



24 November 2014

MALAYSIA

October CPI came in less than expected at 2.8% but to accelerate further in the coming months.

- The CPI rate rose further to 2.8% yoy for October of 2014 from 2.6% yoy in September. The higher pace was due to the fuel hike in October, leading to the Transportation index edging up after slumping in September on base factor.
- The other weights in the CPI; **“Food & Non-Alcoholic Beverages”** and **“Housing, Water, Electricity, Gas & other Fuels”** saw moderate and little change from the previous month as so did the other groups indicating price pressures decelerating.
- We expect the removal of petrol subsidy effective December will see CPI to start edging up by then and the CPI to average at around 3% in the 4Q 14, (overall 2014: 3.1%) before edging up further to 3.5 – 4.0% in 2015.
- Nonetheless, if consumers’ adverse reaction to any rise in fuel prices is significant enough, we could see CPI increase next year to be rather more subdued than expected.

October inflation higher due to higher transport costs but still smaller impact as compared to that of hike in petrol prices last year. October inflation at +2.8% yoy, (September 14: +2.6% yoy; MIDF: +3.0% yoy; Consensus: +3.1% yoy) was smaller than expected given the fact that other main components i.e. **“Food & Non-Alcoholic Beverages”** recorded moderating increase during the month, at +2.8% yoy (September 14: +3.2% yoy) and the due to the high base factor (tobacco prices hike last year was in October) for **“Alcoholic, Beverages & Tobacco”** which slumped to just +0.2% yoy (September 14: +14.8% yoy). That helped to see CPI rising by a much smaller margin despite the impact of the hike in petrol prices which saw the **“Transport”** rose by 5.3% yoy ((September 14: +0.5% yoy).

Upward pressure on prices is still prevalent though still well-contained. It is worth to note that the quantum increase in the **“Transport”** index was larger than that seen in September 2013 even though the hike in prices this year were smaller, at 9.5% and 10.0% for Ron95 and Diesel, respectively (September 2013: 10.5% and 11.1% respectively). On a month to month basis, the growth was higher at +0.54% mom. The growth was attributed to increases in **“Transport”** at +5.1% mom (September 14: +0.2% mom), while the other indices with the exception of **“Housing, Water, Electricity, Gas & Other Fuels”**, **“Health”**, **“Education”**, and **“Restaurant & Hotels”** declined. On a month to month basis **‘operation of personal transport equipment’** grew at +6.7% mom (September 14: -0.2% mom) while **‘transport services’** declined -0.5% mom (September 14: 0.0% mom). **‘Purchase of vehicles’** was unchanged at 0.0% mom, the fourth straight month of unchanged.

Most of the sub-groups in the “Food & Non-Alcoholic Beverages” saw moderate increase in October as it was in the previous month. **“Food, Non-Alcoholic Beverages”** (**“FNAB”**) increased slightly from the previous month to +2.8% yoy (September 14: +3.2% yoy). The **‘food at home’** sub-group grew +2.4% yoy (September 14: +2.9% yoy). In this sub-group **‘meat’** grew at a slower pace of +1.2% yoy (September 14: +3.9% yoy). Others saw slight increases where **‘rice, bread & cereals’** grew +0.9% yoy (September 14: 1.1% yoy); **‘fish & seafood’** at 3.2% yoy (September 14: 3.6% yoy). **‘Vegetables’** and **‘milk & cheese’** increased at a faster pace at 3.4% yoy and 3.8% yoy respectively ((September 14: 2.4% yoy and 3.6% yoy respectively). **‘Food away from home’** was unchanged at 4.0% yoy.

Table 1: Malaysia-Consumer Price Index (CPI, 2010=100) % YoY

	Weights %	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	YTD 2014	2013
Total	100	3.4	3.2	3.3	3.2	3.3	2.6	2.8	3.2	2.1
Food and Non Alcoholic Beverages (FNAB)	30.3	3.6	3.3	3.5	3.1	3.3	3.2	2.8	3.5	3.6
Alcoholic Beverages and Tobacco	2.2	14.1	14.1	11.6	11.6	11.6	14.8	0.2	11.4	6.0
Clothing and Footwear	3.4	(0.1)	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)	(0.4)	(0.1)	(0.6)
Housing, Water, Electricity, Gas & Other Fuels (HWEFG)	22.6	3.6	3.1	3.2	3.2	3.4	3.4	3.4	3.3	1.7
Furnishings, Household Equipment and Maintenance	4.1	1.0	1.2	1.0	0.8	1.1	0.9	0.9	1.1	1.5
Health	1.3	2.3	2.4	3.1	3.3	3.3	3.4	3.4	2.8	1.9
Transport	14.4	5.3	5.5	5.5	5.4	5.5	0.5	5.3	4.9	2.0
Communication	5.7	(0.6)	(0.7)	(0.6)	(0.7)	(0.7)	(0.8)	(0.9)	(0.7)	(0.7)
Recreation and Culture	4.6	1.7	1.9	1.9	1.9	1.8	1.9	1.8	1.7	0.1
Education	1.4	2.3	2.2	2.2	2.3	2.5	2.4	2.4	2.4	2.4
Restaurants and Hotels	3.2	4.8	4.9	4.9	5.0	5.1	4.8	4.6	4.8	2.4
Miscellaneous Goods and Services	6.3	0.5	1.1	1.2	1.4	0.9	0.7	0.7	0.5	0.3

Source: Dept. of Statistics, MIDFR

Table 2: Malaysia-Consumer Price Index (CPI, 2010=100) % MoM

	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14
Food and Non Alcoholic Beverages (FNAB)	(0.1)	0.1	(0.1)	0.1	0.5	0.3	0.1	0.2	(0.2)
Alcoholic Beverages and Tobacco	0.0	0.0	0.0	0.0	0.1	0.0	0.0	3.3	(3.1)
Clothing and Footwear	0.1	0.0	(0.1)	(0.1)	(0.1)	(0.4)	0.0	0.2	(0.1)
Housing, Water, Electricity, Gas & Other Fuels (HWEFG)	0.7	0.1	0.0	0.5	0.1	0.0	0.6	0.0	0.0
Furnishings, Household Equipment and Maintenance	0.2	0.0	0.0	0.1	0.0	(0.3)	0.4	0.0	(0.1)
Health	0.2	0.2	0.5	0.3	0.5	0.3	0.2	0.4	0.1
Transport	0.2	0.2	0.1	0.1	(0.4)	0.0	0.1	(0.2)	5.1
Communication	(0.1)	0.0	(0.2)	(0.1)	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Recreation and Culture	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	(0.1)
Education	0.5	0.1	0.1	0.1	0.1	0.2	0.2	0.0	0.0
Restaurants and Hotels	0.6	0.4	0.4	0.3	0.2	0.2	0.3	0.1	0.1
Miscellaneous Goods and Services	0.6	0.4	0.0	0.0	0.0	0.0	0.2	0.0	(0.3)

Source: Dept. of Statistics, MIDFR

We think that with the removal of oil subsidy and the introduction of the managed price float for fuel, CPI will now be exposed more to the fluctuations in global oil prices. Nonetheless, the impact is quite muted for now.. Due to the fact that global oil prices is likely to stay weak for some time, we expect the impact of subsidy-free petrol prices would not affect the CPI as much. Rather, we think that the upside will come from the anticipated customary surge in prices towards the year-end. CPI is likely to edge up slightly to average at 3% in the 4Q 14. This will put the CPI for 2014 at around 3.1% yoy.


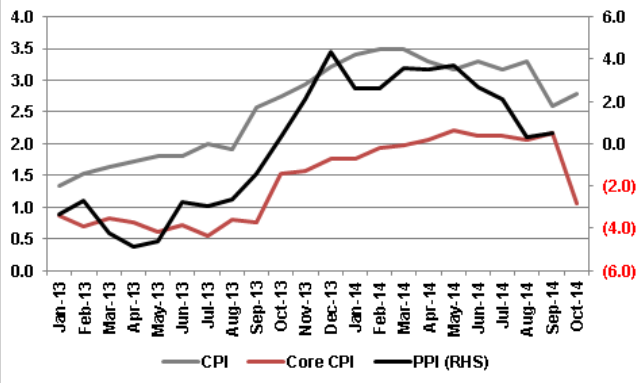
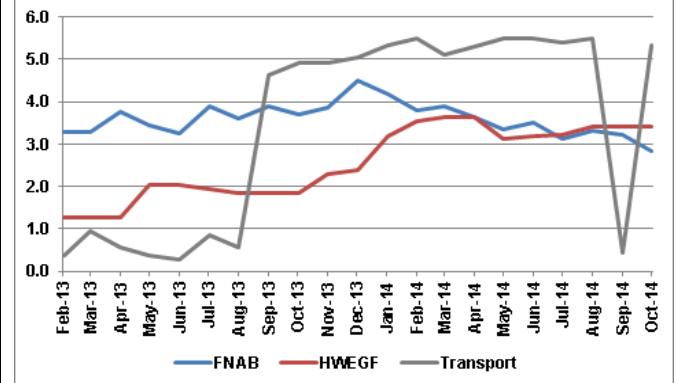
A rebound in oil prices next year and the upcoming GST will see CPI to continue to trend higher, but if consumers respond significantly enough in the event of higher fuel prices, CPI increase could actually be more subdued than expected for next year. Core CPI (excluding FNAB, HWEFG and Transport) is already heading downwards indicating price pressure decreasing as consumers tighten their belts. 

Chart 1: Headline & Core CPI, PPI (% YoY)



Source: Department of Statistics, MIDFR

Chart 2: Key CPI Components (% YoY)



Source: Department of Statistics, MIDFR

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