

Malaysia Consumer Price Index

March inflation steady at 1.8% YoY: Mild food prices and minor services tax impact

- **The inflation rate came in lower than expected at 1.8%YoY in March (Feb: 1.8%; Consensus: 2.0%; KIBB: 2.0%), despite the 2.0% increase in service tax**

- Despite a rebound in Food and Agriculture Organisation's global food price index in March, inflation has surprised on the downside due to muted domestic food inflation, driven by increased dining out during the month of Ramadhan. In contrast, prices of food at restaurants and cafes surged to 3.7% YoY (Feb: 3.4%). The weak price pressure is also due to the limited impact of the rise in the service tax, which increased to 8.0% from 6.0% effective March 1. Notably, headline inflation slowed sharply to 0.1% MoM (Feb: 0.5%).
- Core inflation (1.7%; Feb: 1.8%): edged lower due to a slower increase in core food prices and a drop in the cost of recreation services & culture on a MoM basis.

- **Continued rise in housing-utilities-fuels and restaurant & hotel costs were balanced by subdued food price increases and reduced flight costs**

- Housing, water, electricity, gas & other fuels (3.0%; Feb: 2.7%): rose to an 18-month high, driven by a 2.0% MoM increase (Feb: 0.0%) in the cost of electricity, attributed to the impact of the higher service tax.
- Restaurant & hotel (3.0%; Feb: 2.9%): edged higher due to an increase in the cost of food preparation services (3.7% YoY; Feb: 3.4%). This uptick was driven by higher demand for hotel buffet and restaurant dinner packages.
- Food & non-alcoholic beverages (1.7%; Feb: 1.9%): moderated to its lowest level since August 2021, primarily due to a 0.2% MoM drop (Feb: 0.0%) in prices of food at home, particularly fish and vegetables.
- Transport (1.3%; Feb: 1.2%): despite higher Brent crude oil price, transport inflation fell 0.2% MoM (Feb: 0.4%) due to slowing demand for both domestic and international flight tickets.

- **Mixed inflation trends across advanced and developing economies are fuelling divergence in monetary policy settings**

- US (3.5%; Feb: 3.2%): accelerated at a faster-than-expected pace, propelled by increased fuel and housing costs. This development has led the market to revise downwards its expectations for rate cuts, with September now emerging as the most probable starting point for the much-anticipated Fed pivot.
- Japan (2.7%; Feb: 2.8%): edged lower due to a slowdown in food price increases, though it remained well above the central bank's 2.0% target. The BoJ may continue to monitor services inflation before hiking again, potentially in 2H24.
- China (0.1%; Feb: 0.7%): decelerated below expectations, attributed to a waning consumer spending appetite. This has heightened the urgency for monetary policy easing by the PBoC to fend off deflationary risks and bolster economic growth.

- **We maintain our 2024 headline CPI forecast at 2.7% (2023: 2.5%), while remaining cautious about the Middle East crisis**

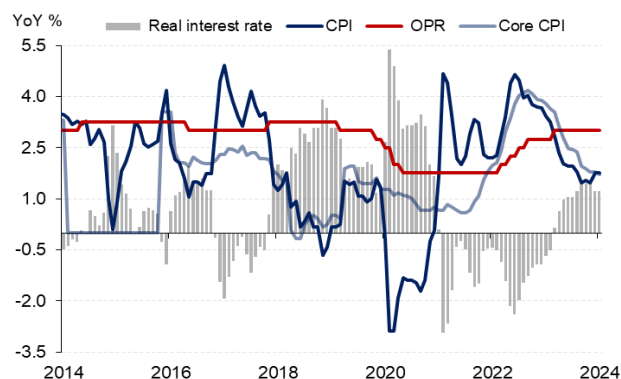
- While the intensity of the conflict in the Middle East may have diminished, we remain cautious about the outlook for crude oil prices. This caution is especially justified as we expect the government to soon unveil its subsidy rationalisation mechanism, with potential implementation in 2H24. Additionally, there are lingering concerns about inflation risks, especially stemming from rising food prices. Global prices for commodities such as cocoa and coffee are currently surging due to severe and unpredictable weather conditions. The worsening effects of climate change are expected to further amplify these impacts, potentially leading to overall higher food prices.
- Despite upside risks to prices, inflation may continue to remain under control, while GDP may register a robust growth rate ranging between 4.5% to 5.0%. These factors are likely to keep the BNM in a holding pattern for the remainder of 2024.

Table 1: Global Inflation (% YoY)

	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
US	3.2	3.1	3.4	3.1	3.2	3.5
EU	2.9	2.4	2.9	2.8	2.6	2.4
UK	4.6	3.9	4.0	4.0	3.4	3.2
Japan	3.3	2.8	2.6	2.2	2.8	2.7
Korea	3.8	3.3	3.2	2.8	3.1	3.1
Singapore	4.7	3.6	3.7	2.9	3.4	2.7
China	-0.2	-0.5	-0.3	-0.8	0.7	0.1
Indonesia	2.6	2.9	2.6	2.6	2.8	3.1
Thailand	-0.3	-0.4	-0.8	-1.1	-0.8	-0.5

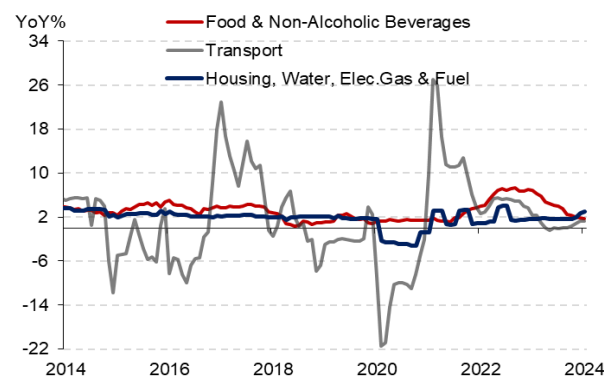
Source: Bloomberg, Kenanga Research

Graph 1: Real Interest Rate, Inflation Rates and OPR



Source: Dept. of Statistics, Kenanga Research

Graph 2: CPI Growth by Main Categories



Source: Bloomberg, Kenanga Research

26 April 2024

Table 2: Malaysia Consumer Price Index Growth Trend (% YoY)

Base 2010=100	weight	2021	2022	2023	Mar-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
CPI	100.0	2.5	3.3	2.5	3.4	1.8	1.5	1.5	1.5	1.8	1.8
Core Inflation		0.7	3.0	3.0	3.8	2.4	2.0	1.9	1.8	1.8	1.7
Food & Non-Alcoholic Beverages	29.8	1.7	5.8	4.8	6.9	3.6	2.6	2.3	2.0	1.9	1.7
Alcoholic Beverages & Tobacco	1.9	0.5	0.5	0.7	0.6	0.6	0.6	0.6	0.4	0.4	0.5
Clothing & Footwear	2.7	-0.4	0.1	0.2	0.5	0.0	0.0	0.0	-0.2	-0.2	-0.2
Housing, Water, Electricity, Gas & Other Fuels	23.2	1.5	1.8	1.7	1.6	1.6	1.7	1.6	2.0	2.7	3.0
Furnishing, Household Equipment & Routine Household Maintenance	4.3	1.6	3.5	2.3	3.1	1.4	1.4	1.4	1.0	0.9	0.9
Health	2.7	0.4	0.7	2.1	2.2	2.4	2.3	2.5	2.4	2.2	2.1
Transport	11.3	11.0	4.7	1.1	2.4	0.0	0.1	0.3	0.7	1.2	1.3
Communication	6.6	0.0	0.0	-2.9	-1.4	-3.7	-3.7	-3.7	-2.4	-2.4	-2.4
Recreation Services & Culture	3.0	0.4	2.3	1.5	1.9	0.7	0.6	1.9	0.8	1.6	1.5
Education	1.3	0.2	1.1	1.9	1.7	2.1	2.0	2.0	1.7	1.5	1.5
Restaurants & Hotels	3.4	0.4	5.0	5.5	7.2	4.6	4.3	3.7	3.2	2.9	3.0
Miscellaneous Goods & Services	9.8	0.5	2.0	2.5	2.1	2.3	2.3	2.7	2.5	2.5	2.6

Source: Dept. of Statistics, Kenanga Research

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

Nurul Hanees Hairulkama
Economist
nurulhanees@kenanga.com.my

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Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

