

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

## Negative CPI Print in March 2020

### Facts

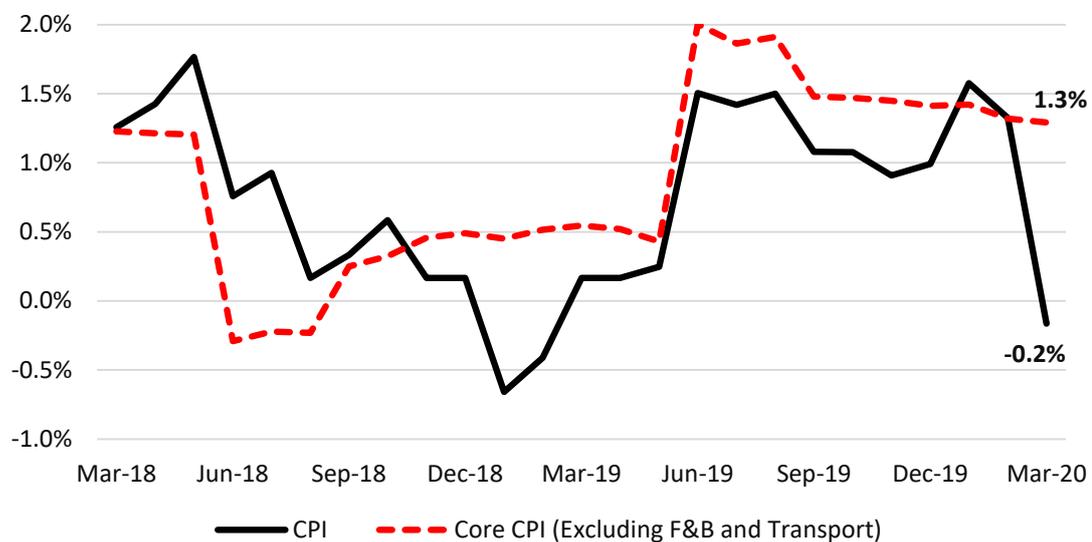
- The Consumer Price Index (CPI) declined by 0.2% year-on-year (y-o-y) in March after rising by 1.3% in February (Consensus: -0.1%, Bank Islam: 0.2%). This was mainly attributed by Transport index which slumped by 8.9% in March from a positive print of 2.4% in the preceding month. Apart from that, Clothing & Footwear dropped by 1.3% in March, extending the 1.1% fall in the previous month. On the contrary, Furnishings, Household Equipment & Maintenance (March: 0.8% vs. February: 1.0%), as well as Restaurants and Hotels (March: 0.9% vs. February: 1.1%) were both higher albeit at moderate pace.
- Within the Transport sub-indices, Operation of Personal Transport Equipment (OP) decreased significantly by 10.8% in March from 2.6% growth in February, owing to sharp decline in Fuels & Lubricating Personal Transport Equipment by 16.1% in March (February: 3.8%). Similarly, Purchase of Vehicles dropped by 0.2% in March from 0.1% reduction in February. Both indices contributed 13.8% of overall CPI.
- Meanwhile, Housing, Water, Electricity, Gas & Other Fuels (March: 1.6% vs. February: 1.6%), Communication (March: 1.5% vs. February: 1.5%), Education (March: 1.3% vs. February: 1.3%) and Recreation & Culture (March: 0.7% vs. February: 0.7%) have sustained its increment during March.
- On the other hand, Food & Non-Alcoholic Beverages rose by 1.2% in March from 0.8% in February. This was driven by higher price for Food at Home, increasing by 0.9% in March from 0.2% in February. Further breakdown showed Meat (March: 0.9% vs. February: -2.8%), Fish & Seafood (March: 0.3% vs. February: -0.1%), Oil & Fats (March: 1.4% vs. February: 0.3%) and Fruits (March: 0.6% vs. February: 0.1%) edged up during March.
- There are 11 states in Malaysia recorded deflationary trend such as Melaka (March: -0.9% vs. February: 0.6%), Sabah (March: -0.9% vs. February: 0.8%), Sarawak (March: -0.9% vs. February: 1.1%), Kedah & Perlis (March: -0.8% vs. February: 1.1%), Negeri Sembilan (March: -0.6% vs. February: 1.1%), Terengganu (March: -0.6% vs. February: 1.1%), Kelantan (March: -0.4% vs. February: 0.9%), Perak (March: -0.3% vs. February: 1.3%), Johor (March: -0.2% vs. February: 1.4%) and Pahang (March: -0.1% vs. February: 1.5%).
- Despite that, our core inflation which excludes Food & Non-Alcoholic Beverages and Transport maintained at 1.3% in March from 1.3% in February. As such, general prices have not really collapsing as negative headline CPI print was primarily driven by fuel.
- Cumulatively, inflation rate stood at 0.9% in 1Q2020, gradually moderating from 1.0% and 1.6% in the 4Q2019 and 3Q2019 respectively. Similarly, core inflation rate have been rising at slower pace from 2.1% and 1.4% in the 3Q2019 and 4Q2019 respectively to 1.3% in the first three months this year.

**Table 1: Consumer Price Index (CPI)**

	Weight	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	1Q2019	1Q2020
<b>Consumer Price Index</b>	<b>100.0%</b>	<b>0.9%</b>	<b>1.0%</b>	<b>1.6%</b>	<b>1.3%</b>	<b>-0.2%</b>	<b>-0.3%</b>	<b>0.9%</b>
Food and Non Alcoholic Beverages	29.5%	1.5%	1.7%	0.9%	0.8%	1.2%	1.0%	1.0%
Alcoholic Beverages and Tobacco	2.4%	0.4%	0.2%	0.1%	0.2%	0.3%	1.1%	0.2%
Clothing and Footwear	3.2%	-1.1%	-1.0%	-1.2%	-1.1%	-1.3%	-3.1%	-1.2%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	1.7%	1.7%	1.7%	1.6%	1.6%	2.0%	1.6%
Furnishings, Household Equipment and Maintenance	4.1%	1.5%	1.4%	1.2%	1.0%	0.8%	0.0%	1.0%
Health	1.9%	1.4%	1.4%	1.4%	1.3%	1.4%	-0.4%	1.4%
Transport	14.6%	-2.4%	-1.9%	3.9%	2.4%	-8.9%	-5.9%	-0.9%
Communication	4.8%	1.5%	1.5%	1.5%	1.5%	1.5%	-1.2%	1.5%
Recreation and Culture	4.8%	0.8%	0.6%	0.9%	0.7%	0.7%	-0.4%	0.8%
Education	1.3%	1.6%	1.7%	1.7%	1.3%	1.3%	1.2%	1.4%
Restaurants and Hotels	2.9%	1.1%	1.1%	1.1%	1.1%	0.9%	1.2%	1.1%
Miscellaneous Goods and Services	6.7%	2.5%	2.4%	2.5%	2.5%	2.6%	-2.2%	2.5%
<b>Core CPI (excluding F&amp;B and Transport)</b>		<b>1.4%</b>	<b>1.4%</b>	<b>1.4%</b>	<b>1.3%</b>	<b>1.3%</b>	<b>0.5%</b>	<b>1.3%</b>

Sources: DOSM, CEIC, Bank Islam

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

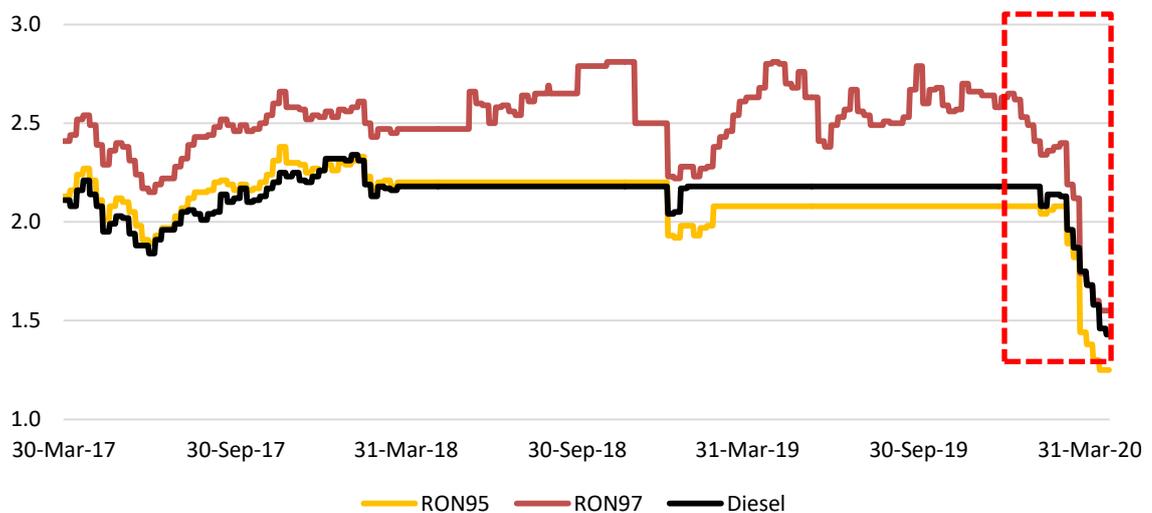


Source: CEIC

## Our view

Malaysia inflationary pressures are ebbing, thanks to lower petrol prices. Prices for RON95 (21 April 2020: RM1.25 per litre vs. 1 March 2020: RM2.08 per litre), RON97 (21 April 2020: RM1.55 per litre vs. 1 March 2020: RM2.40 per litre) and Diesel (21 April 2020: RM1.43 per litre vs. 1 March 2020: RM2.13 per litre) have declined significantly, weighing heavily on Fuels & Lubricating Equipment (8.5% of total CPI).

**Chart 2: Fuel Prices (RM / litre)**

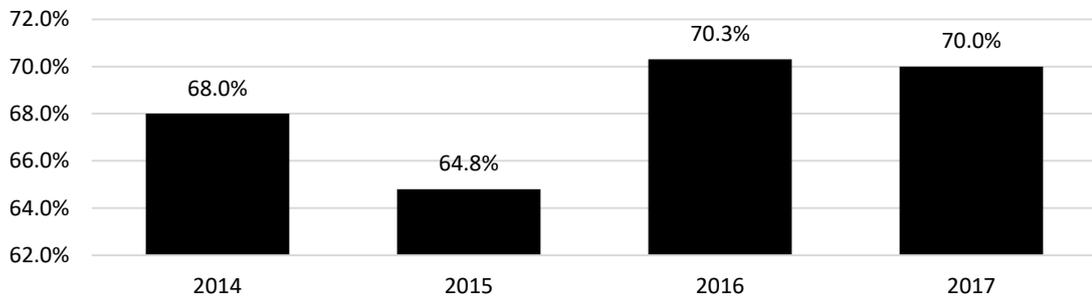


Source: CEIC

While lower fuel prices would continue to exert downward pressure on the headline inflation, prices of food are expected to remain elevated. According to the Bank Negara Malaysia's 3Q2019 Quarterly Bulletin, Malaysia remains a net food importer with imports forming at least a quarter of total food supply (24.0%). The total imports for food, live animals & beverages had increased by RM1.2 billion to RM54.0 billion in 2019 (2018: RM52.9 billion). Additionally, the Self-Sufficiency Ratio (SSR) for rice had fallen to 70.0% in 2017 (2016: 70.3%) while SSR for beef, mutton and chili stood at 23.9% (2017: 24.2%), 11.2% (2017: 10.2%) and 31.9% (2017: 38.8%) respectively in 2018. This reflects that Malaysia has serious issues on food security as the country is relying on import to satisfy its local demand. This happened despite the country is endowed with vast land and favourable weather condition.

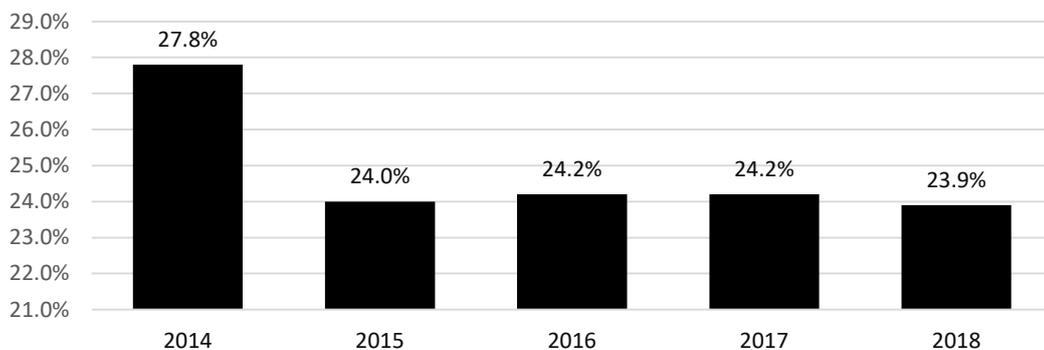
Recently, the DOSM had also conducted a survey to observe the price behaviour of 87 main food products throughout the Movement Control Order (MCO) period. Based on the survey, the average food prices have risen between 18 March and 22 March, reflecting panic buying among Malaysians. The average price for Grade A eggs has increased to RM3.99 per 10 eggs (17 March 2020: RM3.87 per 10 eggs). In addition, the average price for fresh meats (domestic beef) and fishes (mackerel) have also risen to RM32.80 per kg (17 March 2020: RM32.74 per kg) and RM14.08 per kg (17 March 2020: RM13.92 per kg) respectively. Therefore, disruption in global food supplies accompanied by the depreciation of Ringgit could lead to upward pressures on food prices.

**Chart 3: SSR of Rice (%)**



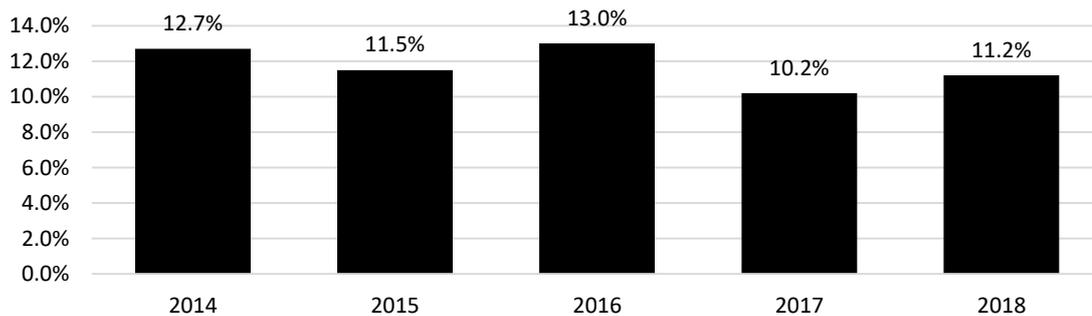
Source: Supply and Utilization Accounts Selected Agricultural Commodities, Malaysia, 2014-2018 (DOSM)

**Chart 4: SSR of Beef (%)**



Source: Supply and Utilization Accounts Selected Agricultural Commodities, Malaysia, 2014-2018 (DOSM)

**Chart 5: SSR of Mutton (%)**

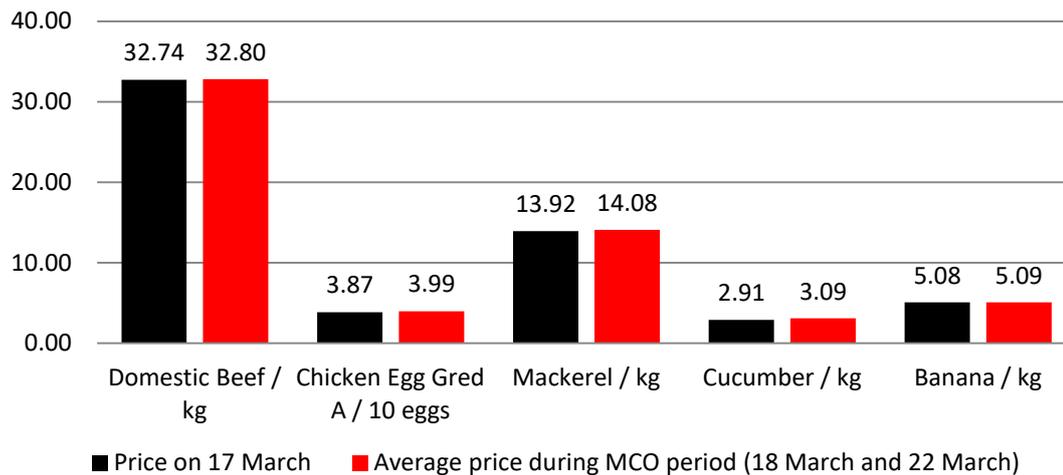


Source: Supply and Utilization Accounts Selected Agricultural Commodities, Malaysia, 2014-2018 (DOSM)

The pass-through effect from higher food prices during the pandemic outbreak would be mostly felt by the lower income cohort such as the B40 and to some degree, the M40 group. Against such backdrop, the Prihatin Stimulus Package totalling RM250 billion is deemed crucial to alleviate the financial burden among the citizen especially in dealing with the loss of income and defraying their living costs. In addition, stricter enforcement of Price Control and Anti-Profitteering Regulations is also critical to ensure prices on necessities goods would not be excessively priced. The minister of Domestic Trade and Consumer Affairs (KPDNHEP), Datuk Alexander Nanta Linggi, had stated that around 2,300 enforcement officers have been dispatched to observe the availability of necessity products and adhering the relevant rules and regulations.

The KPDNHEP will also carry out an initiative called Skim Harga Maksimum Hari Perayaan (SHMMP) to curb the price inflation during Ramadhan season and Gawai Dayak Day in the upcoming month.

**Chart 6: Price Comparison for Food During MCO Period Between 18 March and 22 March (RM)**



Sources: DOSM, KPDNHEP

Taking these into considerations, we have revised the full year inflation rate to 0.8% from the initial projection of 1.8%. Lower inflation would provide the additional monetary space to BNM to prescribe another monetary easing measure. We expect the BNM to cut the Overnight Policy Rate (OPR) by another 50 basis points to 2.00% in the upcoming Monetary Policy Committee (MPC) meeting on 5 May 2020.

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