

**ECONOMIC REVIEW | July 2018 Consumer Price Index****July Inflation Stays Below 1% as the Effect of Zero-Rated GST Kicks In**

- *Inflation matched market expectations. Headline inflation rate up 0.9%yoy in Jul-18, as widely projected by most analysts. The inflation rate remains below 1% as it is the second month during the tax holiday period. Inflation of food & non-alcoholic beverages further slowdown to 0.7%yoy, lowest ever recorded.*
- *Food inflation continued to dip. Food inflation in Malaysia dropped significantly in Jul-18 underpinned by deceleration in price growths of food at home and food away from home. For instance, prices of fresh meat, oils & fats and fresh vegetables declined by -1.1%yoy, -0.3%yoy and -1.2%yoy respectively. Price for food away from home grew by 2%yoy, the weakest gain ever registered.*
- *Inflation forecast revised to 1.3% for 2018. Amid higher base effects, we foresee headline inflation rate to average at 1.3% this year compared to 3.8% in 2017. This is supported by lower inflation rate for the first six months which registered at 1.6% compared to 4% in the same period last year.*

**Inflation matched market expectations.** Headline inflation rate up 0.9%yoy in Jul-18, as widely projected by most analysts. The inflation rate remains below 1% as it is the second month during the tax holiday period. Inflation of food & non-alcoholic beverages further slowdown to 0.7%yoy, lowest ever recorded. Among others, the marginal rise in overall prices is mainly due to slight pick-up in transport inflation, 6.7%yoy. On the other hand, for the first time core inflation went down to deflationary level of -0.2%yoy. Malaysia's inflation is expected to continue to taper down in upcoming months due to high base effects besides other significant events such as zero-rated GST, tax holiday period until SST implementation in Sep-18 and stable retail fuel price which will reduce business cost.

**Food inflation continued to dip.** Food inflation in Malaysia dropped significantly in Jul-18 underpinned by deceleration in price growths of food at home and food away from home. For instance, prices of fresh meat, oils & fats and fresh vegetables declined by -1.1%yoy, -0.3%yoy and -1.2%yoy respectively. Price for food away from home grew by 2%yoy, the weakest gain ever registered.

**Fuel-related inflation on the uptrend.** The average price of Brent crude oil rose by 52.8%yoy to \$75 per barrel in Jul-18. This figure has been trending upward since Feb-18 driven by strong global demand and supply-side tensions due to OPEC production curbs on top of chaos in Venezuela, Libya, Angola and Nigeria. Similarly, retail fuel price posted double digit growth of 11.4%yoy during the month, highest gain so far this year. Nevertheless, retail fuel inflation is expected to moderate amid of subsidized RON95 and Diesel. Steady rise in transport inflation is supported by fuels & lubricants which up strongly by 12.2%yoy. At this juncture, we expect 2018's fuel-related inflation to moderate amid high base effects and capping of domestic fuel price.

**Table 1: Consumer Price Indices**

Indices	MoM%			YoY%		
	May-18	Jun-18	Jul-18	May-18	Jun-18	Jul-18
CPI	0.2	(1.2)	0.2	1.8	0.8	0.9
Non Food	0.2	(1.4)	0.2	1.7	0.9	1.1
Food and Non Alcoholic Beverages	0.2	(1.0)	0.2	2.2	0.8	0.7
Alcoholic Beverages and Tobacco	0.0	(0.8)	(0.2)	0.1	(0.7)	(0.8)
Clothing and Footwear	(0.1)	(2.6)	(0.1)	(0.7)	(3.1)	(3.0)
Housing, Water, Electricity, Gas & Other Fuels	0.6	(0.5)	0.4	2.1	1.5	2.0
Furnishings, Household Equipment and Maintenance	0.0	(2.4)	0.0	1.5	(1.0)	(1.7)
Health	0.0	(1.4)	0.0	1.9	0.3	0.0
Transport	0.1	(0.8)	0.0	3.8	5.5	6.7
Communication	(0.2)	(3.0)	0.0	(0.9)	(3.9)	(3.9)
Recreation and Culture	(0.1)	(2.9)	0.2	0.5	(2.5)	(2.4)
Education	0.1	(0.2)	0.1	1.2	0.9	1.0
Restaurants and Hotels	0.1	(0.8)	0.0	2.1	1.3	1.0
Miscellaneous Goods and Services	0.1	(3.1)	(0.1)	0.4	(2.6)	(3.0)
Durable Goods	(0.2)	(3.8)	(0.1)	(0.8)	(4.6)	(4.8)
Semi Durable Goods	(0.1)	(2.7)	(0.2)	(0.7)	(3.2)	(3.3)
Non-Durable Goods	0.1	(1.1)	0.4	1.9	1.3	1.9
Services	0.3	(1.0)	0.0	2.2	1.2	1.1
Core CPI	0.2	0.1	0.0	1.5	0.1	(0.2)

Source: CEIC, MIDFR

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

Sub-Indices	MoM%			YoY%		
	May-18	Jun-18	Jul-18	May-18	Jun-18	Jul-18
Rice	(0.1)	(0.1)	0.2	0.5	0.5	0.4
Fresh Meat	1.0	(1.3)	2.8	1.6	(1.7)	(1.1)
Fresh Seafood	0.6	1.3	(0.3)	5.9	3.4	3.7
Oils & Fats	(0.1)	0.0	(0.1)	(0.2)	(0.3)	(0.3)
Fresh Fruits	(0.1)	(0.4)	(0.4)	1.5	1.1	0.2
Fresh Vegetables	0.0	0.5	(0.5)	(3.7)	(3.1)	(1.2)
Food Away From Home	0.3	(1.4)	0.1	3.7	2.2	2.0
Cigarettes	0.0	0.0	0.0	0.0	0.0	0.0
Electricity	0.0	(3.8)	3.5	0.0	(3.8)	(0.4)
Pharmaceutical Products	(0.1)	(1.9)	(0.1)	1.9	(0.3)	(0.8)
Fuels & Lubricants for Transportation	0.0	0.3	(0.1)	5.3	10.2	12.2
Transportation Repair & Maintenance	0.6	(1.7)	0.1	3.7	1.7	1.6
Other Transportation Charges (Including Toll)	0.0	(1.5)	0.0	5.3	3.7	3.7
Expenses In Restaurants & Cafes	0.3	(0.2)	0.0	2.7	2.4	2.1
Insurance For Motor Vehicles	0.0	(3.2)	0.0	0.2	(3.1)	(3.1)

Source: CEIC, MIDFR

**Inflation across states remains low.** Inflation in Peninsular Malaysia returns to 1%yoy while Sabah and Sarawak stay below 1% level at 0.6%yoy and 0.5%yoy respectively. The slight pick-up is purely due to increase in transport inflation in all states. Sarawak recorded the highest transport inflation at 7.9%, beating national average of 6.7%yoy.

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

	MoM%			YoY%		
	May-18	Jun-18	Jul-18	May-18	Jun-18	Jul-18
<b>Peninsular Malaysia;</b>	0.2	(1.3)	0.2	1.9	0.8	1.0
Food	0.3	(1.0)	0.2	2.2	0.8	0.8
Food at Home	0.2	(0.7)	0.5	1.3	(0.2)	0.1
Food Away From Home	0.2	(1.3)	0.1	3.7	2.1	2.0
Utilities	0.6	(0.5)	0.4	2.2	1.7	2.1
Transport	0.1	(0.8)	0.0	3.8	5.5	6.6
<b>Sabah;</b>	(0.1)	(1.0)	0.2	1.3	0.6	0.6
Food	(0.5)	(0.7)	(0.1)	2.2	1.2	0.4
Food at Home	(0.8)	(0.4)	(0.2)	1.0	0.3	(0.5)
Food Away From Home	0.2	(1.5)	0.1	5.4	3.6	3.4
Utilities	0.2	(0.5)	0.6	0.9	0.5	1.1
Transport	0.0	(0.3)	(0.1)	3.3	5.5	6.2
<b>Sarawak;</b>	0.1	(1.3)	0.1	1.5	0.4	0.5
Food	0.0	(1.0)	0.2	2.3	1.0	1.0
Food at Home	(0.2)	(0.7)	0.2	1.9	0.8	0.8
Food Away From Home	0.2	(1.7)	0.3	3.5	1.6	1.6
Utilities	0.3	(0.5)	0.0	1.1	0.5	0.5
Transport	0.0	(0.3)	0.2	3.9	6.5	7.9


Source: DOSM, MIDFR

**Headline inflation rose to 6-year high.** The US headline inflation up by 2.9%yoy in Jul-18, highest since Feb-12. The rise in inflation is mainly due to rising global commodity prices and strong domestic demand. Transport price increases by 7%yoy, fastest since Dec-11. On top of that, core inflation reaches 2.4%yoy, highest in 10-year. Based on the Fed's preferred inflation indicator, core PCE inflation touches the Fed's 2% target since May-18. The steady uptrend in the inflation data would provide strong cue for the Fed to raise its monetary wall in the upcoming meetings. Across the globe, apart from commodity prices, escalating trade war is adding pressure on input prices to rise globally. For instance, inflation rate in EU hits 6-year high and Philippines at 9-year high while Japan and China facing similar uptrend pressure in overall prices. Moving forward, we foresee global inflation to pick up steadily in 2H18 amid of heighten trade war, rising commodity prices and normalising monetary policy in major economies. Nevertheless, inflation in Malaysia is expected to stay low due to tax holiday period and subsidized retail fuel prices.

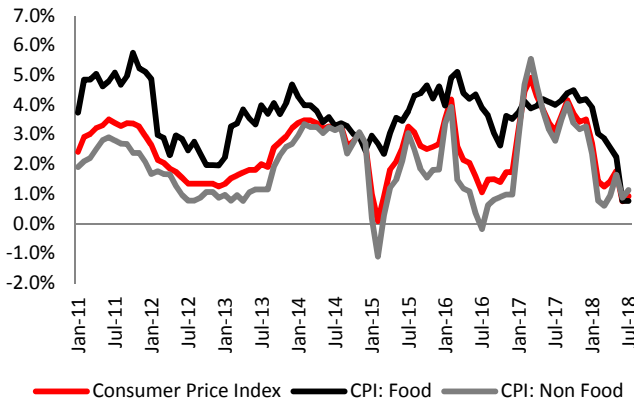
**Table 4: Global Headline Inflation (YoY%)**

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Malaysia	2.7	1.4	1.3	1.4	1.8	0.8	
Indonesia	3.3	3.2	3.4	3.4	3.2	3.1	3.2
Philippines	3.4	3.8	4.3	4.5	4.6	5.2	5.7
Thailand	0.7	0.4	0.8	1.1	1.5	1.4	1.5
Singapore	0.3	0.2	0.2	0.1	0.4	0.6	0.6
China	1.5	2.9	2.1	1.8	1.8	1.9	2.1
Japan	1.3	1.5	1.1	0.7	0.6	0.7	0.9
EU	1.6	1.4	1.5	1.5	2.0	2.1	2.2
United States	2.1	2.3	2.4	2.4	2.7	2.8	2.9

Source: CEIC, MIDFR

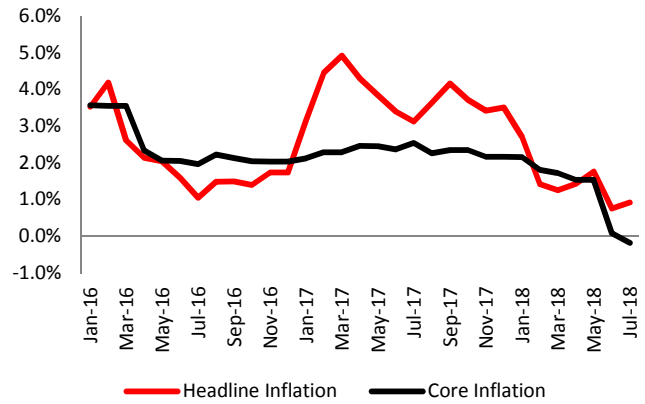
**Inflation forecast revised to 1.3% for 2018.** Amid higher base effects, we foresee headline inflation rate to average at 1.3% this year compared to 3.8% in 2017. This is supported by lower inflation rate for the first six months which registered at 1.6% compared to 4% in the same period last year. We expect inflationary pressure mainly from fuel-related items to calm, consistent with gradual rise in global commodity prices on top of pass-through effect from a strengthening ringgit (USD/MYR average: 4.32 in 2017; 4.00f in 2018), subsidy of domestic fuel price and withdrawal of GST. As inflationary pressure remains benign, we anticipate Bank Negara to maintain its current monetary stance for the rest of 2018 barring any pleasant surprises in domestic economic growth. 

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



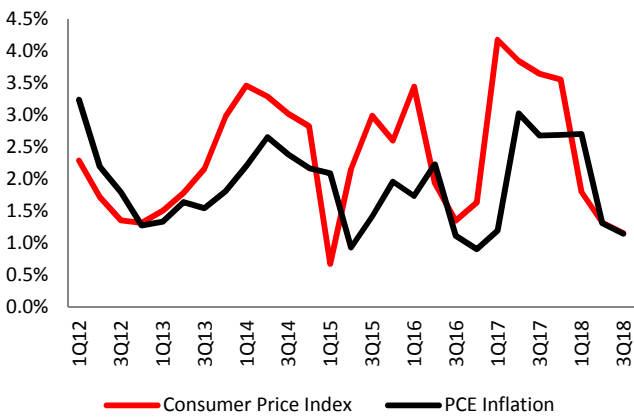
Source: CEIC, MIDFR

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



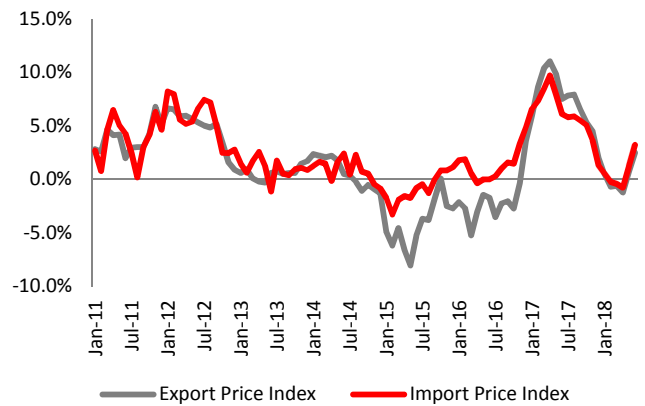
Source: CEIC, MIDFR

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



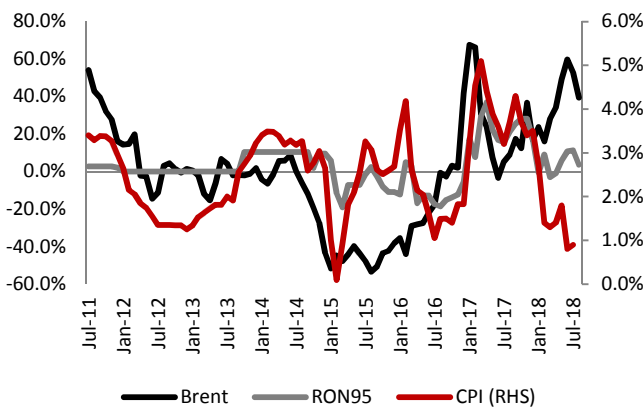
Source: CEIC, MIDFR

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



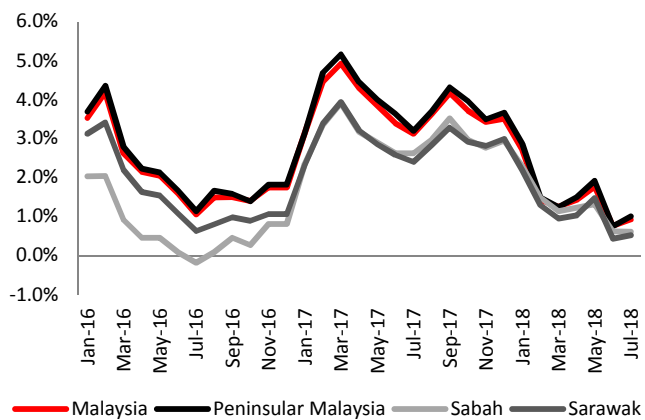
Source: CEIC, MIDFR

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



Source: Bloomberg, MIDFR

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



Source: DOSM, MIDFR

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