

Benign inflation at 1.3% in February

Facts

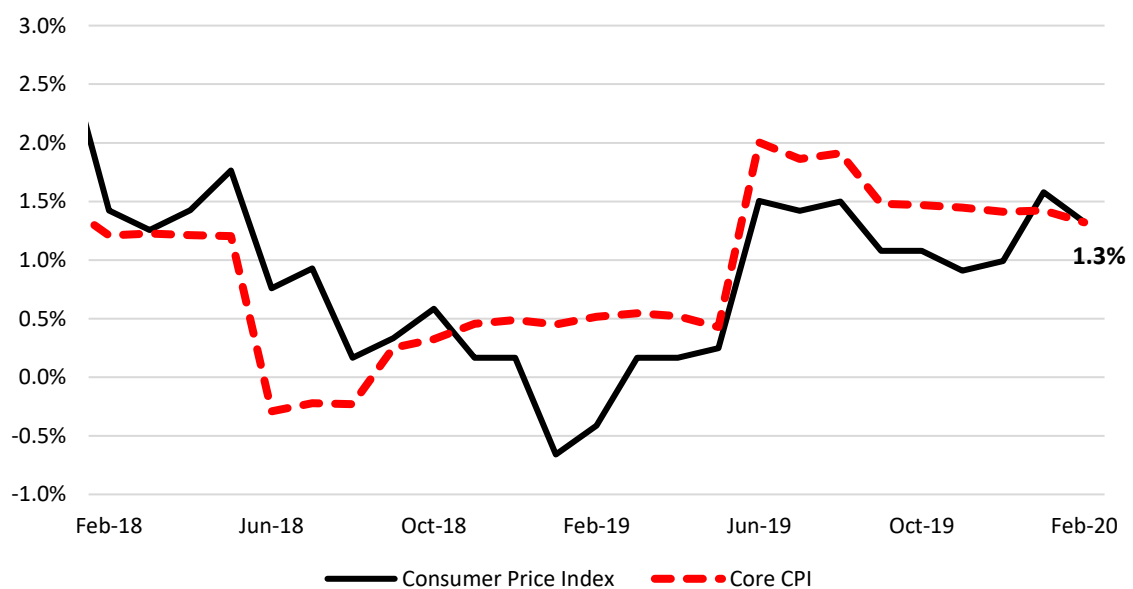
- Malaysian Consumer Price Index (CPI) has moderated to 1.3% year-on-year (y-o-y) in February from 1.6% growth in January (Consensus: 1.4%, Bank Islam: 1.7%). This was primarily driven by softer inflation for Food & Non-Alcoholic Beverages (February: 0.8% vs. January: 0.9%), Housing, Water, Electricity, Gas & Other Fuels (February: 1.6% vs. January: 1.7%), as well as Transport (February: 2.4% vs. January: 3.9%). On a similar note, modest inflation can also be seen in Furnishings, Household Equipment & Maintenance (February: 1.0% vs. January 1.2%), Health (February: 1.3% vs. January: 1.4%), Recreation & Culture (February: 0.7% vs. January: 0.9%) and Education (February: 1.3% vs. January: 1.7%). These sub-indices accounted for 80.0% of total CPI.
- As for the Food & Non-Alcoholic Beverages sub-indices, inflation for Food at Home and Food Away From Home grew at slower pace of 0.2% (January: 0.4%) and 1.6% (January: 1.7%) respectively in February. This was underpinned by modest inflation for fruits, growing marginally by 0.1% in February from 0.7% in January. In addition, declining in prices were seen for Meat (February: -2.8% vs. January: -4.5%), Fish & Seafood (February: -0.1% vs. January: 1.2%), as well as Milk, Cheese & Eggs (February: -3.8% vs. January: -2.7%).
- Within the Transport sub-indices, Operation of Personal Transport Equipment (OP) eased by 2.6% in February (January: 4.3%) whilst the Fuels & Lubricating Personal Transport Equipment has softened by 3.8% (January: 5.4%).
- Meanwhile, prices for Clothing & Footwear has declined by 1.1% in February (January: -1.2%) while inflation for Communication (February: 1.5% vs. January 1.5%), Restaurants & Hotels (February: 1.1% vs. January: 1.1%) and Miscellaneous Goods & Services (February: 2.5% vs. January: 2.5%) sustained its growth during the month.
- Our core inflation which excludes Food & Non-Alcoholic Beverages and Transport posted a softer growth at 1.3% in February from 1.4% in January.
- Cumulatively, the consumer inflation recorded at 1.5% during the first two months of 2020 from -0.5% in the same period last year whilst the core inflation stood at 1.4% in 2M2020 (2M2019: 0.5%). This reflects the consumers were feeling the pinch from inflationary pressure.

Table 1: Consumer Price Index (CPI)

	Weight	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	2M2019	2M2020
Consumer Price Index	100.0%	1.1%	0.9%	1.0%	1.6%	1.3%	-0.5%	1.5%
Food and Non Alcoholic Beverages	29.5%	1.8%	1.5%	1.7%	0.9%	0.8%	1.0%	0.9%
Alcoholic Beverages and Tobacco	2.4%	2.2%	0.4%	0.2%	0.1%	0.2%	1.1%	0.2%
Clothing and Footwear	3.2%	-1.3%	-1.1%	-1.0%	-1.2%	-1.1%	-3.2%	-1.1%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	1.6%	1.7%	1.7%	1.7%	1.6%	2.0%	1.7%
Furnishings, Household Equipment and Maintenance	4.1%	1.7%	1.5%	1.4%	1.2%	1.0%	-0.1%	1.1%
Health	1.9%	1.4%	1.4%	1.4%	1.4%	1.3%	-0.4%	1.4%
Transport	14.6%	-2.3%	-2.4%	-1.9%	3.9%	2.4%	-7.3%	3.2%
Communication	4.8%	1.5%	1.5%	1.5%	1.5%	1.5%	-1.2%	1.5%
Recreation and Culture	4.8%	0.7%	0.8%	0.6%	0.9%	0.7%	-0.4%	0.8%
Education	1.3%	1.9%	1.6%	1.7%	1.7%	1.3%	1.1%	1.5%
Restaurants and Hotels	2.9%	1.2%	1.1%	1.1%	1.1%	1.1%	1.3%	1.1%
Miscellaneous Goods and Services	6.7%	2.2%	2.5%	2.4%	2.5%	2.5%	-2.3%	2.5%
Core CPI (excluding F&B and Transport)		1.5%	1.4%	1.4%	1.4%	1.3%	0.5%	1.4%

Sources: DOSM, CEIC, Bank Islam

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



Source: CEIC

Our view

The lockdowns measures in many countries following the fear of the Covid-19 threats have led to panic buying among the citizens as people were anxious and Malaysians are no exception to this phenomenon. As at 24 March 2020, there were 372,757 confirmed cases and 16,231 deaths reported by the World Health Organization (WHO), in which 291,010 cases and 12,948 deaths recorded outside China's jurisdiction. This was higher compared to 2,069 confirmed cases and 23 deaths reported on 24 February 2020 (Outside China). Following this, with the increasing number of confirmed cases registered, we expect the prolong virus spread could potentially exacerbate the panic buying. This demand shock may lead to global food inflation despite ample supplies as ballooning orders from across countries could lead to a jump in food prices. Apart from that, the irrational stockpiling could also result in food prices spiralling up if the situation does not being addressed accordingly. Panic buying may seem to spur private consumption in the short run as everyone is front loading their expenditure.

Be that as it may, the Prime Minister has instructed The Domestic Trade and Consumer Affairs Ministry (KPDNHEP) to ensure that essential food items are readily available. We have seen, the KPDNHEP has imposed a tight control on face mask prices and supplies. Businesses whose selling price exceeded the ceiling price would be penalised under the Price Control and Anti-Profitteering Act 2011. Recently, the government has announced that the ceiling price of one piece of a three-ply face masks would now selling at RM2.00 from RM0.80 previously. However, they are in the midst of reviewing the ceiling price due to complaints regarding the unreasonable gazetted price. The government is also in the process of importing 10 million face masks from China to fulfil the demand needed by the frontlines who's manning the pandemic. In that senses, the enforcement officers have been keeping a close watch on business premises selling face mask until the Covid-19 has really waned. Perhaps, similar enforcement strategy could be instituted on basic essential items such as food. Nonetheless, we cannot totally discount that businesses may take advantage of the situation by increasing their selling price.

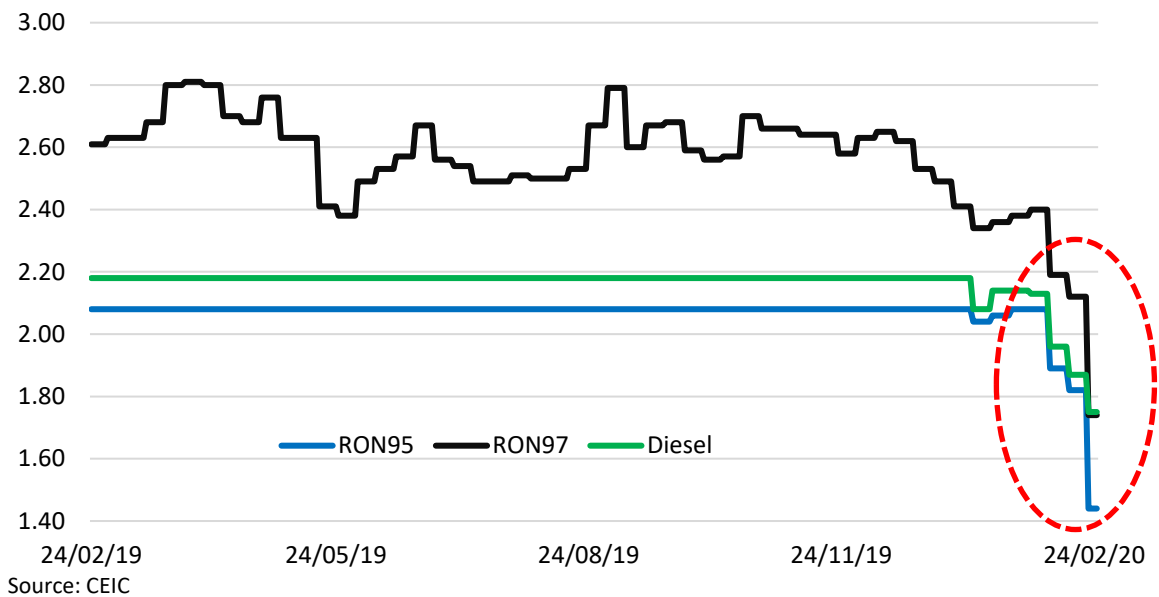
Meanwhile, our government effort to combat the deadly virus outbreak should be commendable. The Prime Minister has committed to announce another round of fiscal stimulus package which will be unveiled on 30 March. During the press conference held on 23 March 2020, he stated that workers aged below 55 years are allowed to withdraw a maximum of RM500 per month from their Employees Provident Fund (EPF) accounts 2 for a period of 12 months. This could help reduce the financial burden of the citizens especially for those who have been badly affected from the Movement Control Order (MCO). The Bank Negara Malaysia (BNM) has also introduced measures to assist individuals and businesses (especially for Small and Medium-sized enterprises). Banking institutions will offer a moratorium of financing repayment for a period of 6 months in order to ease their cash flows.

With the recent oil prices collapsing in early March, we do expect the petrol prices (RON95, RON97 and Diesel) to fall accordingly. As at 24 March 2020, prices of RON95, RON97 and Diesel have dropped to RM1.44 (23 February 2020: RM2.08), RM1.74 (23 February 2020: RM2.38) and RM1.75 (23 February 2020: RM2.14) respectively. This would have a direct

impact to our CPI as Fuels & Lubricating Personal Transport Equipment accounted a sizeable share of 8.5% from the total CPI.

As such, we expect inflation rate to remain soft in 2020. Our full year forecast is pegged at 1.2% which we have already made a significant revision from earlier forecast of 1.8%. There is no doubt the prevailing inflation rate would result in more monetary space to the BNM to prescribe additional easing measures. However, judging from the recent policy responds, we believe that the Overnight Policy Rate (OPR) efficacy to bring order to the economy at the current juncture may have a limited role. The present policy objective is to ensure financial stability is intact. Therefore, allowing 6 months payment moratorium alongside with Restructuring and Rescheduling (R&R) would effectively give a breathing space to the borrowers. As for banks, the exemption to the normal accounting treatment as a result of these measures would incentivize them to take part in the scheme. So, it's a win-win for all parties.

Chart 2: Petrol prices in Malaysia (RM per liter)



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