Malaysia Outlook

OCBC Bank

Continue to expect subdued inflation levels

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Key Points

- Headline inflation was stable and subdued at 0.2% yoy, below both consensus and our forecast at 0.4% yoy.
- Inflation this year has been affected by the lingering effects of one off government policies.
- Among these include the tax regime change, which should wear off from June onwards but the wearing off may be more sharply felt from June – August.
- That said, the Festive Season Price Control Scheme that is to run for 30 days from 21st May onwards may temper price increases in May and June.
- Going forward, we do not expect any meaningful increases in prices for May.
- We also don't believe the central bank would read too much into the current inflation prints given the temporary nature of it.

Headline inflation remained stable and subdued at 0.2% yoy for April (March 2019: 0.2% yoy), below both consensus and our forecast at 0.4% yoy. The same can be said of core inflation which was static at 0.5% yoy (March 2019: 0.5% yoy). Among the more heavily weighted groups, the food and non-alcoholic beverages and housing, water, electricity, gas and other fuels saw an increase of 1.1% yoy and 2.0% yoy respectively. However, this was also offset by a fall in prices for the transport and miscellaneous goods and services groups at 2.6% yoy and 2.0% yoy respectively.

Inflation as a whole continues to be affected by the lingering effects of one-off government policies. These include the tax regime change, the lowering of broadband prices and the capping of fuel prices. The effect from the tax regime change should start to wear off from June 2019 onwards. This regime change in 2018 had involved a tax holiday period from June – August 2018 before the SST was introduced from September 2018 onwards. **Hence, it is likely that the wearing off may be more sharply felt from June – August 2019. That said, the Festive Season Price Control Scheme that is to run for 30 days from 21st May 2019 onwards may temper price increases in May and June.** For the next few months, do closely watch if the government will make changes to the current fuel price cap program and possibly introduce a targeted fuel subsidy scheme.

Going forward, we are therefore not expecting any meaningful increase in prices for May. As a whole, we don't believe that the central bank would read too much into the current inflation print given the temporary nature of it.

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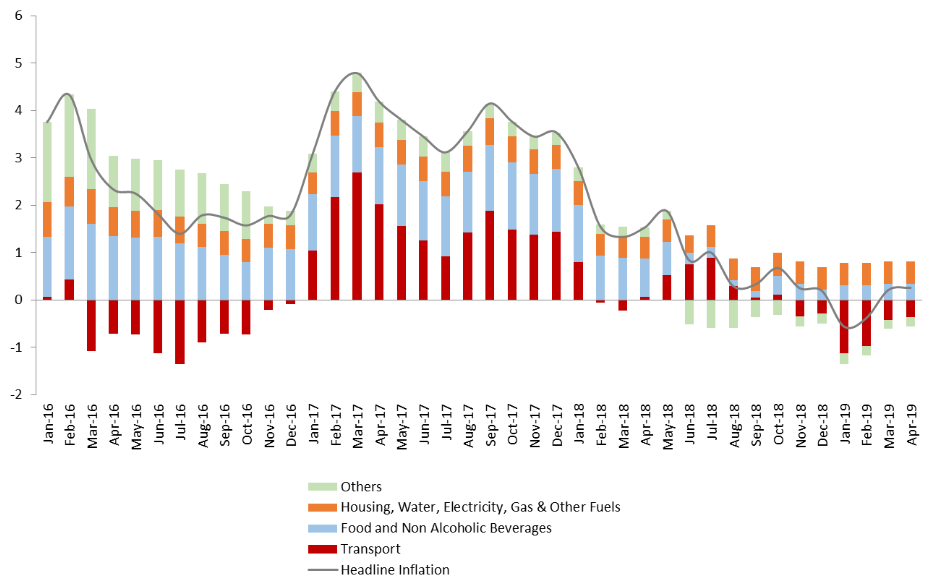
Chart 1: Contributors to Headline Inflation, % yoy



Source: CEIC, Bloomberg and OCBC

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