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ECONOMY

PETALING JAYA: MIDF Research expects the overall inflation rate to come in at 3.2% in 2024, on the assumption that the fuel-targeted subsidy is rolled-out as early as June.

"We opine the government may introduce a managed-float price mechanism for RON95 and provide cash assistance to those eligible as guided by the Padu (Central Database Hub) database.

"Thus, we may see non-food inflation to come in at 2.5% while better domestic supply and normalised global commodity prices shall push the food inflation rate lower to 4.5% in 2024," it said.

Malaysia's headline inflation rate came in at 1.5% year-on-year (y-o-y) in January. The rate plateaued since November 2023, the lowest since March 2021.

The inflation rate was slightly lower than market consensus of 1.6% y-o-y.

Non-food inflation rate stabilised at 1.1% y-o-y while food inflation rate moderated to 27-month low at 2% y-o-y.

The research house said the continued softening inflationary pressure was mainly due to normalisation of global commodity prices and supportive fiscal policies whereby core inflation rate was lower at 1.8% y-o-y, almost two-year low.

"Hence, we believe Bank Negara will keep its overnight policy rate status quo throughout 2024. Looking into the first half of 2024, we should expect gradual pick-up in overall prices," it said.

MIDF Research said this is due to increase in utility charges, implementation of higher sales and service tax rate to 8% (except for food and beverage and telecommunications) and 10% for low-value goods tax.

"In the later half (of the year), we opine that it is possible that the roll-out of fuel

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MIDF Research

targeted-subsidy may see higher retail fuel prices," it added.

The research house believed transport inflation was still under control as it remained below 1% y-o-y for eight consecutive months.

"The transport inflation will stay muted at least in the first quarter of 2024 since we expect the government will keep the current fuel subsidy mechanism status quo.

"Based on Brent crude oil price in January, we estimate the actual retail RON95 would have been RM3.11 per litre.

"In our opinion, it is possible that the RON95 will be a managed float rather than a free-float price if the fuel-targeted subsidy mechanism is rolled out later," it added.

MIDF Research pointed that the country's food inflation rate was recorded lower at 2% y-o-y.

Price growth of "food at home" receded to more than a three-year low at 1.1% y-o-y while "food away from home" hit a two-year low at 3.1% y-o-y.

"Nevertheless, Malaysia is highly exposed to external factors and currency movements as a net importer of food.

"As of 2023, food imports to total imports

ratio stood at 6.5%, slightly lower than peak 7% in 2020. On the flip side, the food exports ratio is only 3.2%," it added.

The research house viewed the reduced cost pressures as another contributor to the moderating consumer price index (CPI) inflation.

"Although underlying demand pressure has eased as shown in the easing core CPI inflation, we opine consumer prices could register higher inflation this year considering changes such as subsidy rationalisation as well as tariff and fuel price adjustments," it added.

Malaysia's Producer Price Index (PPI) recorded another month of deflation for the third straight month in December 2023, falling by 1.3% y-o-y versus November's 1.5% y-o-y.

The deflation was attributable to continued declines in PPI in the manufacturing (1.5% y-o-y), mining (3.4% y-o-y) and electricity and gas (0.6% y-o-y) industries.

For the whole 2023, PPI registered 1.9% deflation compared with an uptick of 7.8% due to lower cost pressures in agriculture (13.8%) and mining (5.9%) sectors, and small decline for manufacturing PPI (0.2%).