

## ECONOMIC REVIEW | April 2020 Consumer Price Index

### CPI Deflated Further as MCO Pushed Prices of Housing, Utilities & Transport Lower

- *CPI rate at record low. Malaysia's consumer price deflation recorded at -2.9%yoy in Apr-20 compared to -0.2%yoy in Mar-20, far lower than market forecast of -1.5%yoy. The CPI rate reached an all-time low mainly due to declining prices of housing & utilities by -2.2%yoy (Mar-20: 1.6%yoy) and transport by -21.5%yoy (Mar-20: -8.9%yoy).*
- *F&B inflation maintained above 1%. Increase of prices in food and non-alcoholic beverages was mainly due stockpiling amid the MCO which got extended throughout April. The increase was mainly in prices of rice and fresh items like meat and vegetables. Fresh meat in particular recorded an inflation of 3.1%yoy (Mar-20: 0.9%yoy).*
- *We revised inflation estimate downward to -0.5%. Prices of utilities particularly electricity will continue to decline following the rebates under government stimulus package for six months effective from Apr-20. In addition, high volatility in global crude oil prices which skewed towards the low-side will influence fuel related components. As housing & utilities and transport are the biggest component in overall CPI basket after F&B, we opine these to have a significant impact to overall inflation.*

**CPI rate at record low.** Malaysia's consumer price deflation recorded at -2.9%yoy in Apr-20 compared to -0.2%yoy in Mar-20, far lower than market forecast of -1.5%yoy. The CPI rate reached an all-time low mainly due to declining prices of housing & utilities by -2.2%yoy (Mar-20: 1.6%yoy) and transport by -21.5%yoy (Mar-20: -8.9%yoy). Prices of electricity in particular dropped -33.3%yoy after remained flat for seven months, attributed to electricity rebates under government's stimulus package. On the other hand, inflation of food & non-alcoholic beverages, the biggest component of CPI remained at 1.2%yoy. Meanwhile, core inflation is maintained at 1.3%yoy. On monthly basis, CPI decreased -2.7%.

**F&B inflation maintained above 1%.** Increase of prices in food and non-alcoholic beverages was mainly due stockpiling amid the MCO which got extended throughout April. The increase was mainly in prices of rice and fresh items like meat and vegetables. Fresh meat in particular recorded an inflation of 3.1%yoy (Mar-20: 0.9%yoy). Meanwhile, inflation of food away from home moderated slightly to 1.5%yoy from 1.6%yoy in Mar-20 and is anticipated to continue trending downward amid the extension of MCO until June.

**Fuel-related items posted higher deflation.** The average price of Brent crude oil contracted further by -59.8%yoy in Apr-20 (Mar-20: -50.9%yoy). Prices declined significantly as demand dried up due to lockdowns globally in order to contain the spread of Covid-19. This has increased concerns over storage capacity and oversupply hence pushed the prices lower. Domestically, retail fuel prices for RON95 also recorded higher negative growth of -39.3%yoy (Mar-20: -21.5%yoy). In line, the prices of fuels & lubricants fell by -38.2%yoy (Mar-20: -16.1%yoy). Moreover, average Brent oil price for the first three weeks of May-20 plunged -56.8%yoy but the decline rate improved slightly from April's drop on the back of production cut deal by oil producers and demand hopes as more countries have started lifting their movement restrictions

**Table 1: Consumer Price Indices**

Indices	MoM%			YoY%		
	Feb-20	Mar-20	Apr-20	Feb-20	Mar-20	Apr-20
CPI	0.0	(1.2)	(2.7)	1.3	(0.2)	(2.9)
Non Food	0.0	(1.8)	(4.0)	1.6	(0.8)	(4.8)
Food and Non Alcoholic Beverages	0.1	(0.1)	(0.1)	0.8	1.2	1.2
Alcoholic Beverages and Tobacco	0.1	0.1	0.0	0.2	0.3	0.2
Clothing and Footwear	0.0	(0.1)	0.0	(1.1)	(1.3)	(1.2)
Housing, Water, Electricity, Gas & Other Fuels	0.3	0.0	(3.8)	1.6	1.6	(2.2)
Furnishings, Household Equipment and Maintenance	0.1	0.0	(0.4)	1.0	0.8	0.3
Health	0.1	0.3	0.0	1.3	1.4	1.2
Transport	(1.0)	(8.7)	(13.5)	2.4	(8.9)	(21.5)
Communication	0.0	0.0	0.0	1.5	1.5	1.6
Recreation and Culture	0.0	(0.1)	0.0	0.7	0.7	0.6
Education	0.1	0.0	(0.1)	1.3	1.3	1.2
Restaurants and Hotels	0.2	(0.2)	0.0	1.1	0.9	0.7
Miscellaneous Goods and Services	(0.1)	0.4	(0.2)	2.5	2.6	2.3
Durable Goods	0.0	0.5	0.5	1.6	2.1	2.5
Semi Durable Goods	0.0	0.0	0.0	(0.9)	(0.9)	(0.9)
Non-Durable Goods	(0.2)	(3.2)	(7.2)	1.2	(2.6)	(9.5)
Services	0.1	0.1	(0.1)	1.5	1.5	1.4
Core CPI	(0.1)	0.2	0.1	1.3	1.3	1.3

Source: CEIC, MIDFR

**Table 2: Changes in Selected Price Sub-Indices**

Sub-Indices	MoM%			YoY%		
	Feb-20	Mar-20	Apr-20	Feb-20	Mar-20	Apr-20
Rice	0.1	0.0	2.6	0.1	0.1	2.7
Fresh Meat	1.2	1.1	(1.9)	(4.3)	0.9	3.1
Fresh Seafood	(2.3)	0.2	(0.1)	(0.3)	1.1	(2.0)
Oils & Fats	0.3	1.7	(1.2)	0.1	1.9	0.9
Fresh Fruits	(0.6)	(0.5)	(0.2)	(0.4)	0.1	(0.2)
Fresh Vegetables	0.8	(2.0)	(0.1)	7.2	6.2	3.1
Food Away From Home	0.2	0.1	0.0	1.6	1.6	1.5
Cigarettes	0.0	0.0	0.0	0.0	0.0	0.0
Electricity	0.0	0.0	(33.3)	0.0	0.0	(33.3)
Pharmaceutical Products	(0.1)	0.2	0.0	0.9	0.9	0.7
Fuels & Lubricants for Transportation	(1.0)	(15.4)	(25.9)	3.8	(16.1)	(38.2)
Transportation Repair & Maintenance	0.1	0.5	(0.1)	2.9	3.2	2.6
Other Transportation Charges (Including Toll)	0.0	0.0	0.0	0.0	0.0	0.0
Expenses In Restaurants & Cafes	0.2	0.0	0.0	1.3	1.2	1.1
Insurance For Motor Vehicles	0.0	0.0	0.0	0.0	0.0	0.0

Source: CEIC, MIDFR

**Kedah & Perlis recorded the highest deflation.** Kedah & Perlis topped the rank with the highest drop in prices at -3.9%yoy, followed by Sarawak at -3.8%yoy. Meanwhile, Kuala Lumpur (KL) recorded the lowest fall at -2%yoy followed by Selangor & Putrajaya at -2.3%yoy. However, KL is among the states/ federal territory which recorded lowest increase in F&B prices at below 1%yoy along with Kedah, Perlis, Sarawak, Sabah and Labuan.

**Table 3: States Headline Inflation (YoY%)**

	MoM%			YoY%		
	Feb-20	Mar-20	Apr-20	Feb-20	Mar-20	Apr-20
<b>Peninsular Malaysia;</b>	0.0	(1.2)	(2.6)	1.4	(0.1)	(2.7)
Food & Non-Alcoholic Beverages	0.1	(0.1)	(0.1)	0.8	1.3	1.3
Housing & Utilities	0.1	0.1	0.0	0.2	0.2	0.1
Transport	0.0	(0.1)	0.1	(1.1)	(1.3)	(1.2)
<b>Sabah;</b>	0.3	0.0	(3.8)	1.8	1.8	(2.2)
Food & Non-Alcoholic Beverages	0.0	0.0	(0.4)	1.0	0.9	0.3
Housing & Utilities	0.1	0.3	0.0	1.3	1.4	1.2
Transport	(1.0)	(8.5)	(13.1)	2.4	(8.7)	(21.0)
<b>Sarawak;</b>	0.0	0.0	0.0	1.6	1.6	1.6
Food & Non-Alcoholic Beverages	(0.1)	(0.1)	0.0	0.9	0.8	0.8
Housing & Utilities	0.1	0.0	(0.1)	1.2	1.2	1.1
Transport	0.2	(0.2)	0.0	1.1	0.9	0.8

Source: DOSM, MIDFR

**PPI ticked down.** Malaysia's producer cost declined further to -1.9%yoy in Mar-20 (latest available data), the lowest since Oct-19. The input prices of manufacturing which held around 80% of the total PPI recorded lower growth of 0.6%yoy from 0.8%yoy in Feb-20. All other main components of PPI such as mining and electricity and gas recorded higher producer deflation compared to previous month, contributing to lower overall PPI except for agriculture that recorded a higher growth of 13.4%yoy from 9.2%yoy in Feb-20. This could be due to a combination two factors; ringgit depreciation and our position as net food importer. As a leading indicator of price changes at the consumer level, the latest PPI number suggests that Malaysia's headline inflation will remain contained in 2020.

**Table 4: Producer Price Indices by Selected Sector**

	MoM%			YoY%		
	Jan-20	Feb-20	Mar-20	Jan-20	Feb-20	Mar-20
PPI	(0.1)	(1.3)	(3.0)	2.8	0.9	(1.9)
Agri, forestry & fishing	3.8	(7.3)	(2.1)	18.0	9.2	13.4
Mining	(6.8)	(9.1)	(31.9)	9.2	(5.2)	(35.8)
Manufacturing	0.4	0.1	(0.2)	0.9	0.8	0.6
Electricity and gas	0.1	0.3	0.2	1.0	1.6	(0.3)
Food Product	0.0	(0.6)	0.7	(1.2)	(0.8)	(0.3)

Source: CEIC, MIDFR


**Inflation decreased further globally.** Most of the key economies recorded moderated inflation in Apr-20 with some recorded deflation. The US headline inflation slowed to 0.3%yoy in Apr-20 from 1.5%yoy in the prior month. Similarly, inflation of China and Euro Area also slowed to 3.3%yoy and 0.4%yoy respectively. Among ASEAN countries, all major economies recorded lower inflation with Thailand registered deflation of 3%yoy. Moving forward, we foresee inflation globally to remain benign and may start to increase gradually in 2H20 with more countries easing restrictions. Nevertheless, demand-pull inflation is likely to remain low due to the effect of the pandemic towards the economy.

**Table 5: Global Headline Inflation (YoY%)**

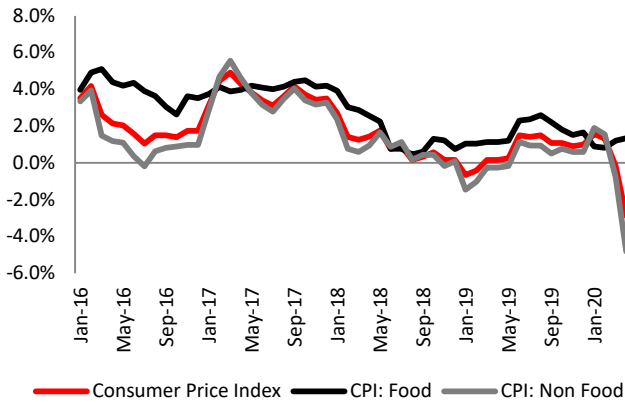
	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
Malaysia	1.1	0.9	1.0	1.6	1.3	-0.2	-2.9
Indonesia	2.9	2.7	2.6	2.7	3.0	3.0	2.7
Philippines	0.8	1.3	2.5	2.9	2.6	2.5	2.2
Thailand	0.1	0.2	0.9	1.1	0.7	-0.5	-3.0
Singapore	0.4	0.6	0.8	0.8	0.3	0.0	n/a
China	3.8	4.5	4.5	5.4	5.2	4.3	3.3
Japan	0.2	0.5	0.8	0.7	0.4	0.4	n/a
EU	1.0	1.3	1.6	1.7	1.6	1.1	0.4
US	1.8	2.1	2.3	2.5	2.3	1.5	0.3

\*n/a: not available

Source: CEIC, MIDFR

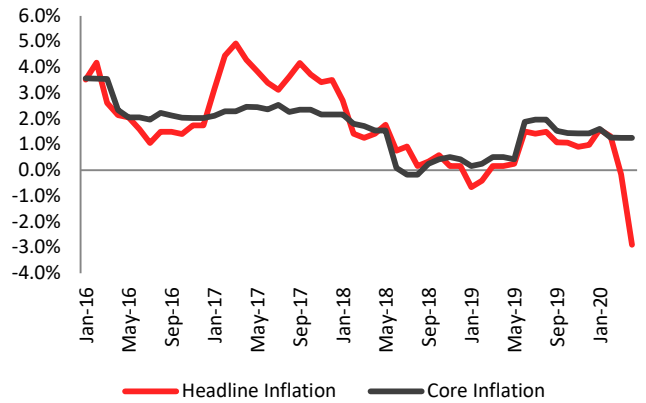
**We revised inflation estimate downward to -0.5%.** Prices of utilities particularly electricity will continue to decline following the rebates under government stimulus package for six months effective from Apr-20. In addition, high volatility in global crude oil prices which skewed towards the low-side will influence fuel related components. As housing & utilities and transport are the biggest component in overall CPI basket after F&B, we opine these to have a significant impact to overall inflation. On the other hand, consumers move away from discretionary to necessity, avoiding most purchases of non-food items such as clothing and furniture. This trend is likely to continue for substantial period of time as concerns over future personal finances persist. Besides that, we do not foresee any major demand-pull inflation due to the Covid-19. Some upward pressure could be expected in food component through imported inflation as Malaysia is a net importer of food and weaker Ringgit will result in the items to be more expensive. Hence, we foresee inflation to average at -0.5%yoy from initial estimate of 0.5%yoy (2019: 0.7%yoy). As inflationary pressure remains low and there are more downside risks to the economy including Covid-19, global trade tensions, political instability and the US presidential election on top of Fed's policy rate at 0.25%, BNM could undertake another 25bps cut in OPR for this year. 

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



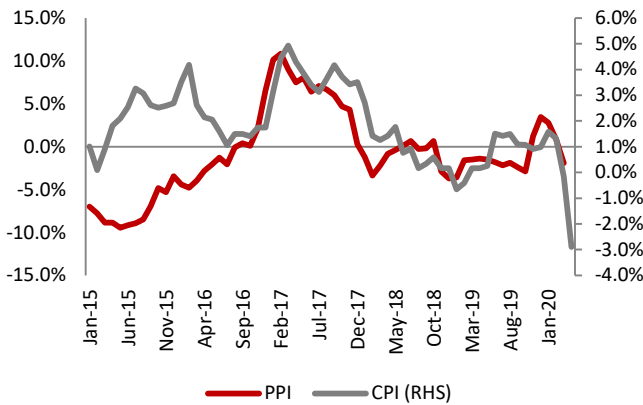
Source: CEIC, MIDFR

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



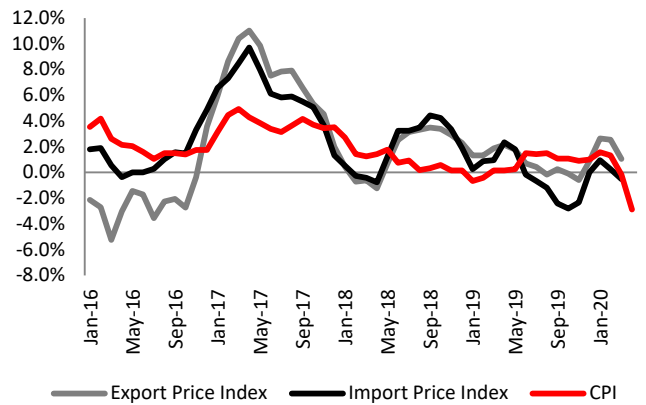
Source: CEIC, MIDFR

**Chart 3: PPI vs CPI (YoY%)**



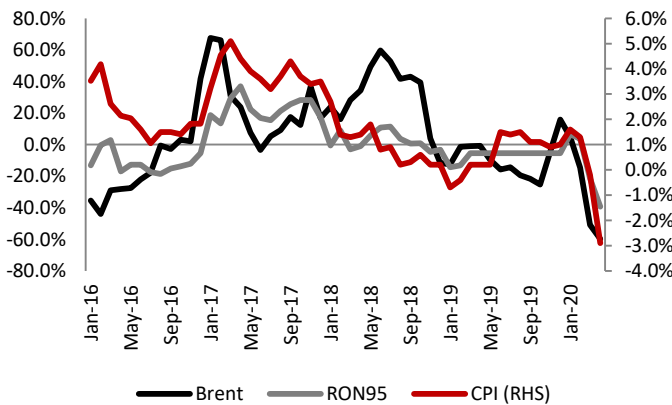
Source: CEIC, MIDFR

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



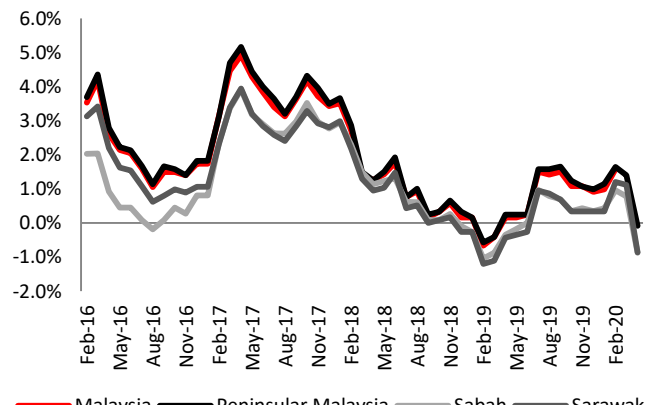
Source: CEIC, MIDFR

**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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