

ECONOMIC REVIEW | December 2018 Consumer Price Index**2018's Inflation Moderated to 9-Year Low as Transport Cost Weakened Sharply**

- *Headline inflation steady at 0.2%yoy in Dec-18. Consumer price index increased 0.2%yoy in the final month of 2018, same as in Nov-18 and the lowest since Aug-18. The figure was below market consensus of 0.4%yoy. The low inflation was mainly attributed to transport prices which continued to drop by 2%yoy in Dec-18. Meanwhile, core inflation went down to a neutral rate (Nov-18: 0.5%yoy). For the full year of 2018, inflation moderated to a nine-year low of 1%yoy as costs rose at a slower pace for most of the components.*
- *Fuel-related inflation decreased. The average price of Brent crude oil went down to \$57 per barrel, contracted by 11.6%yoy in Dec-18 (\$65.5 per barrel in Nov-18). The price fell to 15-month low as fears of a slowing global economy and emerging supply glut outweighed imminent production cuts from OPEC nations. Similarly, retail fuel price recorded a negative growth of 3.3%yoy during the month. In tandem, prices of fuels & lubricants contracted 2.9%yoy in Dec-18.*
- *We forecast inflation for 2019 at 2.2%. Amid lower base effects, we foresee headline inflation rate to average at 2.2% this year compared to 1.0% in 2018. We anticipate inflationary pressure mainly from fuel-related items to increase, consistent with our expectation on crude oil price to average at \$75pb for 2019 (2018: \$72pb) and given that RON95 subsidy will be targeted to only B40 group.*

Headline inflation steady at 0.2%yoy in Dec-18. Consumer price index increased 0.2%yoy in the final month of 2018, same as in Nov-18 and the lowest since Aug-18. The figure was below market consensus of 0.4%yoy. The low inflation was mainly attributed to transport prices which continued to drop by 2%yoy in Dec-18. Meanwhile, core inflation went down to a neutral rate (Nov-18: 0.5%yoy). For the full year of 2018, inflation moderated to a nine-year low of 1%yoy as costs rose at a slower pace for most of the components. Among others, transport inflation weakened sharply to 1.6%yoy in 2018 from a double digit growth of 13.2%yoy in 2017. Similarly, core inflation rate eased sharply to 0.8%yoy in 2018 (2017: 2.3%yoy). Looking ahead, Malaysia's consumer inflation is likely to remain low in upcoming month as average Brent oil price for the first three weeks of Jan-19 hovered at USD60, resulting in lower domestic fuel price of circa RM1.95.

Further slowdown in food inflation. Food and non-alcoholic beverages inflation which account for 29.5% of the CPI weights increased by 0.7%yoy in Dec-18 (Nov-18: 1.1%yoy). Prices for fresh seafood and vegetables fell by 0.5%yoy and 5.1%yoy respectively. However, prices for fresh meat rebounded to 1.9%yoy in Dec-18 probably due to higher demand for the Christmas celebration.

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Table 1: Consumer Price Indices

Indices	MoM%			YoY%			2018
	Oct-18	Nov-18	Dec-18	Oct-18	Nov-18	Dec-18	
CPI	0.2	0.2	0.1	0.6	0.2	0.2	1.0
Non Food	0.0	0.3	0.0	0.4	(0.2)	0.1	0.8
Food and Non Alcoholic Beverages	0.5	0.2	0.3	1.2	1.1	0.7	1.6
Alcoholic Beverages and Tobacco	0.2	1.9	0.1	(0.8)	1.0	1.1	(0.1)
Clothing and Footwear	0.0	(0.1)	(0.2)	(3.1)	(3.1)	(3.2)	(2.0)
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.3	0.0	2.1	2.0	2.0	2.0
Furnishings, Household Equipment and Maintenance	0.4	0.3	0.2	(0.3)	(0.1)	0.1	0.4
Health	0.0	0.2	0.0	(0.2)	(0.2)	(0.4)	0.8
Transport	0.3	0.1	(0.4)	0.8	(2.3)	(2.0)	1.6
Communication	0.0	0.0	0.0	(1.5)	(1.3)	(1.3)	(1.8)
Recreation and Culture	0.1	0.0	0.1	(0.2)	(0.3)	(0.2)	(0.4)
Education	0.0	0.3	(0.1)	1.1	1.4	1.1	1.1
Restaurants and Hotels	0.2	0.2	0.2	1.2	1.2	1.3	1.5
Miscellaneous Goods and Services	0.3	0.2	0.0	(2.8)	(2.6)	(2.4)	(1.4)
Durable Goods	0.1	0.1	0.1	(4.3)	(4.0)	(3.7)	(2.6)
Semi Durable Goods	0.0	0.0	(0.2)	(3.4)	(3.3)	(3.3)	(2.2)
Non-Durable Goods	0.3	0.2	0.1	0.2	(0.9)	(1.0)	0.8
Services	0.2	0.3	0.1	1.7	1.8	1.7	1.8
Core CPI	0.2	0.3	0.0	0.4	0.5	0.0	0.8

Source: CEIC, MIDFR

Table 2: Changes in Selected Price Sub-Indices

Sub-Indices	MoM%			YoY%			2018
	Oct-18	Nov-18	Dec-18	Oct-18	Nov-18	Dec-18	
Rice	0.0	0.0	(0.2)	0.6	0.6	0.4	0.4
Fresh Meat	1.8	(2.1)	4.9	0.6	(2.0)	1.9	0.0
Fresh Seafood	0.0	0.8	(0.4)	1.9	1.5	(0.5)	4.1
Oils & Fats	(0.2)	(0.1)	(0.1)	(0.8)	(0.8)	(0.8)	(0.3)
Fresh Fruits	(0.4)	0.9	0.2	0.2	1.0	1.5	0.9
Fresh Vegetables	4.5	0.0	(1.5)	3.2	0.8	(5.1)	(0.1)
Food Away From Home	0.4	0.8	0.0	2.7	3.3	2.7	3.1
Cigarettes	0.0	2.4	0.1	0.0	2.4	2.5	0.4
Electricity	0.0	0.0	0.0	1.0	1.0	1.0	(0.0)
Pharmaceutical Products	0.0	0.2	(0.1)	(1.1)	(1.0)	(1.4)	0.3
Fuels & Lubricants for Transportation	0.4	0.1	(0.8)	1.8	(3.3)	(2.9)	2.6
Transportation Repair & Maintenance	0.3	0.5	0.1	1.6	1.6	1.6	2.5
Other Transportation Charges (Including Toll)	0.0	0.0	0.1	3.2	3.2	3.2	3.6
Expenses In Restaurants & Cafes	0.1	0.1	0.1	1.8	1.8	1.8	2.3
Insurance For Motor Vehicles	0.8	0.0	0.0	(1.8)	(1.8)	(1.8)	(1.4)

Source: CEIC, MIDFR

Majority states recorded price decline. In Dec-18, inflation in most of the states across Malaysia including Sabah and Sarawak remained in negative territory. The highest drop was observed in Kedah, Perlis and Terengganu at -0.6%yoy. Meanwhile, states and territory such as KL, Penang and Negeri Sembilan recorded inflation above the national average with KL increased the most at 1%yoy. In overall, peninsular Malaysia recorded the same inflation figure as the national rate. In regards to transport, prices decreased for all three: Peninsular (-2%yoy), Sabah (-2%yoy) and Sarawak (-2.1%yoy).

Table 3: States Headline Inflation (YoY%)

	MoM%			YoY%			2018
	Oct-18	Nov-18	Dec-18	Oct-18	Nov-18	Dec-18	
Peninsular Malaysia;	0.2	0.2	0.0	0.7	0.3	0.2	1.0
Utilities	0.0	0.2	0.0	2.3	2.2	2.2	2.1
Transport	0.3	0.1	(0.4)	0.8	(2.3)	(2.0)	1.6
Sabah;	0.0	0.3	(0.1)	0.3	(0.1)	(0.3)	0.7
Utilities	0.0	0.5	0.0	1.5	1.6	1.6	1.1
Transport	0.3	0.1	(0.5)	0.7	(1.8)	(2.0)	1.6
Sarawak;	0.1	0.2	0.0	0.2	(0.3)	(0.3)	0.6
Utilities	0.0	0.5	0.0	0.6	0.8	0.8	0.8
Transport	0.2	0.1	(0.4)	1.0	(2.4)	(2.1)	1.9

Source: DOSM, MIDFR

Inflation heightened in key countries. Headline inflation rate for most of the key economies increased in 2018. The US's headline inflation rate went up to 2.4%yoy in 2018 (2017: 2.1%yoy). However, for Dec-18, inflation rate was recorded at 1.9%yoy, the lowest since Jul-17. For the full year of 2018, core inflation averaged at 2.1%yoy (2017: 1.8%yoy), near the Fed's 2% target. Based on the latest data of Fed's preferred inflation gauge, the core PCE averaged at 1.9%yoy for the first eleven months of 2018. Nevertheless, the recent figures especially the last three months of 2018 suggest that price pressures are building more slowly than expected, somehow justifying Fed's move to take a more gradual approach to raise interest rates this year. Other key countries including China and Japan saw their inflation rose to 2.1%yoy and 1.0% respectively in 2018 (2017: 1.6%yoy and 0.5%yoy respectively). In contrast, Indonesia's and Singapore's inflation moderated to 3.2%yoy and 0.4%yoy respectively in 2018 (2017: 3.8%yoy and 0.6%yoy respectively). Looking ahead, we foresee global inflation to pick up steadily in 2019 amid existing trade friction, rising commodity prices and gradual normalization of monetary policy in major economies.

Table 4: Global Headline Inflation (YoY%)

	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	2018
Malaysia	1.8	0.8	0.9	0.2	0.3	0.6	0.2	0.2	1.0
Indonesia	3.2	3.1	3.2	3.2	2.9	3.2	3.2	3.1	3.2
Philippines	4.6	5.2	5.7	6.4	6.7	6.7	6.0	5.1	5.2
Thailand	1.5	1.4	1.5	1.6	1.3	1.2	0.9	0.4	1.1
Singapore	0.4	0.6	0.6	0.7	0.7	0.7	0.3	0.5	0.4
China	1.8	1.9	2.1	2.3	2.5	2.5	2.2	1.9	2.1
Japan	0.7	0.8	1.0	1.3	1.2	1.4	0.7	0.2	1.0
EU	2.0	2.1	2.2	2.2	2.1	2.2	2.0	1.7	1.9
United States	2.7	2.8	2.9	2.7	2.3	2.5	2.2	1.9	2.4

Source: CEIC, MIDFR


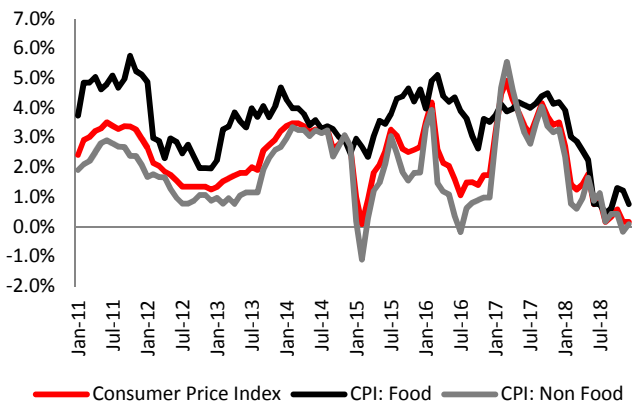
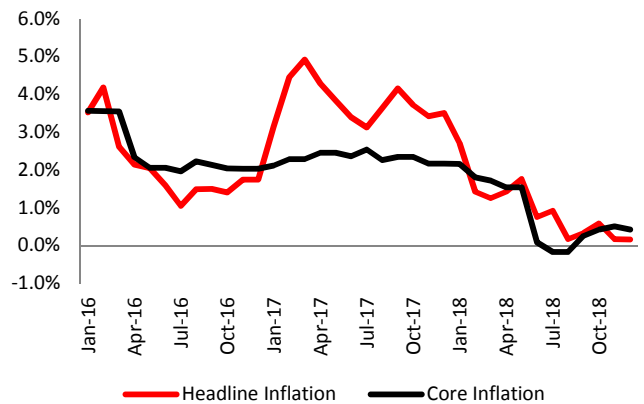
We forecast inflation for 2019 at 2.2%. Amid lower base effects, we foresee headline inflation rate to average at 2.2% this year compared to 1.0% in 2018. We anticipate inflationary pressure mainly from fuel-related items to increase, consistent with our expectation on crude oil price to average at \$75pb for 2019 (2018: \$72pb) and given that RON95 subsidy will be targeted to only B40 group. However, core inflation rate is expected to remain steady in 2019, hovering around 2018's level of 1.0%yoy. As core inflation rate remains low, we opine change in monetary stance is not required at this juncture as it would affect the trajectory of domestic growth. Furthermore, the US has indicated that their interest rate is nearing the neutral rate, suggesting that the central bank is preparing to slow down its normalization exercise. Since there will be less pressure from both domestic and external fronts, we anticipate that Bank Negara will maintain the OPR at 3.25% in 2019 barring any surprises in domestic economic growth. 

Chart 1: CPI: Headline vs Food & Non-food (YoY%)



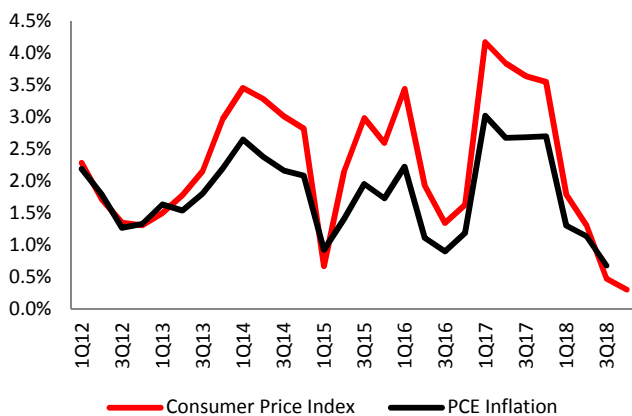
Source: CEIC, MIDFR

Chart 2: CPI: Headline vs Core (YoY%)



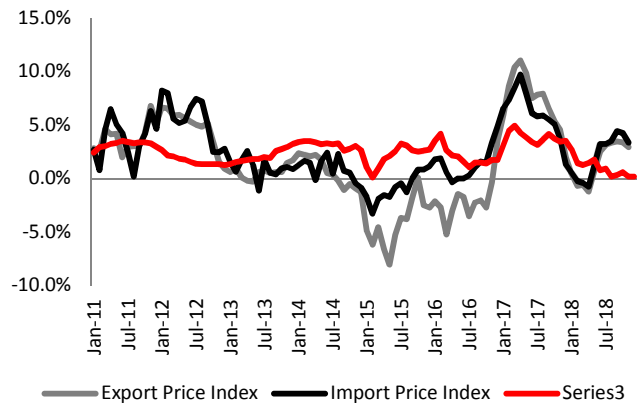
Source: CEIC, MIDFR

Chart 3: CPI vs PCE Inflation (YoY%)



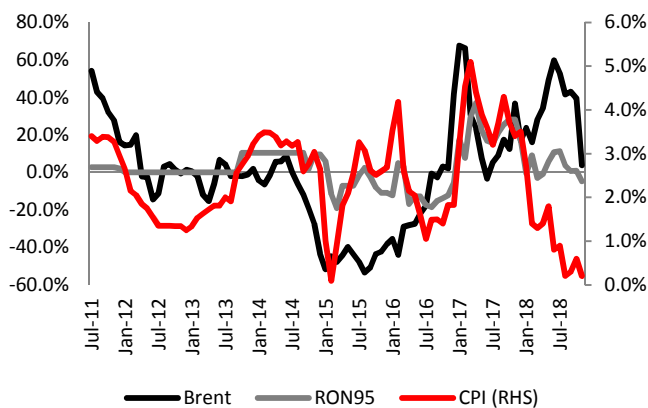
Source: CEIC, MIDFR

Chart 4: CPI vs Price Index of Imports & Exports (YoY%)



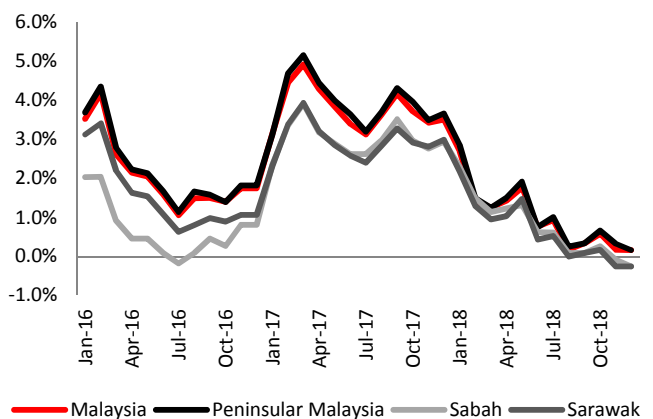
Source: CEIC, MIDFR

Chart 5: CPI vs Crude & Retail Fuel Prices (YoY%)



Source: Bloomberg, MIDFR

Chart 6: Inflation by States (YoY%)



Source: DOSM, MIDFR

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