



From the Desk
of the
Chief Economist

BANK ISLAM

DISINFLATIONARY TREND HAS PREVAILED DURING JULY

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ECONOMIC RESEARCH

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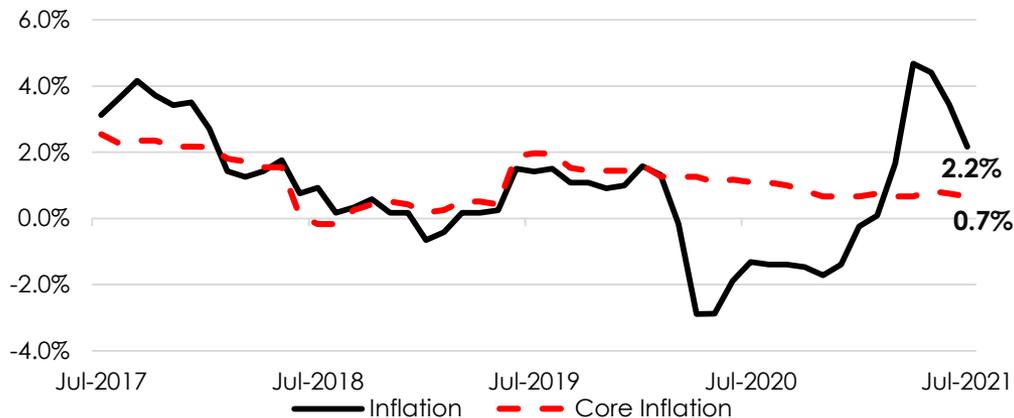
SHAFIZ BIN JAMALUDDIN

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CPI INCREASED MODESTLY BY 2.2% IN JULY

Inflation rate, y-o-y% (July 2017 – July 2021)



Source: CEIC

Headline Inflation

July 2.2%
June 3.4%

Core Inflation

July 0.7%
June 0.7%

Food & Non-Alcoholic Beverages

July 1.3%
June 1.3%

Alcoholic Beverages & Tobacco

July 0.5%
June 0.7%

Clothing & Footwear

July -0.4%
June -0.4%

Housing, Water, Electricity, Gas & Other Fuels

July 0.7%
June 3.2%

Furnishings, Household Equipment & Routine Household Maintenance

July 1.7%
June 2.0%

Health

July 0.4%
June 0.5%

Transport

July 11.6%
June 16.6%

Communication

July 0.0%
June 0.0%

Recreation Services & Culture

July 0.6%
June 0.6%

Education

July 0.1%
June 0.5%

Restaurants & Hotels

July 0.7%
June 0.5%

Miscellaneous Goods & Services

July 0.1%
June 0.3%

MOST OF THE SUB-INDICES RECORDED SLOWER PRICE INCREASES

	Weight	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	7M2020	7M2021
Consumer Price Index	100.0%	-0.2%	0.1%	1.7%	4.7%	4.4%	3.4%	2.2%	-0.9%	2.3%
Food & Non-Alcoholic Beverages	29.5%	1.5%	1.4%	1.5%	1.9%	1.5%	1.3%	1.3%	1.2%	1.5%
Alcoholic Beverages & Tobacco	2.4%	0.7%	0.7%	0.6%	0.7%	0.7%	0.7%	0.5%	0.2%	0.7%
Clothing & Footwear	3.2%	-0.4%	-0.4%	-0.3%	-0.4%	-0.5%	-0.4%	-0.4%	-1.1%	-0.4%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	-0.7%	-0.8%	-0.8%	3.1%	3.2%	3.2%	0.7%	-0.8%	1.1%
Furnishings, Household Equipment & Routine Household Maintenance	4.1%	0.2%	0.3%	0.9%	1.6%	2.1%	2.0%	1.7%	0.4%	1.2%
Health	1.9%	0.7%	0.7%	0.5%	0.5%	0.6%	0.5%	0.4%	1.3%	0.6%
Transport	14.6%	-5.1%	-2.0%	9.8%	27.0%	26.0%	16.6%	11.6%	-10.0%	10.9%
Communication	4.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.5%	0.0%
Recreation Services & Culture	4.8%	0.1%	0.1%	0.5%	0.7%	0.6%	0.6%	0.6%	0.7%	0.5%
Education	1.3%	0.2%	0.1%	0.0%	0.2%	0.3%	0.5%	0.1%	1.2%	0.2%
Restaurants & Hotels	2.9%	-0.1%	-0.3%	0.0%	0.2%	0.2%	0.5%	0.7%	0.7%	0.2%
Miscellaneous Goods & Services	6.7%	1.8%	1.6%	1.0%	1.2%	0.7%	0.3%	0.1%	2.7%	1.0%
Core CPI		0.7%	0.7%	0.7%	0.7%	0.8%	0.7%	0.7%	1.2%	0.7%

Sources: DOSM, CEIC

01

Malaysia's Consumer Price Index (CPI) increased modestly by 2.2% year-on-year (y-o-y) in July after rising by 3.4% in the previous month. **(Consensus: 2.9%, Bank Islam: 3.0%).**

02

This was mainly attributable to the Housing, Water, Electricity, Gas & Other Fuels and Transport-related prices which eased by 0.7% and 11.6% in July from a 3.2% and 16.6% growth in the preceding month respectively. Both sub indices accounted for 38.4% of the total CPI.

03

Apart from that, Furnishings, Household Equipment & Routine Household Maintenance also helped to bring down the inflation rate as it grew moderately by 1.7% in July from an expansion of 2.0% in the previous month.

04

Meanwhile, prices of Food & Non-Alcoholic Beverages (July: 1.3% vs. June: 1.3%), Communication (July: 0.0% vs. June: 0.0%), as well as Recreation Services & Culture (July: 0.6% vs. June 0.6%) remained unchanged in July.

05

The Core CPI which excludes most volatile items of fresh food, as well as administered prices of good and services stayed unchanged at 0.7% in July, suggesting the pass through effect has been fairly stable.

06

On a cumulative basis, the CPI rebounded by 2.3% in 7M2021 from a 0.9% contraction in the same period last year. However, the core CPI moderated by 0.7% in 7M2021 (7M2020: 1.2%). This indicates that inflation rate has remained generally under control.

Countries	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	7M2020	7M2021
Malaysia	-0.2%	0.1%	1.7%	4.7%	4.4%	3.4%	2.2%	-0.9%	2.3%
Indonesia	1.6%	1.4%	1.4%	1.4%	1.7%	1.3%	1.5%	2.4%	1.5%
Thailand	-0.3%	-1.2%	-0.1%	3.4%	2.4%	1.2%	0.5%	-1.1%	0.8%
Philippines	4.2%	4.7%	4.5%	4.5%	4.5%	4.1%	4.0%	2.5%	4.4%
Singapore	0.2%	0.7%	1.3%	2.1%	2.4%	2.4%	2.5%	-0.2%	1.7%
India	4.1%	5.0%	5.5%	4.2%	6.3%	6.3%	5.6%	6.6%	5.3%
U.S.	1.4%	1.7%	2.6%	4.2%	5.0%	5.4%	5.4%	1.2%	3.7%
China	-0.3%	-0.2%	0.4%	0.9%	1.3%	1.1%	1.0%	3.7%	0.6%

Sources: CEIC, DOSM

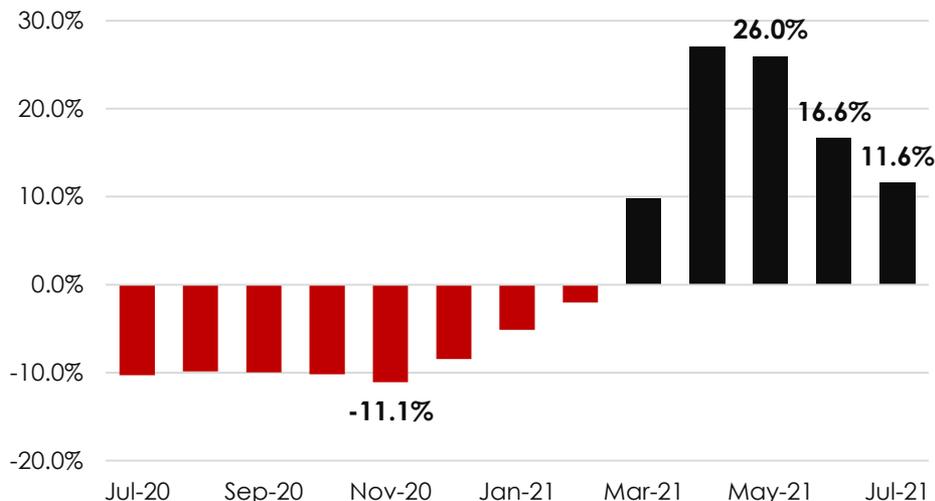
- ✓ The modest growth in Malaysia's CPI during July was in line with some of its regional peers which grew at a softer pace as lower base effect from last year subsided.
- ✓ India still recorded the highest inflation rate since May this year. However, the disinflationary trend remained evident with their CPI grew by 5.6% y-o-y in July from a 6.3% growth in the preceding month. Over the next few months, it is quite likely that it would continue to drift downwards, attributed by the high base of the corresponding months in the previous year.
- ✓ On further scrutiny, it was the first time that India's inflation remained within the Reserve Bank of India (RBI) target range of between 2.0% and 6.0% since April 2021, mainly underpinned by slower increase in Food costs (July: 4.0% vs. June: 5.1%).
- ✓ On the other hand, the U.S. bucked the trend seen in Asian countries as the CPI stood at 5.4% in July, unchanged from the previous month's 13-year high amid reopening of the economy and continuous supply constraints in some key sector. Inflationary pressure was seen in costs of Food (July: 3.4% vs. June: 2.4%), led by the increases in Food at Home (July: 2.6% vs. June: 0.9%) and Food Away from Home (July: 4.6% vs. June: 4.2%).

Costs of Fuels & Lubricants For Personal Transport Equipment, y-o-y%



Source: CEIC

CPI: Transport, y-o-y%



Source: CEIC

Year-on-year changes (%) in average fuel prices:

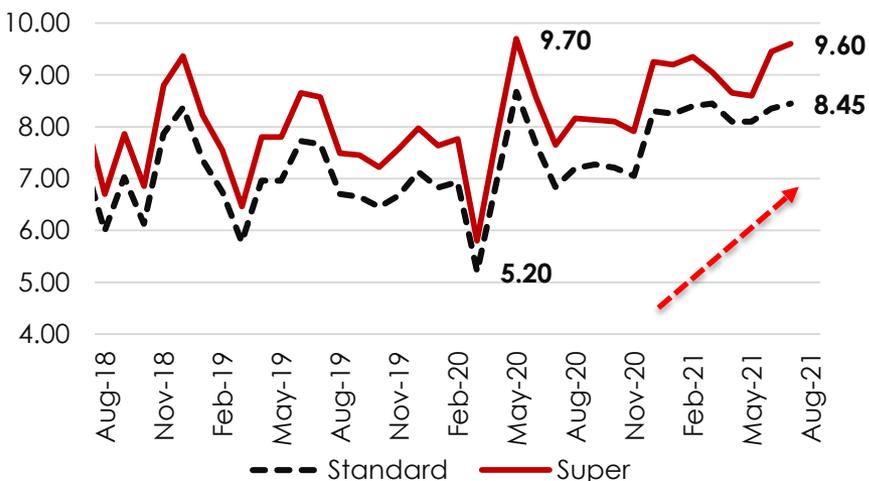
Month	Price, RM per litre			y-o-y change, %		
	RON95	RON97	Diesel	RON95	RON97	Diesel
Jun-21	2.05	2.65	2.15	32.8%	43.8%	25.5%
Jul-21	2.05	2.71	2.15	21.1%	36.2%	16.2%

Source: CEIC

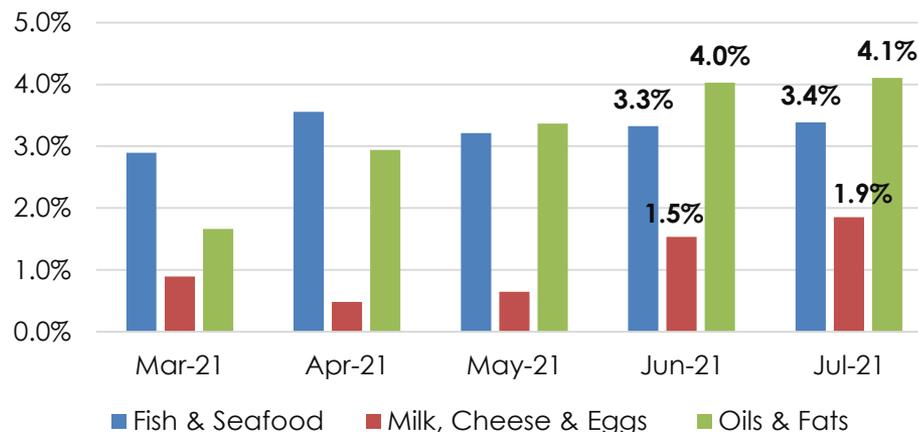
Note: Prices are averaged for each month

- ✓ As mentioned earlier, the costs of Transport had eased by 11.6% in July from a 16.6% growth previously. This was predominantly driven by the slower price increases for the Fuels & Lubricants For Personal Transport Equipment, which grew modestly by 21.8% in July (June: 32.8%).
- ✓ This was coincided with the modest increase in average fuel prices for RON95, RON97 and Diesel in July compared to the month before as shown in the table.
- ✓ This suggests that the effect of a lower base from last year is fading and is expected to subside further in the coming months after the government increased fuel prices starting end of May 2020 onwards.

Chicken Price (RM/kg)



Costs of Food, y-o-y% (March - July, 2021)



Source: Department of Veterinary Services

- ✓ While the overall food sub index had sustained at 1.3% during July (June: 1.3%), there were certain items which recorded higher costs such as Oil & Fats (July: 4.1% vs. June: 4.0%), Fish & Seafood (July: 3.4% vs. June: 3.3%), Milk, Cheese & Eggs (July: 1.9% vs. June: 1.5%) and Vegetables (July: 0.8% vs. June: 0.6%).
- ✓ Apart from that, according to the Department of Veterinary Services, the retail price for standard chicken jumped by 23.6% y-o-y to RM8.45/kg (July: RM8.35/kg) while price for super chicken surged by 25.5% to RM9.60/kg (July: RM9.45/kg) in August.
- ✓ The main factor contributed to the rise in chicken price was the costs of production which includes chicken feeding costs, as well as labour costs. Moreover, the Food and Agriculture Organisation (FAO) mentioned that the increase in the prices of some of the world's major commodities was due to lack of supply and rising shipping costs, leading to the increase in the index of food.
- ✓ These could really explain why the costs of living continue to be the main concern amongst Malaysians as prices of goods especially products that are considered as essentials are still at elevated level.

OUR VIEW – DISINFLATIONARY TREND WOULD MEAN BNM IS IN NO HURRY TO RAISE THE OPR

- ✓ On 18 August 2021, 50.2% or 11,743,096 of adult population in Malaysia have fully vaccinated. This is about 2 weeks earlier than the previous target to reach more than the 50.0% on 31 August this year. Following this, the government has decided to ease some restrictions particularly for states under Phase 1 of the National Recovery Plan (NRP).
- ✓ As such, we anticipate the demand and supply imbalances resulting from the impacts of coronavirus related measures would improve as more economic activities will be allowed. With that in mind, inflationary pressures due to the supply bottleneck should subside in particular the costs of foods.
- ✓ Despite inflation rate is anticipated to trend lower in the coming months, we believe that demand from customers are still healthy. This was based on the assumption that the country would transition into the remaining phases of the NRP as vaccination program has been progressing extremely well.
- ✓ In terms of monetary policy, the disinflationary trend as demonstrated by the latest CPI print suggests that **the BNM is likely to maintain the Overnight Policy Rate (OPR) at 1.75% throughout the year 2021**. As such, the prevailing CPI trajectory should allay concern of premature OPR hike in the near term.
- ✓ All in all, **we reiterate our CPI growth forecast of 2.5% in 2021 following a 1.1% fall in 2020**.

NRP Standard Operating Procedures (SOPs)	Phase 1	Phase 2	Phase 3
<p>States</p> <p>Fully vaccinated:-</p> <p>a) Have passed the 14th days of two-dose vaccine (Pfizer, AstraZeneca and Sinovac)</p> <p>b) Have passed the 28th days of single-dose vaccine (Johnson & Johnson and CanSino)</p>	<ul style="list-style-type: none"> • Selangor • Negeri Sembilan • Melaka • Johor • Kedah • Kuala Lumpur • Putrajaya 	<ul style="list-style-type: none"> • Perak • Kelantan • Terengganu • Pahang • Pulau Pinang • Sabah 	<ul style="list-style-type: none"> • Sarawak • Perlis • Laburan
To travel across border and states	<ul style="list-style-type: none"> • Travellers returning or coming to Malaysia will be allowed to complete their self-quarantine at home, given that they have a home here. • Parents who are fully vaccinated are able to travel to visit their children below 18, as well as married couple who are living apart. 		
Dine-in activity	Allowable with customer capacity of 50% per table.		
Domestic tourism activity	No	Allowable for tourisms involving homestay and hotel within the same state.	
Sports and Recreational activity	Non-contact sport and recreational activities are allowed from 6 pm to 10 pm.		

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