

Inflation

December CPI - 4.4%, brings the full year to 5.4%

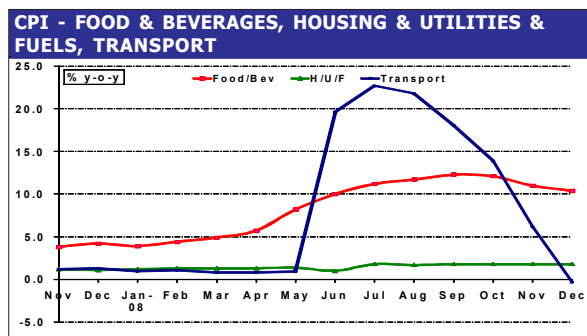
22 JANUARY 2009
2009/0003

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
Sep-08	8.2	12.3	1.8	18.1
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
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

- CPI growth slowed to 4.4% in December from a 5.7% gain in the previous month. The data has come below the consensus expectation of a 5.0% increase. On a m-o-m basis, the CPI dropped 1.0%, marked the fourth consecutive monthly drop since Sept 08.

- Inflation grew at the slowest pace in six months given the two reductions in petrol and diesel prices in December. Since June 08, petrol prices have been reduced by more than 30%. Transport costs fell by 0.3% y-o-y from a 6.1% increase in Nov and a peak of 22.7% in July 08. Meanwhile, transportation costs contracted 6.0% m-o-m (Nov: -6.7%).

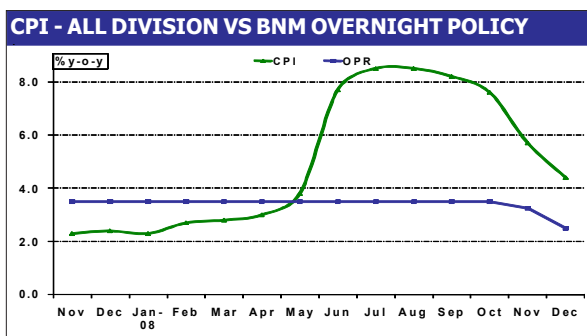
- Prices of food and non-alcoholic beverages softened for the third consecutive months to 10.4% y-o-y while gain in housing, utility and fuels prices was remain unchanged at 1.8% in December. On a monthly basis, food prices grew 0.3%, the same gain as the previous month while the housing, utility and fuels cost was unchanged from Nov.



Source : Bank Negara Malaysia & Department of Statistics Malaysia

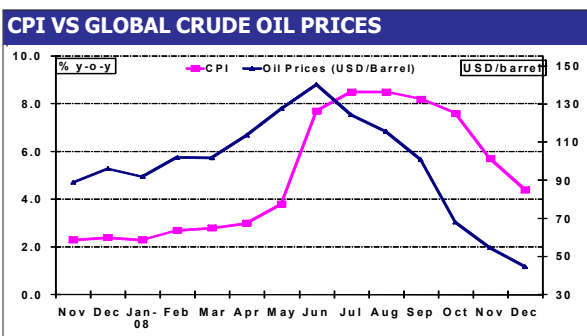
- For 2008, the CPI grew by 5.4% followed a 2.0% gain in the previous year. The increase was led by increases in food and non-alcoholic beverages (+11.5%), gain in transport costs (+13.7%) and the increase in housing, utility and fuels (+1.8%). The 2008 CPI growth figure marked the highest growth pace since 1982 (+5.8%) as it reached record levels of 8.5% in July and August following the 41% hike in petrol prices (June, 08).

- For 2009, the inflation rate is expected to decelerate further due to several factors. Firstly, oil prices has retreated to below USD35 a barrel from the record high USD147 a barrel (July, 08), signifying that local fuel prices will remain at the lower levels, and hence transport costs will continue to ease further. The deepening in the global economic activity, to a certain extent, will also continue to weigh down consumer prices.



Source : Bank Negara Malaysia & Department of Statistics Malaysia

- In the current condition of slowing economic growth, the government is expected to review the power tariff so as to maintain the competitiveness and help to support the manufacturing industry which has being affected by the economic crisis. Any reduction in the power tariff will at least ease inflation growth. Electricity tariff has been raised by 24% in July 08, owing to the rise in gas and coal process and maintenance costs.



Source : Bank Negara Malaysia & Department of Statistics Malaysia

- Against this backdrop, we believe that CPI growth will reach 3.0-4.0% official targets for this year. Prices of other goods is sticky downwards but we believe that overall CPI growth will stay moderates given that producers will start to lower their product prices this year as demand started to weaken. With several cuts in petrol prices end of last year, this should also help to cool inflation while the pass through effects from the fuel price reductions could play out over the coming months.

- The easing in 4Q08 consumer prices has provided more rooms for Bank Negara to lower the benchmark interest rates. Following the release of December CPI, the central bank cuts its OPR by 75 basis points to 2.50%, admitting that there is a *heightened downside risks to growth, and the magnitude of the reductions in OPR is aimed to be pre-emptive in providing a more supportive monetary environment for the domestic economy.* On the inflation rate, Bank Negara viewed that *the deceleration is expected to continue with the weaker demand conditions and lower imported inflation.*