

## ECONOMIC REVIEW | May 2017 Consumer Price Index

### Inflation at 4-Months Low in May at 3.9%

- *Inflationary pressure is cooling off. Headline inflation rose by 3.9% in May, the lowest in four months. On monthly basis, headline inflation continued a downward trend for three consecutive months. The decline in headline inflation reflects the effects of cost-driven factors such as fuel price is tapering off.*
- *Transport price expected to slow down further. Transport price maintain growing by double digits but declining in momentum. Plus, price of fuels & lubricants also experiencing a downward trend. This is mainly due to tepid development in global oil market and hence cause retail fuel price in Malaysia to stay at low level.*
- *Slowdown in headline inflation rate in May is expected as the impact from cost-driven factors is diminishing. Gauging by the current trend of price movements, there is high possibility of downward revision of our full-year inflation forecast.*

**Inflationary pressure is cooling off.** Headline inflation rose by 3.9% in May, the lowest in four months. On monthly basis, headline inflation continued a downward trend for three consecutive months. The decline in headline inflation reflects the effects of cost-driven factors such as fuel price is tapering off. Transport inflation grew at a slower pace in May by 13.1%yoy as compared to previous months of 16.7%yoy. Besides, core inflation remain stable expanding marginally by 2.6%yoy while food and non-food inflation rose by 4.4%yoy and 3.7%yoy respectively. Moving forward, we opine Malaysia's inflation rate to moderate but uncertainty in global oil prices would have a substantial impacts on the direction of broader price trends.

**Table 1: Consumer Price Indices**

Indices	%MoM				%YoY			
	Feb-17	Mar-17	Apr-17	May-17	Feb-17	Mar-17	Apr-17	May-17
CPI	1.3	-0.1	-0.3	-0.2	4.5	5.1	4.4	3.9
Core CPI	1.4	0.1	-0.4	-0.5	2.5	2.5	2.5	2.6
Non Food	0.9	-0.3	0.1	0.5	4.6	5.6	4.5	3.7
Food and Non Alcoholic Beverages	0.0	0.1	0.0	0.1	4.3	4.1	4.1	4.4
Alcoholic Beverages and Tobacco	0.2	-0.1	0.2	-0.2	0.2	0.2	0.2	0.2
Clothing and Footwear	0.7	0.0	0.0	0.5	-0.2	-0.2	-0.1	-0.2
Housing, Water, Electricity, Gas & Other Fuels	0.4	0.1	0.4	0.3	2.2	2.1	2.2	2.2
Furnishings, Household Equipment and Maintenance	0.3	0.2	0.2	0.2	1.5	1.5	1.9	2.1
Health	5.5	-0.3	-1.9	-3.2	2.4	2.6	2.8	2.9
Transport	-0.1	0.1	-0.1	0.0	17.9	23.0	16.7	13.1
Communication	0.4	-0.2	0.0	0.0	-0.3	-0.2	-0.3	-0.3
Recreation and Culture	0.2	0.1	0.1	0.0	3.1	3.0	3.0	2.9
Education	0.6	0.2	0.2	0.2	1.7	1.7	1.7	1.7
Restaurants and Hotels	0.3	0.1	0.2	0.0	2.3	2.3	2.4	2.3
Miscellaneous Goods and Services	0.4	0.0	0.4	0.1	1.4	1.3	1.5	1.3
Durable Goods	0.1	0.0	0.2	-0.1	1.5	1.1	1.5	1.3
Semi Durable Goods	2.4	-0.5	-0.8	-0.7	-0.3	-0.1	-0.1	0.0
Non-Durable Goods	0.6	0.2	0.2	0.2	7.9	9.1	7.0	6.1
Services	0.0	0.0	0.0	0.0	2.7	2.8	2.9	2.9

Source: DOSM, MIDFR

**Food inflation surged to 4.4% in May.** Food items such as fresh meat, fresh fish and fresh seafood increase by 5.3%yoy, 8.7%yoy and 7.3%yoy. The increase in prices of these fresh products possibly due to festive season stocking as Ramadhan started in late May. Consumers purchased these fresh products as a preparation for the holy month and expect higher prices towards Eid celebration. Stabilised food inflation and core inflation could be due to gradual pick-up in demand and also impact from fuel price shocks. We opine food inflation to increase higher in May and June as Ramadhan and Eid-Festival will create extra demand on goods especially food items.

**Transport price expected to slow down further.** Transport price maintain growing by double digits but declining in momentum. Plus, price of fuels & lubricants also experiencing a downward trend. This is mainly due to tepid development in global oil market and hence cause retail fuel price in Malaysia to stay at low level. Moving forward, we expect fuel price in Malaysia continue to hover between RM1.90 to RM2.20 given that global oil market still being hampered by supply glut.

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

Sub Indices	%MoM				%YoY			
	Feb-17	Mar-17	Apr-17	May-17	Feb-17	Mar-17	Apr-17	May-17
Housing Rental	0.9	0.0	0.0	0.4	2.9	2.9	2.9	2.7
Food Away From Home	0.9	0.5	0.6	0.2	4.1	4.4	4.9	4.9
Fuels & Lubricants for Transportation	9.3	-0.5	-3.4	-5.3	31.3	42.1	29.2	22.3
Telephone & Telefax Services	-0.1	-0.1	-0.1	-0.6	-2.2	-2.3	-2.3	-2.7
Electricity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fresh Fish	0.7	-0.4	-0.3	-0.4	4.2	5.3	6.6	8.7
Cigarettes	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0
Expenses In Restaurants & Cafes	0.6	0.2	0.2	0.2	2.5	2.5	2.7	2.5
Fresh Meat	2.6	-2.6	-0.2	1.1	5.0	3.7	4.2	5.3
Fresh Vegetables	4.8	-5.3	-1.0	3.0	11.0	5.5	2.7	0.9
Transportation Repair & Maintenance	0.2	0.1	0.4	0.4	3.4	2.9	3.2	3.3
Bread & Bakery Products	0.2	0.3	0.1	0.1	1.6	1.8	1.6	1.6
Purchase of Motorcars	0.0	0.4	0.0	0.0	1.0	0.9	0.7	0.6
Rice	0.1	0.0	0.1	0.0	0.5	0.4	0.4	0.4
Fresh Seafood	0.0	0.0	0.0	0.7	5.6	5.4	6.2	7.3
Other Transportation Services (Including Toll)	0.6	0.0	0.0	0.0	6.2	6.2	6.2	6.2
Insurance for Motor Vehicles	-0.1	0.0	0.0	0.0	1.2	1.2	0.5	0.0

Source: DOSM, MIDFR

**States inflation softens in May.** Inflation for almost all states in May recorded lower rates as compared to previous month. The main factor among others is the slowdown in growth of transport prices, thanks to lower retail fuel prices. Except for Penang, the state's inflation remain unchanged at 4.4% for two consecutive months. This is possibly due to food inflation in Penang surged solidly from 4.6% in April to 5.1% last month. In May, there are six states recorded lower inflation than the national inflation average. The lowest are Negeri Sembilan and Sarawak as both inflation for the states stands at 3%. We expect inflation for all states in June to trend higher due to festive season. In particular, prices of food and clothing are expected to rise in June.

**Table 3: States Headline Inflation**

	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17
Johor	1.7	2.0	2.0	3.5	5.2	5.7	5.0	4.3
Kedah	0.9	1.5	1.8	3.3	4.9	5.5	4.7	4.2
Kelantan	0.9	1.3	1.5	3.1	4.1	4.7	4.0	3.6
Kuala Lumpur	2.2	2.8	2.6	3.7	4.8	5.0	4.5	4.2
Melaka	1.2	1.7	2.0	3.4	4.7	5.3	4.7	4.4
Negeri Sembilan	1.2	1.6	1.7	3.4	5.3	5.8	4.9	4.4
Pahang	1.0	1.6	1.3	2.6	4.0	4.3	3.7	3.3
Penang	1.6	2.2	2.3	3.5	4.6	5.0	4.4	4.4
Perak	0.5	1.2	1.2	2.6	4.0	4.5	3.8	3.2
Perlis	0.9	1.5	1.8	3.3	4.9	5.5	4.7	4.2
Sabah	0.3	1.0	-2.7	2.5	3.5	4.1	3.4	3.1
Sarawak	0.9	1.2	1.2	2.4	3.5	4.0	3.3	3.0
Selangor	1.3	1.6	1.7	2.9	4.4	4.9	4.2	4.0
Terengganu	0.6	1.2	1.2	2.6	3.9	4.3	3.6	3.0


Source: DOSM, MIDFR

**US inflation is slowing down.** US registered its headline and core inflation rates at 1.9% and 1.7% respectively last month, the lowest in 2017 so far. Despite of the slowdown in prices, the US Federal Reserve in its latest meeting in June decided to uplift funds rate by 25 basis points to 1.25%. According to the central bank, strengthening labour market, gradual pace in inflation and improving market confidences are among factors influencing the rate hike decision. Across the globe, China's inflation rate increased to 1.5% in May partly due to improvement in food inflation. Overall, inflation rate across all economies reflects steady upward trends. Hence, this signals a pick up in global demand as well as positive progress in global commodities prices. We expect the inflation will remain moving at gradual pace until the end of the year.

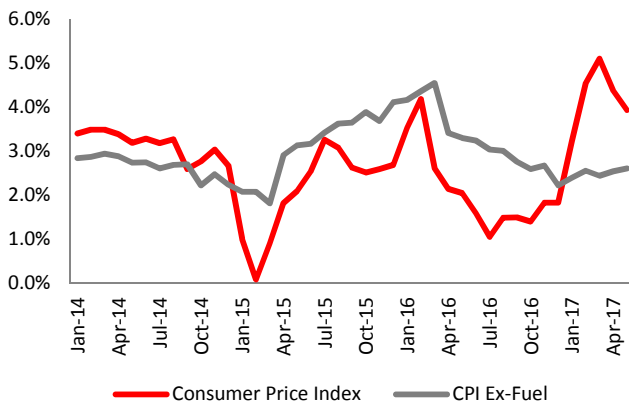
**Table 4: Global Headline Inflation**

	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17
Malaysia	1.4	1.8	1.8	3.2	4.5	5.1	4.4	3.9
Indonesia	3.3	3.6	3.0	3.5	3.8	3.6	4.2	4.3
Philippines	2.3	2.5	2.6	2.7	3.3	3.4	3.4	3.1
Thailand	0.3	0.6	1.1	1.6	1.4	0.8	0.4	0.0
Singapore	-0.3	0.0	0.2	0.6	0.9	3.1	2.8	
United States	1.6	1.7	2.1	2.5	2.8	2.4	2.2	1.9
China	2.1	2.3	2.1	2.5	0.8	0.9	1.2	1.5
EU	0.5	0.6	1.2	1.7	1.9	1.6	2.0	1.6
Japan	0.1	0.5	0.3	0.5	0.3	0.2	0.4	

Source: CEIC, MIDFR

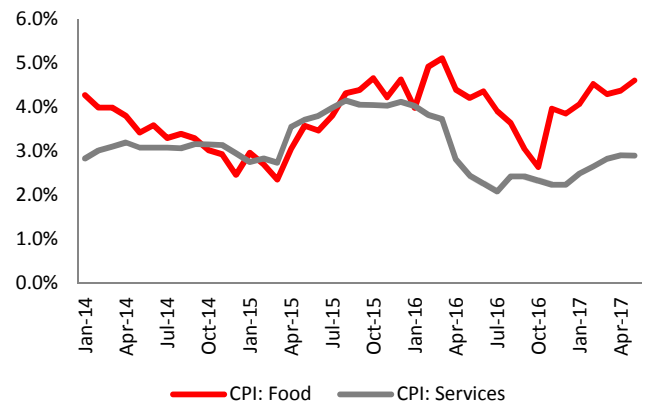
**We maintain our inflation forecast at 4.5% in 2017.** Slowdown in headline inflation rate in May is expected as the impact from cost-driven factors is diminishing. Gauging by the current trend of price movements, there is high possibility of downward revision of our full-year inflation forecast. 

**Chart 1: CPI vs CPI Ex-Fuel**



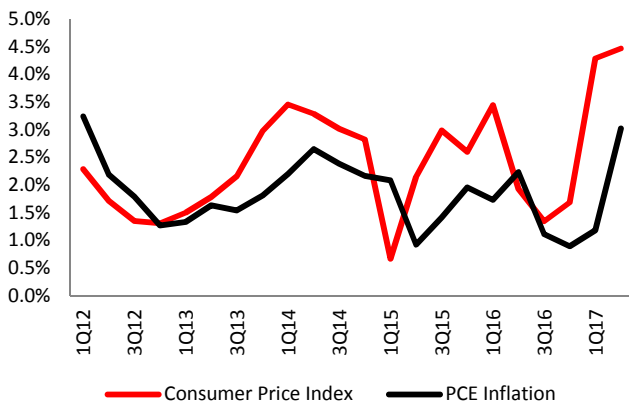
Source: DOSM, MIDFR

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



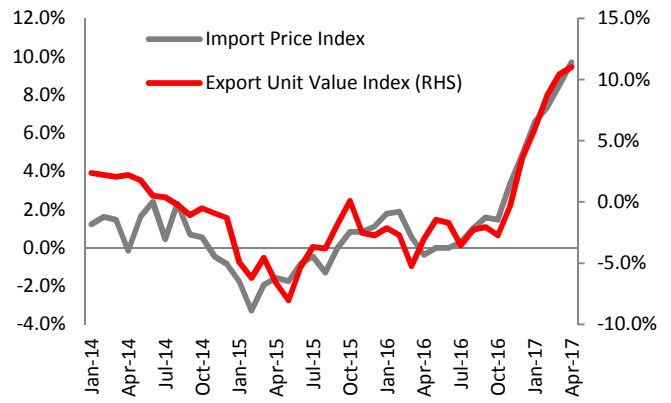
Source: DOSM, MIDFR

**Chart 3: CPI vs PCE Inflation**



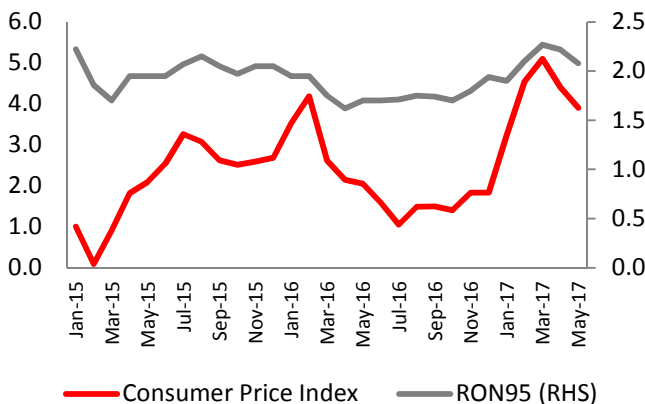
Source: DOSM, MIDFR

**Chart 4: Imports Price Index vs Export Price Index**



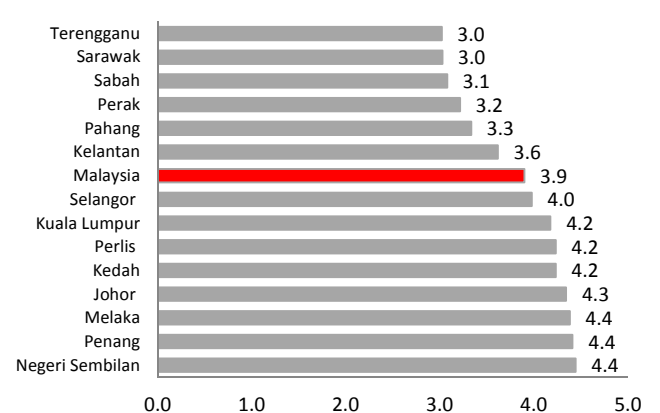
Source: DOSM, MIDFR

**Chart 5: CPI (%) vs RON95 (RM per litre)**



Source: DOSM, MIDFR

**Chart 6: Inflation by States in May (%)**



Source: DOSM, MIDFR

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