

Malaysia: November CPI - the end tail of technical deflation

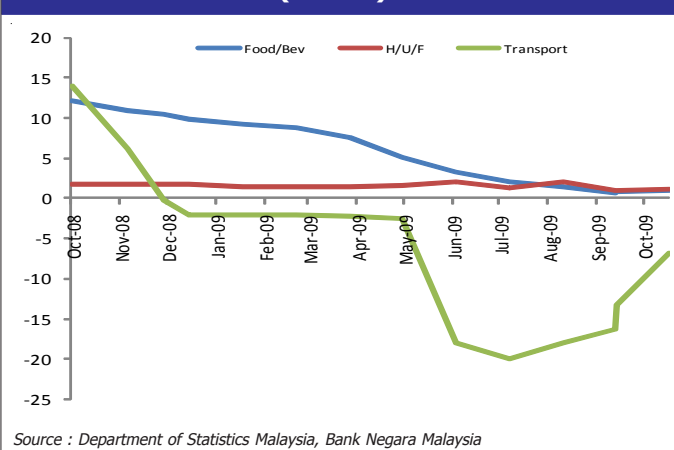
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MALAYSIA CPI (% YOY)

	CPI	FOOD	HOUSING & UTILITIES	TRANSPORT
2005	3.0	5.7	1.2	6.3
2006	3.6	3.4	1.5	11.0
2007	2.0	3.0	1.3	2.3
2008	5.4	8.9	1.6	8.9
Aug-09	-2.4	1.4	1.1	-19.3
Sept-09	-2.0	0.7	1.0	-16.2
Oct-09	-1.5	0.8	1.0	-13.2
Nov-09	-0.1	0.9	1.1	-6.8
4Q-08	5.9	11.2	1.8	6.6
1Q-09	3.7	9.3	1.6	-2.1
2Q-09	1.3	5.3	1.7	-8.2
3Q-09	-2.3	1.4	1.2	-18.5

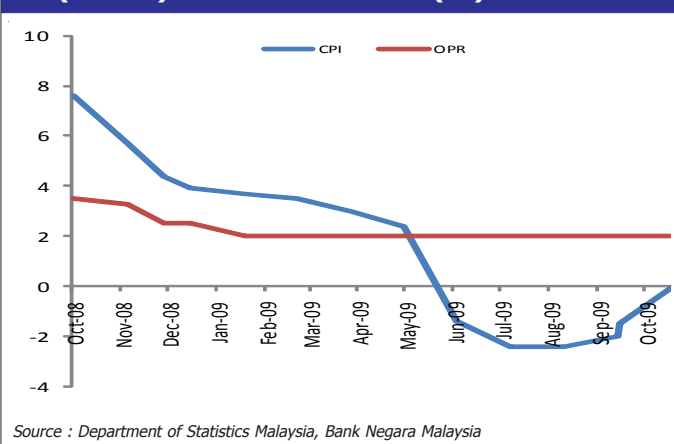
Source : Department of Statistics Malaysia, Bank Negara Malaysia

CPI BY COMPONENTS (% YOY)



Source : Department of Statistics Malaysia, Bank Negara Malaysia

CPI (% YOY) VS INTEREST RATES (%)



Source : Department of Statistics Malaysia, Bank Negara Malaysia

- CPI fell at a sharply lower rate of 0.1% yoy in November, from -1.5% yoy in October, within our expectation but outperforming consensus forecasts of -0.3%. On a monthly basis, the CPI rose by another 0.3% in November following 0.1% increase in October.
- The moderation in headline CPI were due to the smaller price increases on Non-Food items, transport, clothing & footwear. The fall in transport prices moderated sharply to 6.8% in November from -13.2% in October due to the implementation of a two-tier petrol pricing system effective September. However, the prices of fuel remained below the level seen in the same period of a year ago. Notably, transport prices rose 0.2% mom in November against a 0.1% mom fall in October.
- The fall in prices of clothing and footwear components also moderated yoy (Nov: -1.1%, Oct: -1.5%), while remained flat measured on a monthly basis. Non-food items collectively fell by 0.6% yoy, significantly slower compared with the 2.6% yoy decline in October, but rising by 0.2% mom in November.
- Within non-food category, prices of durable goods accelerated (Nov: 1.7%, Oct: 0.4%), but the rate of decline in the prices of semi-durable goods (Nov: -0.9%, Oct: -1.1%) and non-durable goods (Nov: -2.2, Oct: 5.2%) moderated.
- Broad based increases were seen in prices of rest of the items in the CPI basket. However, the rate of rise in prices of food and beverages (Nov: 0.9%, Oct: 0.8%), alcohol and tobacco (Nov and Oct: 2.9%), Housing, Utilities and Fuel (Nov: 1.1%, Oct: 1.0%), Education (Nov and Oct: 2.1%), Recreation and Culture (Nov: 2.5%, Oct: 2.4%) and at restaurants and hotels (Nov and Oct: 1.7%) generally remained broadly flat on annual terms.
- The decline in communications slowed slightly (Nov: -0.4%, Oct: -0.5%). Meanwhile, the rate of yearly increase in prices of furnishings and household (Nov: 1.4%, Oct: 1.6%) and medical (Nov: 1.7%, Oct: 1.9%) also slowed slightly.
- As the base effects continue to weaken, the deflationary trend is likely to end in December 2009. Base on a rise of 0.2% mom, the December CPI would chart a yoy growth of 1.1%, thus the full year rate of inflation would average 0.6%.
- Going into 2010, price pressures could likely remain benign on the back of slow recovery in domestic demand. Inflation however could be intensifying due to adjustment of prices on controlled items and as Government embarks on managing subsidy.

- Potentially, prices will pick up going into the next year following electricity tariff hikes as well as the subsidy adjustments on petrol and sugar, although a negative output gap will keep demand pull inflation contained. Thus, we expect 2010 inflation to rise to 2.5%, slightly higher than the government forecast of 2.3%.
- At this juncture, we believe any surge in the headline CPI following subsidy adjustments is not likely to provoke a monetary policy response unless the output gap turns significantly positive. In which case, small adjustments to the OPR cannot be ruled out. We maintain our view that BNM will hold its policy rate at 2.00% through 1H10, only starting to a rise it in 4Q10.
- However, BNM may tighten its monetary policy earlier than expected if the other economies begin to increase their interest rates. A slow response to adjusting local interest rates could only impose further risks on the domestic growth as investors may be pulling out their investments in favour of other countries which offer higher returns.