

ECONOMIC REVIEW | January 2017 Consumer Price Index

Steep Jump in Pump Price Push Headline Inflation To 3.2% in January

- *Inflation came in within our expectation. Inflation rate jumped by 1.4% to 3.2%yoy in January from the previous month while core inflation edged higher to 2.3% amid the 20 cents increase in pump price during the month. As a result of the higher pump price, the transport sub-item inflation rose by 8.3%yoy – the highest since the consumer price was index was rebased to year 2010. Similarly, the 1.4% surge in inflation was also the steepest increase since using the new base.*
- *Pump price expected to maintain in March, inflation to rise to 4.2% - 4.4%. Pump price rose by another 20 cents in February after a similar rise in the previous month. The price for RON95 now stood at RM2.30/litre while RON97 was set at RM2.60/litre (up 20 cents) and diesel at RM2.15/litre (up 15 cents). As a result, we expect the February headline inflation to surge to 4.2% - 4.4%.*
- *BNM most likely to stay put at current interest rate level. At current trajectory, there is a pretty good chance for BNM to maintain the benchmark OPR at current level i.e 3.00%. If current inflation momentum holds, we would probably revise our inflation forecast from 2.8% to 3.5% by the end of this quarter for 2017.*

Inflation came in within our expectation. Inflation rate jumped by 1.4% to 3.2%yoy in January from the previous month while core inflation edged higher to 2.3% amid the 20 cents increase in pump price during the month. As a result of the higher pump price, the transport sub-item inflation rose by 8.3%yoy – the highest since the consumer price was index was rebased to year 2010. Similarly, the 1.4% surge in inflation was also the steepest increase using the new base.

Table 1: Consumer Price Indices

Indices	%MoM				%YoY			
	Oct-16	Nov-16	Dec-16	Jan-17	Oct-16	Nov-16	Dec-16	Jan-17
CPI	0.3	1.0	0.0	1.1	1.4	1.8	1.8	3.2
Core CPI	0.0	0.5	0.1	0.1	2.0	2.2	2.1	2.3
Non Food	0.6	1.1	-0.4	1.2	0.9	1.0	1.0	2.9
Food and Non Alcoholic Beverages	-0.3	1.0	0.6	0.9	2.5	3.8	3.7	4.0
Alcoholic Beverages and Tobacco	0.1	0.0	-0.1	0.0	19.8	1.9	0.1	0.2
Clothing and Footwear	0.0	0.0	-0.1	0.0	-0.5	-0.5	-0.5	-0.7
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.5	0.0	0.0	2.1	2.1	2.1	1.9
Furnishings, Household Equipment and Maintenance	0.2	0.1	0.1	0.4	1.5	1.4	1.4	1.5
Health	0.3	0.3	0.2	0.3	2.3	2.5	2.4	2.5
Transport	3.1	4.5	-1.4	5.9	-5.5	-1.5	-0.6	8.3
Communication	0.0	-0.1	0.0	0.0	-2.6	-2.7	-2.6	-0.2
Recreation and Culture	0.1	-0.2	0.1	0.1	3.5	3.2	3.3	3.2
Education	0.0	0.1	0.0	1.0	2.0	1.9	1.7	2.0
Restaurants and Hotels	0.0	0.1	0.2	0.3	2.0	1.9	1.9	2.1
Miscellaneous Goods and Services	-0.1	0.5	-0.2	0.1	1.5	1.8	1.8	1.4
Durable Goods	-0.1	0.2	-0.1	0.1	1.6	1.7	1.7	1.5
Semi Durable Goods	0.0	0.0	-0.1	0.0	-0.4	-0.3	-0.4	-0.6
Non Durable Goods	0.7	2.2	-0.1	2.4	0.1	1.4	1.6	4.6
Services	0.0	0.3	0.2	0.3	2.3	2.2	2.2	2.5

Source: Department of Statistics, Malaysia; MIDF Research

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

Sub Indices	%MoM				%YoY			
	Oct-16	Nov-16	Dec-16	Jan-17	Oct-16	Nov-16	Dec-16	Jan-17
Housing Rental	0.0	0.7	0.0	0.0	2.5	2.5	2.5	2.5
Food Away From Home	0.1	0.4	0.3	0.7	3.3	3.4	3.5	3.6
Fuels & Lubricants for Transportation	5.7	8.0	-2.4	10.2	-11.5	-4.4	-2.7	13.4
Telephone & Telefax Services	0.0	0.0	0.0	0.0	-2.7	-2.7	-2.7	0.0
Electricity	0.0	0.0	0.0	0.0	1.3	1.3	1.3	0.0
Personal Care & Effects Products	-0.1	0.4	-0.4	0.2	1.4	1.4	1.0	0.5
Fresh Fish	0.1	-0.1	1.3	3.3	4.3	4.4	4.5	5.9
Cigarettes	0.0	0.0	0.0	0.0	23.2	2.0	0.1	0.1
Expenses In Restaurants & Cafes	0.1	0.2	0.2	0.4	10.7	2.2	2.1	2.3
Garments	-0.1	0.0	-0.1	0.0	-0.6	-0.5	-0.5	-0.5
Cultural Services	0.0	0.1	0.0	0.0	5.9	6.0	6.1	6.0
Fresh Meat	-4.6	0.8	-0.3	2.6	2.4	7.1	3.0	1.5
Fresh Vegetables	-0.9	4.7	5.3	-1.4	-1.6	3.9	5.7	9.1
Transportation Repair & Maintenance	0.1	0.3	0.2	0.7	4.3	4.3	4.0	3.8
Bread & Bakery Products	0.1	0.1	0.1	0.3	1.5	1.6	1.6	1.6
Purchase of Motorcars	0.0	0.0	-0.1	0.4	2.2	2.3	1.9	1.7
Rice	0.1	0.0	0.0	-0.1	1.0	1.0	0.6	0.4
Fresh Seafood	0.3	-1.0	2.0	2.7	6.8	4.8	8.7	7.6
Other Transportation Services (Including Toll)	0.0	0.0	0.1	0.0	13.5	5.4	5.5	5.5
Insurance for Motor Vehicles	0.0	0.0	0.1	0.1	1.4	1.1	1.3	1.3

Source: Department of Statistics, Malaysia; MIDF Research

Two consecutive months of inflation above 2% for the US. In a rare coincidence, the inflation rate for the first and second largest world economy was on par, running at 2.5% in January. Furthermore, the two countries actually saw inflation rose by the same magnitude i.e 0.4% from December. Similar to the situation observed in Malaysia and other region, inflation crept up due to firmer commodity prices which turned directly into higher input cost for producers. Especially for China, these have forced producers to pass on the burden to consumers as their margins have been running thin due to competition and escalating raw materials price in recent months. If inflation do jump above the 4% band in February as we in our forecast, there is a good chance that Malaysia's inflation rate will beat Indonesia's for the month.

Table 3: Global Headline Inflation

	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17
Malaysia	2.0	1.6	1.1	1.5	1.5	1.4	1.8	1.8	3.2
Indonesia	3.3	3.5	3.2	2.8	3.1	3.3	3.6	3.0	3.5
Philippines	1.6	1.9	1.9	1.8	2.3	2.3	2.5	2.6	2.7
Thailand	0.5	0.4	0.1	0.3	0.4	0.3	0.6	1.1	1.6
Singapore	-1.4	-0.6	-1.0	-0.1	-0.1	-0.4	0.1	0.3	
United States	1.0	1.0	0.9	1.1	1.5	1.6	1.7	2.1	2.5
China	2.0	1.9	1.8	1.3	1.9	2.1	2.3	2.1	2.5
EU	-0.1	0.1	0.2	0.3	0.4	0.5	0.6	1.2	
Japan	-0.5	-0.4	-0.4	-0.5	-0.4	0.1	0.5	0.3	

Source: Department of Statistics, Malaysia; MIDF Research


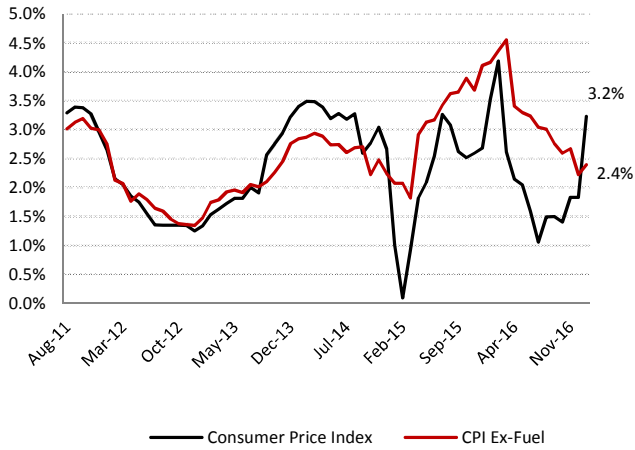
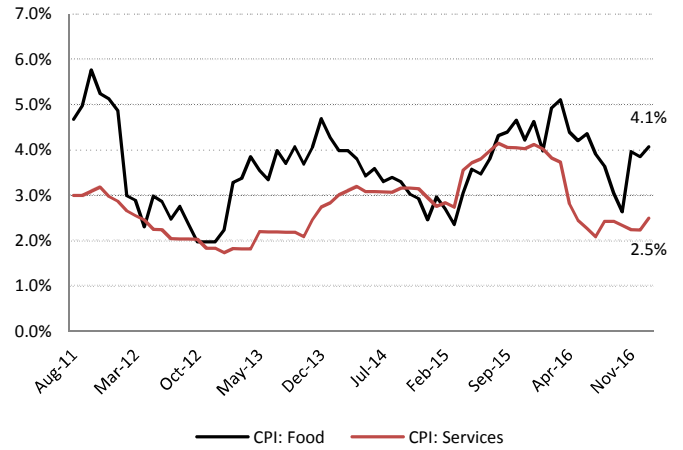
BNM most likely to stay put at current interest rate level. At current trajectory, there is a pretty good chance for BNM to maintain the benchmark OPR at current level i.e 3.00%. If current inflation momentum holds, we would probably revise our inflation forecast from 2.8% to 3.5% by the end of this quarter for 2017. Similarly, we think it will be timely to revise our OPR forecast by then. For now though, we remain with our forecast for one rate cut in OPR by 25bps due potentially negative ramifications from Trump's trade protectionism move as well under-deliver on his tax promises. 

Chart 1: CPI vs CPI Ex-Fuel



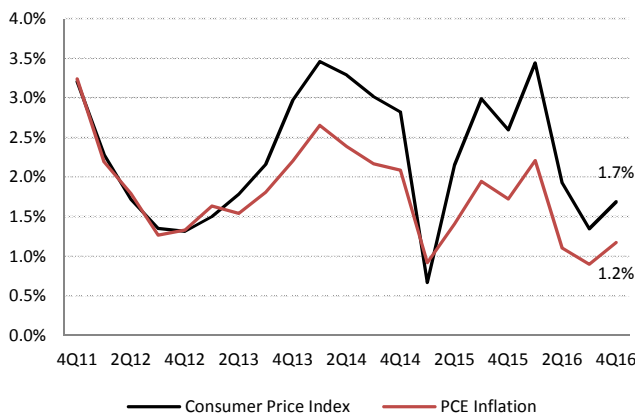
Source: Department of Statistics, Malaysia; MIDF Research

Chart 2: Food Price Index vs Services Price Index



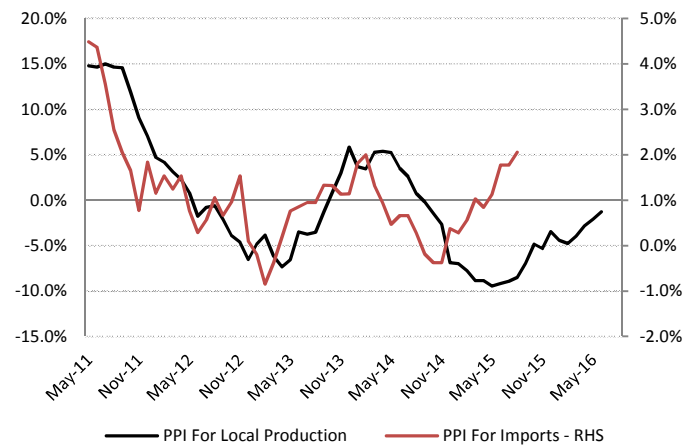
Source: Department of Statistics, Malaysia; MIDF Research

Chart 3: CPI vs PCE Inflation



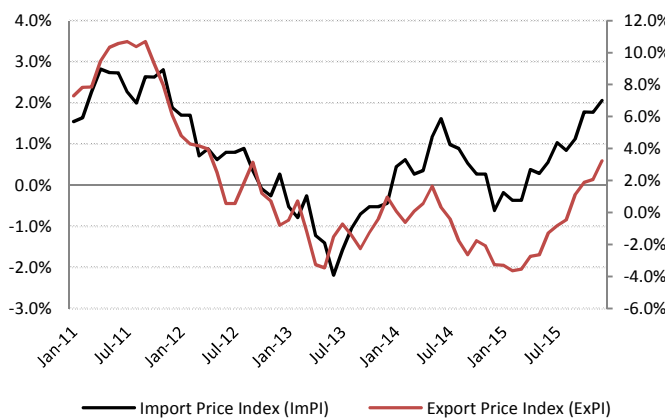
Source: Department of Statistics, Malaysia; MIDF Research

Chart 4: PPI Local vs PPI Imports



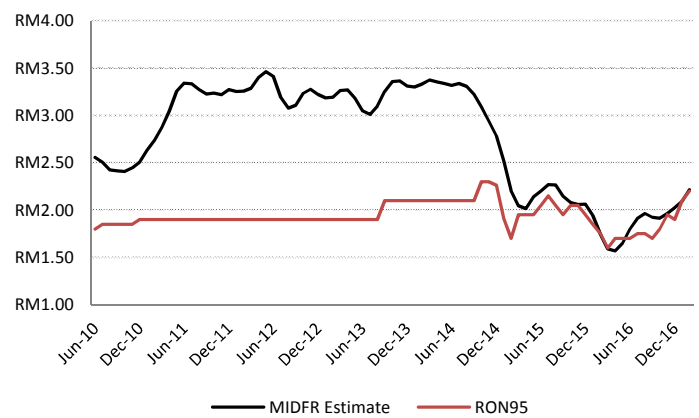
Source: Department of Statistics, Malaysia; MIDF Research

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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