

25 June 2020



ECONOMICS

In this report:

Malaysia – Deflation outlook remains

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Malaysia

Deflation outlook remains

The streak of negative inflation stretched to the third consecutive month into May, with the headline inflation falling at the same pace as April's by 2.9% y/y. Thus, average inflation for the first five months slid by 0.6% y/y. Core inflation, which excludes fresh food and administered prices of goods and services, grew at a slower pace by 1.1% y/y from 1.3% y/y in April, bringing the first five months average to 1.3%. Transportation cost fell for the third month in a row by 20.8% y/y in May, while food and non-alcoholic beverage prices rose at the same pace as in April by 1.2% y/y despite being the Hari Raya festive season, impacted by the CMCO.

Going forward, the inflation outlook remains weak. It is more likely to remain in the deflationary region. This is despite global crude oil prices that are seen to have stabilised. However, the current economic outlook remains weak, as reflected by April's Leading index (LI) which fell further by 5.5% y/y from -3.6% y/y in March — the lowest since February 2009 — impacted by the MCO that disrupted supply and demand. The labour market was languid, with unemployment at 5% in April. There will also be an impact from social distancing. On that note, headline inflation is likely to hover between -0.6% and -1.5%

- The streak of negative inflation stretched to the third consecutive month into May with the headline inflation falling at the same pace as April's by 2.9% y/y, slightly higher than market consensus of -2.8% y/y. Thus, average inflation for the first five months fell by 0.6% y/y versus -0.1% y/y for the same period a year ago. Core inflation, which excludes fresh food and administered prices of goods and services, grew at a slower pace by 1.1% y/y from 1.3% y/y in April, bringing the first five months average to 1.3%.
- Transportation cost slid for the third month in a row by 20.8% y/y in May from -21.5% y/y in April. This is despite the slight rise in the month of May's pump prices where RON95 rose to RM1.30/liter (Apr: RM1.27/liter); and RON97 was raised to RM1.60/liter (Apr: RM1.57/liter). Meanwhile, diesel prices eased to RM1.45/liter (Apr: RM1.49/liter).
- Meanwhile, food and non-alcoholic beverage prices rose at the same pace as in April by 1.2% y/y. This is despite the Hari Raya festive season. Traditionally, prices should increase in view of the festive season. However, this time around due to the implementation of the movement control order (MCO) on 18 March 2020, followed by the easing to the conditional movement control order (MCO) effective on 4 May, it has impacted consumer spending.

- Going forward, the inflation outlook remains weak. It is more likely to remain in the deflationary region. This is despite global crude oil prices that are seen to have stabilised. However, the current economic outlook remains weak, as reflected by April's Leading index (LI) which fell further by 5.5% y/y from -3.6% y/y in March — the lowest since February 2009 — impacted by the MCO that disrupted supply and demand. The labour market was languid, with unemployment at 5% in April. There will also be an impact from social distancing. On that note, headline inflation is likely to hover between -0.6% and -1.5%.

Table 1: Malaysia Key Inflation Data (%)

	May'19	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan'00	Feb	Mar	Apr	May
CPI y/y	0.2	1.5	1.4	1.5	1.1	1.1	0.9	1.0	1.6	1.3	-0.2	-2.9	-2.9
CPI m/m	0.2	0.0	0.1	0.2	0.0	0.2	0.1	0.2	0.1	0.0	-1.2	-2.7	0.3
Core-CPI y/y	0.4	1.9	2.0	2.0	1.5	1.4	1.4	1.4	1.6	1.3	1.3	1.3	1.1
Core-CPI m/m	0.1	0.0	0.1	0.3	0.2	0.1	0.3	0.0	0.1	-0.1	0.2	0.1	-0.1
USD/MYR avg	4.168	4.160	4.123	4.187	4.182	4.187	4.155	4.146	4.079	4.163	4.296	4.349	4.336
USD/MYR y/y	5.3	4.1	1.8	2.3	1.0	0.7	-0.7	-0.5	-0.9	2.1	5.4	5.8	4.0
Brent avg (USD/barrel)	71.17	64.22	63.92	59.04	62.83	59.71	63.21	67.31	63.65	55.66	32.01	18.47	29.60
Brent y/y	-7.4	-13.7	-13.9	-18.6	-20.4	-26.3	-2.4	19.0	7.1	-13.0	-51.6	-74.1	-58.4
OPR	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	2.75	2.75	2.50	2.50	2.00
Real Returns	2.8	1.5	1.6	1.5	1.9	1.9	2.1	2.0	1.2	1.4	2.7	5.4	4.9

Source: CEIC/AmBank Research

Table 2: Headline CPI and Core Index by Main Group (y/y %)

	May'19	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan'00	Feb	Mar	Apr	May
Non Food	-0.2	1.1	1.0	0.9	0.5	0.8	0.6	0.6	1.9	1.6	-0.8	-4.8	-4.9
Food & Non Alcoholic Beverages	1.2	2.3	2.4	2.6	2.2	1.8	1.5	1.7	0.9	0.8	1.2	1.2	1.2
Alcoholic Beverages and Tobacco	1.3	2.1	2.3	2.5	2.4	2.2	0.4	0.2	0.1	0.2	0.3	0.2	0.2
Clothing and Footwear	-3.2	-0.7	-1.1	-1.1	-0.9	-1.3	-1.1	-1.0	-1.2	-1.1	-1.3	-1.2	-1.1
Housing, Water, Electricity, Gas	1.8	2.3	1.9	1.8	1.6	1.6	1.7	1.7	1.7	1.6	1.6	-2.2	-2.6
Health	-0.3	1.2	1.3	1.4	1.3	1.4	1.4	1.4	1.4	1.3	1.4	1.2	1.2
Transport	-2.5	-2.1	-1.9	-2.1	-2.2	-2.3	-2.4	-1.9	3.9	2.4	-8.9	-21.5	-20.8
Communication	-0.9	2.1	2.1	2.2	-0.1	1.5	1.5	1.5	1.5	1.5	1.5	1.6	1.6
Recreation and Culture	-0.4	2.7	2.4	2.3	0.8	0.7	0.8	0.6	0.9	0.7	0.7	0.6	0.7
Education	1.2	1.4	1.4	1.4	1.8	1.9	1.6	1.7	1.7	1.3	1.3	1.2	1.0
Restaurant and Hotel	0.6	1.6	1.7	1.7	1.4	1.2	1.1	1.1	1.1	1.1	0.9	0.7	0.9
Misc. Goods & Service	-2.1	1.4	1.8	2.5	2.7	2.2	2.5	2.4	2.5	2.5	2.6	2.3	2.8
Durable Goods	-2.8	1.2	1.8	2.6	2.3	2.1	1.9	1.7	1.8	1.6	2.1	2.5	2.9
Semi Durable Goods	-3.4	-0.7	-0.8	-0.9	-0.7	-0.9	-0.9	-0.8	-1.0	-0.9	-0.9	-0.9	-0.7
Non-Durable Goods	-0.9	0.2	0.1	0.2	0.2	-0.2	-0.2	-0.1	1.6	1.2	-2.6	-9.5	-9.3
Services	1.6	2.6	2.7	2.6	1.9	1.9	1.9	1.9	1.8	1.5	1.5	1.4	1.2

Source: CEIC/AmBank Research

Table 3: Key Coincident, Leading, and Lagging Indicators (%)

	Apr'19	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan'20	Feb	Mar	Apr	May
Coincident y/y	3.3	3.7	2.4	2.1	2.6	2.2	2.0	2.5	2.4	2.0	3.4	-3.6	-19.3	nm
Leading y/y	0.6	-0.1	-0.6	0.6	-0.2	0.6	1.9	1.3	1.9	0.7	1.7	-3.6	-5.5	nm
Lagging y/y	2.4	3.1	2.0	2.3	1.8	2.8	1.5	1.3	2.2	1.1	-0.6	-4.9	3.4	nm
Coincident m/m	0.8	0.4	-0.2	0.5	0.4	-0.3	0.4	0.3	0.2	0.2	0.7	-6.9	-15.6	nm
Leading m/m	2.3	-1.7	-0.2	1.4	-0.6	0.0	1.5	-0.4	-0.3	0.1	-0.8	-4.9	0.3	nm
Lagging m/m	0.8	0.3	-1.5	1.5	-0.3	0.3	0.6	-0.3	0.8	-0.3	-0.3	-6.5	9.6	nm
IP	3.2	4.0	3.2	1.4	1.9	1.5	0.1	2.1	1.3	0.6	6.2	-4.9	-32.0	nm
Mfg PMI	49.4	48.8	47.8	47.6	47.4	47.9	49.3	49.5	50.0	48.8	48.5	48.4	31.3	45.6

Source: CEIC/AmBank Research

Table 4: Coincident Index Breakdown (m/m %)

	Nov'19	Dec	Jan'20	Feb	Mar	Apr
Total Employment, Mfg	0.1	0.0	0.2	0.2	-0.3	-1.4
Real Salaries & Wages, Mfg	0.1	0.1	0.0	0.1	-0.3	-0.6
Industrial Production	0.1	0.0	0.0	0.3	-0.9	-3.0
Real Contributions, EPF	0.0	0.1	0.1	0.1	-0.3	-0.3
Capacity Utilisation, Mfg	0.2	-0.1	-0.2	0.1	-2.4	-4.6
Volume Index, Retail Trade	0.2	0.1	0.1	-0.1	-2.7	-5.7

Source: CEIC/AmBank Research

Table 5: Leading Index Breakdown (m/m %)

	Nov'19	Dec	Jan'20	Feb	Mar	Apr
Real Money Supply, M1	0.0	0.0	-0.1	-0.1	1.0	0.9
KLSE Industrial Index	0.0	0.0	0.1	-0.2	-0.5	0.8
Real Imports of Semi Conductors	0.3	-0.2	0.0	0.3	-1.1	0.5
Real Imports of Other Metals	-0.4	-0.1	-0.1	0.4	-1.0	-0.4
Housing Permits, Approved	-0.3	0.1	0.0	-0.8	0.0	-1.1
Expected Sales Value, Mfg	0.0	-0.2	0.5	-1.2	-1.7	2.1
New Companies Registered	0.0	0.1	-0.3	0.8	-1.6	-2.5

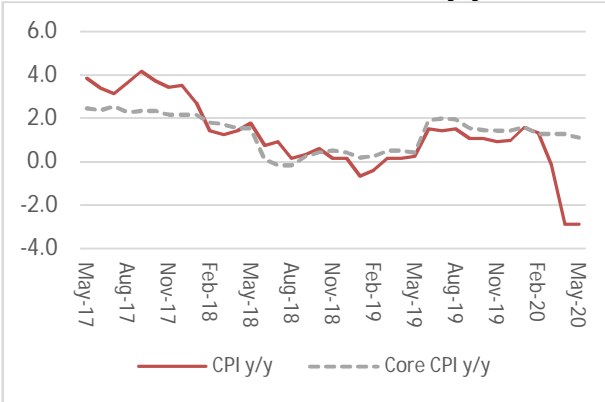
Source: CEIC/AmBank Research

Table 6: Lagging Indicator Breakdown (m/m %)

	Nov'19	Dec	Jan'20	Feb	Mar	Apr
Unit Labour Cost, Mfg	0.0	0.0	0.0	-0.3	0.8	4.3
No of Investment Projects Approved	-0.3	0.4	-0.3	-0.4	-0.2	-1.2
New Vehicles Registered	0.0	0.0	-0.3	0.3	-7.1	7.0
Export, Natural Gas & Crude Oil	-0.2	0.3	0.1	0.2	-0.6	-0.5
CPI, Service	0.2	0.1	0.2	-0.1	0.2	0.0

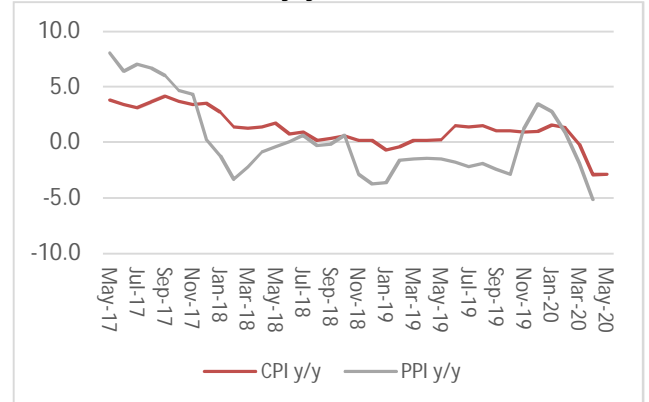
Source: CEIC/AmBank Research

Chart 1: Headline & Core Inflation Rate (y/y %)



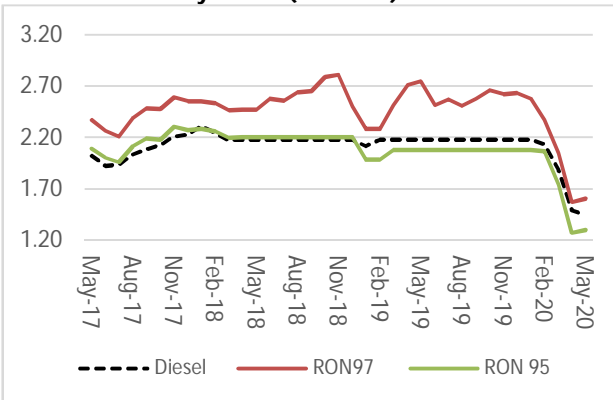
Source: CEIC/AmBank Research

Chart 2: Inflation & PPI (y/y %)



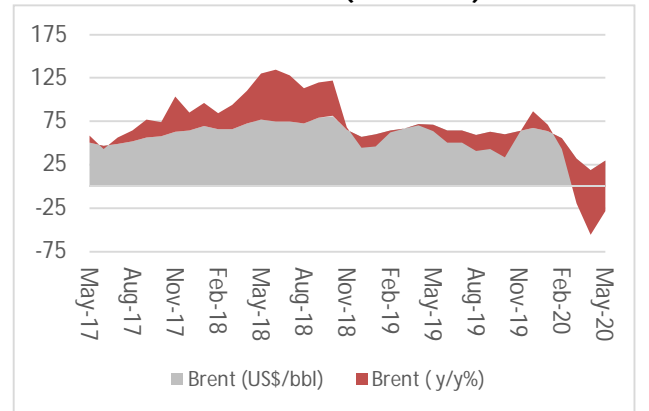
Source: CEIC/AmBank Research

Chart 3: Fuel Daily Prices (RM/liter)



Source: CEIC/AmBank Research

Chart 4: Brent Crude Oil Price (US\$/barrel)



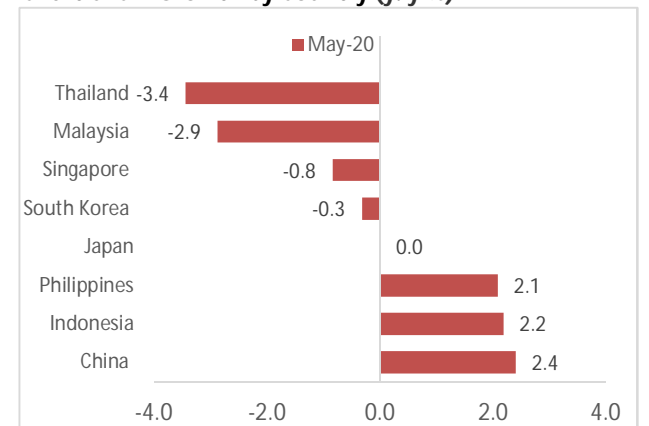
Source: CEIC/AmBank Research

Chart 5: Real Rates (%)



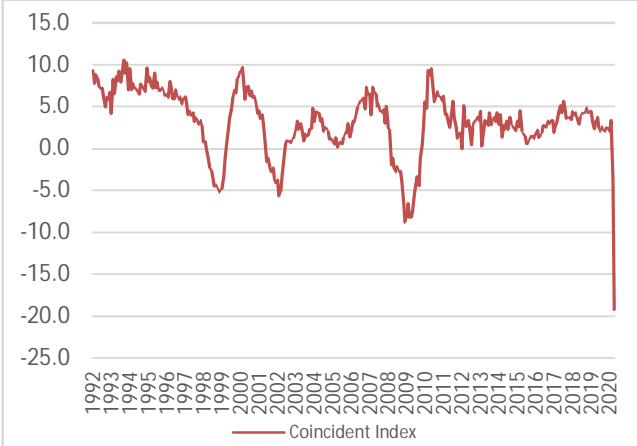
Source: CEIC/AmBank Research

Chart 6: CPI Growth by Country (y/y %)



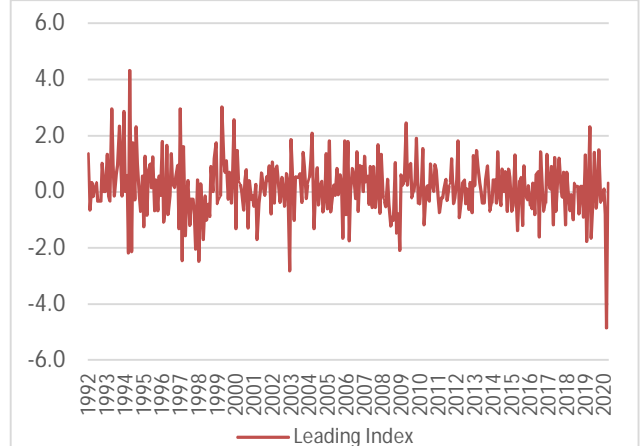
Source: CEIC/AmBank Research

Chart 7: Coincident Index (y/y %)



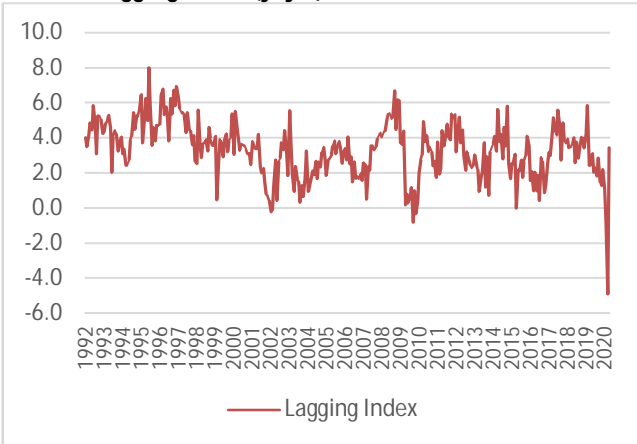
Source: CEIC/AmBank Research

Chart 8: Leading Index (y/y %)



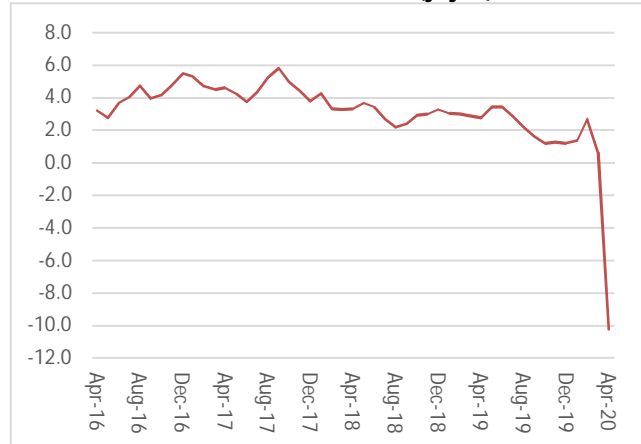
Source: CEIC/AmBank Research

Chart 9: Lagging Index (y/y%)



Source: CEIC/AmBank Research

Chart 10: Industrial Production 3MA (y/y %)



Source: CEIC/AmBank Research

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