

ECONOMIC REVIEW | May 2020 Consumer Price Index

Inflation to Remain Benign in Upcoming Months despite Gradual Recovery in Global Oil Prices

- *CPI rate maintained at record low. Malaysia's consumer price recorded a deflation of -2.9%yoy in May-20 which was unchanged from the previous month. The all-time low rate was mainly due to declining prices of housing & utilities by -2.6%yoy (Apr-20: -2.2%yoy) and transport by -20.8%yoy (Apr-20: -21.5%yoy). Prices of electricity in particular continued dropping by -33.3%yoy, attributed to electricity rebates under government's stimulus package and likely to post similar declines until Sep-20.*
- *F&B inflation maintained above 1%. Food and non-alcoholic beverages continued to record price increases as demand for essential items went up during this health crisis. The increase was mainly in prices of rice, fresh meat, fruits and vegetables. In addition, prices of fresh seafood fell at softer pace of -1.5%yoy (Apr-20: -2%yoy).*
- *We forecast deflation in CPI at 0.5%. Prices of utilities particularly electricity will continue to decline following the rebates under government stimulus package for six months effective from Apr-20. In addition, high volatility in global crude oil prices which skewed towards the low-side will influence fuel related components. As housing & utilities and transport are the biggest component in overall CPI basket after F&B, we opine these to have a significant impact to overall inflation.*

CPI rate maintained at record low. Malaysia's consumer price recorded a deflation of -2.9%yoy in May-20 which was unchanged from the previous month. The all-time low rate was mainly due to declining prices of housing & utilities by -2.6%yoy (Apr-20: -2.2%yoy) and transport by -20.8%yoy (Apr-20: -21.5%yoy). Prices of electricity in particular continued dropping by -33.3%yoy, attributed to electricity rebates under government's stimulus package and likely to post similar declines until Sep-20. On the other hand, inflation of food & non-alcoholic beverages, the biggest component of CPI remained at +1.2%yoy for the third consecutive months. Meanwhile, core inflation edged down to +1.1%yoy. On monthly basis however CPI increased marginally by 0.3%mom, mainly due to improving global oil prices as reflected in the rebound of transport prices (1%mom vs -13.5%mom in Apr-20).

F&B inflation maintained above 1%. Food and non-alcoholic beverages continued to record price increases as demand for essential items went up during this health crisis. The increase was mainly in prices of rice, fresh meat, fruits and vegetables. In addition, prices of fresh seafood fell at softer pace of -1.5%yoy (Apr-20: -2%yoy). Meanwhile, inflation of food away from home ticked up to 1.6%yoy from 1.5%yoy in Apr-20 and is anticipated to continue trending upward amid the easing restrictions.

Fuel-related items posted lower deflation. The average price of Brent crude oil contracted but at softer pace of -53.8%yoy in May-20 (Apr-20: -59.8%yoy). Prices improved on the back of production cut deal by oil producers and demand hopes as more countries have started lifting their movement restrictions. Domestically, retail fuel prices for RON95 also recorded lower negative growth of -36.3%yoy (Apr-20: -39.3%yoy). In line, the prices of fuels & lubricants fell by -37%yoy (Apr-20: -38.2%yoy). The trend is likely to continue in the near term due to OPEC & Russia's commitment in extending oil production cuts and certain oil producers to meet previous production-cut shortfalls on top of more businesses resuming worldwide, supportive to demand. In line, Brent oil price for the first three weeks of June-20 contracted -36.1%yoy but the decline rate improved from May's.

Table 1: Consumer Price Indices

Indices	MoM%			YoY%		
	Mar-20	Apr-20	May-20	Mar-20	Apr-20	May-20
CPI	(1.2)	(2.7)	0.3	(0.2)	(2.9)	(2.9)
Non Food	(1.8)	(4.0)	0.2	(0.8)	(4.8)	(4.9)
Food and Non Alcoholic Beverages	(0.1)	(0.1)	0.3	1.2	1.2	1.2
Alcoholic Beverages and Tobacco	0.1	0.0	0.1	0.3	0.2	0.2
Clothing and Footwear	(0.1)	0.0	0.0	(1.3)	(1.2)	(1.1)
Housing, Water, Electricity, Gas & Other Fuels	0.0	(3.8)	(0.1)	1.6	(2.2)	(2.6)
Furnishings, Household Equipment and Maintenance	0.0	(0.4)	(0.2)	0.8	0.3	(0.2)
Health	0.3	0.0	0.0	1.4	1.2	1.2
Transport	(8.7)	(13.5)	1.0	(8.9)	(21.5)	(20.8)
Communication	0.0	0.0	0.0	1.5	1.6	1.6
Recreation and Culture	(0.1)	0.0	0.0	0.7	0.6	0.7
Education	0.0	(0.1)	(0.1)	1.3	1.2	1.0
Restaurants and Hotels	(0.2)	0.0	0.1	0.9	0.7	0.9
Miscellaneous Goods and Services	0.4	(0.2)	0.5	2.6	2.3	2.8
Durable Goods	0.5	0.5	0.3	2.1	2.5	0.0
Semi Durable Goods	0.0	0.0	0.0	(0.9)	(0.9)	0.0
Non-Durable Goods	(3.2)	(7.2)	0.5	(2.6)	(9.5)	0.0
Services	0.1	(0.1)	0.0	1.5	1.4	0.0
Core CPI	0.2	0.1	(0.1)	1.3	1.3	1.1

Source: CEIC, MIDFR

Table 2: Changes in Selected Price Sub-Indices

Sub-Indices	MoM%			YoY%		
	Mar-20	Apr-20	May-20	Mar-20	Apr-20	May-20
Rice	0.0	2.6	(0.7)	0.1	2.7	2.0
Fresh Meat	1.1	(1.9)	1.7	0.9	3.1	3.1
Fresh Seafood	0.2	(0.1)	0.8	1.1	(2.0)	(1.5)
Oils & Fats	1.7	(1.2)	0.0	1.9	0.9	1.1
Fresh Fruits	(0.5)	(0.2)	0.4	0.1	(0.2)	0.4
Fresh Vegetables	(2.0)	(0.1)	1.3	6.2	3.1	3.1
Food Away From Home	0.1	0.0	0.1	1.6	1.5	1.6
Cigarettes	0.0	0.0	0.0	0.0	0.0	0.0
Electricity	0.0	(33.3)	0.0	0.0	(33.3)	(33.3)
Pharmaceutical Products	0.2	0.0	0.0	0.9	0.7	0.8
Fuels & Lubricants for Transportation	(15.4)	(25.9)	2.1	(16.1)	(38.2)	(37.0)
Transportation Repair & Maintenance	0.5	(0.1)	0.1	3.2	2.6	2.7
Other Transportation Charges (Including Toll)	0.0	0.0	0.0	0.0	0.0	0.0
Expenses In Restaurants & Cafes	0.0	0.0	0.1	1.2	1.1	1.2
Insurance For Motor Vehicles	0.0	0.0	0.0	0.0	0.0	(0.1)

Source: CEIC, MIDFR

Sarawak recorded the highest deflation. All the states/territories recorded deflation with Sarawak chalked the highest at -3.8%yoy, followed by Kelantan, Kedah & Perlis at -3.7%yoy. Meanwhile, Kuala Lumpur (KL) recorded the lowest fall at -1.9%yoy followed by Selangor & Putrajaya at -2.2%yoy. However, KL is among the states/ federal territory which recorded lowest increase in F&B prices at below 1%yoy along with Kelantan, Sabah & Labuan, Sarawak, Kedah, Perlis and Melaka.

Table 3: States Headline Inflation (YoY%)

	MoM%			YoY%		
	Mar-20	Apr-20	May-20	Mar-20	Apr-20	May-20
Peninsular Malaysia;	(1.2)	(2.6)	0.2	(0.1)	(2.7)	(2.8)
Food & Non-Alcoholic Beverages	(0.1)	(0.1)	0.4	1.3	1.3	1.4
Housing & Utilities	0.0	(3.8)	(0.1)	1.8	(2.2)	(2.6)
Transport	(8.5)	(13.1)	1.0	(8.7)	(21.0)	(20.3)
Sabah;	(1.3)	(2.9)	0.2	(0.9)	(3.7)	(3.6)
Food & Non-Alcoholic Beverages	(0.4)	(0.5)	0.2	0.3	0.1	0.4
Housing & Utilities	0.0	(3.4)	0.0	0.5	(3.0)	(3.1)
Transport	(8.9)	(14.2)	0.7	(9.4)	(22.6)	(22.2)
Sarawak;	(1.4)	(2.9)	0.2	(0.9)	(3.8)	(3.8)
Food & Non-Alcoholic Beverages	0.0	(0.2)	0.0	0.6	0.5	0.4
Housing & Utilities	0.0	(3.5)	0.0	1.0	(2.5)	(2.6)
Transport	(10.9)	(17.7)	1.0	(11.4)	(27.3)	(26.7)

Source: DOSM, MIDFR

Downward trend in PPI. Malaysia's producer price index declined further to -5.1%yoy in Apr-20 from -1.9%yoy in Mar-20, the lowest since Nov-15. The input prices of manufacturing which held around 80% of the total PPI recorded tepid increase of 0.1%yoy in Apr-20 from 0.6%yoy in Mar-20 mainly dragged down by prices of manufacturing of food products which increased at a softer pace of 4.4%yoy (Mar-20: 6.1%yoy), coke & refined petroleum products which fell further to -5.4%yoy (Mar-20: -3%yoy) and chemical products by -4.2%yoy (Mar-20: -3.6%yoy). Similarly, cost inflation of agriculture, forestry & fishing moderated to 8.7%yoy (Mar-20: 13.4%yoy) while mining PPI recorded higher producer deflation at -58.3%yoy (Mar-20: -35.8%yoy), contributing to lower overall PPI. In contrast, electricity and gas recorded a price growth of 0.2%yoy in Apr-20 from -0.3%yoy in Mar-20. As a leading indicator of price changes at the consumer level, the latest PPI number suggests that Malaysia's inflationary pressure will remain low throughout 2020.

Table 4: Producer Price Indices by Selected Sector

	MoM%			YoY%		
	Feb-20	Mar-20	Apr-20	Feb-20	Mar-20	Apr-20
PPI	(1.3)	(3.0)	(2.7)	0.9	(1.9)	(5.1)
Agri, forestry & fishing	(7.3)	(2.1)	(3.2)	9.2	13.4	8.7
Mining	(9.1)	(31.9)	(30.6)	(5.2)	(35.8)	(58.3)
Manufacturing	0.1	(0.2)	(0.7)	0.8	0.6	0.1
Electricity and gas	0.3	0.2	(0.3)	1.6	(0.3)	0.2
Food Product	1.8	(1.0)	(2.0)	7.0	6.1	4.4

Source: CEIC, MIDFR

Inflation decreased further globally. Most of the key economies recorded moderated inflation in May-20 with some recorded deflation. The US headline inflation slowed further to 0.1%yoy from 0.3%yoy in the prior month. Similarly, inflation of China and Euro Area also slowed to 2.4%yoy and 0.5%yoy respectively. Among ASEAN countries, all major economies recorded lower inflation with Thailand and Singapore registered deflation of 3.4%yoy and 0.8%yoy respectively. Moving forward, we foresee inflation globally to remain benign and may start to increase gradually in 2H20 with more countries easing restrictions on top of 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%)

	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20
Malaysia	0.9	1.0	1.6	1.3	-0.2	-2.9	-2.9
Indonesia	2.7	2.6	2.7	3.0	3.0	2.7	2.2
Philippines	1.3	2.5	2.9	2.6	2.5	2.2	2.1
Thailand	0.2	0.9	1.1	0.7	-0.5	-3.0	-3.4
Singapore	0.6	0.8	0.8	0.3	0.0	-0.7	-0.8
China	4.5	4.5	5.4	5.2	4.3	3.3	2.4
Japan	0.5	0.8	0.7	0.4	0.4	0.1	0.1
EU	1.3	1.6	1.7	1.6	1.1	0.6	0.5
US	2.1	2.3	2.5	2.3	1.5	0.3	0.1

Source: CEIC, MIDFR


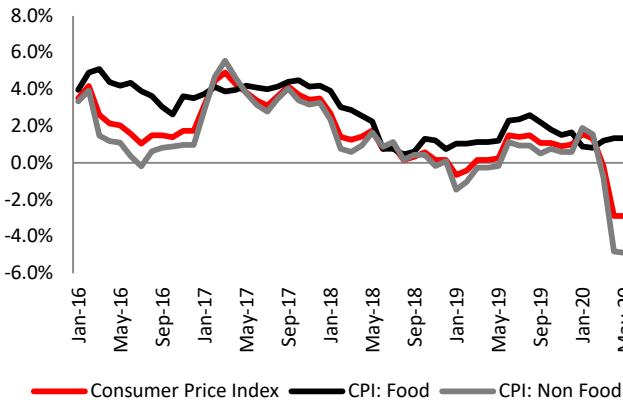
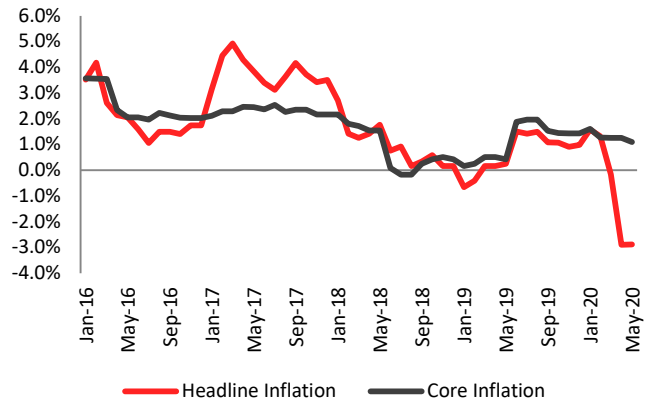
We forecast deflation in CPI at 0.5%. Prices of utilities particularly electricity will continue to decline following the rebates under government stimulus package for six months effective from Apr-20. In addition, high volatility in global crude oil prices which skewed towards the low-side will influence fuel related components. As housing & utilities and transport are the biggest component in overall CPI basket after F&B, we opine these to have a significant impact to overall inflation. On the other hand, consumers are trending away from discretionary to necessity, avoiding most purchases of non-food items such as clothing and furniture. This trend is likely to continue for substantial period of time as concerns over future personal finances persist. Besides that, 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. Hence, we foresee inflation to average at -0.5%yoy (2019: 0.7%yoy). As inflationary pressure remains low and there are more downside risks to the economy including Covid-19, global trade tensions, political instability and the US presidential election on top of Fed's policy rate at 0.25%, BNM could undertake another 25bps cut in OPR for this year. 

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



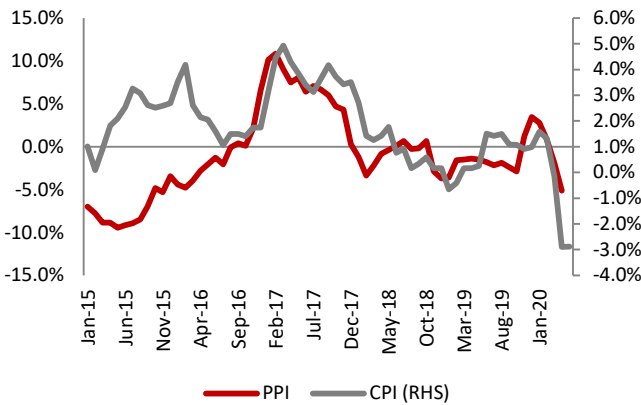
Source: CEIC, MIDFR

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



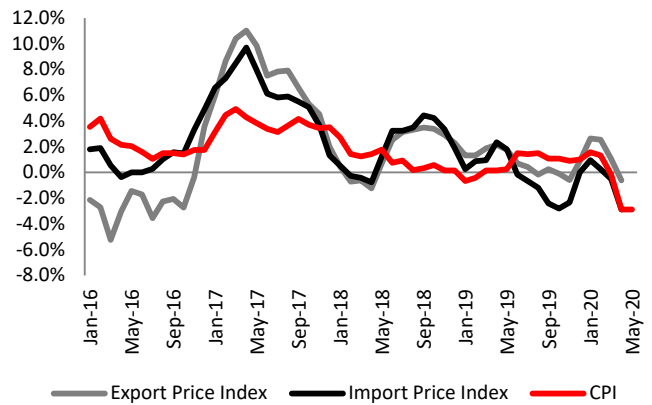
Source: CEIC, MIDFR

Chart 3: PPI vs CPI (YoY%)



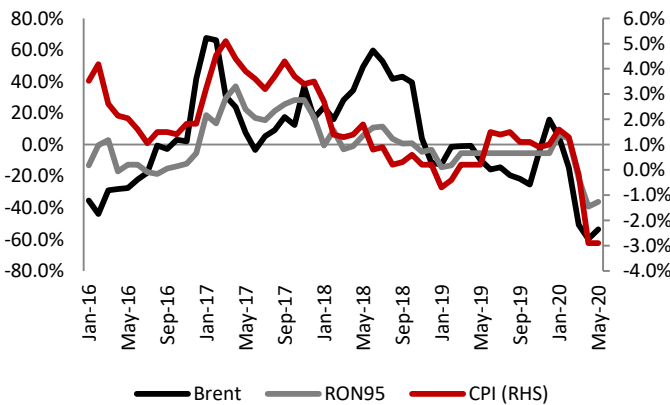
Source: CEIC, MIDFR

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



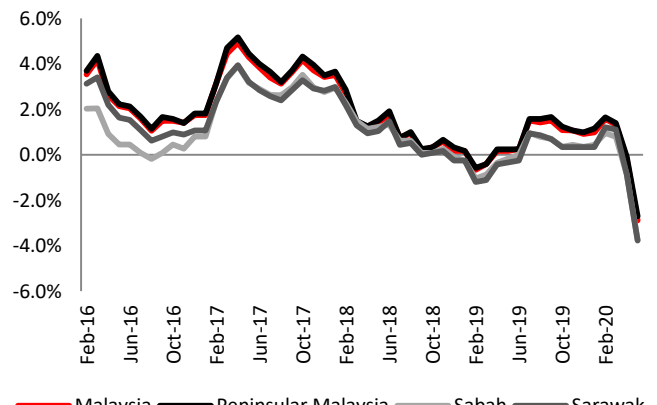
Source: CEIC, MIDFR

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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