

Malaysia Consumer Price Index

Fell 2.4% in August, to turn positive in 4Q09

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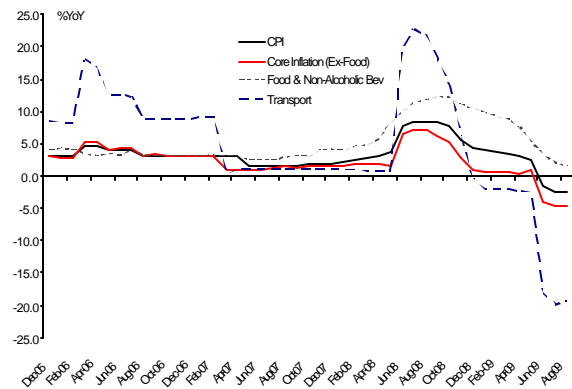
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HIGHLIGHTS

- The **August Consumer Price Index (CPI) contracted at the same pace as in the preceding month at -2.4%**. While it was in line with market expectation it was lower than our estimate of -2.6%. **However, it continued to edge up for the fourth successive month albeit higher at 0.2% MoM in August, compared with an average of 0.1% in the preceding three months.** In the first eight months, its growth lowered sharply to 1.3% compared with 4.9% in the same period a year ago.
- Given that inflation had peaked in 3Q of last year, we reckon the base effect will wear off soon and the current deflationary trend will reverse in 4Q09. Along with the impact of improved economic environment, we project the CPI to rebound to 0.2% in 4Q09 after contracting by an estimated 2.3% in 3Q09. **On average the CPI may contract by about 1.0% in 2H09 versus 2.5% in 1H09. Hence, the CPI is projected to decelerate to 0.6% this year from 5.4% in 2008.**
- As the deflationary trend is a temporary effect, we do not expect BNM to change its current easy monetary stance. Hence, **we expect the benchmark Overnight Policy Rate to stay at 2.00% for the next 6-12 months.**

Still feeling the base effect. The higher base effect is still reigning on the CPI growth trend as it still records a large annual rate of decline. The **August Consumer Price Index (CPI) contracted at the same pace as in the preceding month at an annual rate of -2.4%**. While it was in line with market expectation (based on *Bloomberg's* consensus median) it was lower than our estimate of -2.6%. **However, it continued to edge up for the fourth successive month albeit higher at 0.2% MoM in August, compared with an average of 0.1% in the preceding three months.** In the first eight months, its growth lowered sharply to 1.3% compared with 4.9% in the same period a year ago.

A temporary deflationary trend




Source: Department of Statistics, Kenanga Research

Food and transport put the brakes on deflation.

The MoM increase in the major indices, food and transport, as well as recreation services and culture helped to put the brakes on CPI's YoY contraction. The food and non-alcoholic beverage index grew 0.2% MoM, its consecutive month of increase, while the transport index edged up by 0.1% MoM. Meanwhile, recreation services jumped 2.0% MoM.

Base effect to wear off in 4Q09. Given that inflation had peaked in 3Q of last year, we reckon the base effect will wear off soon and the current deflationary trend will reverse in 4Q09. Along with the impact of improved economic environment, we project the CPI to rebound to 0.2% in 4Q09 after contracting by an estimated 2.3% in 3Q09. **On average the CPI may contract by about 1.0% in 2H09 versus 2.5% in 1H09. Hence, the CPI is projected to decelerate to 0.6% this year from 5.4% in 2008.** An expected higher fuel and commodity prices backed by economic recovery, the CPI is projected to expand to 2.2% in 2010.

Monetary policy to remain unchanged. As the deflationary trend is a temporary effect, we do not expect BNM to change its current easy monetary stance. Hence, **we expect the benchmark Overnight Policy Rate to stay at 2.00% for the next 6-12 months. A possibility of a rate hike is likely in 2H of 2010 onwards as we may see a more steady path towards growth uptrend.** 

CPI & Its Major Components Growth Trend (%YoY)

Base2005=100	weight	2006	2007	2008	Aug-08	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Jan-Aug 08	Jan-Aug 09
CPI	100.0	3.6	2.0	5.4	8.5	3.0	2.4	-1.4	-2.4	-2.4	4.9	1.3
Core Inflation (Ex -Food & NAB)	68.6	3.7	1.6	3.0	7.0	0.5	0.9	-3.9	-4.8	-4.8	3.6	-1.4
Food & Non-Alcoholic Bev. (NAB)	31.4	3.4	3.0	8.8	11.7	7.5	5.2	3.4	2.0	1.4	7.5	5.9
Alcoholic Bev. & Tobacco	1.9	6.9	7.8	7.3	0.4	8.3	8.1	8.1	8.0	8.0	6.8	8.2
Clothing & Footwear	3.1	-1.3	-1.4	-0.5	-0.4	-0.6	-0.7	-1.1	-0.9	-0.8	-0.6	-0.8
Hous'g, Water, Elec.Gas & Fuels	21.4	1.5	1.3	1.6	1.7	1.4	1.6	2.0	1.3	1.1	1.4	1.5
Furnishing & Househld Equipm't	4.3	1.1	1.1	3.0	4.0	4.4	4.2	3.5	2.4	2.0	2.3	3.8
Health	1.4	2.2	1.6	2.2	2.5	2.4	2.5	2.5	2.3	2.2	2.0	2.5
Transport	15.9	11.0	2.3	8.8	21.8	-2.3	-2.5	-18.0	-19.9	-19.3	8.6	-9.3
Communication	5.1	-1.4	-1.2	-0.6	-0.5	-0.5	-0.4	-0.5	-0.4	-0.4	-0.6	-0.5
Recreation Services & Culture	4.6	0.8	1.4	1.8	0.9	0.9	1.0	1.0	0.7	2.6	2.0	1.2
Education	1.9	1.6	1.8	2.3	2.5	2.5	2.5	2.3	2.4	2.4	2.2	2.5
Restaurants & Hotels	3.0	3.7	3.7	6.6	6.5	3.9	3.7	3.1	2.4	2.1	6.9	3.5
Misc. Goods & Services	6.0	2.3	1.0	3.3	3.9	3.6	3.6	3.7	3.0	3.3	3.5	3.5

Source: Department of Statistics, Kenanga Research

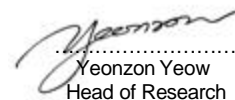
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