

ECONOMIC REVIEW | March 2018 Consumer Price Index

Transport Prices Pulled Mar's Inflation to 20-Month Low at 1.3%

- Inflation fell to 20-month low. Headline inflation rate rose by 1.3%yoy in Mar-18, lowest in 20 months as transport inflation continue to decline from -0.3%yoy in Feb-18 to -1.5%yoy last month.
- Food inflation continues to dip. Food prices in Malaysia continue to fall from 3%yoy in Feb-18 to 2.9%yoy last month.
- 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. This is supported by inflation rate for 1Q18 which registered at 1.8% compared to 4.2% in the same period last year.

Inflation fell to 20-month low. Headline inflation rate rose by 1.3%yoy in Mar-18, lowest in 20 months as transport inflation continue to decline from -0.3%yoy in Feb-18 to -1.5%yoy last month. In addition, inflation eased for food & non-alcoholic beverages while maintained for a number of major groups such as education and housing, water, electricity, gas & other fuels, among others. On a monthly basis, inflation decreased by -0.3% in Mar-18. Meanwhile, core inflation still on its record-low as it went down further to 1.7%yoy in the same month from 1.8%yoy registered in Feb-18.

Table 1: Consumer Price Indices

Indices	MoM%			YoY%		
	Jan-18	Feb-18	Mar-18	Jan-18	Feb-18	Mar-18
CPI	0.3	0.0	(0.3)	2.7	1.4	1.3
Non Food	0.3	(0.1)	(0.3)	2.4	0.8	0.6
Food and Non Alcoholic Beverages	0.6	0.2	(0.5)	3.8	3.0	2.8
Alcoholic Beverages and Tobacco	0.0	(0.1)	0.1	0.2	0.1	0.1
Clothing and Footwear	0.2	(0.2)	(0.1)	(0.3)	(0.7)	(0.7)
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.5	0.0	2.2	2.0	2.0
Furnishings, Household Equipment and Maintenance	0.5	(0.1)	0.1	2.6	2.1	2.1
Health	0.3	0.1	0.1	2.3	2.1	2.0
Transport	0.4	(0.6)	(1.4)	5.7	(0.3)	(1.5)
Communication	(0.1)	0.0	(0.1)	(0.6)	(0.5)	(0.7)
Recreation and Culture	0.1	0.2	0.0	0.5	0.4	0.5
Education	0.6	0.1	0.1	1.2	1.1	1.1
Restaurants and Hotels	0.1	0.1	0.3	2.4	1.8	2.0
Miscellaneous Goods and Services	0.3	(0.3)	0.2	0.9	0.4	0.4
Durable Goods	0.0	(0.1)	0.0	0.5	0.0	0.0
Semi Durable Goods	0.1	(0.2)	0.0	(0.3)	(0.6)	(0.6)
Non-Durable Goods	0.6	(0.2)	(0.9)	3.5	0.9	0.5
Services	0.2	0.3	0.1	2.6	2.3	2.2
Core CPI	0.1	0.4	0.1	2.2	1.8	1.7

Source: CEIC, MIDFR

Food inflation continues to dip. Food prices in Malaysia continue to fall from 3%yoy in Feb-18 to 2.9%yoy last month. Fresh food products such as seafood, vegetables, and fruits continue expanding however at moderate pace by 6.9%yoy, 0.8%yoy and 1.1%yoy respectively as demands cooled due to the end of Lunar New Year celebrations. In contrast, price for fresh meat rebounded by 2.3%yoy.

Modest fuel-related prices. Referring to Brent oil price, the average price rose by 28.2%yoy to \$67.4 per barrel in Mar-18 from \$65.9 recorded in the same month of last year due to strong global demand and stagnant supplies by oil producers on top of rising geopolitical tensions in the Middle East. In contrast, retail fuel price decreased by -3%yoy during the month, deviated from a positive growth in the preceding month. We observed that inflation trend for transport as well as price of fuels & lubricants continued to fell by -1.5%yoy and 3.7%yoy respectively last month. Moving forward, average Brent oil price and RON95 for the second weeks of Apr-18 registered at \$69.9 and RM2.20 respectively. At this juncture, we expect that 2018's fuel-related inflation to moderate amid of unfavourable base effects and high likelihood of a downward adjustment of 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%		
	Jan-18	Feb-18	Mar-18	Jan-18	Feb-18	Mar-18
Rice	(0.3)	0.1	0.2	0.2	0.2	0.4
Fresh Meat	0.9	(0.6)	0.5	2.4	(0.8)	2.3
Fresh Seafood	0.6	2.1	(2.3)	7.1	9.4	6.9
Oils & Fats	0.0	(0.1)	0.1	0.5	0.2	0.1
Fresh Fruits	0.3	1.8	(0.5)	0.7	1.4	1.1
Fresh Vegetables	4.2	(1.8)	(6.4)	8.8	2.0	0.8
Food Away From Home	0.3	0.2	0.1	4.9	4.3	3.9
Cigarettes	0.0	0.0	0.0	0.0	0.0	0.0
Electricity	0.0	0.0	0.0	0.0	0.0	0.0
Pharmaceutical Products	0.2	(0.1)	0.1	2.2	1.9	1.9
Fuels & Lubricants for Transportation	0.5	(0.9)	(2.6)	8.5	(1.6)	(3.7)
Transportation Repair & Maintenance	0.5	0.2	0.2	3.9	3.9	4.0
Other Transportation Charges (Including Toll)	0.7	0.0	4.0	1.4	1.4	5.5
Expenses In Restaurants & Cafes	(1.8)	0.1	0.1	0.9	1.8	2.5
Insurance For Motor Vehicles	0.0	0.2	0.0	(0.1)	0.2	0.2

Source: CEIC, MIDFR

Moderate trend of inflation across states. Inflation rate across all states eased in Mar-18, in tandem with national's trend. Selangor, Kuala Lumpur and Melaka recorded inflation rate higher than national's inflation during the month. Looking ahead, we foresee inflation rate across all states will moderate below 3% in 2018 amid of unfavourable base effects and moderating pace of fuel-related item prices.

Table 3: States Headline Inflation (YoY%)

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
Johor	3.6	4.1	4.7	4.2	3.8	3.8	2.8	1.5	1.1
Kedah	3.2	3.8	4.5	3.8	3.5	3.2	2.0	0.8	0.5
Kelantan	2.6	3.5	3.8	3.6	3.1	3.2	2.1	1.1	0.8
Kuala Lumpur	3.6	3.7	3.8	3.5	2.7	2.9	2.6	1.4	1.4
Melaka	3.5	4.1	4.9	4.2	3.8	3.9	2.8	1.8	1.5
Negeri Sembilan	3.5	4.0	4.8	4.0	3.6	3.7	2.7	1.3	1.1
Pahang	2.5	3.0	3.4	3.1	2.5	2.8	2.1	0.8	0.7
Penang	3.8	4.0	4.6	4.0	3.3	3.4	2.5	1.4	1.3
Perak	2.7	3.3	3.9	3.3	2.8	3.1	2.3	1.1	0.9
Perlis	3.2	3.8	4.5	3.8	3.5	3.2	2.0	0.8	0.5
Sabah	2.8	3.1	3.7	3.0	2.6	2.8	2.1	1.5	1.1
Sarawak	2.5	2.9	3.5	2.9	2.7	2.8	2.1	1.3	0.9
Selangor	3.1	3.7	4.3	3.9	3.7	3.6	2.9	1.7	1.6
Terengganu	2.1	2.9	3.4	3.1	2.9	3.1	2.2	1.0	0.8

Source: CEIC, MIDFR

Upswing in global inflation. In line with rise in global commodity prices and improved labour market condition, inflationary pressure in both developed and developing countries increase. Philippines's inflation continue to rise at 4.3% in Mar-18 from 3.8% recorded in the preceding month and the highest since Nov-11 driven by high cost of food and housing. The spike was expected following the recent tax reform law. Similarly, overall prices in the US also increased by 2.4% during the same month, from a 2.2% registered in the previous month. The figure is the highest in a year, mainly boosted by prices of shelter and used car. In contrast, inflation in China cooled in Mar-18 due to weakening prices in both food and non-food products after the Lunar New Year holidays. Looking ahead, we foresee inflation level will progressively continue to increase buoyed by moderating global growth, uptick in commodities prices and tight labour market conditions.

Table 4: Global Headline Inflation (YoY%)

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
Malaysia	3.6	4.2	3.7	3.4	3.5	2.7	1.4	1.3
Indonesia	3.8	3.7	3.6	3.3	3.6	3.3	3.2	3.4
Philippines	2.6	3.0	3.1	3.0	2.9	3.4	3.8	4.3
Thailand	0.3	0.9	0.9	1.0	0.8	0.7	0.4	0.8
Singapore	0.4	0.4	0.4	0.6	0.4	0.0	0.5	
China	1.8	1.7	1.9	1.8	1.9	1.4	2.9	2.1
Japan	0.7	0.7	0.2	0.6	1.0	1.3	1.5	
EU	1.7	1.8	1.7	1.8	1.7	1.6	1.3	
United States	1.9	2.2	2.0	2.2	2.1	2.1	2.2	2.4

Source: CEIC, MIDFR


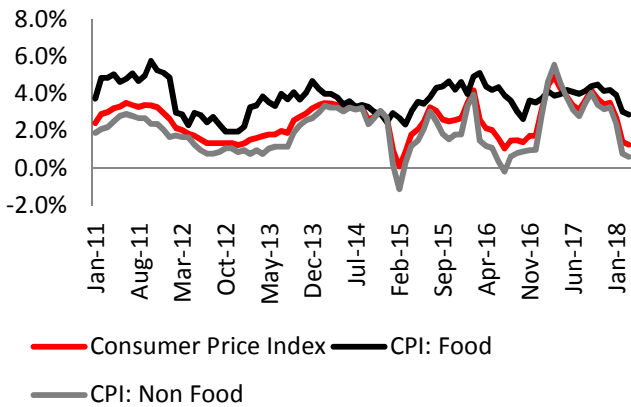
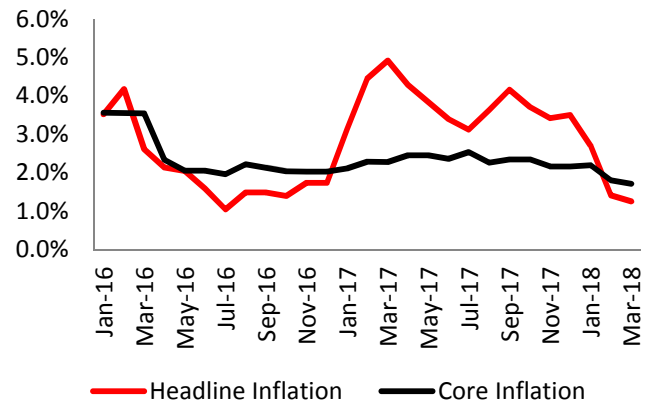
Inflation forecast stays at 2.6% for 2018. Amid of unfavourable base effects, we foresee headline inflation rate to average at 2.6% this year. This is supported by inflation rate for 1Q18 which registered at 1.8% compared to 4.2% in the same period last year. We anticipate inflationary pressure particularly from fuel-related items to soothe, consistent with steady gradual rise in global commodity prices on top of pass-through effect from a strengthening ringgit. As inflationary pressure remains steady, we anticipate Bank Negara to maintain its current monetary policy with no more hikes in OPR for the rest of 2018 excepting any pleasant upward surprises in domestic economic growth. 

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



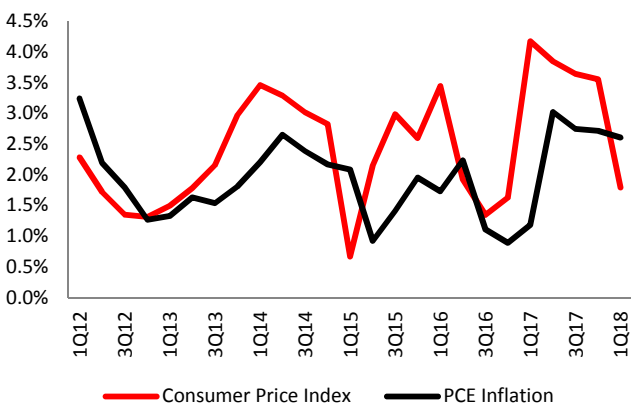
Source: DOSM, MIDFR

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



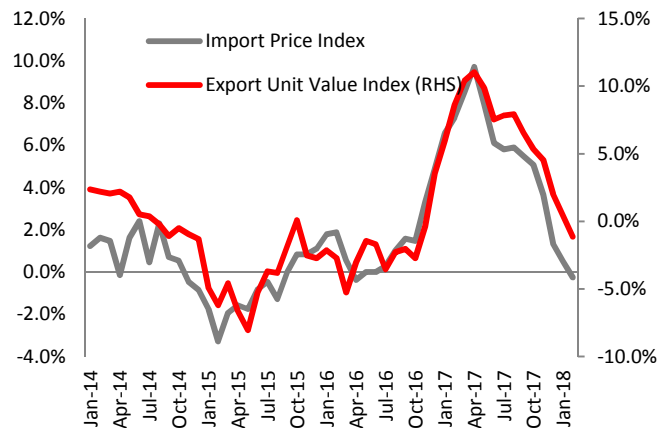
Source: DOSM, MIDFR

Chart 3: CPI vs PCE Inflation (YoY%)



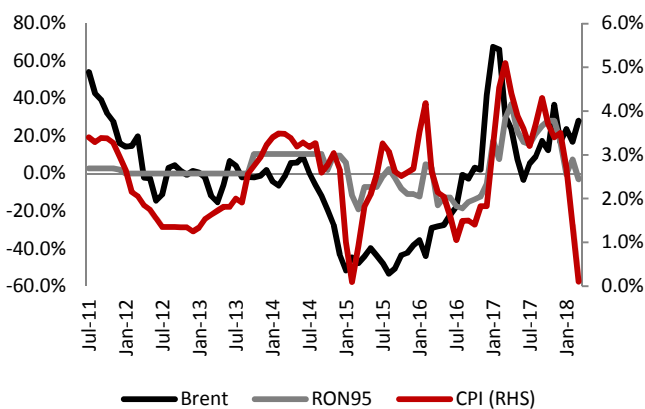
Source: DOSM, MIDFR

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



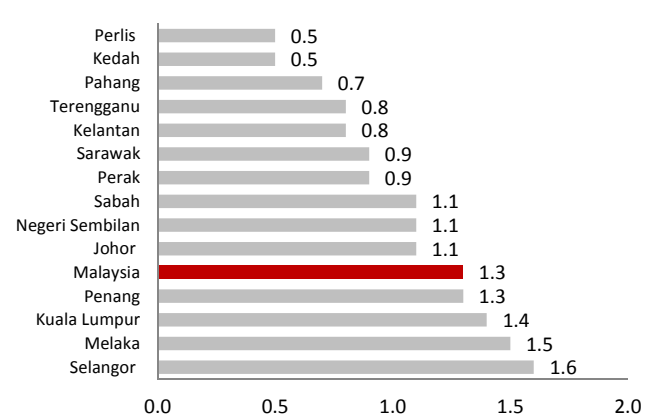
Source: DOSM, MIDFR

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



Source: Bloomberg, MIDFR

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



Source: DOSM, MIDFR

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