

Dr. Mohd Afzanizam Abdul Rashid | Chief Economist | 03-2088 8075 | afzanizam@bankislam.com.my
Shafiz Jamaluddin | Economic Analyst | 03-2088 8399 | shafiz@bankislam.com.my
Nor Jannah Abdullah | Economic Analyst | 03-2782 1417 | norjannah@bankislam.com.my
Nurrizque Addelina Zamanhuri | YLP Trainee | 03-2088 8753 | naddelina@bankislam.com.my

Negative CPI print in April 2020. But it's not deflation.

Facts

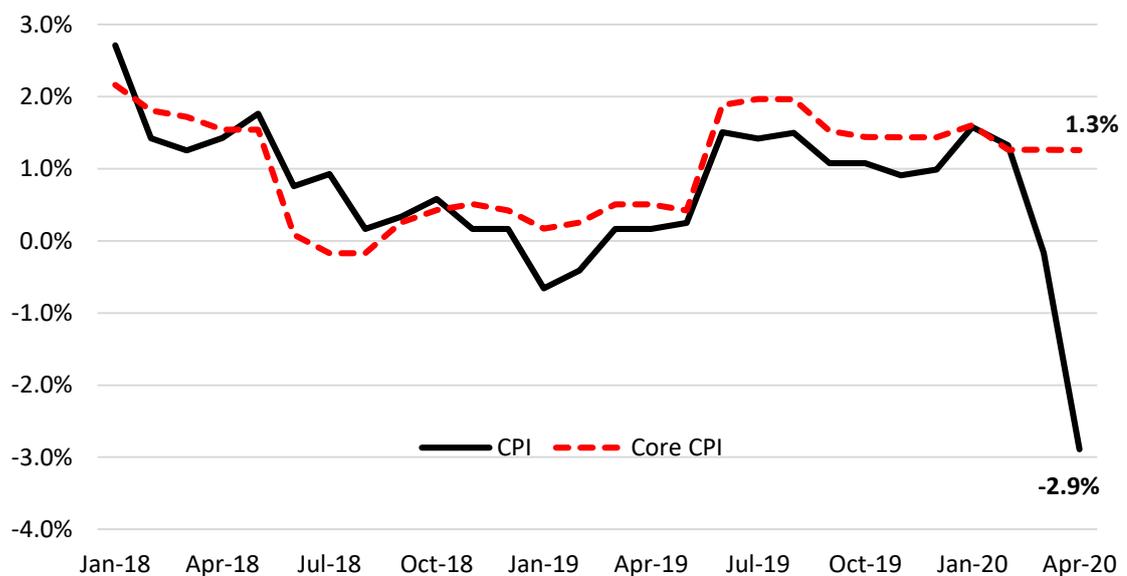
- Malaysia's Consumer Price Index (CPI) continued to decline by 2.9% year-on-year (y-o-y) in April from -0.2% in the previous month (Consensus: -1.6%). This was mainly due to the Transport (14.6% of total CPI) sub-indices which fell significantly to 21.5% in April (March: -8.9%). On further scrutiny, Fuels & Lubricating Personal Transport Equipment which accounted for 8.5% of total CPI saw a massive decline of 38.2% in April from -16.1% in the preceding month.
- This was very much in tandem with lower fuel prices whereby RON95, RON97 and Diesel which have been selling by an average price of RM1.28 per litre, RM1.58 per litre and RM1.49 per litre during April respectively. This represents 38.7% (RM2.08 per litre), 41.8% (RM2.71 per litre) and 31.6% (RM2.18 per litre) lower from the same month last year. Such trend was also aligned with the prevailing Brent crude prices of USD25.27 per barrel in April 2020 (April 2019: USD72.80 per barrel).
- Apart from fuel, Electricity sub-indices which forms 2.7% of total CPI has declined substantially by 33.3% in April (March: 0.00%). The 15% discount on electricity bill as indicated by the government during the announcement of Economic Stimulus Package in March has been the main factor for lower electricity sub-indices. The discount would run from April to September this year.
- However, the Core CPI rose by 1.3% for three months in a row. This indicates that the deflationary trend was not broad based as items beyond fresh food and administered prices have been recording positive growth.
- Cumulatively, inflation rate registered a flat growth of 0.00% during the first four months of this year from -0.2% in the same period last year. Meanwhile, core inflation rate has been rising at 1.3% during the 4M2020 from 0.4% growth in 4M2019. Hence, the inflationary trend is still intact.

Table 1: Consumer Price Index (CPI)

	Weight	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	4M2019	4M2020
Consumer Price Index	100.0%	1.0%	1.6%	1.3%	-0.2%	-2.9%	-0.2%	0.0%
Food & Non Alcoholic Beverages	29.5%	1.7%	0.9%	0.8%	1.2%	1.2%	1.0%	1.0%
Alcoholic Beverages & Tobacco	2.4%	0.2%	0.1%	0.2%	0.3%	0.2%	1.2%	0.2%
Clothing & Footwear	3.2%	-1.0%	-1.2%	-1.1%	-1.3%	-1.2%	-3.1%	-1.2%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	1.7%	1.7%	1.6%	1.6%	-2.2%	2.0%	0.7%
Furnishings, Household Equipment & Routine Household Maintenance	4.1%	1.4%	1.2%	1.0%	0.8%	0.3%	0.1%	0.8%
Health	1.9%	1.4%	1.4%	1.3%	1.4%	1.2%	-0.4%	1.3%
Transport	14.6%	-1.9%	3.9%	2.4%	-8.9%	-21.5%	-5.0%	-6.1%
Communication	4.8%	1.5%	1.5%	1.5%	1.5%	1.6%	-1.2%	1.5%
Recreation Services & Culture	4.8%	0.6%	0.9%	0.7%	0.7%	0.6%	-0.4%	0.7%
Education	1.3%	1.7%	1.7%	1.3%	1.3%	1.2%	1.2%	1.4%
Restaurants & Hotels	2.9%	1.1%	1.1%	1.1%	0.9%	0.7%	1.1%	1.0%
Miscellaneous Goods & Services	6.7%	2.4%	2.5%	2.5%	2.6%	2.3%	-2.1%	2.5%
Core CPI		1.4%	1.6%	1.3%	1.3%	1.3%	0.4%	1.3%

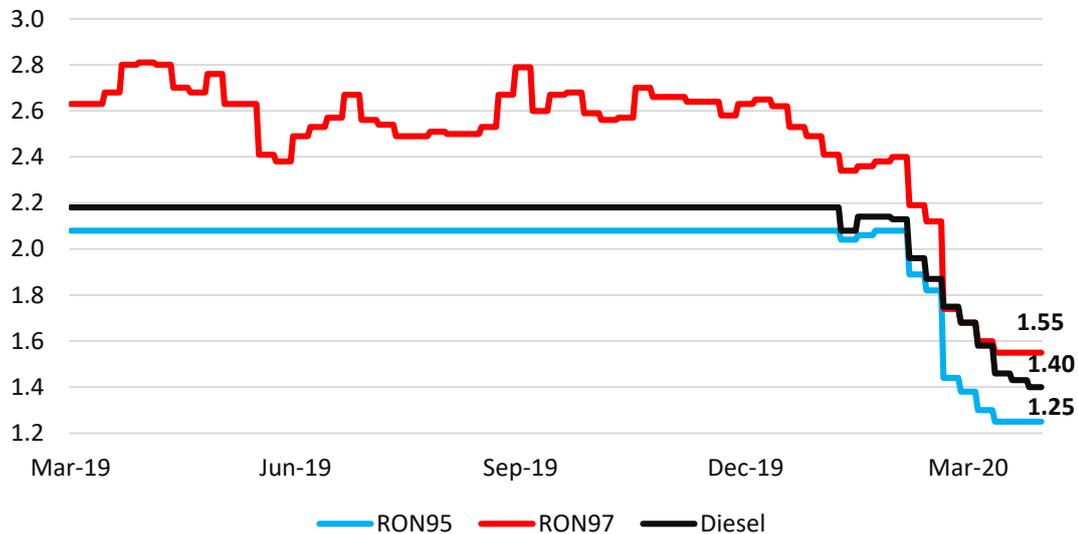
Sources: DOSM, CEIC, Bank Islam

Chart 1: Malaysian Inflation Rate, y-o-y%



Source: CEIC

Chart 2: Fuel Prices (RM / litre)



Source: CEIC

Our view

Inflation rate has been declining in other countries and therefore is not unique to Malaysia. While lower fuel prices have been the main culprit, weak demand conditions have also been the prime mover for lower inflation rate. The 1Q2020 GDP has been low and some jurisdictions have recorded negative print, suggesting that recession has already happening and it might continue to do so in the subsequent quarters.

Table 2: Regional CPI, y-o-y%

CPI	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
US	1.8	2.1	2.3	2.5	2.3	1.5	0.3
China	3.8	4.5	4.5	5.4	5.2	4.3	3.3
Japan	0.4	0.8	1.0	0.6	0.4	0.4	0.2
Singapore	0.5	0.6	0.8	0.8	0.3	0.0	n/a
India	4.6	5.5	7.4	7.6	6.6	5.8	n/a
Indonesia	2.9	2.7	2.6	2.7	3.0	3.0	2.7
Thailand	0.1	0.2	0.9	1.1	0.7	-0.5	-3.0
South Korea	0.0	0.2	0.7	1.5	1.1	1.0	0.1
Taiwan	0.4	0.6	1.1	1.9	-0.2	0.0	-1.0
Malaysia	1.1	0.9	1.0	1.6	1.3	-0.2	-2.9

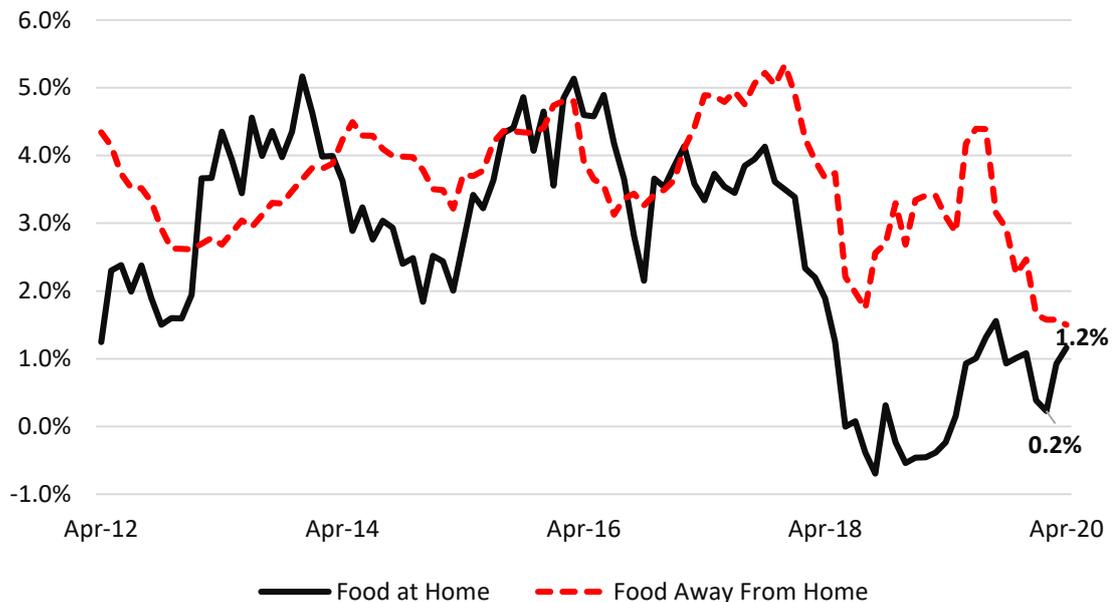
Source: Bloomberg

Table 3: Regional Quarterly GDP, y-o-y%

GDP, y-o-y%	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
US	2.7	2.3	2.1	2.3	0.3
China	6.4	6.2	6.0	6.0	-6.8
Japan	0.8	0.9	1.7	-0.7	-2.0
Eurozone	1.4	1.2	1.3	1.0	-3.2
UK	2.0	1.3	1.3	1.1	-1.6
Singapore	1.0	0.2	0.7	1.0	-2.2
Indonesia	5.1	5.1	5.0	5.0	3.0
Thailand	2.9	2.4	2.6	1.5	-1.8
South Korea	1.7	2.0	2.0	2.3	1.3
Hong Kong	0.7	0.4	-2.8	-3.0	-8.9
Taiwan	1.8	2.6	3.0	3.3	1.5
Malaysia	4.5	4.8	4.4	3.6	0.7

Source: Bloomberg, Official websites

Chart 3: Food at Home & Food Away from Home sub-indices y-o-y%



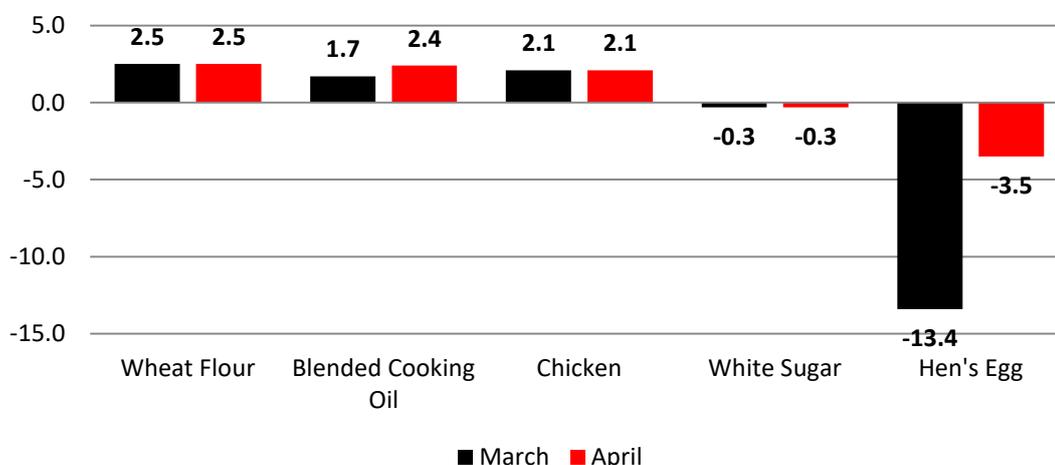
Source: CEIC

Having said that, prices of goods remain high. This was reflected in the Food at Home sub-indices whereby the index rose by 1.2% in April from 0.9% in the previous month. As Hari Raya Aidilfitri is just around the corner, price level could go higher especially during the Conditional Movement Control Order (CMCO). The Federation of Livestock Farmers' Associations of Malaysia (FLFAM) has highlighted their concern on the skyrocketed chicken price and have urged poultry traders to keep the price of chicken at reasonable level. The Domestic Trade and Consumer Affairs Ministry (KPDNHEP) has also stated that it is quite common for traders to increase chicken price before festivals and it was not due to the shortage of supply. Therefore, it's purely price manipulation.

The deputy minister of KPDNHEP, Datuk Rosol Wahid, said that the ministry has received numerous reports on exorbitant chicken price which has gone up up to RM9.60 per kilogramme (April: RM8.17/kg). In this respect, the Festive Season Price Control Scheme was announced yesterday by the KPDNHEP with the sole objective to keep the price of main food products under control. The KPDNHEP has also assured the public that stockpiles of essential food such as fish, chicken and rice in the country remain sufficient. Additionally, the Minister of Agriculture and Food Industry, Datuk Seri Dr Ronald Kiandee has announced the future establishment of Cabinet Committee on Food Security. It is high time that such policies to take the center stage as the country continues to record trade deficits in foodstuff. Self Sufficiencies Ratio (SSR) would need to be bumped up and therefore, Agricultural sector deserves a makeover after it has been neglected for a number of decades.

Interestingly enough, there was also panic buying during the commencement of MCO and the periods thereafter. The latest survey done by the Department of Statistics Malaysia (DOSM) showed that the prices for groceries such as wheat flour and chicken have increased by 2.5% y-o-y and 2.1% respectively in March and April. Similarly, the price for Blended Cooking Oil saw an upward pressure, increasing by 1.7% in March to 2.4% in April. In that sense, the case for deflationary trend does not hold water.

Chart 4: Selected Panic Buying Item Price Change, y-o-y%



Source: DOSM

Judging from the recent trend, our full year forecast for inflation rate of 0.8% in 2020 appears to be on the high side. However, we would want to wait for further evidence especially in the context of possible rise in the retail fuel prices. Brent crude prices have been hovering above USD35 per barrel as global crude oil demand could pick up its pace in the second half of the year. Therefore, we will update our forecast during the 2H2020 Economic Outlook publication in July. As for monetary policy, lower inflation rate would certainly allow the Bank Negara Malaysia (BNM) to prescribe additional monetary easing. However, our recent interaction with BNM showed that the take up rate for loan moratorium is in the region of 90% to 95%. In our view, the impulse respond function from loan moratorium is significant to lift the country's GDP. As such, we do not see the urgency to bring the prevailing Overnight Policy Rate (OPR) lower than the 2.00% level.

Produced and issued by BANK ISLAM MALAYSIA BERHAD (Bank Islam) for private circulation only or for distribution under circumstances permitted by applicable laws. All information, opinions and estimates contained herein have been compiled or arrived at based on sources and assumptions believed to be reliable and in good faith at the time of issue of this document. This document is for information purposes only and has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. No representation or warranty, expressed or implied is made as to its adequacy, accuracy, completeness or correctness. All opinions and the content of this document are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of Bank Islam as a result of using different assumptions and criteria. No part of this document may be used, reproduced, distributed or published in any form or for any purpose without Bank Islam's prior written permission