

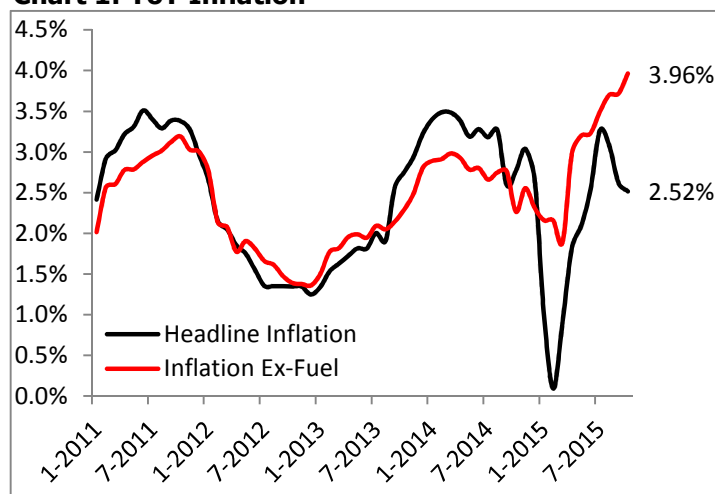
ECONOMIC REVIEW | October 2015 Consumer Price Index

Food and Non-Alcoholic Beverages Price Beginning to Stabilise in October

- *Malaysia headline inflation moderated to 2.52%yoy in October 2015 due to the low oil price in for the month relative to the same period last year. Furthermore, it would seem that the continuous high increase of food and non-alcoholic beverages has started to slowdown, where it only increases marginally by 0.17%mom in October.*
- *The impact of an increase in toll hike is yet to be seen in the October data. We conclude that the data collection period was done prior to the toll hike which was conducted in mid-October, as such the full impact of the toll hike should only be seen in November data.*
- *We maintain our inflation target of 2.1% for year 2015 while revising downward our forecast for year 2015 to 2.9% due to the lower than expected recovery of the oil price. We are expecting inflation would come at 2.30% and 2.05% for November and December 2015 respectively.*

Inflation came in at 2.52%yoy in October, close with our expectation of 2.60%yoy. On year-on-year basis, consumer price index rose by 2.52%yoy, close with our expectation of 2.60%yoy. Food and non-alcoholic beverages (FNAB) index grew by 4.67%yoy, the highest increment on year-on-year basis for 45 months, contributing 58.2% of the increment in CPI. Due to the large difference for the pump price on year-on-year basis i.e. RM2.30/litre in October 2014 against RM2.05/litre in October 2015, transportation index contracted by 5.74%yoy, where the fuel and lubricating sub-index contracted up to 10.81%yoy.

Chart 1: YoY Inflation



Source: DoS, CEIC, MIDF Research

Inflation is at a considerably high level if pump price is excluded. Inflation ex-fuel, where we took out the fuel price from the CPI basket, continues its upward momentum to 3.96% in October compared to 3.72% in September. This is a relatively huge difference compared to the headline inflation, where it fell to 2.52% from 2.62% in the previous month. However, due to the relatively 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.

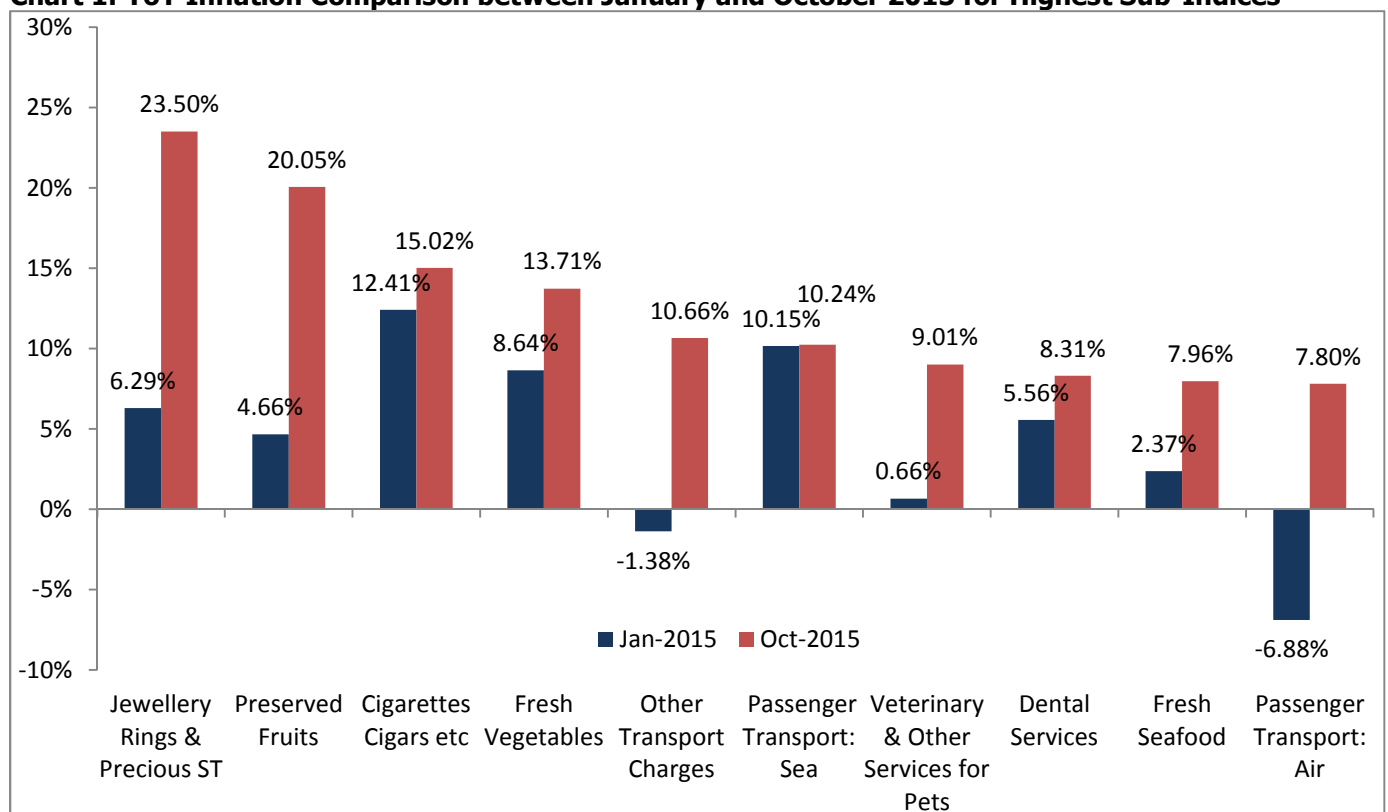
The impact of toll hike is yet to be seen in October CPI data. Other than the transport industry, there is not much difference in the CPI on month-on-month basis. FNAB price index which has been consistently increasing since April 2015 this year is finally showing signs of stabilisation. The index grew marginally by 0.17%mom in October 2015, the lowest in 7 months period. Furthermore, we were initially expecting a more apparent impact of the toll hike which was conducted in mid-October, however the impact can hardly be seen in the October data. The 'other service in respect of personal transport equipment' sub-index which is supposed to be where the price of toll lies did not have any change on month-on-month basis in October. We conclude that the data collection period was done prior to the toll hike, as such any impact of the toll hike should only be seen in the November data.

Table 1: Inflation According to Main Categories

	%MoM				%YoY				%YTD
	July 2015	August 2015	Sep 2015	Oct 2015	July 2015	August 2015	Sep 2015	Oct 2015	
FNAB	0.76	0.50	0.25	0.17	3.81	4.24	4.32	4.67	3.48
ABT	1.77	0.07	0.00	0.00	13.30	13.38	9.78	13.29	11.71
CF	(0.20)	(0.20)	0.20	(0.10)	0.92	0.71	0.71	0.71	0.45
HW	0.00	0.72	0.00	0.00	2.48	2.65	2.65	2.65	2.43
FH	0.36	0.27	0.00	(0.09)	3.86	3.75	3.75	3.75	2.40
Health	0.09	0.09	0.26	0.17	4.81	4.71	4.60	4.69	4.41
Transport	3.11	(2.66)	(2.82)	3.00	1.62	(1.17)	(3.78)	(5.74)	(4.27)
Communication	0.10	0.10	0.10	0.00	2.76	2.97	3.18	3.29	1.68
RC	0.19	0.19	0.19	0.00	1.90	2.10	2.29	2.38	1.53
Education	0.00	0.27	0.00	0.00	2.37	2.45	2.45	2.45	2.39
RH	0.25	0.24	0.16	0.16	4.61	4.51	4.59	4.67	4.09
MG	0.18	0.00	1.00	(0.09)	4.74	4.55	5.59	5.79	3.85
Overall	0.80	0.00	(0.26)	0.44	3.26	3.08	2.62	2.52	1.99

Source: DoS, CEIC, MIDF Research

Chart 1: YoY Inflation Comparison between January and October 2015 for Highest Sub-Indices



Source: DoS, CEIC, MIDF Research

All of the domestic and external issues for year 2015 have led to a huge price jump to some sub-indices. Jewellery, rings and precious stone price index had the highest jump by 23.5%yoy, the highest in 44 months despite the gold price has remained at a relatively low level for this year. The jump is most likely due to the significant decline in Ringgit, as Malaysia imports almost all of the jewelleries sold domestically. Some services i.e. veterinary and dental services have had a huge increase particularly since both of the services were not liable for consumption tax under the previous tax system and now are being imposed 6% tax under the goods and services tax system. Furthermore, the weaker Ringgit has also led to higher prices as both medicines and equipment required for the two services are mostly imported.

We maintain our inflation expectation for year 2015 at 2.10% but change our inflation forecast for year 2016 to 2.90%. Due to the slower recovery of the oil price, we revise our inflation expectation for year 2016 to 2.90%. We are now expecting the inflation figure will come out at 2.30% for November 2015 and 2.05% for December 2015 respectively, on the expectation that the pump price will be reduced in December due to the lower oil price recently.



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