

ECONOMIC REVIEW | November 2017 Consumer Price Index

Inflation Eases as Expected Despite Fuel Price Pressure

- *Headline inflation continues sliding down. Headline inflation rose by 3.4%yoy in November, lower than previous month record of 3.7%yoy. So far, the average inflation rate of 2017 is 3.9%yoy, slightly above our yearly forecast of 3.8%.*
- *Food inflation maintains above 4%. For eleven consecutive months food prices in Malaysia grew above 4%. Fresh food products such as vegetables, fruits, meat and seafood continue expanding by 3.6%yoy, 2.2%yoy, 2.9%yoy and 9.8%yoy respectively.*
- *Inflation forecast stays at 3.8% for 2017. We maintain our forecast of 3.8% for inflation in 2017.*

Headline inflation continues sliding down. Headline inflation rose by 3.4%yoy in November, lower than previous month record of 3.7%yoy. So far, the average inflation rate of 2017 is 3.9%yoy, slightly above our yearly forecast of 3.8%. The slight slowdown in inflation is in tandem with transport inflation trend which declined from 12.1%yoy in October to 10.8%yoy last month. However, transport price grew firmly on monthly basis by 3.3% underpinned by rising retail fuel prices. On a flip side, food and non-food up by 4%yoy and 3.2%yoy respectively while core inflation went down to 11-months low at 2.2%yoy in November.

Table 1: Consumer Price Indices

Indices	MoM%			YoY%		
	Sep-17	Oct-17	Nov-17	Sep-17	Oct-17	Nov-17
CPI	0.3	(0.2)	0.7	4.3	3.7	3.4
Non Food	0.5	(0.2)	0.9	4.2	3.4	3.2
Food and Non Alcoholic Beverages	0.0	(0.5)	0.4	4.6	4.4	4.0
Alcoholic Beverages and Tobacco	0.0	0.1	0.1	0.1	0.1	0.2
Clothing and Footwear	0.2	(0.1)	(0.1)	(0.3)	(0.4)	(0.5)
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	0.3	2.4	2.4	2.2
Furnishings, Household Equipment and Maintenance	0.1	0.0	0.0	2.8	2.6	2.5
Health	0.2	0.1	0.1	2.5	2.4	2.2
Transport	2.0	(0.2)	3.3	15.8	12.1	10.8
Communication	(0.1)	(0.1)	(0.2)	(0.3)	(0.4)	(0.5)
Recreation and Culture	0.0	0.1	0.1	0.4	0.4	0.6
Education	0.0	0.0	0.0	1.6	1.6	1.5
Restaurants and Hotels	0.1	0.1	0.2	2.6	2.7	2.8
Miscellaneous Goods and Services	0.2	0.1	0.0	1.1	1.2	0.7
Durable Goods	0.1	(0.2)	(0.2)	1.2	1.1	0.7
Semi Durable Goods	0.3	(0.1)	(0.1)	(0.1)	(0.2)	(0.3)
Non-Durable Goods	0.6	(0.6)	1.3	7.2	5.8	5.1
Services	0.2	0.1	0.2	2.7	2.8	2.7
Core CPI	0.1	0.0	0.3	2.4	2.3	2.2

Source: DOSM, MIDFR

Food inflation maintains above 4%. For eleven consecutive months food prices in Malaysia grew above 4%. Fresh food products such as vegetables, fruits, meat and seafood continue expanding by 3.6%yoy, 2.2%yoy, 2.9%yoy and 9.8%yoy respectively. The rebound in fresh seafood prices is possibly due to lack of supply as monsoon season takes place during the month. For the final month of 2017, we view food inflation will stay above 4% due to unfavourable weather condition, long holidays, tourism activity and uptick in transportation cost.

High pass-through effects of rising global crude oil prices. Referring to Brent oil price, the price grew by 36.7%yoy to \$63 per barrel in November as compared to the same month of last year, at \$46.1. Hence, the differential translates into higher fuel pump prices in November at RM2.31 per litre. We observed that transport inflation as well as price of fuels & lubricants rose by 10.8%yoy and 17.5%yoy respectively last month. Looking ahead, average Brent oil price and RON95 for the first three weeks of December registered at \$63.5 and RM2.28 respectively. Hence, we can expect prices of fuel-related items to record strong expansion especially on monthly basis. At this juncture, we can anticipate that December's inflation rate to remain above 3% with fuel-related items remain as dominant driving factors.

Table 2: Changes in Selected Price Sub-Indices

Sub-Indices	MoM%			YoY%		
	Sep-17	Oct-17	Nov-17	Sep-17	Oct-17	Nov-17
Rice	0.2	(0.1)	0.0	0.6	0.4	0.4
Fresh Meat	(4.7)	(0.9)	0.5	(0.6)	3.3	2.9
Fresh Seafood	(0.1)	(0.8)	1.2	8.7	7.5	9.8
Oils & Fats	0.1	(19.7)	0.0	49.1	19.7	1.2
Fresh Fruits	0.7	(0.6)	0.0	1.6	1.7	2.2
Fresh Vegetables	0.2	(0.5)	2.4	5.6	6.0	3.6
Food Away From Home	0.5	0.2	0.2	5.1	5.2	5.0
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	0.2	0.1	2.6	2.3	2.1
Fuels & Lubricants for Transportation	3.3	(0.4)	5.3	27.9	20.5	17.5
Transportation Repair & Maintenance	0.1	0.3	0.6	3.7	3.9	4.2
Other Transportation Charges (Including Toll)	0.0	0.5	0.0	1.2	1.7	1.7
Expenses In Restaurants & Cafes	0.2	0.2	0.2	3.1	3.2	3.2
Insurance For Motor Vehicles	0.0	0.0	0.0	0.1	0.1	0.1

Source: DOSM, MIDFR

States inflation remains steady. Inflation rate across all states moderated in November, in tandem with national's trend. Johor, Kedah, Perlis, Negeri Sembilan and Melaka recorded inflation rate higher than national's inflation during the month. Kuala Lumpur experienced the huge decline by 0.8% mainly due to deflation of clothing & footwear, communication and miscellaneous goods & services by 2.3%yoy, 2%yoy and 1.3%yoy respectively. Moving forward, we foresee inflation rate across all states will moderate below 3% in 2018 amid of unfavourable base effects.

Table 3: States Headline Inflation (YoY%)

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Johor	3.5	5.2	5.7	5.0	4.3	4.0	3.6	4.1	4.7	4.2	3.8
Kedah	3.3	4.9	5.5	4.7	4.2	3.7	3.2	3.8	4.5	3.8	3.5
Kelantan	3.1	4.1	4.7	4.0	3.6	3.0	2.6	3.5	3.8	3.6	3.1
Kuala Lumpur	3.7	4.8	5.0	4.5	4.2	3.8	3.6	3.7	3.8	3.5	2.7
Melaka	3.4	4.7	5.3	4.7	4.4	4.0	3.5	4.1	4.9	4.2	3.8
Negeri Sembilan	3.4	5.3	5.8	4.9	4.4	3.9	3.5	4.0	4.8	4.0	3.6
Pahang	2.6	4.0	4.3	3.7	3.3	2.8	2.5	3.0	3.4	3.1	2.5
Penang	3.5	4.6	5.0	4.4	4.4	4.0	3.8	4.0	4.6	4.0	3.3
Perak	2.6	4.0	4.5	3.8	3.2	2.9	2.7	3.3	3.9	3.3	2.8
Perlis	3.3	4.9	5.5	4.7	4.2	3.7	3.2	3.8	4.5	3.8	3.5
Sabah	2.5	3.5	4.1	3.4	3.1	2.8	2.8	3.1	3.7	3.0	2.6
Sarawak	2.4	3.5	4.0	3.3	3.0	2.8	2.5	2.9	3.5	2.9	2.7
Selangor	2.9	4.4	4.9	4.2	4.0	3.5	3.1	3.7	4.3	3.9	3.7
Terengganu	2.6	3.9	4.3	3.6	3.0	2.4	2.1	2.9	3.4	3.1	2.9

Source: DOSM, MIDFR

Global inflation remains muted. Despite of gradual rise in global commodity prices and improved in labour market condition, inflationary pressure in developed and developing countries remain muted. Overall prices in the US recorded above 2% for three consecutive months amid of hurricane's impacts and uptick in fuel price. China's inflation slowdown to 1.7%yoy in November mainly due to decline in food prices by 1.1%yoy. Looking ahead, in tandem with expected moderating global growth and uptick in commodities prices, we foresee inflation level will gradually rise.

Table 4: Global Headline Inflation (YoY%)

	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Malaysia	3.9	3.6	3.2	3.7	4.3	3.7	
Indonesia	4.3	4.4	3.9	3.8	3.7	3.6	3.3
Philippines	3.1	2.7	2.8	3.1	3.4	3.5	3.3
Thailand	0.0	0.0	0.2	0.3	0.9	0.9	1.0
Singapore	0.8	0.6	0.2	0.5	0.5	0.2	
China	1.5	1.5	1.4	1.8	1.6	1.9	1.7
Japan	0.4	0.3	0.4	0.7	0.7	0.2	
EU	1.6	1.5	1.5	1.7	1.8	1.7	1.8
United States	1.9	1.6	1.7	1.9	2.2	2.0	2.2

Source: CEIC, MIDFR


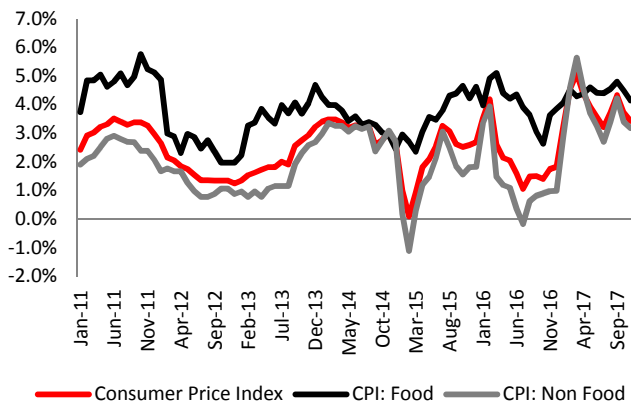
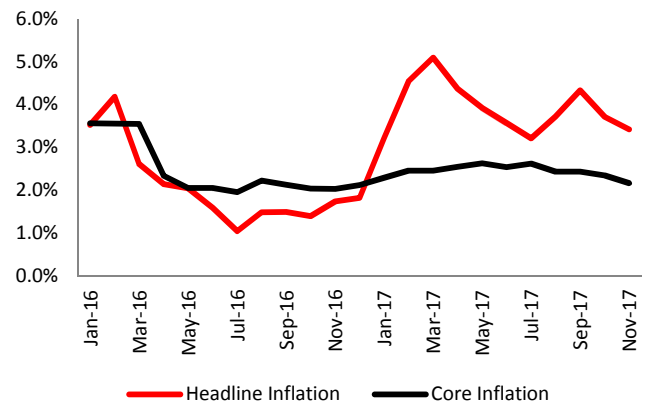
Inflation forecast stays at 3.8% for 2017. We maintain our forecast of 3.8% for inflation in 2017. Among others, gradual rise in commodity prices, unfavourable weather effects, stable labour market and modest appreciation of MYR are pushing factors on Malaysia's inflation outlook for the fourth quarter this year. 

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



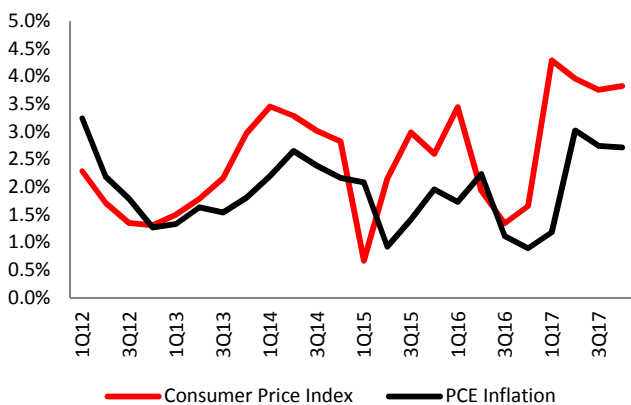
Source: DOSM, MIDFR

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



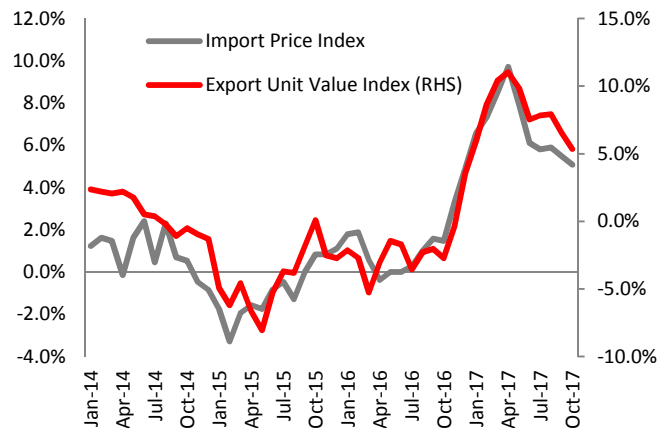
Source: DOSM, MIDFR

Chart 3: CPI vs PCE Inflation (YoY%)



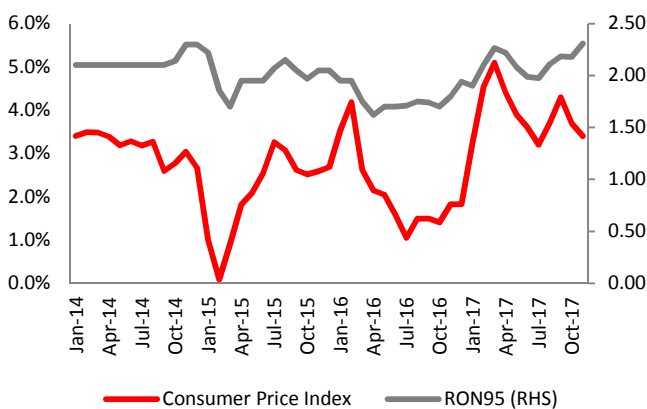
Source: DOSM, MIDFR

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



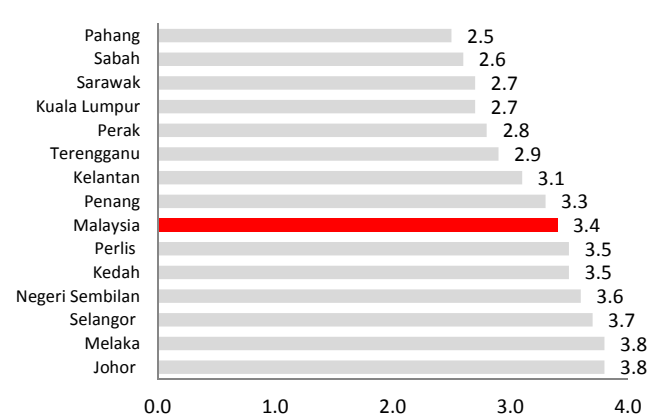
Source: DOSM, MIDFR

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



Source: Bloomberg, MIDFR

Chart 6: Inflation by States in November (YoY%)



Source: DOSM, MIDFR

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