Global Markets Research
Malaysia - Economics

Tame inflationary pressures for November

Headline inflation moderated slightly to 1.8% y/y, while core held steady at 1.8% y/y
Downtick led by health, transport, clothing; 9 out of 13 main groups saw steady-to-quicker CPI
No change to our view for benign inflationary outlook and extended OPR pause view into 2025

Overview
Malaysia's inflation rate eased to 1.8% y/y in November from 1.9% y/y previously, defying consensus for an acceleration to +2.1% y/y. The deceleration was driven by four main groups; health (+1.2% y/y vs +1.4% y/y), transport (+0.4% y/y vs +0.7% y/y) as well as a steeper contraction for clothing & footwear (-0.3% y/y vs -0.2% y/y) and communication (-3.9% y/y vs -1.7% y/y). All other 9 main groups saw steady to faster price gains.

Core CPI, meanwhile, held steady at 1.8% y/y, while services retreated to 2.1% y/y in November (prior: +2.2% y/y). Headline was also flat m/m, all signs of little inflationary pressure and thus, reaffirming our view of a very mild price outlook.

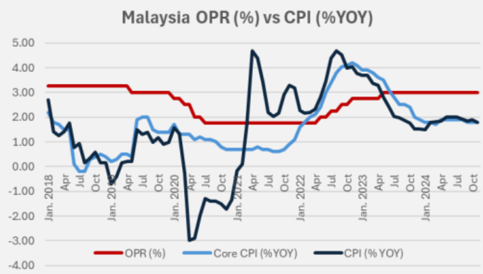
Food price inflation quickened for the second month, its highest in a year
Food prices quickened for the second month and increased at its fastest pace in a year at +2.6% y/y (prior: 2.3% y/y), driven by food away from home, which rose by 4.8% y/y during the month (prior: +4.1% y/y) and driven by prices for fried chicken, cooked vegetables, satay and local cakes. Food at home was steady at +0.6% y/y, as increases in meat, vegetables, confectionery & desserts, cereals were offset by lower prices for fish & other seafood as well as milk, other dairy products & eggs.

Continued deceleration in transport inflation
Meanwhile transportation, which accounts for 11.3% of weightage in the CPI basket, saw slowing price increases for the 3rd consecutive month and by its slowest pace in 10 months, by 0.4% y/y in November (prior: +0.7% y/y) mainly due to the sub-group of operation of personal transport equipment. Meanwhile, the prices for Unleaded RON97, and diesel for Peninsular and East Malaysia were unchanged at RM3.19/litre (-8.1% y/y), RM2.95/litre (+37.2% y/y) and RM2.15/litre (no change) respectively.

Outlook
As it is, headline and core inflation have remained largely stable, suggesting limited price pressures at this juncture and allowing us to maintain our full-year forecast of 1.9% for 2024 (YTD: 1.8%). Heading into 2025, we are maintaining our inflation forecast of 2-3% at this juncture pending the timing and implementation of RON95 subsidy retargeting.

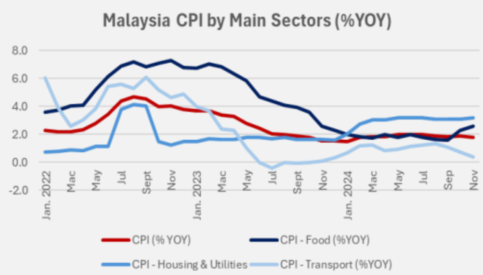
Risks to our forecasts is tilted on the upside stemming from: 1) potential spillovers from the subsidy retargeting, hike in duty on sugary drinks and SST on non-basic food items wef 2025. 2) potential price pressures from increases in minimum wage and civil servants pay. 3) on the external front, commodity price shocks. With BNM still comfortable that inflation will be well contained within the 2.0-3.5% range for 2025 despite the subsidy cuts, we are also maintaining our view that the central bank will most likely maintain its OPR unchanged at 3.00% for the whole of 2025.

Figure 1: Headline inflation retreated to 1.8% in November; core held steady at 1.8% y/y confirming very tame inflation



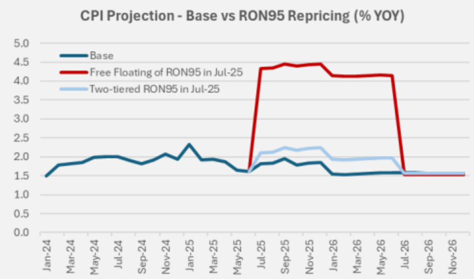
Source: DOSM, HL BB Global Markets Research

Figure 2: Upticks in food prices and housing, water, electricity & gas offset by downtick for transportation



Source: DOSM, HLBB Global Markets Research

Figure 3: Overall inflation is still expected to stay within BNM's target range of 2.0-3.5% next year with subsidy retargeting



Source: DOSM, HLBB Global Markets Research

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