

### October CPI

- The Consumer Price Index (CPI) rose 2.0% y-o-y in October as against 1.8% y-o-y in September. The rate of increase was slightly higher than the consensus polled by Bloomberg and our expectations of 1.9%. It marked the fastest growth (excludes August rate of +2.0%) charted in eleven months. On a m-o-m basis, the CPI gained 0.3% after staying unchanged in the previous month. **The larger than expected increase in consumer prices came as a result of large increases in alcoholic beverages/tobacco prices and faster increase in the cost of miscellaneous goods and services.**

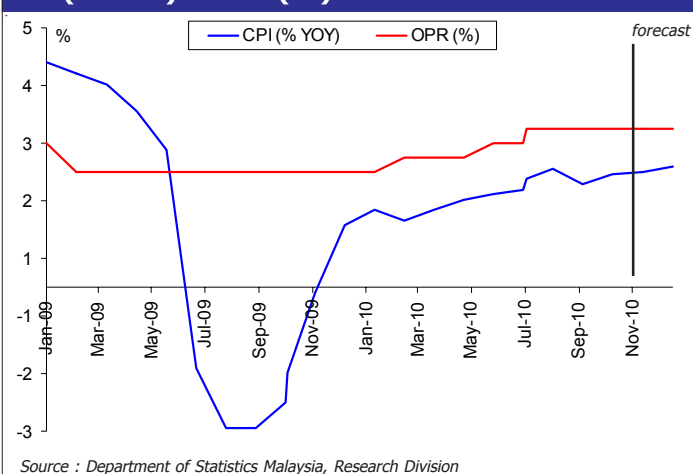
### CPI Components

- Food and non-alcoholic beverages** prices increased 2.8% y-o-y as against 2.7% y-o-y in September. It grew 0.1% on a m-o-m basis after remaining flat in the previous month. Food prices edged up slightly higher during the month as things got back to normal after the festive seasons. The cost of food was flat in the previous month due to price control enforcement by the government ahead of the Hari Raya celebration.
- Transport** cost rose faster by 2.0% y-o-y from 1.8% y-o-y in September. On a m-o-m basis, it increased 1.0%, turning around from a 0.2% decline in September. The cost of transportation has normalized from the 2.7% peak level in August caused by subsidy cuts on fuel-related products.
- Core-CPI** (excludes food and transport) increased from 1.2% y-o-y in September to 1.6% y-o-y in October, marking the fastest pace in almost two years. The increase came above expectations, mainly as a result of a larger gain in alcoholic beverages and tobacco prices (AB/T). The AB/T costs jumped 6.6% y-o-y and 6.3% m-o-m, in response to the increased in sin taxes ahead of the announcement of Budget 2011 in October. The impact on overall CPI growth, however, was smaller as AB/T accounts for only 1.9% of total CPI. In addition, overall price increases were also supported by higher miscellaneous goods and services costs, which rose by 2.9% y-o-y from 2.3% y-o-y in September.

### Comment

- Apparently, a further increase in CPI growth was mainly supported by increases in non-food items such as the alcoholic beverages and tobacco products. There are no significant changes seen in prices of the main-components such as food and transports except for the small gain charted during the month following a flat growth registered in September.
- Thus, the overall consumer prices continued to remain subdued, even though with the unexpected increases in some non-food items. Consumer prices for the year to date

## CPI (% YOY) vs OPR (%)



(Jan-Oct 2010) had increased by 1.7%, and we expect it to continue to rise at a modest pace, taking the full year average to grow by 1.8%. For November, we believe the CPI growth rate to remain stable at 2.0% on the back of a modest rise in food costs and further increases in transport costs.

- We expect consumer prices to accelerate next year on account of a slight build up in demand pull pressures as economic condition improves. Despite concerns over

the uncertainty in the global condition, the domestic economy for next year is expected to boost up by the acceleration in projects under the 10<sup>th</sup> Malaysian Plan. The expectation of a firmer increase in commodity prices and improvement in consumer sentiments during the 2H11 would also contribute to higher inflation during next year. We are expecting the CPI to grow at 2.5% from an estimated 1.8% growth in 2010. The anticipation of a higher CPI growth rate, in our view, would also be spurred by the supply-side pressure, mainly with regards to further subsidy cuts by the government on selected food and fuel products.

- The benign inflation rate is in line with the accommodative interest rate policy adopted by Bank Negara. Bank Negara in its latest MPC statement maintained its benchmark Overnight Policy Rate (OPR) at 2.75%, reiterating that inflation may continue to remain subdued. The tame inflation, as pronounced by the central bank, would also signal that it will stay at the current level at least throughout the 1H11. Meanwhile, the rising concerns over capital flow at present would also strengthen the case of an unchanged OPR given that further increases in the interest rate would only attract more capital flow into the country and affect the stability of the financial market. We however expect Bank Negara to resume its policy rate hike of about 25-50 basis point during the 2H11 on account of stronger domestic demand and a rise in the inflation rate.

## CONSUMER PRICE INDEX

	Weightage	Index	October 2010		Index	September 2010	
			% yoy	% mom		% yoy	% mom
<b>Total CPI</b>	<b>100</b>	<b>114.7</b>	<b>2.0</b>	<b>0.3</b>	<b>114.4</b>	<b>1.8</b>	<b>0.0</b>
Core-CPI (ex-food & transport)	47.2	111.5	1.6	0.5	110.9	1.2	0.1
Food & Non-Alcoholic Beverages	31.4	124.4	2.8	0.1	124.3	2.7	0.0
Alcoholic Beverages & Tobacco	1.9	142.7	6.6	6.3	134.3	3.1	0.0
Clothing & Footwear	3.1	94.8	-0.5	-0.1	94.9	-0.4	0.9
Housing, Water, Electricity, Gas & Other Fuels	21.4	107.6	1.4	0.1	107.5	1.3	0.0
Furnishings & Household Equipment	4.3	109.4	0.6	0.0	109.4	0.8	0.2
Health	1.4	110.7	1.7	0.1	110.6	1.7	0.2
Transport	15.9	114.6	2.0	0.1	114.5	1.8	-0.2
Communication	5.1	96.1	-0.1	-0.1	96.2	0.0	0.0
Recreation Services & Culture	4.6	107.1	0.2	0.0	107.1	0.3	0.1
Education	1.9	110.3	1.6	0.0	110.3	1.6	0.1
Restaurants & Hotels	3.0	121.0	2.3	0.2	120.8	2.3	0.4
Miscellaneous Goods & Services	6.0	114.5	2.9	0.6	113.8	2.3	0.4
Non-Food	68.6	110.3	1.5	0.4	109.9	1.3	0.1
Durable Goods	8.0	100.9	1.0	0.4	100.5	0.6	0.2
Semi-Durable Goods	4.3	97.3	-0.3	-0.1	97.4	-1.0	0.7
Non-Durable Goods	40.6	120.9	2.8	0.5	120.3	2.4	0.0
Services	47.1	113.2	1.7	0.1	113.1	1.6	0.1

Source : Department of Statistics, Bloomberg, Research Division