

## ECONOMIC REVIEW | February 2016 Consumer Price Index

### Highest Food Price Inflation in 49 Months

- February headline inflation came in line with our expectation at 4.2%, as compared to 3.5% in the previous month. On the other hand, core CPI maintained at 3.6%.
- Food and non-alcoholic beverages continued with its upward momentum, increasing by 4.8%yoy and 0.7%mom. Among major contributor for the increase was fresh vegetables, which have been hit by El Nino recently, leading to a shortage in supply.
- We maintain CPI forecast at 2.6% for the whole of 2016 while expecting inflation figure to come at 2.7% in March. At the same time, we remain with our expectation that OPR will be cut by 25 bps in 2H16.

**February inflation rate came in line with our forecast at 4.2%.** Inflation in February reached 4.2%, the highest level in 7 years. The number was in line with our forecast and slightly higher compared to the consensus at 4.1%. Most of the increase was due to the low pump price in February last year at RM1.70, which was much closer to the February 2016 pump price at RM1.75. On the other hand, core CPI increased by 3.6%yoy, similar to the previous month. On month-on-month basis, headline CPI maintained at the same level, though core CPI rose by 0.4%. Inflation ex-fuel rose to 4.4%.

**Table 1: Consumer Price Indices**

Indices	%MoM				%YoY			
	Nov-15	Dec-15	Jan-16	Feb-16	Nov-15	Dec-15	Jan-16	Feb-16
CPI	0.61%	0.00%	-0.26%	0.00%	2.59%	2.68%	3.53%	4.19%
Core CPI	0.36%	0.09%	0.09%	0.35%	3.70%	3.80%	3.57%	3.56%
Non Food	0.99%	-0.36%	-0.63%	-0.27%	1.81%	1.82%	3.35%	3.94%
Food and Non Alcoholic Beverages	-0.25%	0.75%	0.58%	0.65%	4.14%	4.56%	3.91%	4.77%
Alcoholic Beverages and Tobacco	17.52%	1.73%	-0.06%	0.00%	20.67%	22.75%	22.59%	22.59%
Clothing and Footwear	0.00%	-0.10%	0.20%	-0.30%	0.61%	0.82%	0.41%	0.51%
Housing, Water, Electricity, Gas & Other Fuels	0.53%	0.00%	0.18%	0.44%	2.45%	2.45%	3.10%	2.62%
Furnishings, Household Equipment and Maintenance	0.18%	0.09%	0.27%	0.36%	3.84%	4.23%	4.12%	4.69%
Health	0.09%	0.26%	0.26%	0.34%	4.40%	4.58%	4.57%	4.55%
Transport	0.36%	-2.26%	-2.87%	-3.15%	-5.24%	-6.17%	0.58%	3.57%
Communication	0.00%	-0.10%	-2.39%	0.00%	3.39%	3.29%	0.93%	0.93%
Recreation and Culture	0.19%	0.00%	0.09%	0.46%	2.57%	2.57%	2.28%	2.37%
Education	0.09%	0.27%	0.71%	0.44%	2.45%	2.63%	2.61%	2.51%
Restaurants and Hotels	0.24%	0.24%	0.08%	0.40%	4.57%	4.74%	4.47%	4.71%
Miscellaneous Goods and Services	0.27%	-0.18%	0.45%	0.27%	5.88%	5.39%	5.46%	5.25%
Durable Goods	0.10%	-0.10%	0.31%	0.41%	2.82%	2.51%	2.60%	2.70%
Semi Durable Goods	-0.10%	0.00%	0.20%	-0.20%	0.71%	1.01%	0.70%	0.81%
Non Durable Goods	0.86%	-0.26%	-0.60%	-0.69%	1.12%	1.21%	3.38%	5.00%
Services	0.43%	0.17%	0.00%	0.43%	4.03%	4.11%	4.02%	3.82%

Source: Department of Statistics, Malaysia; MIDF Research

**Food and non-alcoholic beverages continue with its upward momentum, highest in 49 months.** FNAB price index rose by 0.7%mom in February, the highest in 7 months, leading to 4.8% inflation on yearly basis, the highest in 49 months. We believe that the El Nino and festive season contributed to the increase in the FNAB prices. At the same time, services price index rose by 0.43%mom and 3.8%yoy while transport price index experienced a contraction by 3.2%mom due to the reduction in RON95 pump price by 10 sen in February.

**Prices of fresh vegetables and fish rose the most in February.** Among the top 20 most consumed items, fresh vegetables, fish and seafood experienced the highest price increase in February by 3.0%, 2.3% and 1.8% respectively. We believe the significant increases of fresh vegetables were contributed by the El Nino which have hit vegetable farms across the country, particularly at Cameron Highland. We are expecting the vegetable prices will continue to increase in March CPI numbers.

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

Sub-Indices	%MoM				%YoY			
	Nov-15	Dec-15	Jan-16	Feb-16	Nov-15	Dec-15	Jan-16	Feb-16
Housing Rental	0.61%	0.00%	0.00%	0.61%	3.43%	3.43%	3.43%	2.85%
Food Away From Home	0.24%	0.24%	0.57%	0.40%	4.33%	4.41%	4.74%	4.81%
Fuels & Lubricants for Transportation	0.00%	-4.13%	-5.43%	-5.64%	-10.52%	-12.17%	-2.13%	2.92%
Telephone & Telefax Services	0.00%	0.00%	-2.71%	0.00%	3.61%	3.61%	0.80%	0.80%
Electricity	0.00%	0.00%	1.33%	0.00%	-3.32%	-3.32%	0.00%	0.00%
Personal Care & Effects Products	0.36%	0.09%	0.63%	0.36%	4.52%	4.82%	4.98%	5.26%
Fresh Fish	-0.23%	1.15%	1.90%	2.32%	5.27%	5.12%	5.18%	7.20%
Cigarettes	20.76%	1.94%	0.00%	0.00%	23.56%	25.95%	25.95%	25.95%
Expenses In Restaurants & Cafes	8.51%	0.24%	0.16%	0.48%	4.95%	5.03%	4.93%	5.17%
Garments	-0.10%	-0.10%	0.00%	-0.10%	0.50%	0.71%	0.10%	0.40%
Cultural Services	0.00%	-0.09%	0.09%	0.77%	1.40%	1.31%	1.31%	2.09%
Fresh Meat	-3.63%	3.68%	4.14%	-0.89%	-0.26%	3.14%	6.85%	5.34%
Fresh Vegetables	-0.88%	3.63%	-4.51%	3.01%	9.24%	12.51%	-1.37%	10.10%
Transportation Repair & Maintenance	0.31%	0.54%	0.85%	0.61%	7.67%	7.98%	8.44%	8.93%
Bread & Bakery Products	0.00%	0.09%	0.26%	0.18%	2.72%	2.81%	2.90%	2.89%
Purchase of Motorcars	-0.10%	0.31%	0.62%	0.62%	-1.14%	-0.83%	-0.21%	0.41%
Rice	0.00%	0.39%	0.10%	0.00%	0.20%	0.49%	0.39%	0.49%
Fresh Seafood	0.90%	-1.71%	3.82%	1.87%	10.16%	7.31%	7.87%	8.79%
Other Transportation Services (Including Toll)	7.61%	0.00%	0.00%	0.00%	8.78%	8.78%	8.78%	7.82%
Insurance for Motor Vehicles	0.27%	-0.09%	0.09%	0.00%	7.19%	6.89%	6.99%	6.79%

Source: Department of Statistics, Malaysia; MIDF Research

**Inflationary pressure starting to pick up among Asian economies.** Similar with the trend in industrial production index, inflationary pressure is starting to pick up among Asian economies, while major developed economies i.e. US and EU are also picking up albeit at a slower rate. We believe most of the rebound was due to the recovery in commodity prices, although we doubt that the momentum would continue for a longer period. In addition, there is yet any sign of recovery in the global demand and manufacturing activities, making the increase in inflationary pressure as modest at best.

**Table 3: Global Headline Inflation**

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16
Malaysia	3.26%	3.08%	2.62%	2.52%	2.59%	2.68%	3.53%	4.19%
Indonesia	7.26%	7.18%	6.83%	6.25%	4.89%	3.35%	4.14%	4.42%
Philippines	0.78%	0.64%	0.35%	0.43%	1.07%	1.49%	1.35%	0.92%
Thailand	-1.05%	-1.19%	-1.07%	-0.77%	-0.97%	-0.85%	-0.53%	-0.50%
Singapore	-0.40%	-0.83%	-0.64%	-0.77%	-0.76%	-0.64%	-0.64%	-0.58%
United States	0.20%	0.23%	-0.01%	0.13%	0.44%	0.67%	1.34%	0.97%
China	1.60%	2.00%	1.60%	1.30%	1.50%	1.60%	1.80%	2.30%
EU	0.16%	0.04%	-0.14%	0.01%	0.08%	0.17%	0.27%	-0.16%
Japan	0.20%	0.20%	0.00%	0.30%	0.30%	0.20%	0.00%	0.30%

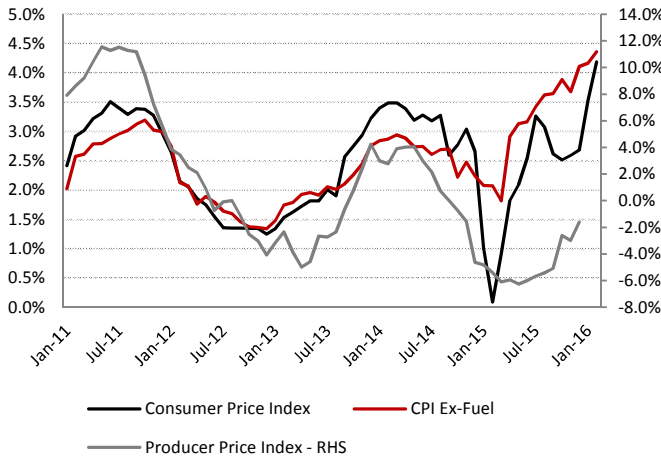
Source: Department of Statistics, Malaysia; MIDF Research

**We are maintaining with our forecast that the OPR will be cut by 25 bps.** The increase in inflation rate for most countries is likely to push Fed to continue with its monetary policy normalisation plan, with the first hike for this year to be conducted in June 2016 by 25 basis points. However, due to the sluggish global demand and lower disposable income domestically, we maintain our expectation for OPR to be cut by 25 bps in the second half of 2016.

**Despite BNM widening their inflation forecast, we are maintaining our forecast at 2.6% FY16.** Due to the rebound in the oil price recently, BNM has upgraded their inflation forecast from 2.5-3.0% to 2.5-3.5% interval. Given current economic conditions, we perceive there is limited room for the oil price to swing upward. Thus, we are maintaining with our forecast for the inflation rate to come at 2.6% FY15. At the same time, we are expecting inflation rate for March 2016 to be at 2.7% due to the lower pump price for the month. From our estimate, we opine that price of RON95 is likely to be set at RM1.60-1.65 for the month of April.

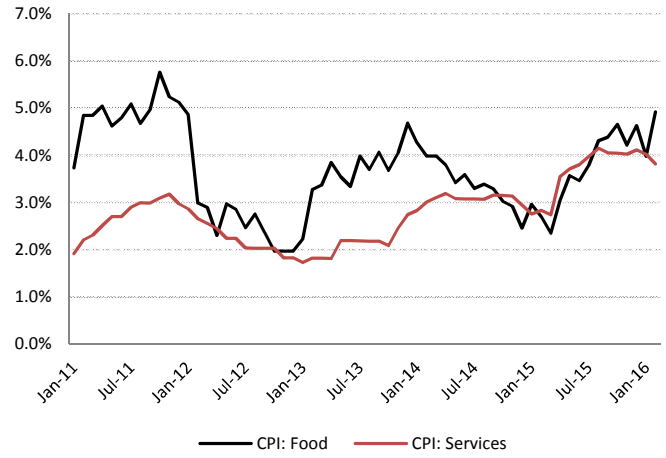


**Chart 1: CPI vs PPI**



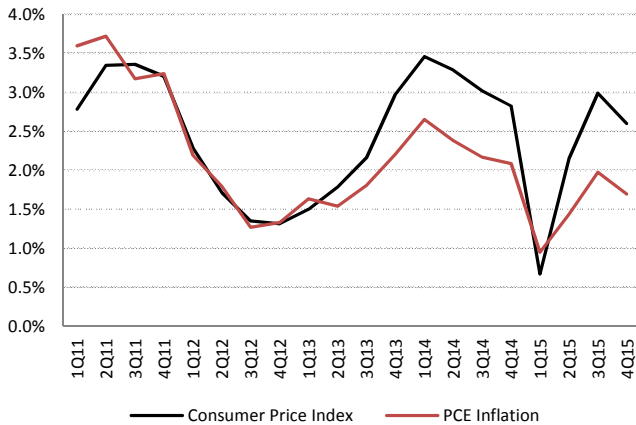
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 2: Food Price Index vs Services Price Index**



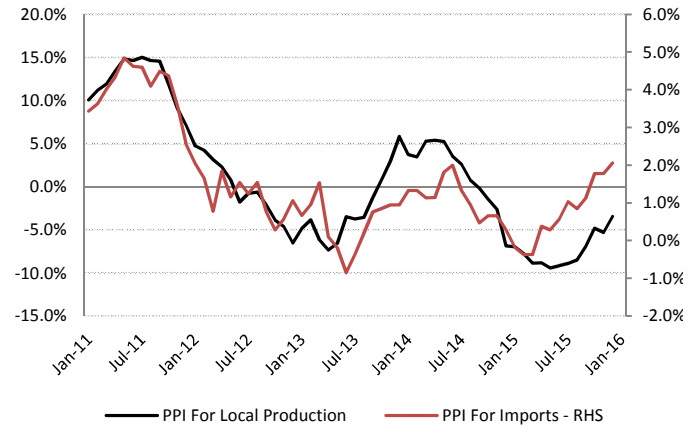
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 3: CPI vs PCE Inflation**



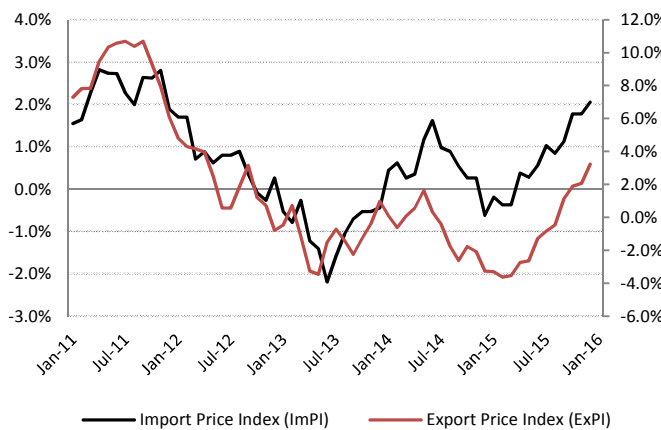
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 4: PPI Local vs PPI Imports**



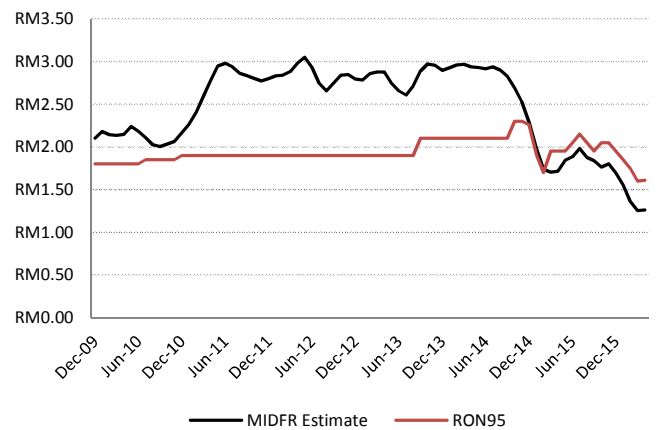
Source: Department of Statistics, Malaysia; MIDF Research

**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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