

## ECONOMIC REVIEW | April 2018 Consumer Price Index

### Inflation Inched Up to 1.4% Driven By Recovery in Transport Price

- *Inflation increased marginally. Headline inflation rate rose by 1.4%yoy in Apr-18, slightly higher than 1.3%yoy registered in the preceding month as transport inflation rebounded from a negative territory logged for two months to positive at 0.4%yoy.*
- *Food inflation continues to dip. Food prices in Malaysia continue to fall from 2.9%yoy in Mar-18 to 2.6%yoy last month.*
- *Inflation forecast remains at 2.6% for 2018. Amid of unfavourable base effects, we foresee headline inflation rate to average at 2.6% this year.*

**Inflation increased marginally.** Headline inflation rate rose by 1.4%yoy in Apr-18, slightly higher than 1.3%yoy registered in the preceding month as transport inflation rebounded from a negative territory logged for two months to positive at 0.4%yoy. In addition, inflation increased for a number of major groups such as health, recreation & culture, and restaurant & hotels. On a monthly basis, inflation neutralized in Apr-18 as CPI remained unchanged at 120.9 compared to Mar-18. Meanwhile, core inflation still on its record-low as it went down even further to 1.5%yoy in the same month from 1.7%yoy registered in Mar-18.

**Table 1: Consumer Price Indices**

Indices	MoM%			YoY%		
	Feb-18	Mar-18	Apr-18	Feb-18	Mar-18	Apr-18
CPI	0.0	(0.3)	0.0	1.4	1.3	1.4
Non Food	(0.1)	(0.3)	0.1	0.8	0.6	1.0
Food and Non Alcoholic Beverages	0.2	(0.5)	(0.2)	3.0	2.8	2.6
Alcoholic Beverages and Tobacco	(0.1)	0.1	0.1	0.1	0.1	0.2
Clothing and Footwear	(0.2)	(0.1)	0.1	(0.7)	(0.7)	(0.8)
Housing, Water, Electricity, Gas & Other Fuels	0.5	0.0	0.0	2.0	2.0	2.0
Furnishings, Household Equipment and Maintenance	(0.1)	0.1	0.1	2.1	2.1	1.8
Health	0.1	0.1	0.2	2.1	2.0	2.1
Transport	(0.6)	(1.4)	0.0	(0.3)	(1.5)	0.4
Communication	0.0	(0.1)	(0.1)	(0.5)	(0.7)	(0.7)
Recreation and Culture	0.2	0.0	0.1	0.4	0.5	0.6
Education	0.1	0.1	0.1	1.1	1.1	1.1
Restaurants and Hotels	0.1	0.3	0.4	1.8	2.0	2.2
Miscellaneous Goods and Services	(0.3)	0.2	0.1	0.4	0.4	0.4
Durable Goods	(0.1)	0.0	(0.1)	0.0	0.0	(0.5)
Semi Durable Goods	(0.2)	0.0	0.1	(0.6)	(0.6)	(0.7)
Non-Durable Goods	(0.2)	(0.9)	(0.2)	0.9	0.5	1.1
Services	0.3	0.1	0.1	2.3	2.2	2.2
Core CPI	0.4	0.1	0.0	1.8	1.7	1.5

Source: CEIC, MIDFR

**Food inflation continues to dip.** Food prices in Malaysia continue to fall from 2.9%yoy in Mar-18 to 2.6%yoy last month. Fresh food products such as meat and seafood continue expanding however at moderate pace by 1.7%yoy and 6.1%yoy respectively. Fruits maintained at 1.1%yoy increase while vegetables decreased by 0.8%yoy. Moving forward, there is a potential for food inflation to rise in the upcoming months due to rising demand for Ramadhan and Hari Raya celebrations.

**Recovery in fuel-related prices.** Referring to Brent oil price, the average price rose by 34.2%yoy to \$72.1 per barrel in Apr-18. This figure has been trending upward since Feb-18 due to strong global demand and supply concerns surrounding OPEC and Venezuela on top of simmering geopolitical tensions in the Middle East. In contrast, retail fuel price decreased by -0.9%yoy during the month, improved from a larger negative growth in the preceding month. We observed that inflation for transport increased by 0.4%yoy while price of fuels & lubricants improved from -3.7%yoy in Mar-18 to -0.3%yoy in Apr-18. Moving forward, average Brent oil price for the third weeks of May-18 registered at \$76.8 while RON95 remained at RM2.20 following government's decision to eradicate fuel price fluctuation and pegging it to the current price instead. At this juncture, we expect that 2018's fuel-related inflation to moderate amid of unfavourable base effects, re-subsidization of domestic fuel price and high likelihood of a downward adjustment of global commodity prices in 2H18 from the current temporary factors which pushed the prices up.

**Table 2: Changes in Selected Price Sub-Indices**

Sub-Indices	MoM%			YoY%		
	Feb-18	Mar-18	Apr-18	Feb-18	Mar-18	Apr-18
Rice	0.1	0.2	0.3	0.2	0.4	0.6
Fresh Meat	(0.6)	0.5	(0.9)	(0.8)	2.3	1.7
Fresh Seafood	2.1	(2.3)	(0.8)	9.4	6.9	6.1
Oils & Fats	(0.1)	0.1	(0.1)	0.2	0.1	(0.2)
Fresh Fruits	1.8	(0.5)	(0.3)	1.4	1.1	1.1
Fresh Vegetables	(1.8)	(6.4)	(2.6)	2.0	0.8	(0.8)
Food Away From Home	0.2	0.1	0.4	4.3	3.9	3.7
Cigarettes	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
Pharmaceutical Products	(0.1)	0.1	0.3	1.9	1.9	2.1
Fuels & Lubricants for Transportation	(0.9)	(2.6)	0.0	(1.6)	(3.7)	(0.3)
Transportation Repair & Maintenance	0.2	0.2	0.1	3.9	4.0	3.6
Other Transportation Charges (Including Toll)	0.0	4.0	0.0	1.4	5.5	5.3
Expenses In Restaurants & Cafes	0.2	0.1	0.3	2.6	2.5	2.5
Insurance For Motor Vehicles	0.2	0.0	0.0	0.2	0.2	0.2

Source: CEIC, MIDFR

**Upsurge in inflation across states.** Inflation rate across most of the states increased in Apr-18, in tandem with national's trend. Selangor posted the highest rise of 1.6%yoy and Penang came second with 1.5%yoy, both above national's level during the month. Looking ahead, we foresee inflation rate across all states will moderate below 3% in 2018 amid of unfavourable base effects and zero rated GST.

**Table 3: States Headline Inflation (YoY%)**

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18
Johor	4.1	4.7	4.2	3.8	3.8	2.8	1.5	1.1	1.3
Kedah	3.8	4.5	3.8	3.5	3.2	2.0	0.8	0.5	0.8
Kelantan	3.5	3.8	3.6	3.1	3.2	2.1	1.1	0.8	1.1
Kuala Lumpur	3.7	3.8	3.5	2.7	2.9	2.6	1.4	1.4	1.9
Melaka	4.1	4.9	4.2	3.8	3.9	2.8	1.8	1.5	1.4
Negeri Sembilan	4.0	4.8	4.0	3.6	3.7	2.7	1.3	1.1	1.3
Pahang	3.0	3.4	3.1	2.5	2.8	2.1	0.8	0.7	0.8
Penang	4.0	4.6	4.0	3.3	3.4	2.5	1.4	1.3	1.5
Perak	3.3	3.9	3.3	2.8	3.1	2.3	1.1	0.9	1.1
Perlis	3.8	4.5	3.8	3.5	3.2	2.0	0.8	0.5	0.8
Sabah	3.1	3.7	3.0	2.6	2.8	2.1	1.5	1.1	1.2
Sarawak	2.9	3.5	2.9	2.7	2.8	2.1	1.3	0.9	1.0
Selangor	3.7	4.3	3.9	3.7	3.6	2.9	1.7	1.6	1.6
Terengganu	2.9	3.4	3.1	2.9	3.1	2.2	1.0	0.8	1.0


Source: DOSM, MIDFR

**Upturn in global inflation.** Overall inflation rate in both developed and developing countries increase. Philippines's inflation continue to rise at 4.5% in Apr-18 from 4.3% recorded in the preceding month and the highest since Nov-11 as cost increased at a faster rate for housing and transport. The spike surpassed government's inflation target range of 2% to 4% which resulted in interest rate hike to 3.25%. Similarly, overall prices in the US also increased by 2.5% during the same month, from a 2.4% registered in the previous month. The figure is the highest since Feb-17 amid rises in gasoline, fuel and shelter cost. In contrast, inflation in China fell below 2% in Apr-18 mainly due to sharp slowdown in food inflation. Looking forward, we foresee inflation level will gradually increase buoyed by moderating global growth, steady rise in commodities prices and tight labour market conditions.

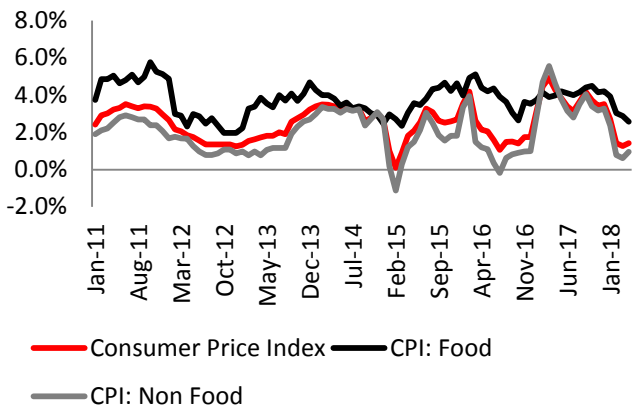
**Table 4: Global Headline Inflation (YoY%)**

	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18
Malaysia	4.2	3.7	3.4	3.5	2.7	1.4	1.3	1.4
Indonesia	3.7	3.6	3.3	3.6	3.3	3.2	3.4	3.4
Philippines	3.0	3.1	3.0	2.9	3.4	3.8	4.3	4.5
Thailand	0.9	0.9	1.0	0.8	0.7	0.4	0.8	1.1
Singapore	0.4	0.4	0.6	0.4	0.0	0.5	0.2	
China	1.6	1.9	1.7	1.8	1.5	2.9	2.1	1.8
Japan	0.7	0.2	0.6	1.0	1.4	1.5	1.1	0.6
EU	1.8	1.7	1.8	1.7	1.6	1.4	1.5	1.4
United States	2.2	2.0	2.2	2.1	2.1	2.2	2.4	2.5

Source: CEIC, MIDFR

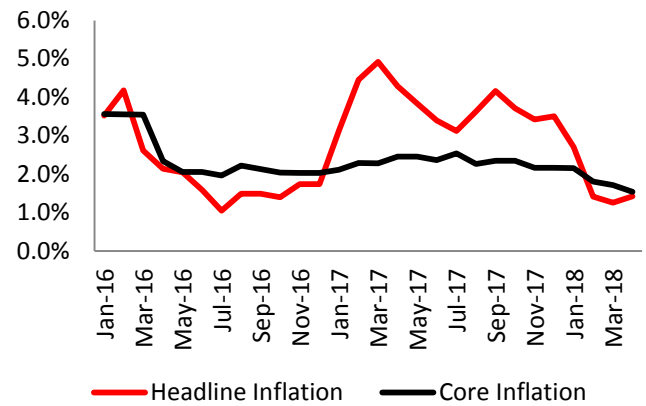
**Inflation forecast remains at 2.6% for 2018.** Amid of unfavourable base effects, we foresee headline inflation rate to average at 2.6% this year. This is supported by inflation rate for 1Q18 which registered at 1.8% compared to 4.2% in the same period last year. We expect inflationary pressure mainly from fuel-related items to calm, consistent with gradual rise in global commodity prices on top of pass-through effect from a strengthening ringgit, re-subsidization of domestic fuel price and withdrawal of GST. As inflationary pressure remains steady, we anticipate Bank Negara to maintain its current monetary policy with no more hikes in OPR for the rest of 2018 barring any pleasant upward surprises in domestic economic growth. 

**Chart 1: CPI: Headline vs Food & Non-food (YoY%)**



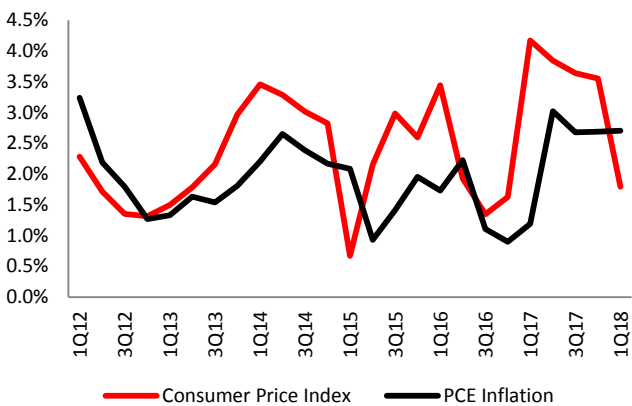
Source: CEIC, MIDFR

**Chart 2: CPI: Headline vs Core (YoY%)**



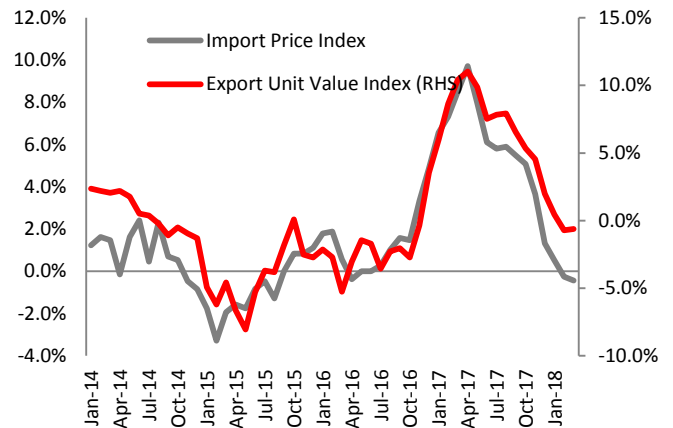
Source: CEIC, MIDFR

**Chart 3: CPI vs PCE Inflation (YoY%)**



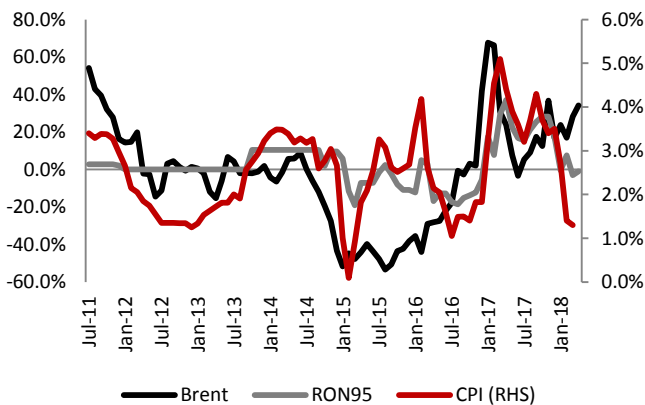
Source: CEIC, MIDFR

**Chart 4: Price Index of Imports & Exports (YoY%)**



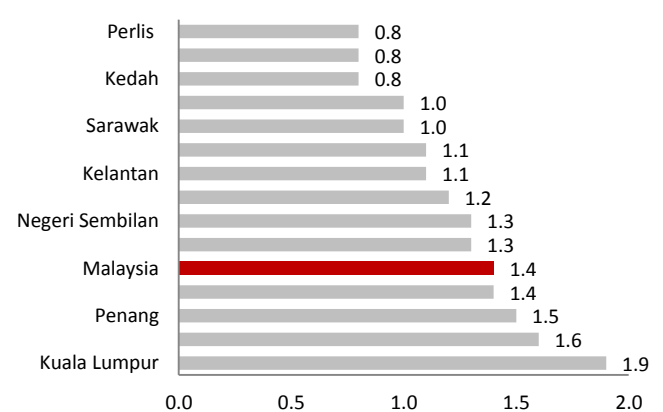
Source: CEIC, MIDFR

**Chart 5: CPI vs Crude & Retail Fuel Prices (YoY%)**



Source: Bloomberg, MIDFR

**Chart 6: Inflation by States in Mar-18 (YoY%)**



Source: DOSM, MIDFR

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