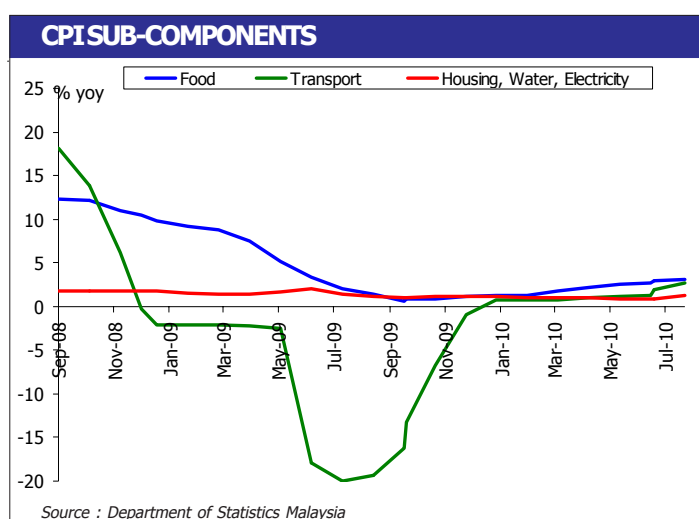
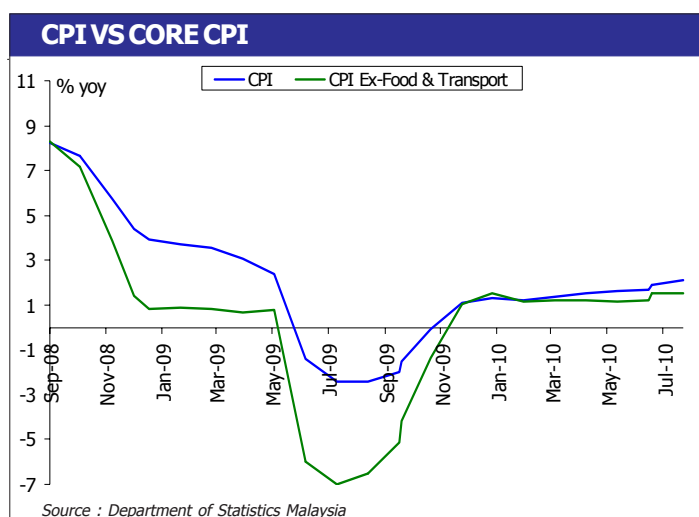
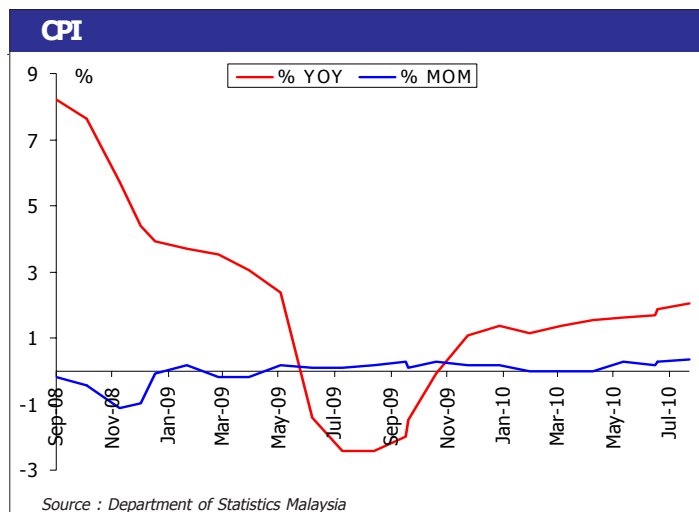


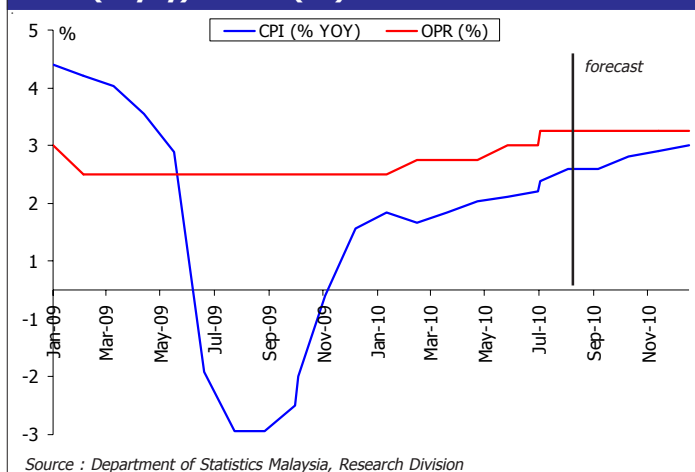
Malaysia: August CPI - grew at a faster pace

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- Malaysia's Consumer Price Index grew faster by 2.1% yoy in August from 1.9% in July. It came between our and consensus expectations of +2.2% and +2.0% respectively. On a monthly basis, the CPI gained 0.4%, the fastest pace since May 09. We expect the rate of inflation to rise further to between 2.1% to 2.5% over the coming months on the back of the pass through effect from the subsidy cuts, firmer consumer demand as well as a lower base effect.**
- The higher inflation was driven mostly by higher prices of food/non-alcoholic beverages and transport sub-components. Food prices rose by 3.1% yoy in August as against 2.9% in July, mainly attributed to the rise in consumer demand ahead of the Hari Raya festive season and some pass through effects from the reduction in subsidy. Transport cost grew faster from 2.0% yoy in July to 2.7% in August, the strongest pace for this year as the full impact from the subsidy cut on fuel products kicked in.
- Core-CPI (excludes volatile food and transport costs) retained a growth of 1.5% yoy, similar to the previous month. This was mainly caused by the higher housing, utilities and other fuel prices (accounting for almost 22% of total CPI) which grew at stronger pace of 1.3% yoy (July: +0.9%) on the back of a faster mom increase of 0.5% (July: +0.1%). However, lower prices of furnishing/household equipment, clothing/footwear, recreation services/culture, miscellaneous goods and services sub-components helped moderate the overall increase in the core-CPI.
- Inflation will continue to rise over the coming months of this year, but to remain at manageable levels. Higher food and transport costs are expected to contribute towards the higher inflation, supported by the increase in the cost of other non-administered products as consumer demand continues to build up. The positive net wealth effect from the favorable increase in the stock market and commodity prices recently would also support a higher domestic demand, thus prompting further increases in prices of overall goods and services.
- To a significant extent, inflation for this year is triggered by cost-push, amidst a slight increase in demand pull pressures. The effects of the subsidy reduction as well as low base factor, among others, are also exerting some upward pressure on the CPI. We expect the rate of inflation over the coming months to rise further to 2.1%-2.5%, thus to cause full year rate to average around 2.0% compared with 0.6% in 2009.
- As for the month of September, we expect the CPI to grow at 2.1% yoy (similar to August) mainly driven by increased

CPI (%yoy) vs OPR (%)



consumer spending following the Hari Raya celebration alongside with some pass through effect from the cut in subsidy.

- As the rate of inflation is expected to remain within the manageable level, we are therefore not expecting changes in the interest rate level to be made during the coming MPC meeting in November. At this juncture, the increased concern on domestic growth following the slowdown in the global economic recovery would outweigh the concerns on inflation. As such, we believe the OPR will be maintained at 2.75% till the end of this year and BNM would resume its interest rates hike earliest in the 1H11 following improvement in economic activities along with signs of greater demand pull inflationary pressures.

CONSUMER PRICE INDEX

	Weightage	Index	August 2010		Index	July 2010	
			% yoy	% mom		% yoy	% mom
Total CPI	100	114.4	2.1	0.4	114.0	1.9	0.3
Core-CPI (ex-food & transport)	47.2	110.8	1.5	0.2	110.6	1.5	0.4
Food & Non-Alcoholic Beverages	31.4	124.3	3.1	0.3	123.9	2.9	0.4
Alcoholic Beverages & Tobacco	1.9	134.3	3.1	0.0	134.3	3.1	0.1
Clothing & Footwear	3.1	94.1	-1.6	-0.6	94.7	-1.3	0.5
Housing, Water, Electricity, Gas & Other Fuels	21.4	107.5	1.3	0.5	107.0	0.9	0.1
Furnishings & Household Equipment	4.3	109.2	0.6	-0.2	109.4	0.9	0.4
Health	1.4	110.4	1.7	0.2	110.2	1.6	0.1
Transport	15.9	114.7	2.7	0.8	113.8	2.0	0.8
Communication	5.1	96.2	-0.1	0.0	96.2	-0.1	0.2
Recreation Services & Culture	4.6	107.0	0.3	-0.3	107.3	2.6	0.1
Education	1.9	110.2	1.5	0.0	110.2	1.7	0.1
Restaurants & Hotels	3.0	120.3	1.9	0.2	120.1	1.8	0.0
Miscellaneous Goods & Services	6.0	113.3	2.5	-0.3	113.6	2.9	0.1
Non-Food	68.6	109.9	1.5	0.4	109.5	1.4	0.2
Durable Goods	8.0	100.3	0.7	-0.5	100.8	1.2	0.0
Semi-Durable Goods	4.3	96.7	-1.0	-0.5	97.2	-0.7	0.4
Non-Durable Goods	40.6	120.3	2.9	0.5	119.7	2.5	0.5
Services	47.1	113.0	1.6	0.2	112.8	1.8	0.2

Source : Department of Statistics, Bloomberg, Research Divison PNB