

ECONOMIC REVIEW | April 2017 Consumer Price Index

Inflation at 3-Months Low in April at 4.4%

- *Inflation rate soften in April. Headline inflation rate recorded at 4.4% while core inflation maintain stable at 2.5% in April. Non-food inflation grew lower than March's by 1.1% but on a flip side, food inflation expanded steadily by 4.1% in April. On monthly basis, headline inflation recorded negative growth. The drop in headline inflation is explained by the steep contraction in transport prices.*
- *Weekly fuel price mechanism tones down inflationary pressure. Thanks to weekly pricing method, average price of RON95 went down to RM2.20 in April. The 10 cent deduction has caused a deceleration in transport as well as fuels and lubricants prices during the month.*
- *The core inflation remain stable at 2.5% indicating stable underlying price movement. Thus, with stable demand conditions, we do not foresee current inflationary concern will affect BNM existing monetary stance.*

Inflation rate soften in April. Headline inflation rate recorded at 4.4% while core inflation maintain stable at 2.5% in April. Non-food inflation grew lower than March's by 1.1% but on a flip side, food inflation expanded steadily by 4.1% in April. On monthly basis, headline inflation recorded negative growth. The drop in headline inflation is explained by the steep contraction in transport prices. Transport inflation rose by 16.7%yoy, lower than the previous two months. This indicates that cost-driven factors are cooling off as retail year-on-year fuel price differential gradually converge in April. Moving forward, we opine Malaysia's inflation rate to moderate but uncertainty in global oil prices will have a substantial impacts on a broader prices trends.

Table 1: Consumer Price Indices

Indices	%MoM				%YoY			
	Jan-17	Feb-17	Mar-17	Apr-17	Jan-17	Feb-17	Mar-17	Apr-17
CPI	1.1	1.3	-0.1	-0.3	3.2	4.5	5.1	4.4
Core CPI	0.1	0.4	0.1	0.1	2.3	2.5	2.5	2.5
Non Food	1.2	1.4	0.1	-0.4	2.9	4.6	5.6	4.5
Food and Non Alcoholic Beverages	0.9	0.9	-0.3	0.1	4.0	4.3	4.1	4.1
Alcoholic Beverages and Tobacco	0.0	0.0	0.1	0.0	0.2	0.2	0.2	0.2
Clothing and Footwear	0.0	0.2	-0.1	0.2	-0.7	-0.2	-0.2	-0.1
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.7	0.0	0.0	1.9	2.2	2.1	2.2
Furnishings, Household Equipment and Maintenance	0.4	0.4	0.1	0.4	1.5	1.5	1.5	1.9
Health	0.3	0.3	0.2	0.2	2.5	2.4	2.6	2.8
Transport	5.9	5.5	-0.3	-1.9	8.3	17.9	23.0	16.7
Communication	0.0	-0.1	0.1	-0.1	-0.2	-0.3	-0.2	-0.3
Recreation and Culture	0.1	0.4	-0.2	0.0	3.2	3.1	3.0	3.0
Education	1.0	0.2	0.1	0.1	2.0	1.7	1.7	1.7
Restaurants and Hotels	0.3	0.6	0.2	0.2	2.1	2.3	2.3	2.4
Miscellaneous Goods and Services	0.1	0.3	0.1	0.2	1.4	1.4	1.3	1.5
Durable Goods	0.1	0.4	0.0	0.4	1.5	1.5	1.1	1.5
Semi Durable Goods	0.0	0.1	0.0	0.2	-0.6	-0.3	-0.1	-0.1
Non-Durable Goods	2.4	2.4	-0.5	-0.8	4.6	7.9	9.1	7.0
Services	0.3	0.6	0.2	0.2	2.5	2.7	2.8	2.9

Source: DOSM, MIDFR

Food inflation stays at 4.1% in April. Food inflation increases by 0.1% on monthly basis. All prices of foods increase at stable rates during the month with fresh fish and seafood remain the highest growth at 6.6% and 6.2%. The stabilised food inflation could be due to gradual pick-up in demand and also lesser impact from fuel price shocks. However, we opine food inflation to expand higher in May and June as Ramadhan and Eid-Festival will create extra demand on goods especially foods.

Weekly fuel price mechanism tones down inflationary pressure. Thanks to weekly pricing method, average price of RON95 went down to RM2.20 in April. The 10 cent deduction has caused a deceleration in transport as well as fuels and lubricants prices during the month. In addition, the weekly pricing method indirectly reduces pessimism among consumer on the fuel price and if there is a slight hike, consumers do not have to bear the cost for long. Based on the current global oil price movement, we foresee Brent crude oil price will move upwards in the near term as global oil producers are more likely to resume the oil production limit agreement until the end of the year. Therefore, we foresee our retail fuel price will have upward bias in the next few weeks. Based on our estimate, every USD1 increase in Brent price will causes retail fuel price to rise by 4 cents.

Table 2: Changes in Top 20 Weightage Price Sub-Indices

Sub-Indices	%MoM				%YoY			
	Jan-17	Feb-17	Mar-17	Apr-17	Jan-17	Feb-17	Mar-17	Apr-17
Housing Rental	0.0	0.9	0.0	0.0	2.5	2.9	2.9	2.9
Food Away From Home	0.7	0.9	0.5	0.6	3.6	4.1	4.4	4.9
Fuels & Lubricants for Transportation	10.2	9.3	-0.5	-3.4	13.4	31.3	42.1	29.2
Telephone & Telefax Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Electricity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Personal Care & Effects Products	0.2	0.3	0.1	0.2	0.5	0.4	0.6	0.7
Fresh Fish	3.3	0.7	-0.4	-0.3	5.9	4.2	5.3	6.6
Cigarettes	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Expenses In Restaurants & Cafes	0.4	0.6	0.2	0.2	2.3	2.5	2.5	2.7
Garments	0.0	0.1	-0.1	0.2	-0.5	-0.3	-0.3	-0.3
Cultural Services	0.0	0.2	0.0	0.0	6.0	5.4	5.4	5.4
Fresh Meat	2.6	2.6	-2.6	-0.2	1.5	5.0	3.7	4.2
Fresh Vegetables	-1.4	4.8	-5.3	-1.0	9.1	11.0	5.5	2.7
Transportation Repair & Maintenance	0.7	0.2	0.1	0.4	3.8	3.4	2.9	3.2
Bread & Bakery Products	0.3	0.2	0.3	0.1	1.6	1.6	1.8	1.6
Purchase of Motorcars	0.4	0.0	0.4	0.0	1.7	1.0	0.9	0.7
Rice	-0.1	0.1	0.0	0.1	0.4	0.5	0.4	0.4
Fresh Seafood	2.7	0.0	0.0	0.0	7.6	5.6	5.4	6.2
Other Transportation Services (Including Toll)	0.0	0.6	0.0	0.0	5.5	6.2	6.2	6.2
Insurance for Motor Vehicles	0.1	-0.1	0.0	0.0	1.3	1.2	1.2	0.5

Source: DOSM, MIDFR

US inflation is trending down. US registered its headline and core inflation rates at 2.2% and 1.9% respectively last month. Apart from inflation data, US retail sales grew by 4.5%yoy in April, well below the first quarter 2017 average growth of retail sales. This is in line with the decision made by the Fed to hold interest rate at the current position, 0.75-1.00% as US domestic consumption is seen decelerating since February this year. Across the globe, China's inflation rate increased to 1.2% in April after two consecutive months recording below 1% rate. China's food inflation continued to record negative growth mainly due to drop in prices of vegetables and dairy products. China's core inflation rate increased to 2.1% last month, higher than the long-term average which indicates strengthening domestic spending in the economy. Overall, the steady upward trend in inflation rate across all economies signal improving global demand and partly due to positive progress in global commodities prices. We expect the trend will remain at gradual pace until the end of the year.

Table 3: Global Headline Inflation

	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17
Malaysia	1.5	1.4	1.8	1.8	3.2	4.5	5.1	4.4
Indonesia	3.1	3.3	3.6	3.0	3.5	3.8	3.6	4.2
Philippines	2.3	2.3	2.5	2.6	2.7	3.3	3.4	3.4
Thailand	0.4	0.3	0.6	1.1	1.6	1.4	0.8	0.4
Singapore	-0.2	-0.3	0.0	0.2	0.6	0.9	0.8	
United States	1.5	1.6	1.7	2.1	2.5	2.8	2.4	2.2
China	1.9	2.1	2.3	2.1	2.5	0.8	0.9	1.2
EU	0.4	0.5	0.6	1.2	1.7	1.9	1.6	1.9
Japan	-0.4	0.1	0.5	0.3	0.5	0.3	0.2	

Source: CEIC, MIDFR


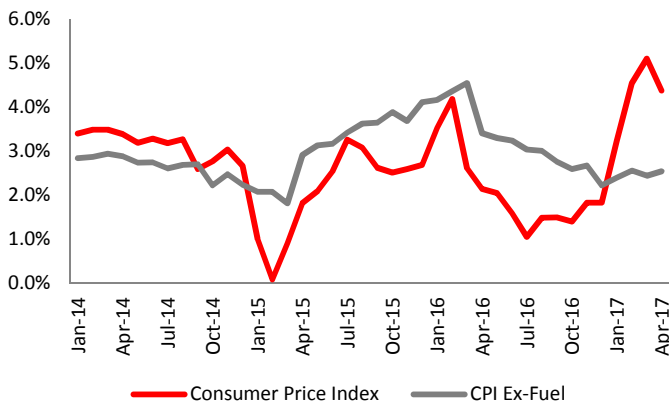
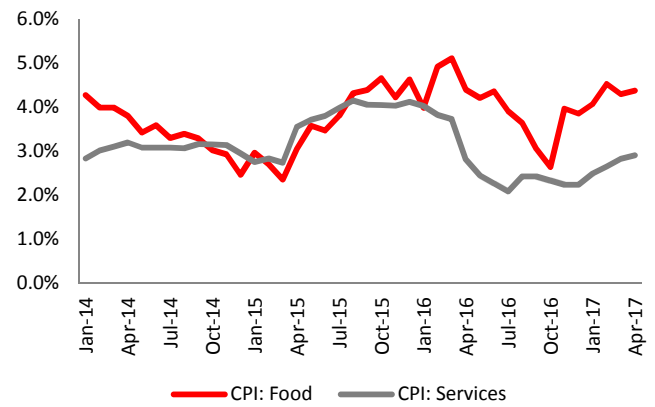
We maintain our inflation forecast of 4.5% in 2017. Eased in headline inflation rate in April is expected as the impact from cost-driven factors is diminishing. With the weekly pricing method, we believe inflation will be less impacted as the weekly changes in fuel price will cause a delay in the spill over effects to consumers and businesses. The cost push inflation is expected not to have material impact toward broader prices trend. The core inflation remain stable at 2.5% indicating stable underlying price movement. Thus, with stable demand conditions, we do not foresee current inflationary concern will affect BNM existing monetary stance. 

Chart 1: CPI vs CPI Ex-Fuel



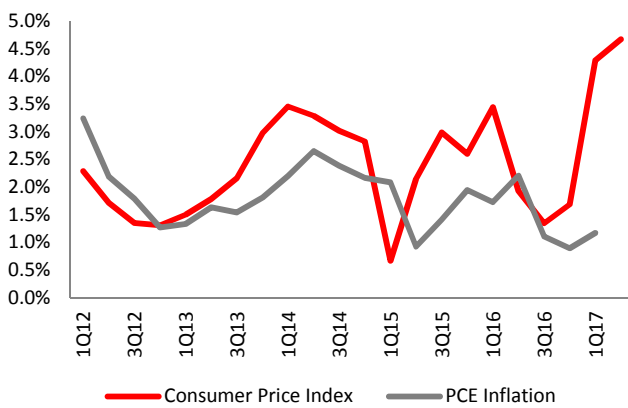
Source: DOSM, MIDFR

Chart 2: Food Price Index vs Services Price Index



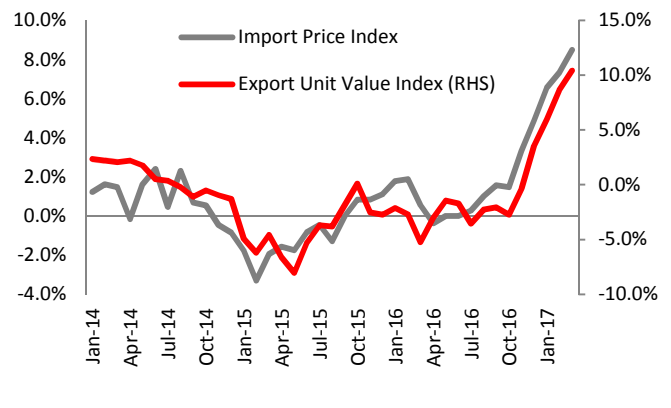
Source: DOSM, MIDFR

Chart 3: CPI vs PCE Inflation



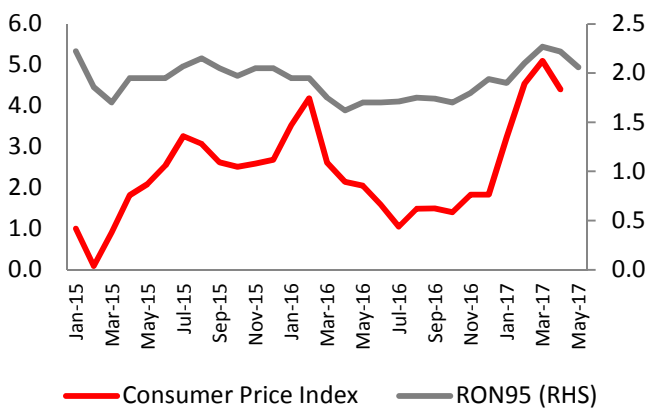
Source: DOSM, MIDFR

Chart 4: Imports Price Index vs Export Price Index



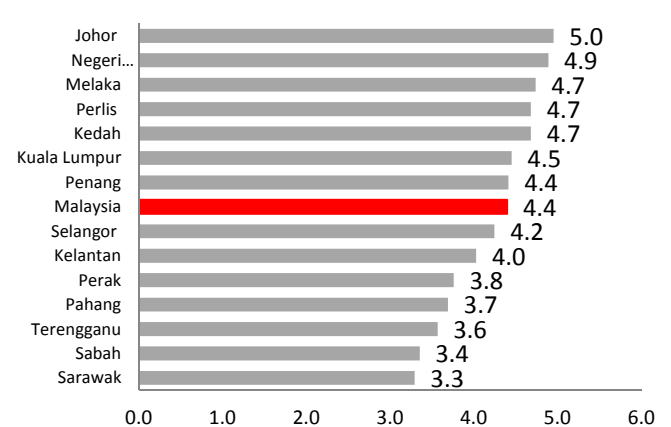
Source: DOSM, MIDFR

Chart 5: CPI (%) vs RON95 (RM per litre)



Source: DOSM, MIDFR

Chart 6: Inflation by States in April (%)



Source: DOSM, MIDFR

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