



From the Desk  
of the  
**Chief Economist**

**BANK ISLAM**

# **CPI DEEPENED BY 1.4% DURING AUGUST 2020**

**23 SEPTEMBER 2020**

**ECONOMIC RESEARCH**

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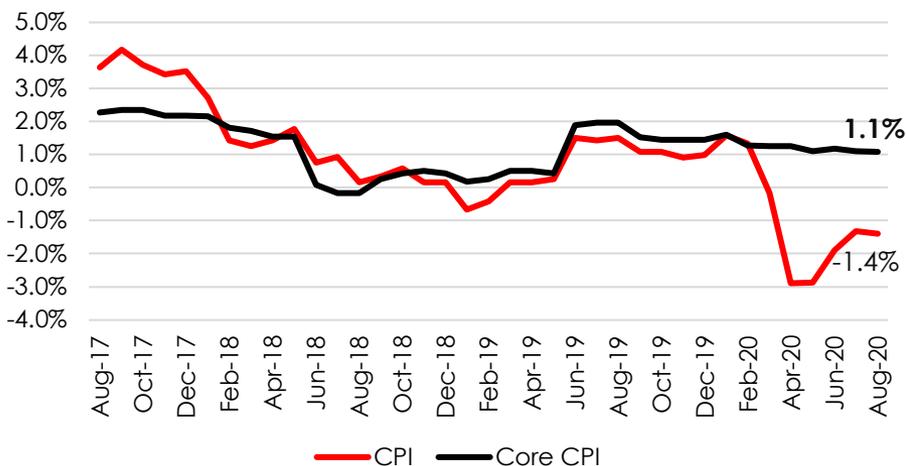
**NOR JANNAH ABDULLAH**

## CPI DEEPENED BY 1.4% DURING AUGUST 2020

- ✓ Malaysia's CPI fell further by 1.4% year-on-year (y-o-y) in August from -1.3% in July (Consensus: -1.4%, Bank Islam: -1.0%), largely weighed by cost of Transport (August: -9.9% vs. July: -10.3%), Housing, Water, Electricity, Gas & Other Fuels (August: -3.0% vs. July: -2.6%), Clothing & Footwear (August: -0.6% vs. July: -0.6%) and Furnishings, Household Equipment & Routine Household Maintenance (August: -0.1% vs. July: -0.1%) in August. These constituted for 45.7% of total CPI.
- ✓ Within the Transport sub-indices, price for Fuels & Lubricating Equipment plummeted by 18.8% (July: -18.4%), underpinned by lower RON95, RN97 and Diesel prices (see Chart 2). Similarly, price for Operation of Personal Transport Equipment slumped by 12.6% (July: -12.4%) in August.
- ✓ On a different note, price for Food & Non-Alcoholic Beverages, Recreation Services & Culture, Education and Restaurants & Hotels softened by 1.3% (July: 1.4%), 0.6% (July: 0.7%), 1.1% (July: 1.2%) and 0.1% (July: 0.2%) in August.
- ✓ On the other hand, price for Miscellaneous Goods & Services were higher by 3.1% (July: 2.9%) while Alcoholic Beverages & Tobacco and Health sustained at 0.3% (July: 0.3%) and 1.1% (July: 1.1%) respectively.
- ✓ Core CPI which excludes most volatile items of fresh food, as well as administered prices of goods and services grew by 1.1% (July: 1.1%).
- ✓ On a cumulative basis, the inflation rate dropped by 1.0% during 8M2020 from 0.5% increase in 8M2019. However, the Core CPI rose by 1.2% in 8M2020 from 1.0% in 8M2019. This demonstrates the cost of living remains on its elevated level despite the headline CPI has declined.

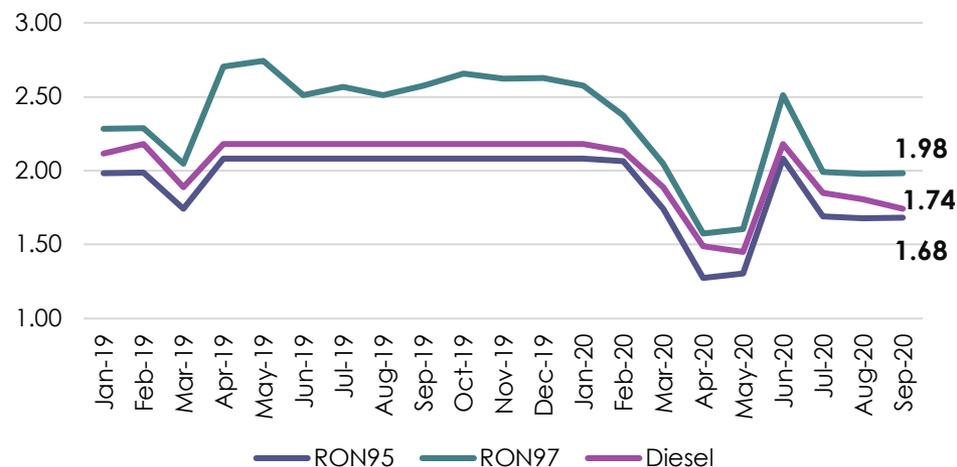
# CPI DEEPENED BY 1.4% DURING AUGUST 2020

## Malaysia's Inflation Rate



Source: CEIC

## Fuel Prices (RM/ Litre)



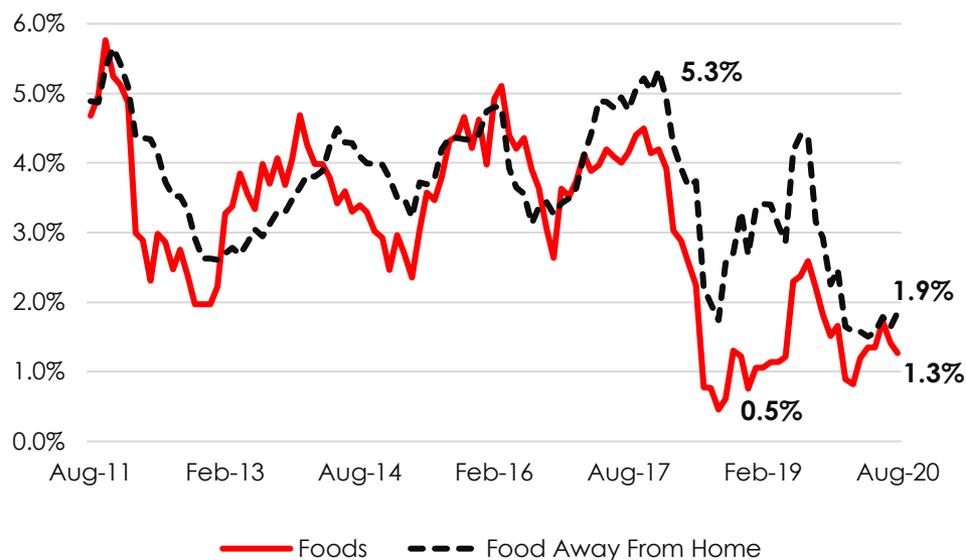
Source: CEIC, as at 22 September 2020

	Weight	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	8M2019	8M2020
<b>Consumer Price Index</b>	<b>100.0%</b>	<b>1.6%</b>	<b>1.3%</b>	<b>-0.2%</b>	<b>-2.9%</b>	<b>-2.9%</b>	<b>-1.9%</b>	<b>-1.3%</b>	<b>-1.4%</b>	<b>0.5%</b>	<b>-1.0%</b>
Food & Non-Alcoholic Beverages	29.5%	0.9%	0.8%	1.2%	1.2%	1.2%	1.6%	1.4%	1.3%	1.6%	1.2%
Alcoholic Beverages & Tobacco	2.4%	0.1%	0.2%	0.3%	0.2%	0.2%	0.2%	0.3%	0.3%	1.6%	0.2%
Clothing & Footwear	3.2%	-1.2%	-1.1%	-1.3%	-1.2%	-1.1%	-1.1%	-0.6%	-0.6%	-2.3%	-1.0%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	1.7%	1.6%	1.6%	-2.2%	-2.6%	-2.6%	-2.6%	-3.0%	2.0%	-1.0%
Furnishings, Household Equipment & Routine Household Mainte	4.1%	1.2%	1.0%	0.8%	0.3%	-0.2%	-0.2%	-0.1%	-0.1%	1.3%	0.4%
Health	1.9%	1.4%	1.3%	1.4%	1.2%	1.2%	1.1%	1.1%	1.1%	0.3%	1.2%
Transport	14.6%	3.9%	2.4%	-8.9%	-21.5%	-20.8%	-14.3%	-10.3%	-9.9%	-3.6%	-10.0%
Communication	4.8%	1.5%	1.5%	1.5%	1.6%	1.6%	1.6%	1.6%	1.6%	0.1%	1.5%
Recreation Services & Culture	4.8%	0.9%	0.7%	0.7%	0.6%	0.7%	0.6%	0.7%	0.6%	0.6%	0.7%
Education	1.3%	1.7%	1.3%	1.3%	1.2%	1.0%	0.8%	1.2%	1.1%	1.2%	1.2%
Restaurants & Hotels	2.9%	1.1%	1.1%	0.9%	0.7%	0.9%	0.3%	0.2%	0.1%	1.3%	0.7%
Miscellaneous Goods & Services	6.7%	2.5%	2.5%	2.6%	2.3%	2.8%	3.0%	2.9%	3.1%	-0.7%	2.7%
<b>Core CPI</b>		<b>1.6%</b>	<b>1.3%</b>	<b>1.3%</b>	<b>1.3%</b>	<b>1.1%</b>	<b>1.2%</b>	<b>1.1%</b>	<b>1.1%</b>	<b>1.0%</b>	<b>1.2%</b>

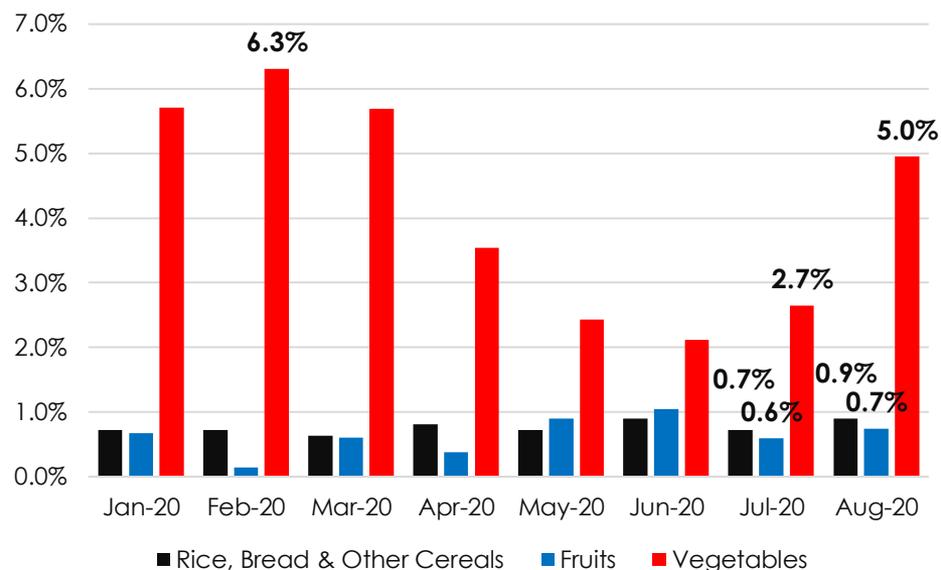
Source: CEIC

- ✓ It has been the sixth straight month of decline in the general price level amid weaker demand conditions in light of Covid-19 pandemic.
- ✓ Be that as it may, costs of foods and essentials products remained at its elevated level, suggesting higher costs of living. This can be seen in price of vegetables which increased significantly from 2.7% in July to 5.0% in August while prices for Rice, Bread and Other Cereals (August: 0.9% vs. July: 0.7%) and Fruits (August: 0.7% vs. July: 0.6%) inched up during August.
- ✓ Apart from that, Food Away From Home rose by 1.9% in August from 1.6% in the previous month. This would mean food operators are charging higher price, transferring the rising input prices to the costumers.

### Foods vs. Food Away From Home, y-o-y%

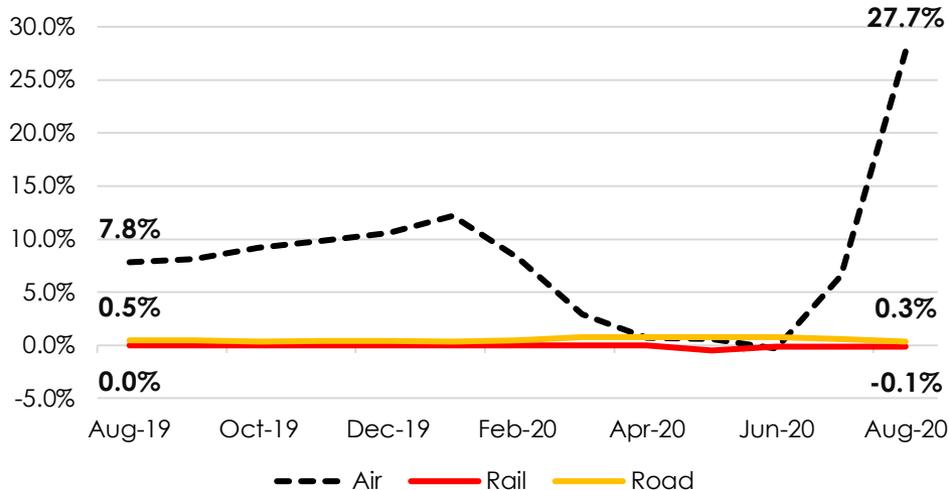


### Costs of Essentials Goods, y-o-y%



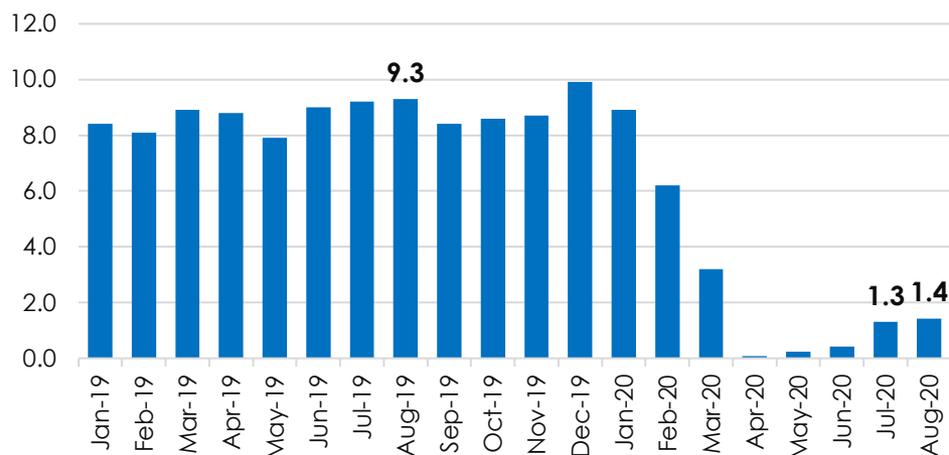
Source: CEIC

## Passenger Transport Inflation, y-o-y%



Source: CEIC

## Monthly Passenger Traffic at Malaysia Airports (Million)



Source: Malaysia Airports Holdings Berhad

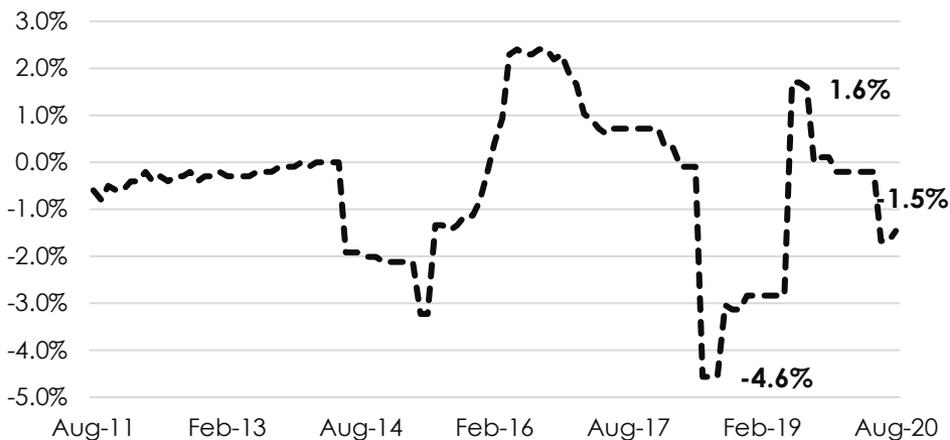
- ✓ Amongst the passenger transport category, inflation for air transport jumped the most by 27.7% in August (July: 6.6%). The surge in air passenger transport inflation was due to the surge in demand for domestic tourism following the relaxation of restrictions on inter-state travel.
- ✓ This presented an opportunity for airlines to recoup some of the revenue losses during the initial phase of the Movement Control Order (MCO) from April to May 2020.
- ✓ Aside from that, the Awal Muharram and National Day holidays in August enabled many families to plan trips to popular tourist destinations. Hotels and resorts in Langkawi, Penang, Ipoh, the East Coast, as well as down south in Melaka experienced near-capacity bookings.
- ✓ As a result, the passenger traffic at Malaysian airports increased for the fourth straight month in August.
- ✓ The substantial increase in inflation for air passenger transport was however partially weighed down by other components such as fuel and lubricating equipment which declined by near 20.0% in August.
- ✓ Looking ahead we expect some downward pressure on the air passenger transport inflation as Malaysia Airlines have offered 20.0% discount on domestic flights.

## Costs of Fuels & Lubricating Personal Transport Equipment, y-o-y%



Source: CEIC

## Costs of Purchase Vehicles - Motorcars, y-o-y%

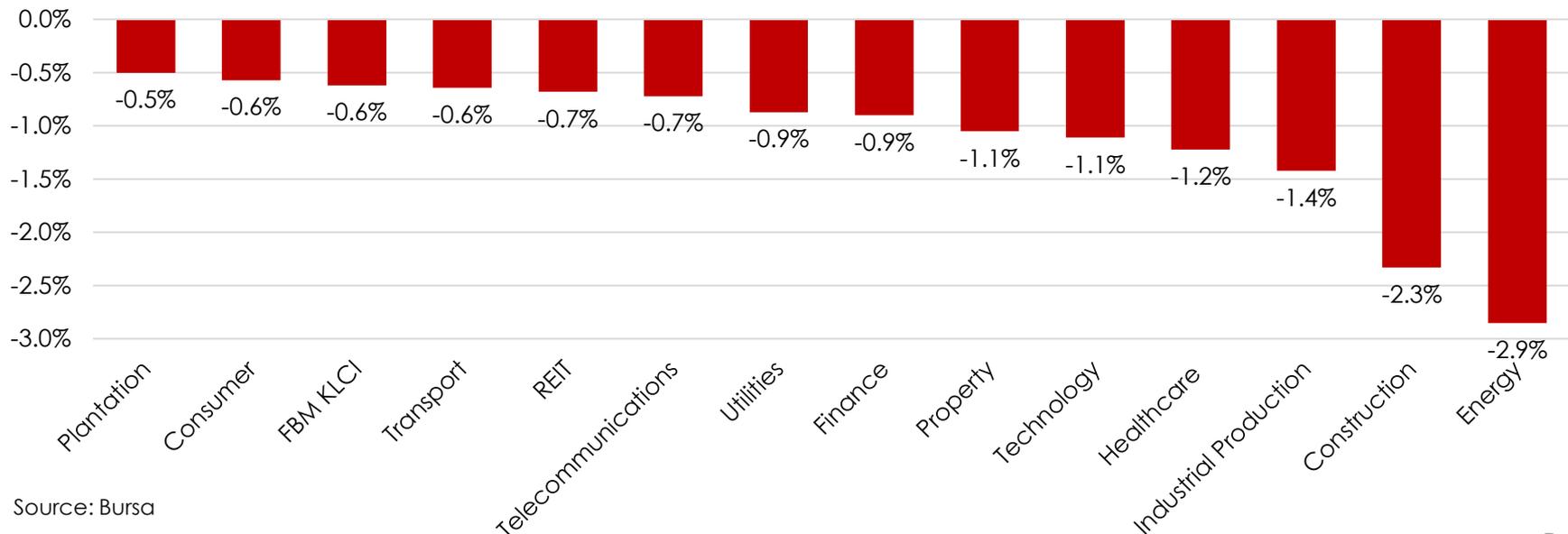


Source: CEIC

- ✓ As mentioned earlier, costs of fuel and lubricating personal transport equipment continued to decline (August: -18.8% vs. July: -18.4%) amid cheaper global crude oil prices.
- ✓ On further scrutiny, lower average fuel prices for RON95 (August 2020: RM1.68 vs. August 2019: RM2.08), RON97 (August 2020: RM1.98 vs. August 2019: RM2.51) and Diesel (August 2020: RM1.81 vs. August 2019: RM2.18) were recorded during August. This was 19.3%, 21.2% and 17.1% fall as compared to the same period last year.
- ✓ Apart from that, prices for vehicles particularly motorcars have also reduced (August: -1.4% vs. July: -1.5%) after the government announced the sales tax exemption on all locally-assembled vehicles for a six-month period (June 2020 to December 2020). This initiative is aimed to help the automotive sector to recover better from the Covid-19 crisis.
- ✓ All in all, we anticipate that the price for transport will drop further in the next few months, though at a slower pace. Meanwhile, inflation rate of other components especially food and non-alcoholic beverage will remain strong following the latest KITA PRIHATIN aid by the government.
- ✓ In light of this, **we have maintained our full year forecast for CPI at -0.5%** (2019: 0.7%) as we believe that the balance of risks to the inflation outlook is tilted to the downside in 2020 due to weaker demand conditions amid the ongoing pandemic.

- ✓ In relation to the equity market, the FBM KLCI was down by 0.6% after closing at 1,496.48 points on 23 September 2020 amid knee jerk reactions from the latest political jitters. Amongst the constituents of the FBM KLCI index, oil and gas related counters such as Petronas Chemicals, Petronas Dagangan and Dialog all dropped by more than 1.5% on Wednesday. The drop in such counters led to a drag in the Bursa Malaysia Energy Index which led laggards with a 2.9% decline on Wednesday.
- ✓ Meanwhile, consumer related counters such as Nestle gained 1.2% for the day, coinciding with the stable inflation rate for food and non-alcoholic beverages. As such, the Bursa Malaysia Consumer Index was one of the smallest decliners for the day, only dropping by 0.6%.
- ✓ While the nation's inflation rate inched lower in August at -1.4%, this is still far better than the inflation rate of -2.9% seen in May this year. A potential production of vaccine in the near future could boost optimism across sectors especially for industrial production. Nonetheless, with fears of Covid-19 remaining in place, we expect the FBM KLCI to remain range bound in the near term.

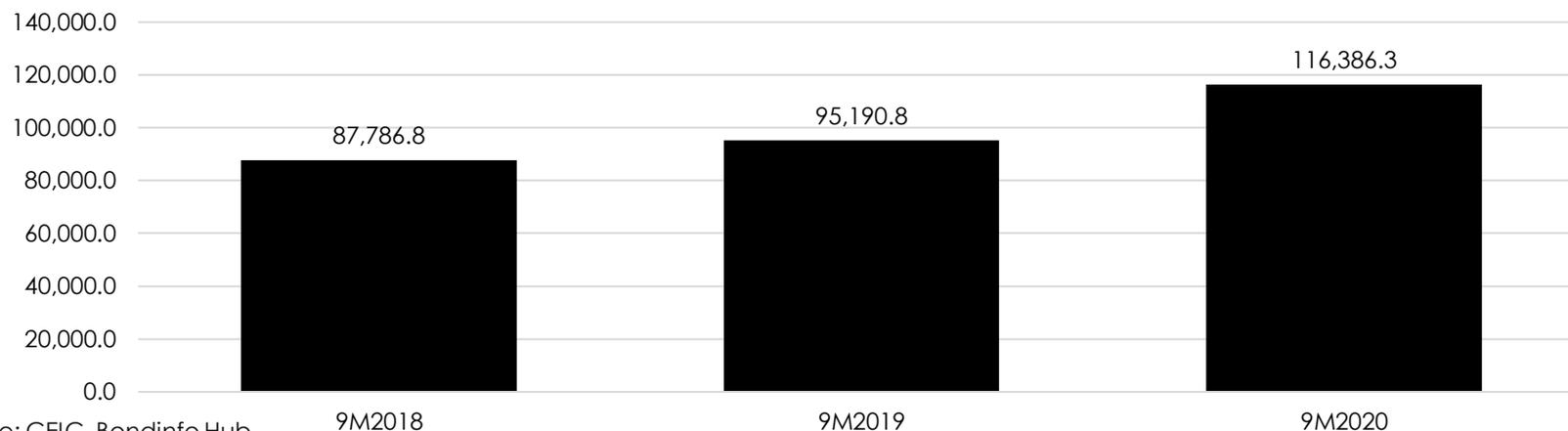
## Sectoral Performance on 23 September 2020



Source: Bursa

- ✓ The lower inflation rate undoubtedly provides the policy space for the monetary authorities to cut the OPR.
- ✓ However, we opine that the BNM would keep the benchmark rate unchanged at 1.75% throughout 2020 and well into 2021, barring any unforeseen circumstances.
- ✓ As such, the bullish sentiment in the bond markets warrant for a cautious view as bond yields could rise due to emerging signs of economic recovery. To some degree, the wider fiscal deficits would mean there would be more issuance of MGS and GII to fund the development expenditure.
- ✓ This factor could also lead to high bond yields in light of the incoming supply. To date, the total issuance for MGS and GII stood at RM116.4 billion compared to RM95.2 billion in the 9M2019.

**Gross Issuance (RM million)**



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