

Inflation Review: December 2017

03RD JANUARY 2017

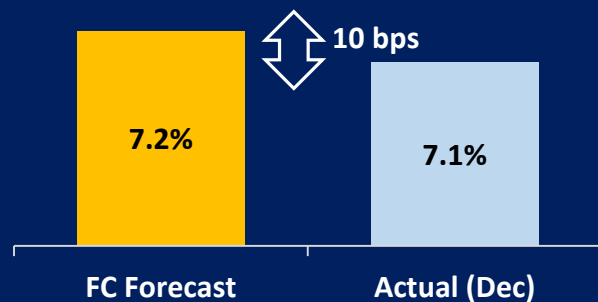
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**ANALYST CERTIFICATIONS AND REQUIRED
DISCLOSURES BEGIN ON PAGE 8**

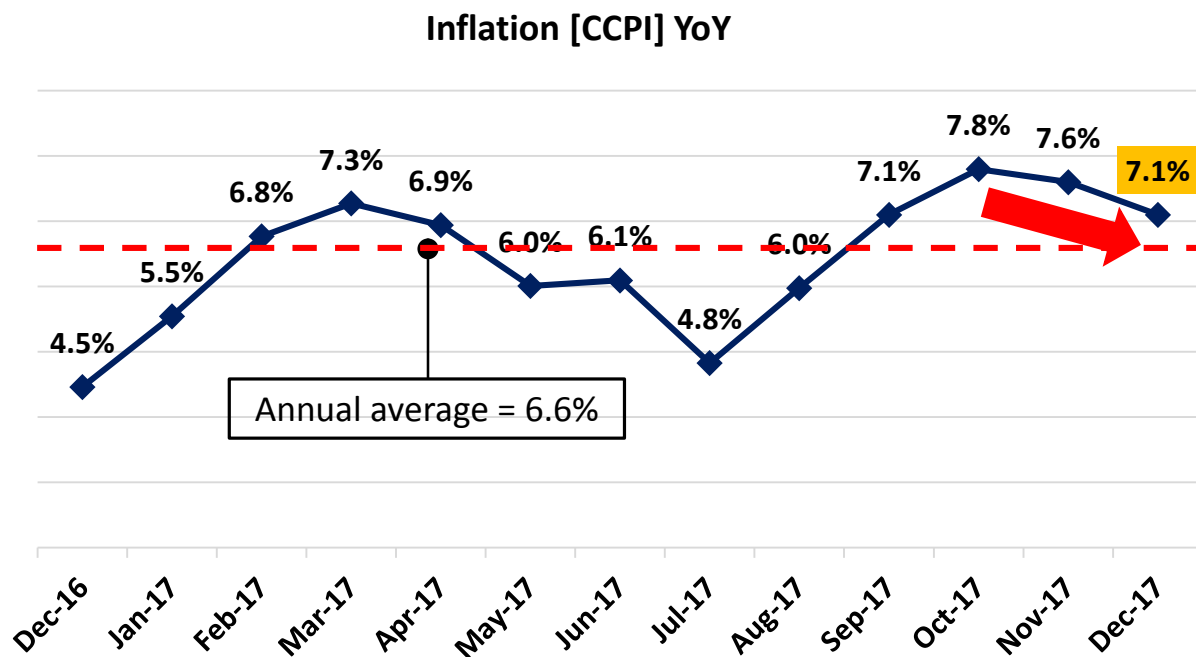
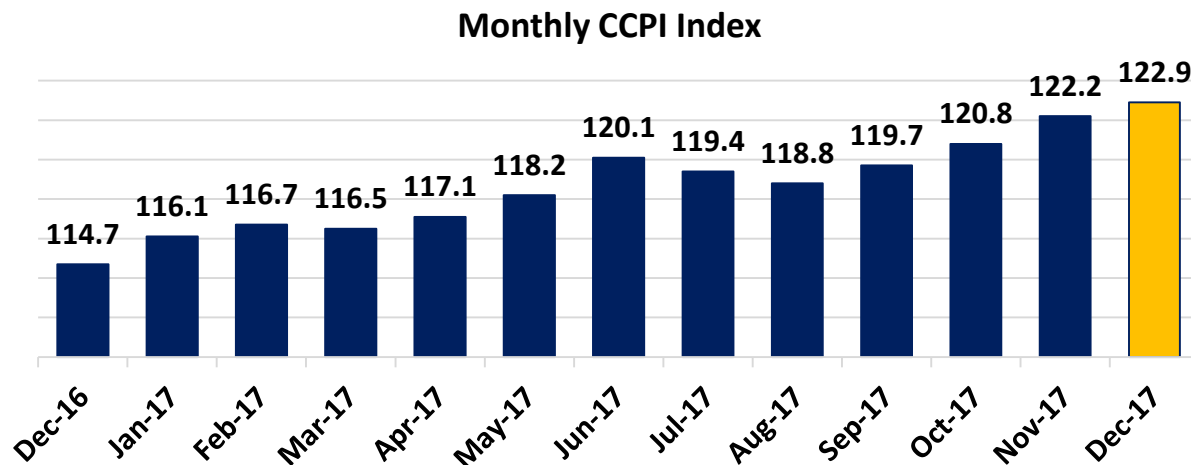


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December 2017 Inflation [CCPI] 7.1%; inches healthy levels



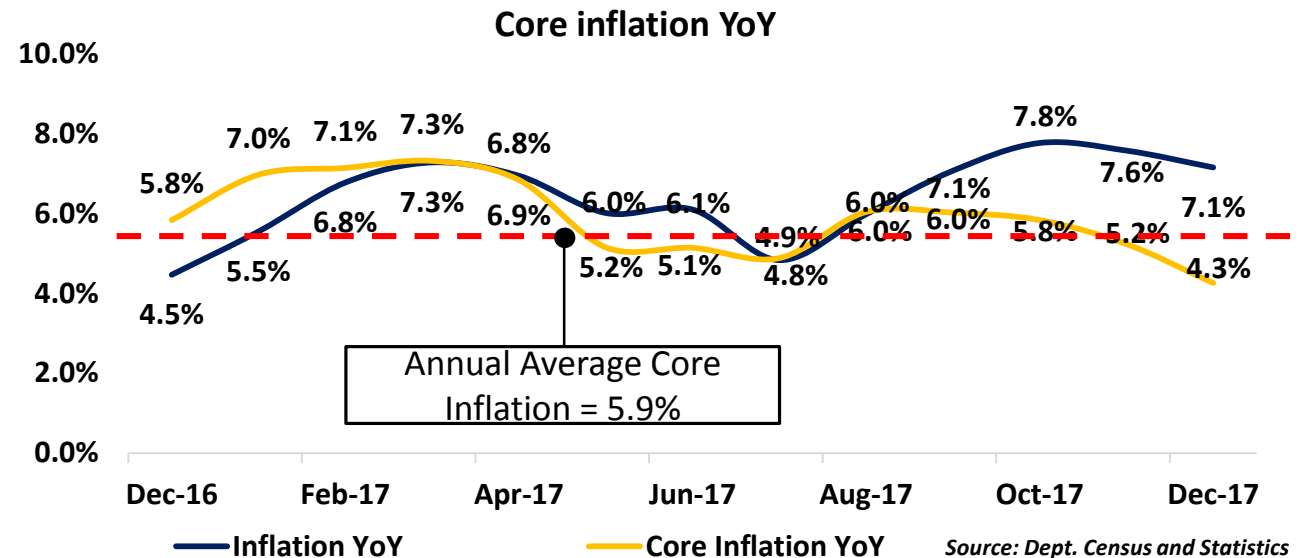
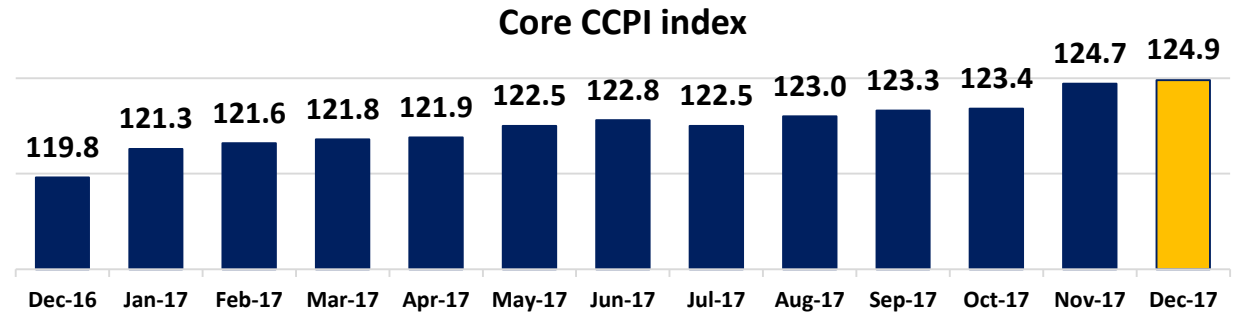
- ❑ Inflation further dipped to 7.1%YoY in Dec 2017 (7.6%YoY in Nov 2017) for the second consecutive month, nearing a safer terrain
- ❑ The CCPI index stood at 122.9 in Dec 2017, up by 0.51% from 122.2 in Nov 2017 (2013=100)
- ❑ The downtrend is in line with FC Research's forecasted direction of the movement of CCPI while December 2017 actual inflation was slightly below FC Research forecast of 7.2% by 10 bps.
- ❑ December MoM and YoY inflation was driven by Food category (+14.4%YoY)



Source: Dept. Census and Statistics

Core inflation for December 2017 4.3%YoY; dips below 5% mark after 5 months

- Core inflation declined for the third consecutive month to 4.3% in Dec 2017 from 5.2% in Nov 2017, dipping below 5% since July 2017
- The gap between Core inflation and Headline inflation has further increased in the month of December due to the increased expenditure on food category affected by adverse weather
- Annual average core inflation also marginally dipped to 5.9% in Dec 2017 (Nov 2017 = 6.0%)



Supply shortfalls in Food category drives the festive month's MoM inflation

- ❑ 80% of the MoM increase in December was explained by Food category (+1.3% MoM) driven by supply shortfalls in vegetables.
- ❑ The increase was further supported by the higher demand for food items during the festive month
- ❑ Non Food category contributed to the MoM increase by only 0.10%, explaining the balance 20% of the MoM inflation. The increase in the non-food category has relaxed to 0.2%MoM in Dec 2017 from 0.9%MoM from Nov 2017

	All items	Food	Non food
Index value - Dec 2017	122.90	135.70	117.80
Index value - Nov 2017	122.20	134.00	117.60
MoM Change - Dec 2017	0.60%	1.30%	0.20%
MoM Change - Nov 2017	1.20%	1.70%	0.90%
Contribution to MoM		0.41%	0.10%
YoY Change - Dec 2017	7.10%	14.40%	4.20%
YoY Change - Nov 2017	7.60%	13.80%	5.00%
Annual average	6.60%	9.30%	5.50%

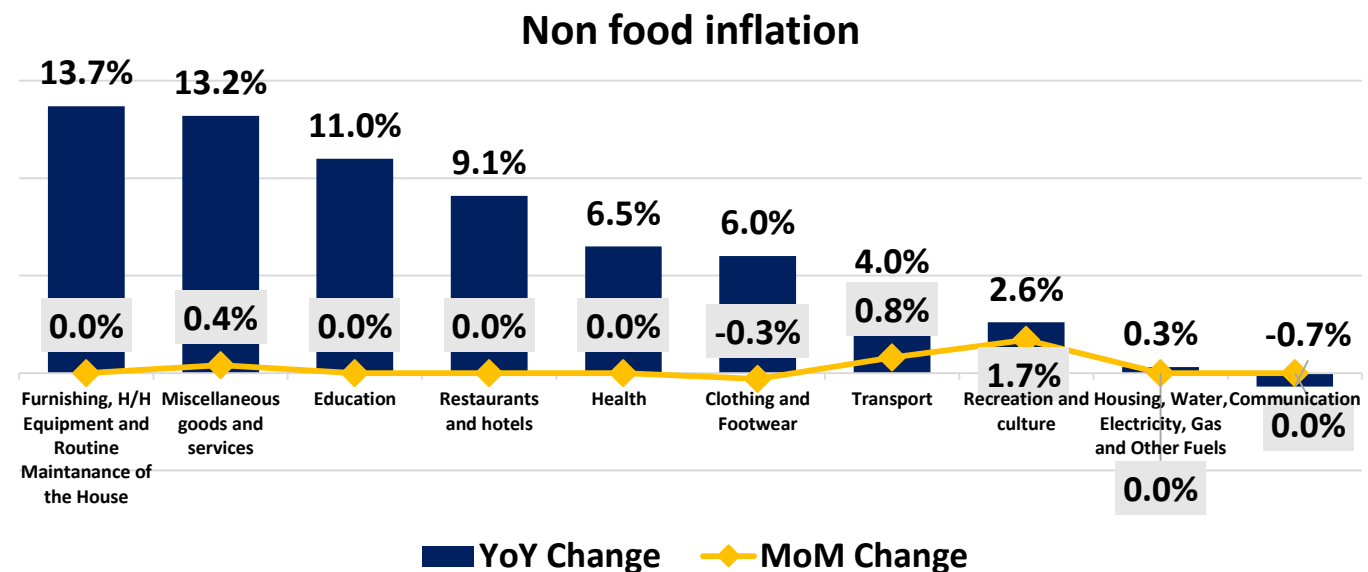
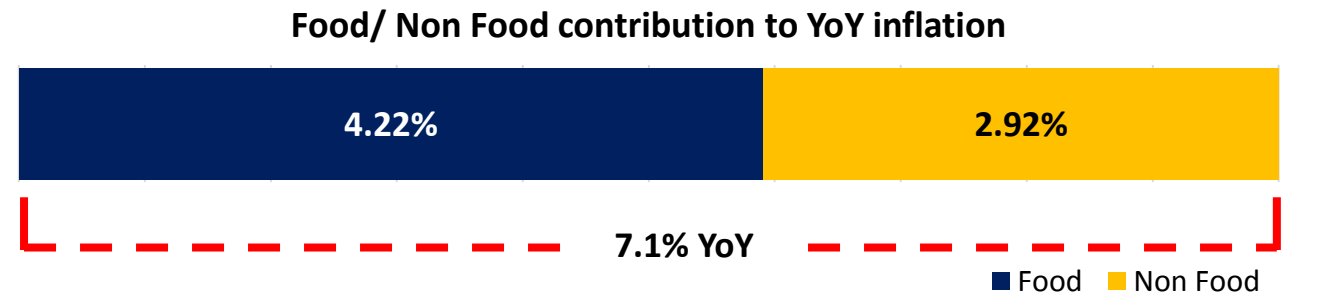
Source: Dept. Census and Statistics

Food category (+14.4% YoY) also drives YoY inflation in December

❑ Food category (+14.4% YoY) contributed 4.22% to the YoY inflation in Dec 2017, explaining 59% of YoY inflation, continuing to dominate its importance in YoY inflation

❑ However the Non food category's inflation further slowed down to 4.2% in Dec 2017 from 5.0% in Nov 2017, resulting in overall YoY inflation dipping to 7.1% from last month's 7.6%

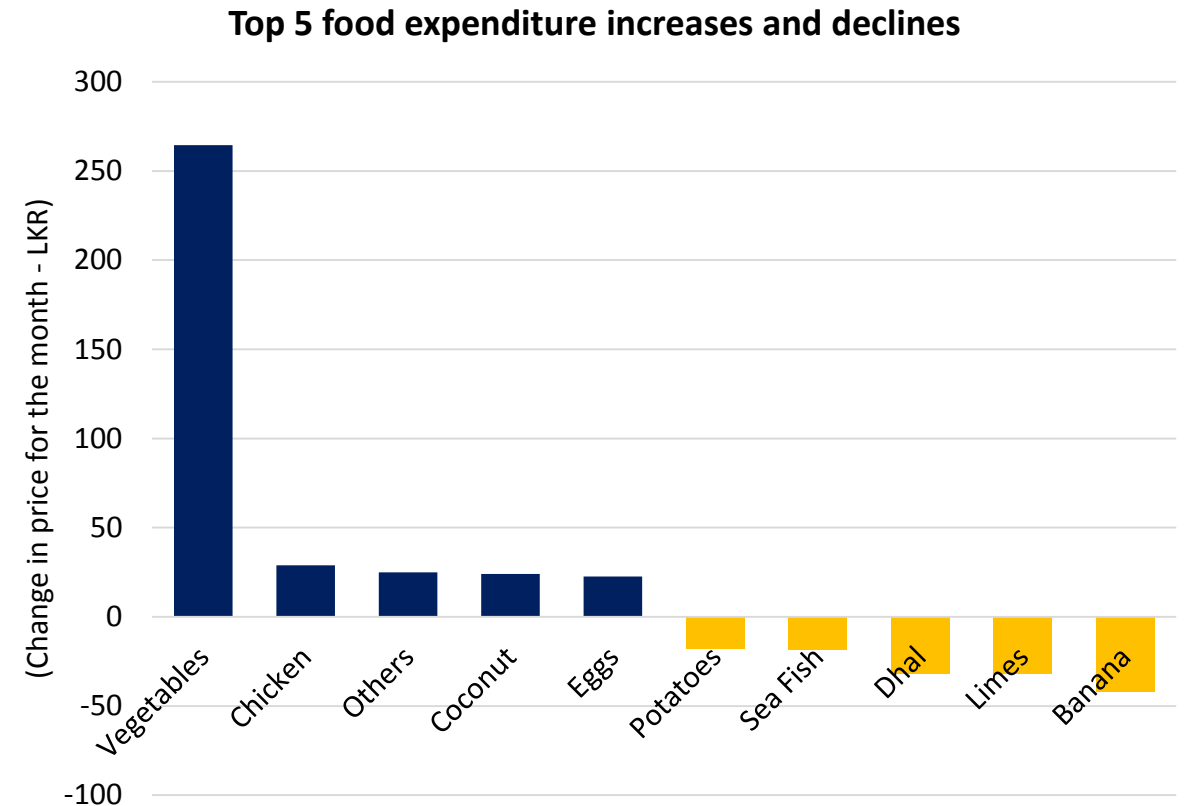
❑ The non-food category was driven by Furnishing, Household equipment and maintenance expenses (+13.7%YoY) and miscellaneous items (+13.2%YoY)



Source: Dept. Census and Statistics

Shortfalls in vegetables continue to drive food inflation in December

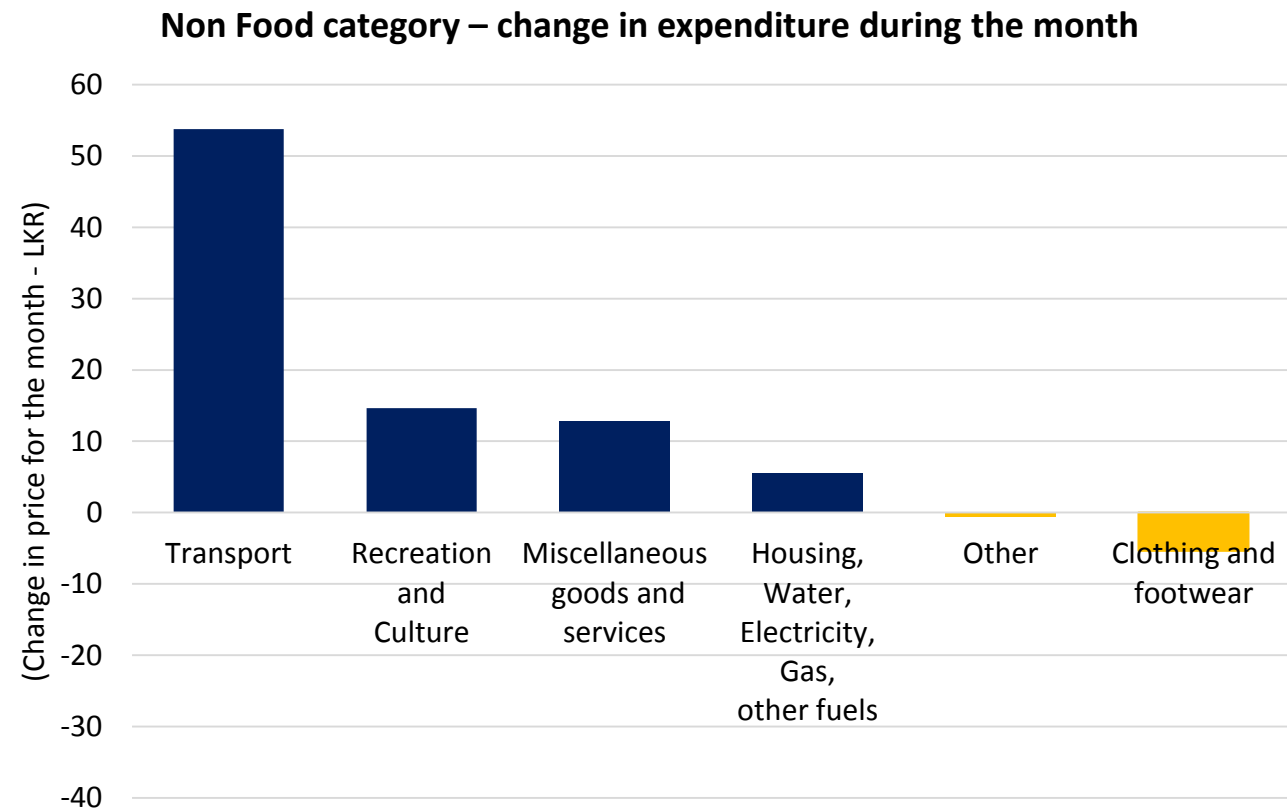
- ❑ Expenditure on Food and non alcoholic beverages increased by 14.4%YoY in Dec 2017, up from 13.8%YoY in Nov 2017
- ❑ On an MoM basis, increase in value changes on vegetables (+0.36%), chicken (+0.04%) and coconut (+0.03%) contributed largely to the index despite a reduction in expenditure on banana (-0.06%).
- ❑ The main drivers of vegetable prices was the supply shortfall continued from adverse weather. Chicken prices were driven by the higher demand in the festive month while increase in coconut prices have relaxed from last month.



Source: Dept. Census and Statistics

Airline charges drive December Transport expenses

- ❑ Expenditure on Non Food category increased only 0.2%MoM in Dec 2017, down from 0.9%MoM in Nov 2017
- ❑ On an MoM basis, increase in value changes on transport (+0.07%MoM) and recreation and culture (+0.02%) contributed to the inflation
- ❑ The higher transport expenditure was driven by increased airline charges during the travel season



Source: Dept. Census and Statistics

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