

ECONOMIC REVIEW | August 2017 Consumer Price Index

Inflation Rate Up 3.7% In August, More Than Expected

- *Headline inflation rebounded amid rise in pump price. Headline inflation rose by 3.7% in August, surge after five consecutive months of moderated. On monthly basis, the inflation increased close to 1%. The recent uptick in overall prices was driven by rise in fuel and transport prices.*
- *Thanks to global commodity prices. Referring to Brent oil price, the price grew by 9.2%yoy to \$52.4 per barrel. As compared to July, the average oil price stood at \$49.1. Hence, this translates into higher fuel prices locally. At this juncture, we can anticipate that September's inflation rate will record close to 4% with fuel-related items remain as dominant driving factors.*
- *Inflation forecast stays at 3.8% for 2017. We maintain our forecast of 3.8% for inflation in 2017, projecting a slowing down in prices during the second half. The impacts of cost-driven factors are tapering off due to moderating in global commodity prices and modest appreciation of MYR.*

Headline inflation rebounded amid rise in pump price. Headline inflation rose by 3.7% in August, surge after five consecutive months of moderated. On monthly basis, the inflation increased close to 1%. The recent uptick in overall prices was driven by rise in fuel and transport prices. Increase in global commodity prices due to hurricane Harvey and Irma gave positive knock-on effects on Malaysia's overall prices especially fuel-related items. In spite of this, we view the shock in prices is only temporary. Core inflation drops to 2.4%, lowest in seven months.

Table 1: Consumer Price Indices

Indices	MoM%			YoY%		
	Jun-17	Jul-17	Aug-17	Jun-17	Jul-17	Aug-17
CPI	(0.2)	(0.1)	0.9	3.6	3.2	3.7
Core CPI	0.1	0.1	0.5	2.5	2.6	2.4
Non Food	(0.4)	(0.3)	1.2	3.2	2.7	3.4
Food and Non Alcoholic Beverages	0.4	0.2	0.4	4.3	4.2	4.3
Alcoholic Beverages and Tobacco	(0.1)	0.0	0.0	0.1	0.1	0.1
Clothing and Footwear	(0.2)	(0.2)	(0.1)	(0.4)	(0.4)	(0.3)
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	0.6	2.2	2.2	2.4
Furnishings, Household Equipment and Maintenance	0.0	0.7	0.1	2.1	2.6	2.7
Health	0.2	0.3	0.1	2.6	2.9	2.7
Transport	(2.4)	(1.1)	4.6	10.5	7.7	11.7
Communication	0.0	0.0	0.0	(0.3)	(0.3)	(0.3)
Recreation and Culture	0.1	0.1	(0.1)	3.0	2.6	0.4
Education	0.1	0.0	0.0	1.7	1.6	1.6
Restaurants and Hotels	0.1	0.2	0.5	2.5	2.6	2.8
Miscellaneous Goods and Services	(0.1)	0.3	(0.2)	1.2	1.1	0.9
Durable Goods	0.0	0.1	0.0	1.3	1.1	1.1
Semi Durable Goods	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)	(0.3)
Non-Durable Goods	(0.6)	(0.2)	1.7	5.1	4.2	5.8
Services	0.1	0.1	0.4	3.0	3.0	2.6

Source: DOSM, MIDFR

Food inflation remains above 4%. Cost of food rose by 4.3%, slightly higher than previous months. Across the board, food prices were fairly stable. Non-food prices on the other hand rose 3.4%, highest in three months. We opine increase in food and non-food prices in August were mainly impacted by the pass-through effects of fuel prices. Looking ahead, these two components are expected to move higher given that current level of fuel price is greater than August's average price.

Thanks to global commodity prices. Referring to Brent oil price, the price grew by 9.2%yoy to \$52.4 per barrel. As compared to July, the average oil price stood at \$49.1. Hence, this translates into higher fuel prices locally. For example, price of RON95 in July was average at RM1.98 per litre whereas in August, the price was RM2.11. With this momentum, we observed that transport inflation as well as price of fuels & lubricants rose by 11.7%yoy and 20.4%yoy respectively last month. Moving forward, average Brent oil price and RON95 for the first three weeks of September registered at \$54.1 and RM2.19 respectively. At this juncture, we can anticipate that September's inflation rate will record close to 4% with fuel-related items remain as dominant driving factors.

Table 2: Changes in Selected Price Sub-Indices

Sub-Indices	MoM%			YoY%		
	May-17	Jun-17	Jul-17	May-17	Jun-17	Jul-17
Rice	(0.1)	0.3	0.0	0.3	0.6	0.5
Fresh Meat	2.0	2.2	0.9	4.0	0.3	1.1
Fresh Seafood	3.8	(0.7)	0.6	7.9	6.4	8.2
Oils	0.0	0.0	0.0	48.9	48.9	48.9
Fresh Fruits	(0.1)	0.5	(0.2)	1.6	1.3	0.8
Fresh Vegetables	(0.1)	(2.4)	(1.0)	2.0	3.9	3.4
Food Away From Home	0.1	0.3	0.4	4.8	4.9	4.8
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	0.2	0.4	0.0	2.8	3.2	2.8
Fuels & Lubricants for Transportation	(4.2)	(1.9)	7.9	17.2	11.8	20.4
Transportation Repair & Maintenance	0.3	0.2	0.5	3.5	3.4	3.6
Other Transportation Charges (Including Toll)	0.0	0.0	0.0	3.1	3.1	3.1
Expenses In Restaurants & Cafes	0.1	0.2	0.5	2.6	2.8	3.1
Insurance For Motor Vehicles	0.0	0.0	0.0	0.2	0.2	0.0

Source: DOSM, MIDFR

States inflation remains steady. Inflation rates for all states in August are in line with Malaysia's overall trend. In general, the effect of fuel price hike was spread across to all states in Malaysia. Johor recorded the highest inflation at 4.1% which driven by strong increment in transport's components at 12.8% and steady food inflation at 5% in August. On the other end, Terengganu recorded the lowest inflation for three consecutive months at 2.9%. We maintain our view that the second half of 2017 will see inflation in every state to grow at moderate pace due to stability in fuel prices and seasonal factors.

Table 3: States Headline Inflation (YoY%)

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17
Johor	3.5	5.2	5.7	5.0	4.3	4.0	3.6	4.1
Kedah	3.3	4.9	5.5	4.7	4.2	3.7	3.2	3.8
Kelantan	3.1	4.1	4.7	4.0	3.6	3.0	2.6	3.5
Kuala Lumpur	3.7	4.8	5.0	4.5	4.2	3.8	3.6	3.7
Melaka	3.4	4.7	5.3	4.7	4.4	4.0	3.5	4.1
Negeri Sembilan	3.4	5.3	5.8	4.9	4.4	3.9	3.5	4.0
Pahang	2.6	4.0	4.3	3.7	3.3	2.8	2.5	3.0
Penang	3.5	4.6	5.0	4.4	4.4	4.0	3.8	4.0
Perak	2.6	4.0	4.5	3.8	3.2	2.9	2.7	3.3
Perlis	3.3	4.9	5.5	4.7	4.2	3.7	3.2	3.8
Sabah	2.5	3.5	4.1	3.4	3.1	2.8	2.8	3.1
Sarawak	2.4	3.5	4.0	3.3	3.0	2.8	2.5	2.9
Selangor	2.9	4.4	4.9	4.2	4.0	3.5	3.1	3.7
Terengganu	2.6	3.9	4.3	3.6	3.0	2.4	2.1	2.9

Source: DOSM, MIDFR

Knock-on effects of hurricanes attack on global inflation. After six months of tapering down, the US headline inflation surged to 1.7% from 1.4% low in June 2017. The rise in inflation was mainly due to hike in gasoline prices caused by the hurricane Harvey and Irma. We viewed the latest inflation trend as one-off and only give temporary effect. Not just the US, inflation in other economies are experiencing slight hike in overall price growth due to the hurricanes attack which cause an uptick in global commodity prices. For instance, China and EU recorded higher inflation rate last month at 1.8% and 1.7% respectively. Looking forward, we foresee global inflation will remain expanding at faster pace in September given that level of global commodity prices remain higher than the first half average prices.

Table 4: Global Headline Inflation (YoY%)

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17
Malaysia	3.2	4.5	5.1	4.4	3.9	3.6	3.2	3.7
Indonesia	3.5	3.8	3.6	4.2	4.3	4.4	3.9	3.8
Philippines	2.7	3.3	3.4	3.4	3.1	2.7	2.8	3.1
Thailand	1.6	1.4	0.8	0.4	0.0	0.0	0.2	0.3
Singapore	0.6	0.9	0.8	0.5	0.8	0.6	0.2	
China	2.5	0.8	0.9	1.2	1.5	1.5	1.4	1.8
Japan	0.5	0.3	0.2	0.4	0.4	0.3	0.4	
EU	1.7	2.0	1.6	2.0	1.6	1.5	1.5	1.7
United States	2.5	2.8	2.4	2.2	1.9	1.6	1.7	1.9

Source: CEIC, MIDFR


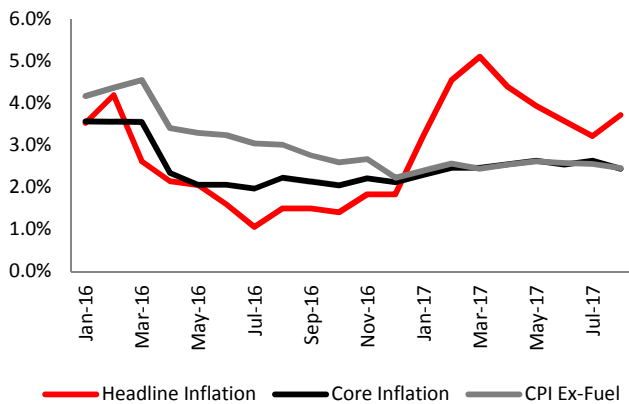
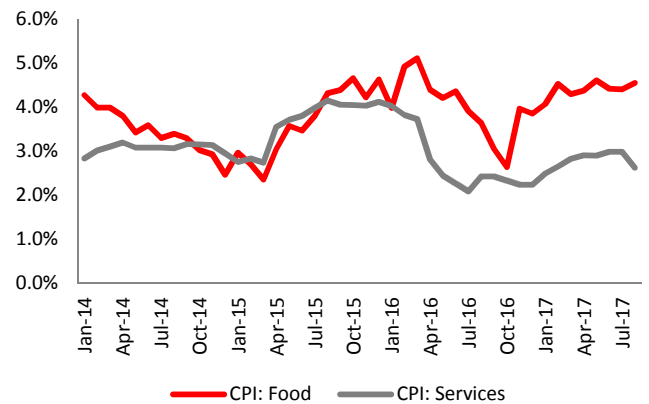
Inflation forecast stays at 3.8% for 2017. We maintain our forecast of 3.8% for inflation in 2017, projecting a slowing down in prices during the second half. The impacts of cost-driven factors are tapering off due to moderating in global commodity prices and modest appreciation of MYR. 

Chart 1: CPI vs Core CPI (YoY%)



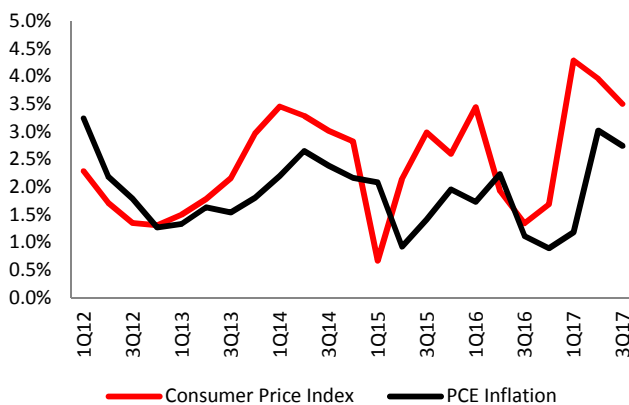
Source: DOSM, MIDFR

Chart 2: Food Price Index vs Services Price Index



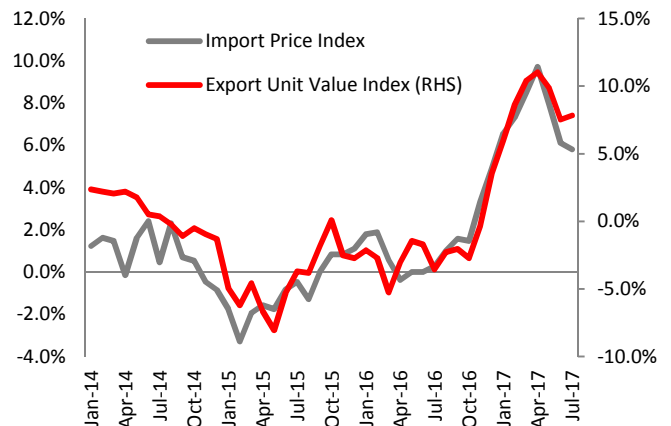
Source: DOSM, MIDFR

Chart 3: CPI vs PCE Inflation



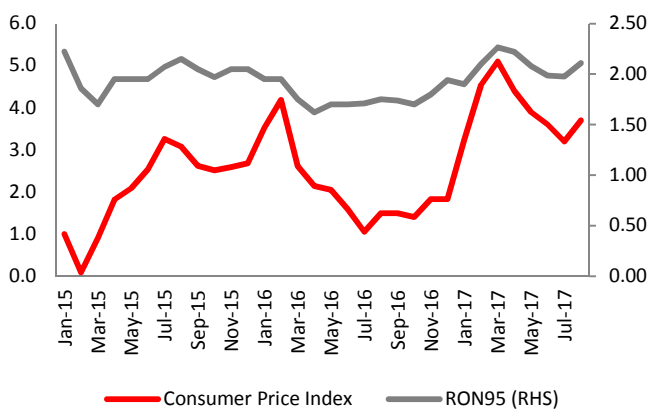
Source: DOSM, MIDFR

Chart 4: Imports Price Index vs Export Price Index



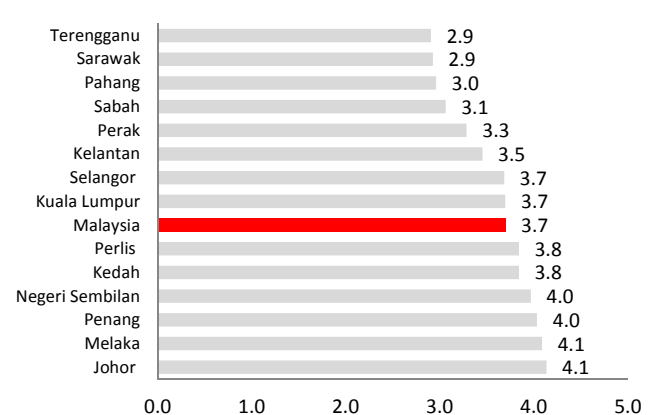
Source: DOSM, MIDFR

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



Source: DOSM, MIDFR

Chart 6: Inflation by States in August (%)



Source: DOSM, MIDFR

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.