). CPI for the income group below RM3,000 (March: 1.7% YoY) same rate as observed in February, spurred by the Restaurants & Hotels (+3.5%), Housing, Water, Electricity, Gas & Other Fuels (+3.4%), Personal Care, Social Protection & Miscellaneous Goods & Services (+2.4%) as well as Health (+2.0%).

Table 3: CPI Sub-Component

Sub-Component (Growth Y-o-Y)	Weight (%)	2023	Jan-24	Feb-24	Mar-24
CPI	100	2.5	1.5	1.8	1.8
F&B (Non-Alcoholic)	29.8	4.8	2.0	1.9	1.7
Alcoholic Beverages and Tobacco	1.9	0.6	0.4	0.4	0.5
Clothing & Footwear	2.7	0.3	-0.2	-0.2	-0.2
Housing, Water, Electricity, Gas and Other Fuels	23.2	1.7	2.0	2.7	3.0
Frnshg, HH Equipt. & Routine HH Maint.	4.3	2.3	1.0	0.9	0.9
Health	2.7	2.2	2.4	2.2	2.1
Transport	11.3	1.1	0.7	1.2	1.3
Communication	6.6	-3.0	-2.4	-2.4	-2.4
Recreation Svc & Culture	3.0	1.5	0.8	1.6	1.5
Educations	1.3	1.9	1.7	1.5	1.5
Restaurants & Hotels	3.4	5.6	3.2	2.9	3.0
Miscellaneous G & S	5.8	2.4	0.0	2.5	2.6

Source: DOSM, BIMB Securities

Analyzing the CPI sub-components (Table 3), the inflation rise in March 2024 was mainly bolstered by both Housing, water, electricity, gas, and other fuels (+3.0%); and Restaurants and accommodation services (+3.0%). Other items contributing to

Table 1: Msia Key Economic Indicator

	2022	2023	2024F
GDP growth (%)	8.7	3.7	4.7
Unempl. Rate (%)	3.5	3.3	3.3
CPI (%)	3.3	2.5	2.7
OPR (%)	2.75	3.00	3.00
IPI (%)	6.9	0.9	3.5
CPO (RM/MT)	5,161	3,810	3,600
Brent (USD/bbl)	85.9	82.0	85.0
Exports Growth (%)	24.9	-8.0	6.2
Imports Growth (%)	31.0	-6.4	5.8
Trade Surplus (RM bln)	256.2	214.1	252.0
Ringgit per Dollar	RM4.40	RM4.59	RM4.45

Headline inflation remained steady at 1.8%, while core inflation increased slower to 1.7% in March 2024.

Urban CPI has once again surpassed Rural CPI.

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the reading included personal care, social protection, and miscellaneous goods & services (+2.6%), along with transport (+1.3%) and others. Yet, this increase was counterbalanced by slower growth in other major groups, notably Health (2.1%); Food & Beverages (1.7%); and Recreation, Sport & Culture (1.5%). The 3.0% inflation increase in Housing, water, electricity, gas, and other fuels (Feb: 2.7%) was driven by the Water supply expenditure class, which rose to 31.4% in March (Feb: 28.8%). Kedah raised water tariff rates for domestic users starting in March 2024, while other states had implemented these new rates in February 2024. Food inflation, accounting for 29.8% of the total Consumer Price Index (CPI) weight, saw a slower increase of 1.7% (Feb: 1.9%). The primary subgroup of Food at home rose to 0.3% in March (Feb: 0.5%). Concurrently, the primary subgroup of Food away from home increased by 3.5%, maintaining the same rate as seen in February.

Considering inflation trends across regional countries, we observe higher CPI in regional countries except for China and Thailand. Eurozone inflation decreased to 2.4% in March (Feb: 2.6%), steered by a moderate food inflation of 2.6% (Feb: 3.9%). On the other hand, U.S. inflation rate increased to 3.5% in March 2024 (Feb: 3.2%), driven by higher shelter and energy prices. Compared to selected countries in the Asia Pacific region, Malaysia's 1.8% inflation was lower than in South Korea, Indonesia, and the Philippines. The Republic of Korea's inflation rate remained steady at 3.1% in March 2024, with the increase in food inflation to 6.7% (Feb: 6.9%) contributing to this trend. Indonesia's inflation rate rose to 3.1% in March 2024 (Feb: 2.8%). This increase was mainly driven by higher inflation in Food inflation (Mar: 7.4%, Feb: 6.4%). Philippines registered an increase to 3.7% in March 2024 (Feb: 3.4%), propelled by higher food inflation. Conversely, Thailand's annual headline consumer inflation rate declined further to -0.5% in March (Feb: -0.8), attributed to food inflation, which dropped further to -0.6% in March 2024 (Feb: -1.0%). Moreover, prices continued to drop for non-food products at -0.4% (Feb: -0.6%). Inflation in China rose by 0.1% in March 2024 (Feb: 0.7%), food inflation decreased to -2.7% (Feb: -0.9%), while non-food inflation increased by 0.7% from the previous month (1.1%).

Table 4: Summary of Malaysia's PPI

	Nov-23	Dec-23	Jan-24	Feb-24
Year-on-Year	-1.5	-1.3	-0.6	0.3
Month-on-Month	-0.7	-0.2	-0.1	0.7

Source: DOSM, BIMB Securities

Malaysia's Producer Price Index (PPI), which measures the prices of goods at the factory gate, returned to positive territory with a 0.3% increase in February 2024 (Jan: -0.6%). The agriculture, forestry, and fishing sector rose by 6.0% (Jan: 3.2%), driven by increases in the Growing of perennial crops (8.1%), Fishing (7.5%), and Animal production (4.3%) indices. Meanwhile, the Mining sector saw a 5.3% uptick (Jan: -1.3%), notably driven by a 7.9% increase in the Extraction of crude petroleum index. The Water supply index surged by 3.6% in February 2024 (Jan: 0.6%), attributed to the implementation of increased water tariffs nationwide starting on February 1st, 2024. The Electricity & gas supply sector also experienced a slight increase of 0.1% this month (Jan: -0.8%). In contrast, the Manufacturing sector continued its decline, contracting by -0.7% (Jan: -0.9%). This decrease was driven by declines in the Manufacture of coke & refined petroleum products (-12.6%) and Manufacture of food products (-3.3%) indices.

The spike in Housing, Water, Electricity, Gas, and Other Fuels was driven by the water supply expenditure class, attributed to increased water tariff rates.

Food inflation remains the primary contributor to inflation in regional countries.

Malaysia's PPI returned to positive territory, with most sectors showing growth except for the Manufacturing sector.

Table 5: Malaysian PPI By Sector

Growth (Y-o-Y)	Nov-23	Dec-23	Jan-24	Feb-24
Agriculture, Forestry & Fishing	-0.4	1.3	3.2	6.0
Mining	-4.7	-3.4	-1.3	5.3
Manufacturing	-1.4	-1.5	-0.9	-0.7
Electricity & Gas Supply	-0.6	-0.6	-0.8	0.1
Water Supply	1.0	0.4	0.6	3.6

Source: DOSM, BIMB Securities

On a monthly basis, PPI saw a 0.7% increase (Jan: -0.1%). The Manufacturing sector stayed unchanged, whereas all other sectors registered an increase this month. The Mining sector rose by 5.7% (Jan: -0.7), driven by increases in both the Extraction of crude petroleum (5.8%) and Extraction of natural gas (5.2%) indices. The agriculture, forestry & fishing sector increased by 2.6%, attributed to growth in the Growing of perennial crops (4.3%) and Fishing (3.7%) sub-sectors. In February 2024, the utility sector saw increases in both Electricity & gas supply (0.9%) and Water supply (2.7%).

The Manufacturing sector remained unchanged, while all other sectors recorded an increase this month.

Table 6: Malaysian PPI By Stage of Processing

Growth (Y-o-Y)	Nov-23	Dec-23	Jan-24	Feb-24
Crude Materials for Further Processing	0.3	0.4	2.3	5.6
Intermediate materials, supplies & components	-3.4	-3.0	-2.0	-1.7
Finished Goods	1.7	1.1	0.5	1.1

Source: DOSM, BIMB Securities

OUTLOOK

The headline inflation remained unchanged at 1.8% YoY in March. The increase was mainly due to the water supply expenditure class, linked to higher water tariff rates. Kedah raised water tariff rates for domestic users starting in March 2024, while other states had implemented these new rates in February 2024. On a month-on-month basis, the CPI posted only a 0.1% gain (Feb: 0.5%) despite a higher service tax of 8% that took effect from 1 March and dissipating favorable base effects. The Producer Price Index (PPI) rebounded to positive territory with a 0.3% increase in February 2024, marking an end to the deflationary trends in the index. Despite the slight rise in PPI, we anticipate a gradual cost-passing effect, aligning with the cooling CPI trend.

We still expect sustained low inflationary pressure through the first half of 2024, supported by enhanced domestic supply chains, stable interest rates, and stabilized global commodity prices. Despite Malaysia's sustained inflation trend, we anticipate heightened global supply chain pressures due to ongoing tensions in the Red Sea and the escalation of Iran-Israel conflict. Ongoing geopolitical tensions in the Middle East are expected to bolster oil prices in the short term due to increased uncertainty. During the onset of the Russia-Ukraine conflict in 2022, Brent edged towards USD140, and prices may remain high for longer, depending on the event's scale. Hence, the reliance of Malaysia on food imports might contribute to a possible increase in food inflation.

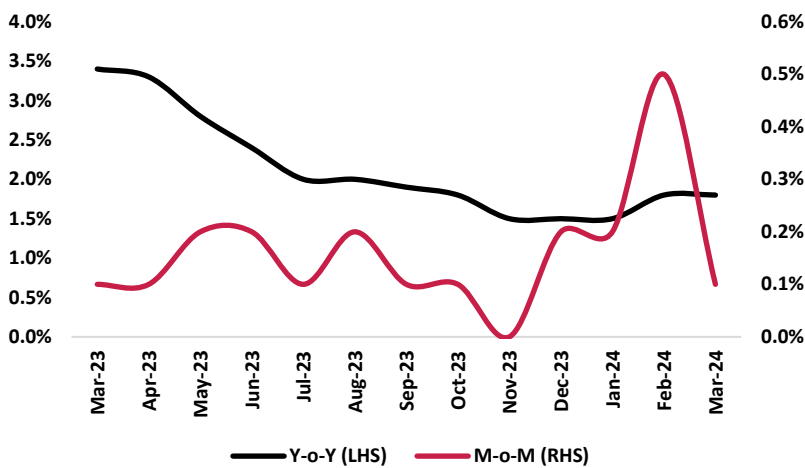
World Bank anticipates that Malaysia's headline inflation will likely ease to approximately 2.5% in 2024, reflecting stable cost and demand conditions. Yet, this projection could change depending on shifts in government subsidies and price control measures. Our CPI forecast for 2024 stays at 2.7%, contingent on the subsidy

Our CPI forecast for 2024 is maintained at 2.7%.

rationalization program's implementation. This includes the expected rollout of the RON95 targeted subsidy program in the second half of 2024. We assume gradual subsidy rationalization. Other factors that could potentially increase inflation include heightened geopolitical tensions disrupting global supply chains and the spillover effects from rising oil and commodity prices.

Recently, Economy Minister Rafizi Ramli has emphasised that Malaysia will persist in reducing petrol subsidies this year to lessen its fiscal deficit. We expect the effects of fuel subsidy rationalization and progressive wage mechanism implementation to influence inflation in the latter half of the year.

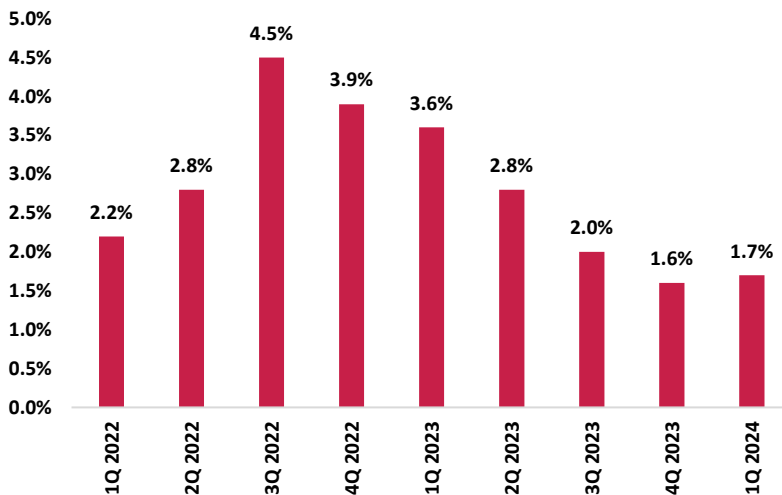
Chart 1 : Malaysia CPI Trend (Mar 2023 – Mar 2024)



Malaysia's inflation held steady at 1.8% in March.

Source: DOSM, BIMB Securities

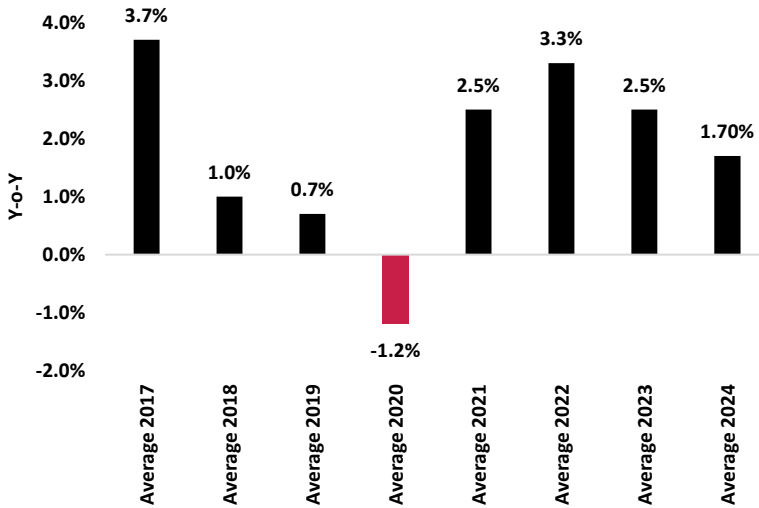
Chart 2: Malaysia CPI Quarterly (1Q 2022 – 1Q 2024)



Malaysia's inflation for first quarter of 2024 registered a 1.7% increase (4Q 2023: 1.6%).

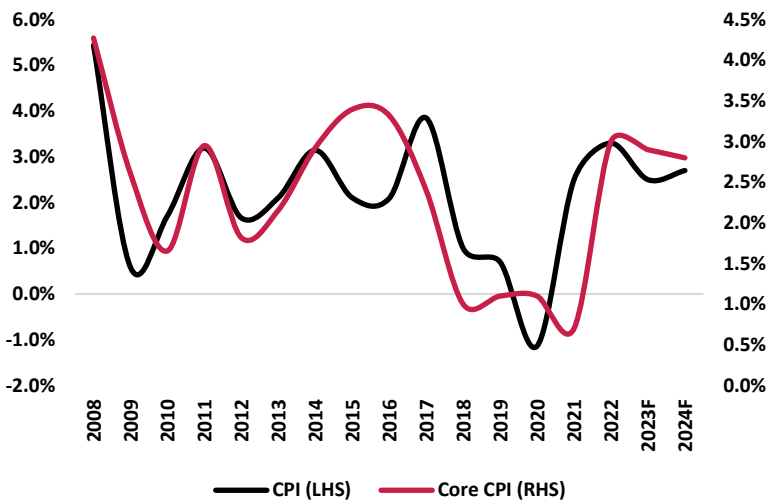
Source: DOSM, BIMB Securities

Chart 3: Malaysia CPI: YTD Comparison



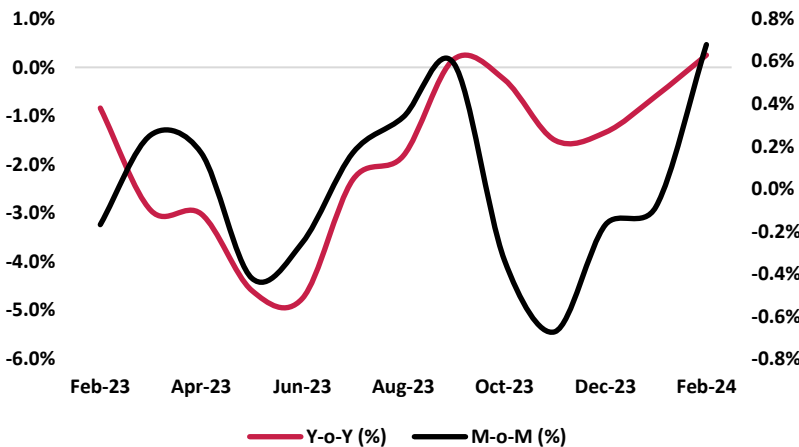
Source: DOSM, BIMB Securities

Chart 4: Malaysia CPI (2008 – 2024F)



Source: DOSM, BIMB Securities

Chart 5: Malaysia PPI Trend (Feb 2023 – Feb 2024)

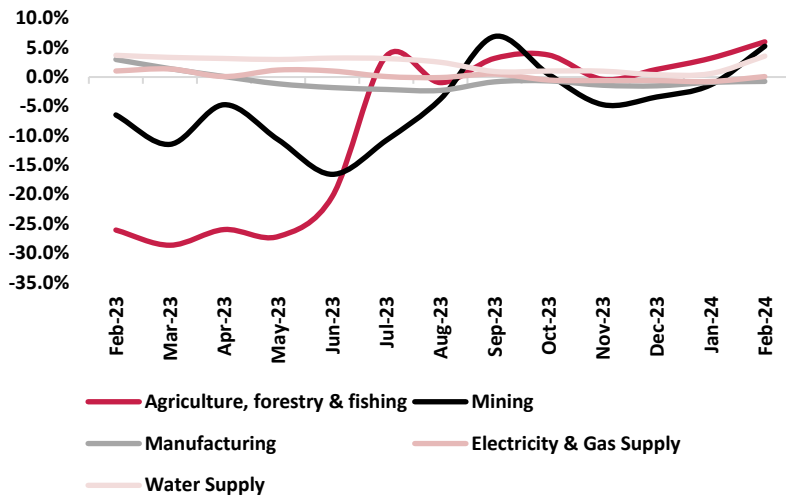


Source: DOSM, BIMB Securities

Maintain our forecast for 2024's inflation at 2.7%.

Malaysia PPI rebounded into positive territory in February.

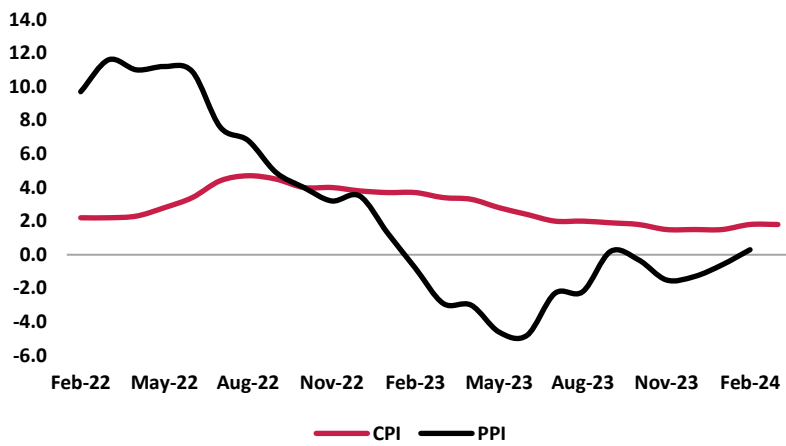
Chart 6: Malaysia PPI By Sector (Y-o-Y)



Most sectors in Malaysia exhibited growth, except for the Manufacturing sector, which remained stagnant.

Source: DOSM, BIMB Securities

Chart 7: Malaysia CPI and PPI



CPI remained in March, while PPI returned to positive territory in February.

Source: DOSM, BIMB Securities

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