

CPI up 1.7%, highest this year
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The Consumer Price Index (CPI) for June increased by 1.7 percent to 113.7 from 111.8 when compared with the same month last year, the Statistics Department said today.

Compared to May, CPI was up by 0.2 percent, it said.

The rise was due to the increase in food and non-alcoholic beverages and non-food indices by 2.7 percent and 1.1 percent previously as compared to the same month last year, said the department in a statement today, according to Bernama.

The increase was brought about by all the main groups except those of clothing and footwear (-1.7 per cent) and communication (-0.4 per cent).

Notable increases among the main groups with high weights were food and non-alcoholic beverages (+2 per cent), transport (1 percent) and housing, water, electricity, gas and other fuels (0.9 per cent), it said.

In accounting for the hike in the index for food and non-alcoholic beverages, the department said it was the result of increases for food-at-home (1.9 percent); food-away-from-home (2 percent); and coffee, tea, cocoa and non-alcoholic beverages (0.8 percent).

Among the sub-groups of food-at-home, which showed significant increases during this period, were sugar, jam, honey, chocolates and confectionery (+7.4 per cent); vegetables (5.6 percent), meat (2.4 percent), fruits (1.6 percent), fish and seafood (1.4 percent) and rice, bread and other cereals (0.8 percent).

When compared with May, the increase in June was brought about by the main groups, namely food and non-alcoholic beverages and miscellaneous goods and services by 0.4 percent, respectively, health and restaurant and hotels by 0.2 per cent, respectively, and alcoholic beverages and tobacco and transport by 0.1 percent, respectively.

Analyst: Inflation expected

Meanwhile, Reuters reports that the rise in CPI was in line with expectations.

The release of the CPI data comes just after the government announced fuel and other subsidy cuts last Friday, in a bid to rein in its budget deficit.

Economists said that price hikes would feed through to higher inflation, although Malaysia's central bank governor Zeti Akhtar Aziz has already said that she does believe that they would be a major factor in setting rates.

Comments on the June CPI figures follows:

Patricia Oh, TA Investment Bank economist

As far as the prices is concerned, we are not looking at a very high price level going forward and also the subsidies has been removed, the impact will be quite moderate on the overall CPI.

The subsidy removal on the sugar fuel as well as cooking gas will have a very moderate impact on the overall CPI. Previously we were looking at CPI growth of 1.2 percent for this year, and even with the removal of subsidies, we are only looking at the CPI level edge upwards slightly to a 1.3 percent.

Joanna Tan, Forecast PTE economist

The modestly firmer print was in line with our expectations though the coming months could see price pressures accelerate on the subsidies cut in July and demand-led inflation due to Ramadan in August. That said, inflationary pressures should remain within control.

After all, BNM has hiked a total of 75 bps this year which should help tackle inflationary expectations going forward. On monetary policy, growth woes will be hard to ignore with the uncertainties and slowing momentum in the global economy. That should give BNM some pause in the coming meets for now.

Alvin Liew, Standard Chartered Bank economist

The June inflation came in much in line with expectation, slightly higher at 1.7 percent year on year (from 1.6% in May) with food-related price increases being the key contributor again to the headline CPI inflation recorded in June.

While Malaysia announced on 15 July that it would reduce fuel and sugar subsidies with effect from 16 July, the readjustment is limited and significantly smaller than the recommendation made in the New Economic Model and the 10th Malaysia Plan.

Since the subsidy reform is moderate, the inflation impact should be limited and manageable, which is estimated to be equivalent to 0.3 percentage points (ppt) of headline inflation in 2010.

Given the small magnitude of change, the net impact on inflation is likely to be limited and is also not expected to change our view on Bank Negara Malaysia's monetary policy path between now and the end of the year, which is for the Overnight Policy Rate (OPR) to stay at 2.75%.

As for further potential subsidy reforms on the cards, we may yet see one more in Q4-2010 but again, it is expected to be a modest one (like 15 July) and again not likely to sway the central bank.

And with the risk of growth momentum likely to ease in H2-2010 and that external demand for Malaysia may weaken during that period, further subsidy reform may be delayed for the fear of hurting domestic demand at a time of slower external demand for Malaysian exports."

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