

**ECONOMIC REVIEW | September 2018 Consumer Price Index****September Inflation Remains Subdued Despite Reintroduction of SST**

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- *Fuel-related inflation increased. The average price of Brent crude oil rose by 43%yoy to \$79 per barrel in Sep-18, higher than \$74 per barrel in the prior month. This was due to lower volumes supply from the US as well as the increasing tension in the market over US's sanctions against Iran's crude oil exports which will kick in from Nov-18. In contrast, retail fuel price posted slower growth of 0.7%yoy during the month, lowest in five months.*
- *Tepid inflation for 2018 at 1.3%. Amid higher base effects, we foresee headline inflation rate to average at 1.3% this year compared to 3.8% in 2017. This is supported by lower inflation rate for the first nine months which registered at 1.2% compared to 3.9% in the same period last year.*

**Inflation matched our forecast.** Consumer price index increased 0.3%yoy in Sep-18, marginally higher than 0.2%yoy recorded in the preceding month and in line with our expectation. The trivial increase was anticipated as SST returns in Sep-18. However, inflation rate still remain below 1% for the fourth consecutive month despite the reintroduction of SST, probably due to the significant impact of RON95 fuel subsidization. Transport prices increased but at a far slower pace of 0.3%yoy (2.1%yoy in Aug-18). Meanwhile, core inflation rebounded to a positive territory of 0.3%yoy after maintaining at deflationary level for the past two consecutive months. Looking ahead, Malaysia's inflation is expected to gradually increase in the upcoming months.

**Food inflation on the uptrend.** Food and non-alcoholic beverages inflation finally edged up to 0.5%yoy in Sep-18. It has been on downward trend since Nov-17 when it was recorded at 4%yoy. Prices for fresh meat showed a smaller decline at 2%yoy compared to 2.8% in the preceding month while those of seafood increased at a slower pace of 1.1%yoy (2.7%yoy in Aug-18). Price for food away from home grew further by 2.6%yoy from the lowest ever gain registered in the previous month.

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**Table 1: Consumer Price Indices**

Indices	MoM%			YoY%		
	Jul-18	Aug-18	Sep-18	Jul-18	Aug-18	Sep-18
CPI	0.2	0.2	0.4	0.9	0.2	0.3
Non Food	0.2	0.3	0.5	1.1	0.2	0.4
Food and Non Alcoholic Beverages	0.2	0.0	0.2	0.7	0.4	0.5
Alcoholic Beverages and Tobacco	(0.2)	(0.1)	0.1	(0.8)	(1.0)	(0.9)
Clothing and Footwear	(0.1)	0.0	(0.1)	(3.0)	(2.9)	(3.2)
Housing, Water, Electricity, Gas & Other Fuels	0.4	0.6	0.2	2.0	2.0	2.1
Furnishings, Household Equipment and Maintenance	0.0	0.1	1.0	(1.7)	(1.7)	(0.8)
Health	0.0	0.1	0.0	0.0	0.0	(0.2)
Transport	0.0	0.1	0.3	6.7	2.1	0.3
Communication	0.0	(0.1)	2.3	(3.9)	(4.0)	(1.6)
Recreation and Culture	0.2	0.1	2.1	(2.4)	(2.2)	(0.2)
Education	0.1	0.1	0.0	1.0	1.1	1.1
Restaurants and Hotels	0.0	0.2	0.5	1.0	0.7	1.1
Miscellaneous Goods and Services	(0.1)	(0.2)	0.2	(3.0)	(3.0)	(3.0)
Durable Goods	(0.1)	(0.2)	0.5	(4.8)	(5.0)	(4.5)
Semi Durable Goods	(0.2)	0.0	(0.1)	(3.3)	(3.1)	(3.5)
Non-Durable Goods	0.4	0.0	(0.1)	1.9	0.2	(0.4)
Services	0.0	0.4	0.7	1.1	1.1	1.6
Core CPI	0.0	0.3	0.6	(0.2)	(0.2)	0.3

Source: CEIC, MIDFR

**Table 2: Changes in Selected Price Sub-Indices**

Sub-Indices	MoM%			YoY%		
	Jul-18	Aug-18	Sep-18	Jul-18	Aug-18	Sep-18
Rice	0.2	0.1	0.2	0.4	0.5	0.5
Fresh Meat	2.8	(0.8)	(3.9)	(1.1)	(2.8)	(2.0)
Fresh Seafood	(0.3)	(0.4)	(1.6)	3.7	2.7	1.1
Oils & Fats	(0.1)	(0.2)	(0.1)	(0.3)	(0.4)	(0.6)
Fresh Fruits	(0.4)	1.0	(0.6)	0.2	1.4	0.0
Fresh Vegetables	(0.5)	(0.5)	(0.7)	(1.2)	(0.8)	(1.7)
Food Away From Home	0.1	0.1	1.3	2.0	1.7	2.6
Cigarettes	0.0	0.0	0.0	0.0	0.0	0.0
Electricity	3.5	0.0	1.4	(0.4)	(0.4)	1.0
Pharmaceutical Products	(0.1)	0.0	0.1	(0.8)	(0.8)	(0.9)
Fuels & Lubricants for Transportation	(0.1)	0.2	0.0	12.2	4.2	0.9
Transportation Repair & Maintenance	0.1	0.0	0.6	1.6	1.1	1.7
Other Transportation Charges (Including Toll)	0.0	0.0	0.0	3.7	3.7	3.7
Expenses In Restaurants & Cafes	0.0	0.2	0.3	2.1	1.8	1.8
Insurance For Motor Vehicles	0.0	0.0	0.4	(3.1)	(3.1)	(2.6)

Source: CEIC, MIDFR

**Inflation across states remains low.** Inflation in Peninsular Malaysia and Sarawak increased to 0.3%yoy and 0.1%yoy respectively however remain below 1%. Transport inflation moderated in all states however for both Sabah and Sarawak, it still exceeded national average of 0.3%yoy while those of Peninsular Malaysia were in line.

**Table 3: States Headline Inflation (YoY%)**

	MoM%			YoY%		
	Jul-18	Aug-18	Sep-18	Jul-18	Aug-18	Sep-18
<b>Peninsular Malaysia;</b>	0.2	0.2	0.4	1.0	0.2	0.3
Food	0.2	0.1	0.0	0.8	0.5	0.5
Food at Home	0.5	(0.1)	0.0	0.1	(0.4)	0.1
Food Away From Home	0.1	0.1	0.0	2.0	1.7	1.2
Utilities	0.4	0.7	0.2	2.1	2.1	2.3
Transport	0.0	0.1	0.3	6.6	2.0	0.3
<b>Sabah;</b>	0.2	0.2	0.3	0.6	0.1	0.1
Food	(0.1)	0.3	0.1	0.4	0.4	0.1
Food at Home	(0.2)	0.3	(0.3)	(0.5)	(0.6)	(1.3)
Food Away From Home	0.1	0.3	1.3	3.4	3.4	4.2
Utilities	0.6	0.4	0.2	1.1	1.3	1.5
Transport	(0.1)	0.2	0.0	6.2	2.4	0.7
<b>Sarawak;</b>	0.1	0.2	0.4	0.5	0.0	0.1
Food	0.2	0.2	0.5	1.0	0.9	1.0
Food at Home	0.2	0.2	0.0	0.8	0.8	0.3
Food Away From Home	0.3	0.1	1.6	1.6	1.3	2.5
Utilities	0.0	0.2	0.2	0.5	0.5	0.7
Transport	0.2	0.1	0.2	7.9	2.8	0.7


Source: DOSM, MIDFR

**US inflation rate eased further.** The US headline inflation rate eased to 2.3%yoy in Sep-18, the lowest rate since Feb-18 mainly due to a sharp slowdown in gas prices and smaller increases in fuel and shelter costs. Meanwhile, core inflation was steady at 2.2%yoy. The weak data however is not sufficient enough to hold off US monetary policy normalisation. Fed is widely expected to raise its key interest rate for the fourth time this year in its December FOMC meeting. On the other hand, China's inflation rate has been on upward trending since May-18. In Sep-18, it increased further to 2.5% from 2.3% in the preceding month. Among ASEAN countries, prices increased at a slower pace for Indonesia and Thailand. In contrast, pressure on prices continued to increase for Philippines (6.7% vs 6.4% in Aug-18) mainly on continuing rise of global oil prices which provide room for more rate hikes in its upcoming monetary policy meeting. Moving forward, we foresee global inflation to pick up steadily in 2H18 amid of escalating trade spat, rising commodity prices and normalising monetary policy in major economies.

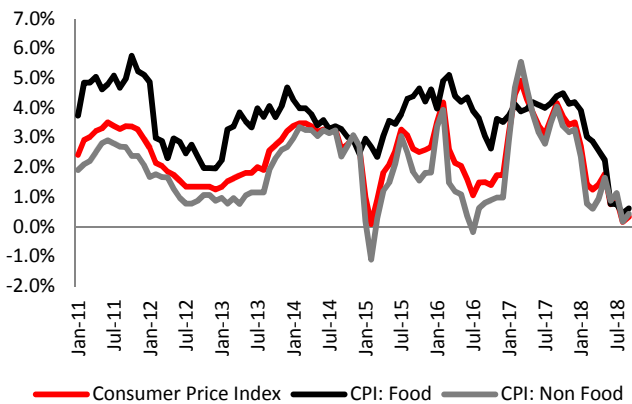
**Table 4: Global Headline Inflation (YoY%)**

	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
Malaysia	1.3	1.4	1.8	0.8	0.9	0.2	0.3
Indonesia	3.4	3.4	3.2	3.1	3.2	3.2	2.9
Philippines	4.3	4.5	4.6	5.2	5.7	6.4	6.7
Thailand	0.8	1.1	1.5	1.4	1.5	1.6	1.3
Singapore	0.2	0.1	0.4	0.6	0.6	0.7	0.7
China	2.1	1.8	1.8	1.9	2.1	2.3	2.5
Japan	1.1	0.7	0.6	0.7	1.0	1.3	1.2
EU	1.5	1.5	2.0	2.1	2.2	2.2	2.2
United States	2.4	2.4	2.7	2.8	2.9	2.7	2.3

Source: CEIC, MIDFR

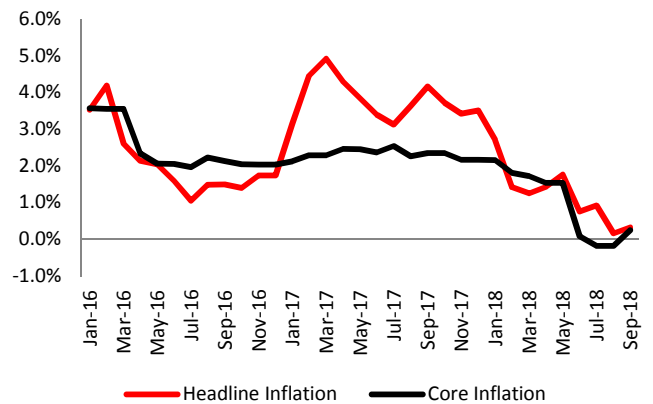
**Tepid inflation for 2018 at 1.3%.** Amid higher base effects, we foresee headline inflation rate to average at 1.3% this year compared to 3.8% in 2017. This is supported by lower inflation rate for the first nine months which registered at 1.2% compared to 3.9% in the same period last year. We expect inflationary pressure mainly from fuel-related items to calm, consistent with gradual rise in global commodity prices on top of pass-through effect from a strengthening ringgit (USD/MYR average: 4.32 in 2017; 4.00f in 2018) and subsidy of domestic fuel price. As inflationary pressure remains benign, we anticipate Bank Negara to maintain its current monetary stance for the rest of 2018 barring any pleasant surprises in domestic economic growth. 

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



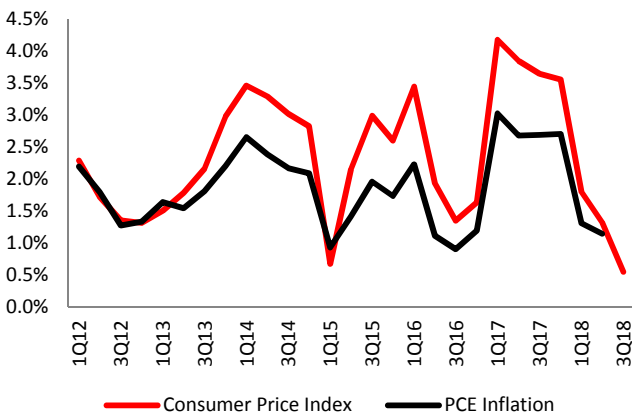
Source: CEIC, MIDFR

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



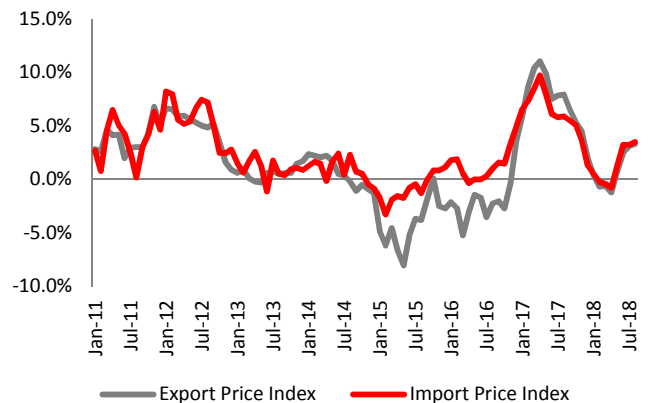
Source: CEIC, MIDFR

**Chart 3: CPI vs PCE Inflation (YoY%)**



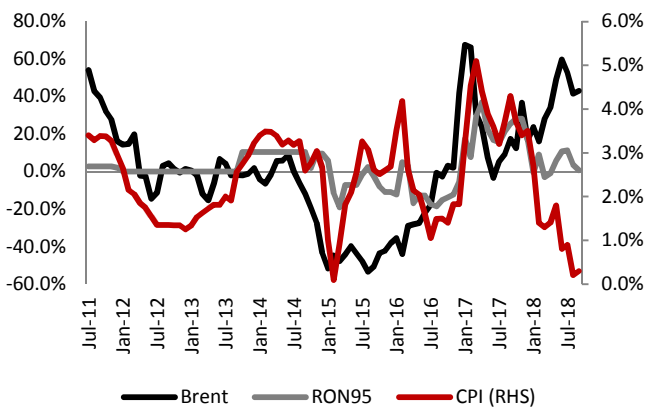
Source: CEIC, MIDFR

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



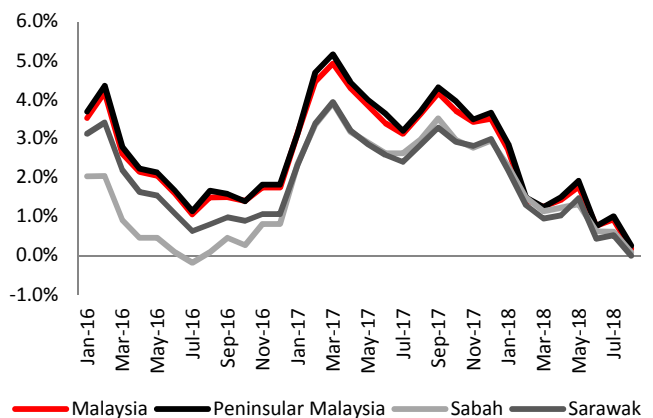
Source: CEIC, MIDFR

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



Source: Bloomberg, MIDFR

**Chart 6: Inflation by States (YoY%)**



Source: DOSM, MIDFR

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