

ECONOMIC REVIEW | April 2016 Consumer Price Index

As The Impact of GST Wears Off, Inflation Dived Lower

- April headline inflation was in line with our forecast at 2.1%yoy (March 2016: 2.6%), as the one-off GST impact wears off. For the same period, core inflation edged lower for the same reason to 2.3%yoy. On month-on-month basis, CPI grew by 0.4%mom, mainly due to the higher pump price. We estimate the impact of GST around 1.2% to the core inflation.
- All of the sub-indices dived in April on year-on-year basis for the same reason. However, even the month-on-month inflationary figure softens in April (with the exception of transportation index due to the pump price), reflecting an overall soft inflationary pressure. Healthcare price index declined for the first time in 61 months by 0.1%mom
- We maintain our forecast for inflation to come at 2.6% for year 2016, while expecting May headline inflation rate and core inflation rate at 2.0% and 2.2% respectively. At the same time, we expect the price of RON95 will increase to RM1.80-1.85 in June 2016.

Headline inflation dropped to 2.1%yoy in April, came in exactly as forecasted. Inflation in April edged lower to 2.1% following higher figures of 2.6% and 4.2% in March and February respectively. The figure is also in line with consensus of economists surveyed by Bloomberg. We have expected a lower figure as there is still sizeable pump price gap between current period and last year (RON95 April 16': RM1.70/litre, April 15': RM1.95/litre. Core inflation moderated to 2.3% in April from 3.6% in the previous month. This shows that there was also lower inflationary pressure on non-volatile item such as non-food which moderated to 1.2%.

Table 1: Consumer Price Indices

Indices	%MoM				%YoY			
	Jan-16	Feb-16	Mar-16	Apr-16	Jan-16	Feb-16	Mar-16	Apr-16
CPI	-0.3%	0.0%	-0.6%	0.4%	3.5%	4.2%	2.6%	2.1%
Core CPI	0.1%	0.4%	0.1%	0.1%	3.6%	3.6%	3.6%	2.3%
Non Food	-0.6%	-0.3%	-0.9%	0.6%	3.3%	3.9%	1.5%	1.2%
Food and Non Alcoholic Beverages	0.6%	0.7%	-0.1%	0.0%	3.9%	4.8%	5.0%	4.2%
Alcoholic Beverages and Tobacco	-0.1%	0.0%	0.1%	0.0%	22.6%	22.6%	22.7%	20.1%
Clothing and Footwear	0.2%	-0.3%	-0.1%	0.1%	0.4%	0.5%	0.0%	-0.7%
Housing, Water, Electricity, Gas & Other Fuels	0.2%	0.4%	0.1%	-0.1%	3.1%	2.6%	3.1%	2.6%
Furnishings, Household Equipment and Maintenance	0.3%	0.4%	0.1%	0.1%	4.1%	4.7%	4.7%	2.6%
Health	0.3%	0.3%	0.0%	-0.1%	4.6%	4.5%	4.2%	2.2%
Transport	-2.9%	-3.1%	-4.3%	3.3%	0.6%	3.6%	-8.2%	-5.5%
Communication	-2.4%	0.0%	0.0%	0.0%	0.9%	0.9%	0.9%	-2.1%
Recreation and Culture	0.1%	0.5%	0.0%	0.0%	2.3%	2.4%	2.6%	1.6%
Education	0.7%	0.4%	0.2%	0.1%	2.6%	2.5%	2.6%	2.1%
Restaurants and Hotels	0.1%	0.4%	0.2%	0.1%	4.5%	4.7%	4.5%	2.7%
Miscellaneous Goods and Services	0.4%	0.3%	0.2%	0.0%	5.5%	5.2%	5.1%	2.6%
Durable Goods	0.3%	0.4%	0.4%	0.0%	2.6%	2.7%	3.2%	2.2%
Semi Durable Goods	0.2%	-0.2%	-0.2%	0.2%	0.7%	0.8%	0.3%	-0.6%
Non Durable Goods	-0.6%	-0.7%	-1.6%	1.1%	3.4%	5.0%	1.2%	1.4%
Services	0.0%	0.4%	0.0%	0.1%	4.0%	3.8%	3.7%	2.8%

Source: Department of Statistics, Malaysia; MIDF Research

Food and non-alcoholic beverages inflation fell below 5.0% but was due to high base effect. FNAB fell to 4.2% due to higher base effect despite the index remained unchanged month-on-month basis. The high food prices were expected as April recorded another hot and dry month according to the Malaysian Meteorological Department (MetMalaysia), putting pressures on production of food items especially fresh vegetables due to high temperature and shortage of water supply. MetMalaysia is expecting higher rainfall and cooler temperature from June onwards as we transition to La Nina. This should help to boost supply in the future.

Waning effect of GST lead to drop in inflation for services items. Services item slipped to 2.8%yoy from 3.7% after increasing by only 0.1%mom in April. This was significantly lower compared to the first 6 months of GST implementation which averaged higher at 0.5%mom. Sub-items under services were mostly trending down on year-on-year basis such as garments (-0.7%), communication (-2.1%), recreation and culture (1.6%), and restaurants and hotels (2.7%). However, even on month-on-month basis, healthcare priced index dropped by 0.1%mom, the first time in 61 months.

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

Sub Indices	%MoM				%YoY			
	Jan-16	Feb-16	Mar-16	Apr-16	Jan-16	Feb-16	Mar-16	Apr-16
Housing Rental	0.0%	0.6%	0.0%	0.0%	3.4%	2.9%	2.9%	2.9%
Food Away From Home	0.6%	0.4%	0.2%	0.2%	4.7%	4.8%	4.8%	3.9%
Fuels & Lubricants for Transportation	-5.4%	-5.6%	-8.1%	6.3%	-2.1%	2.9%	-17.2%	-12.1%
Telephone & Telefax Services	-2.7%	0.0%	0.0%	0.0%	0.8%	0.8%	0.8%	-2.3%
Electricity	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%	3.5%	1.3%
Personal Care & Effects Products	0.6%	0.4%	-0.1%	0.1%	5.0%	5.3%	4.8%	2.5%
Fresh Fish	1.9%	2.3%	-1.3%	-1.6%	5.2%	7.2%	8.9%	7.9%
Cigarettes	0.0%	0.0%	0.0%	0.0%	25.9%	25.9%	25.9%	23.4%
Expenses In Restaurants & Cafes	0.2%	0.5%	0.2%	0.1%	4.9%	5.2%	4.9%	3.1%
Garments	0.0%	-0.1%	-0.1%	0.2%	0.1%	0.4%	-0.1%	-0.7%
Cultural Services	0.1%	0.8%	0.0%	0.0%	1.3%	2.1%	1.9%	1.4%
Fresh Meat	4.1%	-0.9%	-1.4%	-0.7%	6.8%	5.3%	1.4%	0.4%
Fresh Vegetables	-4.5%	3.0%	-0.4%	1.7%	-1.4%	10.1%	12.3%	13.5%
Transportation Repair & Maintenance	0.8%	0.6%	0.6%	0.2%	8.4%	8.9%	9.5%	6.7%
Bread & Bakery Products	0.3%	0.2%	0.1%	0.3%	2.9%	2.9%	3.0%	1.9%
Purchase of Motorcars	0.6%	0.6%	0.5%	0.2%	-0.2%	0.4%	0.9%	2.3%
Rice	0.1%	0.0%	0.1%	0.1%	0.4%	0.5%	0.4%	0.7%
Fresh Seafood	3.8%	1.9%	0.1%	-0.7%	7.9%	8.8%	11.5%	11.4%
Other Transportation Services (Including Toll)	0.0%	0.0%	0.0%	0.0%	8.8%	7.8%	7.8%	7.6%
Insurance for Motor Vehicles	0.1%	0.0%	0.0%	0.7%	7.0%	6.8%	6.3%	2.6%

Source: Department of Statistics, Malaysia; MIDF Research

Global inflationary pressures were mixed in April. A number of the Southeast Asian economies are experiencing relatively stronger inflationary pressure in April, with the exception of Malaysia and Indonesia. However, little could be said whether it reflects an overall better economy as countries as on average, the inflationary pressures are weaker among the Asean 5 countries. The inflationary pressure remains weak for the EU and Japan, though it is getting slightly better for the US.

Table 3: Global Headline Inflation

	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16
Malaysia	3.1%	2.6%	2.5%	2.6%	2.7%	3.5%	4.2%	2.6%	2.1%
Indonesia	7.2%	6.8%	6.2%	4.9%	3.4%	4.1%	4.4%	4.4%	3.6%
Philippines	0.6%	0.4%	0.4%	1.1%	1.5%	1.3%	0.9%	1.1%	1.1%
Thailand	-1.2%	-1.1%	-0.8%	-1.0%	-0.9%	-0.5%	-0.5%	-0.5%	0.1%
Singapore	-0.8%	-0.6%	-0.8%	-0.8%	-0.6%	-0.6%	-0.6%	-0.9%	
United States	0.2%	0.0%	0.1%	0.4%	0.7%	1.3%	1.0%	0.9%	1.1%
China	2.0%	1.6%	1.3%	1.5%	1.6%	1.8%	2.3%	2.3%	2.3%
EU	0.0%	-0.1%	0.0%	0.1%	0.2%	0.3%	-0.1%	0.0%	-0.2%
Japan	0.2%	0.0%	0.3%	0.3%	0.2%	0.0%	0.3%	-0.1%	0.0%

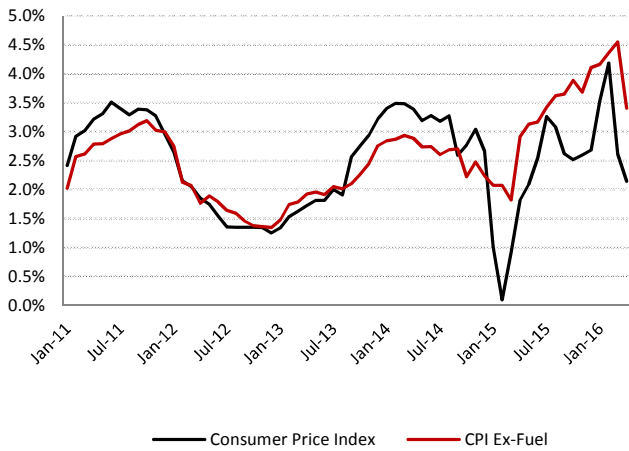
Source: Department of Statistics, Malaysia; MIDF Research

We are maintaining with our forecast that the OPR will be cut by 25 bps. In March, the money supply, M1 has contracted on year-on-year basis for the first time since Asian Financial Crisis by 1.7%yoy, while M2 and M3 was relatively weak, growing by 0.9%yoy. Despite the higher base effect – due to the pre-GST rush last year – the growth of money supply was weak even on month-on-month basis. With the overall low inflationary pressure, we expect BNM will follow the global monetary policy direction, which is to cut the OPR by 25bps in September 2016.

We are maintaining our inflation rate FY16 forecast at 2.6%. For now we are maintaining our inflation rate forecast at 2.6%. At the same time, we are expecting headline inflation rate for May 2016 to be at 2.0% while core inflation to be at 2.2%. Overall headline inflationary pressure could be softer due to the better weather in May though the higher commodity price would still push the figure upward. As a side note, we are expecting the price of RON95 will be between RM1.80-1.85 for May 2015.

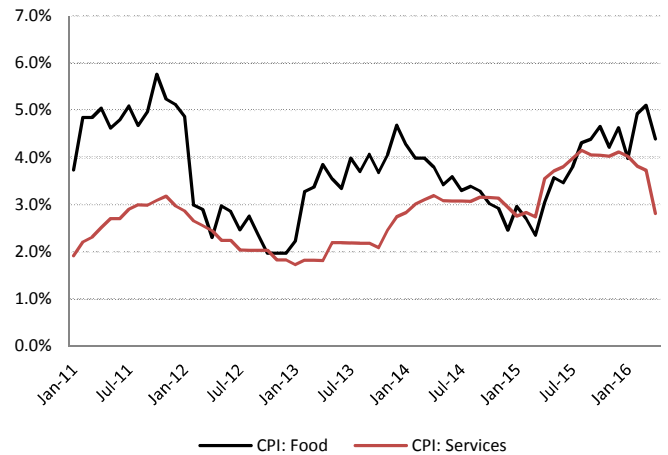


Chart 1: CPI vs PPI



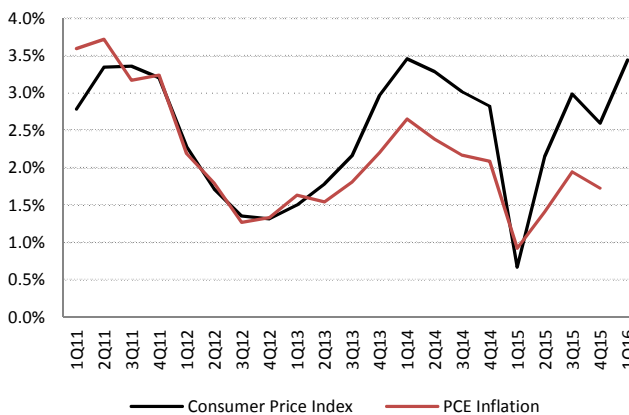
Source: Department of Statistics, Malaysia; MIDF Research

Chart 2: Food Price Index vs Services Price Index



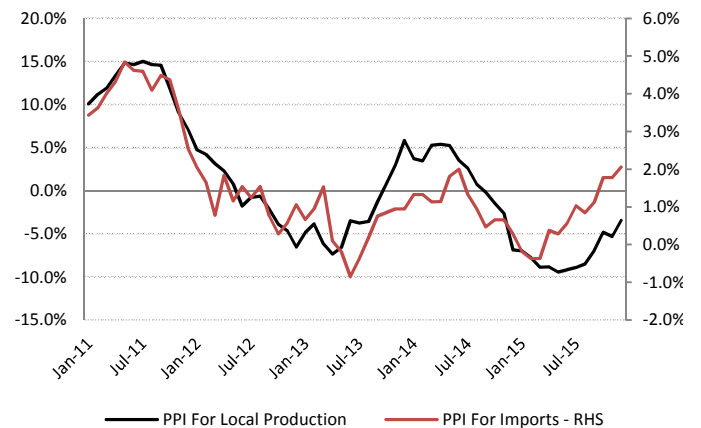
Source: Department of Statistics, Malaysia; MIDF Research

Chart 3: CPI vs PCE Inflation



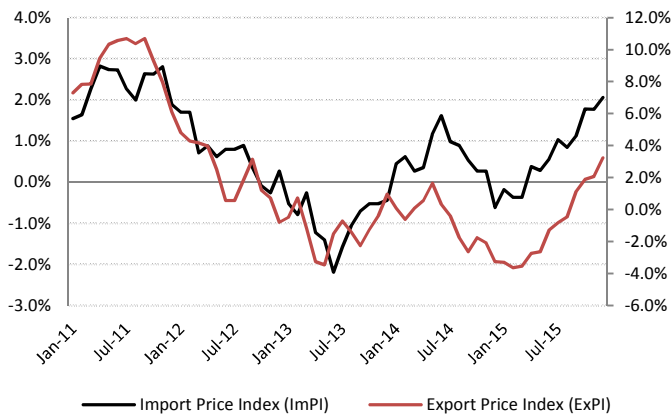
Source: Department of Statistics, Malaysia; MIDF Research

Chart 4: PPI Local vs PPI Imports



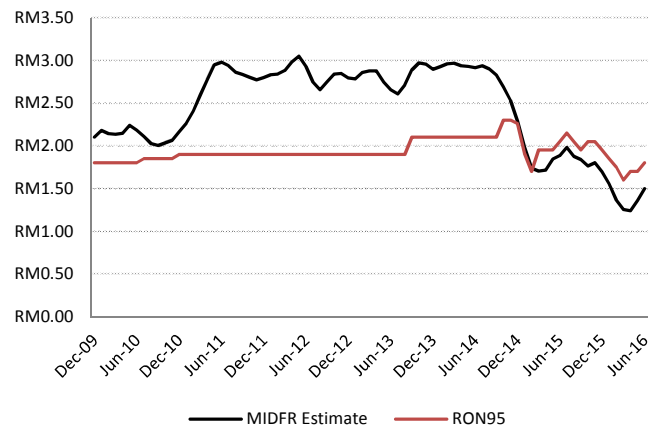
Source: Department of Statistics, Malaysia; MIDF Research

Chart 5: Imports Price Index vs Export Price Index



Source: Department of Statistics, Malaysia; MIDF Research

Chart 6: RON95 vs MIDFR Estimate



Source: Department of Statistics, Malaysia; MIDF Research

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