

ECONOMIC REVIEW | April 2019 Consumer Price Index

Inflation Remains Subdued from Flattish Food Inflation

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- *Fuel-related items posted double digit deflation. The average price of Brent crude oil went up to USD71.5pb in Apr-19 from USD66.7pb in the previous month however contracted by -0.8%yoy. The oil price improved on trade talk hopes and OPEC supply cuts that month. Domestically, retail fuel prices for RON95 recorded negative growth of -5.5%yoy while those of RON97 registered double digit growth of 13.8% during the month.*
- *We forecast inflation for 2019 at 1.1%. We foresee headline inflation rate to average at 1.1%yoy this year, slightly higher than 2018's 1%yoy inflation as food component is expected to provide upside pressures besides low-base effects and spillover effects from the SST. Nevertheless, the pressure will be partly nullified by lower cap of domestic RON95 fuel prices at RM2.08.*

Muted inflationary pressure. Consumer price index increased 0.2%yoy in Apr-19, unchanged from previous month's figure. Contribution to the trivial increase came mainly from housing, water, electricity, gas & other fuels and food & non-alcoholic beverages, among others. Transport prices continued to drop, but at a softer pace of -2.6%yoy in Apr-19, registering six-consecutive months of negative growth. Similar to headline figure, core inflation stood at the same pace as in Mar-19. Looking ahead, Malaysia's consumer inflation is likely to stay low following the lower capped prices of RON95 and Diesel at RM2.08 and RM2.18 per litre respectively. Nevertheless, demand-push factor remains firm amid stable job market and steady wage growth.

Food prices continue to increase. Food and non-alcoholic beverages inflation which account for 29.5% of the CPI weights maintained its rise at 1.1%yoy in Apr-19. Prices of fresh item such as seafood, fruits and vegetables contributed to the increases. Meanwhile, prices of fresh meat declined -4.7%yoy. In upcoming few months, we expect food prices particularly fresh items to increase at a slightly faster pace due to higher demand for Ramadhan and Hari Raya.

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Table 1: Consumer Price Indices

Indices	MoM%			YoY%		
	Feb-19	Mar-19	Apr-19	Feb-19	Mar-19	Apr-19
CPI	0.2	0.2	0.0	(0.4)	0.2	0.2
Non Food	0.3	0.5	0.1	(1.0)	(0.3)	(0.3)
Food and Non Alcoholic Beverages	0.2	(0.5)	(0.2)	1.0	1.1	1.1
Alcoholic Beverages and Tobacco	(0.1)	0.1	0.1	1.1	1.1	1.2
Clothing and Footwear	(0.1)	0.1	(0.1)	(3.2)	(3.0)	(3.2)
Housing, Water, Electricity, Gas & Other Fuels	0.5	0.0	0.0	2.0	2.0	2.0
Furnishings, Household Equipment and Maintenance	0.3	0.3	0.0	0.1	0.3	0.2
Health	0.2	0.2	0.2	(0.4)	(0.2)	(0.3)
Transport	0.5	2.6	0.4	(6.8)	(3.0)	(2.6)
Communication	0.0	0.0	(0.1)	(1.2)	(1.1)	(1.1)
Recreation and Culture	0.2	(0.1)	0.1	(0.4)	(0.4)	(0.4)
Education	0.4	0.1	0.0	1.3	1.3	1.2
Restaurants and Hotels	0.2	0.0	0.2	1.3	1.0	0.8
Miscellaneous Goods and Services	(0.1)	0.4	0.1	(2.2)	(2.0)	(2.0)
Durable Goods	0.1	0.1	0.1	(3.2)	(3.1)	(2.9)
Semi Durable Goods	(0.1)	0.0	0.0	(3.2)	(3.2)	(3.3)
Non-Durable Goods	0.2	0.6	(0.1)	(2.6)	(1.2)	(1.0)
Services	0.3	0.1	0.1	1.8	1.8	1.8
Core CPI	0.3	0.3	0.1	0.3	0.5	0.5

Source: CEIC, MIDFR

Table 2: Changes in Selected Price Sub-Indices

Sub-Indices	MoM%			YoY%		
	Feb-19	Mar-19	Apr-19	Feb-19	Mar-19	Apr-19
Rice	0.1	0.0	0.0	0.7	0.5	0.2
Fresh Meat	(1.1)	(4.0)	(4.0)	3.1	(1.5)	(4.7)
Fresh Seafood	1.3	(1.2)	(0.6)	0.7	1.8	1.9
Oils & Fats	0.1	(0.1)	(0.3)	(0.8)	(1.0)	(1.2)
Fresh Fruits	0.2	(0.9)	0.1	1.1	0.6	1.0
Fresh Vegetables	0.3	(1.1)	2.3	(7.4)	(2.2)	2.8
Food Away From Home	0.3	0.1	0.1	3.4	3.4	3.1
Cigarettes	0.0	0.0	0.0	2.5	2.5	2.5
Electricity	0.0	0.0	0.0	1.0	1.0	1.0
Pharmaceutical Products	0.2	0.2	0.2	(1.2)	(1.1)	(1.2)
Fuels & Lubricants for Transportation	0.6	4.7	0.6	(11.4)	(4.8)	(4.2)
Transportation Repair & Maintenance	0.3	0.2	0.5	1.4	1.4	1.8
Other Transportation Charges (Including Toll)	0.0	0.0	0.0	2.5	(1.5)	(1.5)
Expenses In Restaurants & Cafes	0.1	0.1	0.1	1.7	1.7	1.4
Insurance For Motor Vehicles	0.0	0.0	0.0	(1.9)	(1.9)	(1.9)

Source: CEIC, MIDFR

East Malaysia remains in deflation. Sabah and Sarawak still recorded deflation in Apr-19 at 0.2%yoy and 0.3%yoy respectively. Meanwhile, peninsular Malaysia maintains inflation at 0.2%yoy. Among the

states/territories, KL and Johor recorded the highest inflation of 0.7%yoy. However, a number of states including Perak and Melaka posted deflation. Nevertheless, prices of food & non-alcoholic beverages remain on expansionary pace for all states except Sabah. Moving forward, we view inflationary pressure for all states to stay at accommodative environment throughout 2019.

Table 3: States Headline Inflation (YoY%)

	MoM%			YoY%		
	Feb-19	Mar-19	Apr-19	Feb-19	Mar-19	Apr-19
Peninsular Malaysia;	0.2	0.2	0.0	(0.4)	0.2	0.2
Food & Non-Alcoholic Beverages	0.2	(0.6)	(0.1)	1.2	1.2	1.2
Utilities	0.5	0.0	0.1	2.1	2.1	2.2
Transport	0.5	2.6	0.4	(6.7)	(3.0)	(2.6)
Sabah;	0.1	0.3	0.0	(0.9)	(0.3)	(0.2)
Food & Non-Alcoholic Beverages	0.0	0.0	(0.2)	(0.4)	(0.4)	(0.2)
Utilities	0.2	0.0	0.0	1.6	1.6	1.6
Transport	0.6	2.5	0.4	(6.6)	(2.7)	(2.4)
Sarawak;	0.2	0.5	0.0	(1.1)	(0.4)	(0.3)
Food & Non-Alcoholic Beverages	0.2	0.2	0.0	0.6	0.6	0.7
Utilities	0.2	0.0	0.0	0.8	0.8	0.8
Transport	0.5	3.1	0.3	(8.0)	(3.4)	(3.1)

Source: DOSM, MIDFR

Inflation is trending upward. Headline inflation rate for most of the key economies rose in Apr-19 as Brent crude oil price increased gradually. The US's headline inflation inched up to 2%yoy in Apr-19, the highest rate since Nov-18. Similarly, core CPI edged up to 2.1%yoy. Based on the latest data as in Mar-19, core PCE inflation in the US was recorded at 1.6%yoy, slowly turning away from Fed's 2% target. Other major economies such as China, Japan and EU experienced upward inflation trend. Meanwhile, it has been a mixed trend for ASEAN economies. For instance, Philippines' inflation rate cooled further to 3% in Apr-19 mainly due to a slowdown in cost of both food and housing. In overall, we opine that inflation rate will continue trending upwards as we foresee global demand to improve gradually and commodity prices to pick up steadily in upcoming months.

Table 4: Global Headline Inflation (YoY%)

	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
Malaysia	0.6	0.2	0.2	-0.7	-0.4	0.2	0.2
Indonesia	3.2	3.2	3.1	2.8	2.6	2.5	2.8
Philippines	6.7	6.0	5.1	4.4	3.8	3.3	3.0
Thailand	1.2	0.9	0.4	0.3	0.7	1.2	1.2
Singapore	0.7	0.3	0.5	0.4	0.5	0.6	
China	2.5	2.2	1.9	1.7	1.5	2.3	2.5
Japan	1.4	0.8	0.3	0.2	0.2	0.5	0.9
EU	2.3	2.0	1.6	1.5	1.6	1.6	1.9
US	2.5	2.2	1.9	1.6	1.5	1.9	2.0

Source: CEIC, MIDFR


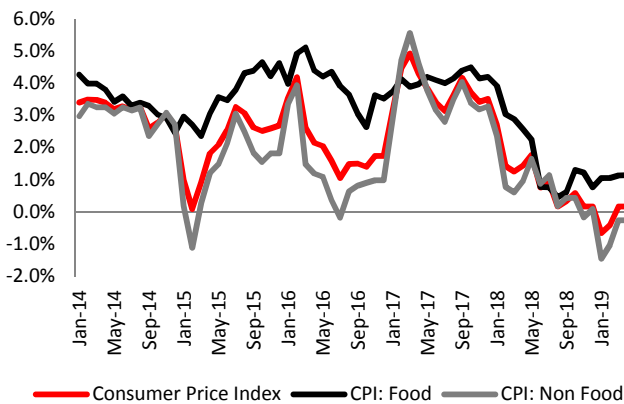
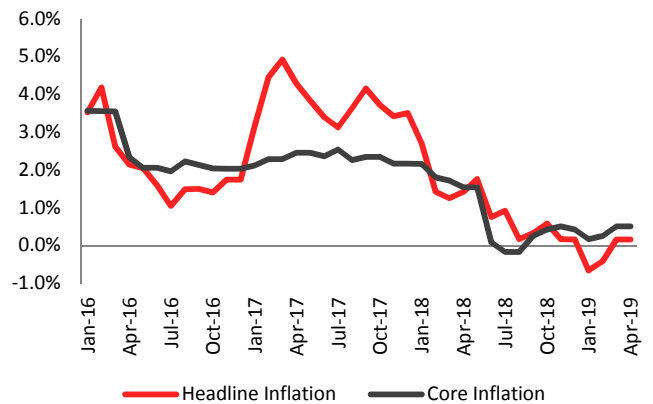
We forecast inflation for 2019 at 1.1%. We foresee headline inflation rate to average at 1.1%yoy this year, slightly higher than 2018's 1%yoy inflation as food component is expected to provide upside pressures besides low-base effects and spill over effects from the SST. Nevertheless, the pressure will be partly nullified by lower cap of domestic RON95 fuel prices at RM2.08. We anticipate inflationary pressure mainly from fuel-related items to remain weak despite higher expectation of Brent crude oil price at \$75pb for 2019 (2018: \$72pb). Meanwhile, core inflation rate is expected to remain steady in 2019, hovering around 2018's level of 1.0%yoy. Moving forward, we foresee the recent OPR cut to spur inflation gradually but subjective to government policies. As we expect core inflation rate and other major macroeconomic indicators to remain stable, we opine no further change in monetary stance is required at this juncture. 

Chart 1: CPI: Headline vs Food & Non-food (YoY%)



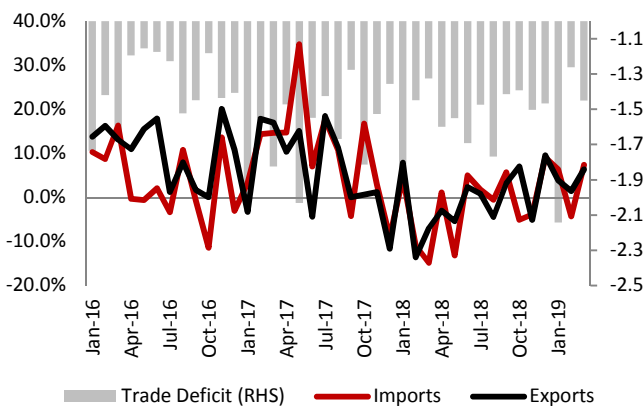
Source: CEIC, MIDFR

Chart 2: CPI: Headline vs Core (YoY%)



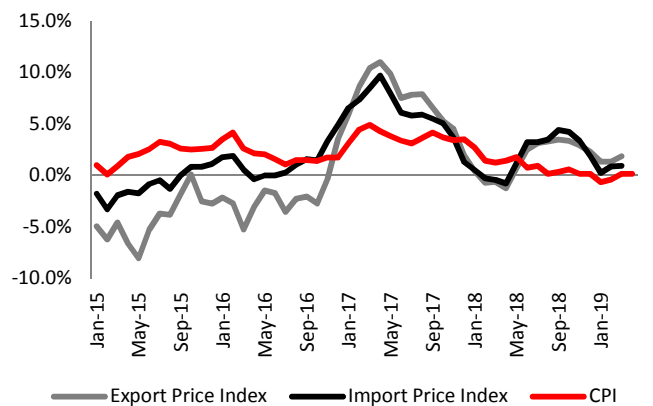
Source: CEIC, MIDFR

Chart 3: External Trade of Food Products (YoY% & Rmb)



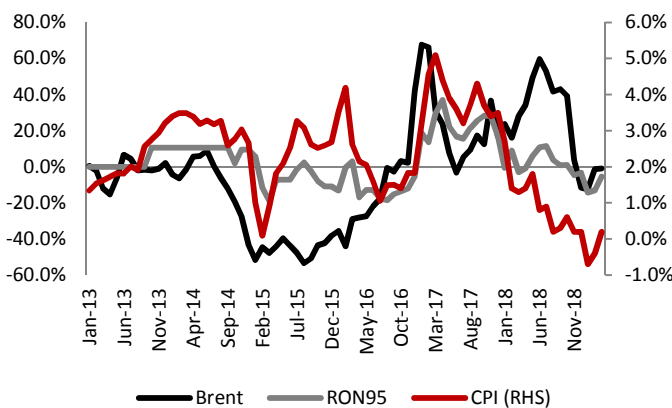
Source: CEIC, MIDFR

Chart 4: CPI vs Price Index of Imports & Exports (YoY%)



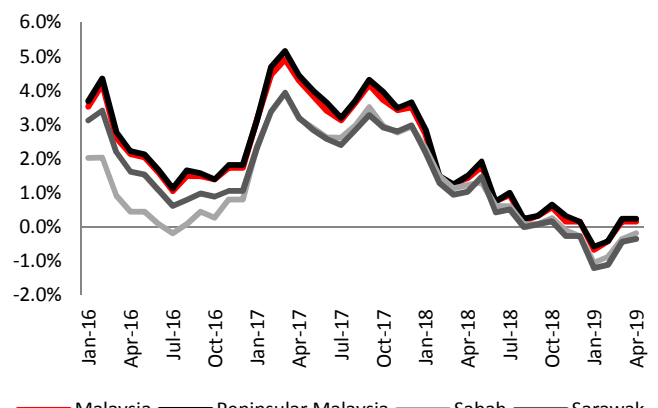
Source: CEIC, MIDFR

Chart 5: CPI vs Crude & Retail Fuel Prices (YoY%)



Source: Bloomberg, MIDFR

Chart 6: Inflation by States (YoY%)



Source: DOSM, MIDFR

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