

## ECONOMIC REVIEW | March 2019 Consumer Price Index

### CPI Turned Positive from Smaller YoY Increase in Transport Cost

- *First inflation of the year. Consumer price index increased 0.2%yoy in Mar-19 as per our forecast, rebounding from deflation recorded in the previous two months. The recovery was mainly driven by an improvement in the transport component besides continuous increase in food & non-alcoholic beverages. Transport prices continued to drop but at a softer pace of -3%yoy in Mar-19, registering five-consecutive months of negative growth. Meanwhile, core inflation edged up to 0.5%yoy.*
- *Gradual increase in food inflation. Food and non-alcoholic beverages inflation which account for 29.5% of the CPI weights increased by 1.1%yoy in Mar-19 after maintaining at 1%yoy for two consecutive months. Among others, prices for fresh seafood and fruits contributed to the increase. Besides that, prices of food away from home rose firmly by 3.4%yoy during the month.*
- *We revised down our inflation forecast to 1.1% for 2019. We foresee headline inflation rate to average at 1.1% this year from 2.2% we initially forecasted due to lower cap of domestic Ron95 fuel prices at RM2.08. Furthermore, we believe government is unlikely to remove the cap in the nearest time as the proper subsidy mechanism limiting it to the recipients of the Bantuan Sara Hidup (BSH) have yet comes to effect.*

**First inflation of the year.** Consumer price index increased 0.2%yoy in Mar-19 as per our forecast, rebounding from deflation recorded in the previous two months. The recovery was mainly driven by an improvement in the transport component besides continuous increase in food & non-alcoholic beverages. Transport prices continued to drop but at a softer pace of -3%yoy in Mar-19, registering five-consecutive months of negative growth. Meanwhile, core inflation edged up to 0.5%yoy. Looking ahead, Malaysia's consumer inflation is likely to stay low following the lower capped prices of RON95 and Diesel at RM2.08 and RM2.18 per litre respectively. Nevertheless, demand-push factor remains firm amid stable job market and steady wage growth.

**Gradual increase in food inflation.** Food and non-alcoholic beverages inflation which account for 29.5% of the CPI weights increased by 1.1%yoy in Mar-19 after maintaining at 1%yoy for two consecutive months. Among others, prices for fresh seafood and fruits contributed to the increase. Besides that, prices of food away from home rose firmly by 3.4%yoy during the month. Going forward, we expect food component to be the key driver of overall inflation in 2019 driven by low-base effects on top of continued spill over effects from the SST. In addition, being a net importer of food, Malaysia is also exposed to imported inflation due to Ringgit depreciation hence initiating food inflation to stay at the high-side.

**Fuel-related items posted double digit deflation.** The average price of Brent crude oil went up to \$66.7pb in Mar-19 from \$64.6pb in the previous month however contracted by -1%yoy. The oil price improved on trade talk hopes and OPEC supply cuts. Domestically, retail fuel prices for RON95 recorded negative growth of -5.4%yoy while those of RON97 rebounded to a positive growth of 6.5% during the month. In tandem, prices of fuels & lubricants contracted by a single digit of -4.8%yoy in Mar-19 compared to a double digit negative growth in the preceding month. Looking ahead, average Brent oil price for the first three weeks of Apr-19 registered higher at \$71.3 amid removal of waivers for Iranian crude purchases.

**Table 1: Consumer Price Indices**

Indices	MoM%			YoY%		
	Jan-19	Feb-19	Mar-19	Jan-19	Feb-19	Mar-19
CPI	(0.5)	0.2	0.2	(0.7)	(0.4)	0.2
Non Food	(1.2)	0.3	0.5	(1.5)	(1.0)	(0.3)
Food and Non Alcoholic Beverages	0.9	0.2	(0.5)	1.0	1.0	1.1
Alcoholic Beverages and Tobacco	0.0	(0.1)	0.1	1.1	1.1	1.1
Clothing and Footwear	0.1	(0.1)	0.1	(3.3)	(3.2)	(3.0)
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.5	0.0	2.0	2.0	2.0
Furnishings, Household Equipment and Maintenance	0.2	0.3	0.3	(0.3)	0.1	0.3
Health	0.2	0.2	0.2	(0.5)	(0.4)	(0.2)
Transport	(5.5)	0.5	2.6	(7.8)	(6.8)	(3.0)
Communication	0.0	0.0	0.0	(1.2)	(1.2)	(1.1)
Recreation and Culture	(0.1)	0.2	(0.1)	(0.4)	(0.4)	(0.4)
Education	0.4	0.4	0.1	0.9	1.3	1.3
Restaurants and Hotels	0.0	0.2	0.0	1.2	1.3	1.0
Miscellaneous Goods and Services	0.4	(0.1)	0.4	(2.4)	(2.2)	(2.0)
Durable Goods	0.3	0.1	0.1	(3.4)	(3.2)	(3.1)
Semi Durable Goods	0.1	(0.1)	0.0	(3.3)	(3.2)	(3.2)
Non-Durable Goods	(1.5)	0.2	0.6	(3.0)	(2.6)	(1.2)
Services	0.2	0.3	0.1	1.8	1.8	1.8
Core CPI	(0.1)	0.3	0.3	0.2	0.3	0.5

Source: CEIC, MIDFR

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

Sub-Indices	MoM%			YoY%		
	Jan-19	Feb-19	Mar-19	Jan-19	Feb-19	Mar-19
Rice	0.0	0.1	0.0	0.7	0.7	0.5
Fresh Meat	2.6	(1.1)	(4.0)	3.7	3.1	(1.5)
Fresh Seafood	2.7	1.3	(1.2)	1.6	0.7	1.8
Oils & Fats	(0.2)	0.1	(0.1)	(1.0)	(0.8)	(1.0)
Fresh Fruits	1.5	0.2	(0.9)	2.7	1.1	0.6
Fresh Vegetables	(0.5)	0.3	(1.1)	(9.3)	(7.4)	(2.2)
Food Away From Home	0.9	0.3	0.1	3.3	3.4	3.4
Cigarettes	0.0	0.0	0.0	2.5	2.5	2.5
Electricity	0.0	0.0	0.0	1.0	1.0	1.0
Pharmaceutical Products	0.2	0.2	0.2	(1.5)	(1.2)	(1.1)
Fuels & Lubricants for Transportation	(9.6)	0.6	4.7	(12.6)	(11.4)	(4.8)
Transportation Repair & Maintenance	0.3	0.3	0.2	1.3	1.4	1.4
Other Transportation Charges (Including Toll)	0.0	0.0	0.0	2.5	2.5	(1.5)
Expenses In Restaurants & Cafes	0.2	0.1	0.1	1.7	1.7	1.7
Insurance For Motor Vehicles	0.1	0.0	0.0	(1.7)	(1.9)	(1.9)

Source: CEIC, MIDFR

**Peninsular Malaysia back to inflation.** Peninsular Malaysia recorded price increases in Mar-19 after experiencing deflation for two months. However, only four states/territories namely Selangor & Putrajaya, KL, Penang and Negeri Sembilan recorded inflation above national rate. The remaining states/territories had inflation below the national average or are still in deflation including Sabah & Sarawak. Nevertheless, prices of food & non-alcoholic beverages remain on expansionary pace for all states except Sabah. Moving forward, we view inflationary pressure for all states to stay at accommodative environment throughout 2019.

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

	MoM%			YoY%		
	Jan-19	Feb-19	Mar-19	Jan-19	Feb-19	Mar-19
<b>Peninsular Malaysia;</b>	(0.4)	0.2	0.2	(0.6)	(0.4)	0.2
Food & Non-Alcoholic Beverages	0.9	0.2	(0.6)	1.1	1.2	1.2
Utilities	0.0	0.5	0.0	2.2	2.1	2.1
Transport	(5.4)	0.5	2.6	(7.6)	(6.7)	(3.0)
<b>Sabah;</b>	(0.4)	0.1	0.3	(1.0)	(0.9)	(0.3)
Food & Non-Alcoholic Beverages	0.7	0.0	0.0	(0.5)	(0.4)	(0.4)
Utilities	0.0	0.2	0.0	1.6	1.6	1.6
Transport	(5.3)	0.6	2.5	(7.9)	(6.6)	(2.7)
<b>Sarawak;</b>	(0.8)	0.2	0.5	(1.2)	(1.1)	(0.4)
Food & Non-Alcoholic Beverages	0.3	0.2	0.2	0.6	0.6	0.6
Utilities	0.0	0.2	0.0	0.8	0.8	0.8
Transport	(6.7)	0.5	3.1	(9.2)	(8.0)	(3.4)

Source: DOSM, MIDFR

**Inflation is on the rise.** Headline inflation rate for most of the key economies rose in Mar-19 as Brent crude oil price increased gradually. The US's headline CPI jumped to 3-month-high of 1.9% from 1.5% in the previous month as energy deflation eased. Nevertheless, core CPI inched down to 2% while core PCE inflation stays near the inflation target of 2%. Similarly, other major economies such as China and Japan experienced upward inflation trend. Meanwhile, it has been a mixed trend for ASEAN economies. For instance, Philippines' inflation rate cooled further to 3.3% in Mar-19 as lower prices of agricultural products offset upside pressures from oil prices. In overall, we opine that inflation rate will continue trending upwards as we foresee global demand to improve gradually and commodity prices to pick up steadily in upcoming months.

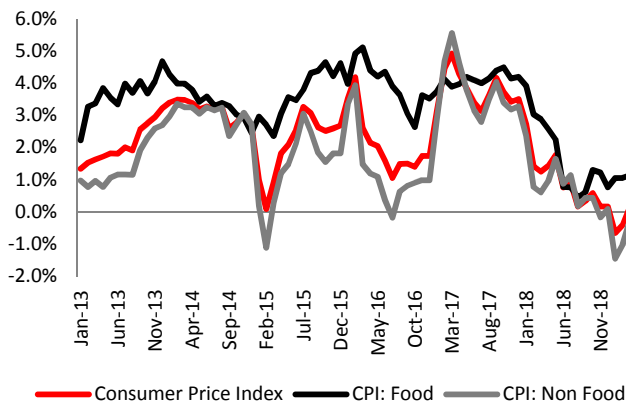
**Table 4: Global Headline Inflation (YoY%)**

	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
Malaysia	0.3	0.6	0.2	0.2	-0.7	-0.4	0.5
Indonesia	2.9	3.2	3.2	3.1	2.8	2.6	2.5
Philippines	6.7	6.7	6.0	5.1	4.4	3.8	3.3
Thailand	1.3	1.2	0.9	0.4	0.3	0.7	1.2
Singapore	0.7	0.7	0.3	0.5	0.4	0.5	
China	2.5	2.5	2.2	1.9	1.7	1.5	2.3
Japan	1.2	1.4	0.8	0.3	0.2	0.2	0.5
EU	2.2	2.3	2.0	1.6	1.5	1.6	1.6
US	2.3	2.5	2.2	1.9	1.6	1.5	1.9

Source: CEIC, MIDFR

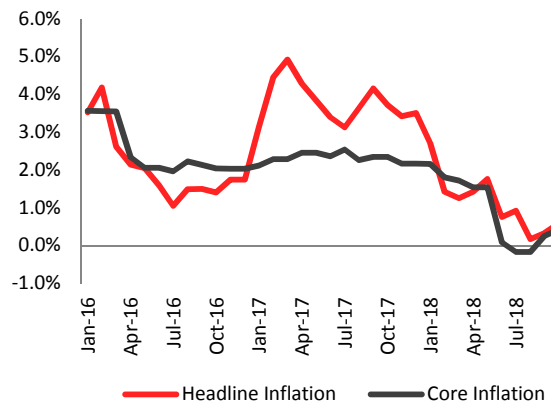
**We revised down our inflation forecast to 1.1% for 2019.** We foresee headline inflation rate to average at 1.1% this year from 2.2% we initially forecasted due to lower cap of domestic Ron95 fuel prices at RM2.08. Furthermore, we believe government is unlikely to remove the cap in the nearest time as the proper subsidy mechanism limiting it to the recipients of the Bantuan Sara Hidup (BSH) have yet comes to effect. We anticipate inflationary pressure mainly from fuel-related items to remain weak despite higher expectation of Brent crude oil price at \$75pb for 2019 (2018: \$72pb). Nevertheless, we expect food component to provide upside pressures for overall inflation in 2019 driven by low-base effects, spill over effects from the SST and imported inflation as Malaysia is net importer of food. Meanwhile, core inflation rate is expected to remain steady in 2019, hovering around 2018's level of 1.0%yoy. As we expect core inflation rate and other major macroeconomic indicators to remain stable and that low headline figures are not broad-based or demand-driven, we opine that a change in monetary stance is not required at this juncture. This is to ensure that there would be no adverse impact that could affect the trajectory of Malaysia's domestic growth.

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



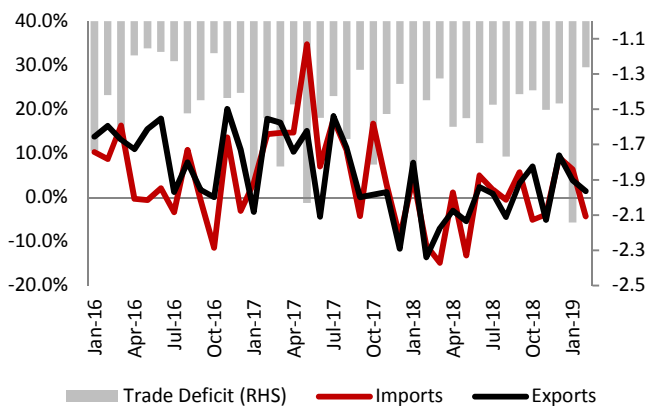
Source: CEIC, MIDFR

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



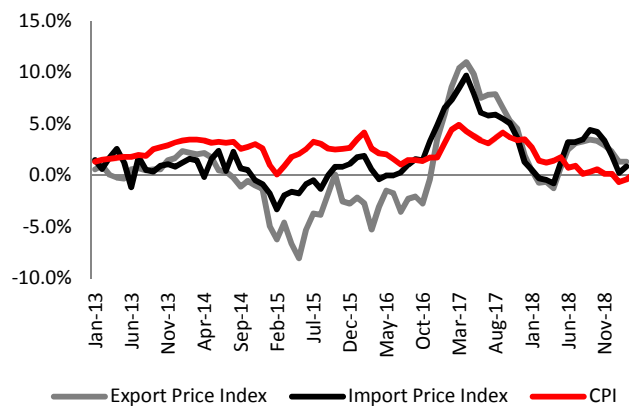
Source: CEIC, MIDFR

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



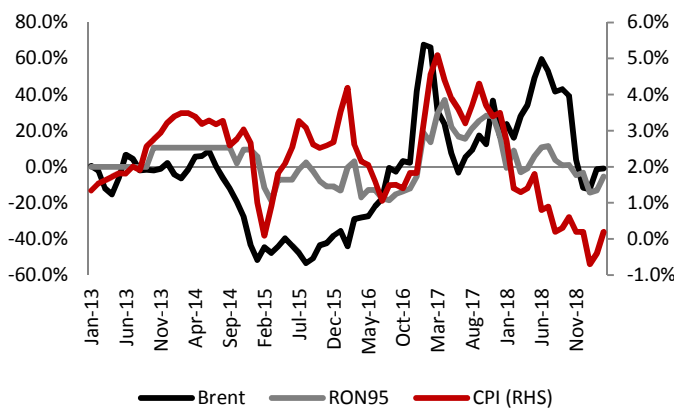
Source: CEIC, MIDFR

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



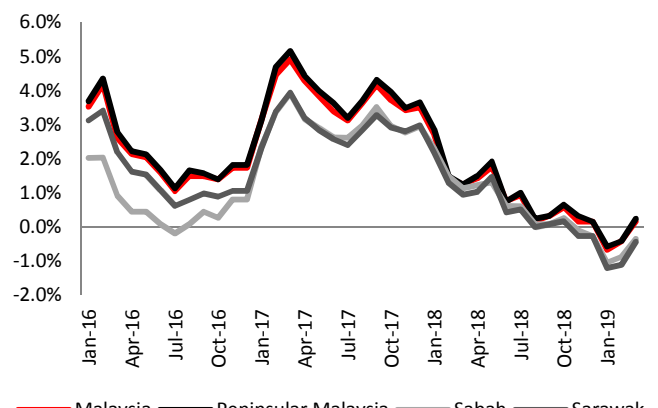
Source: CEIC, MIDFR

**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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