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# ECONOMICS

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**Malaysia – A challenging 2H21**

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## Malaysia

### Inflation pressure easing

July's headline inflation continued to grow at a slower pace compared to the peak in April (4.7% y/y) by 2.2% y/y from 3.4% y/y in June. This brings the average inflation rate from January to July 2021 to 2.3%.

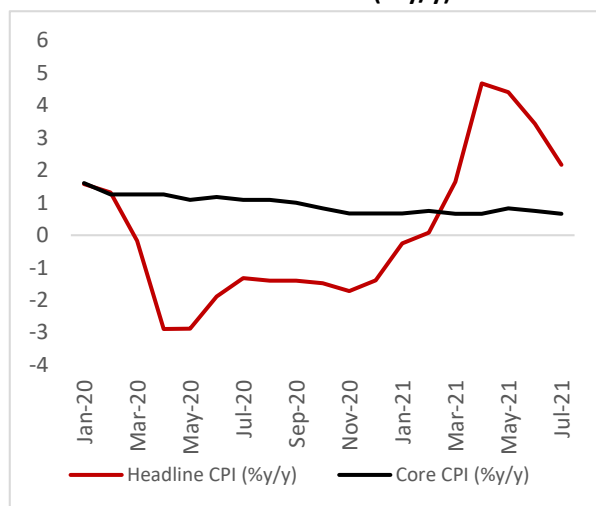
Going forward, a fizzling low base, weak domestic spending, and some containment of cost pressures from household electricity bill discounts for 2H2021 as well as an extension of the ceiling price for RON95 and diesel pump price should help contain the strong surge in inflation.

However, upwards pressure still remains from rising material costs and a weak ringgit that could result in transfer pricing. For 2021, inflation is expected to hover between 2.6% and 2.8% (-1.1% in 2020).

#### A. Highlights

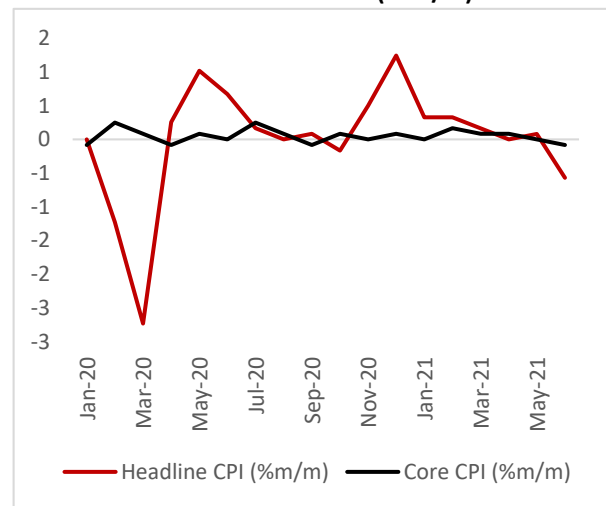
- July's headline inflation continued to grow at a slower pace compared to the peak in April (4.7% y/y) by 2.2% y/y from 3.4% y/y in June. It came in below the market consensus of 2.9% y/y and is the lowest reading since April 2021. On a monthly basis, it fell by 0.6%, the first monthly contraction since November 2020 at -0.17% (Charts 1 & 2).

**Chart 1: Headline CPI & Core CPI (% y/y)**



Source: CEIC/AmBank Research

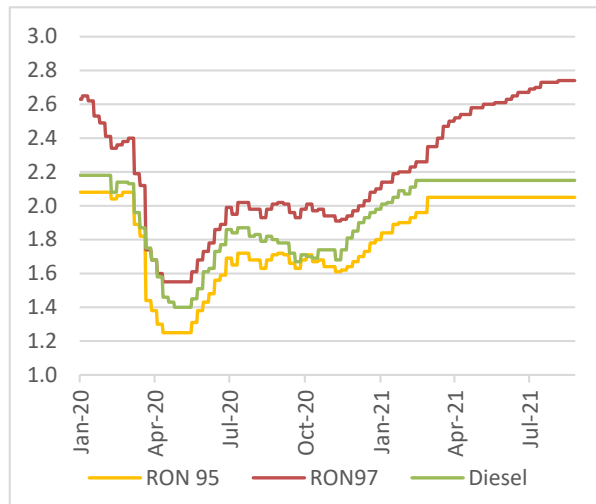
**Chart 2: Headline CPI & Core CPI (% m/m)**



Source: CEIC/AmBank Research

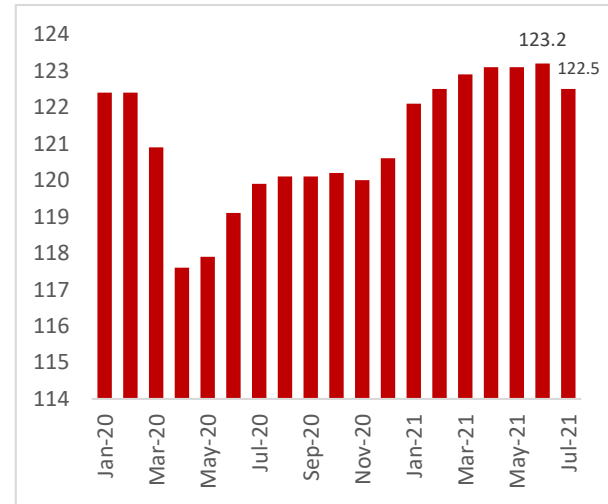
- Core inflation which excludes the volatile and controlled prices, grew by 0.7% y/y to 116.6, down from the previous month's 0.8% y/y. On a monthly basis, it dipped by 0.8% (Charts 1 & 2).
- This brings the average headline and core inflation to 2.3% and 0.7% respectively. Inflation in June was partly due to the lockdown effects that disrupted supply chains and pressure on raw materials. But the upside was contained from the absence of a low base and electricity bill discounts under the Pemulih scheme.
- Also, the fuel pump prices for RON95 and diesel were kept at RM2.05 and RM2.15, respectively, and this should help contain the strong surge in inflation.

**Chart 3: Fuel Daily Prices**



Source: CEIC/AmBank Research

**Chart 2: Consumer Price Index**



Source: CEIC/AmBank Research

## B. Key Takeaways

- Going forward, a fizzling low base, weak domestic spending, and some containment of cost pressures from household electricity bill discounts for 2H2021 as well as an extension of the ceiling price for RON95 and diesel pump price should help contain strong surge in inflation.
- However, upwards pressure still remains from rising material costs and a weak ringgit that could result in transfer pricing. For 2021, inflation is expected to hover between 2.6% and 2.8% (-1.1% in 2020).
- On the OPR outlook, we maintain our expectation that the policy rate will remain unchanged at 1.75% throughout 2021.

**Table 1: CPI & CPI Annual Changes (%)**

|           | Aug-20 | Sep-20 | Oct-20 | Nov-20 | Dec-20 | Jan-21 | Feb-21 | Mar-21 | Apr-21 | May-21 | Jun-21 | Jul-21 |
|-----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| CPI index | 120.1  | 120.1  | 120.2  | 120.0  | 120.6  | 122.1  | 122.5  | 122.9  | 123.1  | 123.1  | 123.2  | 122.5  |
| CPI       | -1.4   | -1.4   | -1.5   | -1.7   | -1.4   | -0.3   | 0.1    | 1.7    | 4.7    | 4.4    | 3.4    | 2.2    |
| Core CPI  | 1.1    | 1.0    | 0.8    | 0.7    | 0.7    | 0.7    | 0.8    | 0.7    | 0.7    | 0.8    | 0.8    | 0.7    |
| PPI       | -2.8   | -3.9   | -3.6   | -3.0   | -2.1   | -0.1   | 2.7    | 6.7    | 10.6   | 11.9   | 11.5   | n.a.   |

Source: CEIC/AmBank Research

## Malaysia

### A challenging 2H21

The implementation of a lockdown which started in June took a toll on the economy. This is reflected by a slower growth of 0.5% y/y on the Leading Index (LI) while m/m, it fell for the third consecutive month by 2.8%.

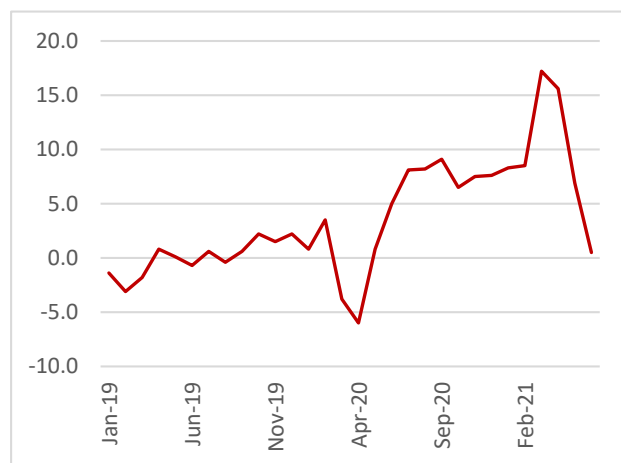
Although the lockdown and domestic challenges pose strong downside risk to growth, external trade, firm commodity prices, stimulus measures and to some degree, the gradual reopening of the economy will continue to support growth.

On the whole, the economy is projected to grow by 3.0%–3.5% for the full year, which means the average GDP in 2H21 would be around -0.8% to -1.8% from 7.8% in 1H21.

#### A. Highlights

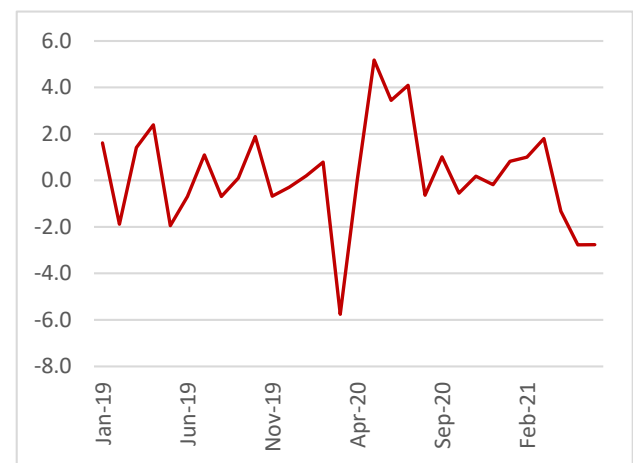
- The implementation of a lockdown which started in June took a toll on the economy. It caused the Leading Index (LI) to grow at a slower rate of 0.5% y/y from 6.9% y/y in May, the slowest reading since April 2020 (-6.0% y/y). On a m/m basis, it fell for the third consecutive month by 2.8% m/m (Charts 1 & 2).

**Chart 1: Leading Index (y/y %)**



Source: CEIC/AmBank Research

**Chart 2: Leading Index (m/m %)**



Source: CEIC/AmBank Research

- The LI's reading suggested that the economy in 2H21 will be experiencing headwinds. The drag is expected across all components based the m/m performance (Table 1).

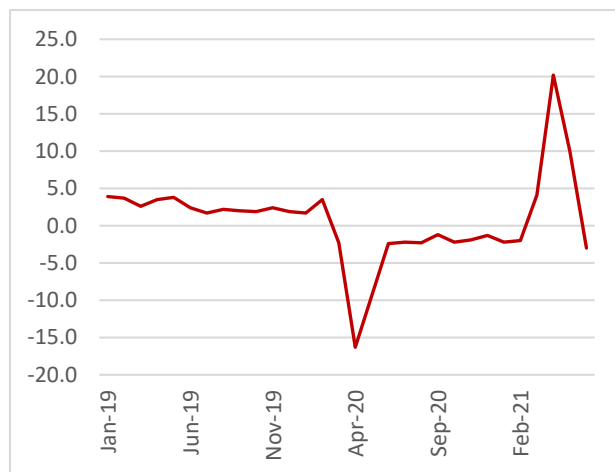
**Table 1: Leading Index Key Components (m/m %)**

|                                | Jan-21 | Feb-21 | Mar-21 | Apr-21 | May-21 | Jun-21 |
|--------------------------------|--------|--------|--------|--------|--------|--------|
| Real Money Supply, M1          | 0.3    | 0.3    | 0.3    | 0.2    | -0.1   | -0.1   |
| KLSE Industrial Index          | -0.1   | -0.3   | -0.4   | 0.5    | -0.1   | -0.5   |
| Real Imports of Semiconductors | 0.4    | 0.1    | 0.1    | -0.2   | 0.0    | -0.4   |
| Real Imports of Other Metals   | 0.3    | 0.6    | 0.8    | -0.6   | -1.1   | -0.1   |
| Housing Permits, Approved      | 0.0    | -0.2   | 0.6    | 0.0    | -0.3   | -0.9   |
| Expected Sales Value, Mfg      | 0.8    | 0.0    | 0.0    | -0.8   | -1.0   | 0.0    |
| New Companies Registered       | -0.9   | 0.5    | 0.4    | -0.4   | -0.2   | -0.8   |

Source: CEIC/AmBank Research

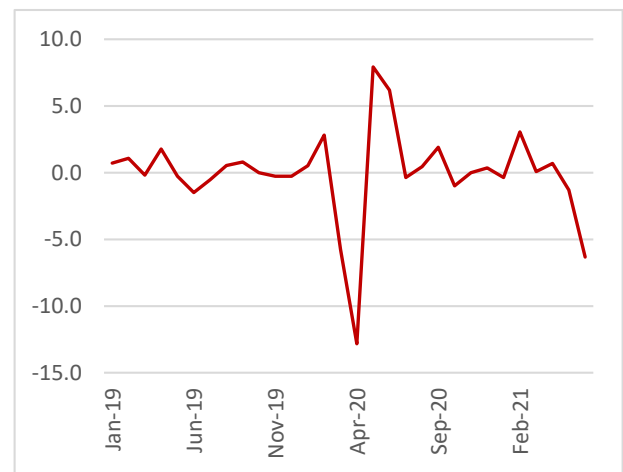
- The drag from the implementation of the lockdown was also seen in the Coincident Index (CI) which tracks current economic conditions. It fell by 3.0% y/y in June from +10.0% y/y in April, the weakest since May 2020. On a m/m basis, it dropped 6.3% m/m, falling for the second straight month (Charts 3 & 4, Table 2).

**Chart 3: Coincident Index (y/y %)**



Source: CEIC/AmBank Research

**Chart 4: Coincident Index (m/m %)**



Source: CEIC/AmBank Research

**Table 2: Coincident Index Key Components (m/m %)**

|                                | Jan-21 | Feb-21 | Mar-21 | Apr-21 | May-21 | Jun-21 |
|--------------------------------|--------|--------|--------|--------|--------|--------|
| Total Employment, Mfg          | -0.1   | 0.3    | 0.5    | 0.1    | 0.2    | -0.4   |
| Real Salaries & Wages, Mfg     | -0.2   | 0.1    | -0.3   | 0.0    | 0.2    | -0.2   |
| Index of Industrial Production | 0.0    | 0.7    | -0.4   | 0.0    | -0.3   | 0.1    |
| Real Contributions, EPF        | -0.5   | -0.2   | 1.5    | -0.7   | 0.1    | -0.1   |
| Capacity Utilisation, Mfg      | 0.6    | 0.5    | 0.2    | 0.8    | -0.3   | -4.5   |
| Volume Index, Retail Trade     | -0.2   | 1.7    | -1.4   | 0.5    | -1.2   | -1.2   |

Source: CEIC/AmBank Research

**B. Key Takeaways**

- The LI data suggested that the economy is expected to experience headwinds in 2H21 due to the impact from the lockdown and domestic challenges.
- However, the downside risk to growth will be cushioned by external trade, firm commodity prices, stimulus measures and to some degree, the gradual reopening of the economy.
- On the whole, the economy is projected to grow by 3.0%–3.5% for the full year, which means the average GDP in 2H21 would be around -0.8% to -1.8% from 7.8% in 1H21.

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