

CPI sustained at 1.1% in October

Facts

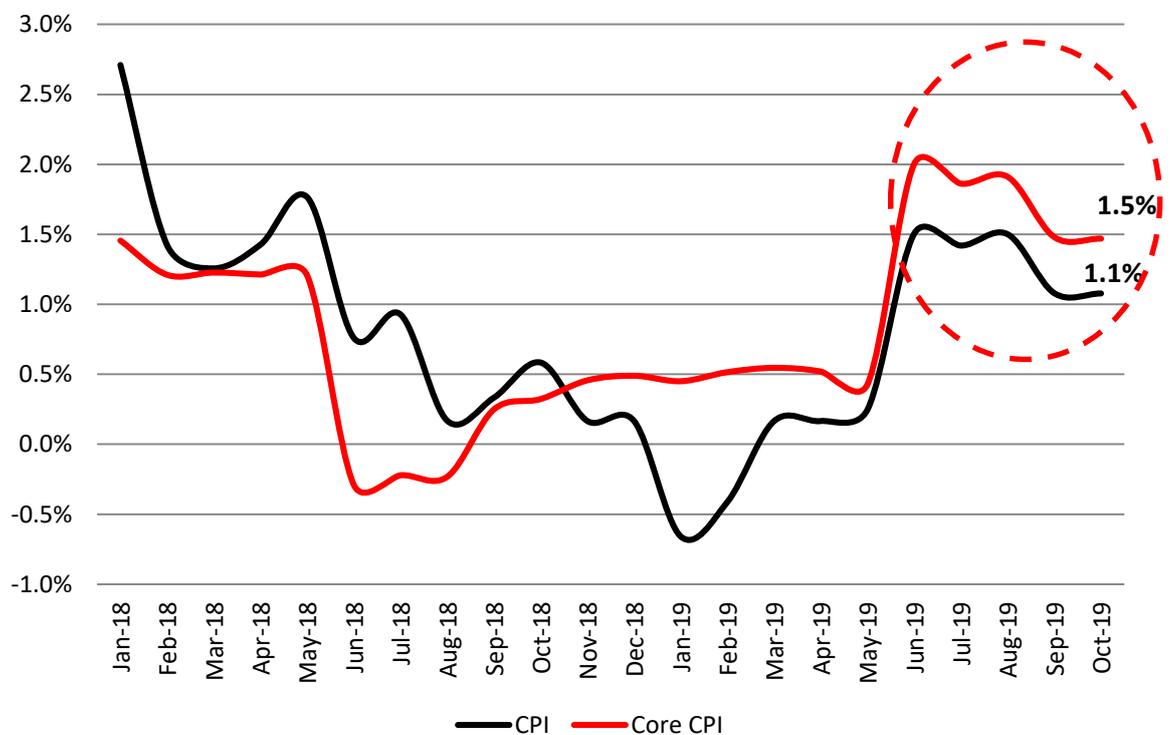
- Malaysia's Consumer Price Index (CPI) increased by 1.1% year-on-year (y-o-y) in October (September: 1.1%, Consensus: 1.0%). This was predominantly driven by higher inflation in Health (October: 1.4% vs. September: 1.3%), Communication (October: 1.5% vs. September: -0.1%) and Education (October: 1.9% vs. September: 1.8%) in October.
- In contrast, prices of Clothing & Footwear and Transport plummeted further by 1.3% (September: -0.9%) and 2.3% (September: -2.2%) respectively in October.
- Meanwhile, inflation for Food & Non-Alcoholic Beverages (October: 1.8% vs. September: 2.2%), Alcoholic Beverages & Tobacco (October: 2.2% vs. September: 2.4%), Furnishings, Household Equipment & Maintenance (October: 1.7% vs. September: 2.1%), Recreation & Culture (October: 0.7% vs. September: 0.8%), Restaurants & Hotels (October: 1.2% vs. September: 1.4%) and Miscellaneous Goods & Services (October: 2.2% vs. September: 2.7%) moderated during October. These sub-indices accounted for 50.4% of total CPI.
- On the other hand, inflation for Housing, Water, Electricity, Gas & Other Fuels which contributed for 23.8% of overall CPI, maintaining its growth at 1.6% (September: 1.6%).
- Within the Food & Non-Alcoholic Beverages, price for Food At Home and Food Away From Home moderated to 0.9% and 2.9% in October from 1.6% and 3.2% in September. This was mainly contributed by slower growth in Rice, Bread & Other Cereals (October: 0.5% vs. September: 0.7%) and Fish & Seafood (October: 1.4% vs. September: 1.6%) while Meat fell by 0.2% during October (September: 2.0%).
- At the states level, slower inflation was seen in Federal Territory of Kuala Lumpur, growing by 1.3% in October from 1.7% in September. This was followed by Selangor & Federal Territory of Putrajaya (October: 1.2% vs. September: 1.5%), Pulau Pinang (October: 1.3% vs. September: 1.5%), Johor (October: 1.1% vs. September: 1.2%), Perak (October: 0.9% vs. September: 1.2%) and Terengganu (October: 0.8% vs. September: 0.9%). Additionally, inflation in Negeri Sembilan (October: 0.9% vs. September: 0.9%), Kelantan (October: 0.8% vs. September: 0.8%), Kedah & Perlis (October: 0.8% vs. September: 0.8%), as well as Sarawak (October: 0.3% vs. September: 0.3%) unchanged in October.
- Our core inflation, which excludes Food & Non-Alcoholic Beverages and Transport maintained at 1.5% in October (September: 1.5%).
- Cumulatively, the Malaysian CPI recorded a softer growth of 0.6% in the first ten months of 2019 (10M2018: 1.1%) while Core Inflation rose to 1.1% in 10M2019 (10M2018: 0.6%).

Table 1: Consumer Price Index (CPI)

	Weight	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	10M2018	10M2019
Consumer Price Index	100.0%	1.5%	1.4%	1.5%	1.1%	1.1%	1.1%	0.6%
Food and Non Alcoholic Beverages	29.5%	2.3%	2.4%	2.6%	2.2%	1.8%	1.8%	1.7%
Alcoholic Beverages and Tobacco	2.4%	2.1%	2.3%	2.5%	2.4%	2.2%	-0.4%	1.7%
Clothing and Footwear	3.2%	-0.7%	-1.1%	-1.1%	-0.9%	-1.3%	-1.8%	-2.1%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	2.3%	1.9%	1.8%	1.6%	1.6%	2.0%	1.9%
Furnishings, Household Equipment and Maint.	4.1%	3.1%	3.3%	3.2%	2.1%	1.7%	0.5%	1.4%
Health	1.9%	1.2%	1.3%	1.4%	1.3%	1.4%	1.0%	0.5%
Transport	14.6%	-2.1%	-1.9%	-2.1%	-2.2%	-2.3%	2.3%	-3.3%
Communication	4.8%	2.1%	2.1%	2.2%	-0.1%	1.5%	-1.8%	0.2%
Recreation and Culture	4.8%	2.7%	2.4%	2.3%	0.8%	0.7%	-0.5%	0.7%
Education	1.3%	1.4%	1.4%	1.4%	1.8%	1.9%	1.1%	1.4%
Restaurants and Hotels	2.9%	1.6%	1.7%	1.7%	1.4%	1.2%	1.6%	1.3%
Miscellaneous Goods and Services	6.7%	1.4%	1.8%	2.5%	2.7%	2.2%	-1.2%	0.0%
Core CPI (excluding F&B and Transport)		2.0%	1.9%	1.9%	1.5%	1.5%	0.6%	1.1%

Source: DOSM, CEIC, Bank Islam

Chart 1: Malaysian Inflation Rate (y-o-y %)



Source: CEIC

Our view

The inflation rate has been muted in October. However, it would be wise to take this with a pinch of salt as the price of goods are still at its elevated level and higher costs of living among Malaysians is still real. According to the Department of Statistics Malaysia (DOSM), the rise in index of Alcoholic Beverages & Tobacco (2.2%), Miscellaneous Good & Services (2.2%), Education (1.9%), as well as Food & Non-Alcoholic Beverages (1.8%) have contributed to the increase in overall index. Out of 552 items covered under the CPI, 351 items or about 63.6% recorded a y-o-y increase in October.

Apart from that, judging from the recent data produced by the Department of Veterinary Services (DVS) Malaysia, the price of eggs with different grades have been on the rise. For the first ten months of 2019 (10M2019), egg prices have been rising at a rate of between 10.0% and 12.0% y-o-y (based on grades) respectively. Similarly, the data from DOSM where Food At Home sub-group, Eggs in CPI has also risen by 5.1% in October (September: 5.0%, 10M2019: 8.4% vs. 10M2018: 3.3%). As such, issues relating to the rise in cost of living continue to remain at the center stage among the average Malaysians.

Table 2: Egg price (RM/egg)

Date	Price (cents/egg)					
	Grade AA	Grade A	Grade B	Grade C	Grade D	Grade E
2.10.18	0.39	0.38	0.37	0.36	0.34	0.32
9.10.18	0.39	0.38	0.37	0.36	0.34	0.32
16.10.18	0.39	0.38	0.37	0.36	0.34	0.32
23.10.18	0.39	0.38	0.37	0.36	0.34	0.32
4.10.19	0.41	0.40	0.39	0.38	0.37	0.34
11.10.19	0.41	0.40	0.39	0.38	0.37	0.34
18.10.19	0.41	0.40	0.39	0.38	0.37	0.34
25.10.19	0.39	0.36	0.35	0.34	0.33	0.32
30.10.19	0.39	0.36	0.35	0.34	0.33	0.32
10M2018	0.35	0.34	0.33	0.32	0.31	0.28
10M2019	0.39	0.38	0.37	0.36	0.34	0.31

Source: Department of Veterinary Services Malaysia

We expect inflation rate to remain soft in the next two months. **Our full year forecast for 2019 is pegged at 0.7% and next year, we expect inflation rate to be around 1.8%.** Demand condition is likely to be more or less stable and perhaps, a cautious stance adopted by the consumers would keep demand driven inflation will remain in check. As such, gradual rise in inflation next year is likely to be due to the cost factor, resulting from the implementation of targeted fuel subsidies. Not to mentioned the pass through effect from weak currencies to the local prices. In that sense, the expected increase in inflation rate next year should not deter the central bank ability to prescribe additional monetary support. This would mean that the prospect or the scope for lower OPR is widely open especially in the context of heightened global uncertainties.

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