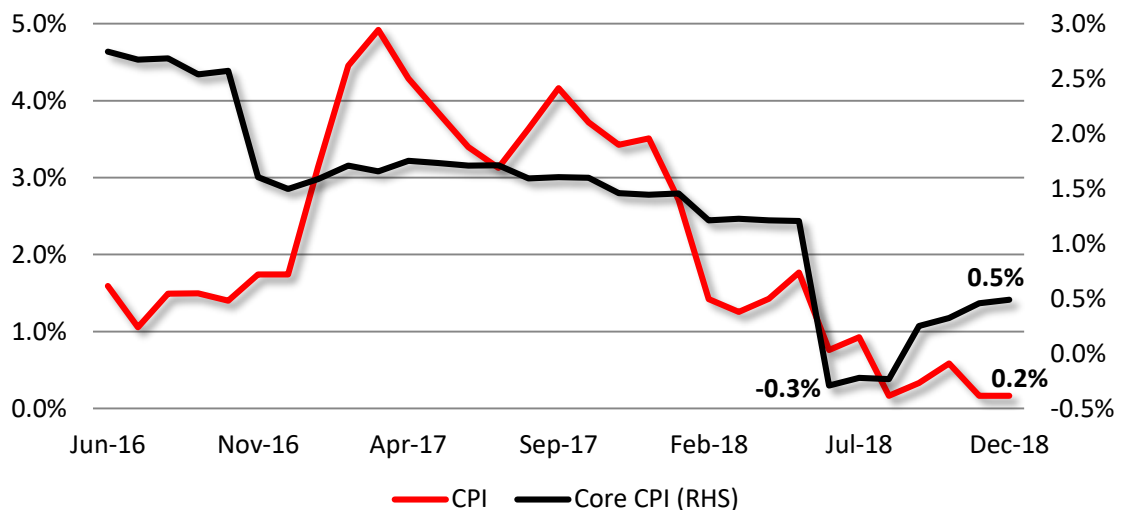


Inflation remain subdued at 0.2% in December

Facts

- Malaysian Consumer Price Index (CPI) sustained at 0.2% year-on-year (Nov: 0.2%) in December (Consensus: 0.3%, Bank Islam: 0.5%). The moderate growth in the overall index was mainly driven by the marginal increased in Alcoholic Beverages & Tobacco (Dec: 1.1% vs. Nov: 1.0%) and Restaurants & Hotels (Dec: 1.3% vs. Nov: 1.2%). On the contrary, there were two sub-indices posted further contraction i.e. Clothing & Footwear (Dec:-3.2% vs. Nov: -3.1%) and Health (Dec: -0.4% vs. Nov: -0.2%).
- Food and Non Alcoholic Beverages registered slower increases at 0.7% in December from 1.1% in the preceding month. This was attributed by further contraction in Food at Home Index (Dec:-0.5% vs. Nov: -0.2%). Further breakdown showed that few sub-indices such as Rice, Bread & Others (Dec: -0.4% vs. Nov: -0.3%), Fish & Seafood (Dec: -0.1% vs. Nov: 0.5%), Oils & Fats (Dec: -0.8% vs. -0.7%) and Vegetables (Dec: -4.4% vs. 0.8%) have also declined. Similarly, Food Away From Home Index moderated to 2.7% in December compared to previous month at 3.3%.
- Meanwhile, the inflation rate in few states across Malaysia recorded a moderate growth such as W.P. Kuala Lumpur (Dec: 1.0% vs. Nov: 3.9%), Pulau Pinang (Dec: 0.6% vs. Nov: 1.0%) as well as Selangor and W.P. Putrajaya (Dec: 0.2% vs. Nov: 0.7%). Therefore, the general price levels have been rising at a modest speed.
- Our core inflation, which excludes Food & Non Alcoholic Beverages and Transport, remained steady at 0.5% in December (Nov: 0.5%). Despite that, core inflation rate has surpassed the headline inflation for two consecutive months. This would mean the rise in the price level has become broad based.
- Cumulatively, headline inflation rate averaged at 1.0% for 2018. This is lower compared to 3.8% recorded in 2017. Key component such as Food & Non Alcoholic Beverages (29.5% of total CPI), Housing, Water, Electricity, Gas & Other Fuels and (23.8% of total CPI) and Transport (14.6% of total CPI) have been the main factor for slower rise in CPI when the three sub-indices dropped to 1.6% (2017: 3.9%), 2.0% (2017: 2.2%) and 1.6% (2017: 13.2%). On the same note, the full year Core CPI edged down to 0.6% compared to 1.6% in 2017. In a nutshell, the general price level has been rising at a modest pace throughout 2018.

Chart 1: Consumer Price Index (CPI) and Core CPI y-o-y %



Source: CEIC, DOSM

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

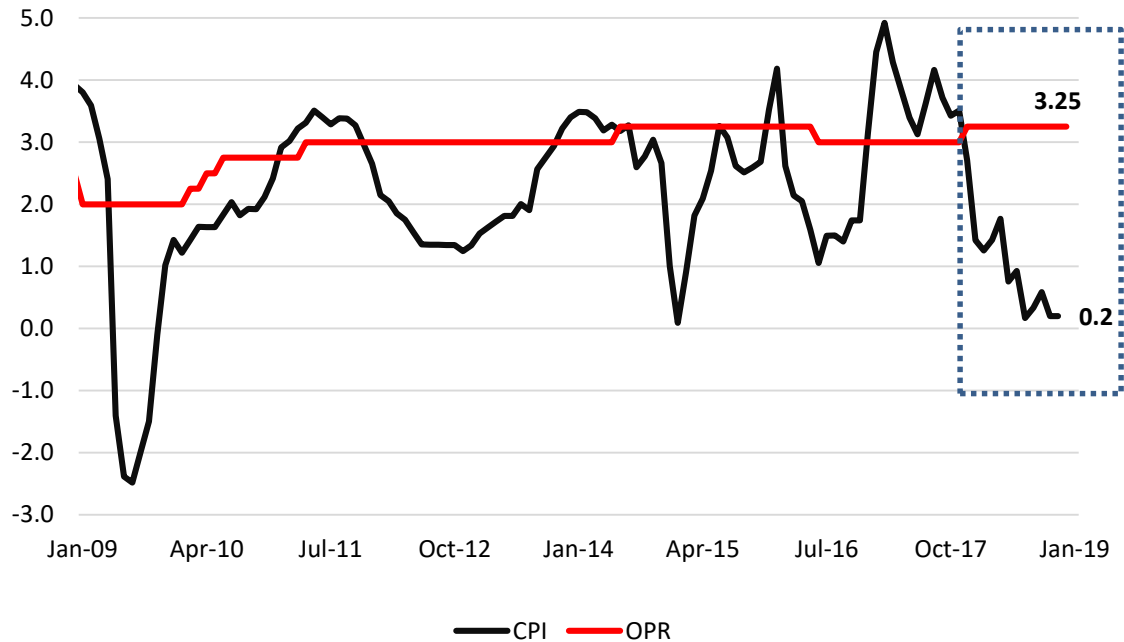
	Weight	Sep-18	Oct-18	Nov-18	Dec-18	12M2017	12M2018
Consumer Price Index	100.0%	0.3%	0.6%	0.2%	0.2%	3.8%	1.0%
Food and Non Alcoholic Beverages	29.5%	0.5%	1.2%	1.1%	0.7%	3.9%	1.6%
Alcoholic Beverages and Tobacco	2.4%	-0.9%	-0.8%	1.0%	1.1%	0.2%	-0.1%
Clothing and Footwear	3.2%	-3.2%	-3.1%	-3.1%	-3.2%	-0.4%	-2.0%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	2.1%	2.1%	2.0%	2.0%	2.2%	2.0%
Furnishings, Household Equipment and Maint.	4.1%	-0.8%	-0.3%	-0.1%	0.1%	2.2%	0.4%
Health	1.9%	-0.2%	-0.2%	-0.2%	-0.4%	2.6%	0.8%
Transport	14.6%	0.3%	0.8%	-2.3%	-2.0%	13.2%	1.6%
Communication	4.8%	-1.6%	-1.5%	-1.3%	-1.3%	-0.3%	-1.8%
Recreation and Culture	4.8%	-0.2%	-0.2%	-0.3%	-0.2%	1.9%	-0.4%
Education	1.3%	1.1%	1.1%	1.4%	1.1%	1.6%	1.1%
Restaurants and Hotels	2.9%	1.1%	1.2%	1.2%	1.3%	2.5%	1.5%
Miscellaneous Goods and Services	6.7%	-3.0%	-2.8%	-2.6%	-2.4%	1.2%	-1.4%
Core CPI (excluding F&B and Transport)		0.2%	0.3%	0.5%	0.5%	1.6%	0.6%

Source: CEIC, Strategic Management Bank Islam

Our view

The inflation rate in 2018 has been very benign. At 1.0%, the inflation rate is currently hovering below the 2.5% average since 2006. From the monetary policy standpoint, this would give some space for BNM should they decide to cut the rates. However, they are not doing it now as they believe as the prevailing Overnight Policy Rate (OPR) is very much consistent with the current state of the economy. **We are projecting inflation rate could come in at 2.2% in 2019** owing to the low base factor last year, the pass through effect from weak currencies as well as softer domestic demand.

Chart 2: CPI y-o-y% vs OPR



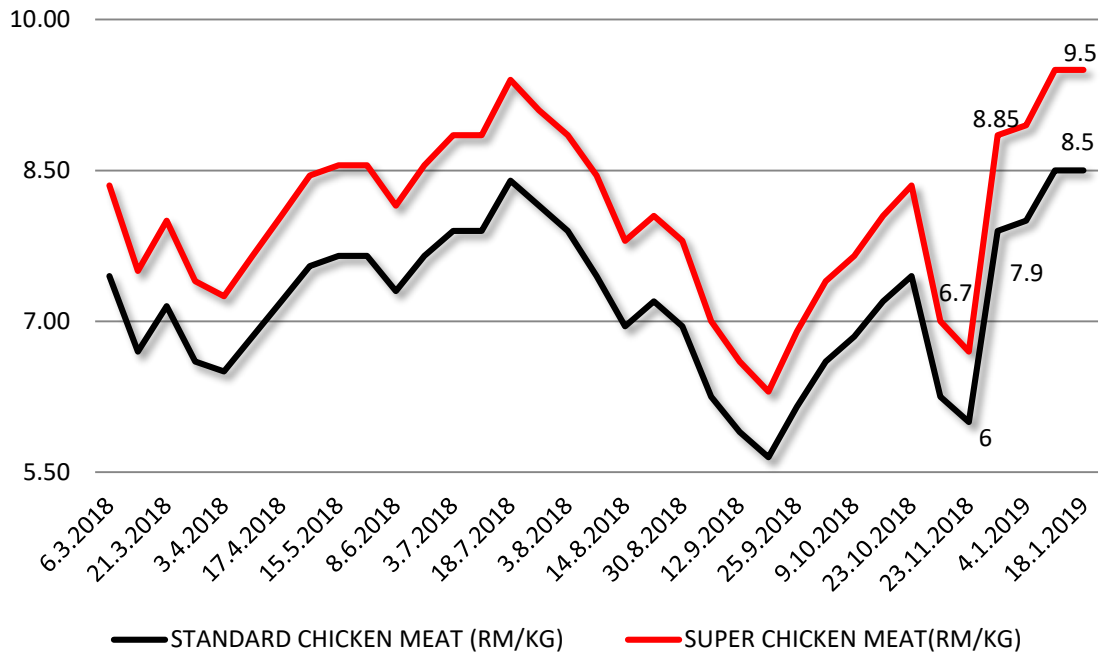
Source: CEIC

While the central bank would have some flexibility to manoeuvre, the general public has been furious over the price hike in the major fast food restaurants. The recent news flow suggested that there were price increases at KFC and McDonalds¹. It was reported that the price for a snack plate and dinner plate at KFC was previously at RM 12.30 and RM15.50 respectively. Presently, the customers are charged with RM 15.30 and RM19.40 for snack and dinner plate. This is a whopping 24.3% and 25.2% jump in prices for both snack plate and dinner plate! Additionally, the retail price for standard chicken meat rose since November from RM6.0 per Kilogram (Kg) to RM8.5 per Kg in January (See Chart 4) due to the festive seasons. Again, this represent a massive 42% price hike. This could really explain why the food operators have been overcharging their customers.

Be that as it may, it remain to be seen whether such trend would deter consumer spending in a meaningful way as the news represents an anecdotal evidence. Therefore, it would rather difficult to make an assessment based on a piecemeal data. Nonetheless, the consumers would be mindful in their spending this year. We have seen fuel prices have been raised in a number of occasion following the reinstatement of Automatic Price Mechanism (APM) this year. Weaker exchange rate would also result in imported inflation to be prevalent during the course of 2019. As such, we could expect consumer spending to normalise in 2019 after experiencing an above-trend growth in 2018.

¹ <http://www.rojakdaily.com/news/article/6187/malaysians-are-unhappy-that-kfc-and-mcdonald-s-have-increased-their-prices>

Chart 4: Chicken Meat Price



Source: Department of Veterinary Services Malaysia

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