

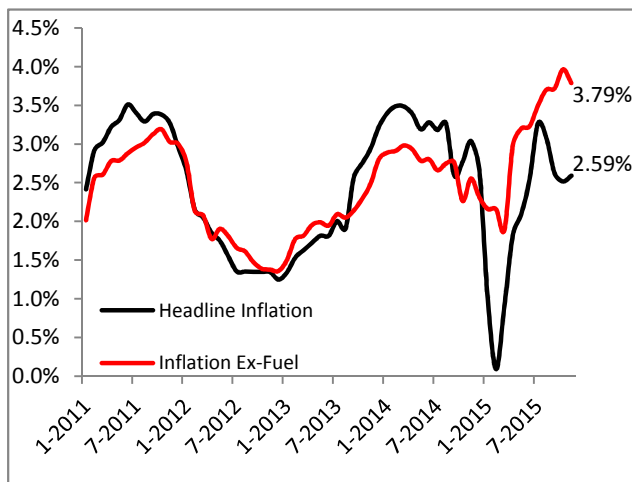
ECONOMIC REVIEW | November 2015 Consumer Price Index

Surge in Prices of Tobacco Products Drove Inflation Higher Than Expectation

- Malaysia headline inflation increased to 2.59%yoy in November 2015 due to higher tobacco products for the month relative to the same period last year. The inflation figure is higher than expectation mainly due to surge in tobacco prices
- The impact of the toll hike in Mid-October was reflected in the November data. 'Other services related to personal transport' sub-index recorded largest gain in recent years by 8.78% YoY and 7.67% mom.
- We maintain our inflation target of 2.1% and 2.90% for year 2016 respectively amid the low oil environment. Inflation for December 2015 is expected to register 2.50% December 2015 and to inch higher in January to 3.60%.

Higher than expected inflation in November, headline inflation reached in 2.59% YoY. On year-on-year basis, consumer price index rose by 2.59%yoy, higher than our expectation of 2.30%yoy. Food and non-alcoholic beverages (FNAB) index grew by 4.14%yoy, marking the fourth consecutive months of above 4% yoy increase. The continued large difference for the pump price on year-on-year basis i.e. RM2.26/litre in November 2014 against RM1.95/litre in November 2015, transportation index contracted by 5.24%yoy, where the fuel and lubricating sub-index contracted up to 10.52%yoy.

Chart 1: YoY Inflation



Source: DoS, CEIC, MIDF Research

Inflation remains high excluding pump price. Inflation ex-fuel, where we took out the fuel price from the CPI basket, moderated to 3.79% in November compared to 3.96% in October. On the other hand the headline resumed its upward trajectory to 2.59%, up from 2.52% in October. In view of the 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.

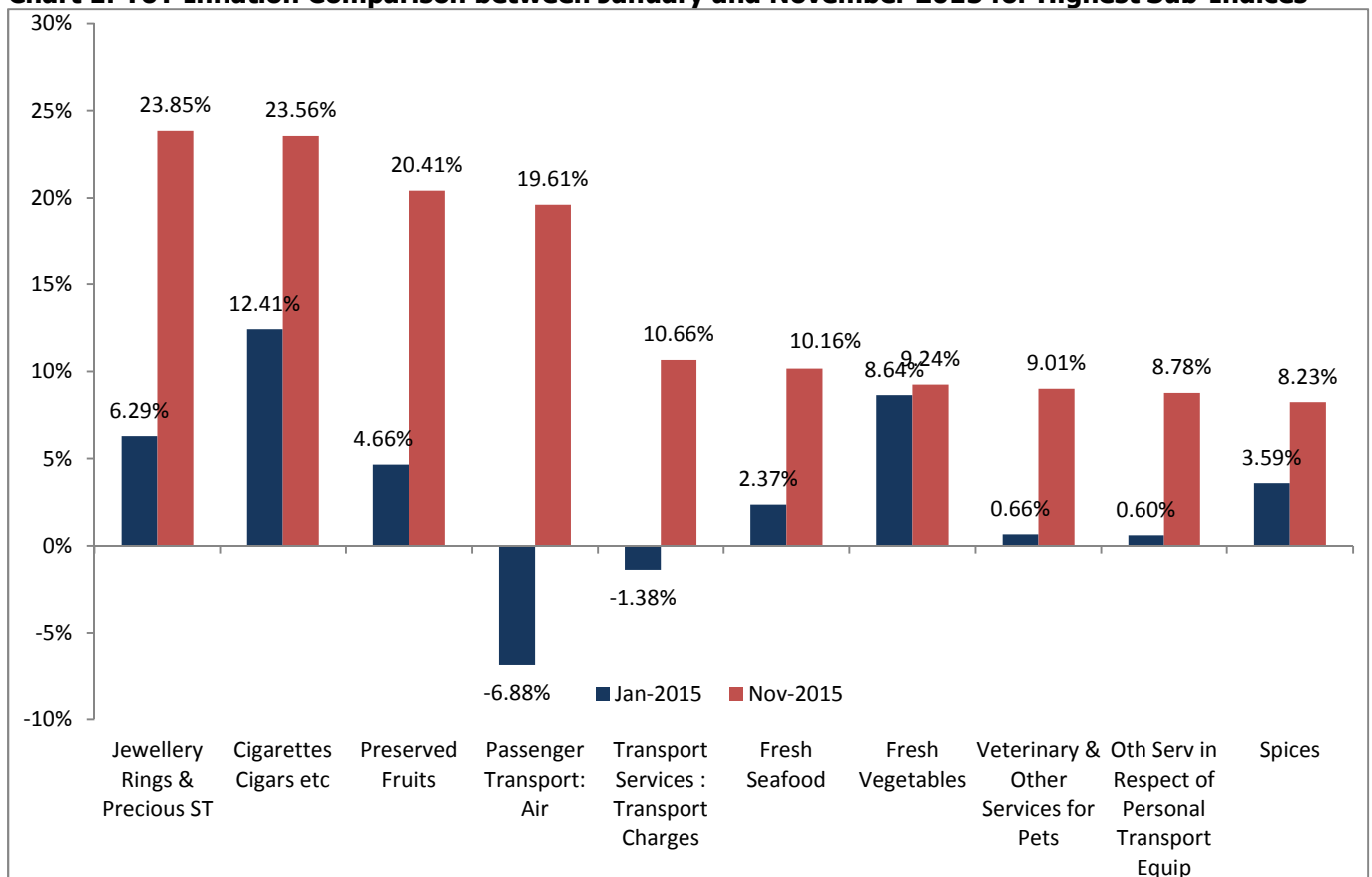
Impact of toll hike was finally reflected in the November CPI data. The toll hike in October was made after being unchanged in recent years. The effect of the toll hike was apparent with the transport sub-index, 'other service in respect of personal transport equipment' saw its largest year-on year and month-on-month increase by 8.78% and 7.67% respectively. Other than the transport industry, November saw another huge jump in alcoholic beverage and tobacco which rose by 20.62% yoy and 17.52% mom. The increase was in fact contributed by the increase in excise tax by 40% to tobacco products. This was in similar fashion to last year's increase of 12%. Other than the two industries aforementioned, prices actually stabilised. FNAB price index shrank marginally by 0.25%mom in November 2015, in tandem with its relatively timid increase of 4.14%yoy (lowest in 4 months).

Table 1: Inflation According to Main Categories

	%MoM				%YoY				%YTD
	August 2015	Sep 2015	Oct 2015	Nov 2015	August 2015	Sep 2015	Oct 2015	Nov 2015	
FNAB	0.50	0.25	0.17	(0.25)	4.24	4.32	4.67	4.14	3.48
ABT	0.07	0.00	0.00	17.52	13.38	9.78	13.29	20.67	11.71
CF	(0.20)	0.20	(0.10)	0.00	0.71	0.71	0.71	0.61	0.45
HW	0.72	0.00	0.00	0.53	2.65	2.65	2.65	2.45	2.43
FH	0.27	0.00	(0.09)	0.18	3.75	3.75	3.75	3.84	2.40
Health	0.09	0.26	0.17	0.09	4.71	4.60	4.69	4.40	4.41
Transport	(2.66)	(2.82)	3.00	0.36	(1.17)	(3.78)	(5.74)	(5.24)	(4.27)
Communication	0.10	0.10	0.00	0.00	2.97	3.18	3.29	3.39	1.68
RC	0.19	0.19	0.00	0.19	2.10	2.29	2.38	2.57	1.53
Education	0.27	0.00	0.00	0.09	2.45	2.45	2.45	2.45	2.39
RH	0.24	0.16	0.16	0.24	4.51	4.59	4.67	4.57	4.09
MG	0.00	1.00	(0.09)	0.27	4.55	5.59	5.79	5.88	3.85
Overall	0.00	(0.26)	0.44	0.61	3.08	2.62	2.52	2.59	1.99

Source: DoS, CEIC, MIDF Research

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



Source: DoS, CEIC, MIDF Research

Jewellery and Cigarettes saw highest jump in November. Jewellery, rings and precious stone price index had the highest jump by 23.85%yoy, increasing its tally to 45 months high despite gold price remained at a relatively low level for this year. The significant decline in Ringgit and tight global physical gold market had caused the jump in price, as Malaysia imports almost all of the jewelleries sold domestically.

Impact of fare hike in public rail transports to be minimal. The recent announcement of the fare hikes for public rail transports such as KTM, Monorail and LRT which will take effect in December is seen to give minimal impact for inflation figure in December. This is due to the low contribution of this sub-sector to the inflation basket (0.03% weight).

We maintain our inflation expectation for year 2015 and 2016 at 2.10% and 2.90% respectively. With oil prices remain in lower territory and recovery remains weak, we maintain our inflation expectation for year 2016 at 2.90%. We are now expecting the inflation figure will come out at 2.50% for December 2015 respectively, as the pump price has been maintained in December due to the lower oil price recently.



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