

ECONOMIC REVIEW | February 2020 Consumer Price Index

Inflation to Moderate in Upcoming Months amid Covid-19 and Oil Price War

- *Inflationary pressure eased. Pace of headline inflation went down to 1.3%yoy in Feb-20 from 20-month high of 1.6%yoy in Jan-20, primarily due to slowing prices of transport. Transport, the third largest component of CPI continued recording positive growth in prices but at a lower rate of 2.4%yoy (Jan-20: 3.9%yoy).*
- *F&B inflation continue below 1%. Slowdown in food and non-alcoholic beverages inflation was mainly due decline in prices of fresh items like seafood, meat and fruits. Fresh seafood in particular recorded deflation of 0.3%yoy. This could be influenced by the fears of Covid-19 and the food inflation will likely remain benign in upcoming months.*
- *We revised inflation downward to 0.5%. The recent oil war has caused a nose-dive movement in global crude oil prices with Brent's price currently hovering below USD 30pb. In tandem, we had revised downward Brent crude oil average price forecast for 2020 to USD 51pb (2019: USD 64.3pb). At this level, we could see further reduction in RON95 prices, far below level seen in 2019. In addition, toll rates for all PLUS highways are reduced by 18% starting Feb-20. As transport is the third biggest component in overall CPI basket, we opine these to have a significant impact to overall inflation.*

Inflationary pressure eased. Pace of headline inflation went down to 1.3%yoy in Feb-20 from 20-month high of 1.6%yoy in Jan-20, primarily due to slowing prices of transport. Transport, the third largest component of CPI continued recording positive growth in prices but at a lower rate of 2.4%yoy (Jan-20: 3.9%yoy). Similarly, prices of food & non-alcoholic beverages, the biggest component of CPI increases at a softer pace of 0.8%yoy and price growth for housing & utilities inched down to 1.6%yoy after three consecutive months at 1.7%yoy. Meanwhile, core inflation also moderated to 9-month low of 1.3%yoy.

F&B inflation continue below 1%. Slowdown in food and non-alcoholic beverages inflation was mainly due decline in prices of fresh items like seafood, meat and fruits. Fresh seafood in particular recorded deflation of 0.3%yoy. This could be influenced by the fears of Covid-19 and the food inflation will likely remain benign in upcoming months. Meanwhile, inflation of food away from home moderated further to 1.6%yoy and anticipated to continue trending downward amid Restriction of Movement Order in Malaysia for a month.

Fuel-related items posted lower inflation. The average price of Brent crude oil contracted by -14.5%yoy in Feb-20 compared to 4.9yoy growth in Jan-20. Price hike due to the optimism derived from the phase one US-China trade deal was limited by the Covid-19 which caused a demand shock. Domestically, retail fuel prices for RON95 recorded positive growth of 3.8%yoy (Jan-20: 6.5%yoy). In line, prices of fuels & lubricants increased by 3.8%yoy (Jan-20: 5.4%yoy). Looking ahead, average Brent oil price for the first three weeks of Mar-20 plunged by -47%yoy due to the oil price war between the US and Russia on top of ongoing epidemic. In step, those of RON95 decreased by -17.5%yoy.

Table 1: Consumer Price Indices

Indices	MoM%			YoY%		
	Dec-19	Jan-20	Feb-20	Dec-19	Jan-20	Feb-20
CPI	0.2	0.1	0.0	1.0	1.6	1.3
Non Food	0.0	0.1	0.0	0.6	1.9	1.6
Food and Non Alcoholic Beverages	0.5	0.1	0.1	1.7	0.9	0.8
Alcoholic Beverages and Tobacco	(0.1)	(0.1)	0.1	0.2	0.1	0.2
Clothing and Footwear	(0.1)	(0.1)	0.0	(1.0)	(1.2)	(1.1)
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	0.3	1.7	1.7	1.6
Furnishings, Household Equipment and Maintenance	0.1	0.0	0.1	1.4	1.2	1.0
Health	0.0	0.2	0.1	1.4	1.4	1.3
Transport	0.1	0.1	(1.0)	(1.9)	3.9	2.4
Communication	0.0	0.0	0.0	1.5	1.5	1.5
Recreation and Culture	(0.1)	0.2	0.0	0.6	0.9	0.7
Education	0.0	0.4	0.1	1.7	1.7	1.3
Restaurants and Hotels	0.2	0.1	0.2	1.1	1.1	1.1
Miscellaneous Goods and Services	(0.1)	0.4	(0.1)	2.4	2.5	2.5
Durable Goods	(0.1)	0.4	0.0	1.7	0.0	0.0
Semi Durable Goods	(0.1)	(0.1)	0.0	(0.8)	0.0	0.0
Non-Durable Goods	0.2	0.1	(0.2)	(0.1)	0.0	0.0
Services	0.0	0.2	0.1	1.9	0.0	0.0
Core CPI	0.0	0.1	(0.1)	1.4	1.6	1.3

Source: CEIC, MIDFR

Table 2: Changes in Selected Price Sub-Indices

Sub-Indices	MoM%			YoY%		
	Dec-19	Jan-20	Feb-20	Dec-19	Jan-20	Feb-20
Rice	0.1	0.0	0.1	0.1	0.1	0.1
Fresh Meat	0.2	0.5	1.2	(4.5)	(6.5)	(4.3)
Fresh Seafood	1.1	1.6	(2.3)	4.5	3.3	(0.3)
Oils & Fats	0.2	0.3	0.3	(0.7)	(0.2)	0.1
Fresh Fruits	0.3	0.5	(0.6)	1.5	0.5	(0.4)
Fresh Vegetables	2.6	(0.2)	0.8	6.4	6.7	7.2
Food Away From Home	0.2	0.1	0.2	2.5	1.7	1.6
Cigarettes	0.0	0.0	0.0	0.0	0.0	0.0
Electricity	0.0	0.0	0.0	0.0	0.0	0.0
Pharmaceutical Products	0.0	0.2	(0.1)	1.1	1.1	0.9
Fuels & Lubricants for Transportation	0.0	(0.2)	(1.0)	(4.5)	5.4	3.8
Transportation Repair & Maintenance	0.4	0.3	0.1	3.1	3.1	2.9
Other Transportation Charges (Including Toll)	0.0	0.0	0.0	0.0	0.0	0.0
Expenses In Restaurants & Cafes	0.1	0.1	0.2	1.3	1.2	1.3
Insurance For Motor Vehicles	(0.1)	0.0	0.0	0.1	0.0	0.0

Source: CEIC, MIDFR

Selangor & Putrajaya has the highest inflation. KL, Selangor, Putrajaya, Pahang and Johor recorded inflation above national average with Selangor & Putrajaya chalked the highest rate at 1.6%yoy. However, Johor marked the highest rate of 1.3%yoy for F&B inflation followed by Selangor & Putrajaya (1.2%yoy) and Penang (1.0%yoy). The lowest overall inflation was observed in Melaka at 0.6%yoy with F&B prices contracted.

Table 3: States Headline Inflation (YoY%)

	MoM%			YoY%		
	Dec-19	Jan-20	Feb-20	Dec-19	Jan-20	Feb-20
Peninsular Malaysia;	0.2	0.1	0.0	1.1	1.6	1.4
Food & Non-Alcoholic Beverages	0.4	0.2	0.1	1.7	1.0	0.8
Housing & Utilities	0.0	0.1	0.3	1.9	2.0	1.8
Transport	0.1	0.1	(1.0)	(1.8)	3.9	2.4
Sabah;	0.0	0.1	(0.1)	0.4	1.0	0.8
Food & Non-Alcoholic Beverages	0.2	0.2	(0.1)	1.2	0.8	0.7
Housing & Utilities	0.0	0.0	0.1	0.5	0.5	0.5
Transport	0.0	(0.1)	(0.8)	(2.1)	3.3	1.9
Sarawak;	0.0	0.1	0.1	0.3	1.2	1.1
Food & Non-Alcoholic Beverages	0.1	0.3	0.1	0.9	0.9	0.8
Housing & Utilities	0.0	0.0	0.3	0.9	0.9	1.0
Transport	0.0	(0.2)	(0.7)	(3.0)	3.8	2.5

Source: DOSM, MIDFR

PPI ticked down. Malaysia's producer cost also increased at softer pace of 2.8%yoy in Jan-20 (the latest available data). However, input prices of manufacturing which held around 80% of the total PPI recorded higher growth of 0.9%yoy, the highest gain since Dec-17. Food manufacturing cost inflation in particular continued soaring to 6.1%yoy, the most since June-17. It had been on an improving trend since Dec-18. This could be due to a combination two factors; ringgit depreciation and our position as net food importer. In contrast, all other main components of PPI recorded lower producer inflation compared to previous month, contributing to lower overall PPI. As a leading indicator of price changes at the consumer level, the latest PPI number suggests that Malaysia's headline inflation will remain contained in 2020.

Table 4: Producer Price Indices by Selected Sector

	MoM%			YoY%		
	Oct-19	Nov-19	Dec-19	Oct-19	Nov-19	Dec-19
PPI	1.3	0.8	(0.1)	1.2	3.5	2.8
Agri, forestry & fishing	10.5	2.6	3.8	19.9	21.9	18.0
Mining	8.9	2.1	(6.8)	6.4	19.3	9.2
Manufacturing	(0.2)	0.6	0.4	(0.7)	0.5	0.9
Electricity and gas	(0.3)	0.7	0.1	0.6	1.2	1.0
Food Product	0.9	1.7	2.6	(0.5)	2.8	6.1

Source: CEIC, MIDFR

Inflation starts slowing. Most of the key economies' inflation moderated in Feb-20. The US headline inflation slowed to 2.3%yoy in Feb-20 from 2.5%yoy in the prior month as gasoline prices rose 5.2%yoy, well below a 12.8%yoy jump in the preceding month. Similarly, inflation of China, Japan and Euro Area also slowed to 5.2%yoy, 0.4%yoy and 1.6%yoy respectively. Among ASEAN countries, all major economies recorded lower inflation except Indonesia. Moving forward, we foresee inflation globally to continue trending downward driven by declining oil prices. In addition, demand-pull inflation is likely to be low due to Covid-19 outbreak which results in lockdowns in many countries.

Table 5: Global Headline Inflation (YoY%)

	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Malaysia	1.5	1.1	1.1	0.9	1.0	1.6	1.3
Indonesia	3.1	3.1	2.9	2.7	2.6	2.7	3.0
Philippines	1.7	0.9	0.8	1.3	2.5	2.9	2.6
Thailand	0.5	0.3	0.1	0.2	0.9	1.1	0.7
Singapore	0.5	0.5	0.4	0.6	0.8	0.8	0.3
China	2.8	3.0	3.8	4.5	4.5	5.4	5.2
Japan	0.3	0.2	0.2	0.5	0.8	0.7	0.4
EU	1.3	1.1	1.0	1.3	1.6	1.7	1.6
US	1.7	1.7	1.8	2.1	2.3	2.5	2.3

Source: CEIC, MIDFR


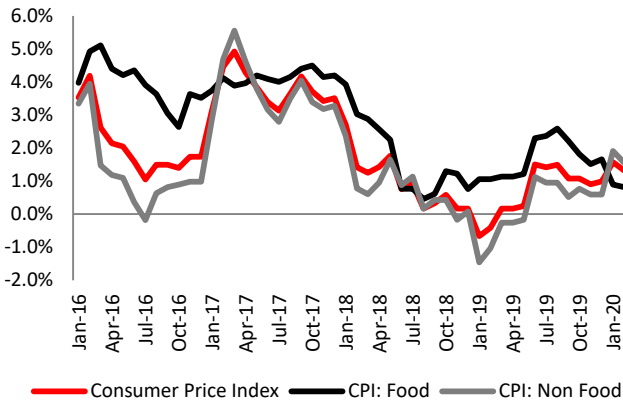
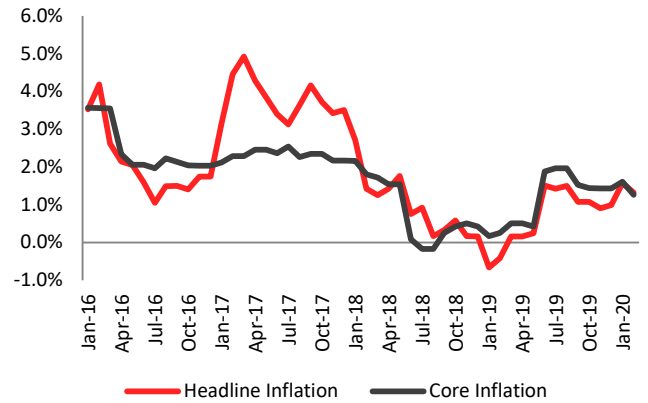
We revised inflation downward to 0.5%. The recent oil war has caused a nose-dive movement in global crude oil prices with Brent's price currently hovering below USD 30pb. In tandem, we had revised downward Brent crude oil average price forecast for 2020 to USD 51pb (2019: USD 64.3pb). At this level, we could see further reduction in RON95 prices, far below level seen in 2019. In addition, toll rates for all PLUS highways are reduced by 18% starting Feb-20. As transport is the third biggest component in overall CPI basket, we opine these to have a significant impact to overall inflation. Furthermore, 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. We foresee inflation to moderate further to 0.5%yoy (2019: 0.7%yoy). As inflation remain 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 reduction to 0-0.25%, at this juncture, we foresee BNM to undertake another rate cut by 25bsp as early as in May-20. 

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



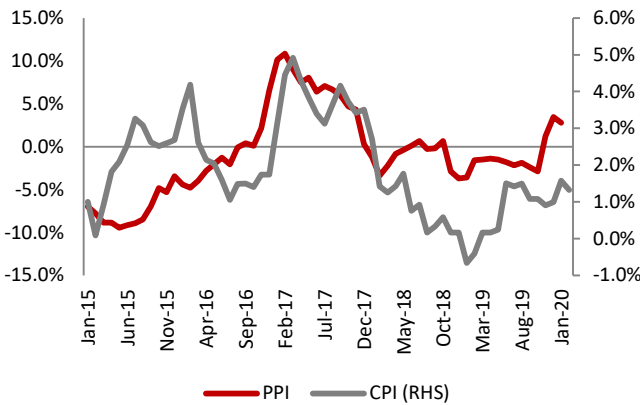
Source: CEIC, MIDFR

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



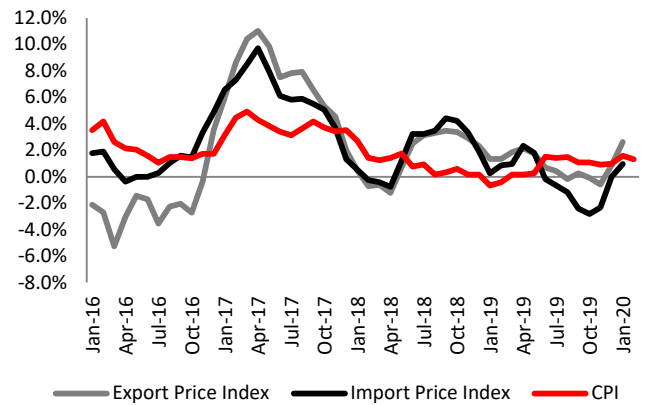
Source: CEIC, MIDFR

Chart 3: PPI vs CPI (YoY%)



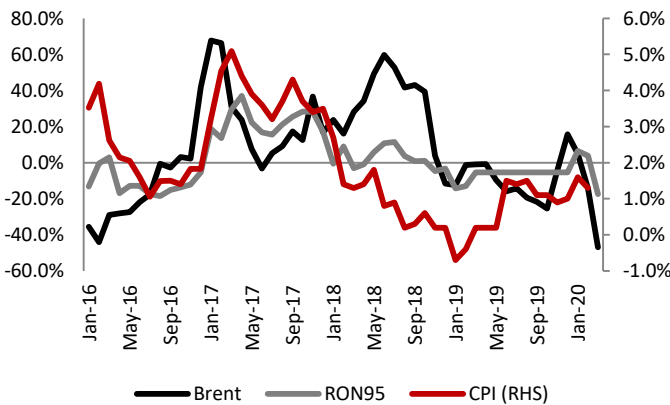
Source: CEIC, MIDFR

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



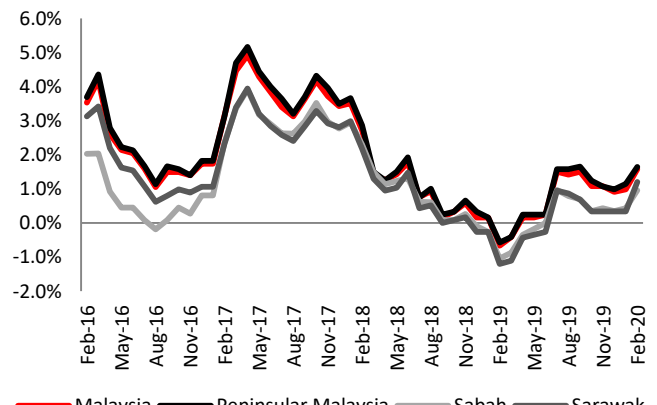
Source: CEIC, MIDFR

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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