

**ECONOMIC REVIEW | September 2019 Consumer Price Index****Inflation Slowed to 4-Month Low as Low Base Effect from Tax Holiday Waned**

- *Inflation is at 4-month low. Headline inflation slowed to 1.1%yoy in Sep-19 from 1.5%yoy in the previous month as inflation of two biggest components in overall CPI basket moderated. Prices of food & non-alcoholic beverages which account for 29.5% of the CPI weightage increased at a softer pace of 2.2%yoy (Aug-19: 2.6%yoy). Similarly, inflation of housing & utilities which account for 23.8% of the CPI weightage eased to 1.6%yoy (Aug-19: 1.8%yoy).*
- *F&B inflation lower than in GST era. The food and non-alcoholic beverages inflation has been trending upward so far this year before a downtick in Sep-19. Despite staying above 2%yoy, F&B beverages inflation still considered low compared to the levels seen when GST was still in place. Food inflation averaged at 3.8%yoy during the GST period whereas it just recorded at 1.4%yoy for the period after reintroduction of SST until the latest available data.*
- *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 nine 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.*

**Inflation is at 4-month low.** Headline inflation slowed to 1.1%yoy in Sep-19 from 1.5%yoy in the previous month as inflation of two biggest components in overall CPI basket moderated. Prices of food & non-alcoholic beverages which account for 29.5% of the CPI weightage increased at a softer pace of 2.2%yoy (Aug-19: 2.6%yoy). Similarly, inflation of housing & utilities which account for 23.8% of the CPI weightage eased to 1.6%yoy (Aug-19: 1.8%yoy). In addition, transport inflation, third largest contributor to overall CPI, fell slightly harder to -2.2%yoy (Aug-19: -2.1%yoy). Similar to headline figure, core inflation went down to 4-month low of 1.5%yoy as the lower base effect resulting from the tax holiday period last year has ended.

**F&B inflation lower than in GST era.** The food and non-alcoholic beverages inflation has been trending upward so far this year before a downtick in Sep-19. Despite staying above 2%yoy, F&B beverages inflation still considered low compared to the levels seen when GST was still in place. Food inflation averaged at 3.8%yoy during the GST period whereas it just recorded at 1.4%yoy for the period after reintroduction of SST until the latest available data. The lower inflation could be somehow influenced by government's decision to cap fuel prices which have spillover effects to F&B industry. For Sep-19, the moderation was mainly driven by softer price increases in food at home such as fresh fruits and vegetables. In addition, food away from home slowed to 3.2%yoy from 4.4%yoy in the preceding month. On the flip side, prices of fresh meat and seafood surged to 1.8%yoy and 4.2%yoy respectively.

**Fuel-related items are still in deflation.** The average price of Brent crude oil contracted by -21.6%yoy in Sep-19 worse than -19.5%yoy recorded in the previous month amid hopes that a US-China trade deal would be reached soon. Domestically, retail fuel prices for RON95 recorded negative growth of -5.5%yoy for the sixth consecutive month and may continue at that pace throughout the year as the price remain capped at RM2.08. In contrast, those of RON97 which supposedly float according to market grew by 5.3%yoy. Meanwhile, fuels & lubricants posted slightly lower deflation of 5%yoy (Aug-19: 5.1%yoy). Looking ahead, average Brent oil price for the first three weeks of Oct-19 went down to USD 59pb (Sep-19: USD 62) as US and China reached a partial trade deal.

**Table 1: Consumer Price Indices**

Indices	MoM%			YoY%		
	Jul-19	Aug-19	Sep-19	Jul-19	Aug-19	Sep-19
CPI	0.1	0.2	0.0	1.4	1.5	1.1
Non Food	0.0	0.3	0.1	1.0	0.9	0.5
Food and Non Alcoholic Beverages	0.3	0.2	(0.2)	2.4	2.6	2.2
Alcoholic Beverages and Tobacco	0.0	0.1	(0.1)	2.3	2.5	2.4
Clothing and Footwear	(0.4)	0.0	0.0	(1.1)	(1.1)	(0.9)
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.5	0.0	1.9	1.8	1.6
Furnishings, Household Equipment and Maintenance	0.2	0.0	(0.1)	3.3	3.2	2.1
Health	0.1	0.2	(0.1)	1.3	1.4	1.3
Transport	0.2	(0.1)	0.1	(1.9)	(2.1)	(2.2)
Communication	0.0	0.0	0.0	2.1	2.2	(0.1)
Recreation and Culture	(0.1)	0.0	0.6	2.4	2.3	0.8
Education	0.1	0.1	0.4	1.4	1.4	1.8
Restaurants and Hotels	0.1	0.2	0.2	1.7	1.7	1.4
Miscellaneous Goods and Services	0.4	0.5	0.4	1.8	2.5	2.7
Durable Goods	0.4	0.6	0.2	1.8	2.6	2.3
Semi Durable Goods	(0.3)	(0.1)	0.1	(0.8)	(0.9)	(0.7)
Non-Durable Goods	0.2	0.1	(0.1)	0.1	0.2	0.2
Services	0.1	0.3	0.1	2.7	2.6	1.9
Core CPI	0.1	0.3	0.0	2.0	2.0	1.5

Source: CEIC, MIDFR

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

Sub-Indices	MoM%			YoY%		
	Jul-19	Aug-19	Sep-19	Jul-19	Aug-19	Sep-19
Rice	0.0	(0.1)	0.2	0.1	(0.1)	(0.1)
Fresh Meat	3.1	2.1	(2.2)	(2.8)	0.0	1.8
Fresh Seafood	(0.1)	0.2	0.0	1.9	2.5	4.2
Oils & Fats	(0.1)	0.1	(0.3)	(1.3)	(1.1)	(1.3)
Fresh Fruits	1.2	(0.3)	(0.9)	3.5	2.2	1.9
Fresh Vegetables	(1.1)	(2.3)	(1.4)	5.4	3.6	2.9
Food Away From Home	0.3	0.1	0.1	4.4	4.4	3.2
Cigarettes	0.0	0.0	0.0	2.5	2.5	2.5
Electricity	0.0	0.0	0.0	1.4	1.4	0.0
Pharmaceutical Products	0.1	0.2	(0.2)	1.1	1.2	1.0
Fuels & Lubricants for Transportation	0.2	(0.2)	0.2	(4.7)	(5.1)	(5.0)
Transportation Repair & Maintenance	0.1	0.1	0.4	3.3	3.5	3.3
Other Transportation Charges (Including Toll)	0.0	0.0	0.0	0.1	0.1	0.1
Expenses In Restaurants & Cafes	0.1	0.2	0.0	1.7	1.7	1.4
Insurance For Motor Vehicles	0.0	0.0	0.0	1.4	1.4	1.0

Source: CEIC, MIDFR

**KL has the highest inflation.** KL, Selangor, Putrajaya, Penang, Johor and Perak recorded inflation above national average with KL chalked the highest rate at 1.7%yoy. The lowest inflation was observed in Sabah, Labuan and Sarawak. KL also recorded the highest inflation of food & non-alcoholic beverages at 3.9%yoy, far above the rest as the second highest rate was 2.6%yoy in Penang and 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%		
	Jul-19	Aug-19	Sep-19	Jul-19	Aug-19	Sep-19
<b>Peninsular Malaysia;</b>	0.2	0.2	0.0	1.6	1.7	1.2
Food & Non-Alcoholic Beverages	0.3	0.2	(0.1)	2.5	2.7	2.4
Housing & Utilities	0.0	0.6	0.0	2.0	1.9	1.7
Transport	0.2	(0.2)	0.2	(1.8)	(2.1)	(2.1)
<b>Sabah;</b>	0.0	0.1	0.0	0.8	0.7	0.3
Food & Non-Alcoholic Beverages	0.0	0.2	0.0	1.1	1.0	0.9
Housing & Utilities	0.0	0.1	0.0	1.3	1.0	0.8
Transport	0.2	(0.1)	0.1	(2.0)	(2.3)	(2.2)
<b>Sarawak;</b>	0.0	0.0	0.1	0.9	0.7	0.3
Food & Non-Alcoholic Beverages	0.0	0.0	0.1	1.7	1.6	1.2
Housing & Utilities	0.0	0.2	0.0	1.2	1.2	1.0
Transport	0.1	(0.1)	0.2	(3.0)	(3.2)	(3.2)


Source: DOSM, MIDFR

**Inflation remains benign despite easing monetary policy.** Most of the key economies recorded lower inflation in Sep-19 despite easing monetary policy practices around the world. Global crude oil prices hovering around USD 60pb currently are still below the level seen in 2018, significantly pushing the inflation downwards. For instance, the US headline inflation rate maintained at 1.7%yoy, unchanged from previous month as a pick-up in food inflation was offset by a further decline in energy prices. Besides that, moderating trend observed in Japan, EU and most of the ASEAN countries. In contrast, China's inflation soared to a near 6-year high of 3%yoy but largely influenced by persistently high pork prices following an outbreak of African swine fever. Moving forward, we expect inflation to remain tame amid lower global crude oil prices.

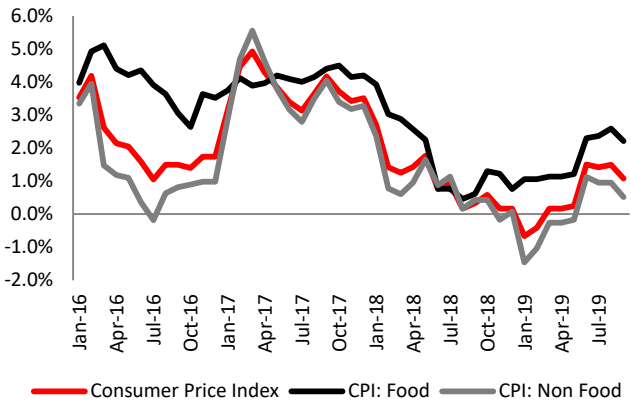
**Table 4: Global Headline Inflation (YoY%)**

	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
Malaysia	0.2	0.2	0.2	1.5	1.4	1.5	1.1
Indonesia	2.5	2.8	3.3	3.3	3.3	3.5	3.4
Philippines	3.3	3.0	3.2	2.7	2.4	1.7	0.9
Thailand	1.2	1.2	1.1	0.9	1.0	0.5	0.3
Singapore	0.6	0.8	0.9	0.6	0.4	0.5	0.5
China	2.3	2.5	2.7	2.7	2.8	2.8	3.0
Japan	0.5	0.9	0.7	0.7	0.5	0.3	0.2
EU	1.6	1.9	1.6	1.6	1.4	1.4	1.2
US	1.9	2.0	1.8	1.6	1.8	1.7	1.7

Source: CEIC, MIDFR

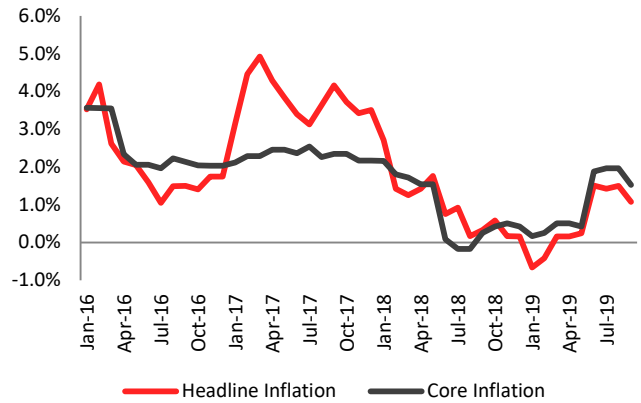
**We foresee inflation rate to average at 0.6% in 2019.** We foresee headline inflation rate to average at 0.6%yoy this year, lower than 1%yoy in 2018. For the first nine months of this year, inflation averaged at 0.6%yoy, equivalent to our forecast. We expect food component to provide upside pressures 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). 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%)**



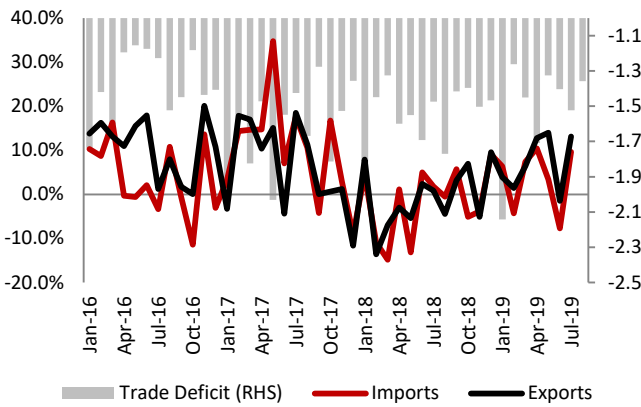
Source: CEIC, MIDFR

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



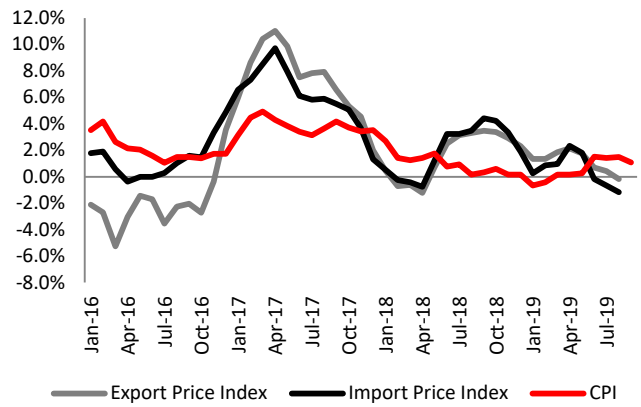
Source: CEIC, MIDFR

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



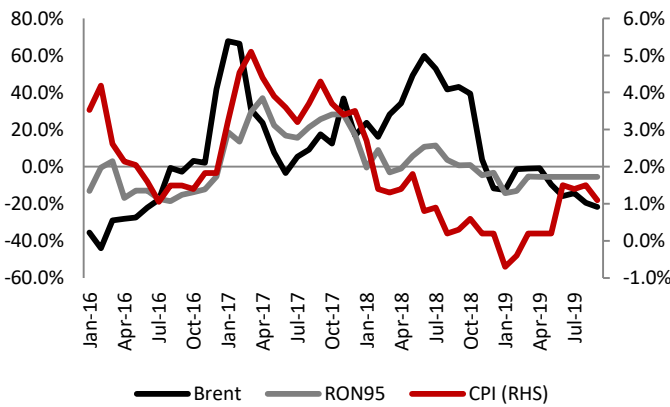
Source: CEIC, MIDFR

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



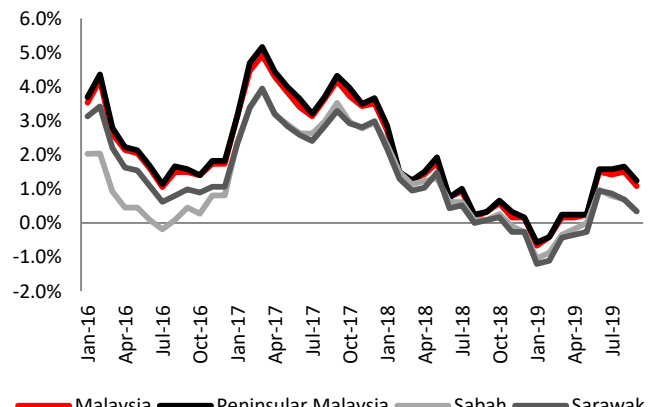
Source: CEIC, MIDFR

**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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