

ECONOMIC REVIEW | March 2017 Consumer Price Index

March Inflation Rate Surged to More than 8-year high

- *Headline inflation surged to 5.1% in March. The last time inflation rate reached above 5% was back in November 2008 with 5.7%. Elevated pump price contributed to the surge in inflation while low base accentuated the effect.*
- *Moderating inflationary pressure for most economies in March. Inflation rate in US registered 0.3% decline compared to February. The core PCE index growth of 1.75% remains below Fed's inflation target range of 2%. Despite of firmer growth in Chinese economy, inflation rate for previous month continued to record at low level. The slowdown in Chinese inflation rate was due to lower food prices.*
- *2017 OPR forecast for 2017 remains unchanged at 3.00% but odds for hike rise. We have anticipated inflation to surge during the month as pump price remains unchanged for the month.*

Inflation surged in March to 5.1%. Headline inflation rate was recorded at 5.1% in March. The last time inflation rate reached above 5% was back in November 2008 with 5.7%. Elevated pump price contributed to the surge in inflation while low base accentuated the effect. Core inflation maintained at 2.5%, unchanged from February. Food inflation moderated to 4.1% from 4.3% while non-food inflation rose to 5.6% from 4.7% for the month. Transport prices continued to grow at rapid pace – surging 23.0% as fuels & lubricant items prices were up by more than 40%, compared to the year earlier. We also noted last year's lower base has accentuated the inflation rate as on average, consumer items price decline marginally on month-on-month basis.

Table 1: Consumer Price Indices

Indices	%MoM				%YoY			
	Dec-16	Jan-17	Feb-17	Mac-17	Dec-16	Jan-17	Feb-17	Mac-17
CPI	0.0	1.1	1.3	-0.1	1.8	3.2	4.5	5.1
Core CPI	0.1	0.1	0.4	0.1	2.1	2.3	2.5	2.5
Non Food	-0.4	1.2	1.4	0.0	1.0	2.9	4.7	5.6
Food and Non Alcoholic Beverages	0.6	0.9	0.9	-0.3	3.7	4.0	4.3	4.1
Alcoholic Beverages and Tobacco	-0.1	0.0	0.0	0.1	0.1	0.2	0.2	0.2
Clothing and Footwear	-0.1	0.0	0.2	-0.1	-0.5	-0.7	-0.2	-0.2
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	0.7	0.0	2.1	1.9	2.2	2.1
Furnishings, Household Equipment and Maintenance	0.1	0.4	0.4	0.1	1.4	1.5	1.5	1.5
Health	0.2	0.3	0.3	0.2	2.4	2.5	2.4	2.6
Transport	-1.4	5.9	5.5	-0.3	-0.6	8.3	17.9	23.0
Communication	0.0	0.0	-0.1	0.1	-2.6	-0.2	-0.3	-0.2
Recreation and Culture	0.1	0.1	0.4	-0.2	3.3	3.2	3.1	3.0
Education	0.0	1.0	0.2	0.1	1.7	2.0	1.7	1.7
Restaurants and Hotels	0.2	0.3	0.6	0.2	1.9	2.1	2.3	2.3
Miscellaneous Goods and Services	-0.2	0.1	0.3	0.1	1.8	1.4	1.4	1.3
Durable Goods	-0.1	0.1	0.4	0.0	1.7	1.5	1.5	1.1
Semi Durable Goods	-0.1	0.0	0.1	0.0	-0.4	-0.6	-0.3	-0.1
Non Durable Goods	-0.1	2.4	2.4	-0.5	1.6	4.6	7.9	9.1
Services	0.2	0.3	0.6	0.2	2.2	2.5	2.7	2.8

Source: Department of Statistics, Malaysia; MIDF Research

Food inflation softened in March. Food inflation moderated by 0.3% on monthly basis. Several fresh food products saw declining in prices such as fresh meat, fresh vegetables, rice and fresh seafood last month. However, prices of fresh fish and bread & bakery products increased by 5.3% and 1.8% respectively. As for the non-food components, price of fuels and lubricants for transportation rose the highest, by 10.9% in March.

Weekly retail oil prices a new norm. The latest prices for RON95, RON97 and Diesel are RM2.24, RM2.52 and RM2.16. The new prices will be announced today at 6pm. We foresee the prices will decrease by 5 to 10 cents due to average Brent oil price went down more than a dollar per barrel as compared to previous week. The weekly mechanism indirectly has created a new norm among Malaysian consumers and businesses which in the medium and long-term, domestic spending will not be affected so much by the volatility of oil prices. For the short-term, we expect the oil prices will uplift prices for oil-related activities such as transportation.

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

Sub Indices	%MoM				%YoY			
	Dec-16	Jan-17	Feb-17	Mac-17	Dec-16	Jan-17	Feb-17	Mac-17
Housing Rental	0.0	0.0	0.9	0.0	2.5	2.5	2.9	2.9
Food Away From Home	0.3	0.7	0.9	0.5	3.5	3.6	4.1	4.4
Fuels & Lubricants for Transportation	-2.4	10.2	9.3	-0.5	-2.7	13.4	31.3	42.1
Telephone & Telefax Services	0.0	0.0	0.0	0.0	-2.7	0.0	0.0	0.0
Electricity	0.0	0.0	0.0	0.0	1.3	0.0	0.0	0.0
Personal Care & Effects Products	-0.4	0.2	0.3	0.1	1.0	0.5	0.4	0.6
Fresh Fish	1.3	3.3	0.7	-0.4	4.5	5.9	4.2	5.3
Cigarettes	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Expenses In Restaurants & Cafes	0.2	0.4	0.6	0.2	2.1	2.3	2.5	2.5
Garments	-0.1	0.0	0.1	-0.1	-0.5	-0.5	-0.3	-0.3
Cultural Services	0.0	0.0	0.2	0.0	6.1	6.0	5.4	5.4
Fresh Meat	-0.3	2.6	2.6	-2.6	3.0	1.5	5.0	3.7
Fresh Vegetables	5.3	-1.4	4.8	-5.3	5.7	9.1	11.0	5.5
Transportation Repair & Maintenance	0.2	0.7	0.2	0.1	4.0	3.8	3.4	2.9
Bread & Bakery Products	0.1	0.3	0.2	0.3	1.6	1.6	1.6	1.8
Purchase of Motorcars	-0.1	0.4	0.0	0.4	1.9	1.7	1.0	0.9
Rice	0.0	-0.1	0.1	0.0	0.6	0.4	0.5	0.4
Fresh Seafood	2.0	2.7	0.0	0.0	8.7	7.6	5.6	5.4
Other Transportation Services (Including Toll)	0.1	0.0	0.6	0.0	5.5	5.5	6.2	6.2
Insurance for Motor Vehicles	0.1	0.1	-0.1	0.0	1.3	1.3	1.2	1.2

Source: Department of Statistics, Malaysia; MIDF Research

Moderating inflationary pressure for most economies in March. Inflation rate of US registered 0.3% lower than February. The core PCE index growth is 1.75%, remains below Fed's inflation target range of 2%. Despite of firmer growth in Chinese economy, inflation rate for previous month continued to record at low level. The slowdown in Chinese inflation rate was due to lower food prices. Even with the slight slowdown, most of ASEAN economies remain in the upward trajectory path. Malaysia recorded the highest inflation rate in the ASEAN region in March. Overall, the elevated inflation rate level recorded across the region was due to higher in global commodities prices, while we opine contributed by partly by improving demand.

Table 3: Global Headline Inflation

	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mac-17
Malaysia	1.1	1.5	1.5	1.4	1.8	1.8	3.2	4.5	5.1
Indonesia	3.2	2.8	3.1	3.3	3.6	3.0	3.5	3.8	3.6
Philippines	1.9	1.8	2.3	2.3	2.5	2.6	2.7	3.3	3.4
Thailand	0.1	0.3	0.4	0.3	0.6	1.1	1.6	1.4	0.8
Singapore	-0.7	-0.3	-0.2	-0.1	0.0	0.2	0.6	0.7	
United States	0.9	1.1	1.5	1.6	1.7	2.1	2.5	2.7	2.4
China	1.8	1.3	1.9	2.1	2.3	2.1	2.5	0.8	0.9
EU	0.2	0.3	0.4	0.5	0.6	1.1	1.8	2.0	1.5
Japan	-0.4	-0.5	-0.5	0.1	0.5	0.3	0.4	0.3	

Source: Department of Statistics, Malaysia; MIDF Research


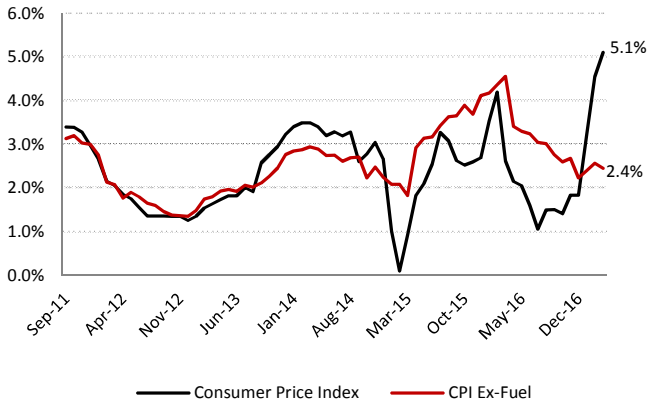
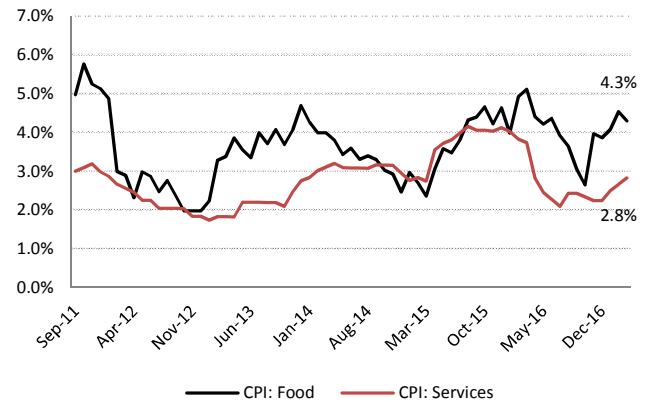
2017 OPR forecast for 2017 remains unchanged at 3.00% but odds for rate hike has elevated. We had already anticipated that the inflation number will surge during the month as pump price remains challenged by the surging crude oil price. And we are in the opinion that Bank Negara would not conduct a rate hike unless inflation core inflation breached above 3.0% in any quarter as well GDP growth not to exceed above 5.5% simultaneously during the period. Hence, at the moment, we maintain our expectation of no rate hike for 2017. 

Chart 1: CPI vs CPI Ex-Fuel



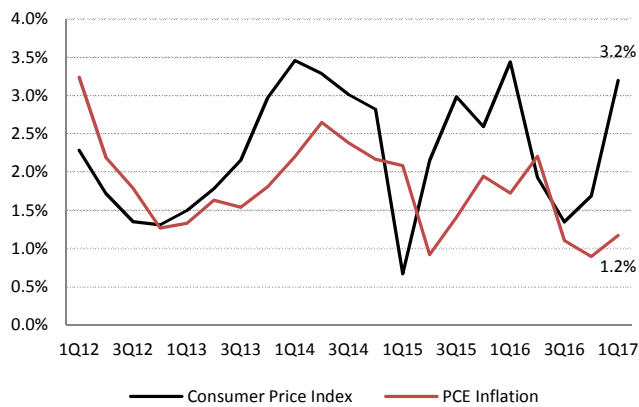
Source: Department of Statistics, Malaysia; MIDF Research

Chart 2: Food Price Index vs Services Price Index



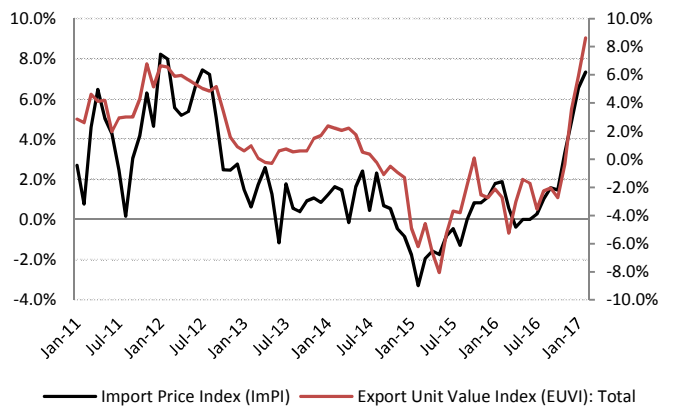
Source: Department of Statistics, Malaysia; MIDF Research

Chart 3: CPI vs PCE Inflation



Source: Department of Statistics, Malaysia; MIDF Research

Chart 4: Imports Price Index vs Export Price Index



Source: Department of Statistics, Malaysia; MIDF Research

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