

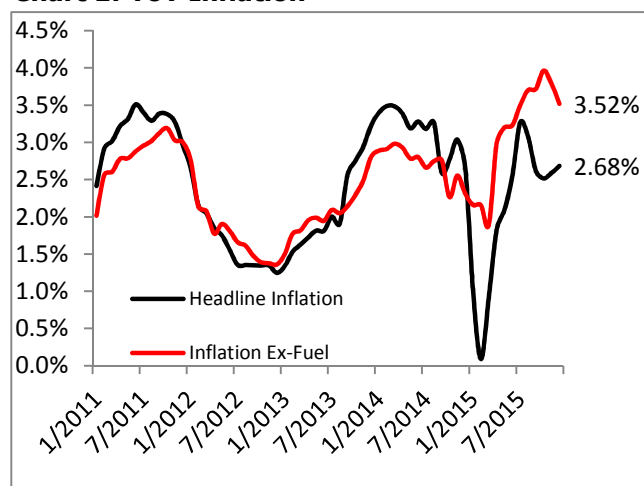
## ECONOMIC REVIEW | December 2015 Consumer Price Index

### 2015 Inflation In Line With Expectation

- December saw Malaysia recorded higher inflation year-on-year figure than the previous month at 2.68% slightly higher than our forecast of 2.50%, (November: 2.59%yoy) due to higher prices of alcoholic beverages & tobacco as well as food. The December figure put the 2015 yearly inflation figure at 2.10%, exactly as our previous forecast.
- Public rail transports saw record inflation figure at 48.3%yoy due to fare hikes in December but impact to the overall headline inflation was marginal.
- We maintain our inflation target of 2.90% for year 2016 but there is significant downward pressure as global and domestic economy is expected to further stabilise this year. Inflation for January is expected to reach 3.60% as the gap of pump prices narrow.

**Headline inflation reached 2.68%yoy in December, inflation in January 2016 is expected to edge higher.** On year-on-year basis, consumer price index rose by 2.68%yoy. Food and non-alcoholic beverages (FNAB) index grew by 4.56%yoy, continuing the stretch of inflation figure above 4% for the 5<sup>th</sup> month. In contrary, fuel and lubrication items are still experiencing lower prices as pump prices remains low.

**Chart 1: YoY Inflation**



Source: DoS, CEIC, MIDF Research

#### Excluding the pump prices, inflation remains high.

Inflation ex-fuel, where we took out the fuel price from the CPI basket, edged lower to 3.53% in December compared to 3.79% in November. On the other hand the headline resumed its upward trajectory to 2.68%, up from 2.59% in November. As previously mentioned, due to the low oil price in the first quarter of 2015, we are expecting that the gap between headline inflation and inflation ex-fuel would gradually reduce.

**Apart from cigarettes, imported goods and services item rose the most in 2015.** Referring to Chart 1, imported goods and services item prices surged in 2015 due to lower Ringgit effect. In 2015, preserved fruits and milk products rose by 12.9% and 6.9% respectively while services items such as repair & maintenance of vehicles and dentals services increased between 6.7% - 7.6%. Overall, the implementation of 6% GST in April 2015 partly contributed to the higher prices of goods especially services item. Jewellery and precious stones also edged higher as most of the items are imported from overseas.

**Table 1: Inflation According to Main Categories**

	%MoM				%YoY				2015
	Sep 2015	Oct 2015	Nov 2015	Dec 2015	Sep 2015	Oct 2015	Nov 2015	Dec 2015	
FNAB	0.25	0.17	(0.25)	0.75	4.32	4.67	4.14	4.56	3.63
ABT	0.00	0.00	17.52	1.73	9.78	13.29	20.67	22.75	13.38
CF	0.20	(0.10)	0.00	(0.1)	0.71	0.71	0.61	0.82	0.49
HW	0.00	0.00	0.53	0.00	2.65	2.65	2.45	2.45	5.43
FH	0.00	(0.09)	0.18	0.09	3.75	3.75	3.84	4.23	2.67
Health	0.26	0.17	0.09	0.26	4.60	4.69	4.40	4.58	4.43
Transport	(2.82)	3.00	0.36	(2.26)	(3.78)	(5.74)	(5.24)	(6.17)	(4.51)
Communication	0.10	0.00	0.00	(0.10)	3.18	3.29	3.39	3.29	1.96
RC	0.19	0.00	0.19	0.00	2.29	2.38	2.57	2.57	1.71
Education	0.00	0.00	0.09	0.27	2.45	2.45	2.45	2.63	2.41
RH	0.16	0.16	0.24	0.24	4.59	4.67	4.57	4.74	4.18
MG	1.00	(0.09)	0.27	(0.18)	5.59	5.79	5.88	5.39	4.15
<b>Overall</b>	<b>(0.26)</b>	<b>0.44</b>	<b>0.61</b>	<b>0.00</b>	<b>2.62</b>	<b>2.52</b>	<b>2.59</b>	<b>2.68</b>	<b>2.10</b>

Source: DoS, CEIC, MIDF Research


**Chart 1: YoY Inflation Comparison between 2014 and 2015 for Highest Sub-Indices**



Source: DoS, CEIC, MIDF Research

**The 40% increase in excise duty cause prices of cigarette to soar the most.** In November 2015, the government imposed an increase of 40% in excise duty for cigarettes. The increase of the excise duty is the highest in 3 years following a smaller increase in September 2013 (14% increase).

**Fare hike of rail transports were reflected in December figure.** Public rail transports saw record inflation as the planned fare hike took effect in December. In our previous report, we noted that there will be inflation in the public rail transports segment due to the planned fare hike. We also noted that the impact to the overall inflation would also be marginal as weight of rail transport only accounted for 3% of the total inflation basket.

**The inflation expectation for year 2016 remains unchanged at 2.90%.** The latest development of the oil market points to a possible lengthened period of low oil prices. Nonetheless, we expect that the headline inflation figure to notch higher this year as the effect of the low prices to be fade out especially in the first two quarters of the year. 

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