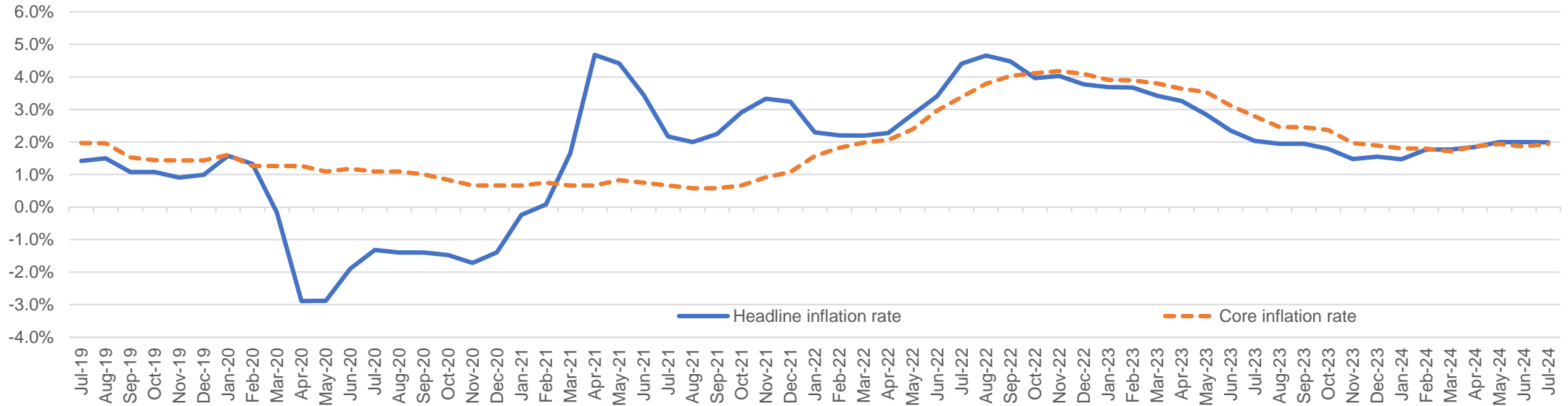


Malaysia's inflation rate remain stable

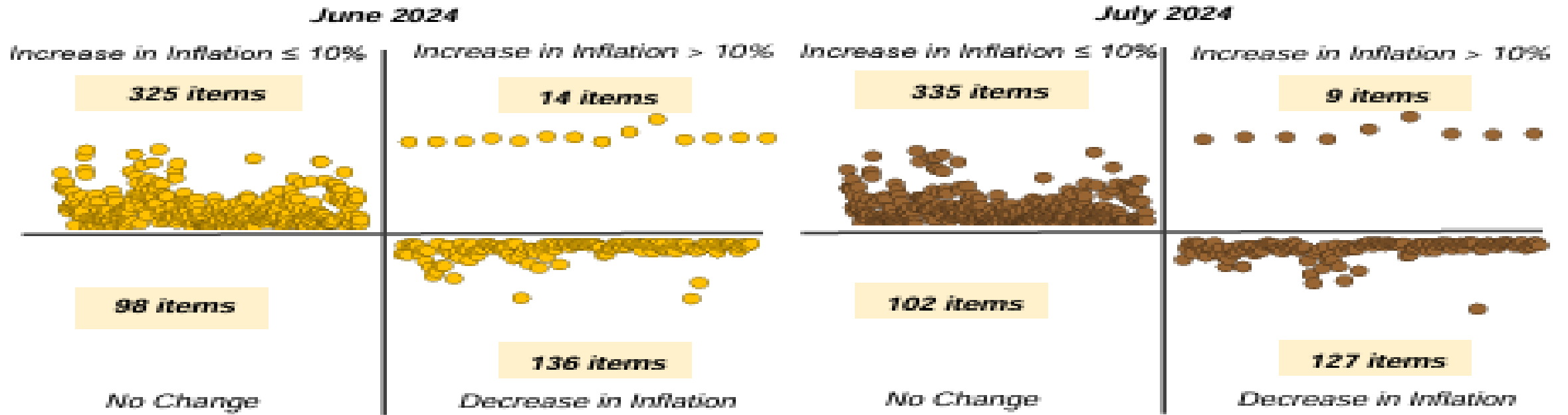
Malaysia inflation rate



Sources: DOSM & CEIC

July's year-on-year inflation held steady at 2.0% for the third consecutive month. Food & Beverages, comprising 29.8% of the CPI, remained the main driver despite moderating to a 1.6% increase from June's 2.0%. Housing, Water, Electricity, Gas & Other Fuels (HWEGO) at 23.2% of the CPI and Transport at 11.3% of the CPI saw their inflation rates unchanged at 3.2% and 1.2%, respectively. Core inflation, excluding controlled and subsidized items, stayed flat at 1.9% for four months straight. Cumulatively, inflation eased to 1.8% over the first seven months of the year, down from 3.0% the previous year. This rate falls below the official 2024 forecast of 2.0% to 3.5%, highlighting ongoing uncertainties over policy changes, particularly regarding the rationalization of fuel subsidies.

Inflation rate by quadrant



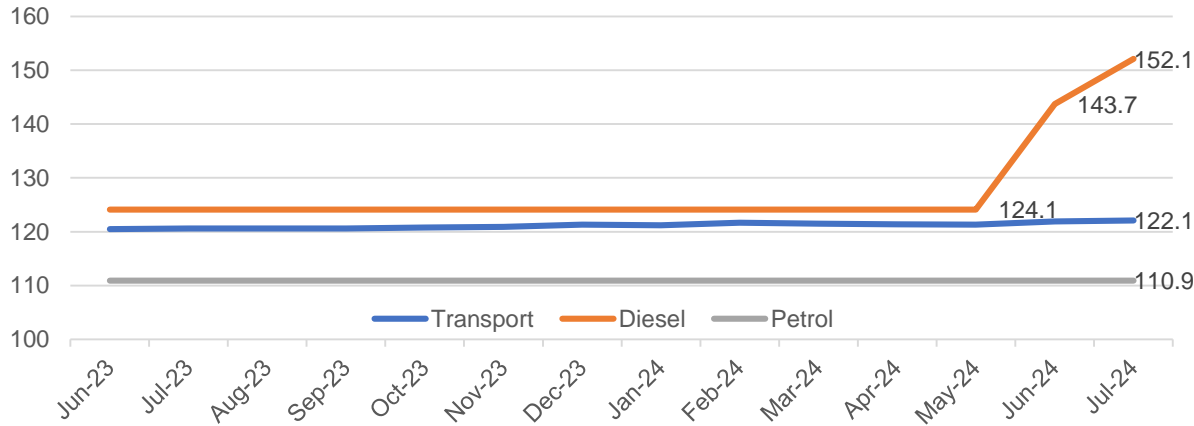
Source: DOSM

According to Department of Statistics Malaysia (DOSM), 60.0% of items (344 out of 573) experienced price increases in July which is higher compared to June (59%). Out of this amount, 97.4% (Jun:94.4%) saw price hikes of up to 10%, while 9 (Jun: 14) items had increases exceeding 10%. Additionally, 127 items (22.2%) showed price decreases (Jun: 136), and 102 (Jun: 98) items remained stable. The price stability of regulated items helped ease inflation in July 2024. Notably, Unleaded petrol RON95 and toll charges remained unchanged compared to the same month the previous year. Significant price increases were observed in items such as sewerage charges (58.7%), water bills (32.0%), jewelry (22.8%), diesel (22.6%), daily Chinese newspapers (20.5%), garlic (15.9%), and big onions (15.7%), while commuter fares and fees for public higher education institutions remained unchanged. In a nutshell, prices continue to increase.

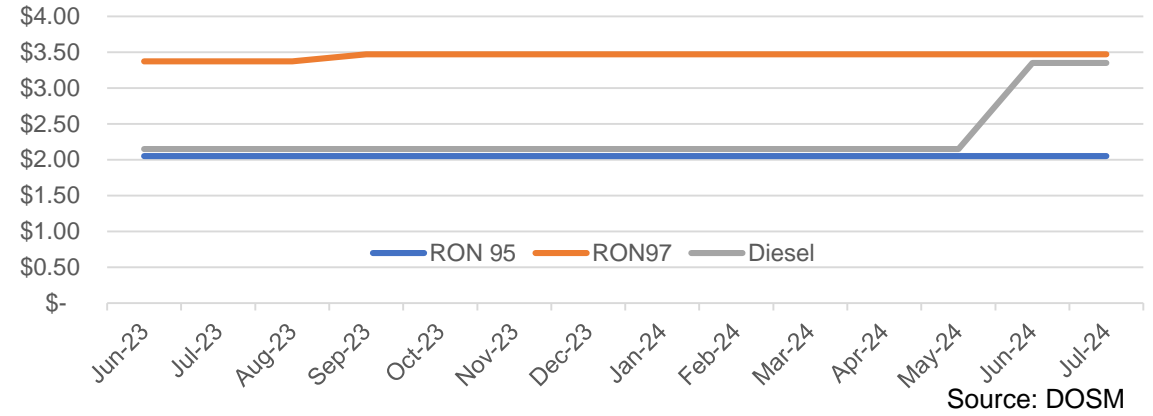
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Diesel sub index rose 22.8% but...

Transport sub index



Fuel prices in RM per liter



Source: DOSM

The diesel sub-index in the CPI surged by 22.6%, reaching 152.1 points in July, up from 124.1 the previous month. This increase followed the diesel subsidy rationalization on June 10, 2024, which saw retail prices jump from RM2.15 per liter to RM3.35 per liter. Despite this sharp rise, the overall inflation rate remained largely unaffected, due to diesel's relatively small weight in the CPI basket, accounting for just 0.2%. This indicates that diesel is not widely used by Malaysian consumers to fuel their vehicles.

In contrast, petrol holds a larger share of the CPI at 5.5%, with 5.0% attributed to RON95 and the remaining 0.5% to RON97. The significant share for RON95 is due to its use by 95% of Malaysian consumers, compared to only 5% who use diesel. As such, the next phase of fuel subsidy rationalization will likely focus on RON95, though the timing for this has yet to be announced. This potential change introduces uncertainty to this year's inflation forecast due to the high reliance on RON95 among Malaysians.

Given these dynamics, Bank Negara Malaysia (BNM) is expected to maintain a cautious approach in its monetary policy. Keeping the Overnight Policy Rate (OPR) stable at 3.00% seems prudent, especially in light of the uncertain external demand.

Appendix - Consumer Price Index (CPI) year-on-year

Items	Weight	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	7M 2023	7M 2024
CPI	100.0%	1.5%	1.8%	1.8%	1.8%	2.0%	2.0%	2.0%	3.0%	1.8%
Food & Beverages	29.8%	2.0%	1.9%	1.7%	2.0%	1.8%	2.0%	1.6%	6.0%	1.8%
Alcoholic Beverages & Tobacco	1.9%	0.4%	0.4%	0.5%	0.5%	0.6%	0.7%	0.9%	0.7%	0.6%
Clothing & Footwear	2.7%	-0.2%	-0.2%	-0.2%	-0.3%	-0.2%	-0.1%	-0.2%	0.4%	-0.2%
Housing, Water, Electricity, Gas & Other Fuels	23.2%	2.0%	2.7%	3.0%	3.0%	3.2%	3.2%	3.2%	1.7%	2.9%
Furnishings, Household Equipment & Routine Household Maintenance	4.3%	1.0%	0.9%	0.9%	1.0%	0.8%	0.9%	0.9%	2.8%	0.9%
Health	2.7%	2.4%	2.2%	2.1%	2.3%	2.2%	1.8%	1.9%	1.9%	2.1%
Transport	11.3%	0.7%	1.2%	1.3%	0.8%	0.9%	1.2%	1.2%	1.8%	1.1%
Information & Communication	6.6%	-2.4%	-2.4%	-2.4%	-2.5%	0.4%	0.3%	0.5%	-2.4%	-1.2%
Recreation, Sport & Culture	3.0%	0.8%	1.6%	1.5%	2.0%	1.9%	1.9%	2.2%	1.8%	1.7%
Education	1.3%	1.7%	1.5%	1.5%	1.4%	1.5%	1.7%	1.7%	1.7%	1.6%
Restaurant & Accommodation Services	3.4%	3.2%	2.9%	3.0%	3.5%	3.2%	3.3%	3.4%	6.4%	3.2%
Insurance & Financial Services	4.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	0.5%	0.3%	0.0%
Personal Care, Social Protection & Miscellaneous Goods & Services	5.8%	2.5%	2.5%	2.6%	3.1%	3.0%	2.8%	3.2%	2.5%	2.8%
Core CPI		1.8%	1.8%	1.7%	1.9%	1.9%	1.9%	1.9%	3.5%	1.8%

Sources: DOSM & CEIC