

ECONOMIC REVIEW | June 2017 Consumer Price Index

Inflation Continues to Ease in June – Lowest in 5 Month

- *Deceleration in overall prices continues. Headline inflation rose by 3.6% in May, the lowest in five months. The decline in headline inflation is mainly due to tepid pace in fuel and transport prices.*
- *Inflation rate across major and regional economies reflects steady trends. We expect the inflation will remain growing at gradual pace until the end of the year due to modest movement in commodity prices for the past two months.*
- *We revise down our 2017 inflation forecast to 3.8%. Headline inflation figures registering an average growth of 4.1% in the first half of 2017. The surge seen in the CPI figures were mainly attributed to the base effect from lower crude oil prices in the first half of 2016.*

Deceleration in overall prices continues. Headline inflation rose by 3.6% in May, the lowest in five months. On monthly basis, headline inflation continued a downward trend for four consecutive months. The decline in headline inflation is mainly due to tepid pace in fuel and transport prices. Transport prices remain on downward trend from peak of 23% in March to 10.5% last month. Apart from that, core inflation stable at 2.5% while food and non-food inflation rose slightly lower than the previous month by 4.3% and 3.2% respectively. Hence, we foresee Malaysia's inflation to grow moderately for the second half of 2017 given that cost-driven factors are tapering off.

Table 1: Consumer Price Indices

Indices	%MoM				%YoY			
	Mar-17	Apr-17	May-17	Jun-17	Mar-17	Apr-17	May-17	Jun-17
CPI	-0.1	-0.3	-0.2	-0.2	5.1	4.4	3.9	3.6
Core CPI	0.1	0.2	0.3	0.0	2.5	2.5	2.6	2.5
Non Food	0.1	-0.4	-0.5	-0.4	5.6	4.5	3.7	3.2
Food and Non Alcoholic Beverages	-0.3	0.1	0.5	0.4	4.1	4.1	4.4	4.3
Alcoholic Beverages and Tobacco	0.1	0.0	0.1	-0.1	0.2	0.2	0.2	0.1
Clothing and Footwear	-0.1	0.2	-0.2	-0.2	-0.2	-0.1	-0.2	-0.4
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	0.5	0.0	2.1	2.2	2.2	2.2
Furnishings, Household Equipment and Maintenance	0.1	0.4	0.3	0.0	1.5	1.9	2.1	2.1
Health	0.2	0.2	0.2	0.2	2.6	2.8	2.9	2.6
Transport	-0.3	-1.9	-3.2	-2.4	23.0	16.7	13.1	10.5
Communication	0.1	-0.1	0.0	0.0	-0.2	-0.3	-0.3	-0.3
Recreation and Culture	-0.2	0.0	0.0	0.1	3.0	3.0	2.9	3.0
Education	0.1	0.1	0.0	0.1	1.7	1.7	1.7	1.7
Restaurants and Hotels	0.2	0.2	0.2	0.1	2.3	2.4	2.3	2.5
Miscellaneous Goods and Services	0.1	0.2	0.0	-0.1	1.3	1.5	1.3	1.2
Durable Goods	0.0	0.4	0.1	0.0	1.1	1.5	1.3	1.2
Semi Durable Goods	0.0	0.2	-0.1	-0.2	-0.1	-0.1	0.0	-0.2
Non-Durable Goods	-0.5	-0.8	-0.7	-0.6	9.1	7.0	6.1	5.1
Services	0.2	0.2	0.2	0.1	2.8	2.9	2.9	3.0

Source: DOSM, MIDFR

Food inflation steady above 4%– Festive season effects. As Ramadhan and Eid approached in June, we noticed prices of fresh fish, meat and seafood grew by 1.1%, 2% and 3.8% respectively on monthly basis. We believe the surge was driven by stronger domestic demand in particular for the preparation of Eid celebration. In addition, cash bonuses provided by the federal and state governments to civil servants indirectly provide extra boost for consumption level during the month. For the second half of 2017, we foresee both food and non-food inflation to stay in the range of 3% to 5%.

Transport price expected to slow down further. Transport price continues growing by double digits but tapering in momentum. Similar trend saw in price of fuels & lubricants for transportation. As of middle of July, Brent oil price recorded at \$47.8 per barrel in which the lowest in ten months. For retail fuel price, average for the first two weeks of July is RM1.95 per litre, bottommost since February 2017. Therefore, we could expect transport inflation to moderate in the coming months. Headline inflation is expected to move in tandem with the downward trend of transportation prices.

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

Sub-Indices	%MoM				%YoY			
	Mar-17	Apr-17	May-17	Jun-17	Mar-17	Apr-17	May-17	Jun-17
Housing Rental	0.0	0.0	0.4	0.0	2.9	2.9	2.7	2.7
Food Away From Home	0.5	0.6	0.2	0.1	4.4	4.9	4.9	4.8
Fuels & Lubricants for Transportation	-0.5	-3.4	-5.3	-4.2	42.1	29.2	22.3	17.2
Telephone & Telefax Services	-0.1	-0.1	-0.6	-0.1	-2.3	-2.3	-2.7	-2.9
Electricity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fresh Fish	-0.4	-0.3	-0.4	1.1	5.3	6.6	8.7	7.6
Cigarettes	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0
Expenses In Restaurants & Cafes	0.2	0.2	0.2	0.1	2.5	2.7	2.5	2.6
Fresh Meat	-2.6	-0.2	1.1	2.0	3.7	4.2	5.3	4.0
Fresh Vegetables	-5.3	-1.0	3.0	-0.1	5.5	2.7	0.9	2.0
Transportation Repair & Maintenance	0.1	0.4	0.4	0.3	2.9	3.2	3.3	3.5
Bread & Bakery Products	0.3	0.1	0.1	0.1	1.8	1.6	1.6	1.7
Purchase of Motorcars	0.4	0.0	0.0	0.0	0.9	0.7	0.6	0.7
Rice	0.0	0.1	0.0	-0.1	0.4	0.4	0.4	0.3
Fresh Seafood	0.0	0.0	0.7	3.8	5.4	6.2	7.3	7.9
Other Transportation Services (Including Toll)	0.0	0.0	0.0	0.0	6.2	6.2	6.2	6.2
Insurance for Motor Vehicles	0.0	0.0	0.0	0.0	1.2	0.5	0.0	0.2

Source: DOSM, MIDFR

States inflation go slow in June. Inflation for all states in June 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. In June, Melaka recorded the highest inflation at 4% which driven by tourism factors. Prices of recreation & culture and restaurant & hotel increase by 3.6% and 4.1% respectively, higher than the previous month. We believe two-weeks school holidays and festive seasons are the main tourism factors drive up inflation in the state. In spite of this, we foresee inflation among states to maintain expanding at moderate pace for the second half of 2017.

Table 3: States Headline Inflation

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

Source: DOSM, MIDFR

Downhill for US inflation. US registered its headline and core inflation rates at 1.6% and 1.7% respectively last month, the lowest in 2017 so far. Despite of strengthening labour market, wage growth and domestic spending remain at tepid pace. Hence, the slowdown in the overall prices and weaker-than-expected domestic spending may put pressure on the Fed to postpone the next rate hike and its major plan of widening down Fed's balance sheet worth of \$4.5 trillion. Across the globe, China's inflation rate maintained at 1.5% for two consecutive months. Overall, inflation rate across major and regional economies reflects steady trends. We expect the inflation will remain growing at gradual pace until the end of the year due to modest movement in commodity prices for the past two months.

Table 4: Global Headline Inflation

	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Malaysia	1.8	1.8	3.2	4.5	5.1	4.4	3.9	3.6
Indonesia	3.6	3.0	3.5	3.8	3.6	4.2	4.3	4.4
Philippines	2.5	2.6	2.7	3.3	3.4	3.4	3.1	2.8
Thailand	0.6	1.1	1.6	1.4	0.8	0.4	-0.04	-0.1
Singapore	0.0	0.2	0.6	0.9	0.8	0.5	0.8	
United States	1.7	2.1	2.5	2.8	2.4	2.2	1.9	1.6
China	2.3	2.1	2.5	0.8	0.9	1.2	1.5	1.5
EU	0.6	1.2	1.7	2.0	1.7	2.0	1.6	1.4
Japan	0.5	0.3	0.5	0.3	0.2	0.4	0.4	

Source: CEIC, MIDFR


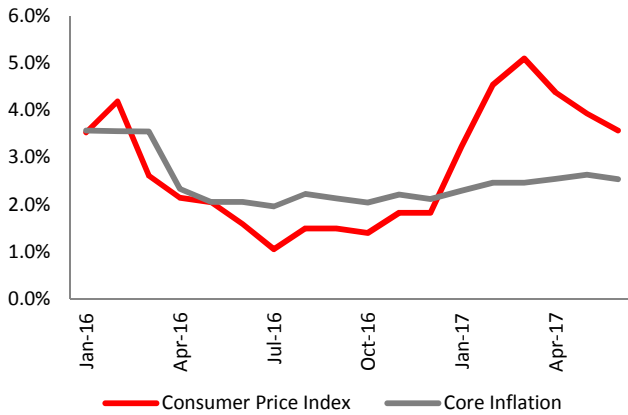
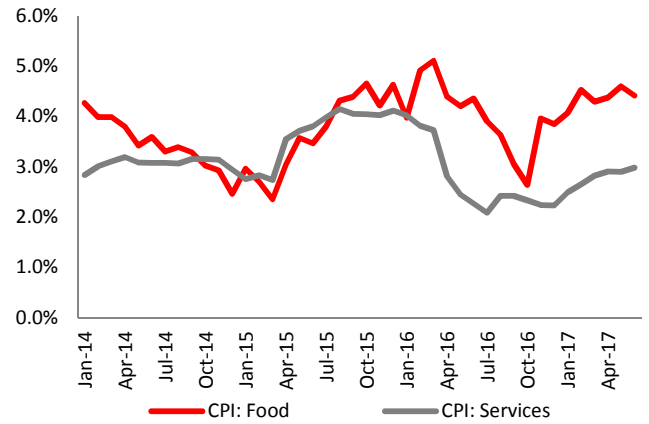
We revise down our 2017 inflation forecast to 3.8%. Headline inflation figures registering an average growth of 4.1% in the first half of 2017. The average figure is significantly higher than 2.9% recorded in the corresponding period last year. The surge seen in the CPI figures were mainly attributed to the base effect from lower crude oil prices in the first half of 2016. We view the current inflation momentum will decelerate in the coming months as the cost pressure moderates due to softening commodity prices and stronger Ringgit. Nevertheless, the headline inflation rate will remain higher compared to a year prior due to lower base effect. The average inflation rate registered in the second half of 2016 was only 1.5%. We estimate an average inflation rate of 3.8% for 2017, lower than our earlier forecast of 4.5%. 

Chart 1: CPI vs Core CPI



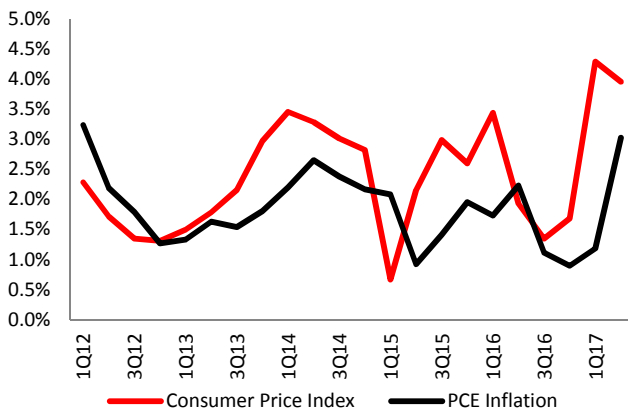
Source: DOSM, MIDFR

Chart 2: Food Price Index vs Services Price Index



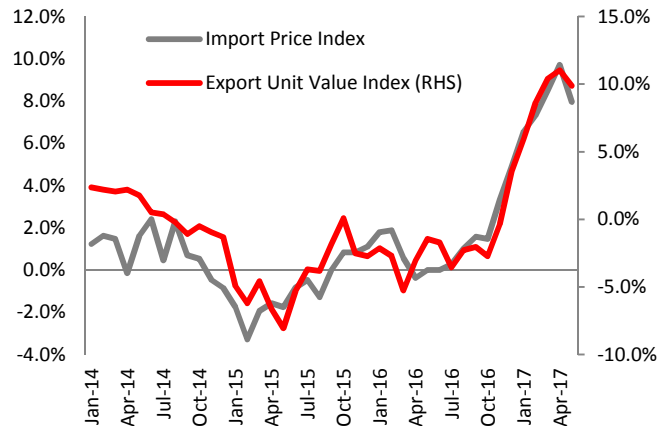
Source: DOSM, MIDFR

Chart 3: CPI vs PCE Inflation



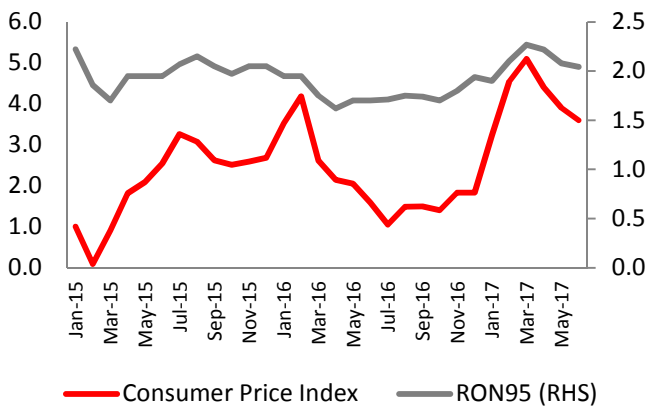
Source: DOSM, MIDFR

Chart 4: Imports Price Index vs Export Price Index



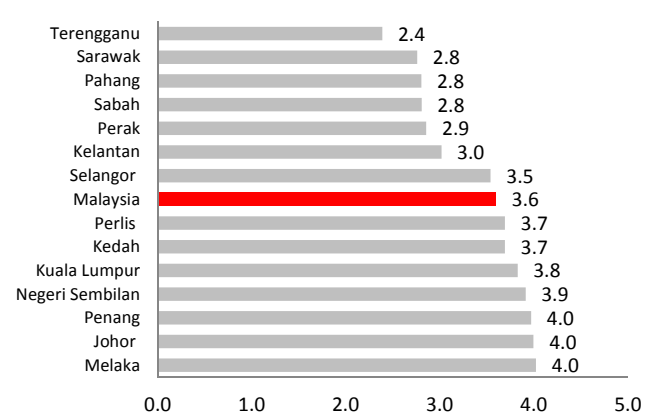
Source: DOSM, MIDFR

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



Source: DOSM, MIDFR

Chart 6: Inflation by States in June (%)



Source: DOSM, MIDFR

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