

Malaysia Consumer Price Index

Plateaued at 1.5% YoY in January, but food and housing costs surged on a MoM basis

- The headline inflation held steady at 1.5% YoY for the third consecutive month in January, matching our house forecast but slightly lower than the market estimate of 1.6%**

- Despite increases of 0.3% MoM and 0.4% MoM in the food and housing components, respectively, which are the two largest components of the CPI, the index remained relatively unchanged on a YoY basis and slowed to 0.15% (Dec: 0.23%) on a MoM basis. This could be attributed to counterbalancing factors, including the high base effect, monthly deflation in the transport and restaurant & hotel subcomponents, and zero growth in other subcomponents.
- Core inflation (1.8%; Dec: 1.9%): cooled further to its long-term average of 1.8%, however, core prices accelerated by 0.3% MoM after three consecutive months of 0.0% growth.

- The monthly increases in food prices and housing costs were offset by the high base effect and lower transport costs**

- Food & non-alcoholic beverages (2.0%; Dec: 2.3%): cooled to its lowest level since October 2021 but continued to rise by 0.3% (Dec: 0.3) MoM due to a higher increase in the prices of food away from home (0.4% MoM; Dec: 0.1%).
- Housing, water, electricity, gas & other fuels (2.0%; Dec: 1.6%): soared to a 16-month high, driven primarily by a sharp 58.7% (Dec: 7.7%) increase in the cost of sewage collection due to the rise in sewage service tariffs.
- Transport (0.7%; Dec: 0.3%): rose to an eight-month high due to an increase in the average price of RON97. However, the component fell into a deflation of -0.1% MoM (Dec: 0.3%), mainly due to cheaper airfares.

- Divergence in inflationary trends prompts differing monetary policies, particularly between the US and China**

- US (3.1%; Dec: 3.4%): cooled back to its November level but recorded a hotter-than-expected reading of 0.3% MoM (Dec: 0.2%). This can be mainly attributed to higher shelter and food prices. The reading has pushed back expectations of an earlier rate cut and the Fed is expected to wait for more data before initiating its first rate cut.
- China (-0.8%; Dec: -0.3%): fell to its lowest level since 2009 due to the high base effect and a steep drop in pork prices. The weakness in China’s consumer spending has led the PBoC to cut its key mortgage reference rate by 25 basis points.
- Thailand (-1.1%; Dec: -0.8%): fourth straight month of deflation, the lowest since February 2021, mainly due to the government’s energy subsidies, cheaper food prices and a high base effect. However, Bank of Thailand remained broadly neutral and may continue to hold policy rate at 2.5% as core prices remained positive.

- 2024 headline CPI forecast maintained at 2.7% (2023: 2.5%), subject to government policies and external factors**

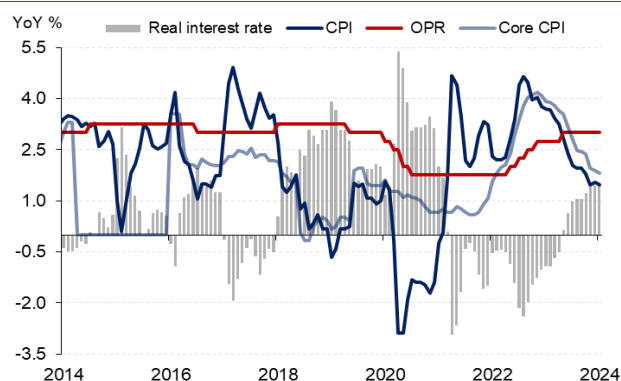
- The persistent threat of global food insecurity, exacerbated by extreme weather conditions, climate change, and geopolitical conflicts, is expected to continue exerting upward pressure on food prices. This impact is particularly pronounced in countries highly dependent on food imports, such as Malaysia. On the domestic front, the upcoming hike in the service tax to 8.0% from 6.0%, combined with the rationalisation of fuel subsidies, potentially in 2H24, may contribute to inflationary pressures. Coupled with the anticipated rise in tourism activity, these factors are poised to nudge inflation slightly higher in 2024.
- While headline inflation is projected to experience a slight uptick in 2024, the rate remains comfortably below the current overnight policy rate of 3.00%. Coupled with our anticipation of a core inflation rate below 2.0% and robust GDP growth ranging from 4.5% to 5.0% in 2024, driven by solid domestic demand and a resurgence in the manufacturing sector, the Bank Negara Malaysia may find itself on autopilot throughout the year, barring any unforeseen circumstances.

Table 1: Global Inflation (% YoY)

	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
US	3.7	3.7	3.2	3.1	3.4	3.1
EU	5.2	4.3	2.9	2.4	2.9	2.8
UK	6.7	6.7	4.6	3.9	4.0	4.0
Japan	3.2	3.0	3.3	2.8	2.6	N/A
Korea	3.4	3.7	3.8	3.3	3.2	2.8
Singapore	4.0	4.1	4.7	3.6	3.7	2.9
China	0.1	0.0	-0.2	-0.5	-0.3	-0.8
Indonesia	3.3	2.3	2.6	2.9	2.6	2.6
Thailand	0.9	0.3	-0.3	-0.4	-0.8	-1.1

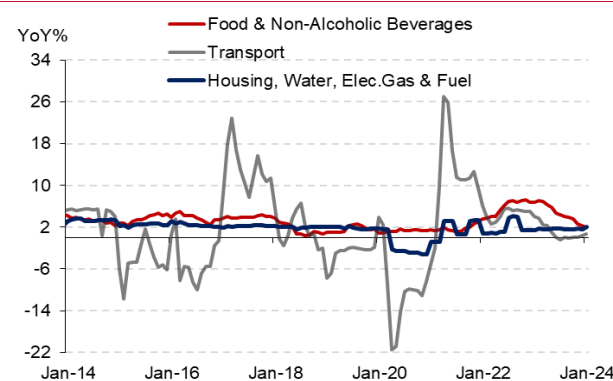
Source: Bloomberg, Kenanga Research

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 January 2024

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

Base 2010=100	weight	2021	2022	2023	Jan-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
CPI	100.0	2.5	3.3	2.5	3.7	2.0	1.9	1.8	1.5	1.5	1.5
Core Inflation		0.7	3.0	3.0	3.9	2.5	2.5	2.4	2.0	1.9	1.8
Food & Non-Alcoholic Beverages	29.8	1.7	5.8	4.8	6.7	4.1	3.9	3.6	2.6	2.3	2.0
Alcoholic Beverages & Tobacco	1.9	0.5	0.5	0.7	0.8	0.5	0.7	0.6	0.6	0.6	0.4
Clothing & Footwear	2.7	-0.4	0.1	0.2	0.5	0.0	0.1	0.0	0.0	0.0	-0.2
Housing, Water, Electricity, Gas & Other Fuels	23.2	1.5	1.8	1.7	1.5	1.6	1.6	1.6	1.7	1.6	2.0
Furnishing, Household Equipment & Routine Household Maintenance	4.3	1.6	3.5	2.3	3.5	1.7	1.5	1.4	1.4	1.4	1.0
Health	2.7	0.4	0.7	2.1	1.6	2.4	2.2	2.4	2.3	2.5	2.4
Transport	11.3	11.0	4.7	1.1	4.0	0.0	-0.1	0.0	0.1	0.3	0.7
Communication	6.6	0.0	0.0	-2.9	-1.4	-3.7	-3.7	-3.7	-3.7	-3.7	-2.4
Recreation Services & Culture	3.0	0.4	2.3	1.5	2.7	1.0	0.6	0.7	0.6	1.9	0.8
Education	1.3	0.2	1.1	1.9	1.3	2.1	2.0	2.1	2.0	2.0	1.7
Restaurants & Hotels	3.4	0.4	5.0	5.5	6.8	4.7	4.4	4.6	4.3	3.7	3.2
Miscellaneous Goods & Services	9.8	0.5	2.0	2.5	2.3	2.4	2.5	2.3	2.3	2.7	2.5

Source: Dept. of Statistics, Kenanga Research

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