

## Inflation

### January CPI - tapering off..

23 FEBRUARY 2009

2009/0009

| MALAYSIA'S CPI (%yoy) |     |          |       |       |
|-----------------------|-----|----------|-------|-------|
|                       | CPI | Food/Bev | H&U&F | Trans |
| 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   |
| Oct-08                | 7.6 | 12.1     | 1.8   | 13.9  |
| Nov-08                | 5.7 | 11.0     | 1.8   | 6.2   |
| Dec-08                | 4.4 | 10.4     | 1.8   | -0.3  |
| Jan-09                | 3.9 | 9.8      | 1.7   | -2.1  |
| 1Q-08                 | 2.6 | 4.4      | 1.3   | 0.9   |
| 2Q-08                 | 4.9 | 8.0      | 1.3   | 7.1   |
| 3Q-08                 | 8.4 | 11.7     | 1.8   | 20.9  |
| 4Q-08                 | 5.9 | 11.2     | 1.8   | 6.6   |

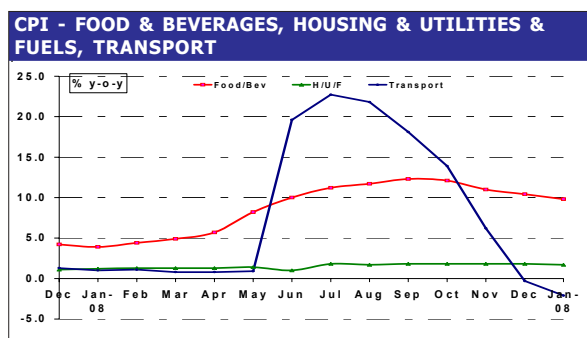
- Malaysia's consumer price index (CPI) eased to 3.9% yoy in January, compared with 4.4% yoy in Dec 08. This marked the slowest growth since May 08 when it recorded a 3.8% rise. The yoy figure has come slightly above the consensus forecast of a 3.7% gain. On a monthly basis, the CPI slipped by 0.1%, recording the fifth contractions since Sept 08.

- The decline in consumer prices was widely expected given the easing in transport cost. The cost of transportation continued to decline further to 2.1% yoy in Jan while on mom, the pace of decline eased significantly from 6.0% (Dec 08) to 1.5% as domestic fuel prices was left unchanged during the month. Petrol prices have fallen by more than 30% since July 08 following the plummeting global oil prices. Prices of food and non-alcoholic beverages and the costs of housing, water, electricity, gas and other fuels also slowed during the month as demand retreated amid the slump in global economic activities. On a m-o-m comparison, the increase in the cost of foods slowed to 0.1% after increasing by 0.3% in Nov and Dec while housing, water and electricity, gas and other fuels prices remained unchanged.

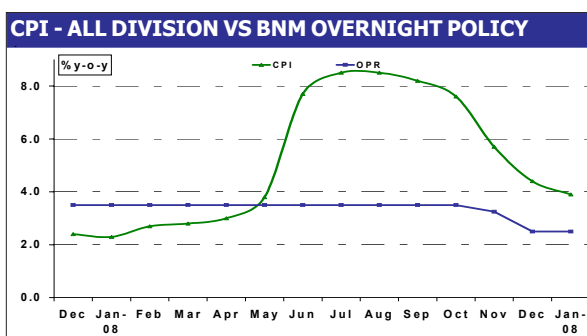
- The downward trend in the CPI moved in tandem with other regional economies. The threat of rising inflationary pressures has somehow receded on the back of slowing demand due to the deepening global economic crisis. Oil prices has plunged to as low as US\$33 a barrel from its peak at US\$145 a barrel in July 08, signaling inflation to continue to stay at lower levels in the medium term.

- Going forward, we believe that inflation will continue its downward slide over the coming months. The current global economic crisis and the secondary effect from lower oil prices will be among the factors to further weigh down prices of goods and services. Coupled with the price reduction campaigns implemented by the government, producers are also expected to slash the selling price of their products in view of the slowing demand arising from the pessimism of the consumer sentiment over the economic outlook. As far as consumer prices are concerned, we believe that inflation will ease further partly due to the reduction in electricity tariff effective in March 08 that is expected to bring down electricity costs. Against these backdrop, we expect inflation to stabilize at between 1.5-2.0% for this year against the 5.4% gain recorded in 2008.

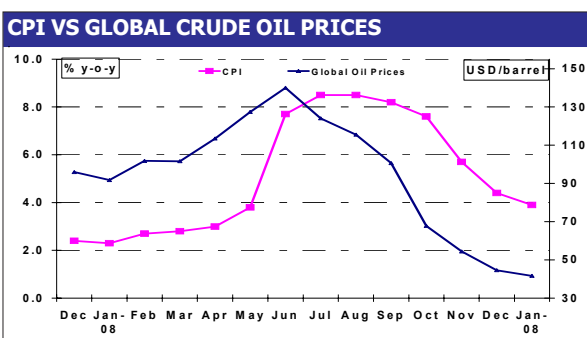
- Despite the slowdown in January CPI, we don't think that Bank Negara will further cut its Official Policy Rate (OPR) in its upcoming Monetary Policy Committee Meeting on February 24. This is in view of recent comments made by the central bank that *the reduction in borrowing costs has been frontloaded and that the current rate will hold unless there are further developments*. In January 08, Bank Negara cut interest rate by three-quarters of a percentage point to 2.50% to support growth following the easing of inflation. Be that as it may, the prevailing inflation environment will allow the central bank to concentrate on supporting growth and will be less concerned about price increases. In the meantime, we believe that the official growth forecast of 3.5% this year will be revisited downward substantially to 0-1.0% when the government announced the second stimulus package on March 10, given the rapid deterioration of the industrial production and external demand. We expect real GDP growth to suffer a contraction of between 1.0 to 1.5% yoy in the 1Q of 2009.



Source : Bank Negara Malaysia & Department of Statistics Malaysia



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