

## ECONOMIC REVIEW | August 2018 Consumer Price Index

### Tax Holiday and Stable Fuel Prices Push August Inflation to 3 1/2 Year Low

- *Inflation tumbled to near 3-1/2 year low. Consumer price index increased 0.2%yoy in Aug-18, the lowest gain since Mar-15 and missing market expectations of 0.4%yoy. The inflation rate remains far below 1%yoy as it is the last month of the tax holiday period.*
- *Fuel-related inflation eased. The average price of Brent crude oil rose by 41.6%yoy to \$74 per barrel in Aug-18, slightly lower than \$75 per barrel in the prior month. This was driven by global oil supply which hit a record high in Aug-18 despite Iran, Venezuela fallout.*
- *Tepid inflation for 2018 at 1.3%. Amid higher base effects, we foresee headline inflation rate to average at 1.3% this year compared to 3.8% in 2017. This is supported by lower inflation rate for the first eight months which registered at 1.3% compared to 3.9% in the same period last year.*

**Inflation tumbled to near 3-1/2 year low.** Consumer price index increased 0.2%yoy in Aug-18, the lowest gain since Mar-15 and missing market expectations of 0.4%yoy. The inflation rate remains far below 1%yoy as it is the last month of the tax holiday period. Inflation of non-food went down to 2-year low of 0.2%yoy and those of food & non-alcoholic beverages continued to soften at 0.4%yoy. The lower-than-expected figure was mainly driven by a large slowdown in transport inflation which recorded at 2.1%yoy compared to 6.7%yoy in Jul-18. Meanwhile, core inflation maintained at deflationary level of 0.2%yoy as in the preceding month. Malaysia's inflation is expected to inch up in upcoming month buoyed by the reintroduction of SST in Sep-18.

**Food inflation continued to dip.** Food inflation in Malaysia moderated further to 0.5%yoy in Aug-18 from 0.8%yoy in the previous month. Prices for fresh food products such as meat declined further by 2.8%yoy (-1.1%yoy in Jul-18) while registered a slower price growth for seafood (3.7%yoy vs 2.7%yoy). Price for food away from home grew by 1.7%yoy, the weakest gain ever registered.

**Fuel-related inflation eased.** The average price of Brent crude oil rose by 41.6%yoy to \$74 per barrel in Aug-18, slightly lower than \$75 per barrel in the prior month. This was driven by global oil supply which hit a record high in Aug-18 despite Iran, Venezuela fallout. Higher volumes from Nigeria and Saudi Arabia as well as increased production in Libya and Iraq contributed to the high supply. Similarly, retail fuel price posted slower growth of 3.7%yoy during the month, lowest in four months. In tandem, prices of fuels & lubricants grew slower from 12.2%yoy in Jul-18 to 4.2%yoy in Aug-18. At this juncture, we expect 2018's fuel-related inflation to moderate amid high base effects and capping of domestic fuel price.

**Table 1: Consumer Price Indices**

Indices	MoM%			YoY%		
	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18
CPI	(1.2)	0.2	0.2	0.8	0.9	0.2
Non Food	(1.4)	0.2	0.3	0.9	1.1	0.2
Food and Non Alcoholic Beverages	(1.0)	0.2	0.0	0.8	0.7	0.4
Alcoholic Beverages and Tobacco	(0.8)	(0.2)	(0.1)	(0.7)	(0.8)	(1.0)
Clothing and Footwear	(2.6)	(0.1)	0.0	(3.1)	(3.0)	(2.9)
Housing, Water, Electricity, Gas & Other Fuels	(0.5)	0.4	0.6	1.5	2.0	2.0
Furnishings, Household Equipment and Maintenance	(2.4)	0.0	0.1	(1.0)	(1.7)	(1.7)
Health	(1.4)	0.0	0.1	0.3	0.0	0.0
Transport	(0.8)	0.0	0.1	5.5	6.7	2.1
Communication	(3.0)	0.0	(0.1)	(3.9)	(3.9)	(4.0)
Recreation and Culture	(2.9)	0.2	0.1	(2.5)	(2.4)	(2.2)
Education	(0.2)	0.1	0.1	0.9	1.0	1.1
Restaurants and Hotels	(0.8)	0.0	0.2	1.3	1.0	0.7
Miscellaneous Goods and Services	(3.1)	(0.1)	(0.2)	(2.6)	(3.0)	(3.0)
Durable Goods	(3.8)	(0.1)	(0.2)	(4.6)	(4.8)	(5.0)
Semi Durable Goods	(2.7)	(0.2)	0.0	(3.2)	(3.3)	(3.1)
Non-Durable Goods	(1.1)	0.4	0.0	1.3	1.9	0.2
Services	(1.0)	0.0	0.4	1.2	1.1	1.1
Core CPI	0.1	0.0	0.3	0.1	(0.2)	(0.2)

Source: CEIC, MIDFR

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

Sub-Indices	MoM%			YoY%		
	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18
Rice	(0.1)	0.2	0.1	0.5	0.4	0.5
Fresh Meat	(1.3)	2.8	(0.8)	(1.7)	(1.1)	(2.8)
Fresh Seafood	1.3	(0.3)	(0.4)	3.4	3.7	2.7
Oils & Fats	0.0	(0.1)	(0.2)	(0.3)	(0.3)	(0.4)
Fresh Fruits	(0.4)	(0.4)	1.0	1.1	0.2	1.4
Fresh Vegetables	0.5	(0.5)	(0.5)	(3.1)	(1.2)	(0.8)
Food Away From Home	(1.4)	0.1	0.1	2.2	2.0	1.7
Cigarettes	0.0	0.0	0.0	0.0	0.0	0.0
Electricity	(3.8)	3.5	0.0	(3.8)	(0.4)	(0.4)
Pharmaceutical Products	(1.9)	(0.1)	0.0	(0.3)	(0.8)	(0.8)
Fuels & Lubricants for Transportation	0.3	(0.1)	0.2	10.2	12.2	4.2
Transportation Repair & Maintenance	(1.7)	0.1	0.0	1.7	1.6	1.1
Other Transportation Charges (Including Toll)	(1.5)	0.0	0.0	3.7	3.7	3.7
Expenses In Restaurants & Cafes	(0.2)	0.0	0.2	2.4	2.1	1.8
Insurance For Motor Vehicles	(3.2)	0.0	0.0	(3.1)	(3.1)	(3.1)

Source: CEIC, MIDFR

**Inflation across states remains low.** Inflation in Peninsular Malaysia and Sabah fell to 0.2%yoy and 0.1%yoy respectively. Meanwhile, Sarawak recorded no price increase. The easing pattern is purely due to declining transport inflation in all states. However, transport inflation for both Sabah and Sarawak still exceeded national average of 2.1%yoy while those of Peninsular Malaysia came in below.

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

	MoM%			YoY%		
	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18
<b>Peninsular Malaysia;</b>	<b>(1.3)</b>	<b>0.2</b>	<b>0.2</b>	<b>0.8</b>	<b>1.0</b>	<b>0.2</b>
Food	(1.0)	0.2	0.1	0.8	0.8	0.5
Food at Home	(0.7)	0.5	(0.1)	(0.2)	0.1	(0.4)
Food Away From Home	(1.3)	0.1	0.1	2.1	2.0	1.7
Utilities	(0.5)	0.4	0.7	1.7	2.1	2.1
Transport	(0.8)	0.0	0.1	5.5	6.6	2.0
<b>Sabah;</b>	<b>(1.0)</b>	<b>0.2</b>	<b>0.2</b>	<b>0.6</b>	<b>0.6</b>	<b>0.1</b>
Food	(0.7)	(0.1)	0.3	1.2	0.4	0.4
Food at Home	(0.4)	(0.2)	0.3	0.3	(0.5)	(0.6)
Food Away From Home	(1.5)	0.1	0.3	3.6	3.4	3.4
Utilities	(0.5)	0.6	0.4	0.5	1.1	1.3
Transport	(0.3)	(0.1)	0.2	5.5	6.2	2.4
<b>Sarawak;</b>	<b>(1.3)</b>	<b>0.1</b>	<b>0.2</b>	<b>0.4</b>	<b>0.5</b>	<b>0.0</b>
Food	(1.0)	0.2	0.2	1.0	1.0	0.9
Food at Home	(0.7)	0.2	0.2	0.8	0.8	0.8
Food Away From Home	(1.7)	0.3	0.1	1.6	1.6	1.3
Utilities	(0.5)	0.0	0.2	0.5	0.5	0.5
Transport	(0.3)	0.2	0.1	6.5	7.9	2.8


Source: DOSM, MIDFR

**US inflation rate softened.** The US headline inflation rate eased to 2.7%yoy in Aug-18, lowest in four months amid a slowdown in cost of fuel, gasoline and shelter. Similarly, core inflation rate slowed to 2.2%yoy from 2.4%yoy in Jul-18. Despite the latest weaker-than-expected data, we still foresee upward risks to the core inflation given that continued increases in wage costs and Trump's tariff are likely to put upward pressure on prices. Hence, it would provide support for another rate hike in the next FOMC meeting. On the other hand, pressure on prices increased for most of the developing economies. For instance, inflation rate in Philippines hit 9-1/2 year high mainly due to a jump in cost of food and non-alcoholic beverages. Similarly, core inflation rate rose to 4.8%yoy in Aug-18 from 4.5%yoy in the preceding month. Since it has breached the central bank's inflation target range of 2-4% from 2018 to 2020, we could expect a third hike in the upcoming meeting. Moving forward, we foresee global inflation to pick up steadily in 2H18 amid of heighten trade spat, rising commodity prices and normalising monetary policy in major economies.

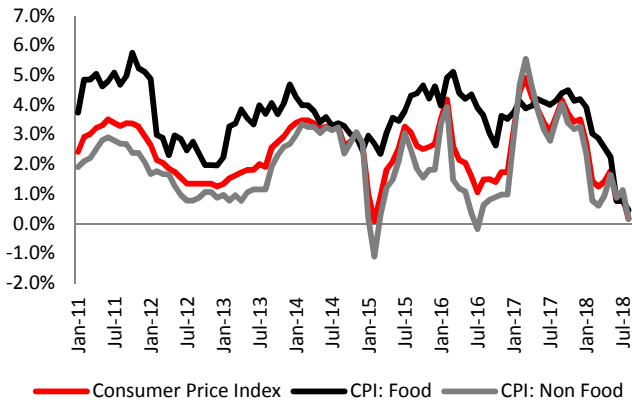
**Table 4: Global Headline Inflation (YoY%)**

	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
Malaysia	1.4	1.3	1.4	1.8	0.8	0.9	0.2
Indonesia	3.2	3.4	3.4	3.2	3.1	3.2	3.2
Philippines	3.8	4.3	4.5	4.6	5.2	5.7	6.4
Thailand	0.4	0.8	1.1	1.5	1.4	1.5	1.6
Singapore	0.2	0.2	0.1	0.4	0.6	0.6	
China	1.5	2.9	2.1	1.8	1.8	1.9	2.1
Japan	1.5	1.1	0.7	0.6	0.7	1.0	
EU	1.4	1.5	1.5	2.0	2.1	2.2	2.1
United States	2.3	2.4	2.4	2.7	2.8	2.9	2.7

Source: CEIC, MIDFR

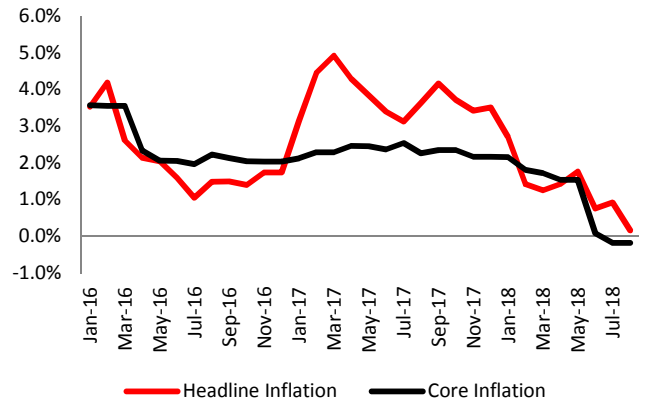
**Tepid inflation for 2018 at 1.3%.** Amid higher base effects, we foresee headline inflation rate to average at 1.3% this year compared to 3.8% in 2017. This is supported by lower inflation rate for the first eight months which registered at 1.3% compared to 3.9% in the same period last year. We expect 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 (USD/MYR average: 4.32 in 2017; 4.00f in 2018) and subsidy of domestic fuel price. As inflationary pressure remains benign, we anticipate Bank Negara to maintain its current monetary stance for the rest of 2018 barring any pleasant surprises in domestic economic growth. 

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



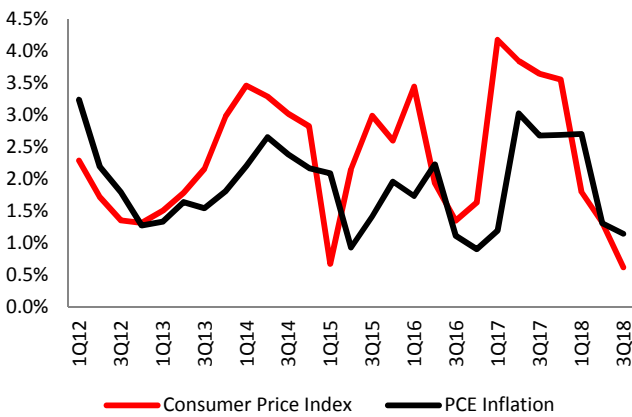
Source: CEIC, MIDFR

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



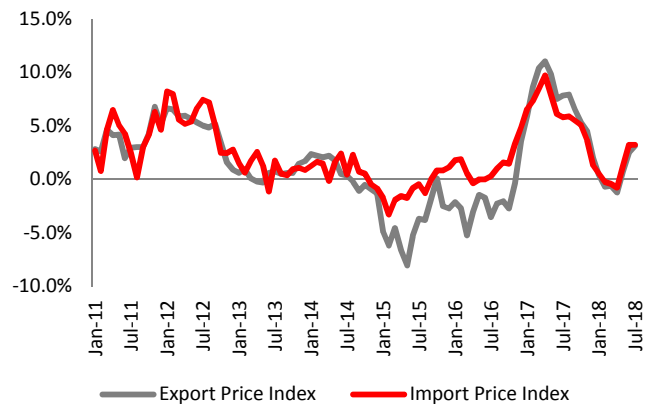
Source: CEIC, MIDFR

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



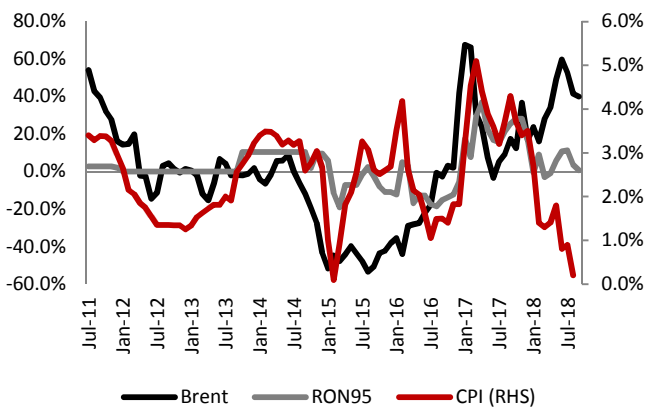
Source: CEIC, MIDFR

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



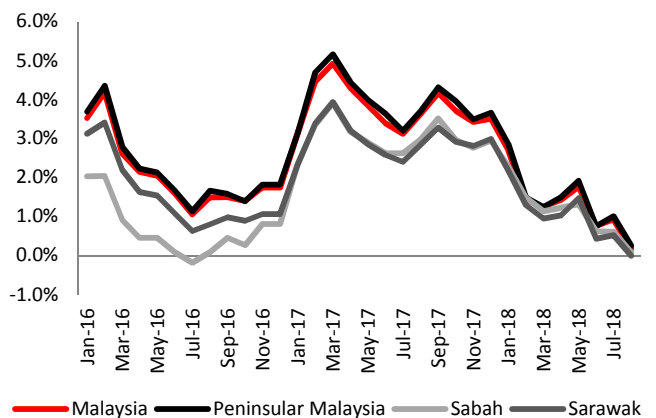
Source: CEIC, MIDFR

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



Source: Bloomberg, MIDFR

**Chart 6: Inflation by States (YoY%)**



Source: DOSM, MIDFR

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