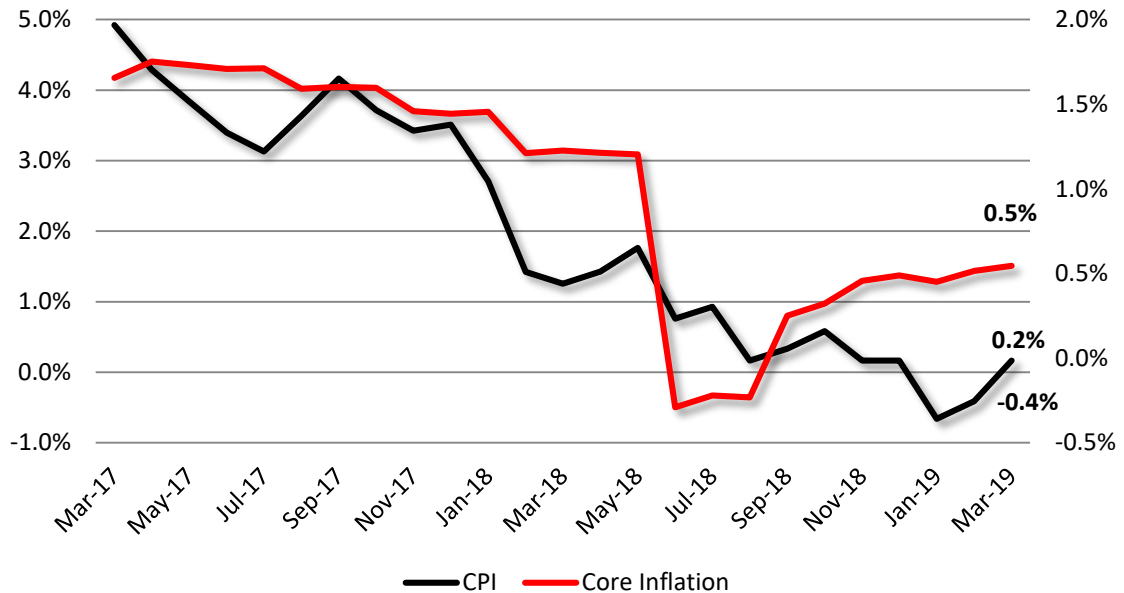


# Inflation is back again. But only at 0.2% in March

## Facts

- The Consumer Price Index (CPI) recorded positive growth in March, growing by 0.2% year-on-year (y-o-y) after two consecutive months of decline (Feb: -0.4% vs. Jan: -0.7%). This was slightly lower than the market consensus of 0.3% (Bank Islam: 0.8%). Slower contraction in the Transport components (March: -3.0% vs. Feb: -6.8%) as well as gradual increase in the Food & Non-Alcoholic Beverages (March: 1.1% vs. Feb: 1.0%) were the main drivers to the recovery in overall CPI. Both indices accounted for 44.1% of headline inflation.
- Meanwhile, the Furnishings, Household Equipment & Maintenance rose by 0.3% in March as compared to 0.1% in February while sub-indices such as Alcoholic Beverages & Tobacco, Education as well as Housing, Water, Electricity, Gas & Other fuels have been rising at sustained rate of 1.1% (Feb 1.1%), 1.3% (Feb: 1.3%) and 2.0% (Feb: 2.0%) respectively.
- As for the Transport sub-indices, Fuels & Lubricating Personal Transport Equipment Operation which accounted for 8.5% of total CPI fell by a lower margin of 4.8% in March versus -11.4% in the previous month. This reflect higher fuel prices albeit gradually.
- Within the Food & Non-Alcoholic Beverages, the milk & egg prices increased marginally by 2.0% (Feb: 1.8%) while the Food Away From Home sustained at 3.4% in March (Feb: 3.4%). Further breakdown showed that the sub-index for eggs has been rising at a fast clip of 13.8% in March from 13.1% in the preceding month. In other words, food prices are higher compared to last year.
- Our core CPI, which excludes Food & Non-Alcoholic Beverages and Transport, has been consistently rising at 0.5% since November 2018. Therefore, price level outside food and fuel have been increasingly expensive.
- At states level, CPI has advanced in Federal Territory Kuala Lumpur (March: 0.9% vs. Feb: 0.3%), Selangor & Federal Territory Putrajaya (March: 0.6% vs. Feb: -0.2%), Pulau Pinang (March: 0.3% vs. Feb: 0.2%), Pahang (March: 0.3% vs. Feb: -0.8%) and Johor (March: 0.2% vs. Feb: -0.6%) during March. Nonetheless, deflationary trend was still prevalent in Kelantan (March: -0.3% vs. Feb: -0.7%), Terengganu (March: -0.7% vs. Feb: -1.4%) as well as Sarawak (March: -0.7% vs. Feb: -1.1%).
- Cumulatively, the Malaysian CPI fell -0.3% in 1Q2019 (1Q2018: +1.8%) while the core CPI was softening by 0.5% in 1Q2019 (1Q2018: 1.3%).

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



Source: CEIC

Table 1: Consumer Price Index (CPI)

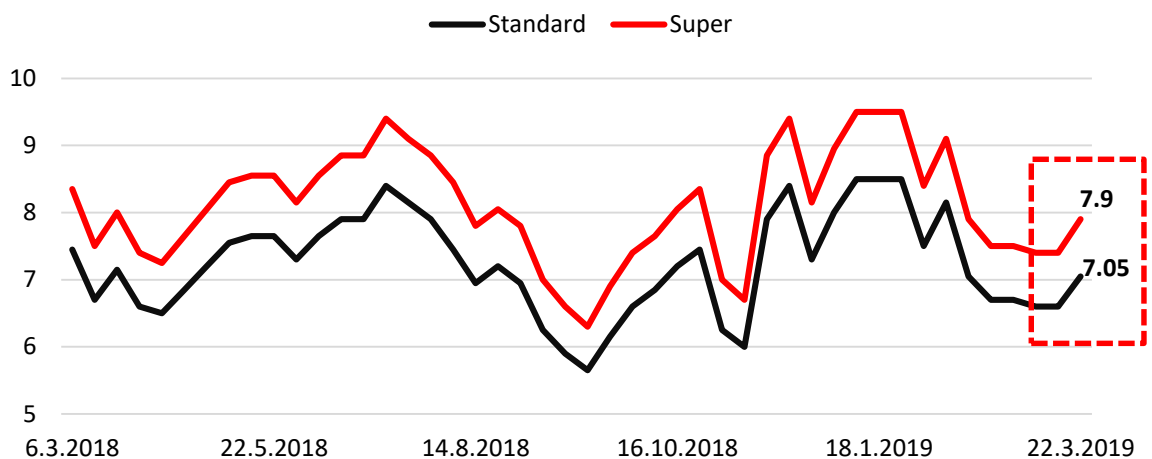
	Weight	Dec-18	Jan-19	Feb-19	Mar-19	1Q2018	1Q2019
<b>Consumer Price Index</b>	<b>100.0%</b>	<b>0.2%</b>	<b>-0.7%</b>	<b>-0.4%</b>	<b>0.2%</b>	<b>1.8%</b>	<b>-0.3%</b>
Food and Non Alcoholic Beverages	29.5%	0.7%	1.0%	1.0%	1.1%	3.2%	1.0%
Alcoholic Beverages and Tobacco	2.4%	1.1%	1.1%	1.1%	1.1%	0.1%	1.1%
Clothing and Footwear	3.2%	-3.2%	-3.3%	-3.2%	-3.0%	-0.6%	-3.1%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Furnishings, Household Equipment and Maint.	4.1%	0.1%	-0.3%	0.1%	0.3%	2.3%	0.0%
Health	1.9%	-0.4%	-0.5%	-0.4%	-0.2%	2.1%	-0.4%
Transport	14.6%	-2.0%	-7.8%	-6.8%	-3.0%	1.2%	-5.9%
Communication	4.8%	-1.3%	-1.2%	-1.2%	-1.1%	-0.6%	-1.2%
Recreation and Culture	4.8%	-0.2%	-0.4%	-0.4%	-0.4%	0.5%	-0.4%
Education	1.3%	1.1%	0.9%	1.3%	1.3%	1.1%	1.2%
Restaurants and Hotels	2.9%	1.3%	1.2%	1.3%	1.0%	2.0%	1.2%
Miscellaneous Goods and Services	6.7%	-2.4%	-2.4%	-2.2%	-2.0%	0.6%	-2.2%
<b>Core CPI (excluding F&amp;B and Transport)</b>		<b>0.5%</b>	<b>0.5%</b>	<b>0.5%</b>	<b>0.5%</b>	<b>1.3%</b>	<b>0.5%</b>

Source: CEIC & Strategic Management Bank Islam

### Our view

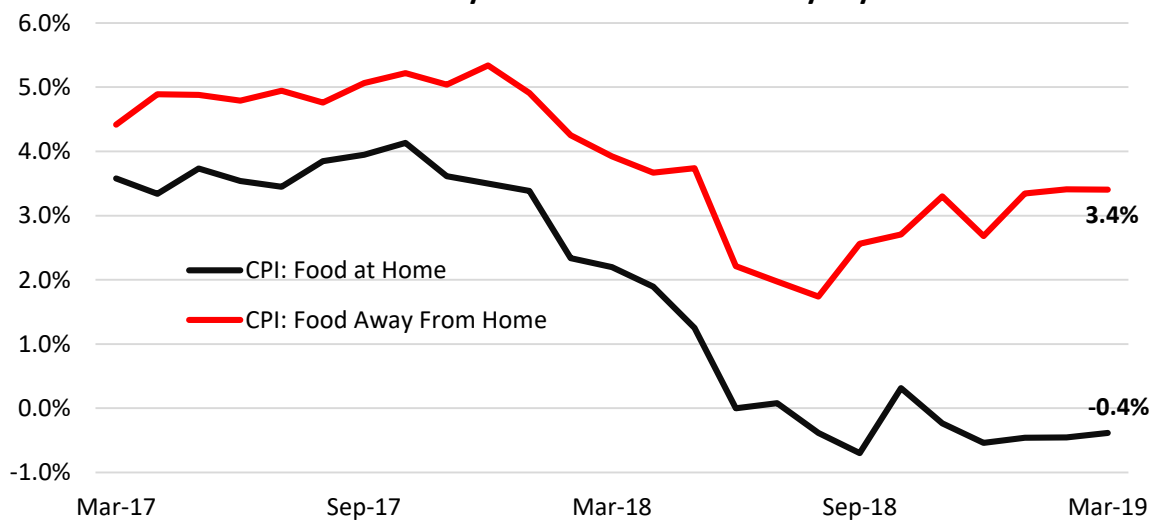
Inflation rate has made a comeback after 2 months of deflationary trend, albeit at modest pace. According to the Department of Statistics Malaysia (DOSM), goods which experiencing steep rise in most states were Eggs (+14.9%), Cockles (+7.6%), Spanish Mackerel (Fish) (+3.4%), Crab (+3.1%), Cuttlefish (+1.1%), Red Snapper (Fish)(+0.8%) and Prawn (+0.7%). Data from Department of Veterinary Services Malaysia also supports the view that prices are rising. The price of chicken meat has risen from RM6.70/kg in February to RM7.05/kg in March (see Chart 2). This could really explain why Food Away from Home sub-indices has increased as restaurants operators would raise up their product prices in view of higher production costs (see Chart 3). Apart from that, higher fuel prices have been the main contributing factor for the inflation in March as indicated by the increase in RON95 and RON97 prices (see Table 2 and Chart 4). So prices are persistently rising despite the two months of deflationary trend.

**Chart 2: Chicken meat retail price (RM/kilogram)**



Source: Department of Veterinary Services Malaysia

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



Source: CEIC

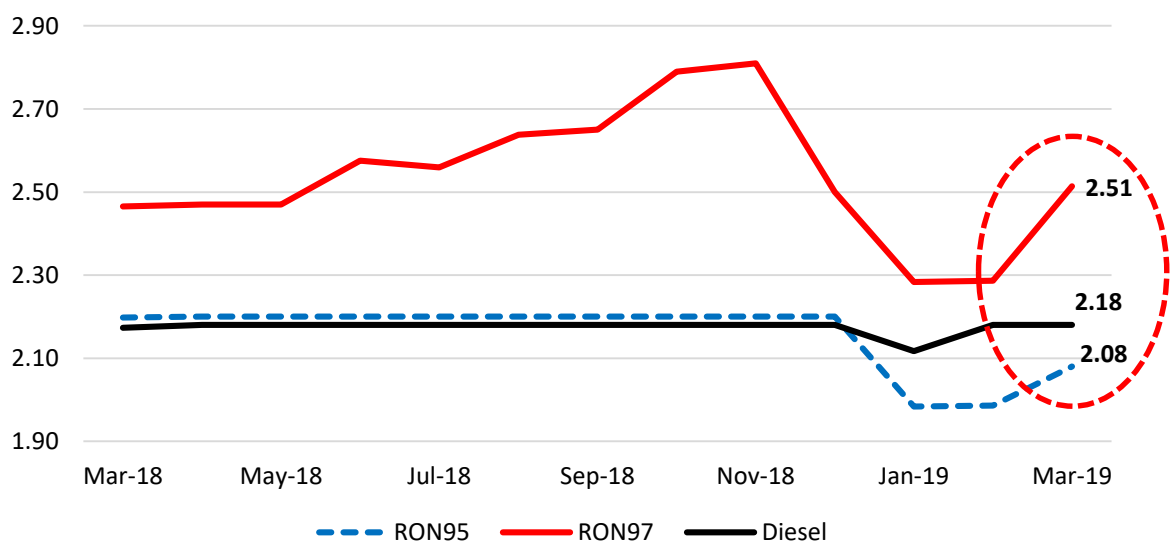
In other development, the government has indicated that it may remove the current cap on RON95 prices, which currently set at RM2.08 per liter, once the targeted subsidy mechanism is in place. Nonetheless, we view the recent announcement by the minister in charge was rather indecisive as the matter has yet to be decided by the Cabinet ministers. In addition, there could be an option to continue the current arrangement. Therefore, the risks for a sharp increase in inflation rate is fairly remote at this juncture.

**Table 2: Average Petrol prices in Malaysia (RM per liter)**

Date	RON95	RON97	Diesel
Jan-18	2.28	2.55	2.31
Feb-18	2.26	2.53	2.24
Mar-18	2.20	2.47	2.17
Apr-18	2.20	2.47	2.18
May-18	2.20	2.47	2.18
Jun-18	2.20	2.58	2.18
Jul-18	2.20	2.56	2.18
Aug-18	2.20	2.64	2.18
Sep-18	2.20	2.65	2.18
Oct-18	2.20	2.79	2.18
Nov-18	2.20	2.81	2.18
Dec-18	2.20	2.50	2.18
Jan-19	1.98	2.28	2.12
Feb-19	1.99	2.29	2.18
Mar-19	2.08	2.51	2.18

Source: CEIC

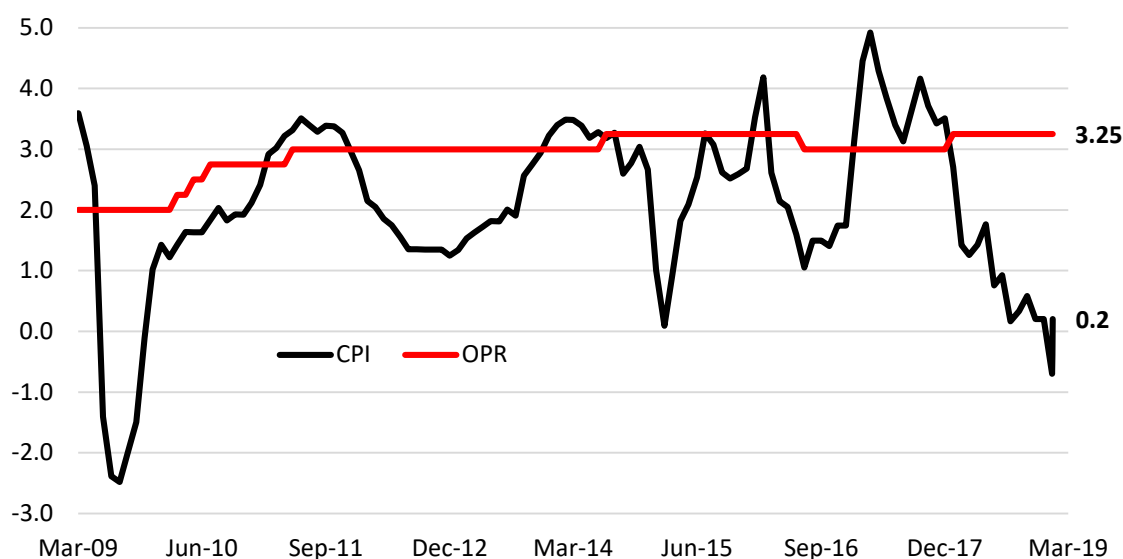
**Chart 4: Average Petrol prices in Malaysia (RM per liter)**



Source: CEIC

On a different note, lower inflation rate will definitely give the policy space to BNM. This is especially true as the downside risks narratives have become apparent. Credible institutions such as the International Monetary Fund (IMF) and the World Trade Organization (WTO) have downgraded their forecast on the respective macroeconomic variables. The IMF has downgraded 2019 global GDP growth from 3.5% to 3.3% while WTO expect merchandise trade volume to grow by 2.6% in 2019 from 3.0% in the previous year. As such, we opine that the BNM would reduce the **Overnight Policy Rate (OPR) by 25 basis points to 3.00% during the Monetary Policy Committee (MPC) meeting on 7<sup>th</sup> May 2019**. Such move was none other than to provide the monetary stimulus to economic growth.

Chart 5: CPI y-o-y % vs. OPR %



Source: CEIC

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