

## ECONOMIC REVIEW | January 2017 Consumer Price Index

### Inflation Dipped Below 3%, Lowest in 13-month Driven by Moderating Transport Cost

- *Inflation went down to 13-month low. Headline inflation rate rose by 2.7%yoy in January, lowest in 12 months. The slowdown in inflation is in tandem with slowing inflation trend of most of the goods and services with transport inflation contributed the highest decline from 11.5%yoy in December to 5.7%yoy last month.*
- *Food inflation fell below 4%. Food prices in Malaysia fell below 4% to 3.9% after nine continuous months maintaining 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.*

**Inflation went down to 13-month low.** Headline inflation rate rose by 2.7%yoy in January, lowest in 12 months. The slowdown in inflation is in tandem with slowing inflation trend of most of the goods and services with transport inflation contributed the highest decline from 11.5%yoy in December to 5.7%yoy last month. Similarly, transport price grew at a slower pace on monthly basis by 0.4% from 3.3% in the preceding month underpinned by declining retail fuel prices. Meanwhile, core inflation maintained at 11-month low at 2.2%yoy in January.

**Table 1: Consumer Price Indices**

| Indices  | MoM%   |        |        | YoY%   |        |        |
|--|--------|--------|--------|--------|--------|--------|
|  | Nov-17 | Dec-17 | Jan-18 | Nov-17 | Dec-17 | Jan-18 |
| CPI  | 0.7    | 0.1    | 0.3    | 3.4    | 3.5    | 2.7    |
| Food and Non Alcoholic Beverages                 | 0.4    | 0.7    | 0.6    | 4.0    | 4.1    | 3.8    |
| Alcoholic Beverages and Tobacco                  | 0.1    | (0.1)  | 0.0    | 0.2    | 0.2    | 0.2    |
| Clothing and Footwear                            | (0.1)  | (0.1)  | 0.2    | (0.5)  | (0.5)  | (0.3)  |
| Housing, Water, Electricity, Gas & Other Fuels   | 0.3    | 0.0    | 0.0    | 2.2    | 2.2    | 2.2    |
| Furnishings, Household Equipment and Maintenance | 0.0    | 0.0    | 0.5    | 2.5    | 2.4    | 2.6    |
| Health   | 0.1    | 0.2    | 0.3    | 2.2    | 2.3    | 2.3    |
| Transport  | 3.3    | (0.7)  | 0.4    | 10.8   | 11.5   | 5.7    |
| Communication                                    | (0.2)  | 0.0    | (0.1)  | (0.5)  | (0.5)  | (0.6)  |
| Recreation and Culture                           | 0.1    | 0.0    | 0.1    | 0.6    | 0.5    | 0.5    |
| Education  | 0.0    | 0.2    | 0.6    | 1.5    | 1.7    | 1.2    |
| Restaurants and Hotels                           | 0.2    | 0.1    | 0.1    | 2.8    | 2.6    | 2.4    |
| Miscellaneous Goods and Services                 | 0.0    | (0.2)  | 0.3    | 0.7    | 0.7    | 0.9    |
| Durable Goods                                    | (0.2)  | (0.2)  | 0.0    | 0.7    | 0.6    | 0.5    |
| Semi Durable Goods                               | (0.1)  | (0.2)  | 0.1    | (0.3)  | (0.4)  | (0.3)  |
| Non-Durable Goods                                | 1.3    | 0.2    | 0.6    | 5.1    | 5.4    | 3.5    |
| Services   | 0.2    | 0.2    | 0.2    | 2.7    | 2.7    | 2.6    |
| Core CPI   | 0.3    | 0.1    | 0.0    | 2.2    | 2.2    | 2.2    |

Source: DOSM, MIDFR

**Food inflation fell below 4%.** Food prices in Malaysia fell below 4% to 3.9% after nine continuous months maintaining above 4%. Fresh food products such as vegetables, fruits, meat and seafood continue expanding by 7.6%yoy, 2.2%yoy and 1.9%yoy and 5%yoy respectively following high demand for Lunar New Year celebration.

**Moderating fuel-related prices.** Referring to Brent oil price, the price rose by 23.7%yoy to \$69.2 per barrel in January from \$55.9 recorded in the same month of last year due to strong global demand and continuous production curbs by oil producers. However, retail fuel price dropped by 0.5% during the month, skidded from a 10 months record of double digit growth. We observed that inflation trend for transport as well as price of fuels & lubricants declined to 5.7%yoy and 3.6%yoy respectively last month. Looking ahead, average Brent oil price and RON95 for February registered at \$65.88 and RM2.26 respectively. At this juncture, we 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%   |        |        |
|---|--------|--------|--------|--------|--------|--------|
|   | Nov-17 | Dec-17 | Jan-18 | Nov-17 | Dec-17 | Jan-18 |
| Rice  | 0.0    | 0.0    | (0.3)  | 0.0    | 0.4    | 0.2    |
| Fresh Meat                                    | 0.5    | 0.9    | (0.4)  | 0.5    | 4.2    | (0.5)  |
| Fresh Seafood                                 | 1.2    | 1.5    | 0.3    | 1.2    | 9.4    | 4.8    |
| Oils & Fats                                   | 0.0    | (0.1)  | 0.2    | 0.0    | 1.0    | 2.3    |
| Fresh Fruits                                  | 0.0    | (0.2)  | 0.2    | 0.0    | 1.1    | 1.7    |
| Fresh Vegetables                              | 2.4    | 4.6    | 0.9    | 2.4    | 2.9    | 2.4    |
| Food Away From Home                           | 0.2    | 0.6    | (1.1)  | 0.2    | 5.3    | 2.2    |
| Cigarettes                                    | 0.0    | 0.0    | 0.2    | 0.0    | 0.0    | (0.5)  |
| Electricity                                   | 0.0    | 0.0    | 1.2    | 0.0    | 0.0    | 4.2    |
| Pharmaceutical Products                       | 0.1    | 0.3    | 0.6    | 0.1    | 2.2    | 7.1    |
| Fuels & Lubricants for Transportation         | 5.3    | (1.2)  | 0.4    | 5.3    | 19.0   | 3.6    |
| Transportation Repair & Maintenance           | 0.6    | 0.1    | 0.2    | 0.6    | 4.1    | 1.6    |
| Other Transportation Charges (Including Toll) | 0.0    | 0.0    | 0.1    | 0.0    | 1.7    | 0.3    |
| Expenses In Restaurants & Cafes               | 0.2    | 0.1    | 0.2    | 0.2    | 3.1    | 1.5    |
| Insurance For Motor Vehicles                  | 0.0    | 0.0    | 1.7    | 0.0    | 0.0    | 6.3    |

Source: DOSM, MIDFR

**Stable trend of inflation across states.** Inflation rate across all states remain stable in January, 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%)**

|                 | Mar-17 | Apr-17 | May-17 | Jun-17 | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 |
|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Johor           | 5.7    | 5.0    | 4.3    | 4.0    | 3.6    | 4.1    | 4.7    | 4.2    | 3.8    | 3.8    | 2.8    |
| Kedah           | 5.5    | 4.7    | 4.2    | 3.7    | 3.2    | 3.8    | 4.5    | 3.8    | 3.5    | 3.2    | 2.0    |
| Kelantan        | 4.7    | 4.0    | 3.6    | 3.0    | 2.6    | 3.5    | 3.8    | 3.6    | 3.1    | 3.2    | 2.1    |
| Kuala Lumpur    | 5.0    | 4.5    | 4.2    | 3.8    | 3.6    | 3.7    | 3.8    | 3.5    | 2.7    | 2.9    | 2.6    |
| Melaka          | 5.3    | 4.7    | 4.4    | 4.0    | 3.5    | 4.1    | 4.9    | 4.2    | 3.8    | 3.9    | 2.8    |
| Negeri Sembilan | 5.8    | 4.9    | 4.4    | 3.9    | 3.5    | 4.0    | 4.8    | 4.0    | 3.6    | 3.7    | 2.7    |
| Pahang          | 4.3    | 3.7    | 3.3    | 2.8    | 2.5    | 3.0    | 3.4    | 3.1    | 2.5    | 2.8    | 2.1    |
| Penang          | 5.0    | 4.4    | 4.4    | 4.0    | 3.8    | 4.0    | 4.6    | 4.0    | 3.3    | 3.4    | 2.5    |
| Perak           | 4.5    | 3.8    | 3.2    | 2.9    | 2.7    | 3.3    | 3.9    | 3.3    | 2.8    | 3.1    | 2.3    |
| Perlis          | 5.5    | 4.7    | 4.2    | 3.7    | 3.2    | 3.8    | 4.5    | 3.8    | 3.5    | 3.2    | 2.0    |
| Sabah           | 4.1    | 3.4    | 3.1    | 2.8    | 2.8    | 3.1    | 3.7    | 3.0    | 2.6    | 2.8    | 2.1    |
| Sarawak         | 4.0    | 3.3    | 3.0    | 2.8    | 2.5    | 2.9    | 3.5    | 2.9    | 2.7    | 2.8    | 2.1    |
| Selangor        | 4.9    | 4.2    | 4.0    | 3.5    | 3.1    | 3.7    | 4.3    | 3.9    | 3.7    | 3.6    | 2.9    |
| Terengganu      | 4.3    | 3.6    | 3.0    | 2.4    | 2.1    | 2.9    | 3.4    | 3.1    | 2.9    | 3.1    | 2.2    |


Source: DOSM, MIDFR

**Prices remain sluggish.** Despite all the optimism on a forceful global economic upturn in which an enormous number of countries are expanding simultaneously, inflationary pressure in developed and developing economies remain low. While moderate inflation data of China early in the year need to be handled with caution as it is highly influenced by the long Lunar New Year celebrations, other countries still demonstrated a decrease in prices. For instance, year-over-year prices in Indonesia and Thailand eased to 3.3% and 0.7% respectively in the first month of 2018. Besides that, overall prices in the US maintained at 2.1%yoy. In contrast, inflation in Philippines jumped to 4%yoy driven by increases in both food and non-food prices besides partly attributed to the Tax Reform for Acceleration and Inclusion (TRAIN) implemented in January. Looking ahead, we foresee inflation level will gradually rise in step with expected moderating global growth, uptick in commodities prices and tight labour market conditions.

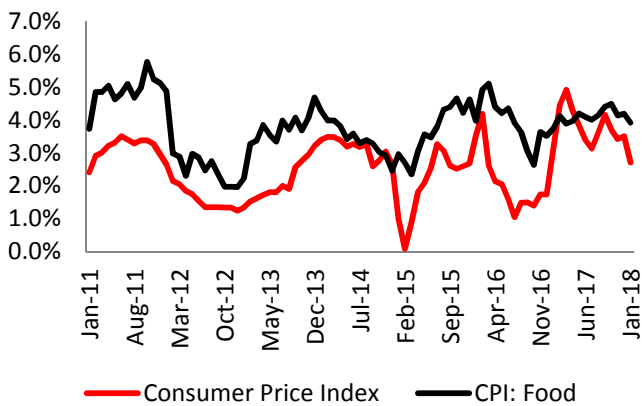
**Table 4: Global Headline Inflation (YoY%)**

|               | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 |
|---------------|--------|--------|--------|--------|--------|--------|--------|
| Malaysia      | 3.1    | 3.6    | 4.2    | 3.7    | 3.4    | 3.5    |        |
| Indonesia     | 3.9    | 3.8    | 3.7    | 3.6    | 3.3    | 3.6    | 3.3    |
| Philippines   | 2.8    | 3.1    | 3.4    | 3.5    | 3.3    | 3.3    | 4.0    |
| Thailand      | 0.2    | 0.3    | 0.9    | 0.9    | 1.0    | 0.8    | 0.7    |
| Singapore     | 0.2    | 0.5    | 0.5    | 0.2    | 0.8    | 0.5    |        |
| China         | 1.4    | 1.8    | 1.6    | 1.9    | 1.7    | 1.8    | 1.5    |
| Japan         | 0.4    | 0.7    | 0.7    | 0.2    | 0.6    | 1.0    |        |
| EU            | 1.5    | 1.7    | 1.8    | 1.7    | 1.8    | 1.7    |        |
| United States | 1.7    | 2.0    | 2.2    | 2.0    | 2.2    | 2.1    | 2.1    |

Source: CEIC, MIDFR

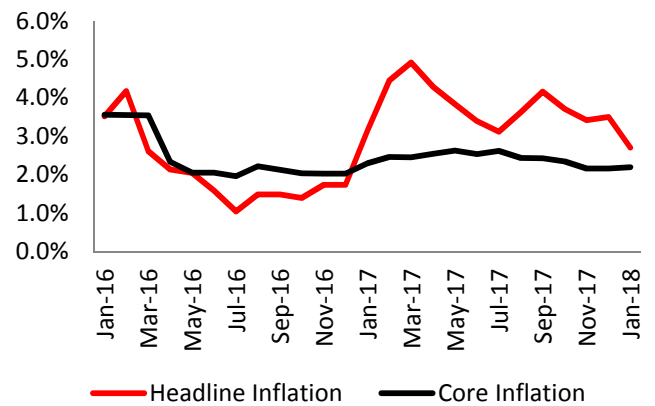
**Inflation forecast stays at 2.6% for 2018.** Amid of unfavourable base effects, we foresee headline inflation rate to average at 2.6% this year. We anticipate inflationary pressure particularly from transportation due to higher fuel prices will taper off, in tandem with steady gradual rise in global commodity prices. As inflation moderate, we anticipate that there will be no hike for OPR in upcoming MPC meeting scheduled on 7<sup>th</sup> March 2018 in order to maintain a stable economic growth. 

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



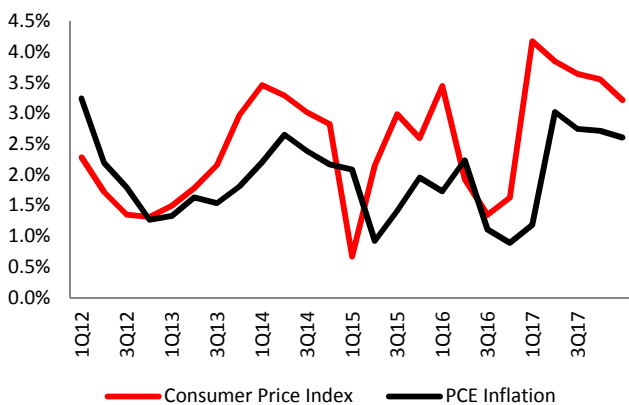
Source: DOSM, MIDFR

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



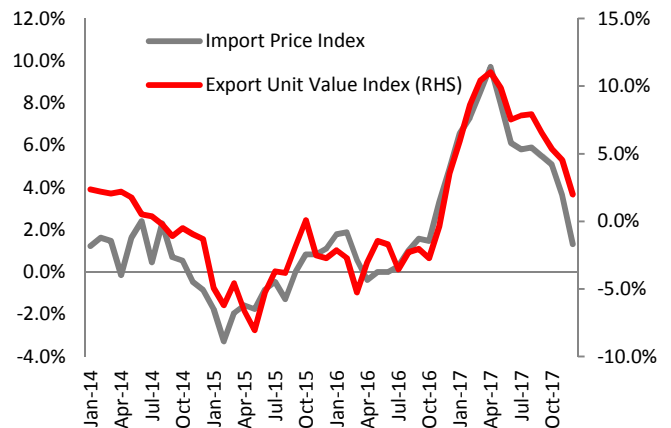
Source: DOSM, MIDFR

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



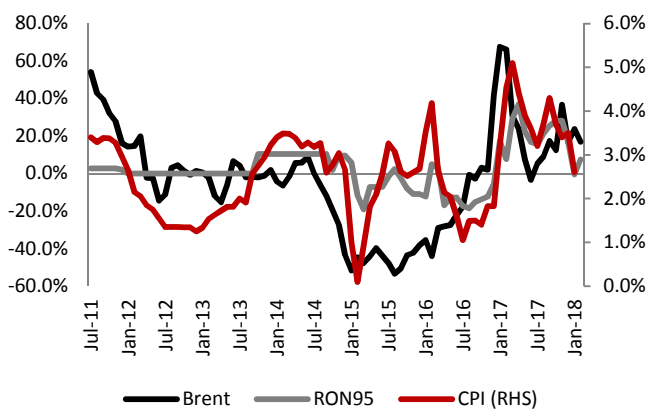
Source: DOSM, MIDFR

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



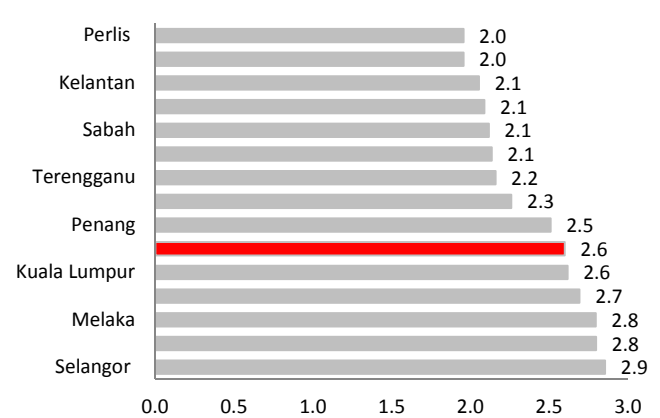
Source: DOSM, MIDFR

**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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