

**ECONOMIC REVIEW | October 2019 Consumer Price Index****Inflationary Pressure Remain Low as Prices of F&B Component Weakened Further**

- *Inflation remains muted. Headline inflation maintained at 1.1%yoy in Oct-19, unchanged from preceding months as prices of food & non-alcoholic beverages, the biggest component of CPI increased at a softer pace of 1.8%yoy (Sep-19: 2.2%yoy). In addition, inflation of housing & utilities sustained at 1.6%yoy, similar to the prior month while those of transport, fell slightly harder to -2.3%yoy (Sep-19: -2.2%yoy).*
- *F&B inflation fell below 2%yoy. The food and non-alcoholic beverages inflation has been trending upward so far this year before a downtick in Sep-19. In Oct-19, it continued trending downward to 1.8%yoy, the lowest rate since May-19. The lower inflation could be somehow influenced by government's decision to cap fuel prices which have spillover effects to F&B industry. In fact, Deepavali festival celebration did not have any significant impact on the prices as reflected by prices of fresh items. Prices of fresh meat contracted -1%yoy while those of fresh seafood increased at a softer pace of 3.3%yoy.*
- *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 first ten months of this year, inflation averaged at 0.6%yoy, equivalent to our forecast. We expect food component to provide upside pressures for overall inflation in 2019 driven by low base effect 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. We anticipate inflationary pressure mainly from fuel-related items to remain weak in line with our expectation of Brent crude oil price at \$63pb for 2019 (2018: \$71.6pb).*

**Inflation remains muted.** Headline inflation maintained at 1.1%yoy in Oct-19, unchanged from preceding months as prices of food & non-alcoholic beverages, the biggest component of CPI increased at a softer pace of 1.8%yoy (Sep-19: 2.2%yoy). In addition, inflation of housing & utilities sustained at 1.6%yoy, similar to the prior month while those of transport, fell slightly harder to -2.3%yoy (Sep-19: -2.2%yoy). On monthly basis, inflation rose 0.2% compared to neutral growth in Sep-19. Meanwhile, core inflation inched down to five-month low of 1.4%yoy.

**F&B inflation fell below 2%yoy.** The food and non-alcoholic beverages inflation has been trending upward so far this year before a downtick in Sep-19. In Oct-19, it continued trending downward to 1.8%yoy, the lowest rate since May-19. The lower inflation could be somehow influenced by government's decision to cap fuel prices which have spillover effects to F&B industry. In fact, Deepavali festival celebration did not have any significant impact on the prices as reflected by prices of fresh items. Prices of fresh meat contracted -1%yoy while those of fresh seafood increased at a softer pace of 3.3%yoy. Similarly, inflation of fresh vegetables moderated to 0.8%yoy, the lowest in seven months while those of fresh fruits maintained at 1.9%yoy. This could be the result of price control scheme for 14 days starting 20<sup>th</sup> October in conjunction with Deepavali which covers 19 meat and vegetable items. In addition, inflation of food away from home slowed to 2.9%yoy from 3.2%yoy in Sep-19.

**Fuel-related items are still in deflation.** The average price of Brent crude oil contracted by -25.4%yoy in Oct-19 worse than -21.6%yoy recorded in the previous month amid US – China partial trade deal. However, the deal was just a 'handshake' and nothing pertaining to that has been signed yet. Domestically, retail fuel prices for RON95 recorded negative growth of -5.5%yoy for the seventh consecutive month and may continue at that pace throughout the year as the price remain capped at RM2.08. Similarly, price of RON97 which float according to market declined by -7.2%yoy. In tandem, fuels & lubricants posted slightly higher deflation of 5.4%yoy (Sep-19: 5%yoy). Looking ahead, average Brent oil price for the first three weeks of Nov-19 went up to USD 62.5pb (Oct-19: USD 60pb).

**Table 1: Consumer Price Indices**

Indices	MoM%			YoY%		
	Aug-19	Sep-19	Oct-19	Aug-19	Sep-19	Oct-19
CPI	0.2	0.0	0.2	1.5	1.1	1.1
Non Food	0.3	0.1	0.3	0.9	0.5	0.8
Food and Non Alcoholic Beverages	0.2	(0.2)	0.1	2.6	2.2	1.8
Alcoholic Beverages and Tobacco	0.1	(0.1)	0.0	2.5	2.4	2.2
Clothing and Footwear	0.0	0.0	(0.3)	(1.1)	(0.9)	(1.3)
Housing, Water, Electricity, Gas & Other Fuels	0.5	0.0	0.0	1.8	1.6	1.6
Furnishings, Household Equipment and Maintenance	0.0	(0.1)	0.0	3.2	2.1	1.7
Health	0.2	(0.1)	0.1	1.4	1.3	1.4
Transport	(0.1)	0.1	0.2	(2.1)	(2.2)	(2.3)
Communication	0.0	0.0	1.6	2.2	(0.1)	1.5
Recreation and Culture	0.0	0.6	0.0	2.3	0.8	0.7
Education	0.1	0.4	0.1	1.4	1.8	1.9
Restaurants and Hotels	0.2	0.2	0.0	1.7	1.4	1.2
Miscellaneous Goods and Services	0.5	0.4	(0.2)	2.5	2.7	2.2
Durable Goods	0.6	0.2	(0.1)	2.6	2.3	2.1
Semi Durable Goods	(0.1)	0.1	(0.2)	(0.9)	(0.7)	(0.9)
Non-Durable Goods	0.1	(0.1)	0.0	0.2	0.2	(0.2)
Services	0.3	0.1	0.2	2.6	1.9	1.9
Core CPI	0.3	0.2	0.0	2.0	1.5	1.4

Source: CEIC, MIDFR

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

Sub-Indices	MoM%			YoY%		
	Aug-19	Sep-19	Oct-19	Aug-19	Sep-19	Oct-19
Rice	(0.1)	0.2	(0.1)	(0.1)	(0.1)	(0.2)
Fresh Meat	2.1	(2.2)	(1.0)	0.0	1.8	(1.0)
Fresh Seafood	0.2	0.0	(0.8)	2.5	4.2	3.3
Oils & Fats	0.1	(0.3)	0.0	(1.1)	(1.3)	(1.1)
Fresh Fruits	(0.3)	(0.9)	(0.5)	2.2	1.9	1.9
Fresh Vegetables	(2.3)	(1.4)	2.4	3.6	2.9	0.8
Food Away From Home	0.1	0.1	0.1	4.4	3.2	2.9
Cigarettes	0.0	0.0	0.0	2.5	2.5	2.5
Electricity	0.0	0.0	0.0	1.4	0.0	0.0
Pharmaceutical Products	0.2	(0.2)	0.0	1.2	1.0	1.0
Fuels & Lubricants for Transportation	(0.2)	0.2	0.0	(5.1)	(5.0)	(5.4)
Transportation Repair & Maintenance	0.1	0.4	0.0	3.5	3.3	3.0
Other Transportation Charges (Including Toll)	0.0	0.0	0.0	0.1	0.1	0.1
Expenses In Restaurants & Cafes	0.2	0.0	0.1	1.7	1.4	1.3
Insurance For Motor Vehicles	0.0	0.0	0.0	1.4	1.0	0.2

Source: CEIC, MIDFR

**Johor has the highest F&B inflation.** KL, Penang, Selangor and Putrajaya recorded inflation above national average with KL and Penang chalked the highest rate at 1.3%yoy. The lowest inflation was observed in Sarawak at 0.3%yoy. However, Johor which has same overall inflation as national level recorded highest inflation in food & non-alcoholic beverages at 2.5%yoy, followed by KL and Penang at 2.4%yoy and 2.1%yoy respectively. Moving forward, we view inflationary pressure for all states to stay at accommodative environment throughout 2019.

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

	MoM%			YoY%		
	Aug-19	Sep-19	Oct-19	Aug-19	Sep-19	Oct-19
<b>Peninsular Malaysia;</b>	0.2	0.0	0.1	1.7	1.2	1.1
Food & Non-Alcoholic Beverages	0.2	(0.1)	0.0	2.7	2.4	1.9
Housing & Utilities	0.6	0.0	0.0	1.9	1.7	1.7
Transport	(0.2)	0.2	0.2	(2.1)	(2.1)	(2.2)
<b>Sabah;</b>	0.1	0.0	0.1	0.7	0.3	0.4
Food & Non-Alcoholic Beverages	0.2	0.0	0.1	1.0	0.9	0.9
Housing & Utilities	0.1	0.0	0.0	1.0	0.8	0.8
Transport	(0.1)	0.1	0.1	(2.3)	(2.2)	(2.4)
<b>Sarawak;</b>	0.0	0.1	0.1	0.7	0.3	0.3
Food & Non-Alcoholic Beverages	0.0	0.1	0.0	1.6	1.2	1.0
Housing & Utilities	0.2	0.0	0.0	1.2	1.0	1.0
Transport	(0.1)	0.2	0.1	(3.2)	(3.2)	(3.3)


Source: DOSM, MIDFR

**Inflation remains benign despite easing monetary policy.** The US headline inflation inched up to only 1.8%yoy in Oct-19 after two months maintaining at 1.7%yoy despite three rate cuts in a row in the period of July-Oct-19. Meanwhile, the US's core PCE index, Fed's preferred measure of inflation rose 1.7%yoy in Sep-19, easing from a 1.8% increase in the previous month and still below Fed's 2% target. In contrast, China's inflation soared to a near 8-year high of 3.8%yoy but largely influenced by persistently high pork prices following an outbreak of African swine fever. Besides that, other countries particularly ASEAN members recorded lower inflation in Oct-19. For instance, Indonesia and Philippines which had four and three rate cuts respectively seen inflation went down further to 3.1%yoy and 0.8%yoy, respectively. In general, global crude oil prices hovering around USD 60pb currently are still below the level seen in 2018, significantly pushing the inflation downwards.

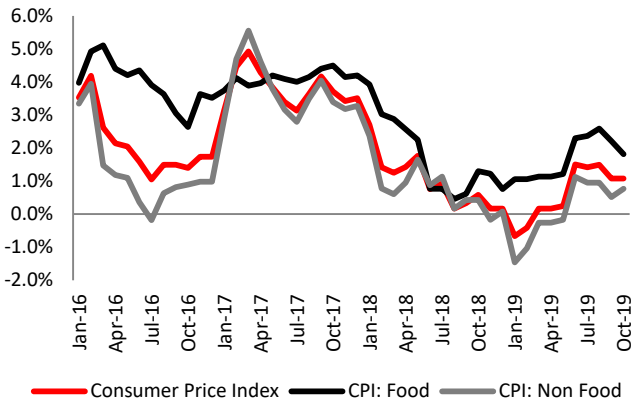
**Table 4: Global Headline Inflation (YoY%)**

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
Malaysia	0.2	0.2	1.5	1.4	1.5	1.1	1.1
Indonesia	2.8	3.3	3.3	3.3	3.5	3.4	3.1
Philippines	3.0	3.2	2.7	2.4	1.7	0.9	0.8
Thailand	1.2	1.1	0.9	1.0	0.5	0.3	0.1
Singapore	0.8	0.9	0.6	0.4	0.5	0.5	
China	2.5	2.7	2.7	2.8	2.8	3.0	3.8
Japan	0.9	0.7	0.7	0.5	0.3	0.2	
EU	1.9	1.6	1.6	1.4	1.4	1.2	1.1
US	2.0	1.8	1.6	1.8	1.7	1.7	1.8

Source: CEIC, MIDFR

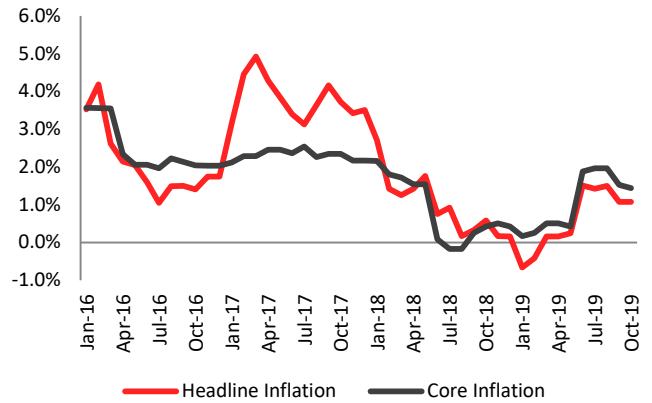
**We foresee inflation rate to average at 0.6% in 2019.** We foresee headline inflation rate to average at 0.6%yoy this year, lower than 1%yoy in 2018. For the first ten months of this year, inflation averaged at 0.6%yoy, equivalent to our forecast. We expect food component to provide upside pressures for overall inflation in 2019 driven by low base effect 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. We anticipate inflationary pressure mainly from fuel-related items to remain weak in line with our expectation of Brent crude oil price at \$63pb for 2019 (2018: \$71.6pb). Malaysia's producer price index (PPI), a leading indicator of price changes at the consumer level remains deflationary for the eleventh consecutive months at -2.4%yoy in Sep-19, indicating that cost-push inflation will likely remain low in the months ahead. In line with our expectation, overnight policy rate (OPR) was left unchanged at 3% in the final scheduled MPC meeting of the year which took place on 5<sup>th</sup> November. 

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



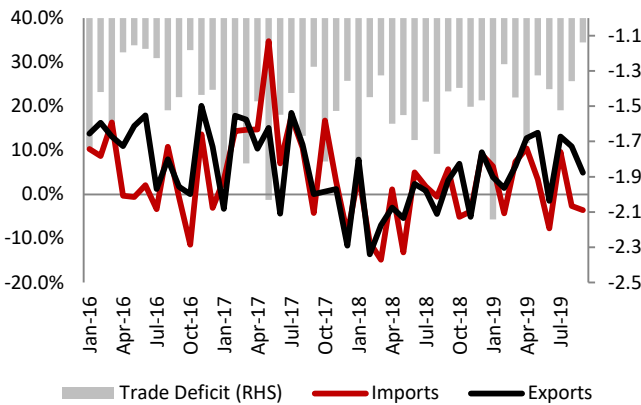
Source: CEIC, MIDFR

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



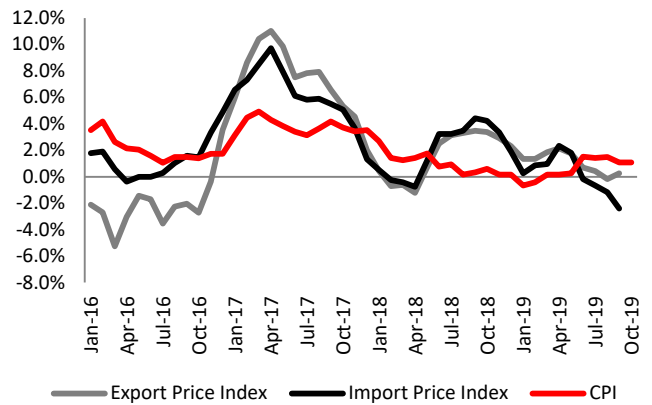
Source: CEIC, MIDFR

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



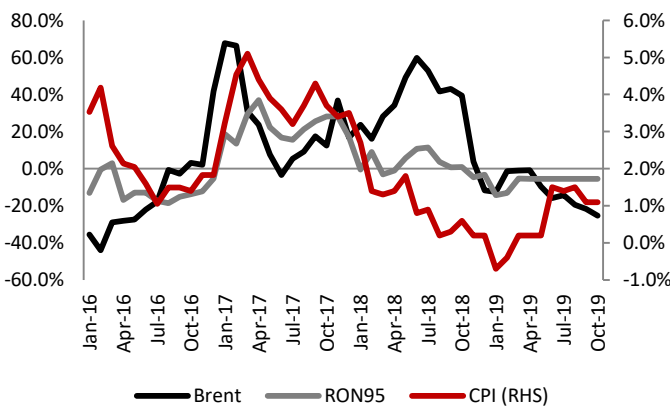
Source: CEIC, MIDFR

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



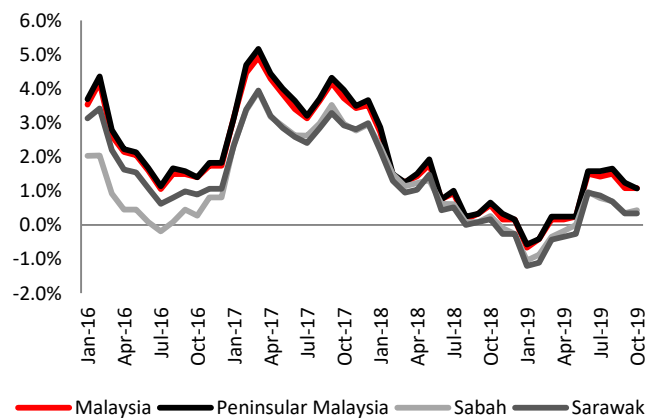
Source: CEIC, MIDFR

**Chart 5: CPI vs Crude & Retail Fuel Prices (YoY%)**



Source: Bloomberg, MIDFR

**Chart 6: Inflation by States (YoY%)**



Source: DOSM, MIDFR

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X))  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

## **DISCLOSURES AND DISCLAIMER**

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.