

## ECONOMIC REVIEW | March 2015 Consumer Price Index

### Headline Inflation Dragged Down by Pump Price, Again

- *March headline inflation came at 2.6%, slightly lower than our forecast of 2.7% albeit much lower than the consensus at 3.4%. It was a huge drop from the previous month's figure at 4.2% due to the year-on-year difference in the pump price*
- *Food and non-alcoholic beverages continued with its upward momentum, increasing by 5.0%yoy. The El Nino impact has caused a supply disruption for vegetables and fishery products, with fresh seafood 11.5% and fresh vegetables 12.3%.*
- *We maintain CPI forecast at 2.6% for the whole of 2016, though we admit that there exist an upward pressure due to the prolonged heatwave and the possibility of a faster rebound in oil price. At the same time, we forecast inflation figure to come at 2.1% in April as the one-off impact of GST diminished. We are expecting price of RON95 to come in at the range of RM1.80-1.85 / litre in May 2016.*

**Headline inflation came in at much lower than consensus though in line with our forecast.** Inflation in March came in at 2.6%, slightly lower than our estimate at 2.7%. However, the number is much lower than the consensus at 3.4%. We have expected the lower number particularly due to the difference in pump price, where RON95 reached an all-time low at RM1.60/litre, compared to the same period last year at RM1.95/litre. Core inflation moderated a little from 3.56% in February to 3.55% in March. Inflation ex-fuel, where we excluded the pump price from CPI basket, rose higher to 4.55% in March, higher than February's number at 4.36%.

**Table 1: Consumer Price Indices**

Indices	%MoM				%YoY			
	Dec-15	Jan-16	Feb-16	Mar-16	Dec-15	Jan-16	Feb-16	Mar-16
CPI	0.00%	-0.26%	0.00%	-0.61%	2.68%	3.53%	4.19%	2.61%
Core CPI	0.09%	0.09%	0.35%	0.00%	3.80%	3.57%	3.56%	0.00%
Non Food	-0.36%	-0.63%	-0.27%	-0.90%	1.82%	3.35%	3.94%	1.48%
Food and Non Alcoholic Beverages	0.75%	0.58%	0.65%	-0.08%	4.56%	3.91%	4.77%	5.04%
Alcoholic Beverages and Tobacco	1.73%	-0.06%	0.00%	0.06%	22.75%	22.59%	22.59%	22.66%
Clothing and Footwear	-0.10%	0.20%	-0.30%	-0.10%	0.82%	0.41%	0.51%	0.00%
Housing, Water, Electricity, Gas & Other Fuels	0.00%	0.18%	0.44%	0.09%	2.45%	3.10%	2.62%	3.09%
Furnishings, Household Equipment and Maintenance	0.09%	0.27%	0.36%	0.09%	4.23%	4.12%	4.69%	4.69%
Health	0.26%	0.26%	0.34%	0.00%	4.58%	4.57%	4.55%	4.18%
Transport	-2.26%	-2.87%	-3.15%	-4.33%	-6.17%	0.58%	3.57%	-8.22%
Communication	-0.10%	-2.39%	0.00%	0.00%	3.29%	0.93%	0.93%	0.93%
Recreation and Culture	0.00%	0.09%	0.46%	0.00%	2.57%	2.28%	2.37%	2.56%
Education	0.27%	0.71%	0.44%	0.17%	2.63%	2.61%	2.51%	2.59%
Restaurants and Hotels	0.24%	0.08%	0.40%	0.16%	4.74%	4.47%	4.71%	4.53%
Miscellaneous Goods and Services	-0.18%	0.45%	0.27%	0.18%	5.39%	5.46%	5.25%	5.14%
Durable Goods	-0.10%	0.31%	0.41%	0.40%	2.51%	2.60%	2.70%	3.22%
Semi Durable Goods	0.00%	0.20%	-0.20%	-0.20%	1.01%	0.70%	0.81%	0.30%
Non Durable Goods	-0.26%	-0.60%	-0.69%	-1.56%	1.21%	3.38%	5.00%	1.25%
Services	0.17%	0.00%	0.43%	0.00%	4.11%	4.02%	3.82%	3.73%

Source: Department of Statistics, Malaysia; MIDF Research

**Food and non-alcoholic beverages inflation index continues to climb higher, passing the 5% mark.** Despite slowing down on a monthly basis by 0.08%mom, inflation of FNAB index rose to 5.04% in March from 4.77% prior. Currently the El Nino impact is not only affecting plants and vegetables, but has also started to affect fishery activities. Certain type of seafood has not been seen in some market for 3 months, leading to a higher price for the fish and seafood category. The said index continued to climb higher, reaching 9.3%yoy in March, as compared to 7.5%yoy in February. It was the highest inflation for fish and seafood category for 50 months.

**El Nino is affecting the vegetable and fishery price.** The recent El Nino, which some expert has confirmed that this year will be the hottest year for Malaysia, has led to a distress in the supply chain of vegetable and fishery, leading to a shortage in supply hence pushing up the prices. Inflation for fresh fish reached 8.9%, fresh seafood 11.5% and fresh vegetables 12.3%. Ministry of Science, Technology and Innovation has mentioned that the heatwave is likely to last until June. Without any improvement in the heatwave, it is likely that we are going to see a continuous upward trend in the vegetable and fishery prices.

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

Sub-Indices	%MoM				%YoY			
	Dec-15	Jan-16	Feb-16	Mar-16	Dec-15	Jan-16	Feb-16	Mar-16
Housing Rental	0.00%	0.00%	0.61%	0.00%	3.43%	3.43%	2.85%	2.85%
Food Away From Home	0.24%	0.57%	0.40%	0.16%	4.41%	4.74%	4.81%	4.80%
Fuels & Lubricants for Transportation	-4.13%	-5.43%	-5.64%	-8.08%	-12.17%	-2.13%	2.92%	-17.20%
Telephone & Telefax Services	0.00%	-2.71%	0.00%	0.00%	3.61%	0.80%	0.80%	0.80%
Electricity	0.00%	1.33%	0.00%	0.00%	-3.32%	0.00%	0.00%	3.51%
Personal Care & Effects Products	0.09%	0.63%	0.36%	-0.09%	4.82%	4.98%	5.26%	4.77%
Fresh Fish	1.15%	1.90%	2.32%	-1.31%	5.12%	5.18%	7.20%	8.86%
Cigarettes	1.94%	0.00%	0.00%	0.00%	25.95%	25.95%	25.95%	25.95%
Expenses In Restaurants & Cafes	0.24%	0.16%	0.48%	0.16%	5.03%	4.93%	5.17%	4.90%
Garments	-0.10%	0.00%	-0.10%	-0.10%	0.71%	0.10%	0.40%	-0.10%
Cultural Services	-0.09%	0.09%	0.77%	0.00%	1.31%	1.31%	2.09%	1.91%
Fresh Meat	3.68%	4.14%	-0.89%	-1.39%	3.14%	6.85%	5.34%	1.43%
Fresh Vegetables	3.63%	-4.51%	3.01%	-0.40%	12.51%	-1.37%	10.10%	12.30%
Transportation Repair & Maintenance	0.54%	0.85%	0.61%	0.61%	7.98%	8.44%	8.93%	9.50%
Bread & Bakery Products	0.09%	0.26%	0.18%	0.09%	2.81%	2.90%	2.89%	2.98%
Purchase of Motorcars	0.31%	0.62%	0.62%	0.51%	-0.83%	-0.21%	0.41%	0.93%
Rice	0.39%	0.10%	0.00%	0.10%	0.49%	0.39%	0.49%	0.39%
Fresh Seafood	-1.71%	3.82%	1.87%	0.13%	7.31%	7.87%	8.79%	11.49%
Other Transportation Services (Including Toll)	0.00%	0.00%	0.00%	0.00%	8.78%	8.78%	7.82%	7.82%
Insurance for Motor Vehicles	-0.09%	0.09%	0.00%	0.00%	6.89%	6.99%	6.79%	6.29%

Source: Department of Statistics, Malaysia; MIDF Research

**Inflationary pressure continues in an uptrend among Asean economies.** Most of the Southeast Asian economies are having an upward trend in its inflationary pressure, with the exception of Malaysia due to volatility in the pump price. We believe most of the increases are similar to Malaysia – due to El Nino effect – which is affecting prices of food indices. Core inflation in US moderated to 2.2% in March, after increasing by 2.3% prior while Euro core inflation rate rose higher to 1.0% in March from 0.8%. Japan’s core inflation was flat in the same month, while UK core inflation experienced a spike to 1.5% from 1.2% in the previous month.

**Table 3: Global Headline Inflation**

	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
Malaysia	3.08%	2.62%	2.52%	2.59%	2.68%	3.53%	4.19%	2.61%
Indonesia	7.18%	6.83%	6.25%	4.89%	3.35%	4.14%	4.42%	4.45%
Philippines	0.64%	0.35%	0.43%	1.07%	1.49%	1.35%	0.92%	1.13%
Thailand	-1.19%	-1.07%	-0.77%	-0.97%	-0.85%	-0.53%	-0.50%	-0.46%
Singapore	-0.83%	-0.64%	-0.77%	-0.76%	-0.64%	-0.64%	-0.58%	0.00%
United States	0.23%	-0.01%	0.13%	0.44%	0.67%	1.34%	0.97%	0.87%
China	2.00%	1.60%	1.30%	1.50%	1.60%	1.80%	2.30%	2.30%
EU	0.04%	-0.14%	0.01%	0.08%	0.17%	0.27%	-0.16%	-0.04%
Japan	0.20%	0.00%	0.30%	0.30%	0.20%	0.00%	0.30%	0.00%

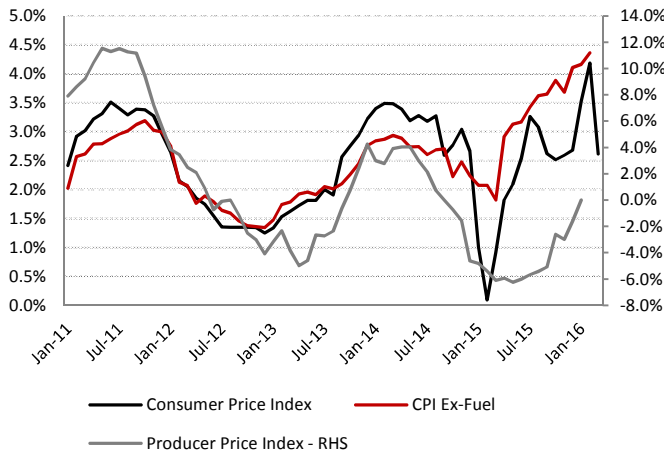
Source: Department of Statistics, Malaysia; MIDF Research

**We are maintaining with our forecast that the OPR will be cut by 25 bps.** The increase in inflation rate for most countries is likely to push Fed to continue with its monetary policy normalisation plan, with the first hike for this year to be conducted in June 2016 by 25 basis points. However, due to the sluggish global demand and lower disposable income domestically, we maintain our expectation for OPR to be cut by 25 bps in the second half of 2016.

**We are maintaining our inflation rate FY16 forecast at 2.6%.** For now we are maintaining our inflation rate forecast at 2.6%, although we admit there is an upward pressure particularly due to the heatwave and potentially higher than expected rebound in the oil price. At the same time, we are expecting inflation rate for April 2016 to be at 2.1%. The much lower figure despite the increase of pump price in April was due to the diminishing impact of GST implementation, which was introduced in April last year. We are expecting that all types of inflation figures, from headline, core to our own inflation ex-fuel will experience a sudden drop in April. As a side note, we are expecting the price of RON95 will be between RM1.80-1.85 for May 2015.

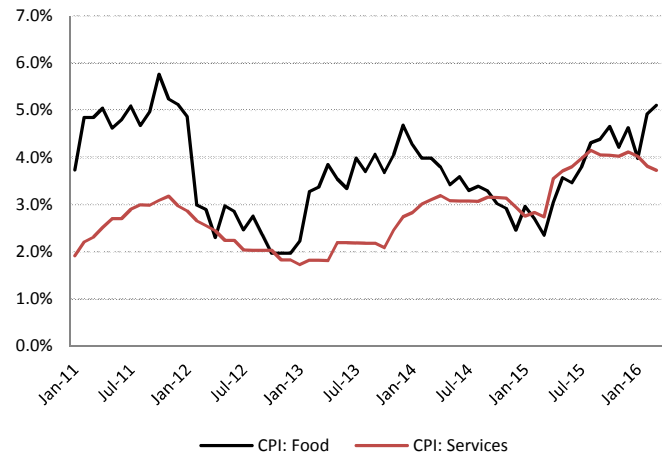


**Chart 1: CPI vs PPI**



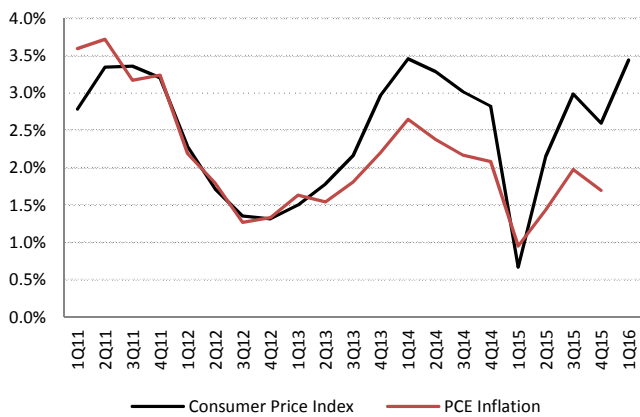
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 2: Food Price Index vs Services Price Index**



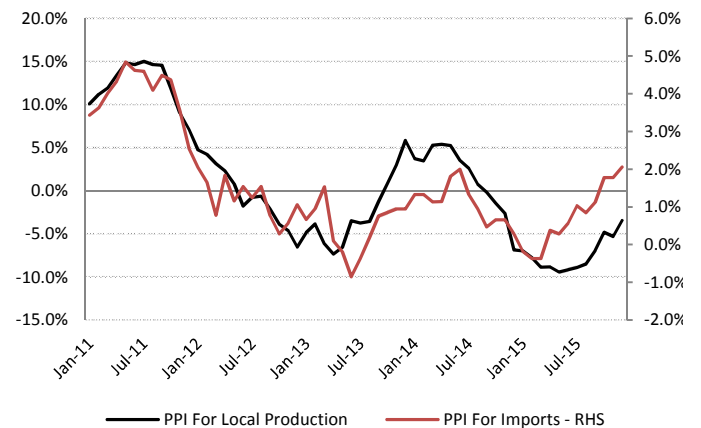
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 3: CPI vs PCE Inflation**



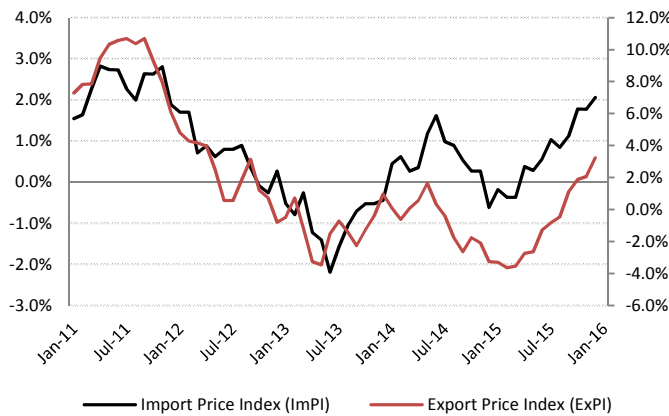
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 4: PPI Local vs PPI Imports**



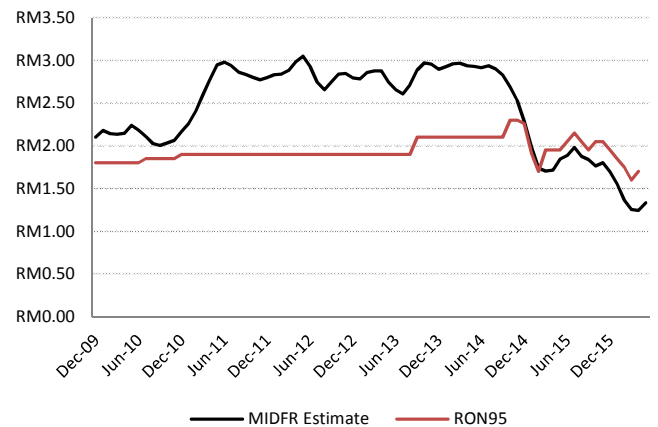
Source: Department of Statistics, Malaysia; MIDF Research

**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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