

ECONOMIC REVIEW | May 2019 Consumer Price Index

Inflation Remains Subdued amid Marginal Increase in Food Prices

- *Muted inflationary pressure. Headline inflation maintains at 0.2%yoy for the third consecutive month in May-19. The trivial upward pressures continue to come from both food and housing & utilities prices. In contrast, transport prices continued to drop but at a slightly slower pace of -2.5%yoy (Apr-19: -2.6%yoy). Meanwhile, core inflation edged down to 0.4%yoy.*
- *Fuel-related items are still in deflation. The average price of Brent crude oil contracted by -9.6%yoy to USD 69.4pb in May-19 (Apr-19: USD 71.5pb). The oil price worsened on the US - China impasse 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 second consecutive month and will continue at that pace throughout the year if the prices remain capped at RM2.08. In tandem, prices of fuels & lubricants contracted by -4.1%yoy.*
- *We foresee headline inflation rate to average at 0.6%yoy this year, lower than 1%yoy in 2018. Even with the removal of RON95 price cap, the prices are expected to be on the low side in line with declining global crude oil prices which are affected by the ballooning trade tensions, among others. 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).*

Muted inflationary pressure. Headline inflation maintains at 0.2%yoy for the third consecutive month in May-19. The trivial upward pressures continue to come from both food and housing & utilities prices. In contrast, transport prices continued to drop but at a slightly slower pace of -2.5%yoy (Apr-19: -2.6%yoy). Meanwhile, core inflation edged down to 0.4%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-pull factor remains firm amid stable job market and steady wage growth.

Food prices on the rise. Food and non-alcoholic beverages inflation which account for 29.5% of the CPI weights inched up to 1.2%yoy in May-19 in line with our expectations following higher demand for Ramadhan and Hari Raya. Prices of fresh item such as seafood, fruits and vegetables contributed to the increases. Meanwhile, prices of fresh meat declined at a softer pace of -4%yoy (Apr-19: -4.7%yoy). Looking ahead into June-19, we expect food prices particularly fresh items to increase at a slightly faster pace in conjunction with Hari Raya celebrations.

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Table 1: Consumer Price Indices

Indices	MoM%			YoY%		
	Mar-19	Apr-19	May-19	Mar-19	Apr-19	May-19
CPI	0.2	0.0	0.2	0.2	0.2	0.2
Non Food	0.5	0.1	0.3	(0.3)	(0.3)	(0.2)
Food and Non Alcoholic Beverages	(0.5)	(0.2)	0.3	1.1	1.1	1.2
Alcoholic Beverages and Tobacco	0.1	0.1	0.1	1.1	1.2	1.3
Clothing and Footwear	0.1	(0.1)	(0.1)	(3.0)	(3.2)	(3.2)
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	0.3	2.0	2.0	1.8
Furnishings, Household Equipment and Maintenance	0.3	0.0	0.3	0.3	0.2	0.5
Health	0.2	0.2	0.0	(0.2)	(0.3)	(0.3)
Transport	2.6	0.4	0.2	(3.0)	(2.6)	(2.5)
Communication	0.0	(0.1)	0.0	(1.1)	(1.1)	(0.9)
Recreation and Culture	(0.1)	0.1	(0.1)	(0.4)	(0.4)	(0.4)
Education	0.1	0.0	0.1	1.3	1.2	1.2
Restaurants and Hotels	0.0	0.2	(0.2)	1.0	0.8	0.6
Miscellaneous Goods and Services	0.4	0.1	0.0	(2.0)	(2.0)	(2.1)
Durable Goods	0.1	0.1	(0.1)	(3.1)	(2.9)	(2.8)
Semi Durable Goods	0.0	0.0	(0.2)	(3.2)	(3.3)	(3.4)
Non-Durable Goods	0.6	(0.1)	0.2	(1.2)	(1.0)	(0.9)
Services	0.1	0.1	0.2	1.8	1.8	1.6
Core CPI	0.3	0.1	0.1	0.5	0.5	0.4

Source: CEIC, MIDFR

Table 2: Changes in Selected Price Sub-Indices

Sub-Indices	MoM%			YoY%		
	Mar-19	Apr-19	May-19	Mar-19	Apr-19	May-19
Rice	0.0	0.0	0.0	0.5	0.2	0.3
Fresh Meat	(4.0)	(4.0)	1.7	(1.5)	(4.7)	(4.0)
Fresh Seafood	(1.2)	(0.6)	0.5	1.8	1.9	1.9
Oils & Fats	(0.1)	(0.3)	(0.3)	(1.0)	(1.2)	(1.3)
Fresh Fruits	(0.9)	0.1	(0.2)	0.6	1.0	1.0
Fresh Vegetables	(1.1)	2.3	2.8	(2.2)	2.8	5.6
Food Away From Home	0.1	0.1	0.1	3.4	3.1	2.9
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	(0.1)	(1.1)	(1.2)	(1.2)
Fuels & Lubricants for Transportation	4.7	0.6	0.1	(4.8)	(4.2)	(4.1)
Transportation Repair & Maintenance	0.2	0.5	0.1	1.4	1.8	1.3
Other Transportation Charges (Including Toll)	0.0	0.0	0.0	(1.5)	(1.5)	(1.5)
Expenses In Restaurants & Cafes	0.1	0.1	0.0	1.7	1.4	1.1
Insurance For Motor Vehicles	0.0	0.0	0.1	(1.9)	(1.9)	(1.8)

Source: CEIC, MIDFR

Penang has the highest inflation. Most of the states in peninsular Malaysia recorded inflation with Penang chalked the highest rate at 0.7%yoy. In contrast, Melaka recorded the highest deflation of -0.5%yoy followed by Kedah, Perlis and Terengganu (-0.3%yoy). Similarly, Sarawak remains in deflation while Sabah improved to neutral from deflation previously. Nevertheless, prices of food & non-alcoholic beverages remain on expansionary pace for all states. Kuala Lumpur recorded the highest inflation of food & non-alcoholic beverages at 2.8%yoy, far above the rest as the second highest rate is 1.8%yoy which is in Johor. Moving forward, we view inflationary pressure for all states to stay at accommodative environment throughout 2019.

Table 3: States Headline Inflation (YoY%)

	MoM%			YoY%		
	Mar-19	Apr-19	May-19	Mar-19	Apr-19	May-19
Peninsular Malaysia;	0.2	0.0	0.2	0.2	0.2	0.2
Food & Non-Alcoholic Beverages	(0.6)	(0.1)	0.3	1.2	1.2	1.3
Utilities	0.0	0.1	0.3	2.1	2.2	1.9
Transport	2.6	0.4	0.1	(3.0)	(2.6)	(2.5)
Sabah;	0.3	0.0	0.1	(0.3)	(0.2)	0.0
Food & Non-Alcoholic Beverages	0.0	(0.2)	(0.2)	(0.4)	(0.2)	0.1
Utilities	0.0	0.0	0.1	1.6	1.6	1.5
Transport	2.5	0.4	0.1	(2.7)	(2.4)	(2.3)
Sarawak;	0.5	0.0	0.2	(0.4)	(0.3)	(0.3)
Food & Non-Alcoholic Beverages	0.2	0.0	0.1	0.6	0.7	0.8
Utilities	0.0	0.0	0.1	0.8	0.8	0.6
Transport	3.1	0.3	0.2	(3.4)	(3.1)	(2.9)

Source: DOSM, MIDFR

Mixed trend of inflation. It has been a mixed trend of inflation for the key economies in May-19. Headline inflation rate for the US softened to 1.8%yoy. Core CPI maintains above 2% level for 15 consecutive months since Feb-18. Based on the Fed's preferred inflation indicator, core PCE inflation hovers below the target line of 2% for the first four months of 2019. Latest in Apr-19, the rate is 1.6% hence increasing expectations for a rate cut for this year. Similarly, Japan inflation edged down to 0.7%yoy, keeping the central bank under pressure to ramp up stimulus. In contrast, inflationary pressure heightened for China as prices increased the most since Feb-18 mainly due to pork prices being persistently high following an outbreak of African swine fever. Similarly, few ASEAN countries including Philippines recorded faster increase in prices. 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%)

	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19
Malaysia	0.2	0.2	-0.7	-0.4	0.2	0.2	0.2
Indonesia	3.2	3.1	2.8	2.6	2.5	2.8	3.3
Philippines	6.0	5.1	4.4	3.8	3.3	3.0	3.2
Thailand	0.9	0.4	0.3	0.7	1.2	1.2	1.1
Singapore	0.3	0.5	0.4	0.5	0.6	0.8	
China	2.2	1.9	1.7	1.5	2.3	2.5	2.7
Japan	0.8	0.3	0.2	0.2	0.5	0.9	0.7
EU	2.0	1.6	1.5	1.6	1.6	1.9	1.6
US	2.2	1.9	1.6	1.5	1.9	2.0	1.8

Source: CEIC, MIDFR


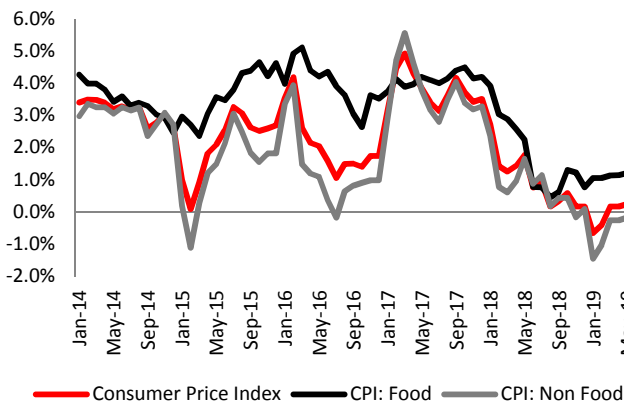
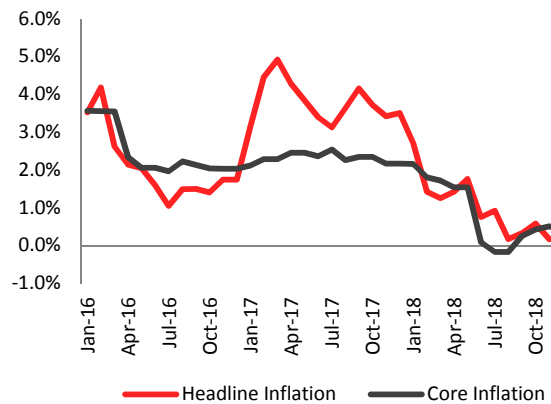
We foresee inflation rate to average at 0.6% in 2019. We foresee headline inflation rate to average at 0.6%yoy this year, lower than 1%yoy in 2018. Initially, food inflation was expected to provide upside pressures to the overall inflation due to the spillover effects from the SST and imported inflation as Malaysia is a net importer of food. In addition, transport inflation was anticipated to recover significantly in the 2H19 due to rising global crude oil prices, more targeted domestic petrol subsidy and removal of the RON95 price cap. However, we note that the developments in these areas are rather slow. Even with the removal of RON95 price cap, the prices are expected to be on the low side in line with declining global crude oil prices which are affected by the ballooning trade tensions, among others. 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%)



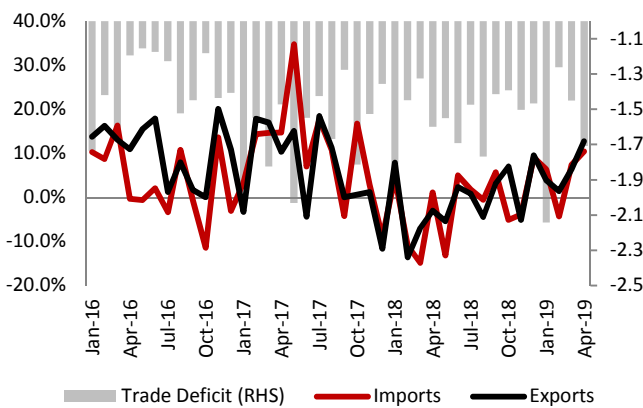
Source: CEIC, MIDFR

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



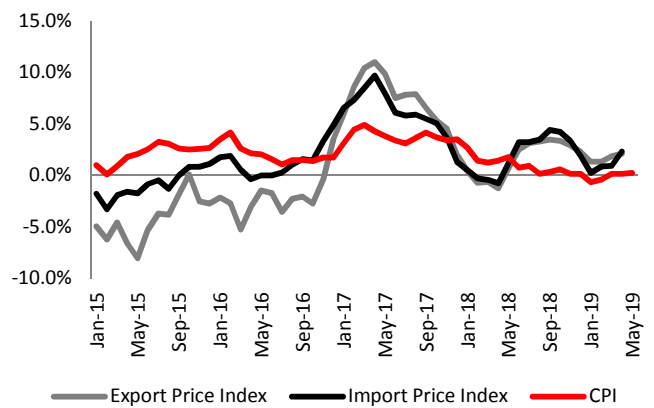
Source: CEIC, MIDFR

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



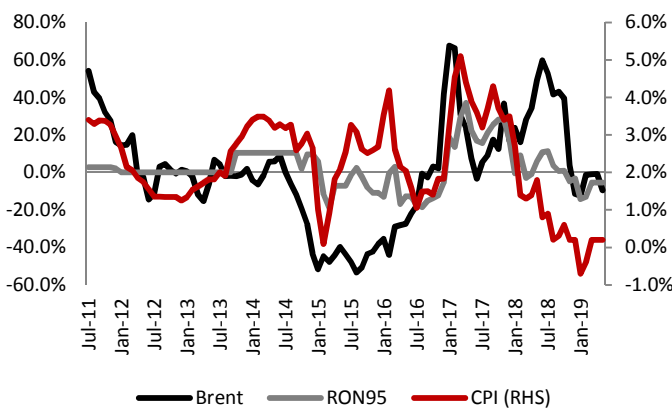
Source: CEIC, MIDFR

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



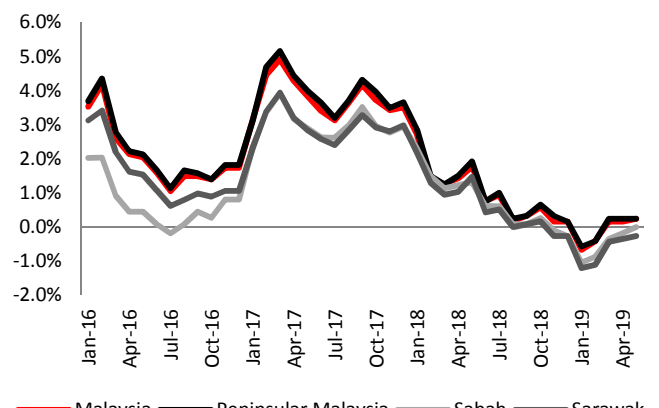
Source: CEIC, MIDFR

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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