

ECONOMIC REVIEW | October 2017 Consumer Price Index

Inflation Eases to 3.7% - Below Market Expectations

- *Headline inflation lower than expected. Headline inflation rose by 3.7%yoy in October, well below market expectations of 4.1%yoy. So far, the average inflation rate for the first ten months of 2017 is 4%yoy, slightly above our yearly forecast of 3.8%.*
- *High pass-through effects of rising global crude oil prices. Referring to Brent oil price, the price grew by 12.5%yoy to \$57.7 per barrel in October as compared to the same month of last year, at \$51.3.*
- *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, unfavorable weather effects, stable labor market and modest appreciation of MYR are pushing factors on Malaysia's inflation outlook for the fourth quarter this year.*

Headline inflation lower than expected. Headline inflation rose by 3.7%yoy in October, well below market expectations of 4.1%yoy. So far, the average inflation rate for the first ten months of 2017 is 4%yoy, slightly above our yearly forecast of 3.8%. The slight slowdown in inflation is in tandem with transport inflation trend which declined from 15.8%yoy in September to 12.1%yoy last month. However, we view the inflation will return to uptrend direction given that global crude oil and retail fuel prices are on high side in November. On a flip side, food and non-food up by 4.4%yoy and 3.4%yoy respectively while core inflation went down to 9-months low at 2.3%yoy in October.

Table 1: Consumer Price Indices

Indices	MoM%			YoY%		
	Aug-17	Sep-17	Oct-17	Aug-17	Sep-17	Oct-17
CPI	0.9	0.3	(0.2)	3.7	4.3	3.7
Non Food	1.2	0.5	(0.2)	3.4	4.2	3.4
Food and Non Alcoholic Beverages	0.4	0.0	(0.5)	4.3	4.6	4.4
Alcoholic Beverages and Tobacco	0.0	0.0	0.1	0.1	0.1	0.1
Clothing and Footwear	(0.1)	0.2	(0.1)	(0.3)	(0.3)	(0.4)
Housing, Water, Electricity, Gas & Other Fuels	0.6	0.0	0.0	2.4	2.4	2.4
Furnishings, Household Equipment and Maintenance	0.1	0.1	0.0	2.7	2.8	2.6
Health	0.1	0.2	0.1	2.7	2.5	2.4
Transport	4.6	2.0	(0.2)	11.7	15.8	12.1
Communication	0.0	(0.1)	(0.1)	(0.3)	(0.3)	(0.4)
Recreation and Culture	(0.1)	0.0	0.1	0.4	0.4	0.4
Education	0.0	0.0	0.0	1.6	1.6	1.6
Restaurants and Hotels	0.5	0.1	0.1	2.8	2.6	2.7
Miscellaneous Goods and Services	(0.2)	0.2	0.1	0.9	1.1	1.2
Durable Goods	0.0	0.1	(0.2)	1.1	1.2	1.1
Semi Durable Goods	(0.2)	0.3	(0.1)	(0.3)	(0.1)	(0.2)
Non-Durable Goods	1.7	0.6	(0.6)	5.8	7.2	5.8
Services	0.4	0.2	0.1	2.6	2.7	2.8
Core CPI	0.5	0.1	0.0	2.4	2.4	2.3

Source: DOSM, MIDFR

Food inflation maintains above 4%. For ten consecutive months food prices in Malaysia grew above 4%. Last month, food inflation registered at 4.4%yoy while non-food inflation at 3.4%yoy. Fresh food products such as vegetables, fruits, meat and seafood continue expanding by 6%yoy, 1.7%yoy, 3.3%yoy and 7.5%yoy respectively. Moving forward, monsoon season will hit Malaysia in mid-October till March. Possible impacts of monsoon season are sharp increase in food price especially seafood and reduction in tourism activity especially in Eastern side of Peninsular Malaysia. We can expect the food inflation to remain above 4% for the rest of 2017.

High pass-through effects of rising global crude oil prices. Referring to Brent oil price, the price grew by 12.5%yoy to \$57.7 per barrel in October as compared to the same month of last year, at \$51.3. Hence, the differential translates into higher fuel pump prices in October at RM2.18 per litre. We observed that transport inflation as well as price of fuels & lubricants rose by 12.1%yoy and 20.5%yoy respectively last month. Looking ahead, average Brent oil price and RON95 for the first three weeks of November registered at \$62.3 and RM2.31 respectively. It was the first time for Brent oil to hover above \$60 since June 2015 while RON95 returned to above RM2.30 after three years. At this juncture, we can anticipate that November's inflation rate to remain above 4% with fuel-related items remain as dominant driving factors.

Table 2: Changes in Selected Price Sub-Indices

Sub-Indices	MoM%			YoY%		
	Aug-17	Sep-17	Oct-17	Aug-17	Sep-17	Oct-17
Rice	0.0	0.2	(0.1)	0.5	0.6	0.4
Fresh Meat	0.9	(4.7)	(0.9)	1.1	(0.6)	3.3
Fresh Seafood	0.6	(0.1)	(0.8)	8.2	8.7	7.5
Oils & Fats	0.0	0.1	(19.7)	48.9	49.1	19.7
Fresh Fruits	(0.2)	0.7	(0.6)	0.8	1.6	1.7
Fresh Vegetables	(1.0)	0.2	(0.5)	3.4	5.6	6.0
Food Away From Home	0.4	0.5	0.2	4.8	5.1	5.2
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	0.0	0.2	0.2	2.8	2.6	2.3
Fuels & Lubricants for Transportation	7.9	3.3	(0.4)	20.4	27.9	20.5
Transportation Repair & Maintenance	0.5	0.1	0.3	3.6	3.7	3.9
Other Transportation Charges (Including Toll)	0.0	0.0	0.5	3.1	1.2	1.7
Expenses In Restaurants & Cafes	0.5	0.2	0.2	3.1	3.1	3.2
Insurance For Motor Vehicles	0.0	0.0	0.0	0.0	0.1	0.1

Source: DOSM, MIDFR

States inflation remains steady. Inflation rate across all states moderated in October, in tandem with national's trend. Johor, Penang, Melaka and Negeri Sembilan recorded inflation rate above 4%, partly due to Deepavali celebration and fuel price effects. Nevertheless, we foresee inflation rate in states like Penang, Kedah and Perak will increase firmly in November underpinned by flood effects. In particular, prices of food and utility in those states will be most impacted due to supply shortages and infrastructure damages. In addition, according to the Australia Bureau of Meteorology (AMB), there is 70% chance of La Nina in late 2017. The implications of La Nina to Malaysia are excessive rains which in turn could lead to flood.

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
Johor	3.5	5.2	5.7	5.0	4.3	4.0	3.6	4.1	4.7	4.2
Kedah	3.3	4.9	5.5	4.7	4.2	3.7	3.2	3.8	4.5	3.8
Kelantan	3.1	4.1	4.7	4.0	3.6	3.0	2.6	3.5	3.8	3.6
Kuala Lumpur	3.7	4.8	5.0	4.5	4.2	3.8	3.6	3.7	3.8	3.5
Melaka	3.4	4.7	5.3	4.7	4.4	4.0	3.5	4.1	4.9	4.2
Negeri Sembilan	3.4	5.3	5.8	4.9	4.4	3.9	3.5	4.0	4.8	4.0
Pahang	2.6	4.0	4.3	3.7	3.3	2.8	2.5	3.0	3.4	3.1
Penang	3.5	4.6	5.0	4.4	4.4	4.0	3.8	4.0	4.6	4.0
Perak	2.6	4.0	4.5	3.8	3.2	2.9	2.7	3.3	3.9	3.3
Perlis	3.3	4.9	5.5	4.7	4.2	3.7	3.2	3.8	4.5	3.8
Sabah	2.5	3.5	4.1	3.4	3.1	2.8	2.8	3.1	3.7	3.0
Sarawak	2.4	3.5	4.0	3.3	3.0	2.8	2.5	2.9	3.5	2.9
Selangor	2.9	4.4	4.9	4.2	4.0	3.5	3.1	3.7	4.3	3.9
Terengganu	2.6	3.9	4.3	3.6	3.0	2.4	2.1	2.9	3.4	3.1

Source: DOSM, MIDFR

Steady inflation signals for another rate hike in the US. Overall prices in the US remain above 2% for two consecutive months. Thanks to strengthening labour market and firming domestic spending, core inflation up by 1.8%, fastest in six months. Unemployment rate in the US touches 17-year low at 4.1% while retail sales grew by 4.6%yoy in October. Hence, we opine the possibility of rate hike in December FOMC meeting is very likely given that domestic economic indicators are indicating continuous expansionary momentum. Across the globe, we notice inflation in Asian countries are on uptrend amid of rising global crude oil prices. For instance, increase in fuel price is among major reasons for the surge in Philippine's inflation during the month. Looking ahead, we expect similar upward trend in global inflation especially oil-importing and oil-dependent economies.

Table 4: Global Headline Inflation (YoY%)

	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17
Malaysia	4.4	3.9	3.6	3.2	3.7	4.3	
Indonesia	4.2	4.3	4.4	3.9	3.8	3.7	3.6
Philippines	3.4	3.1	2.7	2.8	3.1	3.4	3.5
Thailand	0.4	0.0	0.0	0.2	0.3	0.9	0.9
Singapore	0.5	0.8	0.6	0.2	0.5	0.5	
China	1.2	1.5	1.5	1.4	1.8	1.6	1.9
Japan	0.4	0.4	0.3	0.4	0.7	0.7	
EU	2.0	1.6	1.5	1.5	1.7	1.8	1.7
United States	2.2	1.9	1.6	1.7	1.9	2.2	2.0

Source: CEIC, MIDFR


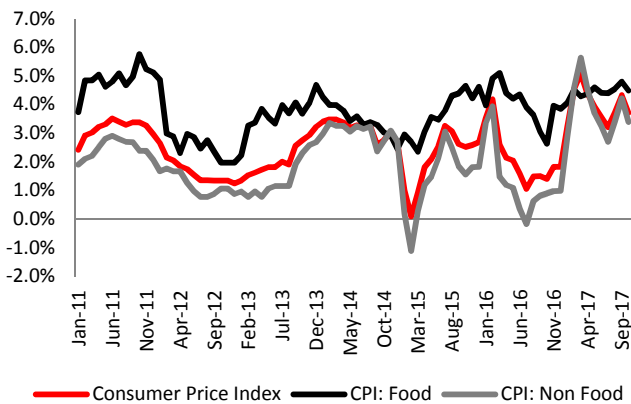
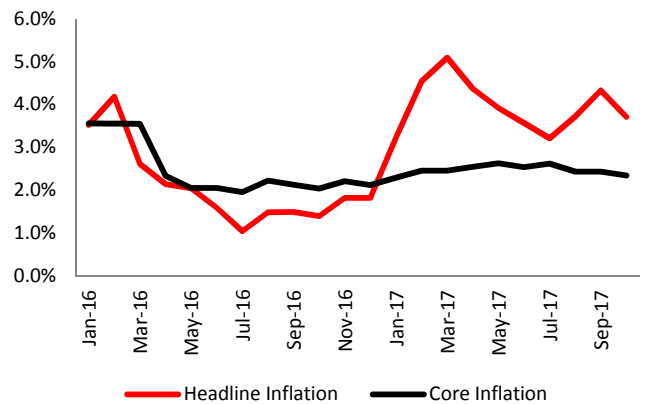
Inflation forecast stays at 3.8% for 2017. We maintain our forecast of 3.8% for inflation in 2017. Among others, gradual rise in commodity prices, unfavourable weather effects, stable labour market and modest appreciation of MYR are pushing factors on Malaysia's inflation outlook for the fourth quarter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

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



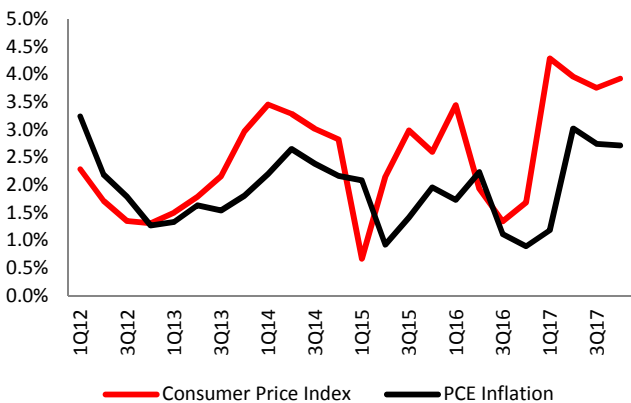
Source: DOSM, MIDFR

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



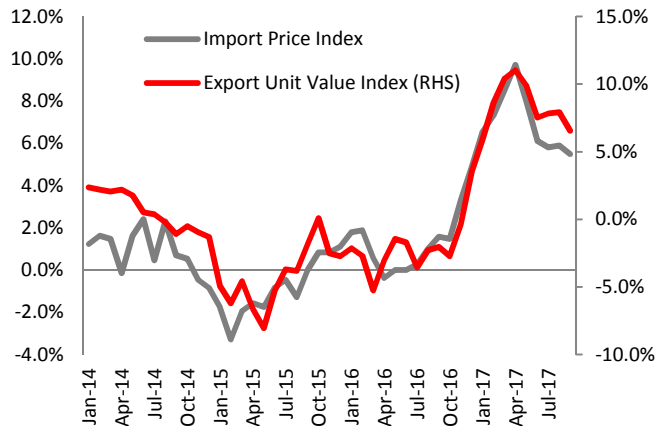
Source: DOSM, MIDFR

Chart 3: CPI vs PCE Inflation (YoY%)



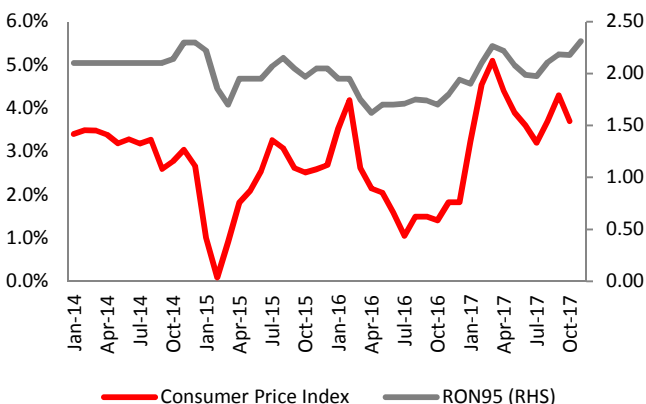
Source: DOSM, MIDFR

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



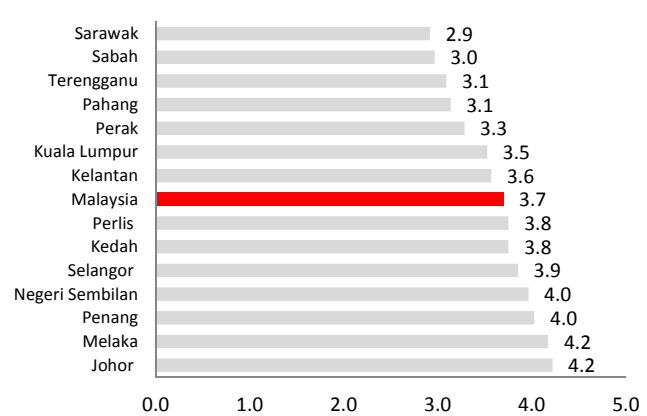
Source: DOSM, MIDFR

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



Source: Bloomberg, MIDFR

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



Source: DOSM, MIDFR

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