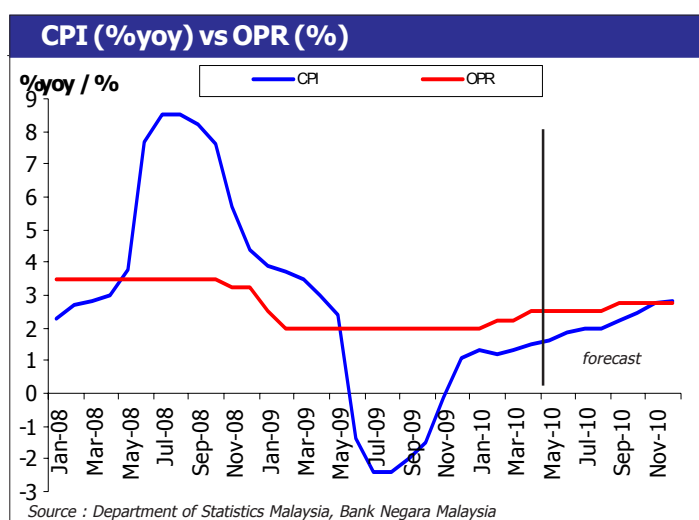
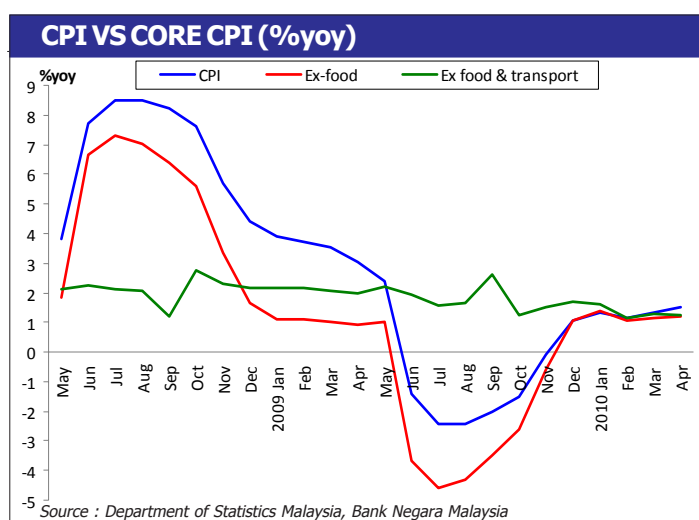
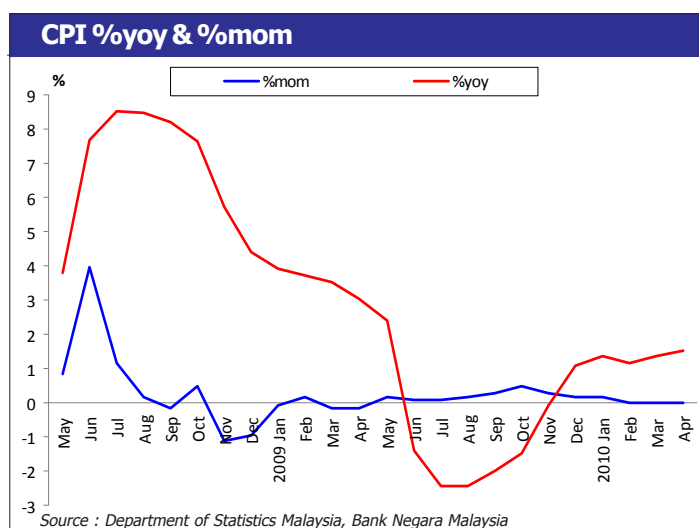


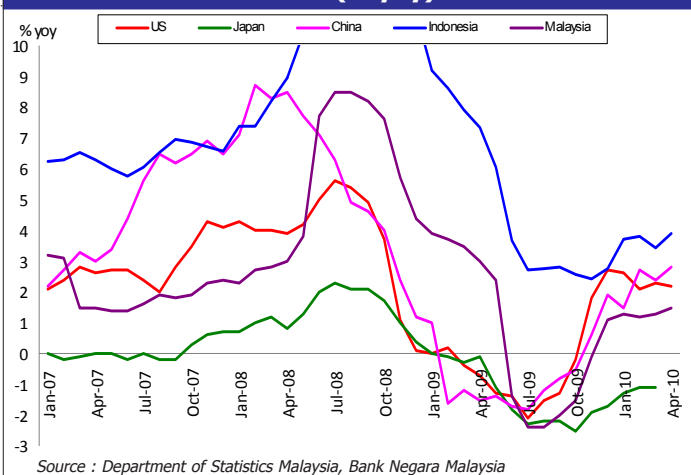
## Malaysia: April CPI - No pressure here!

24 MAY 2010  
2010/0020



- Malaysia's inflation rate as measured by the CPI edged up to 1.5% in April from 1.3% in March on the back of a lower base. Although it was the fastest for the year, the CPI had remained unchanged m.o.m for the third consecutive month, reflecting the absence of demand pressure, amidst stable oil prices. We expect inflation to remain moderate throughout the year and may only increase in 2H10 following the subsidy reforms on fuel prices. For the whole of 2010, we maintain our inflation projection of 2.0% to 2.5%.**
- Similar to the previous month, all sub-categories registered annual increases with the exception of clothing and footwear and communications which fell by 1.7% yoy and 0.4% respectively. Food and non-alcoholic beverages, the largest category in the overall index, grew to a 10-month high of 2.2%. Core inflation (CPI ex-food) remained relatively stable at 1.2%. Its biggest component, housing, water, electricity, gas and other fuels, increased by 1.0%. Transport, which has a weighting of 15.9% in the overall index, expanded by 1.0% from 0.7% in March, its fourth consecutive month of increase.
- Despite the strong GDP growth recorded in 1Q10, inflation remained subdued since the beginning of the year. In the first four months of the year, inflation rate eased to 1.3% yoy, from 3.5% in the corresponding period of 2009. Although the benign inflation partly could be attributed to the stronger Ringgit, the large gap between inflation rate and GDP growth would indicate the continuing low domestic demand pressures.
- In contrast, other regional economies are already experiencing rising inflation rate following the expansion in domestic demand. China which recorded GDP growth of 11.9% in 1Q10 saw its inflation rate rising to 2.9% in April, while inflation in other countries such as Indonesia and South Korea accelerated to 3.9% and 2.6% respectively.
- As such, with the domestic demand pressure likely to remain low for the rest of the year, and the upside risk following the subsidy reforms in 2H10 to be moderate, we are maintaining our full year forecast of 2.0% to 2.5%. However, we are currently awaiting additional news on the subsidy reforms, which are scheduled to be discussed by the Cabinet this week. Should the government decides to defer subsidy withdrawal to the next year, the full year inflation for 2010 may be lower at 1.5% to 2.0%.

## CPI vs Other Countries (%yoy)



- As inflation continues to be less of a policy concern this year and BNM's focusing on ensuring stability in the financial system, while maintaining a relatively accommodative stance for the year, the central bank is likely to embark on a gradual interest rate normalising exercise this year. While BNM has been ahead of other regional central banks in raising its interest rates, its concerns on the European sovereign debt issue and the continuing uncertainties in major economies, may cause BNM to momentarily pause on hiking the OPR further during its policy meeting on 8<sup>th</sup> July. However, it may resume its rate hike exercise in September by another 25 basis points to 2.75% and expected to retain it at this level for the rest of this year.

## CONSUMER PRICE INDEX

	Weightage	Index	April 2010		Index	March 2010	
			% yoy	% mom		% yoy	% mom
<b>Total CPI</b>	<b>100</b>	<b>113.2</b>	<b>1.5</b>	<b>0.0</b>	<b>113.2</b>	<b>1.3</b>	<b>0.0</b>
Core-CPI (ex-food)	47.2	110.0	1.2	0.0	110.2	1.1	0.0
Food & Non-Alcoholic Beverages	31.4	122.4	2.2	0.0	122.4	1.7	-0.1
Alcoholic Beverages & Tobacco	1.9	134.1	3.0	0.0	134.1	3.0	0.1
Clothing & Footwear	3.1	95.0	-1.7	0.5	94.5	-1.6	-0.1
Housing, Water, Electricity, Gas & Other Fuels	21.4	106.5	1.0	0.0	106.5	1.0	0.0
Furnishings & Household Equipment	4.3	109.1	0.6	0.1	109.0	0.7	0.2
Health	1.4	109.7	1.7	0.4	109.3	1.4	-0.1
Transport	15.9	112.8	1.0	0.1	112.7	0.7	-0.1
Communication	5.1	96.0	-0.4	0.1	96.0	-0.4	0.0
Recreation Services & Culture	4.6	107.3	2.8	0.1	107.2	2.7	0.0
Education	1.9	110.0	1.7	0.0	110.0	1.8	0.2
Restaurants & Hotels	3.0	119.8	1.8	0.2	119.6	1.7	0.3
Miscellaneous Goods & Services	6.0	112.7	2.5	-0.1	112.8	2.4	0.0
<b>Non-Food</b>	<b>68.6</b>	<b>109.0</b>	<b>1.2</b>	<b>0.0</b>	<b>109.0</b>	<b>1.4</b>	<b>0.2</b>
Durable Goods	8.0	100.2	0.7	-0.3	100.5	0.7	-0.1
Semi-Durable Goods	4.3	97.4	-1.1	0.5	96.9	-1.1	-0.1
Non-Durable Goods	40.6	118.4	1.6	-0.1	118.5	1.4	-0.1
Services	47.1	112.2	1.7	0.1	112.1	1.6	0.1

Source : Department of Statistics, Bloomberg, Research Divison PNB