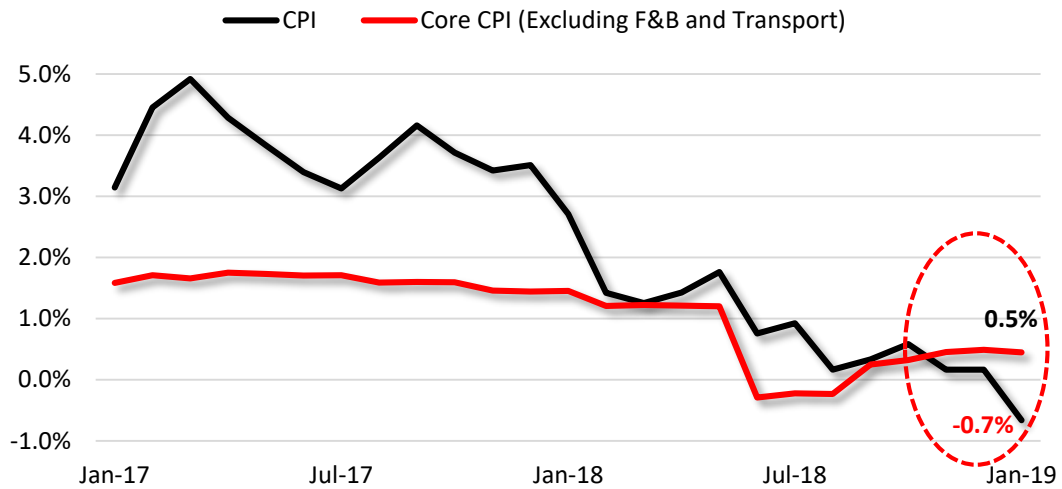


## Deflation seen in January at -0.7%

### Facts

- Malaysia's Consumer Price Index (CPI) contracted by 0.7% year-on-year (y-o-y) in January from 0.2% expansion in December last year (Consensus: -0.4%, Bank Islam: 0.2%). This was primarily driven by Transport index which fell by 7.8% (14.6% of total CPI) followed by Clothing & Footwear (Dec: -3.3% vs. -3.2%), Communication (Jan: -1.2% vs. Dec: -1.3%), Recreation & Culture (Jan: -0.4% vs. Dec: -0.2%), Furnishing, Household Equipment & Maintenance (Jan: -0.3% vs. Dec: 0.1%), Health (Jan: -0.5% vs. Dec: -0.4%) and Miscellaneous Goods & Services (Jan: -2.4% vs. Dec: -2.4%)
- On the contrary, Food & Non-Alcoholic Beverages Index grew moderately by 1.0% (Dec: 0.7%) while Housing, Water, Electricity, Gas & Other Fuels Index sustained at 2.0% for three consecutive months. Both indices contributed 53.3% to the headline inflation.
- As for transport sub-indices, Fuels and Lubricating Personal Transport Equipment Operation of Personal Transport Equipment (OP), which forms 8.5% of total CPI declined to 12.6%, the third consecutive months of negative print. The weekly price system based on Automatic Pricing Mechanism (APM) which has been introduced in January 2019 might explained the deflationary pressures. This is especially true when the average Brent crude during January 2019 was at USD60 per barrel against January 2018 average of USD69 per barrel.
- Nevertheless, the increase in Food & Non-Alcoholic Beverages have mitigated the decline in CPI. This was attributed by higher growth in Food related sub-index which rose by 1.1% in January from 0.8% increases in the preceding month. There were several indices in the sub-groups (See Table 2) which registered higher growth such as Food Away from Home (Jan: 3.3% vs. Dec: 2.7%), followed by Meat (Jan: 2.4% vs. Dec: 1.0%), Fruits (Jan: 1.4% vs. Dec: 0.5%) and Fish & Seafood (Jan: 1.2% vs. Dec: -0.1%).
- Meanwhile, few states across Malaysia have recorded deflation such as Pulau Pinang (Jan: -0.2% vs. Dec: 0.6%), Selangor & WP Putrajaya (Jan: -0.2% vs. Dec: 0.6%) and Terengganu (Jan: -1.5% vs. Dec: -0.6%). Federal Territory Kuala Lumpur was an exception with positive print of 0.2% was recorded although smaller compared to 1.0% increases in the previous month.
- Our core inflation which excludes Food & Non-Alcoholic Beverages and Transport remained steady and grew modestly at 0.5% in January. This represents the third month in a row where our Core CPI has been rising at the same pace. In a nutshell, deflationary pressure was seen in January 2019. However, it is likely to be transitory as the low base effect in January 2019 would wear off until May. The gradual rise in the crude oil recently and elevated levels of food prices are expected to lift the CPI in the 2H2019.

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



Source: CEIC

**Table 1: Consumer Price Index (CPI)**

	Weight	Oct-18	Nov-18	Dec-18	Jan-19	1M2018	1M2019
<b>Consumer Price Index</b>	<b>100.0%</b>	<b>0.6%</b>	<b>0.2%</b>	<b>0.2%</b>	<b>-0.7%</b>	<b>2.7%</b>	<b>-0.7%</b>
Food and Non Alcoholic Beverages	29.5%	1.2%	1.1%	0.7%	1.0%	3.8%	1.0%
Alcoholic Beverages and Tobacco	2.4%	-0.8%	1.0%	1.1%	1.1%	0.2%	1.1%
Clothing and Footwear	3.2%	-3.1%	-3.1%	-3.2%	-3.3%	-0.3%	-3.3%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	2.1%	2.0%	2.0%	2.0%	2.2%	2.0%
Furnishings, Household Equipment and Maint.	4.1%	-0.3%	-0.1%	0.1%	-0.3%	2.6%	-0.3%
Health	1.9%	-0.2%	-0.2%	-0.4%	-0.5%	2.3%	-0.5%
Transport	14.6%	0.8%	-2.3%	-2.0%	-7.8%	5.7%	-7.8%
Communication	4.8%	-1.5%	-1.3%	-1.3%	-1.2%	-0.6%	-1.2%
Recreation and Culture	4.8%	-0.2%	-0.3%	-0.2%	-0.4%	0.5%	-0.4%
Education	1.3%	1.1%	1.4%	1.1%	0.9%	1.2%	0.9%
Restaurants and Hotels	2.9%	1.2%	1.2%	1.3%	1.2%	2.4%	1.2%
Miscellaneous Goods and Services	6.7%	-2.8%	-2.6%	-2.4%	-2.4%	0.9%	-2.4%
<b>Core CPI (excluding F&amp;B and Transport)</b>		<b>0.3%</b>	<b>0.5%</b>	<b>0.5%</b>	<b>0.5%</b>	<b>1.5%</b>	<b>0.5%</b>

Source: CEIC & Strategic Management Bank Islam

**Table 2: Food & Non-Alcoholic sub-indices y-o-y (%)**

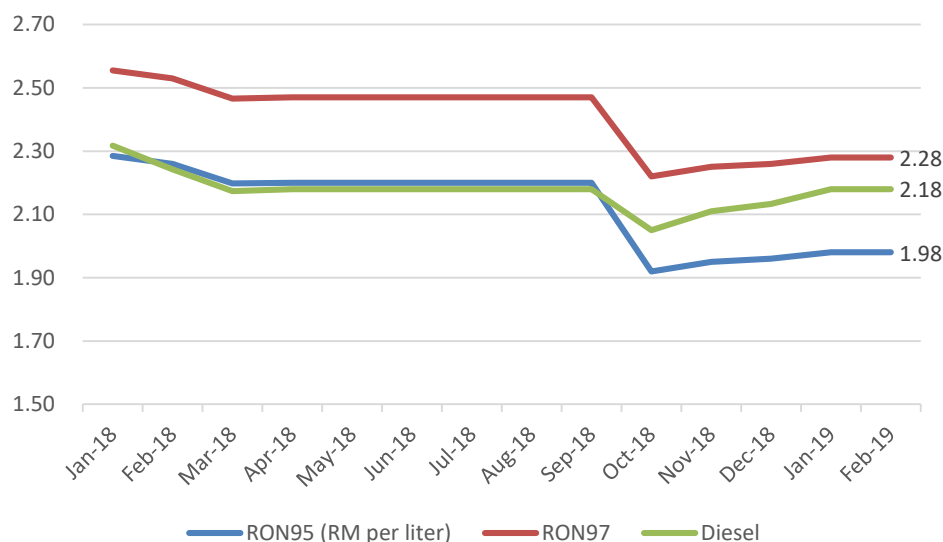
	Weights( %)	Nov-18	Dec-18	Jan-19
<b>Food and Non Alcoholic Beverages</b>	<b>29.5</b>	<b>1.1%</b>	<b>0.7%</b>	<b>1.0%</b>
Food	28.4	1.2%	0.8%	1.1%
<b>Food at Home</b>	<b>16.9</b>	<b>-0.2%</b>	<b>-0.5%</b>	<b>-0.5%</b>
Rice, Bread and Other Cereals	3.5	-0.3%	-0.4%	-0.4%
Meat	2.5	-2.2%	1.0%	2.4%
Fish & Seafood	4	0.5%	-0.1%	1.2%
Milk, Cheese and Eggs	1.5	-0.2%	0.9%	0.6%
Oils & Fats	0.6	-0.7%	-0.8%	-0.8%
Fruits	1.2	0.2%	0.5%	1.4%
Vegetables	2.1	0.8%	-4.4%	-7.9%
Sugar, Jam, Honey, Chocolate & Confectionery	0.6	-2.3%	-2.0%	-2.3%
Foods Product N.E.C	1	-0.7%	-0.7%	-0.6%
Food Away From Home	11.5	3.3%	2.7%	3.3%
<b>Coffee, Tea, Cocoa &amp; Non Alcoholic Beverages</b>	<b>1.11</b>	<b>-1.1%</b>	<b>-0.8%</b>	<b>-1.1%</b>

Source: CEIC, DOSM

### Our view

The effect of fuel prices were apparent in the latest CPI print. At the end of January 2019, RON95, RON97 and Diesel prices were at RM1.98, RM2.28 and RM2.18 per liter which was lower compared to RM2.29, RM2.56 and RM2.31 per liter at the end of January 2018. The Automatic Pricing Mechanism (APM) was reinstated in January 2019 of which fuel prices will be adjusted on weekly prices to reflect the prevailing crude oil prices.

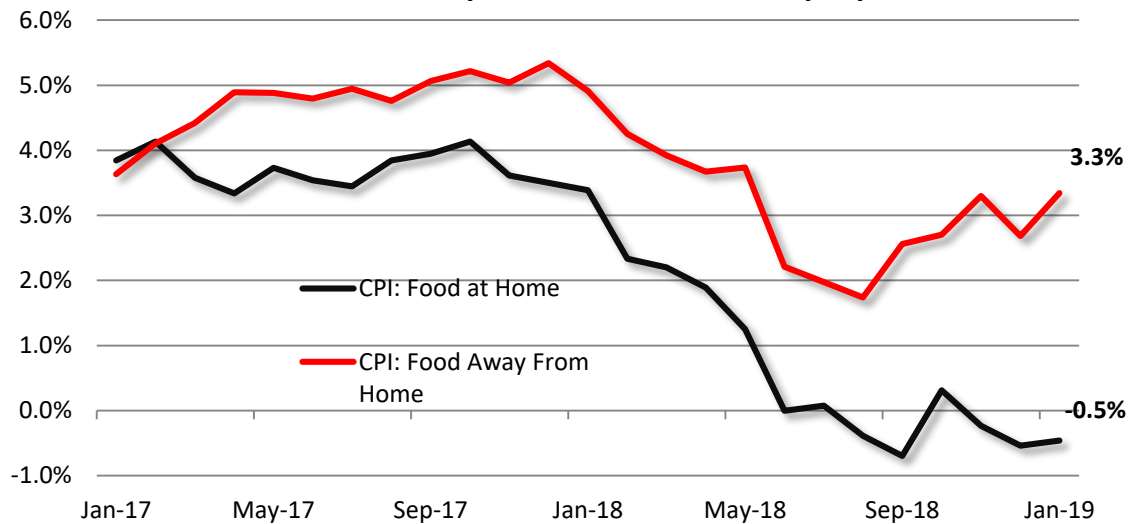
**Chart 2: 2019 Petrol prices in Malaysia**



Sources: CEIC & HargaPetro.my

While lower fuel prices could be music to our ears (at least for now), the recent news on a price hike of fish supply in Terengganu suggests that food prices are likely to be expensive going forward. It was reported that price for mackerel has increased between RM18.00 to RM20.00 per kilogram (kg) from the regular price of around RM14.00 per kg, a whopping 43.0% jumped. Similarly, Red fish prices were also increased by 6.7% from RM30.00 to RM32.00 per kg. The increased in prices was due to bad weather condition such as rainy season and tropical storm, Pabuk that hit the state in November last year.<sup>1</sup>

**Chart 3: Food at Home & Food Away from Home sub-indices y-o-y%**

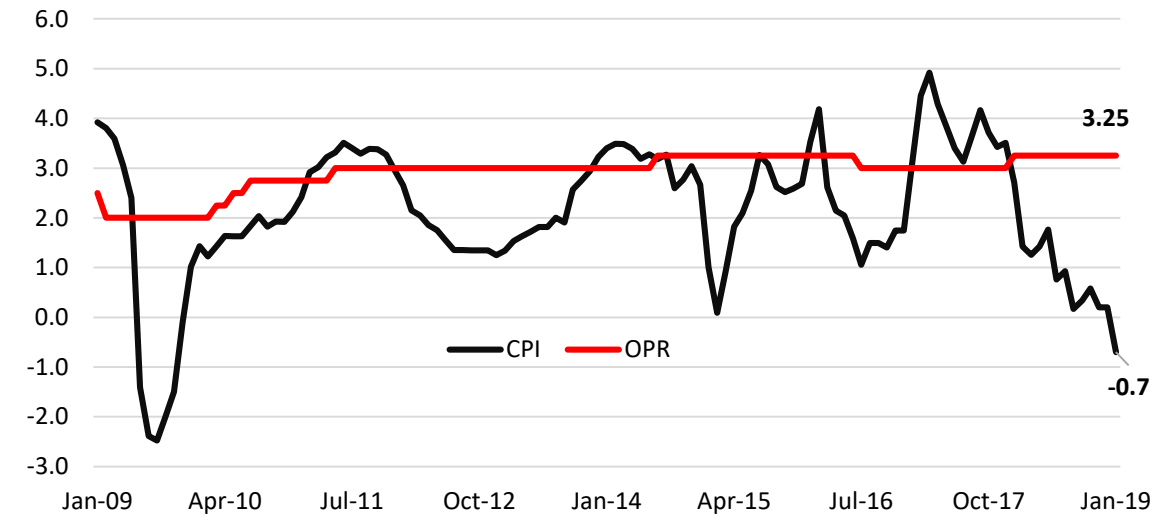


Source: CEIC

As for BNM, lower inflation rate would mean greater room for monetary policy manoeuvring (see Chart 4). In this regard, **we have lowered our 2019 inflation rate forecast from 2.2% to 1.7%** as we expect fuel prices would rise moderately. Essentially, the central bank presently has the flexibility to reduce the rates if they wish to do so. This is especially true when the US Fed is also seen to take a long pause in its rate hike decision. Notwithstanding that, we are of the view the **BNM might incline to maintain the prevailing Overnight Policy Rate (OPR) at 3.25 percent in 2019** subject to the evolving economic outlook.

<sup>1</sup> <https://www.nst.com.my/news/nation/2019/01/447628/price-fish-increases-due-pabuk>  
For Internal Circulation

Chart 4: CPI y-o-y% vs OPR



Source: CEIC

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