

ECONOMIC REVIEW | June 2019 Consumer Price Index

Inflation at more than 1-Year High Due to Low Base Effect from GST removal

- *Inflation at 13-month high. Headline inflation accelerated to 1.5%yoy in June-19 from tepid 0.2%yoy in May-19 mainly due to low base effect resulting from the removal of GST last year. On top of that, increasing demand arising from OPR cut and festival season could have also contributed to the increase.*
- *Fuel-related items are still in deflation. The average price of Brent crude oil contracted by double digit of -15.8%yoy (May-19: -9.6%yoy) to USD 64.3pb in June-19. The oil price worsened on the US - China stalemate and whether OPEC and its allies will extend their supply curbs. Domestically, retail fuel prices for RON95 recorded negative growth of -5.5%yoy for the third 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 1H19, inflation averaged at 0.2%yoy. We expect food component to provide upside pressures for overall inflation in 2019 driven by low base effect, spillover 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.*

Inflation at 13-month high. Headline inflation accelerated to 1.5%yoy in June-19 from tepid 0.2%yoy in May-19 mainly due to low base effect resulting from the removal of GST last year. On top of that, increasing demand arising from OPR cut and festival season could have also contributed to the increase. The upward pressure continued to come from both food (2.3%yoy vs 1.2%yoy in May-19) and housing & utilities prices (2.3%yoy vs 1.8%yoy) while transport prices continued to drop but at slower pace of -2.1%yoy (May-19: -2.5%yoy). Similar to the headline figure, core inflation surged to 1.9%yoy from 0.4%yoy in the previous month. Looking ahead, inflation is likely to remain high in upcoming months mainly due to the lower base. 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 augmented to 2.3%yoy following low base effect and higher demand for Hari Raya celebrations. Prices of fresh item such as fruits and vegetables contributed to the increase. Meanwhile, prices of fresh meat declined at a softer pace of -3.2%yoy (May-19: -4%yoy).

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Table 1: Consumer Price Indices

Indices	MoM%			YoY%		
	Apr-19	May-19	Jun-19	Apr-19	May-19	Jun-19
CPI	0.0	0.2	0.0	0.2	0.2	1.5
Non Food	0.1	0.3	(0.1)	(0.3)	(0.2)	1.1
Food and Non Alcoholic Beverages	(0.2)	0.3	0.1	1.1	1.2	2.3
Alcoholic Beverages and Tobacco	0.1	0.1	0.1	1.2	1.3	2.1
Clothing and Footwear	(0.1)	(0.1)	(0.1)	(3.2)	(3.2)	(0.7)
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.3	0.0	2.0	1.8	2.3
Furnishings, Household Equipment and Maintenance	0.0	0.3	0.1	0.2	0.5	3.1
Health	0.2	0.0	0.2	(0.3)	(0.3)	1.2
Transport	0.4	0.2	(0.3)	(2.6)	(2.5)	(2.1)
Communication	(0.1)	0.0	0.0	(1.1)	(0.9)	2.1
Recreation and Culture	0.1	(0.1)	0.1	(0.4)	(0.4)	2.7
Education	0.0	0.1	0.0	1.2	1.2	1.4
Restaurants and Hotels	0.2	(0.2)	0.2	0.8	0.6	1.6
Miscellaneous Goods and Services	0.1	0.0	0.3	(2.0)	(2.1)	1.4
Durable Goods	0.1	(0.1)	0.2	(2.9)	(2.8)	1.2
Semi Durable Goods	0.0	(0.2)	0.0	(3.3)	(3.4)	(0.7)
Non-Durable Goods	(0.1)	0.2	0.0	(1.0)	(0.9)	0.2
Services	0.1	0.2	0.0	1.8	1.6	2.6
Core CPI	0.1	0.1	0.0	0.5	0.4	1.9

Source: CEIC, MIDFR

Table 2: Changes in Selected Price Sub-Indices

Sub-Indices	MoM%			YoY%		
	Apr-19	May-19	Jun-19	Apr-19	May-19	Jun-19
Rice	0.0	0.0	(0.1)	0.2	0.3	0.3
Fresh Meat	(4.0)	1.7	(0.5)	(4.7)	(4.0)	(3.2)
Fresh Seafood	(0.6)	0.5	1.1	1.9	1.9	1.7
Oils & Fats	(0.3)	(0.3)	0.0	(1.2)	(1.3)	(1.3)
Fresh Fruits	0.1	(0.2)	0.6	1.0	1.0	1.9
Fresh Vegetables	2.3	2.8	1.1	2.8	5.6	6.2
Food Away From Home	0.1	0.1	(0.1)	3.1	2.9	4.2
Cigarettes	0.0	0.0	0.0	2.5	2.5	2.5
Electricity	0.0	0.0	0.0	1.0	1.0	5.0
Pharmaceutical Products	0.2	(0.1)	0.2	(1.2)	(1.2)	0.9
Fuels & Lubricants for Transportation	0.6	0.1	(0.7)	(4.2)	(4.1)	(5.0)
Transportation Repair & Maintenance	0.5	0.1	0.3	1.8	1.3	3.4
Other Transportation Charges (Including Toll)	0.0	0.0	0.0	(1.5)	(1.5)	0.1
Expenses In Restaurants & Cafes	0.1	0.0	0.1	1.4	1.1	1.5
Insurance For Motor Vehicles	0.0	0.1	0.0	(1.9)	(1.8)	1.4

Source: CEIC, MIDFR

KL and Penang have the highest inflation. All the states/territories in Malaysia recorded inflation with KL and Penang chalked the highest rate at 2.2%yoy. The duo and Selangor recorded inflation above national level while Perak and Johor were at par. The lowest inflation was observed in Kedah, Perlis and Pahang. Penang recorded the highest inflation of food & non-alcoholic beverages at 4%yoy, far above the rest as the second highest rate was 2.8%yoy in KL. Moving forward, we view inflationary pressure for all states to stay at accommodative environment throughout 2019.

Table 3: States Headline Inflation (YoY%)

	MoM%			YoY%		
	Apr-19	May-19	Jun-19	Apr-19	May-19	Jun-19
Peninsular Malaysia;	0.0	0.2	0.0	0.2	0.2	1.6
Food & Non-Alcoholic Beverages	(0.1)	0.3	0.1	1.2	1.3	2.5
Utilities	0.1	0.3	0.0	2.2	1.9	2.4
Transport	0.4	0.1	(0.3)	(2.6)	(2.5)	(2.0)
Sabah;	0.0	0.1	0.0	(0.2)	0.0	1.0
Food & Non-Alcoholic Beverages	(0.2)	(0.2)	0.1	(0.2)	0.1	1.0
Utilities	0.0	0.1	0.0	1.6	1.5	1.9
Transport	0.4	0.1	(0.3)	(2.4)	(2.3)	(2.3)
Sarawak;	0.0	0.2	(0.1)	(0.3)	(0.3)	1.0
Food & Non-Alcoholic Beverages	0.0	0.1	(0.1)	0.7	0.8	1.9
Utilities	0.0	0.1	0.0	0.8	0.6	1.2
Transport	0.3	0.2	(0.3)	(3.1)	(2.9)	(3.0)

Source: DOSM, MIDFR

Inflation is on easing pattern. Globally, most of the key countries were experiencing moderations in their recent inflation figures. Headline inflation rate for the US softened further to 1.6%yoy in June-19. Core CPI remained above 2% level for 16 consecutive months since Feb-18. Based on the Fed's preferred inflation indicator, core PCE inflation hovered below the target line of 2% for the first five months of 2019. Latest in May-19, the rate maintained at 1.6% hence increasing expectations for a rate cut later this month. Similarly, a number of ASEAN countries recorded slower increase in prices. Singapore's inflation went down to 0.6%yoy and that on top of negative economic growth in 2Q19 put the monetary authority under pressure to ramp up stimulus. In overall, we opine that inflation rate will remain stable in upcoming months but prone to downward trends amid anticipations of lower average global crude oil prices this year than in 2018.

Table 4: Global Headline Inflation (YoY%)

	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Malaysia	0.2	-0.7	-0.4	0.2	0.2	0.2	1.5
Indonesia	3.1	2.8	2.6	2.5	2.8	3.3	3.3
Philippines	5.1	4.4	3.8	3.3	3.0	3.2	2.7
Thailand	0.4	0.3	0.7	1.2	1.2	1.1	0.9
Singapore	0.5	0.4	0.5	0.6	0.8	0.9	0.6
China	1.9	1.7	1.5	2.3	2.5	2.7	2.7
Japan	0.3	0.2	0.2	0.5	0.9	0.7	0.7
EU	1.6	1.5	1.6	1.6	1.9	1.6	1.6
US	1.9	1.6	1.5	1.9	2.0	1.8	1.6

Source: CEIC, MIDFR


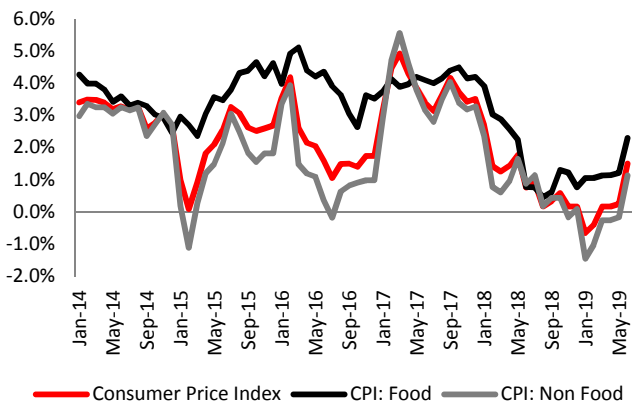
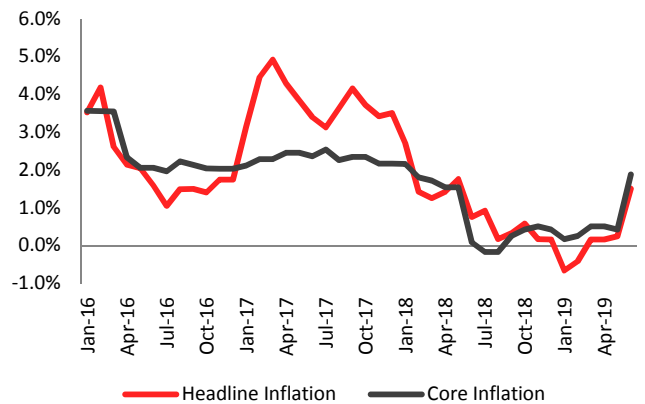
We foresee inflation rate to average at 0.6% in 2019. We foresee headline inflation rate to average at 0.6%yoy this year, lower than 1%yoy in 2018. For the 1H19, inflation averaged at 0.2%yoy. We expect food component to provide upside pressures for overall inflation in 2019 driven by low base effect, 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 \$70pb 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%)



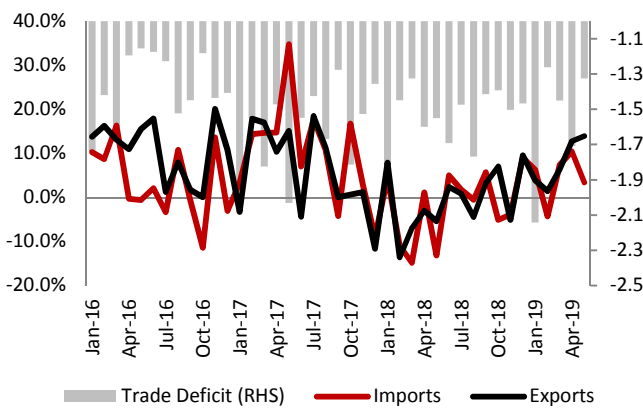
Source: CEIC, MIDFR

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



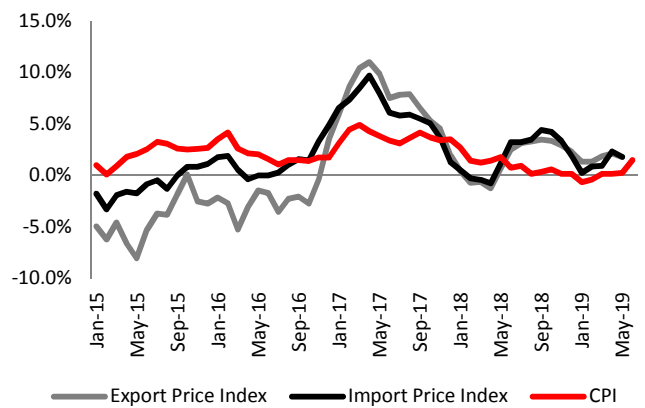
Source: CEIC, MIDFR

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



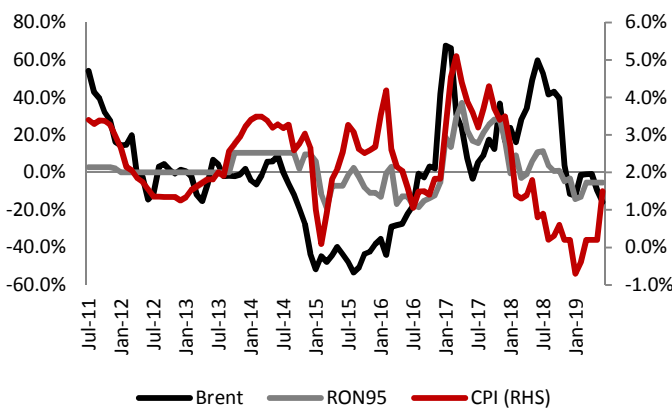
Source: CEIC, MIDFR

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



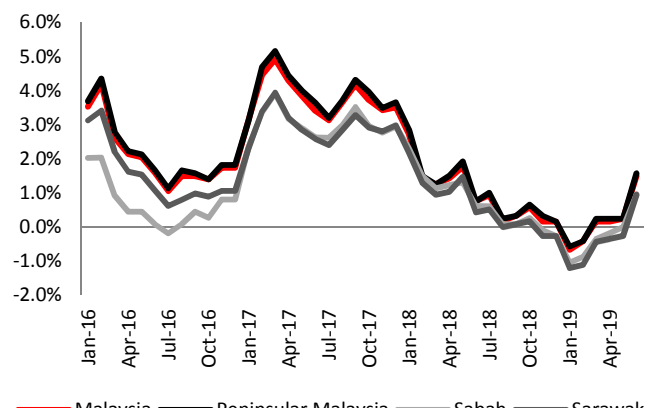
Source: CEIC, MIDFR

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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