

ECONOMIC REVIEW | March 2020 Consumer Price Index

Inflation Moderated to Negative Levels amid Covid-19 and Oil Price Plunge

- Inflationary pressure eased to a 14-month low. As our forecast, the pace of headline inflation went down to -0.2%yoy in Mar-20 from 1.3%yoy in Feb-20, which was primarily due to slowing prices of transport. Transport, the third largest component of CPI shifted to negative growth in prices of -8.9%yoy (Feb-20: 2.4%yoy).*
- F&B inflation rises above 1%. Increase of prices in food and non-alcoholic beverages inflation was mainly due the stockpiling amid the Restriction Movement Order in March alongside fear of Covid-19. The increase was mainly in prices of fresh items like seafood, meat and fruits. Fresh seafood in particular recorded an inflation of 1.1%yoy. The food inflation will likely remain benign in upcoming months.*
- We revised inflation downward to 0.5%. The recent oil war has caused a nose-dive movement in global crude oil prices with Brent's price currently hovering below USD 30pb. In tandem, we had revised downward Brent crude oil average price forecast for 2020 to USD 41pb (2019: USD 64.3pb). At this level, we could see further reduction in RON95 prices, far below level seen in 2019. In addition, toll rates for all PLUS highways are reduced by 18% starting Feb-20.*

Inflationary pressure eased to a 14-month low. In line with our forecast, headline inflation went down to -0.2%yoy in Mar-20, primarily due to slowing prices of transport. Transport, the third largest component of CPI shifted to negative growth in prices of -8.9%yoy (Feb-20: 2.4%yoy). On the other hand, prices of food & non-alcoholic beverages, the biggest component of CPI increased at a softer pace of 1.2%yoy and price growth for housing & utilities inched down to 1.6%yoy after three consecutive months at 1.7%yoy. Meanwhile, core inflation also moderated to 10-month low of 1.3%yoy.

F&B inflation rises above 1%. Increase of prices in food and non-alcoholic beverages inflation was mainly due the stockpiling amid the Restriction Movement Order in March alongside fear of Covid-19. The increase was mainly in prices of fresh items like seafood, meat and fruits. Fresh seafood in particular recorded an inflation of 1.1%yoy. The food inflation will likely remain benign in upcoming months. Meanwhile, inflation of food away from home was maintained at 1.6%yoy and anticipated to continue trending downward amid the extension of Restriction of Movement Order in Malaysia till end of April.

Fuel-related items posted lower inflation. The average price of Brent crude oil contracted by -32.1%yoy in Mar-20 compared to a -14.5yoy growth in Feb-20. Oil war between Saudi Arabia, Russia & USA and Covid-19 outbreak are among the major downside reasons. Domestically, retail fuel prices for RON95 recorded negative growth of -9.1%yoy (Feb-20: 3.8%yoy). In line, prices of fuels & lubricants fell by -16.1%yoy (Feb-20: 3.8%yoy). Looking ahead, average Brent oil price for the first three weeks of Apr-20 plunged by -58.1%yoy. We foresee the government to set fixed prices for RON95 and Diesel in the near term in order to create balance between consumers, petrol dealers and government side.

Table 1: Consumer Price Indices

Indices	MoM%			YoY%		
	Jan-20	Feb-20	Mar-20	Jan-20	Feb-20	Mar-20
CPI	0.1	0.0	(1.2)	1.6	1.3	(0.2)
Non Food	0.1	0.0	(1.8)	1.9	1.6	(0.8)
Food and Non Alcoholic Beverages	0.1	0.1	(0.1)	0.9	0.8	1.2
Alcoholic Beverages and Tobacco	(0.1)	0.1	0.1	0.1	0.2	0.3
Clothing and Footwear	(0.1)	0.0	(0.1)	(1.2)	(1.1)	(1.3)
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.3	0.0	1.7	1.6	1.6
Furnishings, Household Equipment and Maintenance	0.0	0.1	0.0	1.2	1.0	0.8
Health	0.2	0.1	0.3	1.4	1.3	1.4
Transport	0.1	(1.0)	(8.7)	3.9	2.4	(8.9)
Communication	0.0	0.0	0.0	1.5	1.5	1.5
Recreation and Culture	0.2	0.0	(0.1)	0.9	0.7	0.7
Education	0.4	0.1	0.0	1.7	1.3	1.3
Restaurants and Hotels	0.1	0.2	(0.2)	1.1	1.1	0.9
Miscellaneous Goods and Services	0.4	(0.1)	0.4	2.5	2.5	2.6
Durable Goods	0.4	0.0	0.5	1.8	1.6	2.1
Semi Durable Goods	(0.1)	0.0	0.0	(1.0)	(0.9)	(0.9)
Non-Durable Goods	0.1	(0.2)	(3.2)	1.6	1.2	(2.6)
Services	0.2	0.1	0.1	1.8	1.5	1.5
Core CPI	0.1	(0.1)	0.2	1.6	(0.3)	(1.5)

Source: CEIC, MIDFR

Table 2: Changes in Selected Price Sub-Indices

Sub-Indices	MoM%			YoY%		
	Jan-20	Feb-20	Mar-20	Jan-20	Feb-20	Mar-20
Rice	0.0	0.1	0.0	0.1	0.1	0.1
Fresh Meat	0.5	1.2	1.1	(6.5)	(4.3)	0.9
Fresh Seafood	1.6	(2.3)	0.2	3.3	(0.3)	1.1
Oils & Fats	0.2	0.3	0.1	(0.2)	0.1	1.9
Fresh Fruits	0.5	(0.6)	(0.5)	0.5	(0.4)	0.1
Fresh Vegetables	(0.2)	0.8	(2.0)	6.7	7.2	6.2
Food Away From Home	0.1	0.2	0.1	1.7	1.6	1.6
Cigarettes	0.0	0.0	0.0	0.0	0.0	0.0
Electricity	0.0	0.0	0.0	0.0	0.0	0.0
Pharmaceutical Products	0.2	(0.1)	0.2	1.1	0.9	0.9
Fuels & Lubricants for Transportation	(0.2)	(1.0)	(15.4)	5.4	3.8	(16.1)
Transportation Repair & Maintenance	0.3	0.1	0.5	3.1	2.9	3.2
Other Transportation Charges (Including Toll)	0.0	0.0	0.0	0.0	0.0	0.0
Expenses In Restaurants & Cafes	0.1	0.2	0.0	1.2	1.3	1.2
Insurance For Motor Vehicles	0.0	0.0	0.0	0.0	0.0	0.0

Source: CEIC, MIDFR

Selangor & Putrajaya has the highest inflation. Selangor and Putrajaya recorded the highest rate at 0.3%yoy followed by Kuala Lumpur at 0.2%yoy. However, the lowest overall inflation was observed in Melaka at -0.9%yoy. In addition, Selangor, Putrajaya and Johor marked the highest rate of 1.8%yoy for F&B inflation followed by Terengganu (1.6%yoy) and Penang and Kelantan (1.2%yoy). The lowest overall inflation was observed in Melaka at -0.9%yoy.

Table 3: States Headline Inflation (YoY%)

	MoM%			YoY%		
	Jan-20	Feb-20	Mar-20	Jan-20	Feb-20	Mar-20
Peninsular Malaysia;	0.1	0.0	(1.2)	1.6	1.4	(0.1)
Food & Non-Alcoholic Beverages	0.2	0.1	(0.1)	1.0	0.8	1.3
Housing & Utilities	0.1	0.1	0.1	0.1	0.2	0.2
Transport	0.1	0.0	(0.1)	(1.2)	(1.1)	(1.3)
Sabah;	0.1	0.3	0.0	2.0	1.8	1.8
Food & Non-Alcoholic Beverages	0.2	0.0	0.0	1.4	1.0	0.9
Housing & Utilities	0.0	0.1	0.3	1.4	1.3	1.4
Transport	(0.1)	(1.0)	(8.5)	3.9	2.4	(8.7)
Sarawak;	0.1	0.0	0.0	1.6	1.6	1.6
Food & Non-Alcoholic Beverages	0.3	(0.1)	(0.1)	1.1	0.9	0.8
Housing & Utilities	0.0	0.1	0.0	1.7	1.2	1.2
Transport	(0.2)	0.2	(0.2)	1.1	1.1	0.9

Source: DOSM, MIDFR

PPI ticked down. Malaysia's producer cost also increased at softer pace of 0.9%yoy in Feb-20. However, input prices of manufacturing which held around 80% of the total PPI recorded lower growth of 0.8%yoy from 0.9%yoy in Jan-20. Food manufacturing cost inflation in particular continued soaring to 7%yoy, the most since July-17. It had been on an improving trend since Dec-18. This could be due to a combination two factors; ringgit depreciation and our position as net food importer. In contrast, all other main components of PPI such as mining and agriculture recorded lower producer inflation compared to previous month, contributing to lower overall PPI. 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%		
	Dec-19	Jan-20	Feb-20	Dec-19	Jan-20	Feb-20
PPI	0.8	(0.1)	(1.3)	3.5	2.8	0.9
Agri, forestry & fishing	2.6	3.8	(7.3)	21.9	18.0	9.2
Mining	2.1	(6.8)	(9.1)	19.3	9.2	(5.2)
Manufacturing	0.6	0.4	0.1	0.5	0.9	0.8
Electricity and gas	0.7	0.1	0.3	1.2	1.0	1.6
Food Product	0.0	2.6	1.8	2.8	6.1	7.0

Source: CEIC, MIDFR

Inflation starts decelerating globally. Most of the key economies' inflation moderated in Mar-20. The US headline inflation slowed to 1.5%yoy in Mar-20 from 2.3%yoy in the prior month as gasoline prices slumped by 10.2%yoy, much higher than the 5.2%yoy jump in the preceding month. Similarly, inflation of China, Thailand and Euro Area also slowed to 4.3%yoy, -0.5%yoy and 1.1%yoy respectively. Among ASEAN countries, all major economies recorded lower inflation except Indonesia. Moving forward, we foresee inflation globally to continue trending downwards driven by declining oil prices. In addition, demand-pull inflation is likely to be low due to Covid-19 outbreak which results in lockdowns in many countries.

Table 5: Global Headline Inflation (YoY%)

	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
Malaysia	1.1	1.1	0.9	1.0	1.6	1.3	(0.2)
Indonesia	3.1	2.9	2.7	2.6	2.7	3.0	3.0
Philippines	0.9	0.8	1.3	2.5	2.9	2.6	2.5
Thailand	0.3	0.1	0.2	0.9	1.1	0.7	(0.5)
Singapore	0.5	0.4	0.6	0.8	0.8	0.3	n/a
China	3.0	3.8	4.5	4.5	5.4	5.2	4.3
Japan	0.2	0.2	0.5	0.8	0.7	0.4	n/a
EU	1.1	1.0	1.3	1.6	1.7	1.6	1.1
US	1.7	1.8	2.1	2.3	2.5	2.3	1.5

Source: CEIC, MIDFR


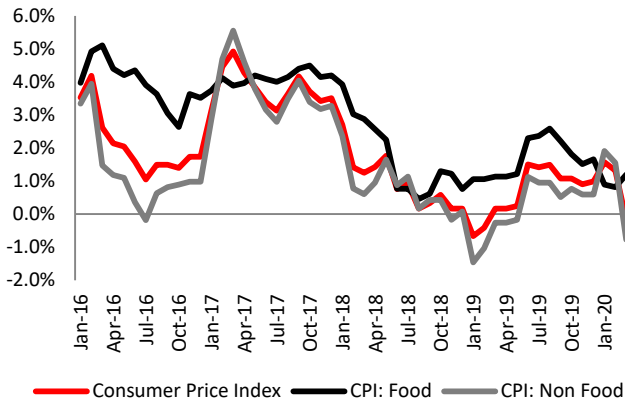
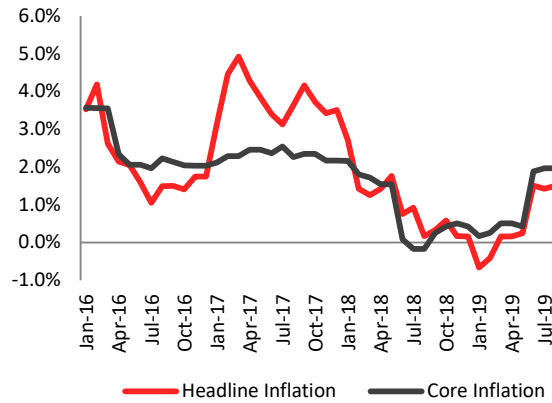
We revised inflation downward to 0.5%. The recent oil war has caused a nose-dive movement in global crude oil prices with Brent's price currently hovering below USD 30pb. In tandem, we had revised downward Brent crude oil average price forecast for 2020 to USD 41pb (2019: USD 64.3pb). At this level, we could see further reduction in RON95 prices, far below level seen in 2019. In addition, toll rates for all PLUS highways are reduced by 18% starting Feb-20. As transport is the third biggest component in overall CPI basket, we opine these to have a significant impact to overall inflation. Furthermore, 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. We foresee inflation to moderate further to 0.5%yoy (2019: 0.7%yoy). As inflation remain low and there are more downside risks to the economy including Covid-19, global trade tensions, political instability and the upcoming US presidential election. 

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



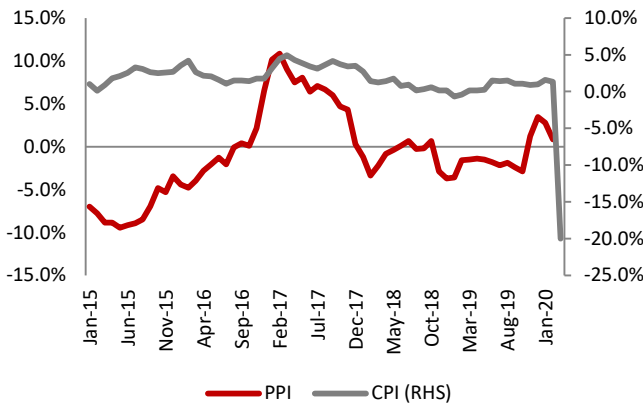
Source: CEIC, MIDFR

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



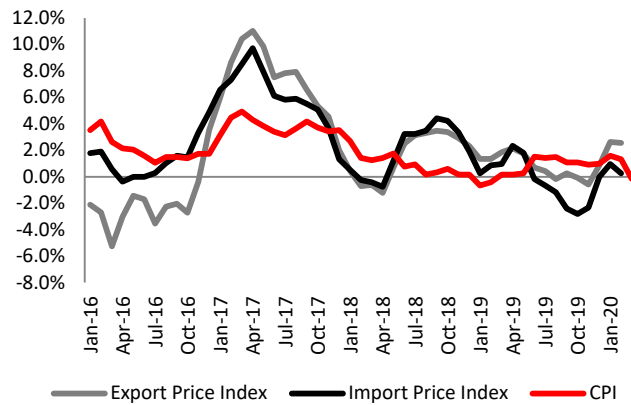
Source: CEIC, MIDFR

Chart 3: PPI vs CPI (YoY%)



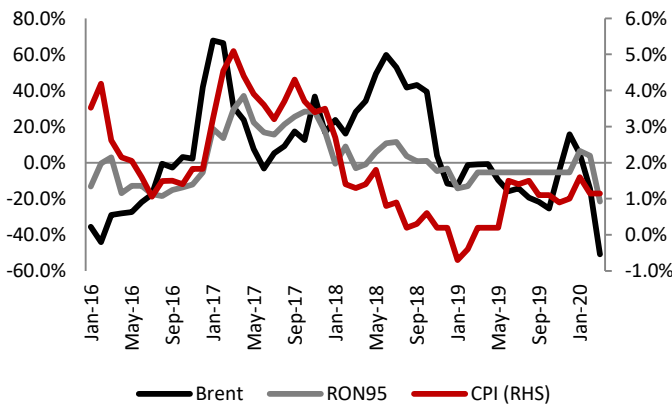
Source: CEIC, MIDFR

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



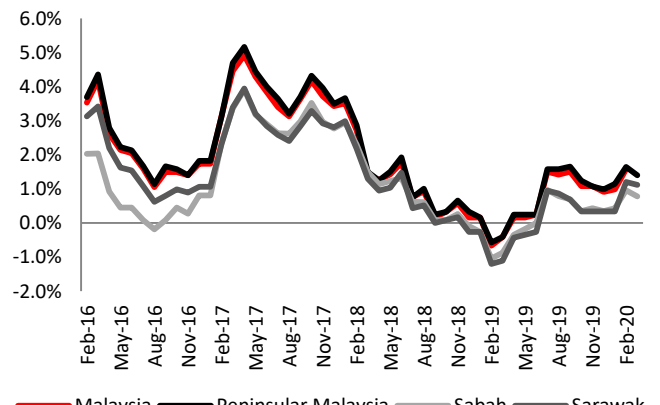
Source: CEIC, MIDFR

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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