

ECONOMIC REVIEW | July 2017 Consumer Price Index

Inflation Lowest in Six Months

- *Slowdown in overall prices as expected. Headline inflation rose by 3.2% in July, the lowest in six months. On monthly basis, headline inflation continued a downward trend for fifth consecutive months. The decline in headline inflation is mainly due to tepid growth in fuel and transport prices.*
- *Slowdown in transport prices. After five consecutive months of double digit growth, transport inflation moderated 7.7% in July. Similar trend was seen in price of fuels & lubricants for transportation which drop to 11.8% from 17.2% in June. The declining trend in transport prices was observed despite unchanged average price of local fuel price in June and July.*
- *Inflation forecast stays at 3.8% for 2017. We maintain our forecast of 3.8% for 2017, projecting a slowing down in prices during the second half. The impacts of cost-driven factors are tapering off due to slowdown in global commodity prices and modest appreciation of MYR will tone down our inflation performance. We maintain our stance of no changes on Malaysia's monetary policy rate at 3.0% for the rest of 2017.*

Slowdown in overall prices as expected. Headline inflation rose by 3.2% in July, the lowest in six months. On monthly basis, headline inflation continued a downward trend for fifth consecutive months. The decline in headline inflation is mainly due to tepid growth in fuel and transport prices. Transport prices remain on downward trend from a peak of 23% in March to 7.7% in July. Apart from that, core inflation inched up slightly 2.6% while food and non-food inflation rose slightly lower than the previous month by 4.2% and 2.7% respectively. We opine Malaysia's inflation to grow moderately for the second half of 2017 given that cost-driven factors are tapering off.

Table 1: Consumer Price Indices

Indices	MoM%			YoY%		
	May-17	Jun-17	Jul-17	May-17	Jun-17	Jul-17
Headline CPI	(0.2)	(0.2)	(0.1)	3.9	3.6	3.2
Core CPI	0.2	0.1	0.1	2.6	2.5	2.6
Non Food	(0.5)	(0.4)	(0.3)	3.7	3.2	2.7
Food and Non Alcoholic Beverages	0.5	0.4	0.2	4.4	4.3	4.2
Alcoholic Beverages and Tobacco	0.1	(0.1)	0.0	0.2	0.1	0.1
Clothing and Footwear	(0.2)	(0.2)	(0.2)	(0.2)	(0.4)	(0.4)
Housing, Water, Electricity, Gas & Other Fuels	0.5	0.0	0.0	2.2	2.2	2.2
Furnishings, Household Equipment and Maintenance	0.3	0.0	0.7	2.1	2.1	2.6
Health	0.2	0.2	0.3	2.9	2.6	2.9
Transport	(3.2)	(2.4)	(1.1)	13.1	10.5	7.7
Communication	0.0	0.0	0.0	(0.3)	(0.3)	(0.3)
Recreation and Culture	0.0	0.1	0.1	2.9	3.0	2.6
Education	0.0	0.1	0.0	1.7	1.7	1.6
Restaurants and Hotels	0.2	0.1	0.2	2.3	2.5	2.6
Miscellaneous Goods and Services	0.0	(0.1)	0.3	1.3	1.2	1.1
Durable Goods	0.1	0.0	0.1	1.3	1.3	1.1
Semi Durable Goods	(0.1)	(0.2)	(0.1)	0.0	(0.2)	(0.2)
Non-Durable Goods	(0.7)	(0.6)	(0.2)	6.1	5.1	4.2
Services	0.2	0.1	0.1	2.9	3.0	3.0

Source: DOSM, MIDFR

Food inflation remains above 4%. Cost of food rose by 4.2%, slower than previous months and in fact, the slowest in three months. In particular, we observed prices of fresh meat, fresh seafood and fresh fruits declined as compared to June's. The end of festive seasons especially Ramadhan and Eid-Fitri contribute towards the decline in price trend. Looking ahead, we foresee food inflation as well as non-food inflation will see a pick up due to celebration of Eid-Adha and the SEA Games 2017. Huge tourist arrival is expected in August due to the SEA Games which will result into higher domestic demand and thus put upward pressure on overall prices.

Slowdown in transport prices. After five consecutive months of double digit growth, transport inflation moderated 7.7% in July. Similar trend was seen in price of fuels & lubricants for transportation which drop to 11.8% from 17.2% in June. The declining trend in transport prices was observed despite unchanged average price of local fuel price in June and July. Average RON95 fuel price for three weeks in August increase to RM2.10 while Brent oil rebounded to \$52.4bpd (July: \$49bpd). Therefore, we expect transport inflation to slightly pick up in August and moderate toward the end of 2017. Volatility in crude prices will affect our headline inflation performance in the near term.

Table 2: Changes in Selected Price Sub-Indices

Sub-Indices	MoM%			YoY%		
	May-17	Jun-17	Jul-17	May-17	Jun-17	Jul-17
Rice	0.0	(0.1)	0.3	0.4	0.3	0.6
Fresh Meat	1.1	2.0	2.2	5.3	4.0	0.3
Fresh Seafood	0.7	3.8	(0.7)	7.3	7.9	6.4
Oils	(0.1)	0.0	0.0	48.9	48.9	48.9
Fresh Fruits	(0.4)	(0.1)	0.5	1.4	1.6	1.3
Fresh Vegetables	3.0	(0.1)	(2.4)	0.9	2.0	3.9
Food Away From Home	0.2	0.1	0.3	4.9	4.8	4.9
Cigarettes	0.0	0.0	0.0	0.0	0.0	0.0
Electricity	0.0	0.0	0.0	0.0	0.0	0.0
Pharmaceutical Products	0.1	0.2	0.4	3.0	2.8	3.2
Fuels & Lubricants for Transportation	(5.3)	(4.2)	(1.9)	22.3	17.2	11.8
Transportation Repair & Maintenance	0.4	0.3	0.2	3.3	3.5	3.4
Other Transportation Charges (Including Toll)	0.0	0.0	0.0	3.1	3.1	3.1
Expenses In Restaurants & Cafes	0.2	0.1	0.2	2.5	2.6	2.8
Insurance For Motor Vehicles	0.0	0.0	0.0	0.2	0.2	0.2

Source: DOSM, MIDFR

States inflation decelerated for four consecutive months. Inflation for all states in July recorded lower rates as compared to previous months. The main factor among others was the slowdown in growth of transport prices, thanks to lower retail fuel prices. In July, Penang recorded the highest inflation at 3.8% which driven by strong food inflation at 5.3%. On a flip side, Terengganu recorded the lowest inflation at 2.1%, partly thanks to unchanged food inflation and slowdown in transport price. The second half of 2017 will see inflation in every state to grow at moderate pace due to stability in fuel prices and seasonal factors.

Table 3: States Headline Inflation (%)

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
Johor	3.5	5.2	5.7	5.0	4.3	4.0	3.6
Kedah	3.3	4.9	5.5	4.7	4.2	3.7	3.2
Kelantan	3.1	4.1	4.7	4.0	3.6	3.0	2.6
Kuala Lumpur	3.7	4.8	5.0	4.5	4.2	3.8	3.6
Melaka	3.4	4.7	5.3	4.7	4.4	4.0	3.5
Negeri Sembilan	3.4	5.3	5.8	4.9	4.4	3.9	3.5
Pahang	2.6	4.0	4.3	3.7	3.3	2.8	2.5
Penang	3.5	4.6	5.0	4.4	4.4	4.0	3.8
Perak	2.6	4.0	4.5	3.8	3.2	2.9	2.7
Perlis	3.3	4.9	5.5	4.7	4.2	3.7	3.2
Sabah	2.5	3.5	4.1	3.4	3.1	2.8	2.8
Sarawak	2.4	3.5	4.0	3.3	3.0	2.8	2.5
Selangor	2.9	4.4	4.9	4.2	4.0	3.5	3.1
Terengganu	2.6	3.9	4.3	3.6	3.0	2.4	2.1

Source: DOSM, MIDFR

Central Banks' dilemma on tightening mode. As we approach the month of September, the Federal Reserve is expected to begin its effort of shedding its \$4.5 trillion portfolio of Treasury bonds and mortgage-backed securities, as a hike in interest rate would soon follow after. However, plans of executing its final steps of economic recovery could persist to falter as July's inflation rate edged slightly higher by 0.1 percentage points compared to the previous month. Nonetheless, deceleration in the US inflation proved to be unconvincing for a rate hike, as tepid wage growth and weak consumer spending failed to put pressure up inflation. Meanwhile, both the ECB and the BOJ are facing similar issues, as low inflation rates at 1.5% and 0.3% respectively portrays consumers are opting to save more, hence the insufficient pressure needed to increase prices. Looking ahead, seasonal demands in the second half of the year should increase consumer spending, which translates to an increase in global inflation.

Table 4: Global Headline Inflation (%)

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
Malaysia	3.2	4.5	5.1	4.4	3.9	3.6	3.9
Indonesia	3.5	3.8	3.6	4.2	4.3	4.4	3.9
Philippines	2.7	3.3	3.4	3.4	3.1	2.7	2.8
Thailand	1.6	1.4	0.8	0.4	0.0	0.0	0.2
Singapore	0.6	0.9	0.8	0.5	0.8	0.6	0.2
China	2.5	0.8	0.9	1.2	1.5	1.5	1.4
Japan	0.5	0.3	0.2	0.4	0.4	0.3	
EU	1.7	2.0	1.6	2.0	1.6	1.5	1.5
United States	2.5	2.8	2.4	2.2	1.9	1.6	1.7

Source: CEIC, MIDFR


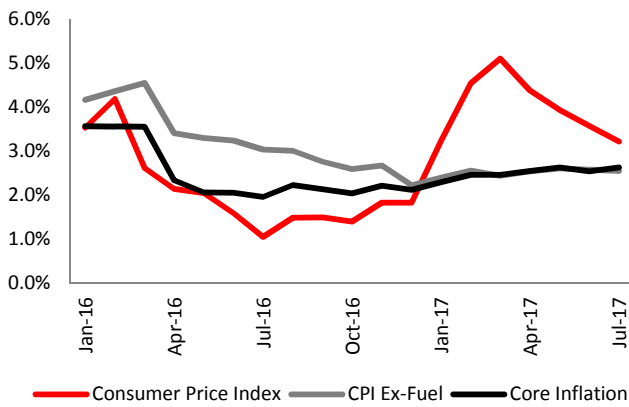
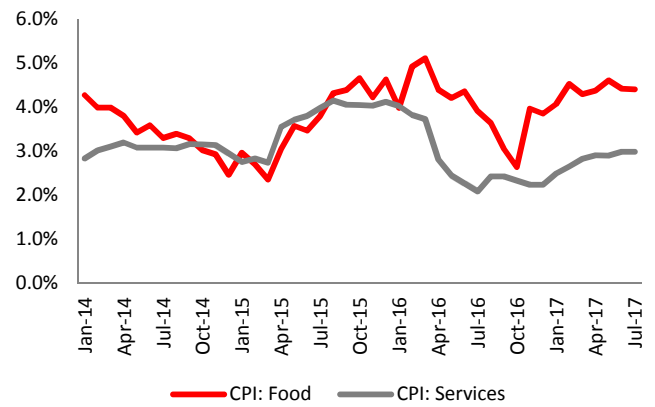
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Chart 1: CPI vs Core CPI



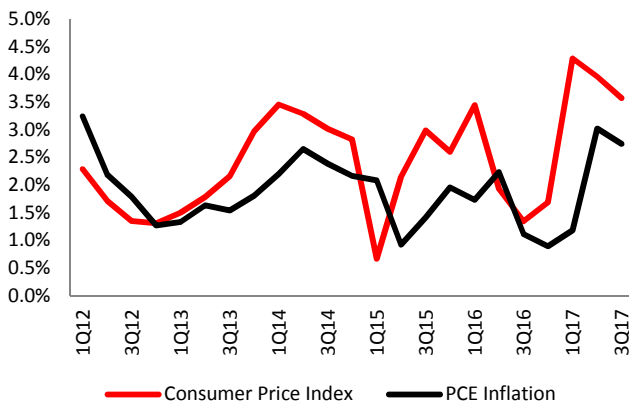
Source: DOSM, MIDFR

Chart 2: Food Price Index vs Services Price Index



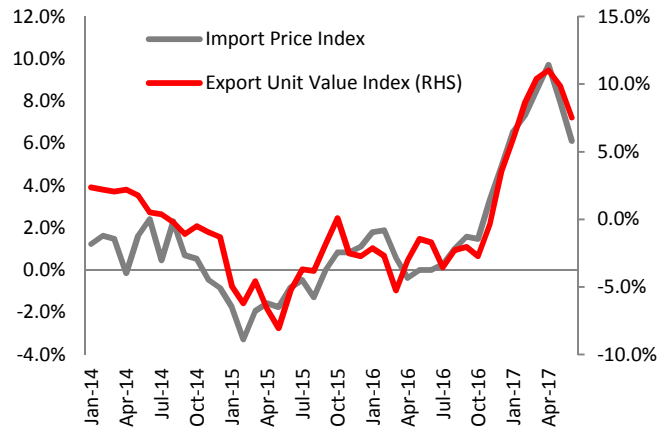
Source: DOSM, MIDFR

Chart 3: CPI vs PCE Inflation



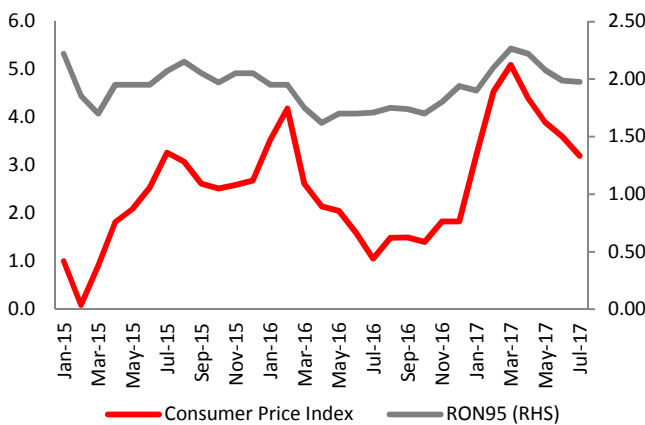
Source: DOSM, MIDFR

Chart 4: Imports Price Index vs Export Price Index



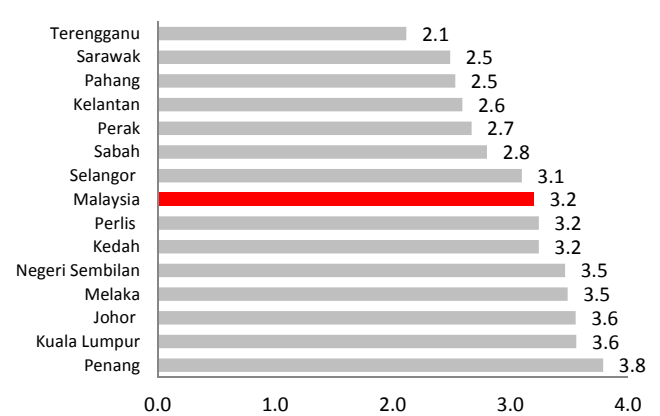
Source: DOSM, MIDFR

Chart 5: CPI (%) vs RON95 (RM per litre)



Source: DOSM, MIDFR

Chart 6: Inflation by States in July (%)



Source: DOSM, MIDFR

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