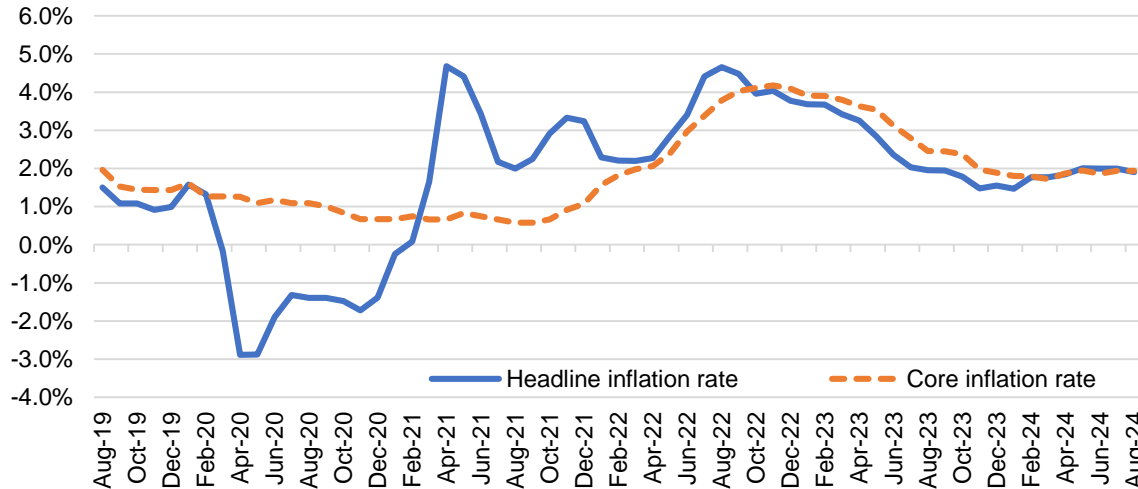
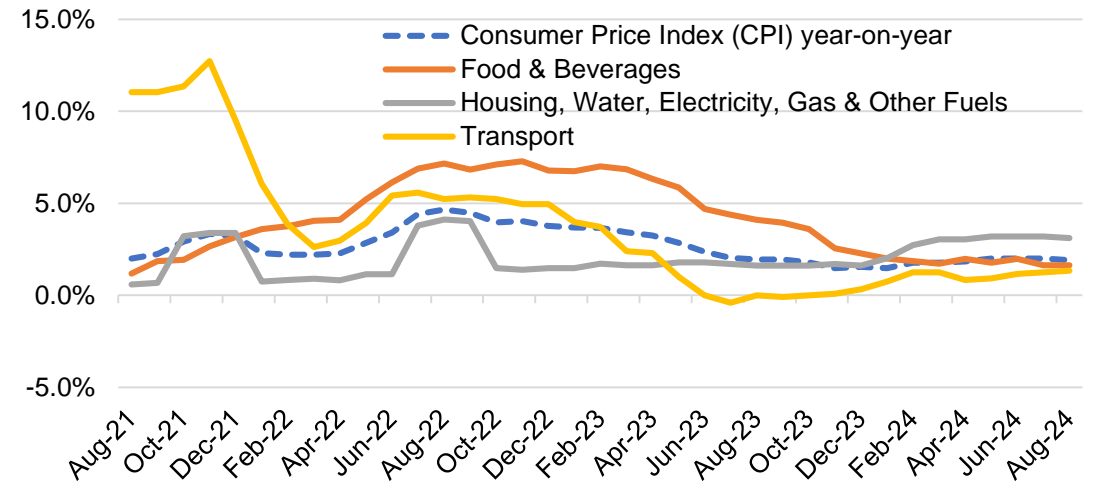


Inflation rate moderated to 1.9% during August

Malaysia inflation rate



Malaysia's inflation rate and its key component



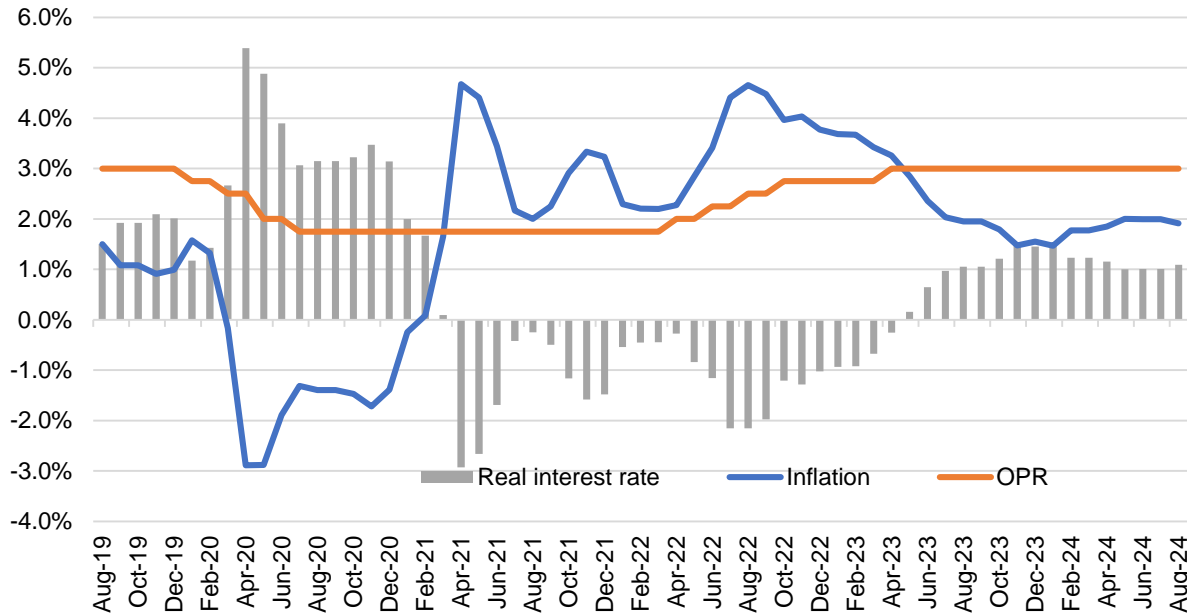
Sources: DOSM & CEIC

Malaysia's inflation rate eased to 1.9% year-on-year in August, after recording a 2.0% increase over the previous three months (Consensus: 2.0%, BMMB: 2.0%). The Food & Beverages sector, which makes up 29.8% of the Consumer Price Index (CPI), showed a stable 1.6% rise for two consecutive months following a 2.0% increase in June, indicating that food-related inflation has stabilized. Similarly, Housing, Water, Electricity, Gas & Other Fuels, comprising 23.2% of the CPI, grew by 3.1% in August after hovering at 3.2% between May and July. This was largely driven by a more moderate rise in Water Supply inflation, which slowed to 29.3% in August from 32.1% earlier in the year following a water tariff adjustment in February 2024.

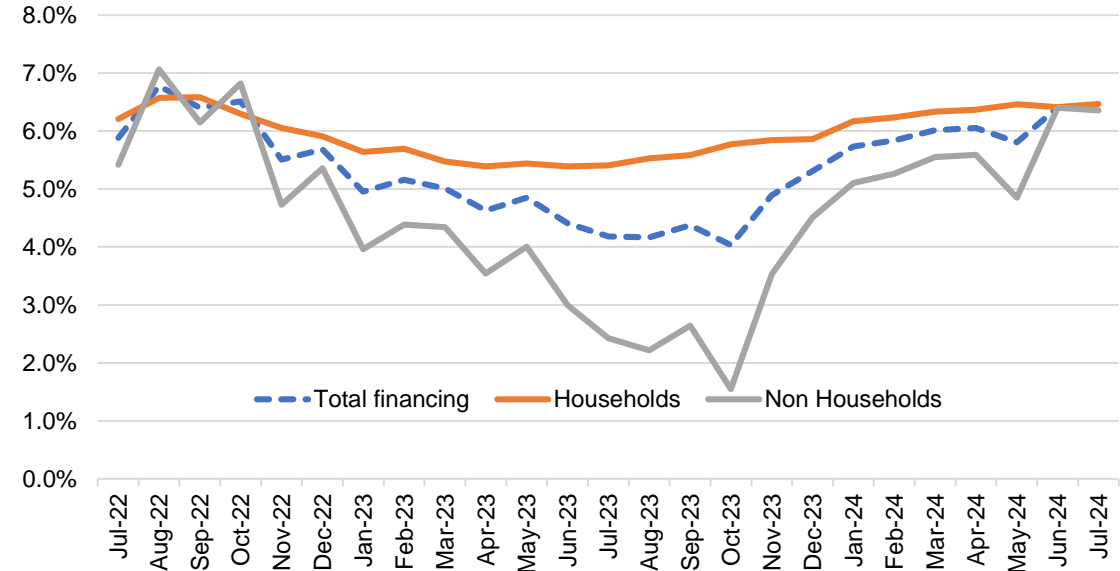
Meanwhile, inflation in the Transport sector, accounting for 11.3% of the CPI, inched up to 1.3% in August from 1.2% in June and July. This was driven by higher diesel prices, which were adjusted upward on June 10, 2024, causing a rise in the Fuels & Lubricating Equipment sub-index (5.9% of CPI) for two months in a row. Overall, inflation in Malaysia remained stable, with the average headline inflation for the first eight months of the year standing at 1.8%, down from 2.9% in the same period last year. Core inflation also moderated, falling to 1.9% from 3.4%.

Real interest rate is inching up

Inflation, OPR & real interest rate



Financing growth in the banking system (year-on-year)



Sources: CEIC & Bloomberg

As inflation eased, the real interest rate, which is calculated by subtracting the inflation rate from the nominal Overnight Policy Rate (OPR), increased to 1.1% in August, after remaining at 1.0% for the past three months. This suggests that Bank Negara Malaysia's (BNM) monetary policy stance remains somewhat restrictive, as borrowers continue to face an additional premium of 1.1% in real terms. Despite this, demand for credit has not been adversely impacted. Total financing in the banking sector grew by 6.4% in July, the same rate as in June, with both Household and Non-Household financing showing steady growth of 6.5% and 6.4%, respectively (June: 6.4% for both).

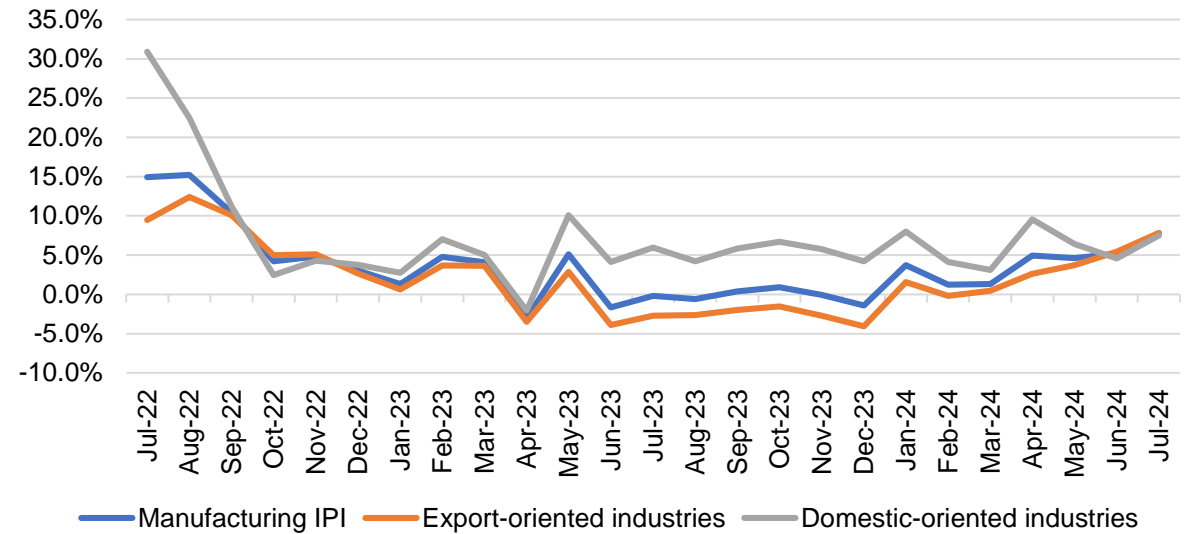
"The information provided in this article is for general informational purposes only. While we strive to provide accurate and up-to-date information, we make no representations or warranties of any kind, express or implied, about the completeness, accuracy, reliability, suitability, or availability of the information contained herein. Any reliance you place on such information is therefore strictly at your own risk. In no event will we be liable for any loss or damage arising from the use of this article or the information presented within."

Real economy continues to grow

Import growth by end-use



Industrial Production Index : Manufacturing sector



Sources: DOSM & CEIC

Despite the increase in real interest rates, economic activities in the real sector have largely continued as usual. This is evidenced by the solid growth in imports of Capital Goods, Intermediate Goods, and Consumption Goods, which expanded by 39.6% (July: 44.4%), 40.4% (July: 41.2%), and 21.2% (July: 25.5%) respectively. Manufacturing production also saw a significant rise of 7.7% in July, up from 5.2% in the previous month, driven by both Export-Oriented industries (7.8%, June: 5.4%) and Domestic-Oriented industries (7.5%, June: 4.6%).

Given these trends, Bank Negara Malaysia (BNM) may be inclined to maintain the current Overnight Policy Rate (OPR) for the rest of the year, as the current monetary stance is supportive of economic growth. However, uncertainties surrounding the potential rationalization of RON95 fuel subsidies present an inflation risk, tilting the balance of risks toward the upside. Therefore, maintaining the present monetary policy could be seen as a prudent approach. In the absence of a RON95 price hike, inflation is projected to settle around 2.0% for 2024 (compared to 2.5% in 2023).

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

	Weight	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	8M 2023	8M 2024
CPI	100.0%	1.5%	1.8%	1.8%	1.8%	2.0%	2.0%	2.0%	1.9%	2.9%	1.8%
Food & Beverages	29.8%	2.0%	1.9%	1.7%	2.0%	1.8%	2.0%	1.6%	1.6%	5.7%	1.8%
Alcoholic Beverages & Tobacco	1.9%	0.4%	0.4%	0.5%	0.5%	0.6%	0.7%	0.9%	1.1%	0.6%	0.6%
Clothing & Footwear	2.7%	-0.2%	-0.2%	-0.2%	-0.3%	-0.2%	-0.1%	-0.2%	-0.2%	0.3%	-0.2%
Housing, Water, Electricity, Gas & Other Fuels	23.2%	2.0%	2.7%	3.0%	3.0%	3.2%	3.2%	3.2%	3.1%	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%	0.7%	2.7%	0.9%
Health	2.7%	2.4%	2.2%	2.1%	2.3%	2.2%	1.8%	1.9%	1.6%	2.0%	2.0%
Transport	11.3%	0.7%	1.2%	1.3%	0.8%	0.9%	1.2%	1.2%	1.3%	1.6%	1.1%
Information & Communication	6.6%	-2.4%	-2.4%	-2.4%	-2.5%	0.4%	0.3%	0.5%	0.5%	-2.6%	-1.0%
Recreation, Sport & Culture	3.0%	0.8%	1.6%	1.5%	2.0%	1.9%	1.9%	2.2%	2.0%	1.7%	1.7%
Education	1.3%	1.7%	1.5%	1.5%	1.4%	1.5%	1.7%	1.7%	1.5%	1.8%	1.6%
Restaurant & Accommodation Services	3.4%	3.2%	2.9%	3.0%	3.5%	3.2%	3.3%	3.4%	3.2%	6.2%	3.2%
Insurance & Financial Services	4.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	0.5%	0.5%	0.2%	0.1%
Personal Care, Social Protection & Miscellaneous Goods & Services	5.8%	2.5%	2.5%	2.6%	3.1%	3.0%	2.8%	3.2%	3.2%	2.5%	2.9%
Core CPI		1.8%	1.8%	1.7%	1.9%	1.9%	1.9%	1.9%	1.9%	3.4%	1.9%

Sources: DOSM & CEIC