

ECONOMIC UPDATE

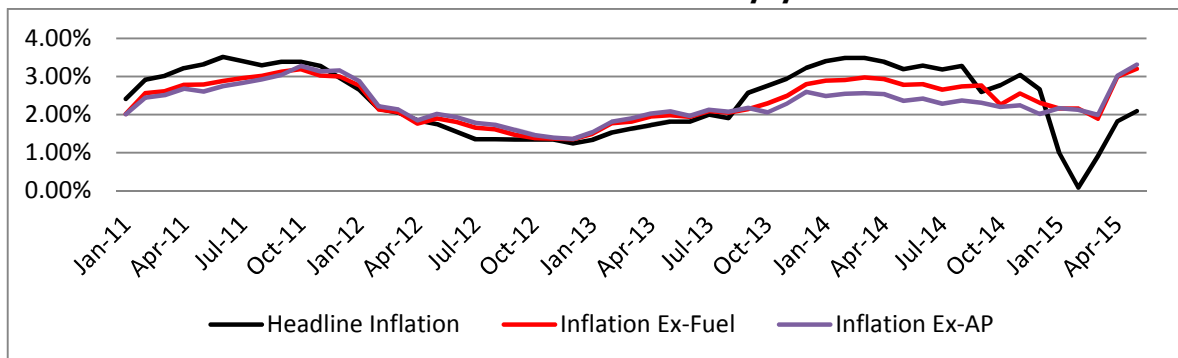
MALAYSIA – May CPI: Edging up but still relatively low

- *Headline inflation remains low as fuel price negates the impact of GST implementation. The CPI edged up by 2.1% yoy in May (April: 1.8%), beating consensus expectation of a flattish reading of 1.9%. Following the surge in most indices from the GST implementation, there had been little changes in many of the indices in May. On mom basis, inflation fell from 0.90% in April to 0.36% in May.*
- *Nonetheless, the upward inflationary pressure from GST might have gradually trickled through as can be clearly seen from 'inflation excluding fuel', where it accelerated to 5-year high of 3.20% yoy from in 3.0% in April and 1.9% in March.*
- *'Food and non-alcoholic beverages' continued to be the main driver, contributing 53.2% to the increase in the overall CPI during the month. This is followed by 'Housing, water, electricity, gas & other fuels' contributing 27.3%; 'Alcoholic beverages & tobacco' at 12.8% and 'Miscellaneous goods & services' at 12.6%. Nonetheless, the persistent drag cast by 'Transport' at -32.8% offset most of the rise in the other sub-indices.*
- *We expect inflation to accelerate in the coming months, especially with the coming festive season, but to ease thereafter in the 4Q 15. We maintain our inflation target of 2.0 – 2.5% for year 2015.*

Headline inflation remains low as fuel price negates the impact of GST implementation. Headline inflation increased to 2.1% YoY in May compared to 1.8% in April and consensus expectation of 1.9%. While there have been some uptick recorded in the big sub-indices such as Food & non-alcoholic beverages, the drag from Transport sub-index on the back of still lower fuel prices yoy put a lid on the overall inflation reading.

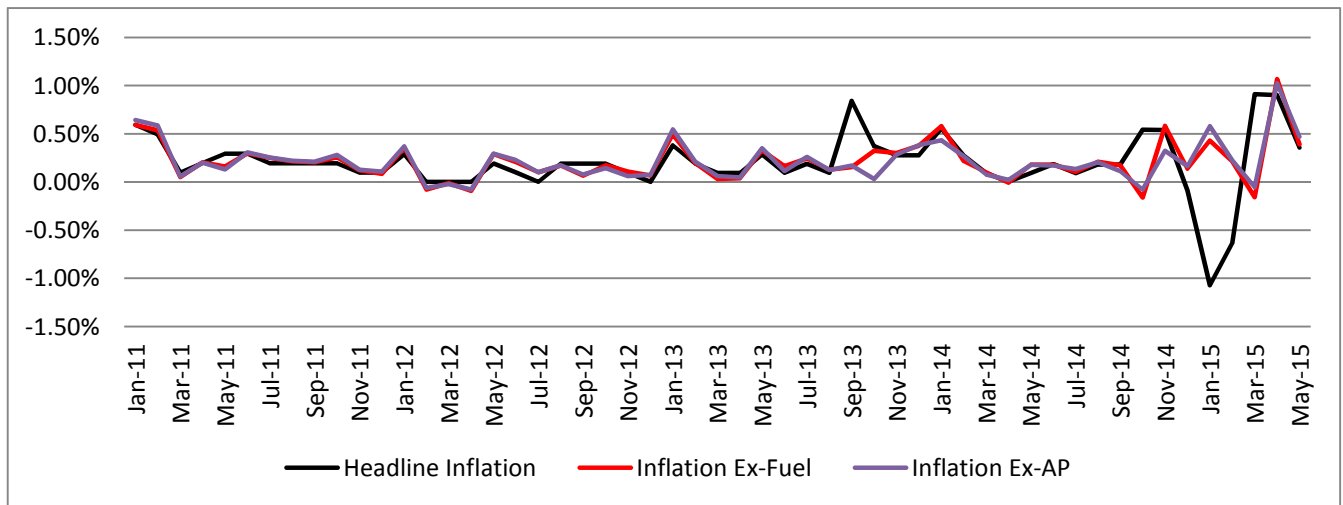
Nonetheless, the upward inflationary pressure from GST might have gradually trickled through Not much can be observed from headline inflation data as post-GST impact is being pushed down by the falling oil price. However when fuel is taken out of the equation, 'inflation ex-fuel' actually increased by 3.20% yoy, the highest level since 2010. 'Inflation ex-AP' rose even higher by 3.31% yoy, also the highest level for the past five years CPI increased by 0.36% MoM, compared to 0.90% in April and 0.91% in March. However, higher price increment can be seen from 'inflation ex-fuel' and 'inflation ex-AP', where there is an increase of 0.39% and 0.47% MoM respectively in May, which fell significantly compared to April increment (1.07% for inflation ex-fuel and 1.02% for inflation ex-amp) but still higher than March data (-0.16% and -0.06% respectively).

Chart 1: Consumer Price Index – Headline vs ex-Fuel – yoy%



Source: DoS, CEIC, MIDF Research

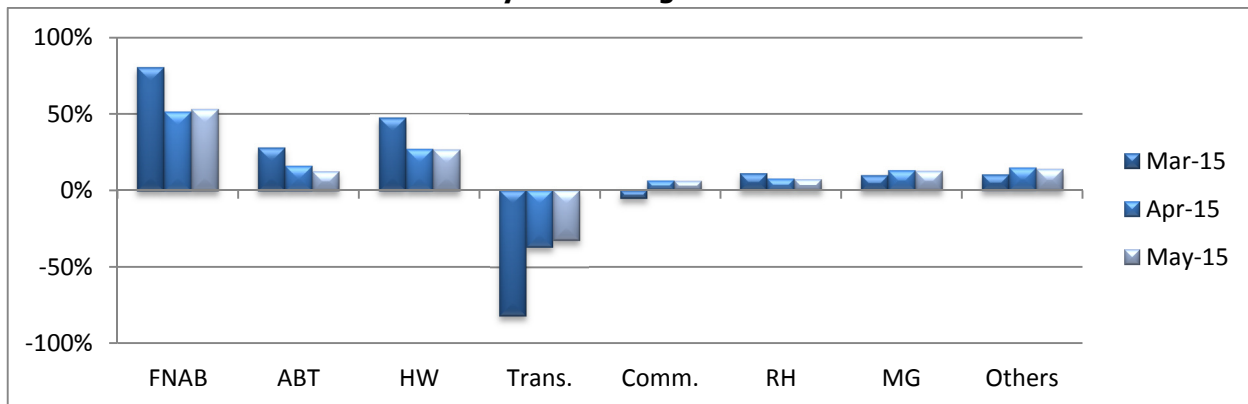
Chart 2: Consumer Price Index – Headline vs ex-Fuel – mom%



Source: DoS, CEIC, MIDF Research

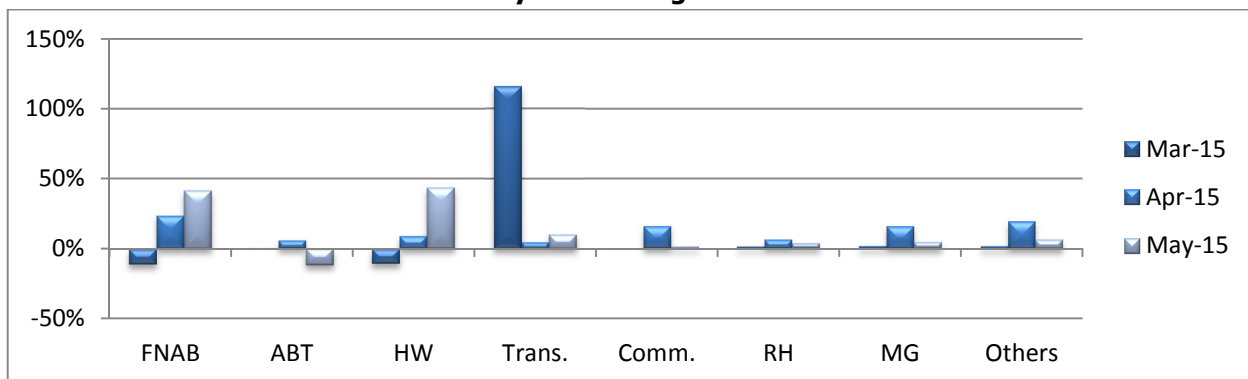
'Food and non-alcoholic beverages' continued to be the main driver, contributing 53.2% to the increase in the overall CPI during the month. This is followed by 'Housing, water, electricity, gas & other fuels' contributing 27.3%; 'Alcoholic beverages & tobacco' at 12.8% and 'Miscellaneous goods & services' at 12.6%. Nonetheless, the persistent drag cast by 'Transport' at -32.8% offset most of the rise in the other sub-indices.

Chart 3: YoY Inflation Contribution by Main Categories



Source: DoS, CEIC, MIDF Research

Chart 4: MoM Inflation Contribution by Main Categories



Source: DoS, CEIC, MIDF Research


Veterinary top the chart with an increase of 7.34% MoM while road transport increase by 2.12%. The specific cause of an increase in road transport is unclear as there should be no bus, taxi and toll hike in May. The 2.12% increase in road transport is the largest increment MoM since the last available data i.e. January 2010. The hike most probably had to do with SPAD's initial plan to raise the bus and taxi fare. Although the plan was cancelled, a number of taxi drivers were against cancellation and stand firm on increasing the fare as they already spent their money upgrading to the new metre system.

Table 1: Inflation According to Main Categories

	%MoM				%YoY				%YTD
	Feb 2015	March 2015	April 2015	May 2015	Feb 2015	March 2015	April 2015	May 2015	
FNAB	(0.17)	(0.34)	0.77	0.42	2.71	2.27	3.15	3.49	2.88
ABT	0.00	0.00	2.15	(1.53)	10.60	10.60	12.98	11.26	11.21
CF	(0.41)	0.41	0.81	0.10	(0.61)	(0.20)	0.71	0.91	0.14
HW	0.91	(0.36)	0.36	0.72	2.41	1.94	2.31	2.58	2.28
FH	(0.19)	0.09	2.16	0.37	0.09	0.19	2.35	2.63	1.15
Health	0.36	0.36	1.87	0.26	3.41	3.59	5.04	5.03	4.06
Transport	(5.95)	7.96	0.28	0.19	(11.79)	(4.94)	(4.76)	(4.66)	(6.44)
Communication	0.00	0.00	3.09	0.10	(0.92)	(0.92)	2.35	2.56	0.41
RC	0.38	(0.19)	0.95	0.19	0.76	0.57	1.53	1.62	0.99
Education	0.54	0.09	0.54	(0.09)	2.20	2.19	2.65	2.46	2.32
Restaurants and Hotels	0.17	0.34	1.85	0.41	2.95	2.85	4.30	4.46	3.59
MG	0.47	0.28	2.52	0.27	1.62	1.52	4.08	4.36	2.66
Overall	(0.63)	0.91	0.90	0.36	0.09	0.91	1.82	2.09	1.18

Source: DoS, CEIC, MIDF Research

A 1% increase in fuel category will lead to an increase of 0.06% for the overall CPI in the same month, as found by our analysis¹. However in the long run, the same increment will cause CPI to increase by 0.57%. As the oil price did not vary much in the last 6 months since Malaysia decided to implement managed floating mechanism, the relationship between fuel and inflation may face a structural change in the future. That being said, as currently there is an oil glut at the highest level since a decade, we can expect little change in oil price for the rest of the year.

YTD inflation averaged to 1.18% YoY, which is much lower than we initially anticipated particularly due to smaller impact of GST and lower oil price. We expect inflation to accelerate in the coming months, especially with the coming festive season, but to ease thereafter in the 4Q 15. We maintain our inflation target of 2.0 – 2.5% for year 2015. 

¹ Technical note: the analysis was conducted using Autoregressive Distributed Lag Model (ARDL), with CPI as its dependent variable and fuel category price index as the regressor. Bound test confirms the existence of cointegrating relationship between the two variables.

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