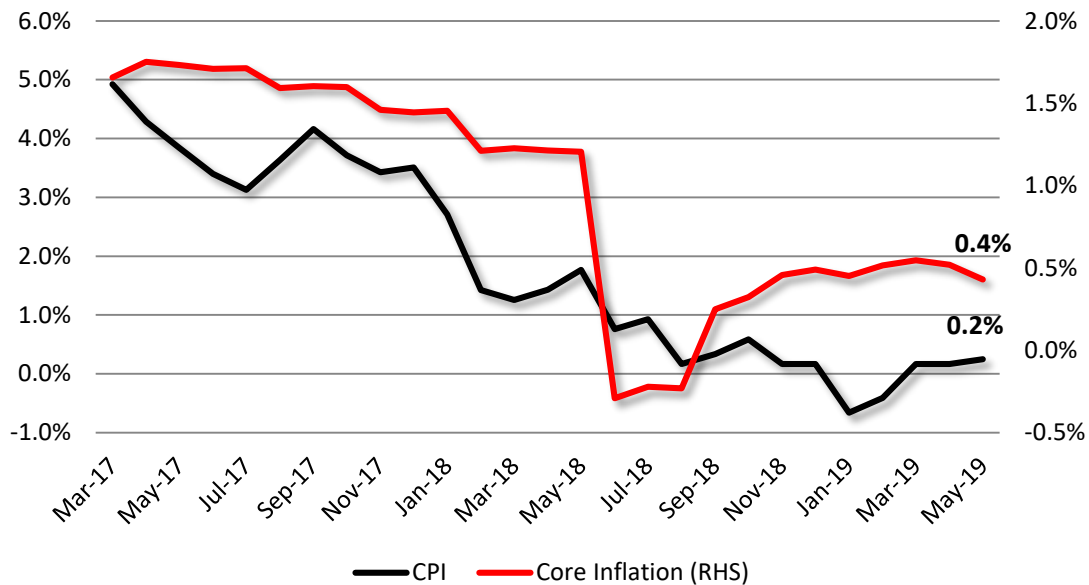


CPI maintained at 0.2% in May

Facts

- Malaysian Consumer Price Index (CPI) in May sustained at 0.2% year-on-year (y-o-y) (April: 0.2%, Consensus: 0.3%, Bank Islam: 0.3%) for three consecutive months. This was attributed by higher inflation in the Food & Non-Alcoholic Beverages (May: 1.2% vs. April: 1.1%), Alcoholic Beverages & Tobacco (May: 1.3% vs. April: 1.2%) and Furnishings, Household Equipment & Maintenance (May: 0.5% vs. April: 0.2%). These sub-indices accounted for 36.0% of total CPI. However, lower prices for Transport sub-indices (May: -2.5% vs. April: -2.6%) has weighed on the overall CPI. Its share to total CPI stood at 14.6%.
- Within Food & Non-Alcoholic Beverages sub-indices, prices for Food at Home increased marginally to 0.2% in May from -0.2% in April. This was driven by upward pressure in the prices of Fish & Seafood and Vegetables which grew by 0.9% (April: 0.2%) and 4.5% (April: 2.2%) respectively during May.
- As for the Transport sub-indices, Fuels & Lubricating Personal Transport Equipment which accounted for 8.5% of total CPI slumped by 4.1% in May (April: -4.2%). This was due to RON95 which has remained at RM2.08 per liter since March 2019 (May 2018: RON95 at RM2.20 per liter). On a similar note, Clothing & Footwear (May: -3.2% vs. April: -3.2%), Health (May: -0.3% vs. April: -0.3%) and Recreation & Culture (May: -0.4% vs. April: -0.4%) fell during May on a sustained basis. Meanwhile, prices for Housing, Water, Electricity, Gas & Other Fuels and Restaurants & Hotels grew modestly by 1.8% (April: 2.0%) and 0.6% (April: 0.8%) respectively in May.
- At the state level, inflation in Negeri Sembilan (May: 0.6% vs. April: 0.5%) and Kelantan (May: 0.2% vs. April: -0.1%) were rising albeit at gradual pace while price appreciation in Johor and Pulau Pinang maintained at 0.2% (April: 0.2%) and 0.7% (April: 0.7%). Nonetheless, deflationary trend was seen in Terengganu (May: -0.3% vs. April: -0.4%), Kedah & Perlis (May: -0.3% vs. April: -0.4%) and Melaka (May: -0.5% vs. April: -0.7%).
- Our core inflation which excludes Food & Non-Alcoholic Beverages and Transport moderated by 0.4% in May from 0.5% in the preceding month. This indicates that the inflationary pressure on domestic prices have been very benign.
- All in all, the Malaysian CPI continued to record negative growth of 0.1% in the first five months of 2019 (5M2018: 1.7%) while Core Inflation has softened to 0.5% in 5M2019 (5M2018: 1.3%).

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



Source: CEIC

Table 1: Consumer Price Index (CPI)

	Weight	Jan-19	Feb-19	Mar-19	Apr-19	May-19	5M2018	5M2019
Consumer Price Index	100.0%	-0.7%	-0.4%	0.2%	0.2%	0.2%	1.7%	-0.1%
Food and Non Alcoholic Beverages	29.5%	1.0%	1.0%	1.1%	1.1%	1.2%	2.9%	1.1%
Alcoholic Beverages and Tobacco	2.4%	1.1%	1.1%	1.1%	1.2%	1.3%	0.1%	1.2%
Clothing and Footwear	3.2%	-3.3%	-3.2%	-3.0%	-3.2%	-3.2%	-0.7%	-3.1%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	2.0%	2.0%	2.0%	2.0%	1.8%	2.0%	2.0%
Furnishings, Household Equipment and Maint.	4.1%	-0.3%	0.1%	0.3%	0.2%	0.5%	2.0%	0.2%
Health	1.9%	-0.5%	-0.4%	-0.2%	-0.3%	-0.3%	2.1%	-0.4%
Transport	14.6%	-7.8%	-6.8%	-3.0%	-2.6%	-2.5%	1.6%	-4.5%
Communication	4.8%	-1.2%	-1.2%	-1.1%	-1.1%	-0.9%	-0.7%	-1.1%
Recreation and Culture	4.8%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	0.5%	-0.4%
Education	1.3%	0.9%	1.3%	1.3%	1.2%	1.2%	1.1%	1.2%
Restaurants and Hotels	2.9%	1.2%	1.3%	1.0%	0.8%	0.6%	2.1%	1.0%
Miscellaneous Goods and Services	6.7%	-2.4%	-2.2%	-2.0%	-2.0%	-2.1%	0.5%	-2.1%
Core CPI (excluding F&B and Transport)		0.5%	0.5%	0.5%	0.5%	0.4%	1.3%	0.5%

Source: CEIC & Strategic Management Bank Islam

Our view

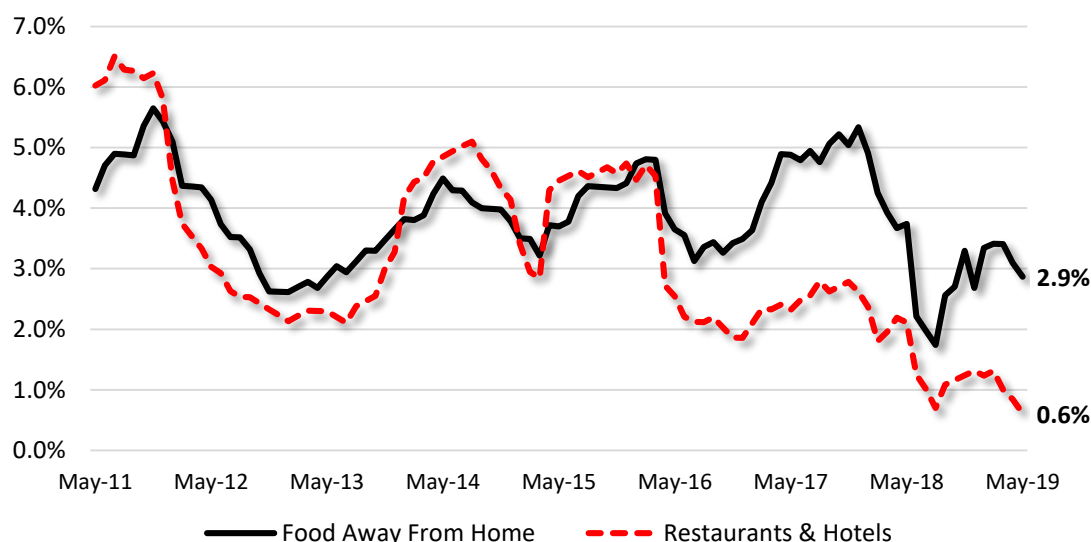
Inflation rate is undoubtedly remain subdued in May. Nonetheless, the price level was also remain at elevated levels, suggesting that issues surrounding the cost of living is very much relevant. According to the Department of Statistics Malaysia (DOSM), index of goods which posted price increases during May were Cucumbers (+23.7%), Fresh Chilly Red (+23.6%), Round Cabbage (+18.2%), Long Beans (+16.9%), Cockles (+11.1%), Hen's Eggs (+8.4%), Spanish Mackerel (Fish) (+4.6%), Red Snapper (Fish) (+3.1%), Choy Sum (+2.0%), Crabs (+2.0%) and Prawns (+1.5%). Data from the Fisheries Development Authority of Malaysia also shows that the fish prices are on the rise (see Table 2). This indicates that consumers purchasing power are deteriorating. The impact would be more apparent to the lower income group who earned less than RM3,000 per month in light of their high consumption for food related items.

Table 2: Retail Fishes' Price for the last week of each month (RM/kg)

Fish	Jan-19	Feb-19	Mar-19	Apr-19	May-19
Black Pomfret	24.16	23.06	22.58	23.05	23.52
White Pomfret	41.42	37.10	35.75	39.36	39.39
Hardtail Scad	9.60	9.47	9.34	9.34	9.46
Catfish	7.48	7.61	7.62	7.50	7.61
Indian Mackerel	14.29	13.68	13.00	12.56	12.70
Grouper	24.21	23.07	23.62	25.74	25.82
Scad	14.38	13.59	13.24	13.38	13.47
Yellowtail Scad	10.26	10.49	10.25	10.27	10.94

Source: Fisheries Development Authority of Malaysia

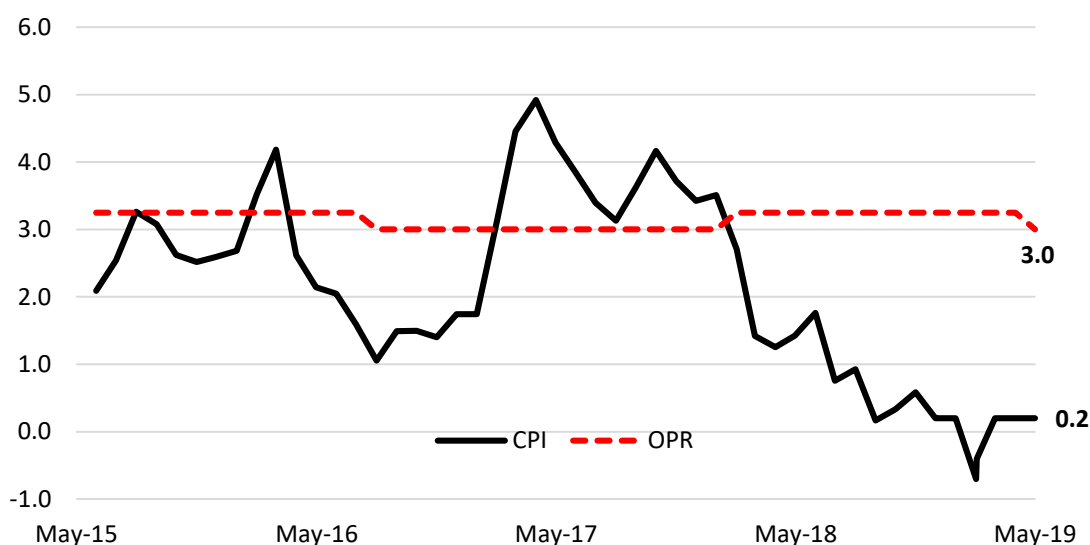
Chart 2: Food Away from Home sub-indices vs. Restaurants & Hotels, y-o-y%



Source: CEIC

There is also a dichotomy between Food at Home and Food Away From Home whereby both sub-indices recorded 0.2% and 2.9% in May. This would mean food operators are charging higher prices to consumers in response to rising input prices in order to maintain their profit margins. On a different note, lower inflation rate gives more space to Bank Negara Malaysia (BNM) to prescribe further monetary stimulus should the economic condition warrants for such policy response. Following the recent CPI outturn, **we revised our full year 2019 inflation target from 1.3% to 0.7% (2018: 1.0%).**

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



Source: CEIC

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