

## ECONOMIC REVIEW | August 2016 Consumer Price Index

### Inflation Pickup Pace in August to 1.5%

- August inflation marched higher than market consensus, prices gained 1.5% vs 1.3% expectation. The reading this month came in slightly higher than the consensus and our expectation at 1.3% as non-food item particularly cultural services saw inflation surging from a mere 1.0%yoy in July to 6.1%yoy in August. Inflation in food item decreases to 3.5% from 3.8% from July which reflects less pressure on supply while deflation in transport component narrows sharply during the month from 9.9%yoy to 6.7%.
- Increasing premium in insurance pushed transport sub-items into double-digit inflation. Note that the item 'other transportation services' surged to double-digit inflation by 13.4%yoy in August, a record high since the CPI was rebased to year 2010. On a seasonally adjusted basis, prices went up by 5.4%mom. We believe there was an upward revision to the overall premium in vehicles insurances but could be limited to new products offering as the first phase of tariff elimination was made effective on 1st July this year. This would be something that we continue to monitor as the effect of the detariffication could only be fully measured by July next year.
- We maintain our inflation of 2.3% for 2016. High base from last year and literally fading effect of GST shock will keep inflation rate low in future months barring any other unforeseen circumstances.

**August inflation marched higher than market consensus, prices gained 1.5% vs 1.3% expectation.** Inflation in August rebounded to 1.5%, ending the stretch of moderating inflation for five straights which began in February this year. The reading this month came in slightly higher than the consensus and our expectation at 1.3% as non-food item particularly cultural services saw inflation surging from a mere 1.0%yoy in July to 6.1%yoy in August. Inflation in food item decreases to 3.5% from 3.8% from July which reflects less pressure on supply while deflation in transport component narrows sharply during the month from 9.9%yoy to 6.7%.

**Table 1: Consumer Price Indices**

Indices	%MoM				%YoY			
	May-16	Jun-16	Jul-16	Aug-16	May-16	Jun-16	Jul-16	Aug-16
CPI	0.3	0.2	0.3	0.4	2.0	1.6	1.1	1.5
Core CPI	0.4	0.1	0.2	0.3	2.1	2.1	2.0	2.2
Non Food	0.3	0.0	0.3	0.5	1.1	0.4	-0.2	0.6
Food and Non Alcoholic Beverages	0.3	0.5	0.3	0.2	4.1	4.2	3.8	3.5
Alcoholic Beverages and Tobacco	0.1	0.0	0.1	-0.1	22.1	21.9	19.9	19.7
Clothing and Footwear	-0.1	0.0	-0.2	-0.2	-0.9	-0.6	-0.6	-0.6
Housing, Water, Electricity ,Gas & Other Fuels	0.5	0.0	0.0	0.4	2.4	2.4	2.4	2.1
Furnishings, Household Equipment and Maintenance	0.0	0.1	0.2	0.0	2.2	1.7	1.5	1.3
Health	0.1	0.4	0.1	0.3	2.0	2.0	2.0	2.2
Transport	0.0	-0.1	1.5	0.8	-5.6	-8.5	-9.9	-6.7
Communication	0.0	0.0	0.0	0.0	-2.2	-2.2	-2.3	-2.4
Recreation and Culture	0.1	0.0	0.5	2.1	1.5	1.4	1.7	3.6
Education	0.0	0.1	0.1	0.0	2.2	2.1	2.2	2.0
Restaurants and Hotels	0.2	-0.1	0.2	0.2	2.5	2.2	2.1	2.1
Miscellaneous Goods and Services	0.2	0.0	0.4	0.1	2.5	2.3	2.4	2.5
Durable Goods	0.3	0.0	0.3	0.0	2.4	2.3	2.7	2.9
Semi Durable Goods	-0.2	0.0	-0.1	-0.1	-0.8	-0.5	-0.4	-0.4
Non Durable Goods	0.2	0.3	0.7	0.1	1.4	0.5	-0.3	0.3
Services	0.3	0.0	0.1	0.8	2.4	2.3	2.1	2.4

Source: Department of Statistics, Malaysia; MIDF Research

**Increasing premium in insurance pushed transport sub-items into double-digit inflation.** Note that the item 'other transportation services' surged to double-digit inflation by 13.4%yoY in August, a record high since the CPI was rebased to year 2010. On a seasonally adjusted basis, prices went up by 5.4%mom. We believe there was an upward revision to the overall premium in vehicles insurances but could be limited to new products offering as the first phase of tariff elimination was made effective on 1<sup>st</sup> July this year. This would be something that we continue to monitor as the effect of the detariffication could only be fully measured by July next year.

**Higher pump price in July finally led deflation in the transport item to narrow sharply from 9.9% in July to 6.7% in August.** The price of RON95 increased 5 cents in July to RM1.75 per litre from RM1.70 in June. Though there seems to be lag effect in the price increase in the CPI, we think the hike has finally led deflation in the transport component to narrow sharply from 9.9% in July to 6.7% in August. The transport sub-item i.e fuels & lubricants saw uptick in prices in August by 3.0% on month-on-month basis.

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

Sub Indices	%MoM				%YoY			
	May-16	Jun-16	Jul-16	Aug-16	May-16	Jun-16	Jul-16	Aug-16
Housing Rental	0.6	0.0	-0.6	1.2	2.6	2.6	1.9	2.5
Food Away From Home	0.2	0.2	-0.4	1.1	3.6	3.6	2.5	3.4
Fuels & Lubricants for Transportation	0.0	0.0	0.0	3.0	-12.1	-16.2	-20.3	-14.0
Telephone & Telefax Services	0.0	0.0	0.0	0.0	-2.4	-2.4	-2.6	-2.6
Electricity	0.0	0.0	0.0	0.0	1.3	1.3	1.3	1.3
Personal Care & Effects Products	-0.3	0.0	0.3	-0.2	2.1	2.0	1.6	1.2
Fresh Fish	-1.5	2.1	-0.6	1.3	5.5	6.8	3.5	4.1
Cigarettes	0.1	0.0	-0.1	0.1	26.0	25.8	23.1	23.2
Expenses In Restaurants & Cafes	0.3	0.0	-0.3	0.6	3.0	2.8	2.2	2.5
Garments	-0.1	-0.2	0.3	-0.5	-0.9	-0.8	-0.1	-0.6
Cultural Services	0.1	-0.2	0.1	5.1	1.4	1.2	1.0	6.1
Fresh Meat	0.0	3.3	-3.2	9.6	0.2	2.6	-0.5	8.5
Fresh Vegetables	4.8	-1.2	-3.4	-1.2	16.9	13.7	7.5	3.1
Transportation Repair & Maintenance	0.3	0.1	-0.4	1.1	5.5	5.3	4.8	5.3
Bread & Bakery Products	0.1	0.0	-0.1	0.2	1.7	1.3	1.2	1.1
Purchase of Motorcars	0.1	-0.1	0.0	0.0	2.4	2.3	2.3	2.4
Rice	0.0	0.0	0.0	0.1	0.7	0.8	0.7	0.7
Fresh Seafood	-0.3	3.2	-2.8	2.6	9.8	11.3	5.4	7.5
Other Transportation Services (Including Toll)	0.0	0.0	0.0	5.4	7.5	7.6	7.6	13.4
Insurance for Motor Vehicles	0.4	0.0	-0.3	0.5	1.9	1.6	1.4	1.8

Source: Department of Statistics, Malaysia; MIDF Research


**China, Indonesia inflation slowed to its weakest pace of the year in August.** China and Indonesia consumer prices rose 1.3% and 2.8% respectively in August, the lowest inflation this year for both countries. Despite the low inflation, the market is not expecting the PBoC to conduct further easing as there was concerns on the credit risk due to elevated debt level. Indonesia would probably be neutral on its monetary stance as well as it had reduced interest rates by 100bps earlier this year. Deflation in Singapore turned deeper in July to 1.0% from 0.6% in June. Overall, easing inflation is still the trend observed for the month of August except for Malaysia, Thailand and EU which saw higher inflation during the month.

**Table 3: Global Headline Inflation**

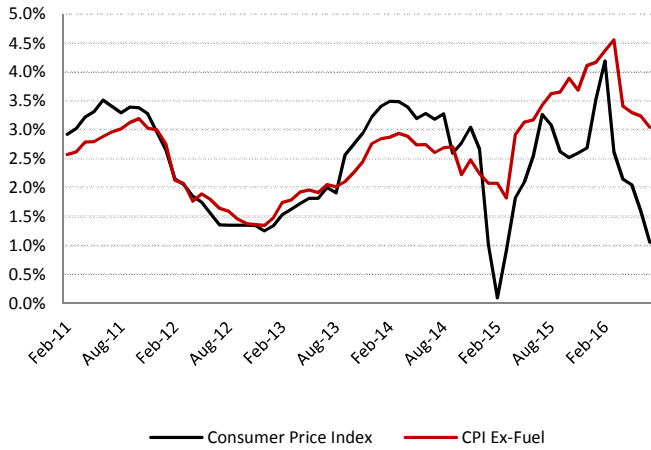
	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16
<b>Malaysia</b>	2.7	3.5	4.2	2.6	2.1	2.0	1.6	1.1	1.5
<b>Indonesia</b>	3.4	4.1	4.4	4.4	3.6	3.3	3.5	3.2	2.8
<b>Philippines</b>	1.5	1.3	0.9	1.1	1.1	1.6	1.9	1.9	1.8
<b>Thailand</b>	-0.9	-0.5	-0.5	-0.5	0.1	0.5	0.4	0.1	0.3
<b>Singapore</b>	-0.6	-0.6	-0.6	-0.9	-1.1	-1.4	-0.6	-1.0	
<b>United States</b>	0.7	1.3	1.0	0.9	1.1	1.1	1.1	0.9	1.1
<b>China</b>	1.6	1.8	2.3	2.3	2.3	2.0	1.9	1.8	1.3
<b>EU</b>	0.2	0.3	-0.1	0.0	-0.2	-0.1	0.1	0.2	0.3
<b>Japan</b>	0.2	0.0	0.3	-0.1	-0.3	-0.4	-0.4	-0.5	

Source: Department of Statistics, Malaysia; MIDF Research

**We maintain expectation of one more OPR rate cut this year by 25bps.** Despite a pickup in inflation, it would be too early to reflect a strengthening case of domestic economy. Hence, the expected cut by BNM should be looked as a floor support to the domestic economy to maintain growth above 4.0% in the next quarters.

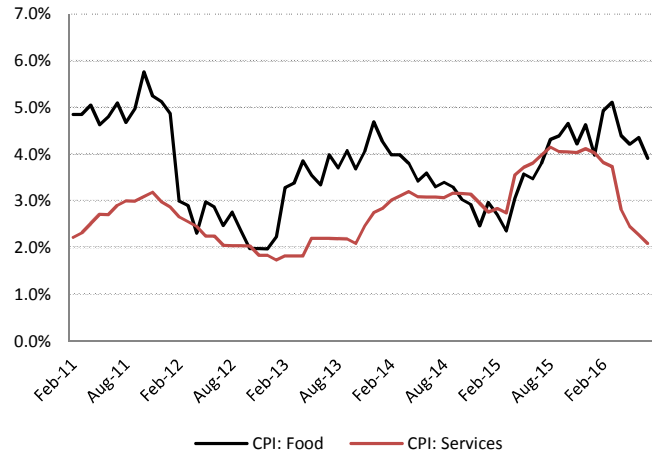
**We maintain our inflation of 2.3% for 2016.** High base from last year and literally fading effect of GST shock will keep inflation rate low in future months barring any other unforeseen circumstances. 

**Chart 1: CPI vs CPI Ex-Fuel**



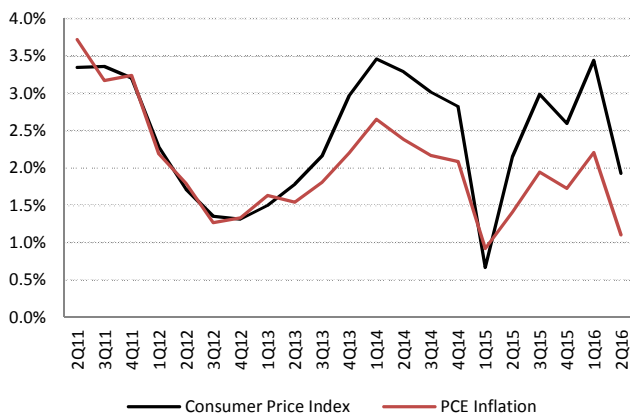
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 2: Food Price Index vs Services Price Index**



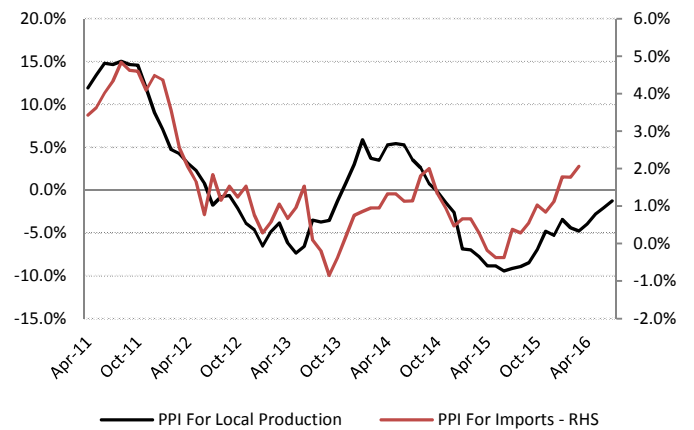
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 3: CPI vs PCE Inflation**



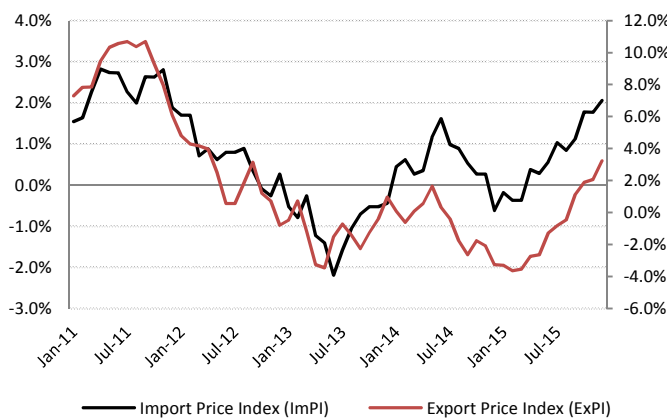
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 4: PPI Local vs PPI Imports**



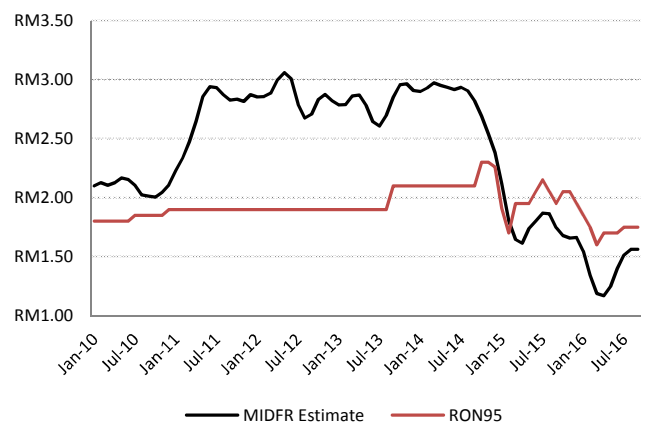
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 5: Imports Price Index vs Export Price Index**



Source: Department of Statistics, Malaysia; MIDF Research

**Chart 6: RON95 vs MIDFR Estimate**



Source: Department of Statistics, Malaysia; MIDF Research

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