

Afham Zulghafir
(603) 7890 8888 (ext 2127)
afham@apexsecurities.com.my

Malaysia Inflation Rate

Stability maintained in January

Executive Summary

- Malaysia's inflation remained steady at 1.7% yoy in Jan 2025, unchanged from the previous month.
- Inflation was primarily driven by uptick from Restaurant & Accommodation Services, Personal Care, Social Protection & Miscellaneous Goods & Services, Recreation, Sport & Culture and Education.
- We maintain our forecast that full-year CPI inflation will rise to 2.6% in 2025 (2024: 1.8%), within the official 2.0%-3.5% range.

Inflation holds steady. Malaysia's inflation remained steady at 1.7% yoy in Jan 2025, unchanged from the previous month. This marks the second consecutive month at this level, in line with market forecasts. The Consumer Price Index (CPI) stood at 133.6 compared to 131.4 in Jan 24. Core CPI inflation increased slightly to 1.8% yoy from 1.6% in Dec 2024.

Inflation rose amid higher consumer spending across key sectors. The rise in inflation was primarily driven by key expenditure groups, including Restaurant & Accommodation Services, which increased to 3.5% (Dec 2024: 3.0%), supported by seasonal demand from tourism and festive seasons. Personal Care, Social Protection & Miscellaneous Goods & Services rose to 3.3% (Dec 2024: 3.2%), potentially reflecting trends in healthcare and personal care spending. Recreation, Sport & Culture saw an uptick to 1.8% (Dec 2024: 1.7%), driven by increased consumer spending on entertainment and leisure activities. Education grew to 1.6% (Dec 2024: 1.5%). Other categories also recorded higher increases, including Health at 1.2% (Dec 2024: 1.1%), Transport at 0.9% (Dec 2024: 0.4%), Alcoholic Beverages & Tobacco at 0.9% (Dec 2024: 0.8%), Insurance & Financial Services at 0.6% (Dec 2024: 0.5%), and Furnishings, Household Equipment & Routine Household Maintenance at 0.5% (Dec 2024: 0.4%).

Deflationary trends in telecom and apparel sectors persist. Information & Communication inflation continued to decline, recording -5.3% yoy in Jan 25 (Dec 2024: -5.4%), driven by ongoing price competition among telecom providers. Clothing & Footwear remained in negative territory at -0.3% yoy (Dec 2024: -0.5%), likely due to seasonal discounts, online shopping promotions, and increased competition from fast-fashion retailers.

Stable housing and food inflation amid subsidies and supply gains. Housing, Water, Electricity, Gas & Other Fuels saw a moderate increase of 2.8% yoy (Dec 2024: 3.2%), with targeted electricity subsidies under the ICPT (Imbalance Cost Pass-Through) mechanism helping to contain price growth. Meanwhile, Food & Beverages inflation eased slightly to 2.5% yoy (Dec 2024: 2.7%), mainly driven by a lower increase in Food at Home (0.4%, Dec 2024: 0.9%), with categories such as Sugar, Confectionery & Desserts (0.8%, Dec 2024: 1.0%), Cereals & Cereal Products (0.3%, Dec 2024: 0.5%), and Fruits & Nuts (0.3%, Dec 2024: 0.6%) recording softer gains. Vegetables inflation notably declined to -1.1% yoy (Dec 2024: 3.6%), largely attributed to improved weather conditions stabilizing supply.

On a month-on-month seasonally adjusted basis, headline inflation increased by 0.1% in Jan 2025, primarily driven by the Restaurant & Accommodation Services (0.5%), Transport (0.4%), Health (0.3%), Education (0.2%), and Personal Care, Social Protection & Miscellaneous Goods & Services (0.2%) categories.

State level inflation trends. On a state level, most states recorded inflation below the national average of 1.7%. However, four states registered inflation rates above the national level, namely Pulau Pinang (2.4%), Selangor (2.0%), Johor (1.9%), and Pahang (1.9%). Food & Beverages inflation remained a key driver, with Selangor recording the highest rate at 4.3%, followed by

Wilayah Persekutuan Putrajaya (3.5%), Terengganu (3.4%), Melaka (2.7%), Negeri Sembilan (2.7%), and Johor (2.6%). Other states saw food inflation below the national average of 2.5%.

2025 Inflation outlook. Our inflation projection assumes a gradual implementation of subsidy reforms in mid-2025, expansion of the SST in May and potential demand increases driven by rising household incomes. The details of the RON95 subsidy rationalization remain unclear, though discussions suggest a two-tier pricing system in which 15% of the population may be affected, while the remaining 85% continue to pay the current market price. Eligibility for subsidy assistance could depend on factors such as employment status, household size, number of dependents, car ownership, and place of residence. Meanwhile, the SST expansion in May 2025 will extend to commercial services, non-essential goods, and premium imports like salmon and avocados, though basic food items will remain exempt. However, uncertainties regarding tax rates and affected goods could limit the overall impact on consumer prices. Furthermore, potential demand increases will be driven by rising household incomes, supported by sustained economic growth, a strong labor market, and the minimum wage hike could enhance earning potential and consumer spending. We expect GDP growth to remain strong at 4.6% in 2025, supported by resilient domestic demand fueled by higher consumer and investment spending.

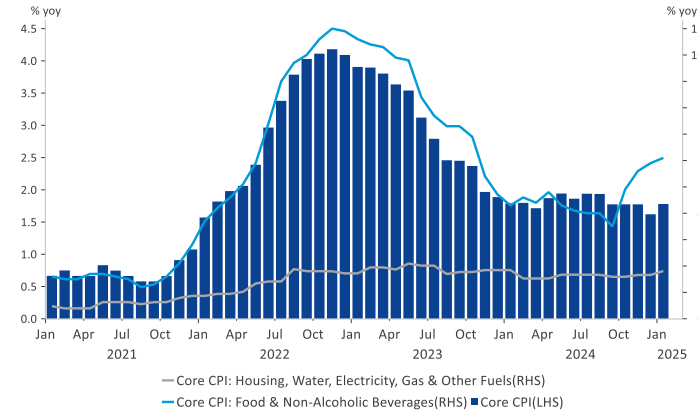
Inflation to moderate in 2025, OPR likely to stay at 3.00%. Looking ahead, we maintain our forecast that full-year CPI inflation will moderate to 2.6% in 2025 (2024: 1.8%), reflecting a relatively contained impact of policy changes on overall price pressures. With inflation stabilizing and demand pressures remaining subdued, we expect the OPR to remain at 3.00% throughout 2025, as the current policy stance continues to support Malaysia's economic growth. Key factors influencing monetary policy decisions include Malaysia's expected GDP growth of 4.6% in 2025, inflation projected at 2.6% (within the official 2.0%-3.5% range), and global interest rate trends.

Figure 1: Inflation rate stood at 1.7%, unchanged for the second consecutive month and in line with market expectations



Source: Macrobond, Apex Securities

Figure 2: Core CPI increased by 1.8% year-over-year in January, up from 1.6% in December



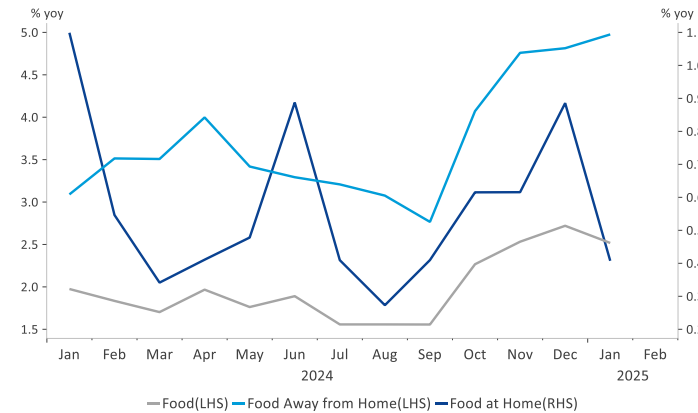
Source: Macrobond, Apex Securities

Figure 3: BNM is expected to maintain the OPR at 3.00% throughout 2025, aligning with the current inflation outlook



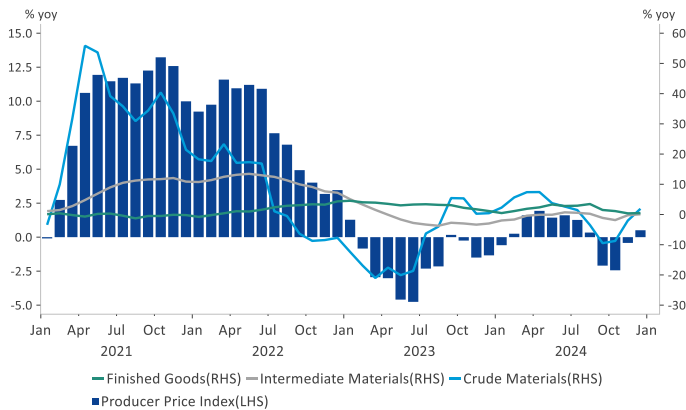
Source: Macrobond, Apex Securities

Figure 4: The cost of food away from home rose to 5.0% (Dec 24: 4.8%), while prices for food at home eased to 0.4% (Dec 24: 0.9%)



Source: Macrobond, Apex Securities

Figure 5: The Producer Price Index (PPI) edged up by 0.5% in Dec 24, following three consecutive months of decline since Sept 24



Source: Macrobond, Apex Securities

Figure 6: Inflation across ASEAN has been on a downward trend in recent months



Source: Macrobond, Apex Securities

Recommendation Framework:

BUY: Total returns* are expected to exceed 10% within the next 12 months.

HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL: Total returns* are expected to be below -10% within the next 12 months.

TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.

*Capital gain + dividend yield

Sector Recommendations:

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.

NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.
