

ECONOMIC UPDATE

MALAYSIA – Low fuel prices deflated GST impact

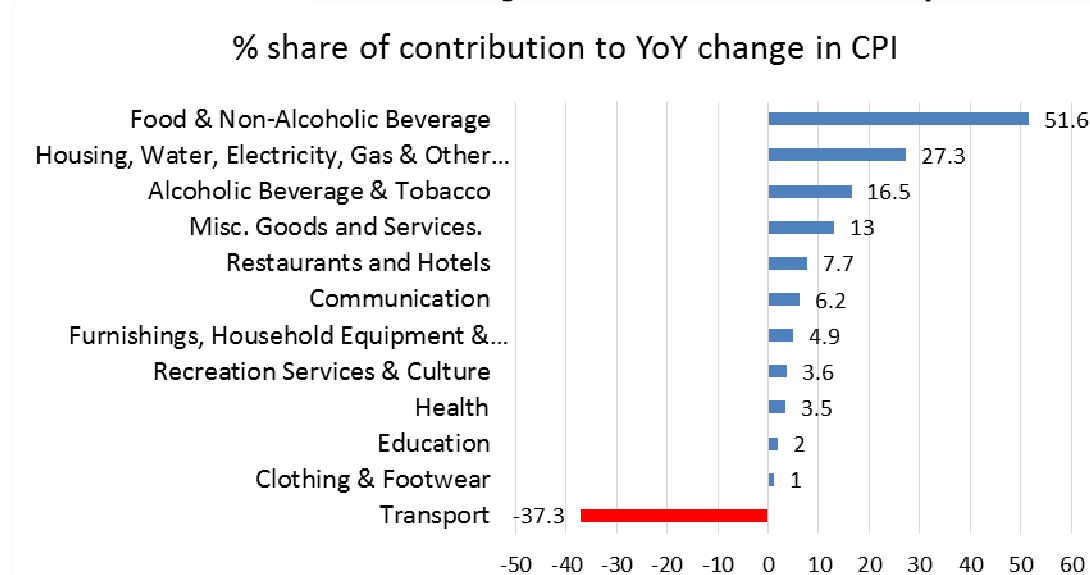
- *The effects of GST seemed to be non-inflationary after all - the CPI rose by just 0.9% mom and 1.8% yoy in April when GST first kicked off.*
- *This could be attributed to several factors – 1) the lower fuel prices that more than offset the impact of GST 2) the already much weaker prices in prior months due to the lower fuel prices causing the index in April seemed to start from a very low base and 3) some producers might have been absorbing parts of the GST to boost their sales.*
- *We now revise lower our estimate for the CPI for 2015 to 2.0 – 2.5% from 2.5 – 3.0% previously.*

The effects of GST seemed to be non-inflationary after all; as the overall index rose by only 0.9% mom in April when the GST first kicked off, not much different from the 0.8% increase in March. The CPI rose just 1.8% yoy in April, against 0.9% in March. That was despite the fact that about 70% of items in the CPI basket of goods and services were imposed GST, accounting for about 80% of the CPI weights.

The impact of low fuel prices on the overall index continued to be rather significant. That caused the 'Transport' sub-index to post a yoy decline of 4.9% and shaved 37.1% off the rise in the overall index. On mom basis, the sub-index posted 0.3%, after surging by 8% in March when fuel prices were raised by 20 sen. If we exclude the 'Transport' sub-index, the CPI index rose by 2.6% in April against 1.6% in the preceding month, reflecting that there was some upward pressure from other sub-indices.

Even so, the upward pressure expected from GST was rather muted. This could be attributed to several factors – 1) the lower fuel prices that more than offset the impact of GST 2) the already much weaker prices in prior months due to the lower fuel prices causing the index in April seemed to start from a very low base and 3) some producers might have been absorbing parts of the GST to boost their sales.

Chart 1: Contribution to the changes in the overall consumer price index – by main groups



Source: BNM, DoS

Chart 2: CPI continued to be influenced by fuel price changes

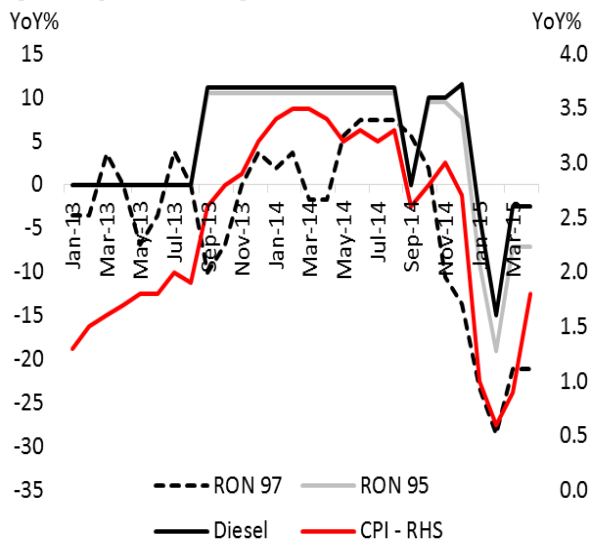
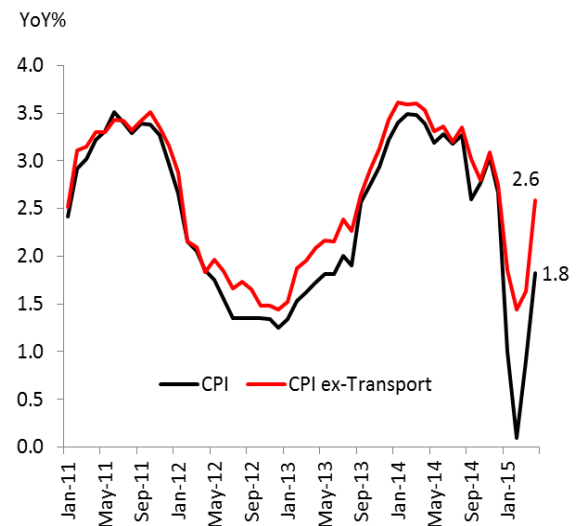


Chart3: CPI vs CPI excluding 'Transport'



Source: BNM, DoS, MIDFR

Given the much subdued outcome in CPI in April, it is unlikely that the headline inflation would surge much faster unless prices of fuel or that of other controlled items raised significantly, which may force those producers absorbing the GST to inevitably pass on some or all of the higher cost to consumers. **We now revise lower our estimate for the CPI for 2015 to 2.0 – 2.5%** from 2.5 – 3.0% previously.


If prices stay low in the coming months, we can see consumer spending to rebound although the pace may not be as strong as seen in the 1Q 15 when most of that was likely due to the pre-GST spending rush. 

Table 1. Consumer Price Index for Main Groups, Malaysia (2010=100) YoY %

	Weightage (%)	Nov-14	Dec-14	2014	Jan-15	Feb-15	Mar-15	Apr-15
Total	100	3.0	2.7	3.2	1.0	0.1	0.9	1.8
Food & Non-Alcoholic Beverage	30.3	2.9	2.4	3.3	2.8	2.7	2.3	3.1
Alcoholic Beverage & Tobacco	2.2	10.5	10.6	11.6	10.6	10.6	10.6	13.0
Clothing & Footwear	3.4	(0.4)	(0.3)	(0.2)	(0.1)	(0.6)	(0.2)	0.7
Housing, Water, Electricity, Gas & Other Fuels	22.6	3.5	3.4	3.4	2.1	2.4	1.9	2.3
Furnishings, Household Equipment & Maintenance	4.1	0.8	0.6	1.0	0.5	0.1	0.2	2.3
Health	1.3	3.4	3.3	2.9	3.2	3.4	3.6	5.0
Transport	14.9	5.0	4.0	4.9	(6.0)	(11.8)	(4.9)	(4.8)
Communication	5.7	(0.9)	(0.9)	(0.7)	(1.0)	(0.9)	(0.9)	2.3
Recreation Services & Culture	4.6	1.3	0.0	1.5	0.5	0.8	0.6	1.5
Education	1.4	2.2	2.2	2.4	2.1	2.2	2.2	2.6
Restaurants and Hotels	3.2	4.3	4.1	4.7	3.4	2.9	2.8	4.3
Misc. Goods and Services.	6.3	0.9	1.4	0.7	1.7	1.6	1.5	4.1

Source: Department of Statistics, Malaysia; MIDF Research

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