

ECONOMIC REVIEW | July 2019 Consumer Price Index

Inflation Moderated Slightly as Prices of Housing & Utilities Increased at a Softer Pace

- *Slim moderation in inflation. Headline inflation inched down to 1.4%yoy in July-19 from a 13-month high of 1.5%yoy in the previous month. Food & non-alcoholic beverages prices continued to increase at faster pace of 2.4%yoy (June-19: 2.3%yoy). In addition, transport prices continued to drop but at a slower pace of -1.9%yoy (June-19: -2.1%yoy). However, better performances in both food and transport prices were inadequate to offset moderation in housing & utilities prices at 1.9%yoy (June-19: 2.3%yoy).*
- *Fuel-related items are still in deflation. The average price of Brent crude oil contracted by -14.3%yoy in July-19 but slightly improved than -15.8%yoy recorded in the previous month as OPEC agreed to extend oil supply cuts until Mar-20. Domestically, retail fuel prices for RON95 recorded negative growth of -5.5%yoy for the fourth consecutive month and may continue at that pace throughout the year if the price remain capped at RM2.08.*
- *We foresee inflation rate to average at 0.6% in 2019. We foresee headline inflation rate to average at 0.6%yoy this year, lower than 1%yoy in 2018. For the first seven months of this year, inflation averaged at 0.3%yoy. We expect food component to provide upside pressures for overall inflation in 2019 driven by low base effect, spill over effect from the SST and imported inflation as Malaysia is a net importer of food.*

Slim moderation in inflation. Headline inflation inched down to 1.4%yoy in July-19 from a 13-month high of 1.5%yoy in the previous month. Food & non-alcoholic beverages prices continued to increase at faster pace of 2.4%yoy (June-19: 2.3%yoy). In addition, transport prices continued to drop but at a slower pace of -1.9%yoy (June-19: -2.1%yoy). However, better performances in both food and transport prices were inadequate to offset moderation in housing & utilities prices at 1.9%yoy (June-19: 2.3%yoy). In contrast to headline figure, core inflation edged up to 2%yoy, the fastest pace since Jan-18. Looking ahead, inflation is likely to remain high in upcoming month mainly due to the lower base effect resulting from the tax holiday period last year. Nevertheless, RON95 price cap at RM2.08 will continue to downwardly pressure transport inflation.

Food prices on the rise. Food and non-alcoholic beverages inflation which account for 29.5% of the CPI weightage increased further to 2.4%yoy, the fastest pace since Apr-18. Prices of fresh item such as seafood and fruits contributed to the increase. In addition, prices of fresh meat declined at a softer pace of -2.8%yoy (June-19: -3.2%yoy). Food inflation is expected to stay at high-side moving forward as Malaysia is a net importer of food and Ringgit depreciation could make the items more expensive.

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Table 1: Consumer Price Indices

Indices	MoM%			YoY%		
	May-19	Jun-19	Jul-19	May-19	Jun-19	Jul-19
CPI	0.2	0.0	0.1	0.2	1.5	1.4
Non Food	0.3	(0.1)	0.0	(0.2)	1.1	1.0
Food and Non Alcoholic Beverages	0.3	0.1	0.3	1.2	2.3	2.4
Alcoholic Beverages and Tobacco	0.1	0.1	0.0	1.3	2.1	2.3
Clothing and Footwear	(0.1)	(0.1)	(0.4)	(3.2)	(0.7)	(1.1)
Housing, Water, Electricity, Gas & Other Fuels	0.3	0.0	0.0	1.8	2.3	1.9
Furnishings, Household Equipment and Maintenance	0.3	0.1	0.2	0.5	3.1	3.3
Health	0.0	0.2	0.1	(0.3)	1.2	1.3
Transport	0.2	(0.3)	0.2	(2.5)	(2.1)	(1.9)
Communication	0.0	0.0	0.0	(0.9)	2.1	2.1
Recreation and Culture	(0.1)	0.1	(0.1)	(0.4)	2.7	2.4
Education	0.1	0.0	0.1	1.2	1.4	1.4
Restaurants and Hotels	(0.2)	0.2	0.1	0.6	1.6	1.7
Miscellaneous Goods and Services	0.0	0.3	0.4	(2.1)	1.4	1.8
Durable Goods	(0.1)	0.2	0.4	(2.8)	1.2	1.8
Semi Durable Goods	(0.2)	0.0	(0.3)	(3.4)	(0.7)	(0.8)
Non-Durable Goods	0.2	0.0	0.2	(0.9)	0.2	0.1
Services	0.2	0.0	0.1	1.6	2.6	2.7
Core CPI	0.1	0.0	0.1	0.4	1.9	2.0

Source: CEIC, MIDFR

Table 2: Changes in Selected Price Sub-Indices

Sub-Indices	MoM%			YoY%		
	May-19	Jun-19	Jul-19	May-19	Jun-19	Jul-19
Rice	0.0	(0.1)	0.0	0.3	0.3	0.1
Fresh Meat	1.7	(0.5)	3.1	(4.0)	(3.2)	(2.8)
Fresh Seafood	0.5	1.1	(0.1)	1.9	1.7	1.9
Oils & Fats	(0.3)	0.0	(0.1)	(1.3)	(1.3)	(1.3)
Fresh Fruits	(0.2)	0.6	1.2	1.0	1.9	3.5
Fresh Vegetables	2.8	1.1	(1.1)	5.6	6.2	5.4
Food Away From Home	0.1	(0.1)	0.3	2.9	4.2	4.4
Cigarettes	0.0	0.0	0.0	2.5	2.5	2.5
Electricity	0.0	0.0	0.0	1.0	5.0	1.4
Pharmaceutical Products	(0.1)	0.2	0.1	(1.2)	0.9	1.1
Fuels & Lubricants for Transportation	0.1	(0.7)	0.2	(4.1)	(5.0)	(4.7)
Transportation Repair & Maintenance	0.1	0.3	0.1	1.3	3.4	3.3
Other Transportation Charges (Including Toll)	0.0	0.0	0.0	(1.5)	0.1	0.1
Expenses In Restaurants & Cafes	0.0	0.1	0.1	1.1	1.5	1.7
Insurance For Motor Vehicles	0.1	0.0	0.0	(1.8)	1.4	1.4

Source: CEIC, MIDFR

KL has the highest inflation. KL, Penang, Selangor, Putrajaya and Johor recorded inflation above national average with KL chalked the highest rate at 2.2%yoy. The lowest inflation was observed in Kedah, Perlis, Pahang, Sabah and Labuan. KL also recorded the highest inflation of food & non-alcoholic beverages at 4.4%yoy, far above the rest as the second highest rate was 3%yoy in Penang. Moving forward, we view inflationary pressure for all states to stay at accommodative environment throughout 2019.

Table 3: States Headline Inflation (YoY%)

	MoM%			YoY%		
	May-19	Jun-19	Jul-19	May-19	Jun-19	Jul-19
Peninsular Malaysia;	0.2	0.0	0.2	0.2	1.6	1.6
Food & Non-Alcoholic Beverages	0.3	0.1	0.3	1.3	2.5	2.5
Utilities	0.3	0.0	0.0	1.9	2.4	2.0
Transport	0.1	(0.3)	0.2	(2.5)	(2.0)	(1.8)
Sabah;	0.1	0.0	0.0	0.0	1.0	0.8
Food & Non-Alcoholic Beverages	(0.2)	0.1	0.0	0.1	1.0	1.1
Utilities	0.1	0.0	0.0	1.5	1.9	1.3
Transport	0.1	(0.3)	0.2	(2.3)	(2.3)	(2.0)
Sarawak;	0.2	(0.1)	0.0	(0.3)	1.0	0.9
Food & Non-Alcoholic Beverages	0.1	(0.1)	0.0	0.8	1.9	1.7
Utilities	0.1	0.0	0.0	0.6	1.2	1.2
Transport	0.2	(0.3)	0.1	(2.9)	(3.0)	(3.0)

Source: DOSM, MIDFR

Inflation set to increase across the globe. The US headline inflation rate increased to 1.8%yoy in July-19 from four-month low of 1.6%yoy in the preceding month and beat market expectations of 1.7%yoy. Similarly, China's inflation edged up to 2.8%yoy, the highest rate since Feb-18 after two consecutive months maintaining at 2.7%yoy. Meanwhile, there is a mixed trend in key ASEAN countries. Thailand recorded higher inflation of 1%yoy while Indonesia maintained at 3.3%yoy, unchanged from previous month. In contrast, Philippines's inflation fell to a 2-year-low of 2.4%yoy. Moving forward, we foresee inflation in most of the key economies to gradually increase as those countries are currently in an easing policy environment where central banks lower rates to stimulate the economy. Nevertheless, inflation could be largely influenced by global crude oil prices which are quite vulnerable currently due to multiple concerns particularly Trump's abrupt decisions.

Table 4: Global Headline Inflation (YoY%)

	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
Malaysia	-0.7	-0.4	0.2	0.2	0.2	1.5	1.4
Indonesia	2.8	2.6	2.5	2.8	3.3	3.3	3.3
Philippines	4.4	3.8	3.3	3.0	3.2	2.7	2.4
Thailand	0.3	0.7	1.2	1.2	1.1	0.9	1.0
Singapore	0.4	0.5	0.6	0.8	0.9	0.6	
China	1.7	1.5	2.3	2.5	2.7	2.7	2.8
Japan	0.2	0.2	0.5	0.9	0.7	0.7	
EU	1.5	1.6	1.6	1.9	1.6	1.6	
US	1.6	1.5	1.9	2.0	1.8	1.6	1.8

Source: CEIC, MIDFR


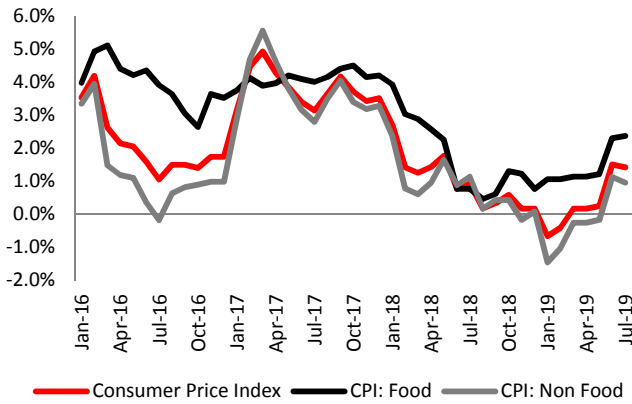
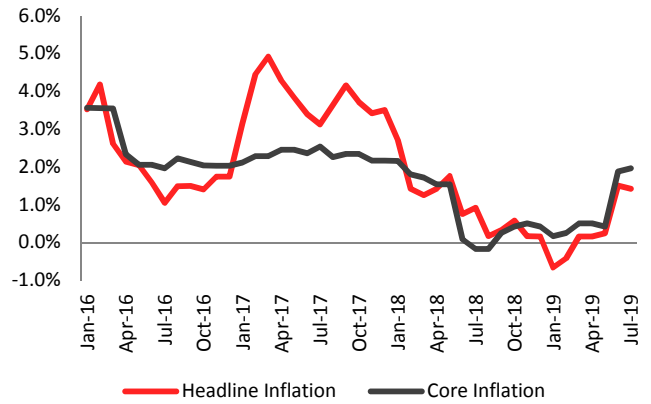
We foresee inflation rate to average at 0.6% in 2019. We foresee headline inflation rate to average at 0.6%yoy this year, lower than 1%yoy in 2018. For the first seven months of this year, inflation averaged at 0.3%yoy. We expect food component to provide upside pressures for overall inflation in 2019 driven by low base effect, spill over effect from the SST and imported inflation as Malaysia is a net importer of food. Nevertheless, RON95 price cap will continue to provide downward pressure to the overall inflation. Even with the removal of RON95 price cap, the prices are expected to be on the low side in line with global crude oil prices which are affected by multiple headwinds. We anticipate inflationary pressure mainly from fuel-related items to remain weak in line with our expectation of Brent crude oil price at \$63pb for 2019 (2018: \$71.6pb). Moving forward, as we expect core inflation rate and other major macroeconomic indicators to remain stable, we opine no further change in monetary stance by BNM at this juncture. 

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



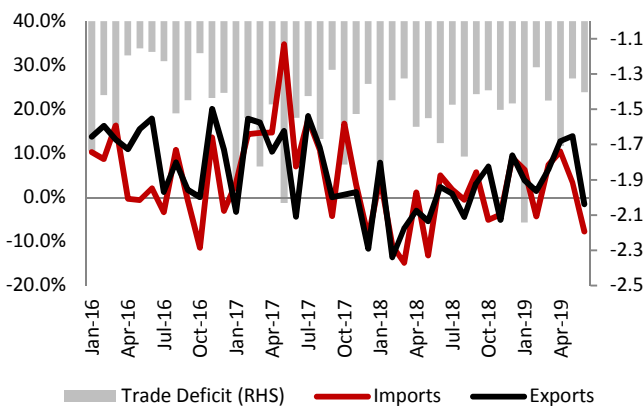
Source: CEIC, MIDFR

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



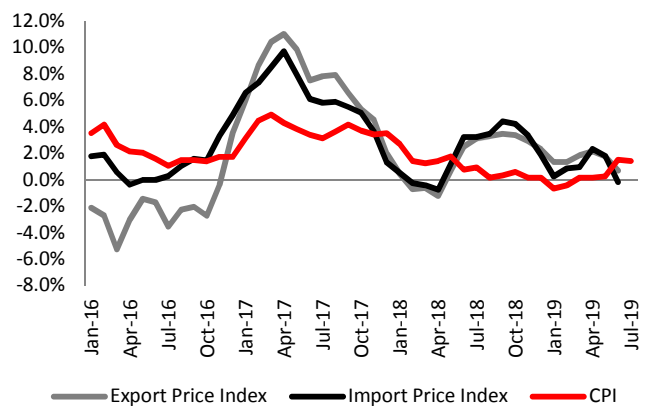
Source: CEIC, MIDFR

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



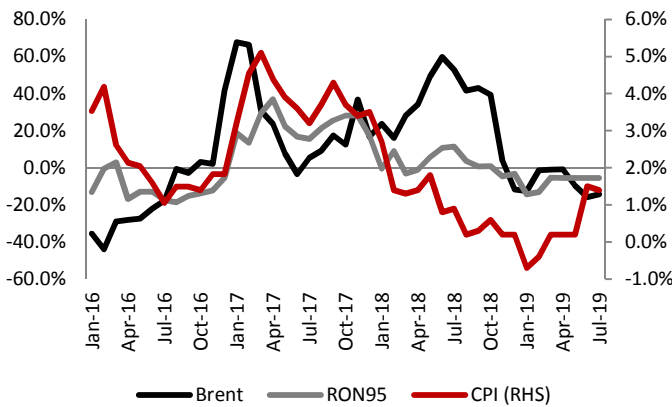
Source: CEIC, MIDFR

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



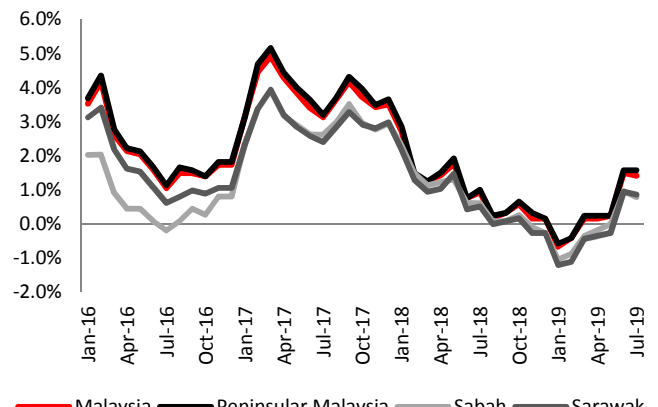
Source: CEIC, MIDFR

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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