

## ECONOMIC REVIEW | December 2017 Consumer Price Index

### Inflation Edged Up 3.5%yoy amid broad-based price pressure

- 2017's inflation rate matched our forecast. The average inflation rate of last year stood at 3.8%yoy. In December, inflation rose by 3.5%yoy higher than previous month record of 3.4%yoy.
- Food inflation continues to maintain above 4%. For twelve consecutive months, food prices in Malaysia grew above 4%.
- Inflation forecast stays at 2.6% for 2018. Amid of unfavourable base effects, we foresee headline inflation rate to average at 2.6% this year.

**2017's inflation rate matched our forecast.** The average inflation rate of last year stood at 3.8%yoy. Headline inflation rate started at 3.1%yoy in the first month of 2017 before reached its peak in March at 4.9%yoy. The rates moderated in the following months before rose again in August to September at 3.6%yoy and 4.2%yoy respectively. In December, inflation rose by 3.5%yoy higher than previous month record of 3.4%yoy. The upsurge in inflation is in tandem with inflation trend of food, non-food and transports which increased to 4.1%yoy, 3.3%yoy and 11.5%yoy respectively in November. However, prices for non-food and transport declined sharply on monthly basis underpinned by strengthening ringgit. Meanwhile, core inflation maintained at 2.2%yoy in December.

**Table 1: Consumer Price Indices**

Indices	MoM%			YoY%		
	Oct-17	Nov-17	Dec-18	Oct-17	Nov-17	Dec-18
CPI	(0.1)	0.7	0.1	3.7	3.4	3.5
Non Food	(0.2)	0.9	(0.3)	3.4	3.2	3.3
Food and Non Alcoholic Beverages	(0.2)	0.4	0.7	4.4	4.0	4.1
Alcoholic Beverages and Tobacco	0.1	0.1	(0.1)	0.1	0.2	0.2
Clothing and Footwear	(0.1)	(0.1)	(0.1)	(0.4)	(0.5)	(0.5)
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.3	0.0	2.4	2.2	2.2
Furnishings, Household Equipment and Maintenance	0.0	0.0	0.0	2.6	2.5	2.4
Health	0.1	0.1	0.2	2.4	2.2	2.3
Transport	(0.2)	3.3	(0.7)	12.1	10.8	11.5
Communication	(0.1)	(0.2)	0.0	(0.4)	(0.5)	(0.5)
Recreation and Culture	0.1	0.1	0.0	0.4	0.6	0.5
Education	0.0	0.0	0.2	1.6	1.5	1.7
Restaurants and Hotels	0.1	0.2	0.1	2.7	2.8	2.6
Miscellaneous Goods and Services	0.1	0.0	(0.2)	1.2	0.7	0.7
Durable Goods	(0.2)	(0.2)	(0.2)	1.1	0.7	0.6
Semi Durable Goods	(0.1)	(0.1)	(0.2)	(0.2)	(0.3)	(0.4)
Non-Durable Goods	(0.3)	1.3	0.2	5.8	5.1	5.4
Services	0.1	0.2	0.2	2.8	2.7	2.7
Core CPI	0.0	0.3	0.1	2.3	2.2	2.2

Source: DOSM, MIDFR

**Food inflation continues to maintain above 4%.** For twelve consecutive months, food prices in Malaysia grew above 4%. Fresh food products such as vegetables, fruits, meat and seafood continue expanding by 2.9%yoy, 1.1%yoy, 4.2%yoy and 9.4%yoy respectively. The rebound in fresh meat prices is possibly due to high demand for Christmas and New Year celebrations.

**Moderating fuel-related prices.** Referring to Brent oil price, the price grew by 16.8%yoy to 31-months high at \$64.5 per barrel in December as compared to the same month of last year, at \$55.2. The price has been hovering above since late October 2017 partly due to upbeat momentum in global demand and continuous efforts by the oil producers to control production output. Hence, this sends retail fuel price to remain expanding at double digit pace by 17.2%yoy during the month. We observed that transport inflation as well as price of fuels & lubricants rose by 11.5%yoy and 19%yoy respectively last month. Looking ahead, average Brent oil price and RON95 for the first three weeks of December registered at \$68.7 and RM2.27 respectively. At this juncture, we can anticipate that 2018's fuel-related inflation to moderate amid of unfavourable base effects and moderating speed in commodity prices.

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

Sub-Indices	MoM%			YoY%		
	Oct-17	Nov-17	Dec-18	Oct-17	Nov-17	Dec-18
Rice	(0.1)	0.0	0.0	0.4	0.4	0.4
Fresh Meat	(0.9)	0.5	0.9	3.3	2.9	4.2
Fresh Seafood	(0.8)	1.2	1.5	7.5	9.8	9.4
Oils & Fats	(19.7)	0.0	(0.1)	19.7	1.2	1.0
Fresh Fruits	(0.6)	0.0	(0.2)	1.7	2.2	1.1
Fresh Vegetables	(0.5)	2.4	4.6	6.0	3.6	2.9
Food Away From Home	0.2	0.2	0.6	5.2	5.0	5.3
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	0.1	0.3	2.3	2.1	2.2
Fuels & Lubricants for Transportation	(0.4)	5.3	(1.2)	20.5	17.5	19.0
Transportation Repair & Maintenance	0.3	0.6	0.1	3.9	4.2	4.1
Other Transportation Charges (Including Toll)	0.5	0.0	0.0	1.7	1.7	1.7
Expenses In Restaurants & Cafes	0.2	0.2	0.1	3.2	3.2	3.1
Insurance For Motor Vehicles	0.0	0.0	0.0	0.1	0.1	0.0

Source: DOSM, MIDFR

**Stable trend of inflation across states.** Inflation rate across all states remain stable in December, in tandem with national's trend. Johor, Melaka, Negeri Sembilan and Selangor recorded inflation rate higher than national's inflation during the month. Moving forward, we foresee inflation rate across all states will moderate below 3% in 2018 amid of unfavourable base effects and moderating pace fuel-related item prices.

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

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


Source: DOSM, MIDFR

**Global inflation continues to moderate.** Overall prices in the US recorded at 2.1%yoy, slightly lower than the previous month amid of Forties Pipeline shutdown and New York blast. Meanwhile, China's inflation accelerated to 1.8%yoy in December largely due to a hike in food prices which is expected to continue until Chinese New Year. Among ASEAN countries, Philippines maintained a steady inflation of 3.3%yoy as faster increase in food prices were offset by stable costs of transport, housing, water and electricity. Moving ahead, we foresee inflation level will gradually rise for both developed and developing economies in tandem with expected moderating global growth, uptick in commodities prices and tight labour market conditions

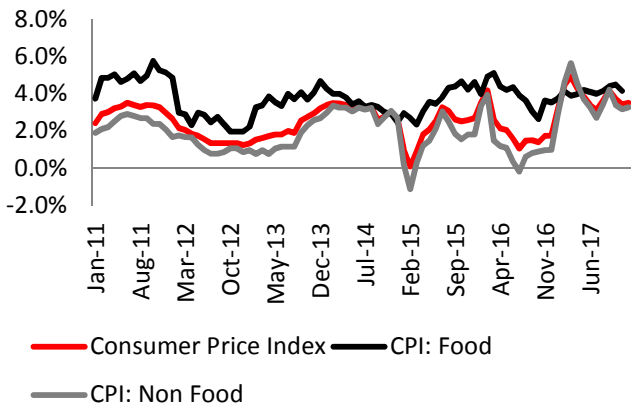
**Table 4: Global Headline Inflation (YoY%)**

	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Malaysia	3.6	3.2	3.7	4.3	3.7	3.4	3.5
Indonesia	4.4	3.9	3.8	3.7	3.6	3.3	3.6
Philippines	2.7	2.8	3.1	3.4	3.5	3.3	3.3
Thailand	0.0	0.2	0.3	0.9	0.9	1.0	0.8
Singapore	0.6	0.2	0.5	0.5	0.2	0.8	0.5
China	1.5	1.4	1.8	1.6	1.9	1.7	1.8
Japan	0.3	0.4	0.7	0.7	0.2	0.6	
EU	1.5	1.5	1.7	1.8	1.7	1.8	1.7
United States	1.6	1.7	1.9	2.2	2.0	2.2	2.1

Source: CEIC, MIDFR

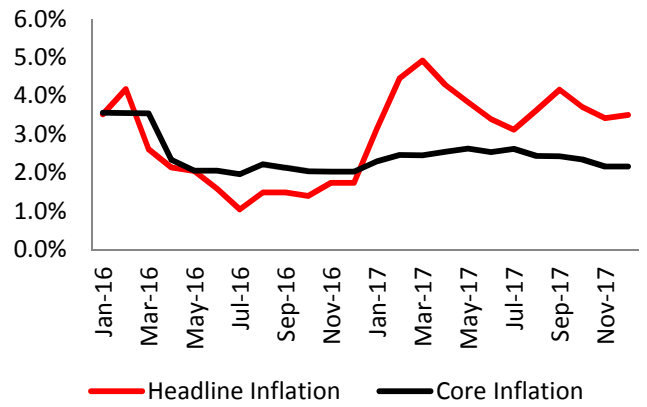
**Inflation forecast stays at 2.6% for 2018.** Amid of unfavourable base effects, we foresee headline inflation rate to average at 2.6% this year. We anticipate inflationary pressure from fuel-related items to moderate, in tandem with steady gradual rise in global commodity prices especially crude oil. Plus, slight tightening measures imposed on employee's income such as EPF's contribution back from 8% to 11% and employee insurance scheme payment will to certain extent affect private consumption in 2018. 

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



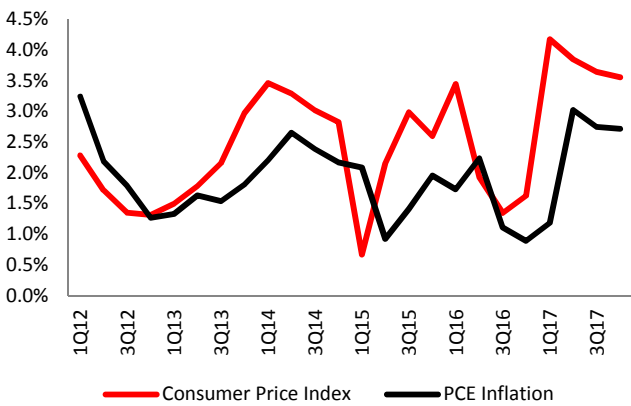
Source: DOSM, MIDFR

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



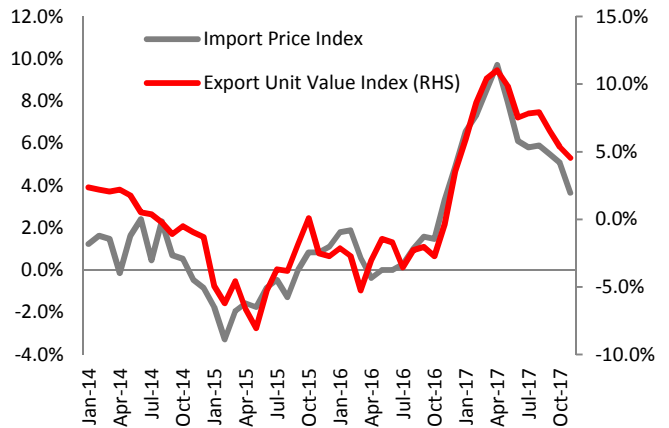
Source: DOSM, MIDFR

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



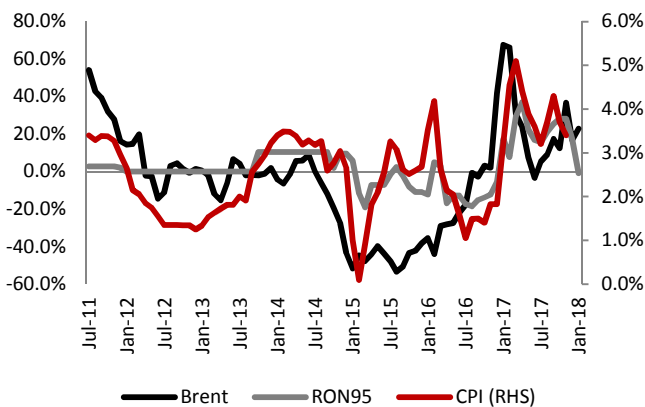
Source: DOSM, MIDFR

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



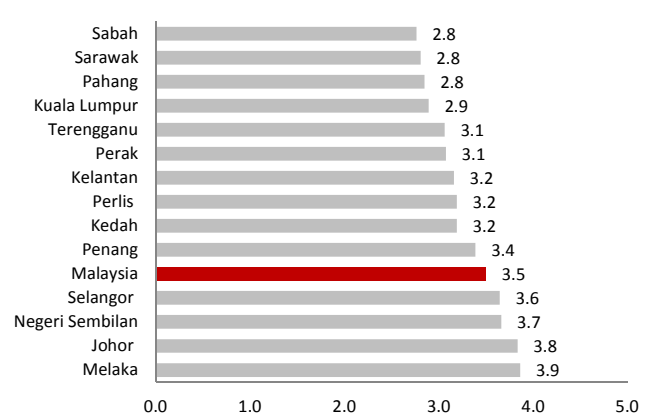
Source: DOSM, MIDFR

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



Source: Bloomberg, MIDFR

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



Source: DOSM, MIDFR

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