

ECONOMIC REVIEW | February 2018 Consumer Price Index

Drop in Transport Prices Dragged Feb's Inflation to 16-Month Low at 1.4%

- *Inflation dipped to 16-month low. Headline inflation rate rose by 1.4%yoy in Feb-18, lowest in 16 months. The slowdown in inflation is in tandem with slowing inflation trend for almost all the goods and services with transport inflation contributed the highest decline from 5.7%yoy in Jan-18 to -0.3%yoy last month.*
- *Food inflation continues to fall. Food prices in Malaysia continue to fall from 3.8%yoy in Jan-18 to 3%yoy last month.*
- *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.*

Inflation dipped to 16-month low. Headline inflation rate rose by 1.4%yoy in Feb-18, lowest in 16 months. The slowdown in inflation is in tandem with slowing inflation trend for almost all the goods and services with transport inflation contributed the highest decline from 5.7%yoy in Jan-18 to -0.3%yoy last month. Similarly, transport price declined on monthly basis by 0.6% from 0.4% gain in the preceding month underpinned by declining retail fuel prices. Meanwhile, core inflation went down to 1.8%yoy in Feb-18, the lowest figure on record.

Table 1: Consumer Price Indices

Indices	MoM%			YoY%		
	Dec-17	Jan-18	Feb-18	Dec-17	Jan-18	Feb-18
CPI	0.1	0.3	0.0	3.5	2.7	1.4
Non Food	(0.3)	0.3	(0.1)	3.3	2.4	0.8
Food and Non Alcoholic Beverages	0.7	0.6	0.2	4.1	3.8	3.0
Alcoholic Beverages and Tobacco	(0.1)	0.0	(0.1)	0.2	0.2	0.1
Clothing and Footwear	(0.1)	0.2	(0.2)	(0.5)	(0.3)	(0.7)
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	0.5	2.2	2.2	2.0
Furnishings, Household Equipment and Maintenance	0.0	0.5	(0.1)	2.4	2.6	2.1
Health	0.2	0.3	0.1	2.3	2.3	2.1
Transport	(0.7)	0.4	(0.6)	11.5	5.7	(0.3)
Communication	0.0	(0.1)	0.0	(0.5)	(0.6)	(0.5)
Recreation and Culture	0.0	0.1	0.2	0.5	0.5	0.4
Education	0.2	0.6	0.1	1.7	1.2	1.1
Restaurants and Hotels	0.1	0.1	0.1	2.6	2.4	1.8
Miscellaneous Goods and Services	(0.2)	0.3	(0.3)	0.7	0.9	0.4
Durable Goods	(0.2)	0.0	(0.1)	0.6	0.5	0.0
Semi Durable Goods	(0.2)	0.1	(0.2)	(0.4)	(0.3)	(0.6)
Non-Durable Goods	0.2	0.6	(0.2)	5.4	3.5	0.9
Services	0.2	0.2	0.3	2.7	2.6	2.3
Core CPI	0.1	0.0	0.0	2.2	2.2	1.8

Source: DOSM, MIDFR

Food inflation continues to fall. Food prices in Malaysia continue to fall from 3.8%yoy in Jan-18 to 3%yoy last month. Fresh food products such as seafood, vegetables, and fruits continue expanding by 9.4%yoy, 2%yoy and 1.4%yoy respectively due to Lunar New Year celebrations. In contrast, price for fresh meat contracted by 0.8%yoy.

Moderating fuel-related prices. Referring to Brent oil price, the price rose by 17%yoy to \$65.9 per barrel in Feb-18 from \$56.3 recorded in the same month of last year due to strong global demand and continuous production curbs by oil producers. Similarly, retail fuel price increased by 7.6% during the month, rebounded from a negative growth in the preceding month. We observed that inflation trend for transport as well as price of fuels & lubricants fell by 0.3 %yoy and 1.6%yoy respectively last month. Looking ahead, average Brent oil price and RON95 for the first three weeks of Mar-18 registered at \$65.36 and RM2.20 respectively. At this juncture, we expect 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%		
	Dec-17	Jan-18	Feb-18	Dec-17	Jan-18	Feb-18
Rice	0.0	(0.3)	0.1	0.4	0.2	0.2
Fresh Meat	0.9	0.9	(0.6)	4.2	2.4	(0.8)
Fresh Seafood	1.5	0.6	2.1	9.4	7.1	9.4
Oils & Fats	(0.1)	0.0	(0.1)	1.0	0.5	0.2
Fresh Fruits	(0.2)	0.3	1.8	1.1	0.7	1.4
Fresh Vegetables	4.6	4.2	(1.8)	2.9	8.8	2.0
Food Away From Home	0.6	0.3	0.2	5.3	4.9	4.3
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	0.3	0.2	(0.1)	2.2	2.2	1.9
Fuels & Lubricants for Transportation	(1.2)	0.5	(0.9)	19.0	8.5	(1.6)
Transportation Repair & Maintenance	0.1	0.5	0.2	4.1	3.9	3.9
Other Transportation Charges (Including Toll)	0.0	0.7	0.0	1.7	1.4	1.4
Expenses In Restaurants & Cafes	0.1	(1.8)	0.1	3.1	0.9	1.8
Insurance For Motor Vehicles	0.0	0.0	0.2	0.0	(0.1)	0.2

Source: DOSM, MIDFR

Moderate trend of inflation across states. Inflation rate across all states eased in Feb-18, in tandem with national's trend. Melaka, Selangor, Johor and Sabah recorded inflation rate higher than national's inflation during the month. Looking ahead, we foresee inflation rate across all states will moderate below 3% in 2018 amid of unfavourable base effects and moderating pace of fuel-related item prices.

Table 3: States Headline Inflation (YoY%)

	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18
Johor	4.0	3.6	4.1	4.7	4.2	3.8	3.8	2.8	1.5
Kedah	3.7	3.2	3.8	4.5	3.8	3.5	3.2	2.0	0.8
Kelantan	3.0	2.6	3.5	3.8	3.6	3.1	3.2	2.1	1.1
Kuala Lumpur	3.8	3.6	3.7	3.8	3.5	2.7	2.9	2.6	1.4
Melaka	4.0	3.5	4.1	4.9	4.2	3.8	3.9	2.8	1.8
Negeri Sembilan	3.9	3.5	4.0	4.8	4.0	3.6	3.7	2.7	1.3
Pahang	2.8	2.5	3.0	3.4	3.1	2.5	2.8	2.1	0.8
Penang	4.0	3.8	4.0	4.6	4.0	3.3	3.4	2.5	1.4
Perak	2.9	2.7	3.3	3.9	3.3	2.8	3.1	2.3	1.1
Perlis	3.7	3.2	3.8	4.5	3.8	3.5	3.2	2.0	0.8
Sabah	2.8	2.8	3.1	3.7	3.0	2.6	2.8	2.1	1.5
Sarawak	2.8	2.5	2.9	3.5	2.9	2.7	2.8	2.1	1.3
Selangor	3.5	3.1	3.7	4.3	3.9	3.7	3.6	2.9	1.7
Terengganu	2.4	2.1	2.9	3.4	3.1	2.9	3.1	2.2	1.0

Source: DOSM, MIDFR

China's Inflation Soared to 4-Year High. Prices in China rose by 2.9%yoy in Feb-18 compared to 1.5%yoy rise in the previous month and the highest figure recorded since Nov-13 driven by sharp rebound in cost of food and faster growth in the cost of non-food. The increase was largely resulted from the Lunar New Year celebrations. Overall, prices remain sluggish for most of the countries. For instance, year-over-year prices in Thailand and Indonesia eased to 0.4% and 3.2% respectively in Feb-18. Similarly, EU's inflation slowed to 1.3%yoy during the same month. Moving forward, we foresee inflation level will gradually increase in concordance with expected moderating global growth, uptick in commodities prices and tight labour market conditions.

Table 4: Global Headline Inflation (YoY%)

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18
Malaysia	3.1	3.6	4.2	3.7	3.4	3.5	2.7	
Indonesia	3.9	3.8	3.7	3.6	3.3	3.6	3.3	3.2
Philippines	2.4	2.7	3.1	3.1	3.0	2.9	3.4	3.9
Thailand	0.2	0.3	0.9	0.9	1.0	0.8	0.7	0.4
Singapore	0.6	0.4	0.4	0.4	0.6	0.4	0.0	
China	1.2	1.6	1.5	1.7	1.6	1.7	1.5	2.9
Japan	0.4	0.7	0.7	0.2	0.6	1.0	1.4	
EU	1.5	1.7	1.8	1.7	1.8	1.7	1.6	1.3
United States	1.7	1.9	2.2	2.0	2.2	2.1	2.1	2.2

Source: CEIC, MIDFR


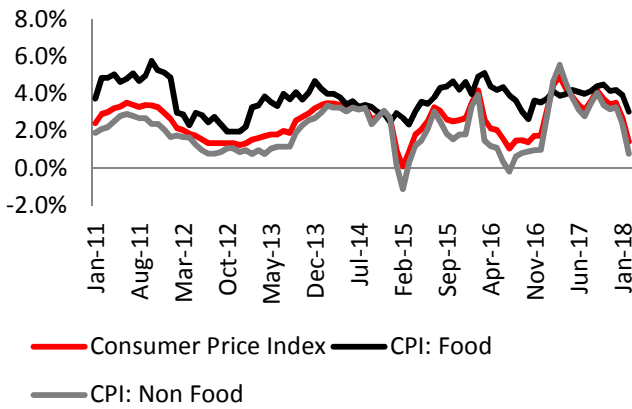
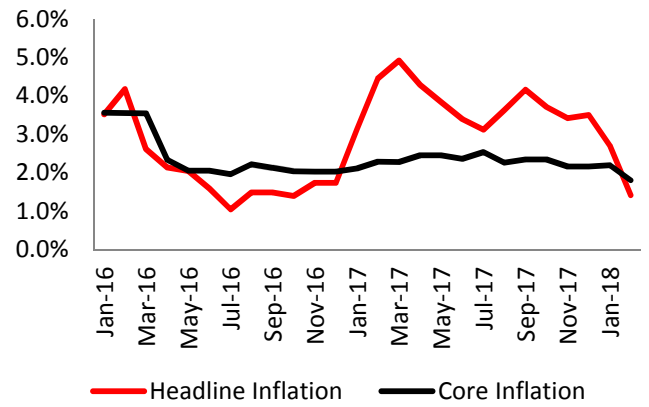
Inflation forecast stays at 2.6% for 2018. Amid of unfavourable base effects, we foresee headline inflation rate to average at 2.6% this year. We anticipate inflationary pressure particularly from fuel-related items to taper off, in tandem with steady gradual rise in global commodity prices. As inflationary pressure eases, we anticipate there will be no more hike 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%)



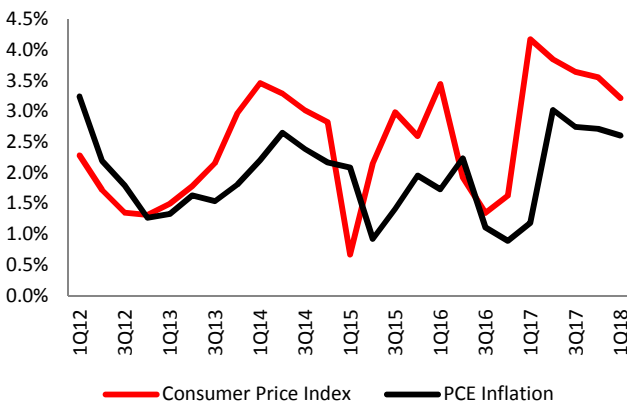
Source: DOSM, MIDFR

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



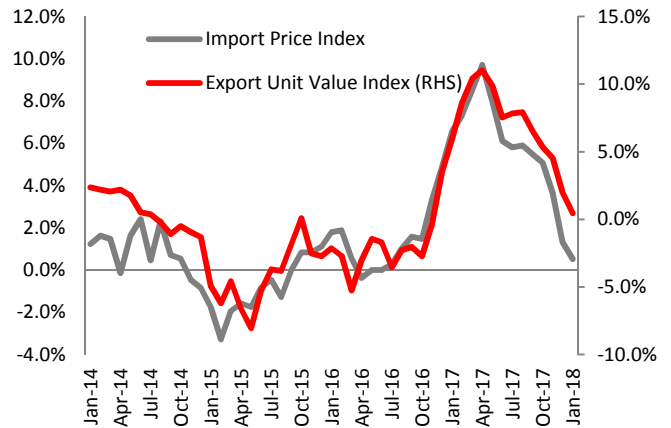
Source: DOSM, MIDFR

Chart 3: CPI vs PCE Inflation (YoY%)



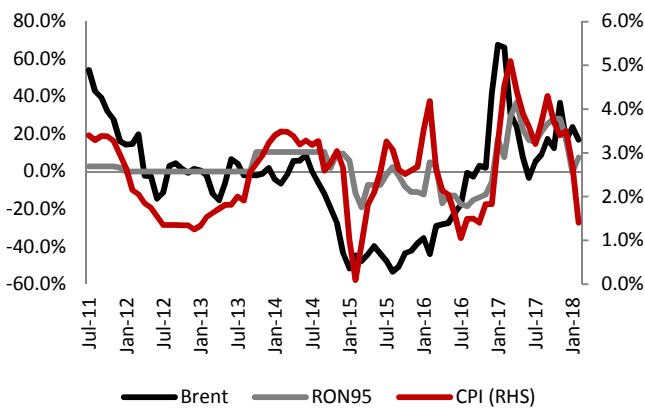
Source: DOSM, MIDFR

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



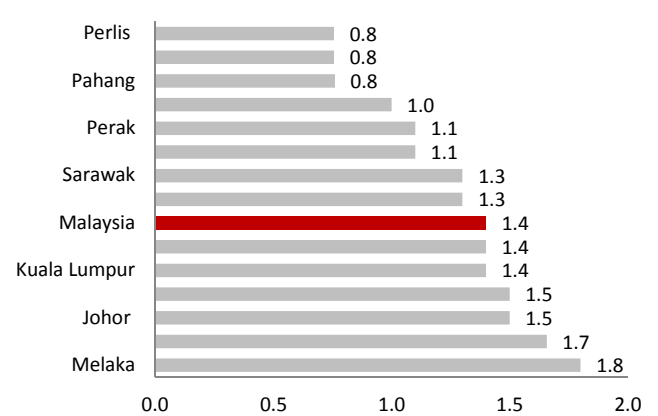
Source: DOSM, MIDFR

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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