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CPI appreciated by 1.5% in August

Facts

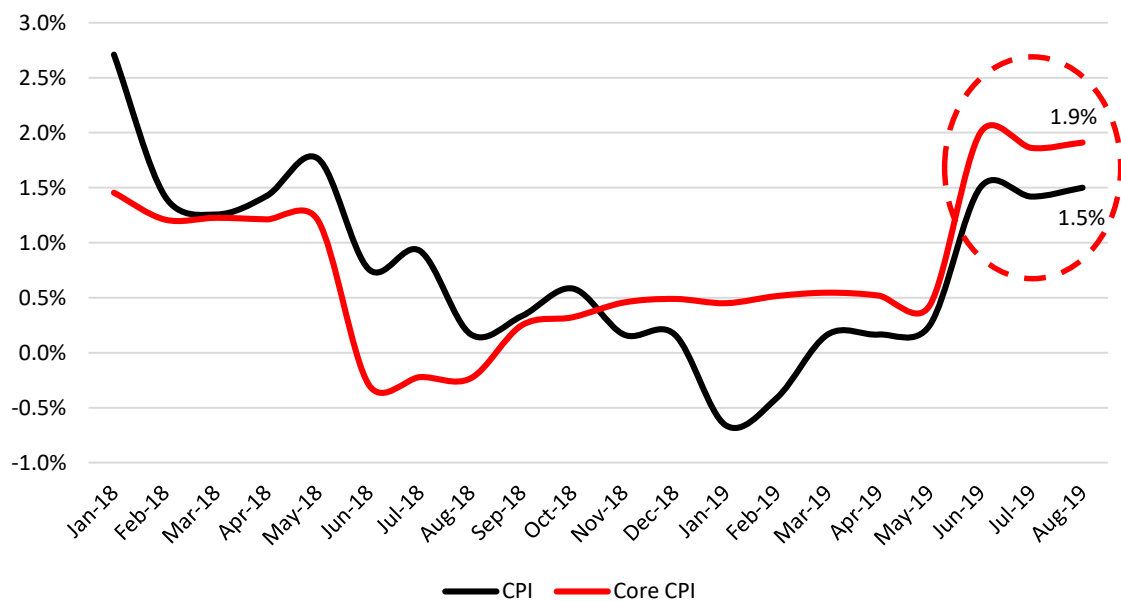
- Malaysian Consumer Price Index (CPI) increased by 1.5% year-on-year (y-o-y) in August as compared to 1.4% in the preceding month (Consensus: 1.5%, Bank Islam: 1.6%). This was supported by higher inflation in Food & Non-Alcoholic Beverages (August: 2.6% vs. July: 2.4%), Alcoholic Beverages & Tobacco (August: 2.5% vs. July: 2.3%), Health (August: 1.4% vs. July: 1.3%), Communication (August: 2.2% vs. July: 2.1%) and Miscellaneous Goods & Services (August: 2.5% vs. July: 1.8%). These sub-indices accounted for 45.3% of total CPI. Similarly, Housing, Water, Electricity, Gas & Other Fuels (August: 1.8% vs. July: 1.9%), Furnishing, Household Equipment & Maintenance (August: 3.2% vs. July: 3.3%) and Recreation & Culture (August: 2.3% vs. July: 2.4%) grew moderately in during August.
- In contrast, prices of Clothing & Footwear (August: -1.1% vs. July: -1.1%) and Transport (August: -2.1% vs. July: -1.9%) remained in the negative territory in August. Meanwhile, Restaurants & Hotels (August: 1.7% vs. July: 1.7%) and Education (August: 1.4% vs. July: 1.4%) sustained its growth during the month.
- Within Food & Non-Alcoholic Beverages sub-indices, prices for Food at Home edged up to 1.3% in August, marginally higher from 1.0% in July. This was contributed by inflationary pressure in Fish & Seafood (August: 0.9% vs. July: 0.4%) and Milk & Eggs (August: 3.4% vs. July: 2.6%).
- At the states level, Federal Territory Kuala Lumpur recorded highest price appreciation by 2.4% in August (July: 2.2%). This was followed by Selangor & Federal Territory Putrajaya and Perak, growing by 1.8% (July: 1.7%) and 1.6% (August: 1.4%) respectively in August. Nonetheless, softer inflation was seen in Pulau Pinang (August: 2.0% vs. July: 2.1%) and Sarawak (August: 0.7% vs. July: 0.9%).
- Our core inflation, which excludes Food & Non-Alcoholic Beverages and Transport, remained steady at 1.9% in August (July: 1.9%).
- Cumulatively, the Malaysian CPI recorded a softer growth of 0.5% in the first eight months of 2019 (8M2018: 1.3%) while Core Inflation rose to 1.0% in 8M2019 (8M2018: 0.7%).

Table 1: Consumer Price Index (CPI)

	Weight	Apr-19	May-19	Jun-19	Jul-19	Aug-19	8M2018	8M2019
Consumer Price Index	100.0%	0.2%	0.2%	1.5%	1.4%	1.5%	1.3%	0.5%
Food and Non Alcoholic Beverages	29.5%	1.1%	1.2%	2.3%	2.4%	2.6%	2.0%	1.6%
Alcoholic Beverages and Tobacco	2.4%	1.2%	1.3%	2.1%	2.3%	2.5%	-0.2%	1.6%
Clothing and Footwear	3.2%	-3.2%	-3.2%	-0.7%	-1.1%	-1.1%	-1.5%	-2.3%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	2.0%	1.8%	2.3%	1.9%	1.8%	2.0%	2.0%
Furnishings, Household Equipment and Maint.	4.1%	0.2%	0.5%	3.1%	3.3%	3.2%	0.7%	1.3%
Health	1.9%	-0.3%	-0.3%	1.2%	1.3%	1.4%	1.3%	0.3%
Transport	14.6%	-2.6%	-2.5%	-2.1%	-1.9%	-2.1%	2.7%	-3.6%
Communication	4.8%	-1.1%	-0.9%	2.1%	2.1%	2.2%	-1.9%	0.1%
Recreation and Culture	4.8%	-0.4%	-0.4%	2.7%	2.4%	2.3%	-0.6%	0.6%
Education	1.3%	1.2%	1.2%	1.4%	1.4%	1.4%	1.1%	1.2%
Restaurants and Hotels	2.9%	0.8%	0.6%	1.6%	1.7%	1.7%	1.7%	1.3%
Miscellaneous Goods and Services	6.7%	-2.0%	-2.1%	1.4%	1.8%	2.5%	-0.8%	-0.7%
Core CPI (excluding F&B and Transport)		0.5%	0.4%	2.0%	1.9%	1.9%	0.7%	1.0%

Source: DOSM, CEIC, Bank Islam

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

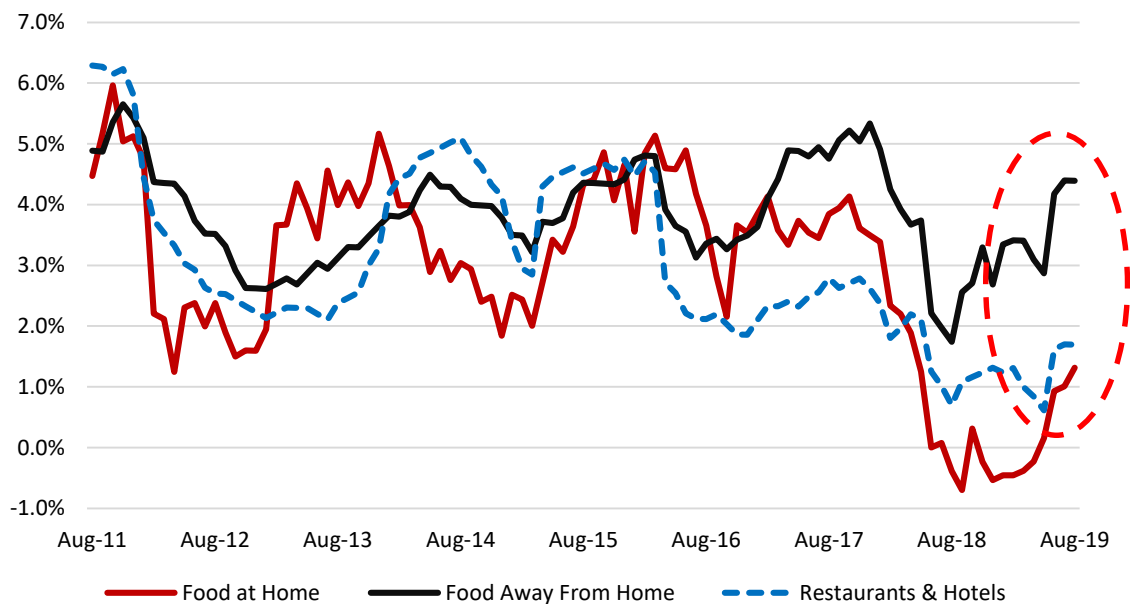


Source: CEIC

Our view

Based on the observed data, the inflation rate was higher during June to August this year following the low-base effect between June and August 2018. This was due to the zero rate for Goods and Services Tax (GST) introduced during these periods. Additionally, prices of foods have remained at elevated level, leading to higher inflation rate during August. Judging from Chart 2, Food at Home rose from 1.0% in July to 1.3% in August (8M2019: 0.2% vs. 8M2018: 1.3%), while Food away from Home sustained at 4.4% in August (July: 4.4%, 8M2019: 3.6% vs. 8M2018: 3.3%). On the same note, inflation rate for Restaurants & Hotels were on the rise since May this year from 0.6% to 1.7% in August (8M2019: 1.3% vs. 8M2018: 1.7%). According to the Department of Veterinary Services Malaysia, prices of egg for Grade AA has risen from RM0.35 per egg on 3 August to RM0.40 per egg on 30 August (See Table 2). This would mean that the pass through effect from food operators to customers have been affected efficiently. As such, consumers' purchasing power will be eroded particularly those who are at the lower income cohort who earned less than RM3,000 per month.

Chart 2: Food at Home, Food Away from Home, and Restaurants & Hotels sub-indices (y-o-y %)



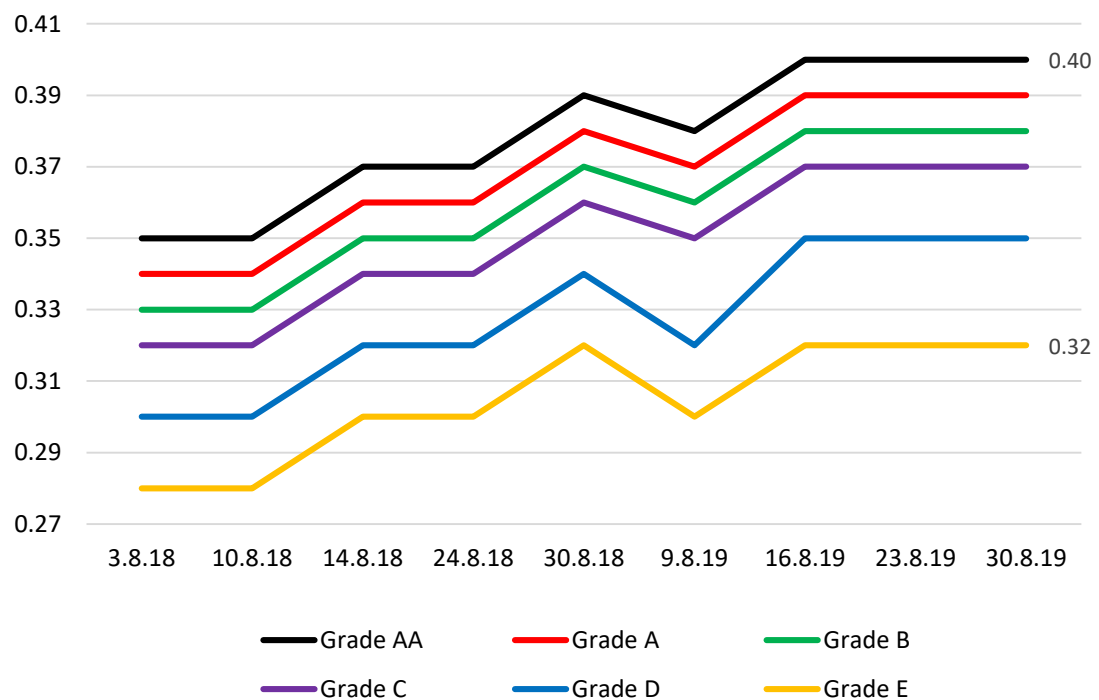
Source: CEIC

Table 2: Egg price (RM/egg)

Date	Price (cents/egg)					
	Grade AA	Grade A	Grade B	Grade C	Grade D	Grade E
3.8.18	0.35	0.34	0.33	0.32	0.30	0.28
10.8.18	0.35	0.34	0.33	0.32	0.30	0.28
14.8.18	0.37	0.36	0.35	0.34	0.32	0.30
24.8.18	0.37	0.36	0.35	0.34	0.32	0.30
30.8.18	0.39	0.38	0.37	0.36	0.34	0.32
9.8.19	0.38	0.37	0.36	0.35	0.32	0.30
16.8.19	0.40	0.39	0.38	0.37	0.35	0.32
23.8.19	0.40	0.39	0.38	0.37	0.35	0.32
30.8.19	0.40	0.39	0.38	0.37	0.35	0.32

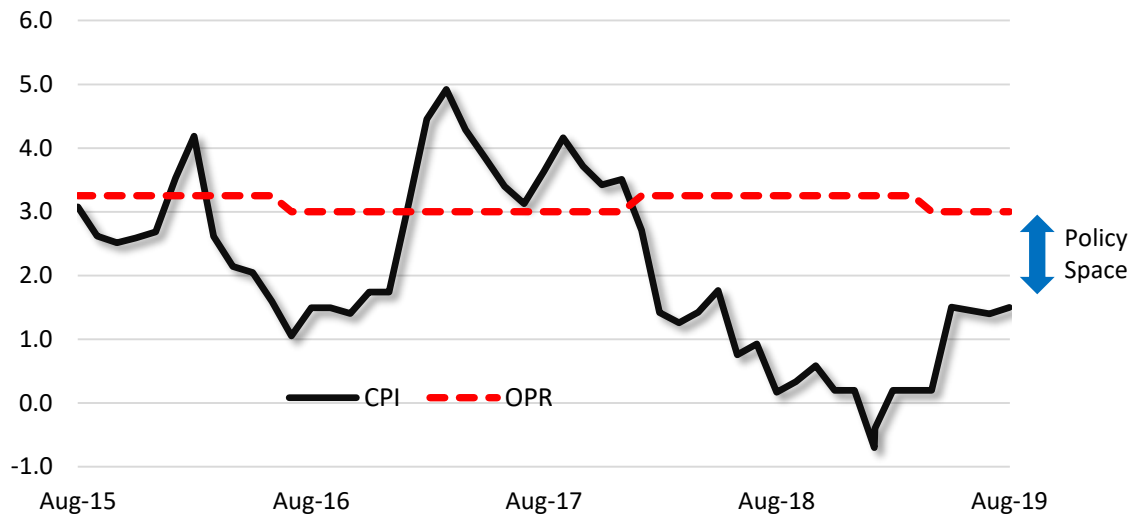
Source: Department of Veterinary Services Malaysia

Chart 3: Egg price (RM/egg)



Source: Department of Veterinary Services Malaysia

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



Source: CEIC

In view of lower inflation rate which currently hovering at 0.5% in the first eight months, this would mean that the Bank Negara Malaysia (BNM) has ample space for monetary stimulus. That said, **we maintained our whole year 2019 CPI target at 0.7% (2018: 1.0%) and OPR of 3.00% for now.**

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