

# Malaysia Consumer Price Index

February inflation unexpectedly hits 1.8% YoY, spurred by water tariff and holiday spending

- **After plateauing at 1.5% YoY for three consecutive months, headline inflation surprised on the upside at 1.8% YoY or 0.5% MoM in February (Jan: 1.5%; Consensus: 1.5%; KIBB: 1.4%)**

- The above-consensus reading was primarily attributed to the greater-than-expected impact of the new water tariff and increased spending during the Lunar New Year (LNY). Notably, data from Trip.com indicates a significant surge in inbound travel to Malaysia during this year's LNY festive period compared to 2023, with a notable 53.9% increase.
- Core inflation (1.8%; Jan: 1.8%): stabilised near its long-term average of around 1.82% and registered a modest 0.2% MoM growth (Jan: 0.3%).

- **The marginal moderation in food prices failed to offset the sharp increase in water bills and higher domestic flight costs**

- Food & non-alcoholic beverages (1.9%; Jan: 2.0%): cooled further to its lowest level in 29 months, partly due to muted growth (0.0%; Jan: 0.3%) in the prices of food at home, driven by cheaper meat and vegetable prices.
- Housing, water, electricity, gas & other fuels (2.7%; Jan: 2.0%): reached its highest level since September 2022, driven by a rise in rental costs (2.2%; Jan: 1.9%) and a significant increase in water bills (28.8%; Jan: 2.1%) following the adjustment of water tariffs in the domestic category, with an average increase of RM0.22 per cubic meter.
- Transport (1.2%; Jan: 0.7%): surged to a ten-month high due to a sharp rebound in the cost of public transport services (4.2%; Jan: -2.6%). This increase was primarily attributed to a 52.7% surge in domestic flight ticket prices (Jan: -19.0%) due to the LNY celebration.
- Notably, the pull factor from tourism also contributed to the higher inflation rate, as evidenced by the MoM increase in the costs of recreational & sporting activities (1.2%; Jan: 0.0%) and restaurant & accommodation services (0.6%; Jan: -0.1%).

- **Rising inflation trend across both advanced and developing economies is complicating the monetary policy outlook**

- US (3.2%; Jan: 3.1%): after cooling last month, prices had risen again, driven by rising energy and shelter costs. Core prices have continued to increase by 0.4% MoM, significantly surpassing the disinflation rate required for the Fed to change course. A potential deceleration in core costs over the next few months could prompt the Fed to initiate its first rate cut.
- Japan (2.8%; Jan: 2.2%): surged to a three-month high, primarily attributed to the base effect stemming from last year's energy subsidies. With no clear signs of demand-pull inflation, the BoJ may refrain from implementing further hikes in April.
- China (0.7%; Jan: -0.8%): first price increase after four months of deflation, primarily due to higher spending during the LNY holiday. However, domestic demand remains weak and property buying remains subdued.

- **We retained our 2024 headline CPI forecast at 2.7% (2023: 2.5%) amid the anticipated rationalisation of RON95 in 2H24**

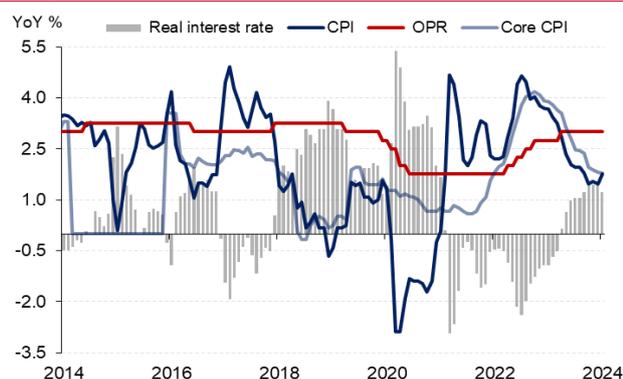
- Extreme weather conditions, climate change, and geopolitical tensions may push food prices higher in the near term. Additionally, the anticipated removal of RON95 fuel subsidies in 2H24 and an anticipated rise in tourism could further exacerbate price increases. Core inflation is projected to remain subdued at around 2.0% this year, bolstered by a strengthening ringgit that is poised to reduce the cost of imported inputs. Additionally, we anticipate limited wage growth, which is likely to translate into a muted pass-through effect on prices. While tax adjustments and utility tariff changes may have a slight impact, they are not expected to be major factors driving overall inflation.
- The BNM may find itself in a holding pattern throughout the year, given our projection of a stable core inflation rate averaging around 2.0% YoY and robust GDP growth ranging from 4.5% to 5.0% in 2024.

Table 1: Global Inflation (% YoY)

	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
US	3.7	3.2	3.1	3.4	3.1	3.2
EU	4.3	2.9	2.4	2.9	2.8	2.6
UK	6.7	4.6	3.9	4.0	4.0	3.4
Japan	3.0	3.3	2.8	2.6	2.2	2.8
Korea	3.7	3.8	3.3	3.2	2.8	3.1
Singapore	4.1	4.7	3.6	3.7	2.9	0.0
China	0.0	-0.2	-0.5	-0.3	-0.8	0.7
Indonesia	2.3	2.6	2.9	2.6	2.6	2.8
Thailand	0.3	-0.3	-0.4	-0.8	-1.1	-0.8

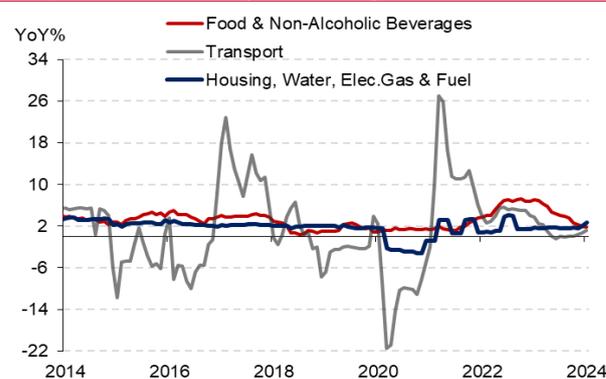
Source: Bloomberg, Kenanga Research

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 March 2024

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

Base 2010=100	weight	2021	2022	2023	Feb-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
<b>CPI</b>	<b>100.0</b>	<b>2.5</b>	<b>3.3</b>	<b>2.5</b>	<b>3.7</b>	<b>1.9</b>	<b>1.8</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.8</b>
Core Inflation		0.7	3.0	3.0	3.9	2.5	2.4	2.0	1.9	1.8	1.8
Food & Non-Alcoholic Beverages	29.8	1.7	5.8	4.8	7.0	3.9	3.6	2.6	2.3	2.0	1.9
Alcoholic Beverages & Tobacco	1.9	0.5	0.5	0.7	0.8	0.7	0.6	0.6	0.6	0.4	0.4
Clothing & Footwear	2.7	-0.4	0.1	0.2	0.4	0.1	0.0	0.0	0.0	-0.2	-0.2
Housing, Water, Electricity, Gas & Other Fuels	23.2	1.5	1.8	1.7	1.7	1.6	1.6	1.7	1.6	2.0	2.7
Furnishing, Household Equipment & Routine Household Maintenance	4.3	1.6	3.5	2.3	3.4	1.5	1.4	1.4	1.4	1.0	0.9
Health	2.7	0.4	0.7	2.1	1.8	2.2	2.4	2.3	2.5	2.4	2.2
Transport	11.3	11.0	4.7	1.1	3.7	-0.1	0.0	0.1	0.3	0.7	1.2
Communication	6.6	0.0	0.0	-2.9	-1.4	-3.7	-3.7	-3.7	-3.7	-2.4	-2.4
Recreation Services & Culture	3.0	0.4	2.3	1.5	1.7	0.6	0.7	0.6	1.9	0.8	1.6
Education	1.3	0.2	1.1	1.9	1.6	2.0	2.1	2.0	2.0	1.7	1.5
Restaurants & Hotels	3.4	0.4	5.0	5.5	7.4	4.4	4.6	4.3	3.7	3.2	2.9
Miscellaneous Goods & Services	9.8	0.5	2.0	2.5	2.5	2.5	2.3	2.3	2.7	2.5	2.5

Source: Dept. of Statistics, Kenanga Research

**For further information, please contact:**

**Wan Suhaimie Wan Mohd Saidie**  
Head of Economic Research  
[wansuhaimi@kenanga.com.my](mailto:wansuhaimi@kenanga.com.my)

**Muhammad Saifuddin Sapuan**  
Economist  
[saifuddin.sapuan@kenanga.com.my](mailto:saifuddin.sapuan@kenanga.com.my)

**Afiq Asyraf Syazwan Abd. Rahim**  
Economist  
[afiqasyraf@kenanga.com.my](mailto:afiqasyraf@kenanga.com.my)

**Nurul Hanees Hairulkama**  
Economist  
[nurulhanees@kenanga.com.my](mailto:nurulhanees@kenanga.com.my)

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**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](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

