AmBank Group

AmBank Economics

Modest Inflation Is Here to Stay

#WhatWeThink

11 March 2025

Snapshot Summary…

- Inflation in Malaysia has remained modest and stable in recent months, in line with the continued easing of global supply chain conditions.
- We expect the inflation to oscillate around 2.0% in the near term before shifting higher in 2H2025 due to the impact of potential domestic policy changes.
- However, we believe inflation is unlikely to misbehave amid the precautionary spending by Malaysians as reflected in retail sales and subsequently coincides with the built-up savings.
- With stable inflation reading thus far and the country's favourable economic growth, we believe there is no urgency from the central bank to make policy adjustments throughout 1H2025, at least.

Macroeconomic Variables

Growth (% y-o-y)	2023	2024	2025F*
GDP	3.6	5.1	4.6
CPI	2.5	1.8	2.5-3.0
Unemployment rate (%)**	3.4	3.1	3.2

**Forecast by AmBank Economics*
***Year-end figure*
Sources: Department of Statistics Malaysia (DOSM), AmBank Economics

Background

Inflation in Malaysia has been modest and stable in recent months, hovering slightly below the long-term average of around 2.0% since August 2024, after easing from its post-pandemic peak of 4.7% in August 2022. This trend aligns with the continued easing of global supply chain conditions, as signalled by the latest data. The Global Supply Chain Pressure Index (GSCPI) — constructed by the US Federal Reserve Bank of New York — has been in negative territory for 10 months of the past 12 months as of January 2025.

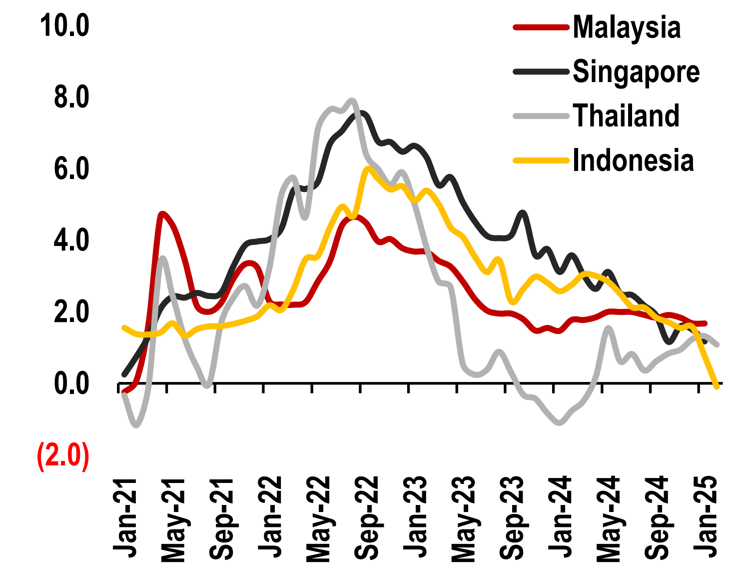
Malaysia and other ASEAN economies have reported below-average inflation rates (see Exhibit 1). Singapore's inflation eased further to a four-year low in January 2025, and Indonesia slipped into deflation in February for the first time in more than two decades. Thailand's inflation came in at the lower bound of the central bank's target range of 1.0% to 3.0% but the government project it to drop to about 0.5% in 2Q2025.

More than 50% share of Malaysia's consumer price index (CPI) basket recorded y/y growth of less than 2.0% in January 2025 (see Exhibit 2). Inflation has been primarily driven by food away from home (FAFH, 13.4% of CPI basket) as well as housing, water, electricity, gas and other fuels (HEWG, 23.2% of CPI basket), partly reflecting the impact of higher utility costs and the 2.0% rise in the Sales and Services Tax (SST). Meanwhile, inflation of items such as food at home (15.6% of CPI basket) and transport (11.3% of CPI basket) have fallen below their normal ranges. Excluding the relatively volatile FAFH category, inflation was only 1.3% in January 2025, indicating subdued underlying price pressures.

"Overall, inflation in 2025 is expected to remain manageable, amid the easing global cost conditions and the absence of excessive domestic demand pressures. Global commodity prices are expected to continue to trend lower, contributing to moderate cost conditions. The recently introduced wage-related policies would provide additional support to demand, although the impact on inflation is expected to be limited. In this environment, the overall impact of the announced domestic policy reforms on inflation is expected to be contained. Upside risk to inflation would be dependent on the extent of spillover effects of domestic policy measures, as well as external developments surrounding global commodity prices, financial markets and trade policies."

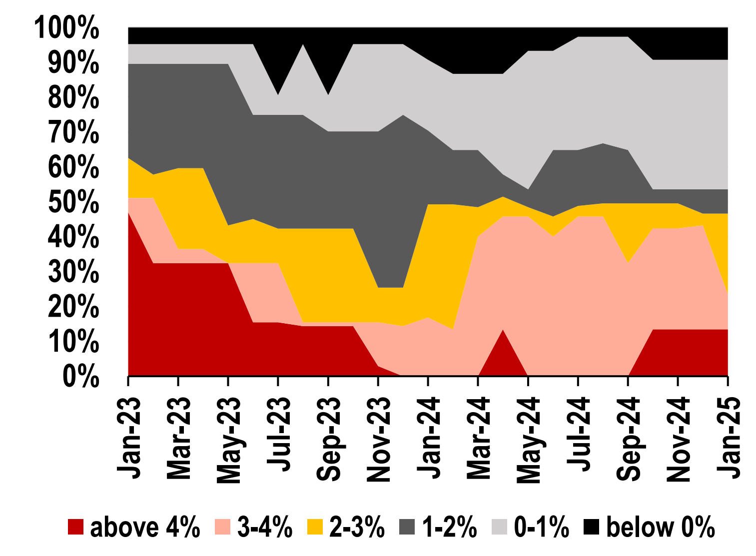
Bank Negara Malaysia (BNM) Monetary Policy Statement March 2025

Exhibit 1: CPI, y/y%



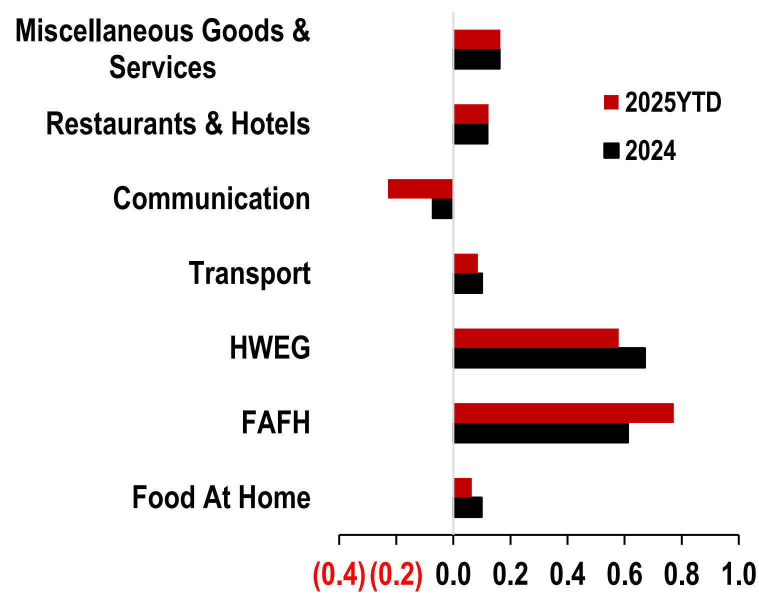
Sources: Respective official statistics, AmBank Economics

Exhibit 2: CPI y/y% shares with different rates of changes



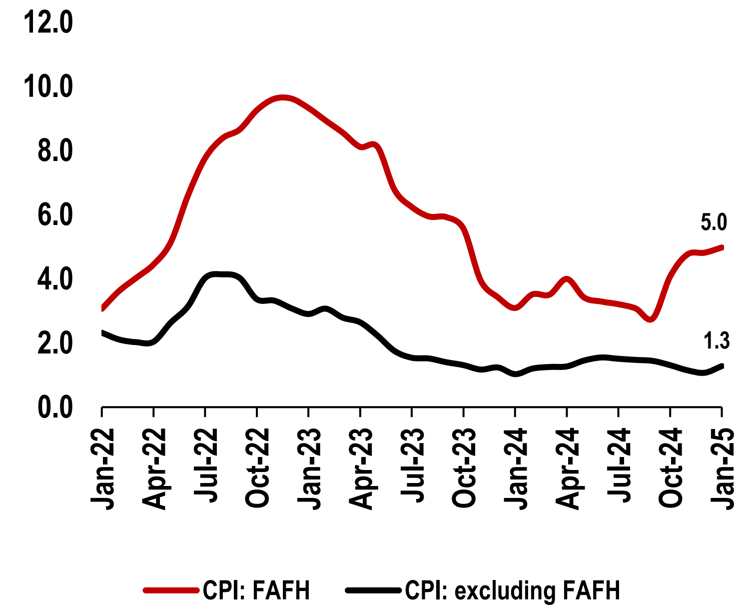
Sources: DOSM, AmBank Economics

Exhibit 3: Contributions to CPI, percentage points



Sources: DOSM, AmBank Economics

Exhibit 4: CPI by component, %



Sources: DOSM, AmBank Economics

Price pressures are expected to remain subdued for the 1H2025, at least.

Inflation stays in check due to stable cost and demand conditions.

This could be seen when a three-month moving average (3MMA) is applied to data sets to analyse the underlying trend. It is foreseen that both price pressures coming from consumer and producer levels are kept at bay, perhaps due to the lower cost pressure following stable demand conditions in the country. Additionally, sluggish increases in in prices of food at home and transport, which together constitute more than 25% of the CPI basket, have been the main drivers of slowing inflation in Malaysia since last year. On the producer level, the manufacturing sector, which forms a sizeable share of over 80% of the PPI, has remained in the negative territory

Easing supply chain pressures could explain the PPI movement as of late.

thus far since September last year, aligning with easing in the said GSCPI, as mentioned above, among others.

Cautious spending by Malaysians could be due to preparation for the upcoming subsidy policy, which is set to be implemented in 2H2025.

Though there are signs of price moderation, the inflation outlook is still exposed to changes in domestic price controls and subsidy policies, especially on the RON95 implementation, which is now to be said in the final drafting stage and is expected to be carried out mid-year. With that, the easing price pressures could be due to the precautionary spending by the Malaysians as reflected in retail sales, which subsequently coincides with the built-up savings to reduce the impact of unexpected setbacks amid the domestic policy execution.

OPR to stay at the current level aligns with BNM's assessment, which is supportive of economic growth.

With the stable inflation reading thus far and the country's favourable economic growth, there is no urgency from the central bank to make policy adjustments throughout 1H2025. Hence, supporting our view that BNM could maintain the Overnight Policy Rate (OPR) at the current level, which promotes economic growth. The upside risk of inflation could come from a healthy labour market performance, a civil servant salary hike in December last year and a minimum wage increase effective February this year. However, the price pressure will remain manageable in the upcoming months, possibly staying close to an average of 2.0% in 1H2025 unless unforeseen shortcomings require policy realignment.

What to expect for inflation outlook in 2025

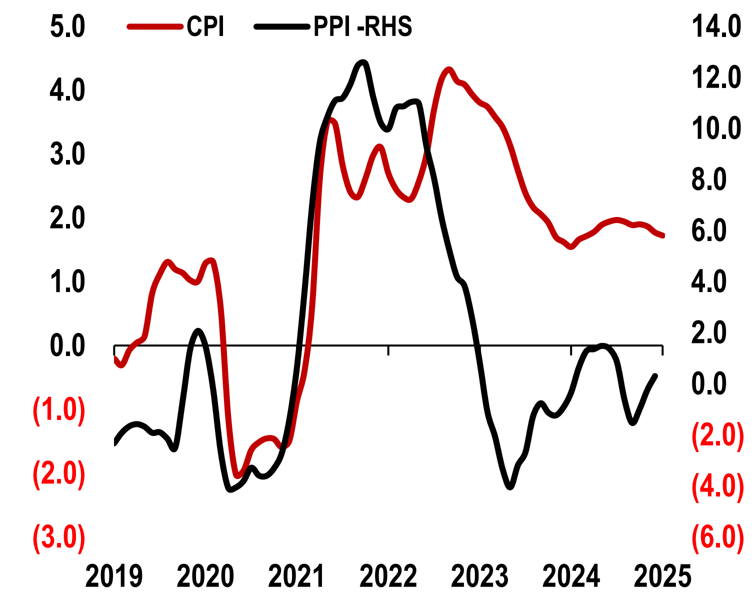
We expect average inflation for 2025 to range between 2.5% -3.0%.

Inflationary pressures over the past year have primarily been supply-driven and may continue in the near term. We expect the inflation to oscillate around 2.0% in the near term before shifting higher in 2H2025 due to the impact of potential domestic policy changes. HEWG inflation will drop substantially as early as February 2025 and will likely stay low.

Apart from the increase in the minimum wage from RM1,500 to RM1,700 (effective from February 2025), other policy changes could lead to higher inflationary pressure, including the higher medical insurance premiums, proposed electricity tariff hike (scheduled July 2025), RON95 subsidy rationalisation and the expansion of the scope of Services Tax (both set from mid-2025). The full impact of these policy changes is difficult to assess as little details have been unveiled thus far.

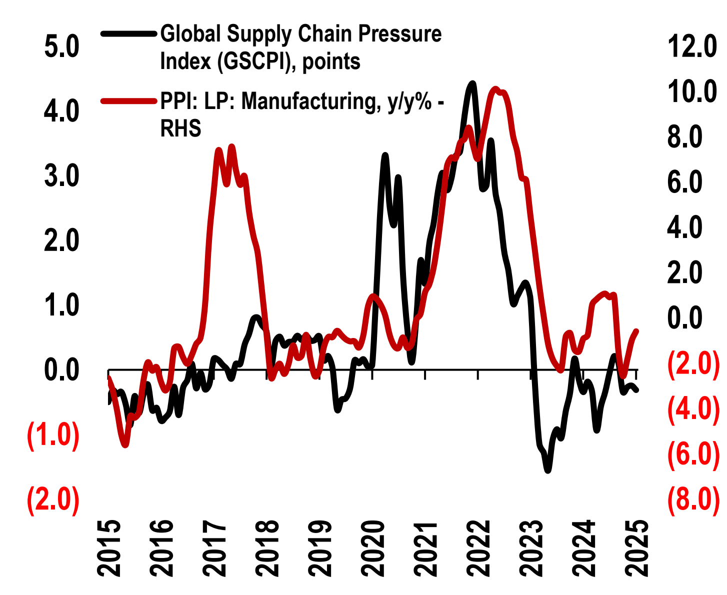
We don't see a reason for inflation to misbehave as we saw in August 2015 when subsidy rationalisation was implemented. Headwinds to inflation include subdued producer inflation and rising economic uncertainty, which may keep consumers cautious about their discretionary spending, thereby containing inflationary pressures. On balance, we expect average inflation for 2025 to range between 2.5% and 3.0%, modestly higher than the 1.8% recorded in 2024.

Exhibit 5: Inflation y/y%, 3MMA



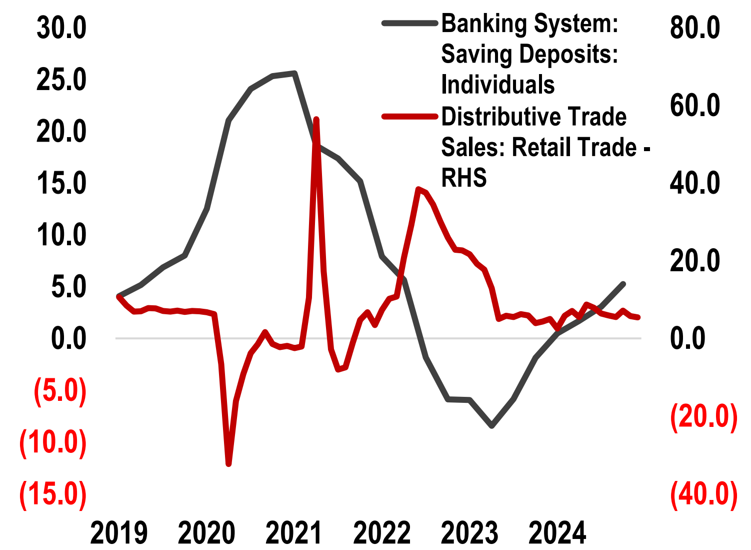
Sources: DOSM, AmBank Economics

Exhibit 6: GSCPI points vs PPI: LP: Mfg, y/y%



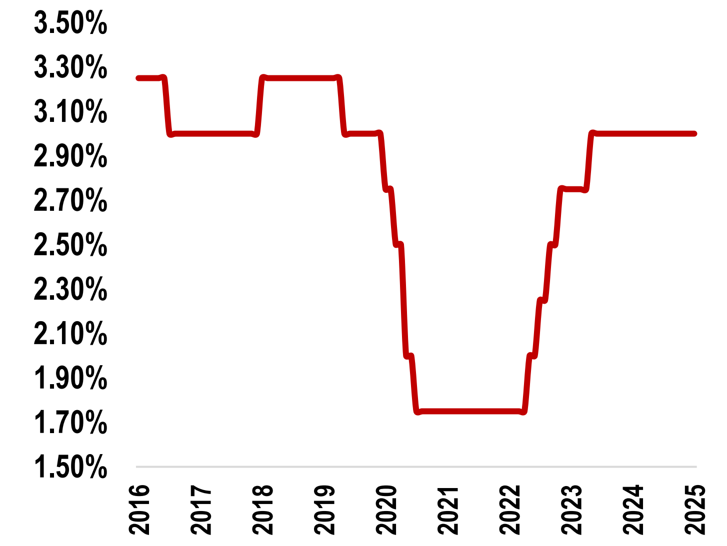
Sources: DOSM, Federal Reserve Bank of New York, AmBank Economics

Exhibit 7: Saving Deposits: Individuals vs. Retail Sales, y/y%



Sources: BNM, DOSM, AmBank Economics

Exhibit 8: OPR, %



Sources: BNM, AmBank Economics

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