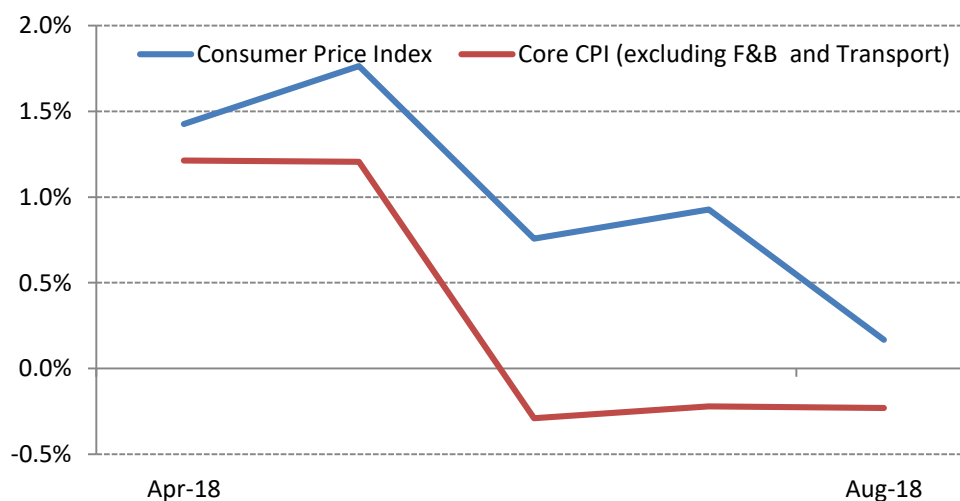


## Inflation rate diminished to 0.2% in August

### Facts

- The consumer price index increased by 0.2% year-on-year in August (Consensus: 0.4%, Bank Islam: 0.3%), lower than 0.9% recorded in July. The decline in the overall index was mainly driven by the decline in **Food & Non-Alcoholic Beverages** (Aug: 0.4% vs. July: 0.7%) and **Transport** (Aug: 2.1% vs. July: 6.7%). It is pertinent to note that the latest CPI posted for August was the lowest index recorded this year as per graph depicts in the Chart 1.
- For Food & Non-Alcoholic Beverages sub-indices, there was a decreased in index for the **Food at Home** by 0.4% (July: increased by 0.1%) as well as **Food Away from Home** by 1.7% (July: 2.0%).
- As for **Clothing & Footwear** (Aug: -2.9% vs. July: -3.0%) and **Recreation & Culture** (Aug: -2.2% vs. July: -2.4%), the decline was much slower compared to July
- Our core CPI which excludes Food & Non-Alcoholic Beverages and Transport fell by 0.2% after declining by 0.2% as well in July. This suggests the effect of the zero-rated GST commencing June was quite prevalent beyond food and transport.
- Meanwhile, the CPI for 8M2018 increased albeit moderately by 1.3% compared to 3.8% recorded in 8M2017. Similarly, Core CPI posted 0.7% increases against 1.7% in the same period last year, indicating slowing inflationary pressures during the year.

Chart 1: Malaysia's Inflation rate y-o-y%



Source: CEIC

**Table 1: Consumer Price Index (CPI) y-o-y%**

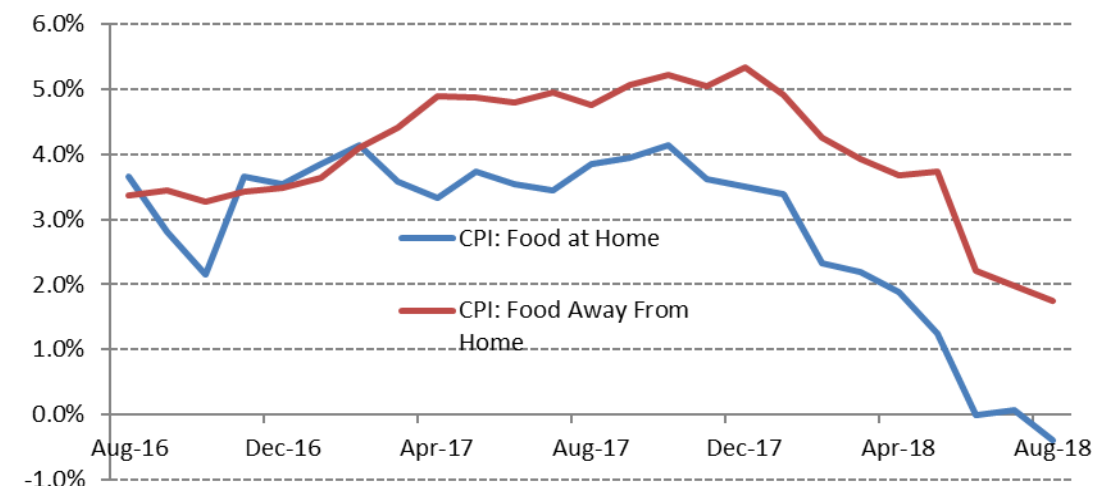
	Weight	Apr-18	May-18	Jun-18	Jul-18	Aug-18	8M2017	8M 2018
<b>Consumer Price Index</b>	<b>100.0%</b>	<b>1.4%</b>	<b>1.8%</b>	<b>0.8%</b>	<b>0.9%</b>	<b>0.2%</b>	<b>3.8%</b>	<b>1.3%</b>
Food and Non Alcoholic Beverages	29.5%	2.6%	2.2%	0.8%	0.7%	0.4%	3.8%	2.0%
Alcoholic Beverages and Tobacco	2.4%	0.2%	0.1%	-0.7%	-0.8%	-1.0%	0.2%	-0.2%
Clothing and Footwear	3.2%	-0.8%	-0.7%	-3.1%	-3.0%	-2.9%	-0.3%	-1.5%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	2.0%	2.1%	1.5%	2.0%	2.0%	2.2%	2.0%
Furnishings, Household Equipment and Main	4.1%	1.8%	1.5%	-1.0%	-1.7%	-1.7%	2.0%	0.7%
Health	1.9%	2.1%	1.9%	0.3%	0.0%	0.0%	2.7%	1.3%
Transport	14.6%	0.4%	3.8%	5.5%	6.7%	2.1%	13.5%	2.7%
Communication	4.8%	-0.7%	-0.9%	-3.9%	-3.9%	-4.0%	-0.3%	-1.9%
Recreation and Culture	4.8%	0.6%	0.5%	-2.5%	-2.4%	-2.2%	2.6%	-0.6%
Education	1.3%	1.1%	1.2%	0.9%	1.0%	1.1%	1.7%	1.1%
Restaurants and Hotels	2.9%	2.2%	2.1%	1.3%	1.0%	0.7%	2.4%	1.7%
Miscellaneous Goods and Services	6.7%	0.4%	0.4%	-2.6%	-3.0%	-3.0%	1.3%	-0.8%
<b>Core CPI (excluding F&amp;B and Transport)</b>		<b>1.2%</b>	<b>1.2%</b>	<b>-0.3%</b>	<b>-0.2%</b>	<b>-0.2%</b>	<b>1.7%</b>	<b>0.7%</b>

Source: CEIC & Strategic Management Bank Islam

## Our view

With the implementation of the Sales and Services Taxes (SST) this month, August was the last month of the tax holiday for consumers to benefit from the zero-rated GST. It has encouraged the households to consume more as their purchasing power has improved accordingly with the declining prices of goods and services offered by the vendors and suppliers.

**Chart 2: Food at Home & Food Away from Home sub-indices y-o-y%**



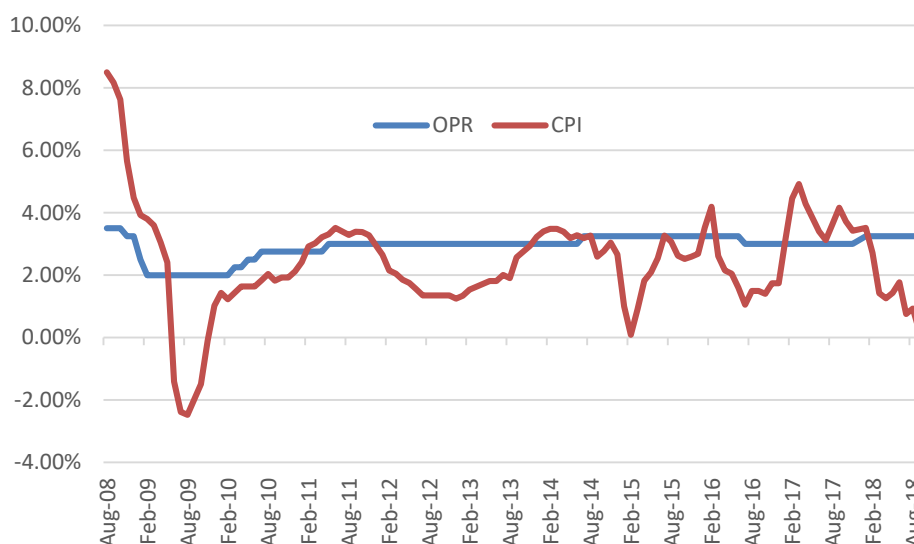
Source: CEIC

As indicated in Chart 2, the sub-indices for food at home and food away from home have diminished slightly from the preceding month which indirectly contributed to the slower pace of CPI growth. This essentially means that the prices imposed by the suppliers to buyers have decreased to some degree with the zero-rated GST enacted since June this year.

However, there is still uncertainty to the price level with the reintroduction of SST beginning 1 September as there might be a price hike due to irresponsible business practices. This is especially true when Malaysians high propensity to consume is among the highest in the Asian region. This would accommodate profiteering activities among the businesses as households are deemed to be the price taker.

On a different spectrum, lower inflation rate would actually give some policy space for Central Bank to adjust its monetary policy should it decide to lower the policy rate in view of challenging economic prospect. However, the BNM is expected to keep the Overnight Policy Rate (OPR) at 3.25% throughout the year as GDP growth is likely to remain fairly or slightly above potential (at around 4.8%).

**Chart 3: CPI y-o-y% vs OPR**



Source: CEIC

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