

ECONOMIC REVIEW | June 2020 Consumer Price Index

Price Declines Slowed With Inflationary Pressure to Remain Muted

- *CPI declined at slower pace. The decline in Malaysia's consumer price index slowed to -1.9%yoy in Jun-20 (May-20: -2.9%yoy), but slightly faster than our forecast of -1.7%yoy. During the month, prices of transport-related components registered a smaller deflation of -14.3%yoy (May-20: -20.3%yoy), and housing and utility charges continued to fall by -2.6%yoy (May-20: -2.6%yoy). In particular, the charges for electricity fell further by -33.3%yoy (May-20: -33.3%yoy) benefiting from the rebates under government's stimulus package which had been extended until end of the year. On another note, food prices registered a higher inflation of +1.6%yoy (May-20: +1.4%yoy).*
- *F&B inflation accelerated to 1.3%. Food and non-alcoholic beverages recorded a faster inflation of +1.3%yoy in Jun-20 (May-20: +1.1%yoy) which was mainly driven by the increase in prices of rice, fresh and frozen meats, and fruits. Moreover, prices of fresh seafood continued to increase by +1.9%yoy (May-20: +2.1%yoy).*
- *Consumer prices to fall -0.5% this year. With the inflationary pressures remain muted, we maintain our projection for the consumer prices to register -0.5%yoy decline this year (2019: 0.7%yoy). The decision by the Government to extend the electricity bill discounts until end of the year will cushion some impact of utilities charges on the consumers. Despite Malaysian consumers have begun to recover their spending activities, we opine that the recovery for spending on non-essential items and the overall domestic expenditures will take time to fully recover.*

CPI declined at slower pace. The decline in Malaysia's consumer price index slowed to -1.9%yoy in Jun-20 (May-20: -2.9%yoy), but slightly faster than our forecast of -1.7%yoy. During the month, prices of transport-related components registered a smaller deflation of -14.3%yoy (May-20: -20.3%yoy), and housing and utility charges continued to fall by -2.6%yoy (May-20: -2.6%yoy). In particular, the charges for electricity fell further by -33.3%yoy (May-20: -33.3%yoy) benefiting from the rebates under government's stimulus package which had been extended until end of the year. On another note, food prices registered a higher inflation of +1.6%yoy (May-20: +1.4%yoy), primarily due to higher prices of meat and fruits. Meanwhile, core inflation inched slightly higher to +1.2%yoy (May-20: +1.1%yoy). On month-on-month basis, the CPI inflation accelerated to +1.0%mom (May-20: +0.3%mom), following higher inflation of transport-related prices (Jun-20: +7.8%mom; May-20: +1.0%mom) which largely reflected the upward adjustment of domestic fuel prices.

F&B inflation accelerated to 1.3%. Food and non-alcoholic beverages recorded a faster inflation of +1.3%yoy in Jun-20 (May-20: +1.1%yoy) which was mainly driven by the increase in prices of rice, fresh and frozen meats, and fruits. Moreover, prices of fresh seafood continued to increase by +1.9%yoy (May-20: +2.1%yoy). An upward inflation was also observed for food away from home which increased to +1.8%yoy (May-20: +1.6%yoy) which is expected to trend higher gradually as the easing of MCO restrictions allowed Malaysian consumers to go out and increase consumption of away-from-home foods.

Slower deflation of fuel-related items. The decline in prices of fuel-related items slowed in Jun-20, reflecting the movement in the international oil prices. Brent crude oil prices fell at a slower pace of -36.1%yoy in Jun-20 (May-20: -53.8%yoy). Domestic retail fuel prices for RON95 also recorded a smaller decline of -24.0%yoy (May-20: -36.3%yoy), after being raised to RM1.69 per litre as at end-Jun-20 (end-May-20: RM1.43/litre). Consequently, the decline in prices of fuels & lubricants slowed to -25.3%yoy (May-20: -37.0%yoy). The deflation of fuel-related items will slow further in light of incremental increase in crude oil prices following the decision by oil-producing nations to ease oil production curbs from August 2020 and expectations for recovery in demand as more countries eased restrictions and reopened their economies. Thus far, in the first three weeks of July 2020, the Brent oil price benchmark had been on an upward trend, averaging around USD43 per barrel (Jun-20 average: USD41pb). Despite the increase, the current level of crude oil prices in Jul-20 remained -33% below the same period last year.

Table 1: Consumer Price Indices

Indices	MoM%			YoY%		
	Apr-20	May-20	Jun-20	Apr-20	May-20	Jun-20
CPI	(2.7)	0.3	1.0	(2.9)	(2.9)	(1.9)
Non Food	(4.0)	0.2	1.4	(4.8)	(4.9)	(3.5)
Food and Non-Alcoholic Beverages	(0.1)	0.3	0.4	1.2	1.2	1.6
Alcoholic Beverages and Tobacco	0.0	0.1	0.1	0.2	0.2	0.2
Clothing and Footwear	0.0	0.0	(0.1)	(1.2)	(1.1)	(1.1)
Housing, Water, Electricity, Gas & Other Fuels	(3.8)	(0.1)	0.0	(2.2)	(2.6)	(2.6)
Furnishings, Household Equipment and Maintenance	(0.4)	(0.2)	0.1	0.3	(0.2)	(0.2)
Health	0.0	0.0	0.1	1.2	1.2	1.1
Transport	(13.5)	1.0	7.8	(21.5)	(20.8)	(14.3)
Communication	0.0	0.0	0.0	1.6	1.6	1.6
Recreation and Culture	0.0	0.0	0.0	0.6	0.7	0.6
Education	(0.1)	(0.1)	(0.2)	1.2	1.0	0.8
Restaurants and Hotels	0.0	0.1	(0.4)	0.7	0.9	0.3
Miscellaneous Goods and Services	(0.2)	0.5	0.4	2.3	2.8	3.0
Durable Goods	0.5	0.3	0.0	2.5	2.9	2.7
Semi Durable Goods	0.0	0.0	(0.1)	(0.9)	(0.7)	(0.8)
Non-Durable Goods	(7.2)	0.5	2.9	(9.5)	(9.3)	(6.7)
Services	(0.1)	0.0	0.1	1.4	1.2	1.3
Core CPI	0.1	(0.1)	0.1	1.3	1.1	1.2

Source: CEIC, MIDFR

Table 2: Changes in Selected Price Sub-Indices

Sub-Indices	MoM%			YoY%		
	Apr-20	May-20	Jun-20	Apr-20	May-20	Jun-20
Rice	2.6	(0.7)	0.1	2.7	2.0	2.2
Fresh Meat	(1.9)	1.7	3.5	3.1	3.1	7.3
Fresh Seafood	(0.1)	0.8	0.9	1.7	2.1	1.9
Oils & Fats	(1.2)	0.0	0.3	0.9	1.1	1.4
Fresh Fruits	(0.2)	0.4	0.6	(0.2)	0.4	0.4
Fresh Vegetables	(0.1)	1.3	0.8	3.7	2.2	1.9
Food Away From Home	0.0	0.1	0.1	1.5	1.6	1.8
Cigarettes	0.0	0.0	0.0	0.0	0.0	0.0
Electricity	(33.3)	0.0	0.0	(33.3)	(33.3)	(33.3)
Pharmaceutical Products	0.0	0.0	0.2	0.7	0.8	0.8
Fuels & Lubricants for Transportation	(25.9)	2.1	17.7	(38.2)	(37.0)	(25.3)
Transportation Repair & Maintenance	(0.1)	0.1	0.3	2.6	2.7	2.6
Other Transportation Charges (Including Toll)	0.0	0.0	0.0	0.0	0.0	0.0
Expenses In Restaurants & Cafes	0.0	0.1	0.0	1.1	1.2	1.0
Insurance For Motor Vehicles	0.0	0.0	0.0	0.0	(0.1)	(0.1)

Source: CEIC, MIDFR

All areas registered slower deflation. The deflationary pressures in all the states and territories slowed in Jun-20 particularly reflecting the smaller declines in fuel prices and sustained inflation of foods and non-alcoholic beverages. Sabah and Sarawak registered a larger deflation relative to the national CPI, with CPI for these two states falling by -2.7%yoy and -2.6%yoy, respectively. In Peninsular Malaysia, states like Melaka, Kedah & Perlis, Negeri Sembilan, Kelantan and Terengganu also registered a CPI deflation of more than -2.0%yoy. In terms of F&B inflation, Selangor, Pahang and Perak recorded the highest food inflation between +2.2%yoy to +2.5%yoy, higher than +1.6% F&B inflation at the national level.

Table 3: States Headline Inflation (YoY%)

	MoM%			YoY%		
	Apr-20	May-20	Jun-20	Apr-20	May-20	Jun-20
Peninsular Malaysia;	(2.6)	0.2	1.1	(2.7)	(2.8)	(1.7)
Food & Non-Alcoholic Beverages	(0.1)	0.4	0.5	1.3	1.4	1.8
Housing & Utilities	(3.8)	(0.1)	0.0	(2.2)	(2.6)	(2.6)
Transport	(13.1)	1.0	7.7	(21.0)	(20.3)	(14.0)
Sabah;	(2.9)	0.2	1.0	(3.7)	(3.6)	(2.7)
Food & Non-Alcoholic Beverages	(0.5)	0.2	(0.1)	0.1	0.4	0.2
Housing & Utilities	(3.4)	0.0	0.0	(3.0)	(3.1)	(3.1)
Transport	(14.2)	0.7	8.9	(22.6)	(22.2)	(15.0)
Sarawak;	(2.9)	0.2	1.2	(3.8)	(3.8)	(2.6)
Food & Non-Alcoholic Beverages	(0.2)	0.0	0.0	0.5	0.4	0.5
Housing & Utilities	(3.5)	0.0	0.0	(2.5)	(2.6)	(2.6)
Transport	(17.7)	1.0	11.2	(27.3)	(26.7)	(18.2)

Source: DOSM, MIDFR

PPI continued to fall. Malaysia's producer prices fell at a faster pace of -5.5%yoy in May-20 (Apr-20: -5.1%yoy), marking the third straight month of decline since the MCO was imposed. The decrease in input prices can be attributed to the lower input prices for the manufacturing sector (weight: 81.6% of total PPI) which fell by -0.8%yoy (May-20: +0.1%yoy) mainly dragged down by reduced prices for manufacture of coke and refined petroleum products (May-20: -2.8%yoy; Apr-20: -2.8%yoy); as well as decrease in input prices for manufacture of computers and electronic products (May-20: -0.6%yoy; Apr-20: +0.6%yoy). Reduced producer price pressures were also reported by the mining sector (May-20: -52.7%yoy; Apr-20: -58.3%yoy), and electricity and gas (May-20: -0.2%yoy; Apr-20: +0.2%yoy). Meanwhile, input prices for the agriculture, forestry and fishing industry registered a slower inflation of +5.5%yoy during the month (Apr-20: +8.7%yoy). The continued fall in the producer prices signals that the price pressures on consumer price inflation will be benign.

Table 4: Producer Price Indices by Selected Sector

	MoM%			YoY%		
	Mar-20	Apr-20	May-20	Mar-20	Apr-20	May-20
PPI	(3.0)	(2.7)	(0.2)	(1.9)	(5.1)	(5.5)
Agri, forestry & fishing	(2.1)	(3.2)	(4.5)	13.4	8.7	5.5
Mining	(31.9)	(30.6)	16.6	(35.8)	(58.3)	(52.7)
Manufacturing	(0.2)	(0.7)	(0.8)	0.6	0.1	(0.8)
Electricity and gas	0.2	(0.3)	(0.3)	(0.3)	0.2	(0.2)
Food Product	(1.0)	(2.0)	(1.6)	6.1	4.4	2.9

Source: CEIC, MIDFR

Inflation picked up globally. With many economies began to reopen their economies post-Covid-19 lockdowns, inflationary pressures globally picked up in Jun-20. The US headline inflation rose to +0.6%yoy (May-20: +0.1%yoy) while the rate of inflation in the euro area increased to +0.7%yoy (May-20: +0.5%yoy). In China, inflation accelerated marginally to +2.5%yoy (May-20: +2.4%yoy). Among ASEAN countries, the Philippines recorded higher inflation in Jun-20; in contrast to Malaysia and Thailand which reported smaller CPI deflation. Moving forward, we expect for price pressures to gradually pick up later this year as more countries eased restrictions in addition to improving global oil prices. Nevertheless, demand-pull inflation is likely to remain low due to the effect of the pandemic towards the economy particularly on the fears of second wave.

Table 5: Global Headline Inflation (YoY%)

	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
Malaysia	1.0	1.6	1.3	-0.2	-2.9	-2.9	-1.9
Indonesia	2.6	2.7	3.0	3.0	2.7	2.2	2.0
Philippines	2.5	2.9	2.6	2.5	2.2	2.1	2.5
Thailand	0.9	1.1	0.7	-0.5	-3.0	-3.4	-1.6
Singapore	0.8	0.8	0.3	0.0	-0.7	-0.8	n.a.
China	4.5	5.4	5.2	4.3	3.3	2.4	2.5
Japan	0.8	0.7	0.4	0.4	0.1	0.1	0.1
Euro area	1.3	1.4	1.2	0.7	0.3	0.1	0.3
US	2.3	2.5	2.3	1.5	0.3	0.1	0.6

Source: CEIC, MIDFR


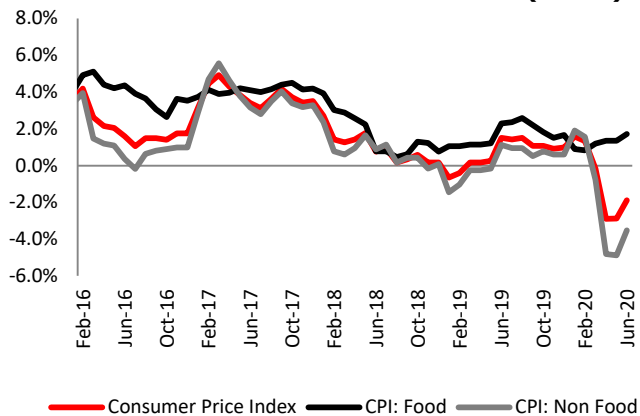
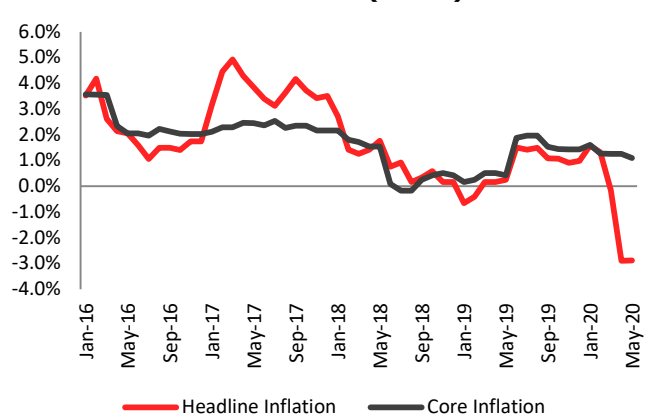
Consumer prices to fall -0.5% this year. With the inflationary pressures remain muted, we maintain our projection for the consumer prices to register -0.5%yoy decline this year (2019: +0.7%yoy). The decision by the Government to extend the electricity bill discounts until end of the year will cushion some impact of utilities charges on the consumers. Despite Malaysian consumers have resumed their spending activities, we opine that the recovery for spending on non-essential items and the overall domestic expenditures will take time to fully recover. Consumers may hold back their spending plans on concerns over future personal finances and outlook for the job market, with unemployment rate is expected to remain high after rising further to 5.3% in May-20 (Apr-20: 5.0%). With the limited impact from demand-pull inflation, the continued decline in prices of fuel-related items, in view of the relatively low global crude oil prices, also adds to the muted inflationary pressure this year. After the recent rate cut earlier this month, we opine that BNM will pause from further easing of the monetary policy, looking at signs of recovery in economic activities after the MCO restrictions have been eased and more business and consumer activities allowed to resume. 

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



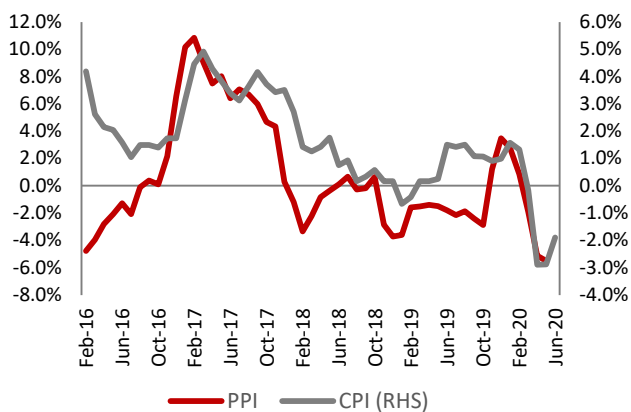
Source: CEIC, MIDFR

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



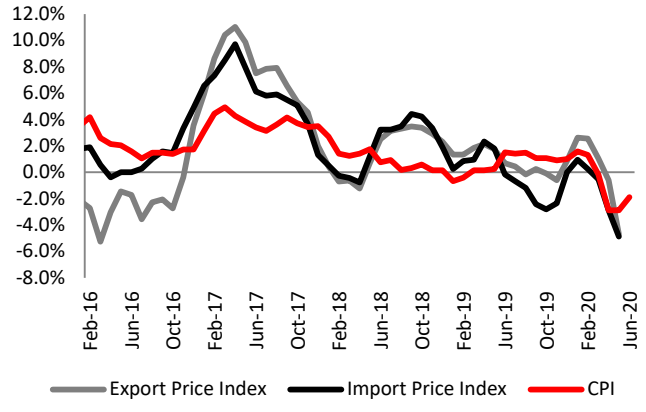
Source: CEIC, MIDFR

Chart 3: PPI vs CPI (YoY%)



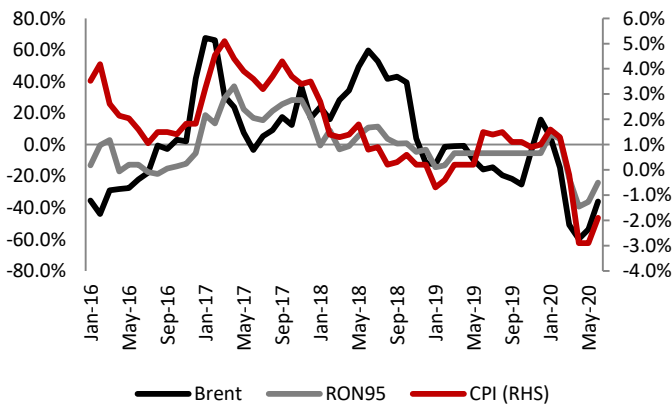
Source: CEIC, MIDFR

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



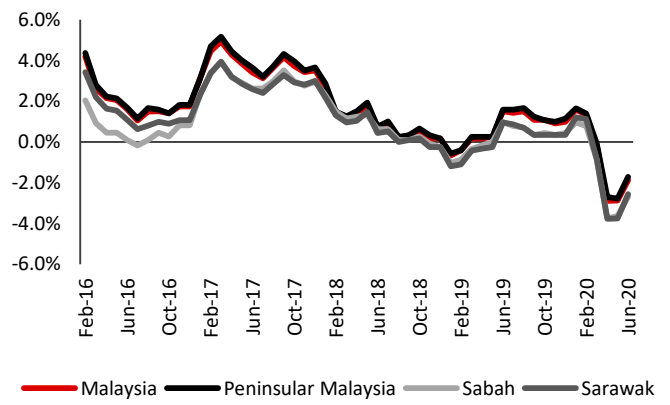
Source: CEIC, MIDFR

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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