

ECONOMIC REVIEW | June 2018 Consumer Price Index

Inflation Hit 40-month Low as the Impact of Zero-Rated GST Kicks-in

- Inflation tumbled to 40-month low. Headline inflation rate slowed to 0.8%yoy in Jun-18, the lowest since Mar-15 mainly attributed to the three months tax holiday period which kicked off in June.
- 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 tumbled to 40-month low. Headline inflation rate slowed to 0.8%yoy in Jun-18, the lowest since Mar-15 mainly attributed to the three months tax holiday period which kicked off in June. Inflation of food & non-alcoholic beverages slowed significantly to 0.8%yoy from 2.2%yoy recorded in the preceding month. Meanwhile, prices went down sharply for clothing & footwear, communication and recreation services & culture, among others. In contrast, inflation accelerated at a faster pace for transport at 5.5%yoy, second highest so far this year. On monthly basis, inflation contracted by 1.2% in Jun-18. Meanwhile, core inflation is recorded at 0.1%yoy, far lower than 1.5%yoy in a month earlier. Moving forward, Malaysia's inflation is expected to continue to taper down in upcoming months due to higher 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.

Table 1: Consumer Price Indices

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

Core CPI	0.1	0.0	0.0	1.7	1.5	0.1
----------	-----	-----	-----	-----	-----	-----

Source: CEIC, MIDFR

Food inflation continued to dip. Food inflation in Malaysia dropped significantly in Jun-18 particularly buoyed by Price Control Scheme implemented in conjunction with Hari Raya Aidilfitri on top of zero-rated GST. Prices for fresh food products such as meat declined sharply by 1.7%yoy in Jun-18 (May-18: 1.6%yoy) while seafood continued expanding however at a moderate pace of 3.4%yoy (May-18: 5.9%yoy). Similarly, fruits inflation slowed to 1.1%yoy from 1.5% in the previous month.

Recovery in fuel-related prices. The average price of Brent crude oil rose by 49.2%yoy to \$76.3 per barrel in Jun-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 10.8 %yoy during the month, following a 5.8%yoy gain in the preceding month. In tandem, inflation for transport soared by 5.5%yoy while price of fuels & lubricants doubled from 5.3%yoy in May-18 to 10.2%yoy in Jun-18. Moreover, average Brent oil price for the second week of Jul-18 is registered at \$76.2 while RON95 remained at RM2.20 following government's decision to eradicate retail fuel price fluctuation. At this juncture, we expect 2018's fuel-related inflation to moderate amid higher base effects, re-subsidization of domestic fuel price and high likelihood of a downward adjustment of global commodity prices in 2H18 from the current temporary factors which pushed the prices up.

Table 2: Changes in Selected Price Sub-Indices

Sub-Indices	MoM%			YoY%		
	Apr-18	May-18	Jun-18	Apr-18	May-18	Jun-18
Rice	0.3	(0.1)	(0.1)	0.6	0.5	0.5
Fresh Meat	(0.9)	1.0	(1.3)	1.7	1.6	(1.7)
Fresh Seafood	(0.8)	0.6	1.3	6.1	5.9	3.4
Oils & Fats	(0.1)	(0.1)	0.0	(0.2)	(0.2)	(0.3)
Fresh Fruits	(0.3)	(0.1)	(0.4)	1.1	1.5	1.1
Fresh Vegetables	(2.6)	0.0	0.5	(0.8)	(3.7)	(3.1)
Food Away From Home	0.4	0.3	(1.4)	3.7	3.7	2.2
Cigarettes	0.0	0.0	0.0	0.0	0.0	0.0
Electricity	0.0	0.0	(3.8)	0.0	0.0	(3.8)
Pharmaceutical Products	0.3	(0.1)	(1.9)	2.1	1.9	(0.3)
Fuels & Lubricants for Transportation	0.0	0.0	0.3	(0.3)	5.3	10.2
Transportation Repair & Maintenance	0.1	0.6	(1.7)	3.6	3.7	1.7
Other Transportation Charges (Including Toll)	0.0	0.0	(1.5)	5.3	5.3	3.7
Expenses In Restaurants & Cafes	0.3	0.3	(0.2)	2.5	2.7	2.4
Insurance For Motor Vehicles	0.0	0.0	(3.2)	0.2	0.2	(3.1)

Source: CEIC, MIDFR

Inflation fell across states. Inflation rate across all the states decreased in Jun-18. Negeri Sembilan, Kuala Lumpur and Selangor still posted rates above national's level during the month at 1.1%yoy, 0.9%yoy and 0.9%yoy respectively. The lowest inflation rate is seen in Melaka and Penang, both at 0.2%yoy. Looking ahead, we foresee inflation rate across all states will moderate in 2018 amid higher base effects and tax-holiday period.

Table 3: States Headline Inflation (YoY%)

	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
Johor	4.2	3.8	3.8	2.8	1.5	1.1	1.3	2.0	0.7
Kedah	3.8	3.5	3.2	2.0	0.8	0.5	0.8	1.2	0.3
Kelantan	3.6	3.1	3.2	2.1	1.1	0.8	1.1	1.5	0.6
Kuala Lumpur	3.5	2.7	2.9	2.6	1.4	1.4	1.9	2.2	0.9
Melaka	4.2	3.8	3.9	2.8	1.8	1.5	1.4	1.7	0.2
Negeri Sembilan	4.0	3.6	3.7	2.7	1.3	1.1	1.3	1.8	1.1
Pahang	3.1	2.5	2.8	2.1	0.8	0.7	0.8	1.3	0.5
Penang	4.0	3.3	3.4	2.5	1.4	1.3	1.5	1.4	0.2
Perak	3.3	2.8	3.1	2.3	1.1	0.9	1.1	1.6	0.5
Perlis	3.8	3.5	3.2	2.0	0.8	0.5	0.8	1.2	0.3
Sabah	3.0	2.6	2.8	2.1	1.5	1.1	1.2	1.3	0.6
Sarawak	2.9	2.7	2.8	2.1	1.3	0.9	1.0	1.5	0.4
Selangor	3.9	3.7	3.6	2.9	1.7	1.6	1.6	2.1	0.9
Terengganu	3.1	2.9	3.1	2.2	1.0	0.8	1.0	1.4	0.4

Source: DOSM, MIDFR

An uptick in global inflation. Prices continued to increase in Jun-18 for developing countries such as Indonesia, Philippines and Thailand. For instance, Philippines inflation rate accelerated to 5-year high at 5.2%, way above market expectations of 4.8% as food inflation hit 4-year high while cost rose faster for housing and transport. The figure remains outside government's 2-4% comfort range, making way for a third rate hike this year. Similarly, inflation rate also continued to rise for the US where the rate edged up to 2.9% in Jun-18, the highest since 2012 mainly due to rising prices for oil and gasoline. Rising inflation on top of tightening labor market and import tariffs could pressure prices and eventually provide more justifications for Fed to continuously raise interest rates this year. The Fed increased interest rates in Jun-18 for a second time this year and signals more rate hikes by the end of 2018. Looking forward, we foresee inflation level will gradually increase buoyed by global GDP growth, steady rise in commodities prices and tight labour market conditions.

Table 4: Global Headline Inflation (YoY%)

	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
Malaysia	3.4	3.5	2.7	1.4	1.3	1.4	1.8	0.8
Indonesia	3.3	3.6	3.3	3.2	3.4	3.4	3.2	3.1
Philippines	3.0	2.9	3.4	3.8	4.3	4.5	4.6	5.2
Thailand	1.0	0.8	0.7	0.4	0.8	1.1	1.5	1.4
Singapore	0.6	0.4	0.0	0.5	0.2	0.1	0.4	
China	1.7	1.8	1.5	2.9	2.0	2.1	1.5	
Japan	0.6	1.0	1.4	1.5	1.1	0.7	0.6	
EU	1.8	1.7	1.6	1.4	1.5	1.5	2.0	
United States	2.2	2.1	2.1	2.2	2.4	2.5	2.8	2.9

Source: CEIC, MIDFR


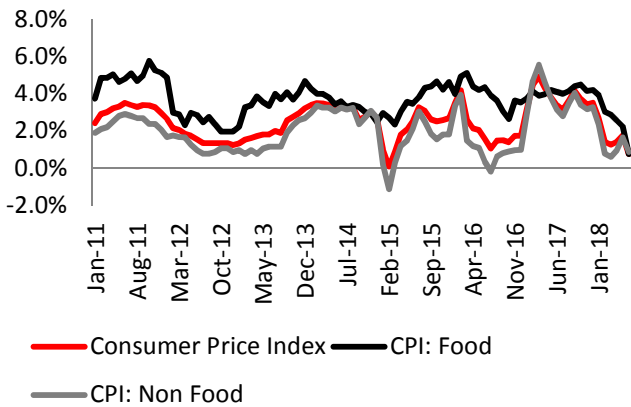
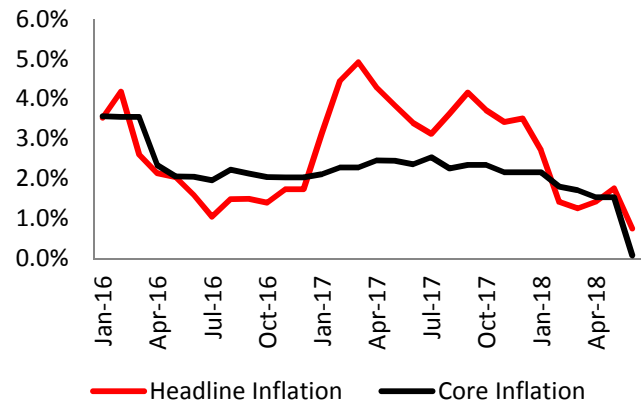
Inflation forecast revised to 1.3% for 2018. Amid higher base effects, we foresee headline inflation rate to average at 1.3% this year compared to 3.8% in 2017. This is supported by lower inflation rate for the first six months which registered at 1.6% compared to 4% in the same period last year. We 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), re-subsidization of domestic fuel price and withdrawal of GST. As inflationary pressure remains benign, we anticipate Bank Negara to maintain its current monetary policy with no more hikes 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%)



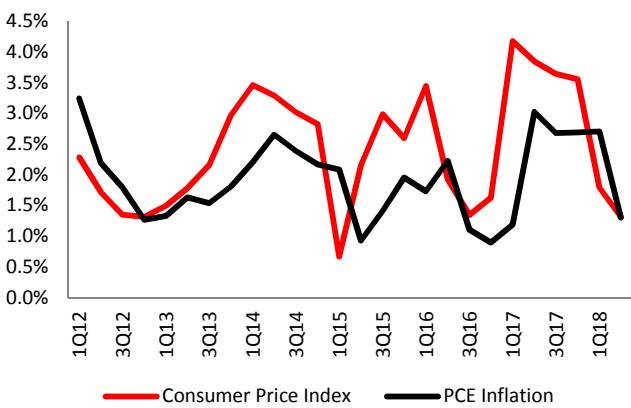
Source: CEIC, MIDFR

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



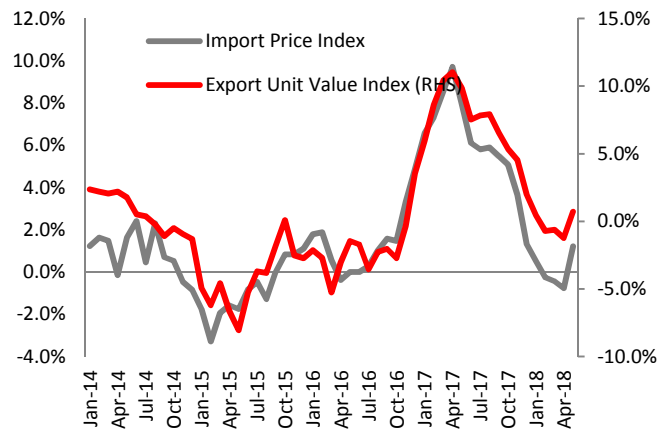
Source: CEIC, MIDFR

Chart 3: CPI vs PCE Inflation (YoY%)



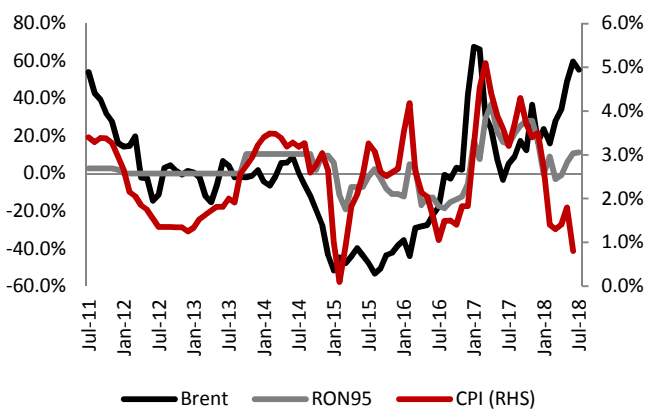
Source: CEIC, MIDFR

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



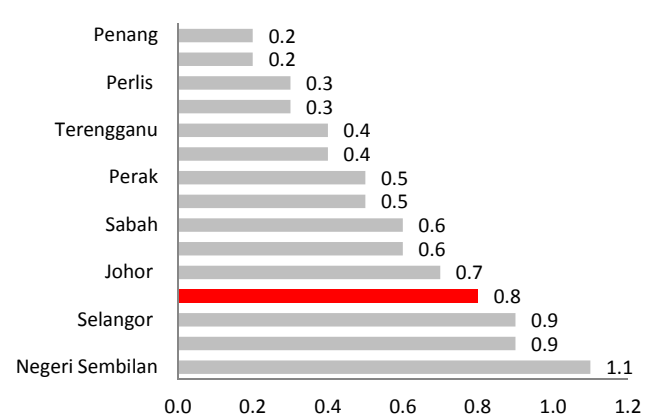
Source: CEIC, MIDFR

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



Source: Bloomberg, MIDFR

Chart 6: Inflation by States in Mar-18 (YoY%)



Source: DOSM, MIDFR

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.