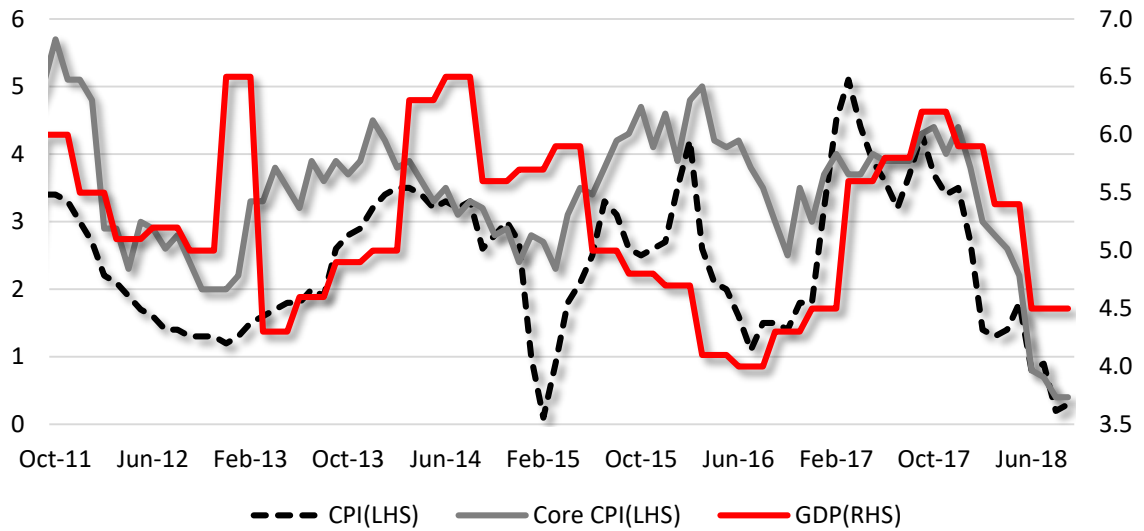


## Benign inflation rate in September

### Facts

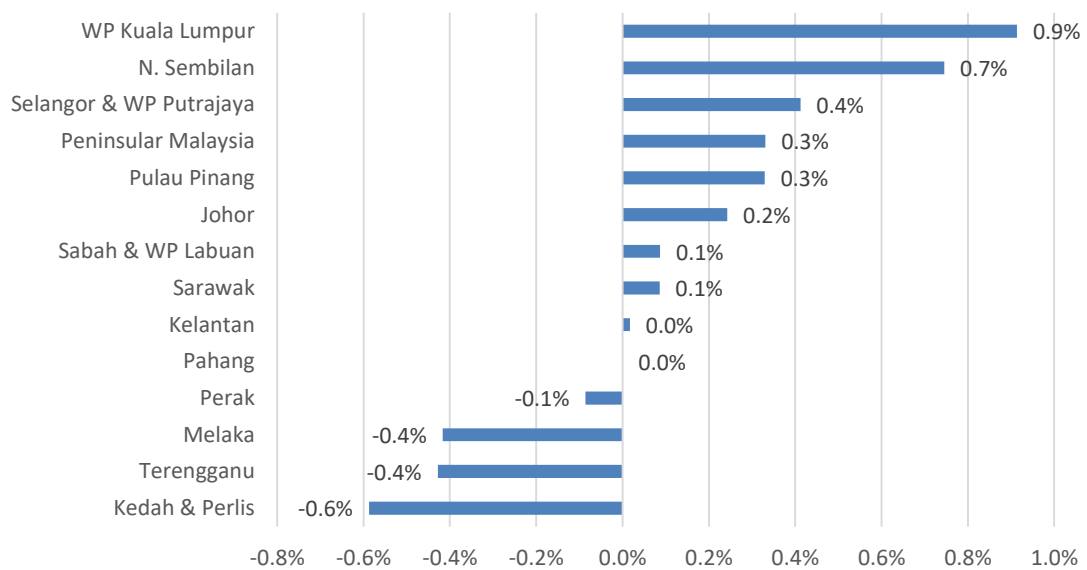
- The Consumer Price Index (CPI) increased by 0.3% year-on-year (y-o-y) in September compared to 0.2% during August. (Consensus: 0.6%, Bank Islam: 0.8%). This was mainly due to higher Food & Non-Alcoholic Beverages (Sept: 0.5% vs. Aug: 0.4%) and Housing, Water, Electricity, Gas and other Fuels (Sept: 2.1% vs. Aug: 2.0%).
- As for Food & Non-Alcoholic Beverages sub-indices, there was a dip in the index for Food at Home by -0.7% (Aug: dropped by -0.4%). However, index for Food Away from Home accelerated to 2.6% from 1.7% in the preceding month, suggesting the implementation of Sales and Services Tax (SST) beginning 1 September has taken a toll on eatery places. Such claim is in tandem with the rise in Restaurants & Hotels sub-indices from 0.7% in August to 1.1% in September.
- Meanwhile, transport sub-indices which accounted for 14.6% of total CPI constituent moderated further to 0.3% in September after rising from 2.1% in the previous month. This was largely due to RON95 which has been fixed at RM2.20 per liter since March 2018.
- Clothing & Footwear posted 3.2% decline in September from 2.9% contraction in the previous month. This is the largest drop among all CPI sub-indices. However, Recreation & Culture recorded smaller decline of -0.1% in September from -2.2% in prior month, indicating prices of health related items are gradually on the rise.
- Inflation rate in Kuala Lumpur is the highest among Malaysian states at 0.9% (Aug: 0.5%) followed by N. Sembilan (Sep: 0.7% vs. 0.6%) and Selangor & Putrajaya (Sep: 0.4% vs. Aug: 0.3%).
- Our Core CPI which excludes Food & Non-Alcoholic Beverages and Transport increased by 0.2% after declining by 0.2% in August. This suggests the effect of reintroduction of SST has been transmitted and quite prevalent beyond food and transport.
- For the 9M2018 period, CPI recorded 1.2% increases against 3.9% in the same period last year. Similarly, Core CPI moderated to 0.6% in 9M2018 from 1.7% previously. Therefore, inflation rate has been quite benign post SST implementation.

**Chart 1: Gross Domestic Product (GDP) and Consumer Price Index (CPI) y-o-y%**



Source: CEIC

**Chart 2: CPI y-o-y by states**



Source: Department of Statistic Malaysia (DOSM)

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

	Weight	May-18	Jun-18	Jul-18	Aug-18	Sep-18	9M2017	9M2018
<b>Consumer Price Index</b>	<b>100.0%</b>	<b>1.8%</b>	<b>0.8%</b>	<b>0.9%</b>	<b>0.2%</b>	<b>0.3%</b>	<b>3.9%</b>	<b>1.2%</b>
Food and Non Alcoholic Beverages	29.5%	2.2%	0.8%	0.7%	0.4%	0.5%	3.9%	1.9%
Alcoholic Beverages and Tobacco	2.4%	0.1%	-0.7%	-0.8%	-1.0%	-0.9%	0.1%	-0.3%
Clothing and Footwear	3.2%	-0.7%	-3.1%	-3.0%	-2.9%	-3.2%	-0.3%	-1.7%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	2.1%	1.5%	2.0%	2.0%	2.1%	2.2%	2.0%
Furnishings, Household Equipment and Maint.	4.1%	1.5%	-1.0%	-1.7%	-1.7%	-0.8%	2.1%	0.6%
Health	1.9%	1.9%	0.3%	0.0%	0.0%	-0.2%	2.7%	1.2%
Transport	14.6%	3.8%	5.5%	6.7%	2.1%	0.3%	13.8%	2.5%
Communication	4.8%	-0.9%	-3.9%	-3.9%	-4.0%	-1.6%	-0.3%	-1.9%
Recreation and Culture	4.8%	0.5%	-2.5%	-2.4%	-2.2%	-0.2%	2.4%	-0.5%
Education	1.3%	1.2%	0.9%	1.0%	1.1%	1.1%	1.7%	1.1%
Restaurants and Hotels	2.9%	2.1%	1.3%	1.0%	0.7%	1.1%	2.4%	1.6%
Miscellaneous Goods and Services	6.7%	0.4%	-2.6%	-3.0%	-3.0%	-3.0%	1.3%	-1.0%
<b>Core CPI (excluding F&amp;B and Transport)</b>		<b>1.2%</b>	<b>-0.3%</b>	<b>-0.2%</b>	<b>-0.2%</b>	<b>0.2%</b>	<b>1.7%</b>	<b>0.6%</b>

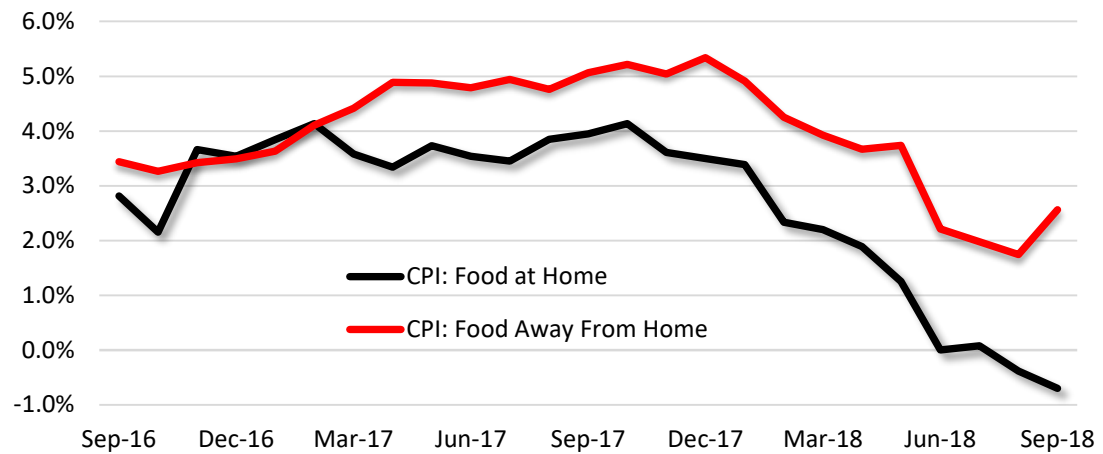
Source: CEIC, Strategic Management BIMB

## Our view

This is the first month where the SST has been implemented after 3 months of GST tax holidays. At the current juncture, the pass-through effects has been quite contained. The potential inflationary impact under SST are expected to be limited as products and services that are taxed under the current regime has smaller share in CPI basket which is at 38% (GST: 62%). As such, we have **revised our 2018 inflation rate forecast from 2.0% to 1.5%**. Combination of weak demand as well as higher base effect in 2017 have been the main driver for lower inflation rate (see Chart 1). Based on the Mid-Term Review (MTR) of 11<sup>th</sup> Malaysian Plan, **inflation rate is expected to range between 2% to 3% from the original estimates of 2.8%**. As such, inflation is expected to go higher in 2019 albeit moderately. **We are projecting CPI to expand to 2.2% next year.**

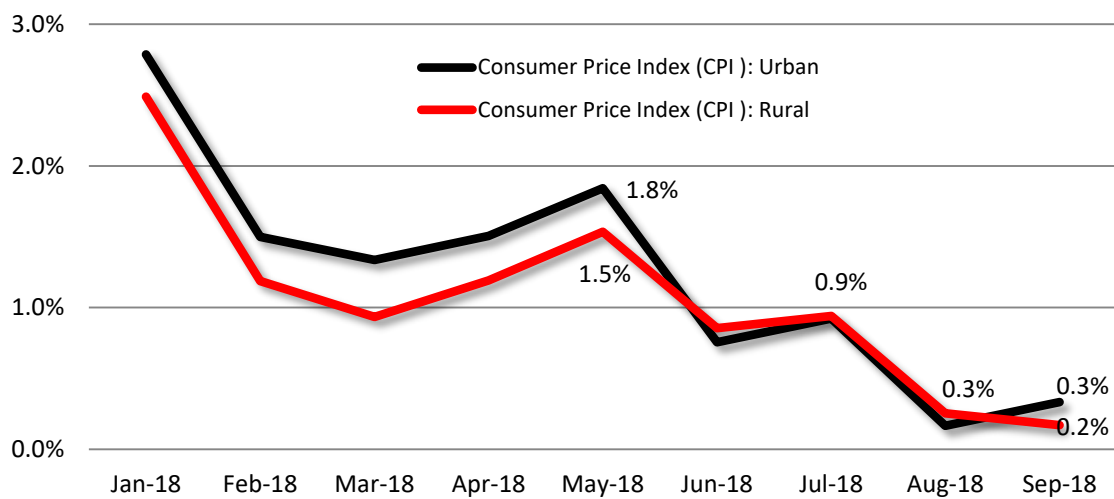
On the other spectrum, lower inflation rate will give some policy space for the central bank to adjust its monetary stance (see Chart 4). However, the BNM may incline to keep the Overnight Policy Rate (OPR) steady at 3.25% for the rest of 2018 and perhaps in 2019. This happens as volatility in the global fund flows are expected to persist in the immediate terms and in 2019. In particular, the US Federal Reserve is anticipated to raise their policy rates at their meeting in December by 25 basis points, bringing the Federal Fund Rate to 2.50%. Other major central banks such as Bank of Canada has also recently increased their policy rates by 25 basis points to 1.75% and the European Central Bank is on track to end its Asset Purchases Program (APP) by end of 2018. However, keeping the OPR unchanged will be contingent upon the growth outlook. The bias is obviously on the downside.

**Chart 2: Food at Home & Food Away from Home sub-indices y-o-y%**



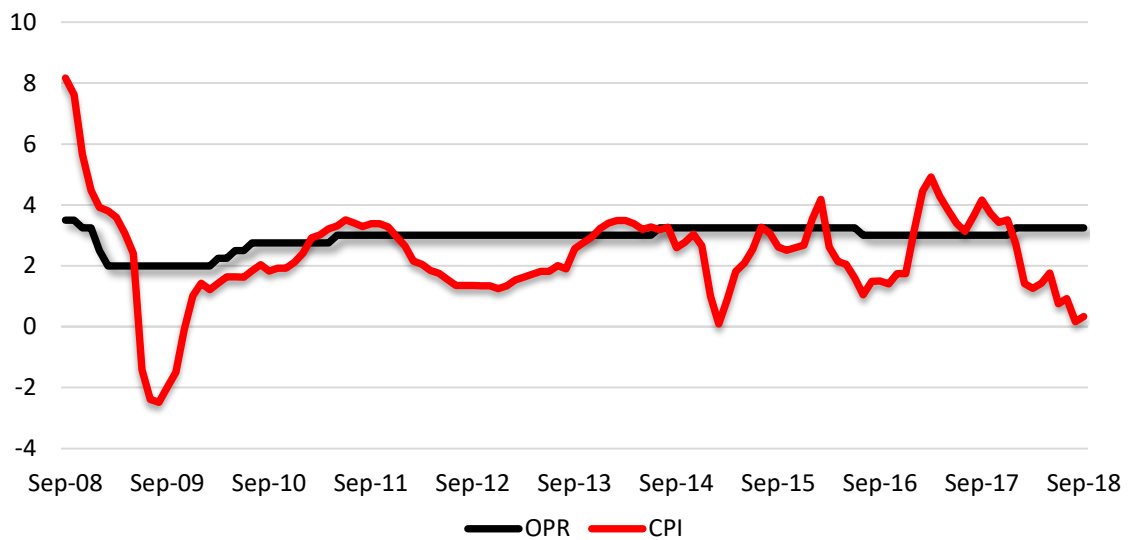
Source: CEIC

**Chart 3: Consumer Price Index for Urban and Rural Area y-o-y%**



Source: CEIC

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



Source: CEIC

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