

SPECIAL REPORT | Cost of Living

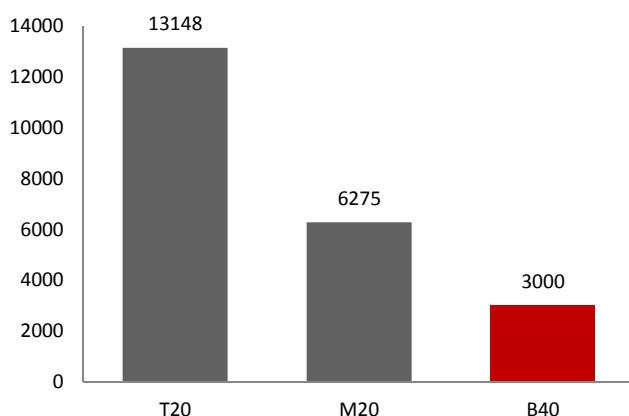
The Cost of Living Conundrum

- Perception of high cost of living among others is due to the strong pick-up in food inflation
- Food at Home and Food Away From Home category accounted for 16.9% and 11.5% of CPI weightage respectively
- Both categories recorded higher inflation rates than average headline CPI of 2.4% post GFC
- Volatility in food prices is due to Malaysia's position as a net importer of food

People's economy, examining the high cost of living. Based on the mid-term review of the 11th Malaysian Plan, the main theme of the blueprint is to ensure positive spill over effects to the economy particularly for the low income groups. The cash handouts, subsidy schemes and efficient public infrastructure among others are meant for a balanced economic development as well as growth. On the flip side, income growth is another aspect to look at as the cost of living is also affected by it. The increase in minimum wage as well as standardising the wage across all states in Malaysia as well as the shift from low-skill to high-skill intensive segments are important moves to improve wage growth in Malaysia.

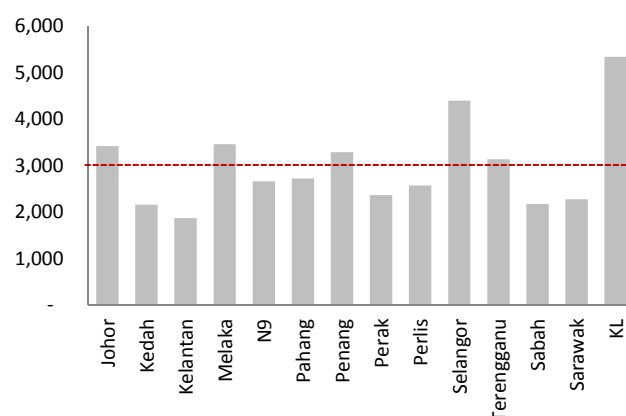
High cost of living despite moderating inflationary pressure. The cost of living is directly related to inflation. Theoretically, high inflation data reflects a high cost of living. Referring to Malaysia's Consumer price index (CPI) data, the latest trend indicates moderating downward direction. In fact, the first two months of 2019 saw deflation figures. It is important to look closely at each component of the CPI. The largest component is food items, followed by utilities and transport. Looking at the three largest components, food inflation is always higher than the overall CPI. The perception of high cost of living among others is due to the strong pick-up in food inflation in Malaysia. Meanwhile, the cost of utilities is fairly stable while transport price is controllable by the government.

Chart 1: National HH Monthly Income by Group (RM)



Source: CEIC, MIDFR

Chart 2: Median B40 Monthly Income by State (RM)



Source: CEIC, MIDFR

B40 standards vary across states. The more city-centred states have higher median household income standard to be qualified as a B40 group. Kuala Lumpur household, in this case, required a median household income benchmark of below RM5,344 to be qualified as B40 group. On the other hand, Kelantan's household income of below RM1,869 is already considered as B40. Due to the significant income gap, if assistance programs or incentives given to B40 group are based on the national standard, there are households particularly in states such as Johor, Melaka, Penang, Selangor, Terengganu and KL may not eligible for the assistances.

Table 1: Household Income Survey 2016

	Median Income (RM per month)			% Share of HH Numbers		
	Bottom 40	Middle 40	Top 20	Bottom 40	Middle 40	Top 20
Malaysia	3,000	6,275	13,148	40.0	40.0	20.0
Johor	3,420	6,554	12,304	34.1	46.7	19.2
Kedah	2,154	4,412	9,602	59.1	31.0	9.9
Kelantan	1,869	3,667	8,427	68.6	24.0	7.4
Melaka	3,458	6,572	12,077	34.9	45.7	19.4
Negeri Sembilan	2,658	5,409	10,857	46.7	40.2	13.0
Pahang	2,722	4,648	9,049	56.1	35.1	8.8
Pulau Pinang	3,286	6,382	12,268	36.8	45.5	17.7
Perak	2,366	4,678	9,540	56.1	34.1	9.9
Perlis	2,572	4,751	9,017	53.6	39.7	6.7
Selangor	4,395	8,585	17,410	19.7	47.3	33.0
Terengganu	3,135	5,443	10,692	45.6	40.9	13.5
Sabah	2,169	4,843	10,886	55.6	31.5	12.9
Sarawak	2,275	4,986	10,688	52.5	35.0	12.4
Kuala Lumpur	5,344	10,564	20,201	12.1	41.7	46.2
Labuan	3,654	7,217	15,238	27.2	46.0	26.8
Putrajaya	5,960	9,492	21,994	12.1	53.7	34.2

Source: DOSM, MIDFR

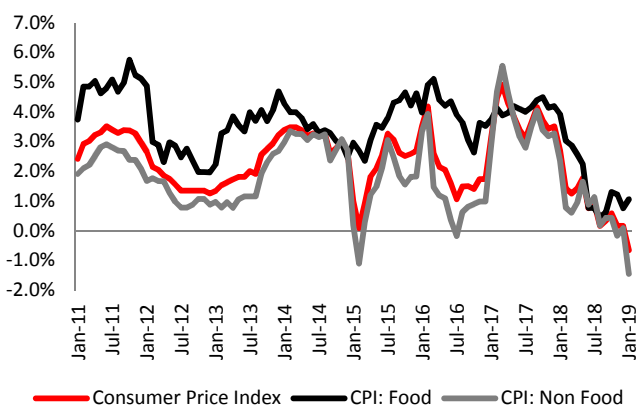
Malaysia remains in deflation. The CPI contracted -0.4%yoy in the second month of 2019 continuing its deflationary trend. The deflationary pressure came mainly from the transport component. The transport prices continued to drop by -6.8%yoy in Feb-19, registering four-consecutive months of negative growth. Meanwhile, core inflation improved marginally by +0.3%yoy. Looking ahead, Malaysia's consumer inflation is likely to stay at a low level following the lower capped prices of RON95 and diesel at RM2.08 and RM2.18 per litre. Nevertheless, demand-push factor remains firm amid stable job market and steady wage growth.

Fuel-related items posted double digit deflation. The average price of Brent crude oil went up to \$64.6pb in Feb-19 from USD60.5pb in the previous month. The oil price improved on trade talk hopes and OPEC supply cuts. Domestically, retail fuel prices for RON95 and RON97 recorded negative growth of -13.1%yoy and -2.1%yoy

during the month. In tandem, prices of fuels & lubricants contracted by a double digit at -11.4%yoy in Feb-19 (Jan-19: -12.6%yoy). Looking ahead, average Brent oil price for the month of Mar-19 registered at USD67pb.

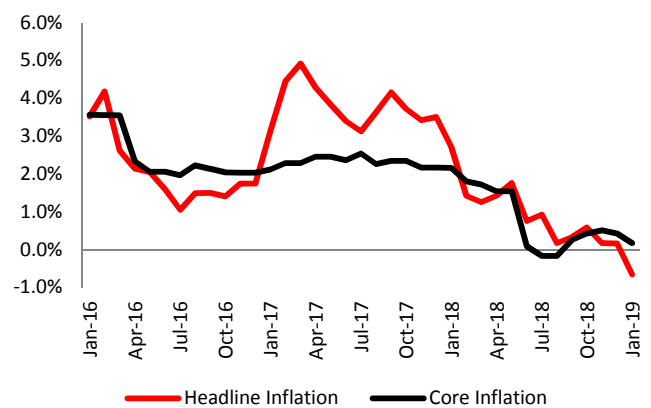
We forecast inflation for 2019 at 2.2%. Amid lower base effects, we foresee headline inflation rate to average at 2.2% this year compared to 1.0% in 2018. We anticipate inflationary pressure mainly from fuel-related items to increase, consistent with our expectation on crude oil price to average at \$75pb for 2019 (2018: \$72pb). However, core inflation rate is expected to remain steady in 2019, hovering around 2018's level of 1.0%yoy. As core inflation rate remains low, we opine change in monetary stance is not required at this juncture as it would affect the trajectory of domestic growth. Furthermore, the Fed has confirmed its stance of no rate hike this year, leaving its interest rate at the range of 2.25-2.50% in 2019. Since there will be less pressure from both domestic and external fronts, we also anticipate that Bank Negara will maintain the OPR at 3.25% in 2019 barring any surprises in domestic economic growth.

Chart 3: CPI: Headline vs Food & Non-food (YoY%)



Source: CEIC, MIDFR

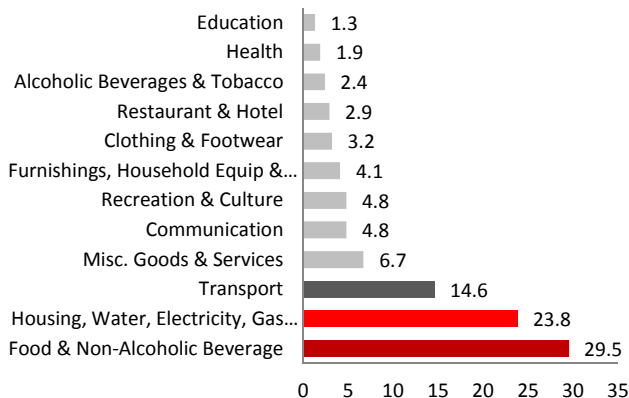
Chart 4: CPI: Headline vs Core (YoY%)



Source: CEIC, MIDFR

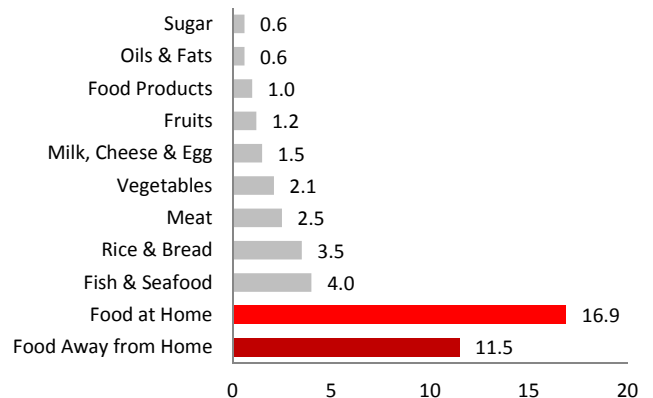
Food & non-alcoholic beverages weights the most. According to the latest weightage of CPI, food & non-alcoholic beverages account the highest of CPI weights with 29.5% and followed by housing & utilities, 23.8%. Food at home covers 16.9% while food away from home about 11.5%. In short, every RM100 spent, RM16.9 is spent for home food and RM11.5 for food away from home. For the food at home, fish & seafood, rice & bread, meat and vegetables constitute the majority share of food at home.

Chart 5: CPI: Weights 2018 (%)



Source: CEIC, MIDFR

Chart 6: CPI: Weights of Food at Home 2018 (%)

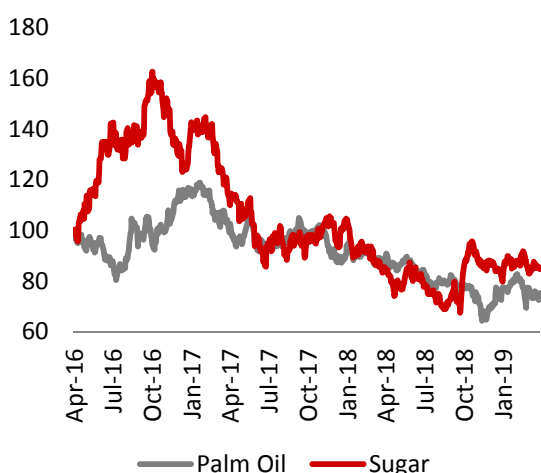


Source: CEIC, MIDFR

Recently, CPI for food at home has been moderating. Nonetheless, CPI for food at home category as a whole recorded a decline of -0.5%yoy in January 2019. In fact, the CPI for this category has actually been on a downward trend since the peak of +4.1%yoy recorded in October 2017. Furthermore, the downtrend was further escalated by the tax holiday period where CPI for food at home was as low as -0.7%yoy in September 2019. Despite the reintroduction of Sales and Service Tax (SST), CPI for food at home is still on a decline.

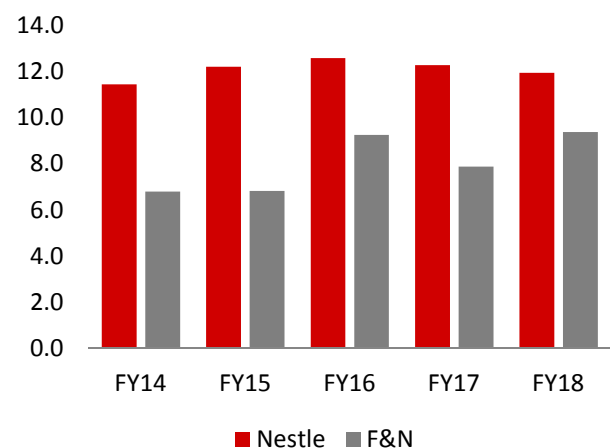
Favourable raw material costs for F&B manufacturers. The moderating trend in CPI for food category was partly attributed to the subdued prices of key agricultural commodities such as raw sugar and palm oil as well as the strengthening Ringgit. As these commodities are key raw materials for food and beverages (F&B) manufacturers, the downtrend in prices of these commodities between -10.0% to -30.0% during FY18 has essentially benefited large F&B manufacturers such as **Nestlé (Malaysia) Berhad (Neutral; RM146.20)** and **F&N Holdings Berhad (Neutral; RM33.78)**. For instance, price of refined sugar sold locally to F&B manufacturers is regularly repriced to reflect the latest international raw sugar price. Hence, a downtrend in international raw sugar price particularly in the 1HFY18 had a positive effect on F&N's net profit margin.

Chart 7: Normalised price trend of raw sugar and palm oil



Source: Bloomberg, MIDFR

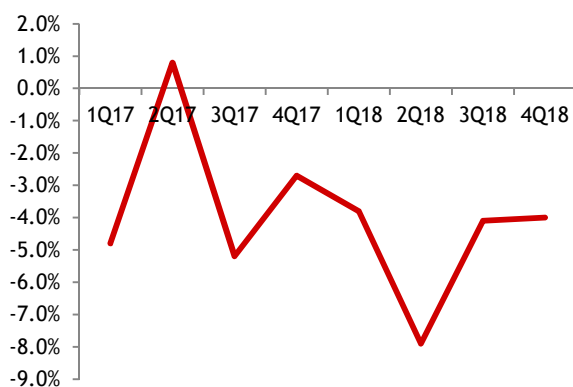
Chart 8: Net profit margin of F&B manufacturers (%)



Source: Bloomberg, MIDFR

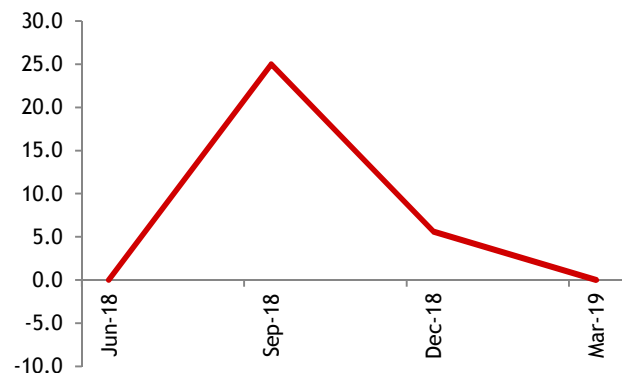
Traditional retailers are facing stiff competition locally. The heightening competition among traditional retailers particularly supermarket and hypermarket players has also led to the moderating trend in CPI for food category. According to Retail Group Malaysia (RGM) which tabulates retail data on behalf of Malaysia Retailers Association (MRA) members, the overall Malaysia retail industry sales rose +2.7% in the final three months of 2018, boosted by the year-end festivity and school holiday spending, but the supermarket and hypermarket segment's growth continue to decline as consumers shunned large retailers. The supermarket and hypermarket segment was the worst performer for the retail market as sales dropped -4.0% for the October-December 2018 period. The segment has continuously been on a decline since September 2017 in line with the decline in CPI for food category which started from the same period. According to a survey in March 2019 by Department of Statistics Malaysia (DOSM), retailers expect that the average selling price will remain suppress in the six month.

Chart 9: Supermarket & hypermarket subsector's retail sales growth



Source: DOSM, MIDFR

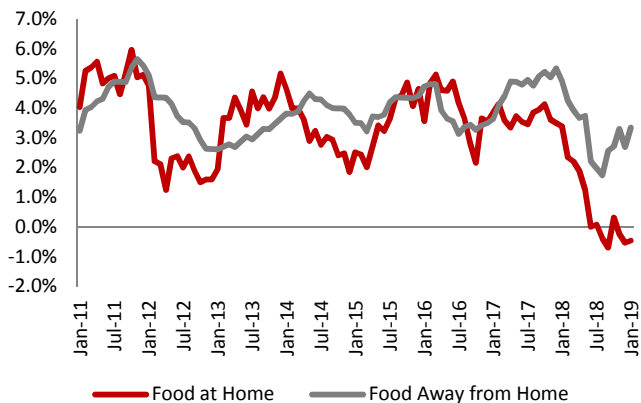
Chart 10: Expectation of retailers' average selling price



Source: RGM, MIDFR

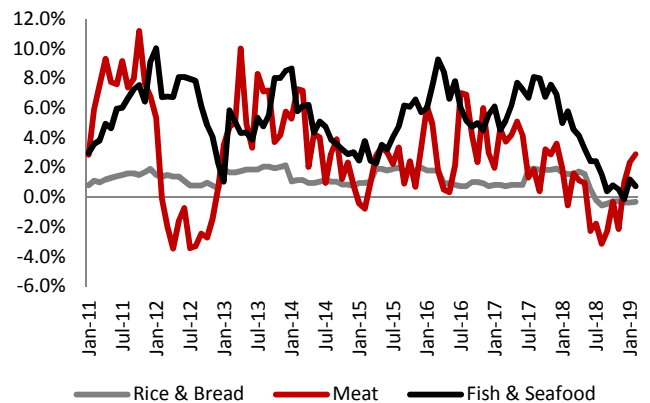
Volatility of food prices. The inflation rate of food away from home is higher than at home. The average inflation during post-GFC for food away is 3.9% against 3.3% of food at home. Nevertheless, the inflation rates of both categories were higher than average headline CPI of 2.4%. Among the top three sub-components of food at home, prices of fish & seafood and meat are the most volatile. As Malaysia is a net importer of food, factors such as festive seasons and supply shocks are highly influential in dictating the prices movements.

Chart 11: CPI: Food at Home vs Food Away from Home (YoY%)



Source: CEIC, MIDFR

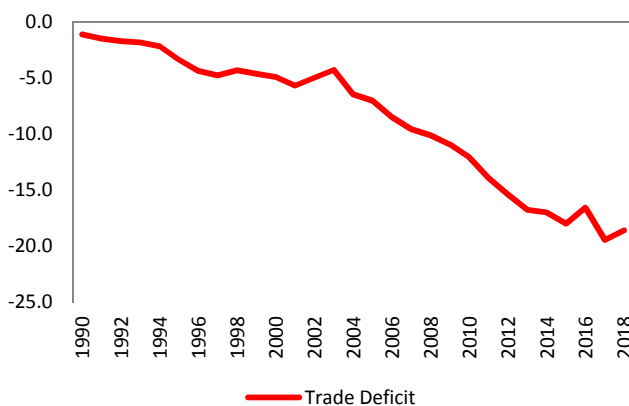
Chart 12: CPI: Major Food Items (YoY%)



Source: CEIC, MIDFR

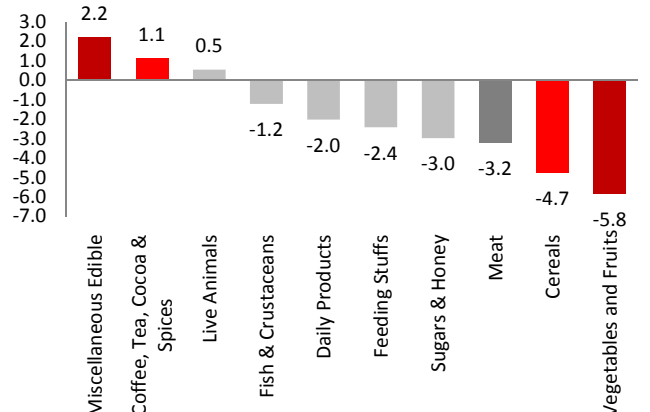
Trade deficit of food at widest ever. Malaysia is a net importer of food. In 2018, Malaysia imported food worth of RM50.2b while exports were of RM31.6b, resulting in a trade deficit of RM18.6b. The only products that Malaysia had competitive advantage are live animals and coffee, tea & spices as well as miscellaneous edible products. Based on latest data, Malaysia recorded its widest trade deficit for food in Jan-19 at RM2.1b. The imports of food grew stronger than exports, 6.3%yoy against 3.9%yoy during the month. Henceforth, the widening gap indirectly affects food inflation to stay at high-side. The Food & non-alcoholic beverages make up about 29.5% of CPI basket. In contrast, food inflation remains on positive growth, at 1.0%yoy in Feb-19. The main push-up factor is prices of food away from home as it rose firmly by 3.4%yoy whereas food at home has been on contractionary for the past four months.

Chart 13: Trade Balance from 1990 – 2018 (MYR bn)



Source: CEIC, MIDFR

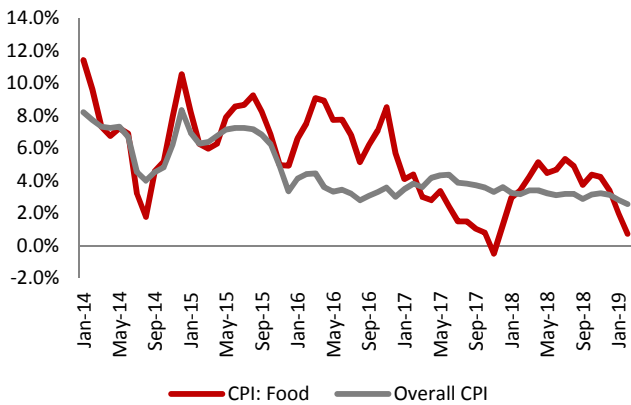
Chart 14: Trade Balance of Food & Live Animals (MYR bn)



Source: CEIC, MIDFR

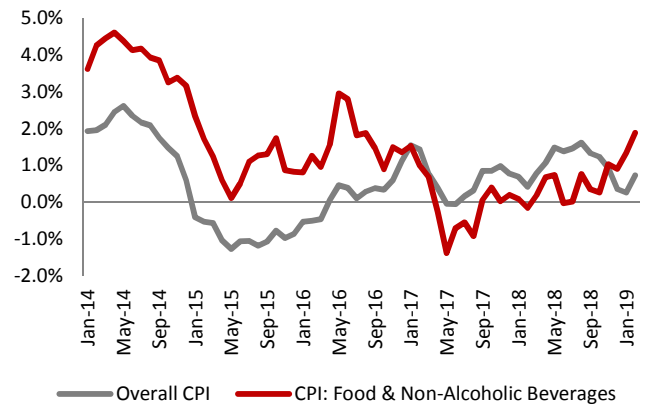
Net importer tends to have higher food inflation. Among ASEAN economies, Thailand and Vietnam posted lower food inflation than headline CPI. In contrast, similar to Malaysia, food inflation is relatively higher than the overall prices. Indonesia is a net importer of food with trade deficit of \$3.3b in 2018, the widest trade deficit in six year. On the other hand, Thailand and Vietnam registered trade surplus of food at \$19.2b and \$10.7b respectively in 2017.

Chart 15: Indonesia's Overall CPI vs Food CPI (YoY%)



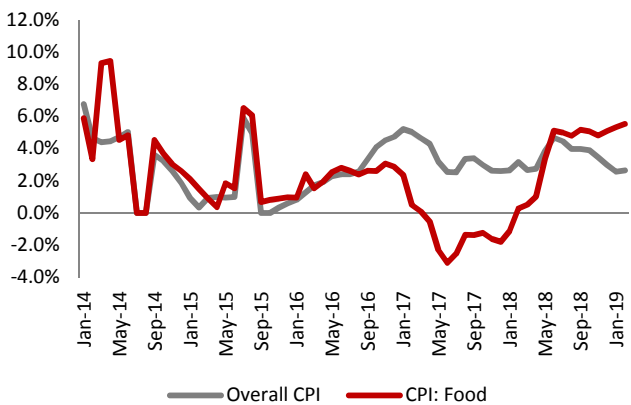
Source: CEIC, MIDFR

Chart 16: Thailand's Overall CPI vs Food CPI (YoY%)



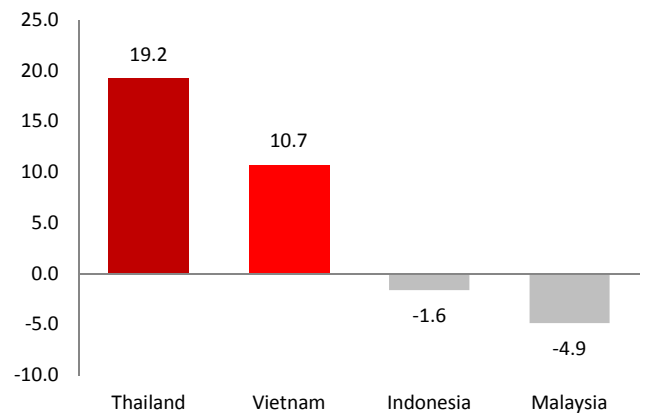
Source: CEIC, MIDFR

Chart 17: Vietnam's Overall CPI vs Food CPI (YoY%)



Source: CEIC, MIDFR

Chart 18: Trade Balance 2017 (USD bn)



Source: CEIC, MIDFR

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STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.