



From the Desk
of the
Chief Economist

BANK ISLAM

CPI RECORDED A FULL-YEAR DECLINE OF 1.2% IN 2020

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ECONOMIC RESEARCH

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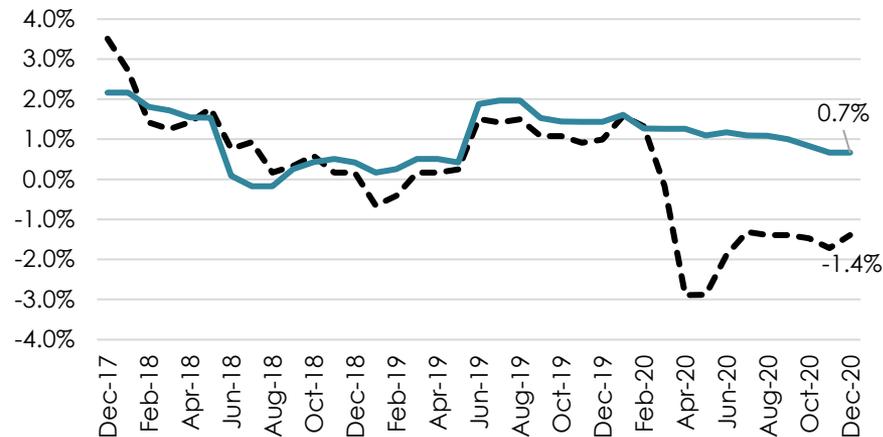
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NOR JANNAH ABDULLAH

CPI RECORDED FULL-YEAR DECLINE AT 1.2%

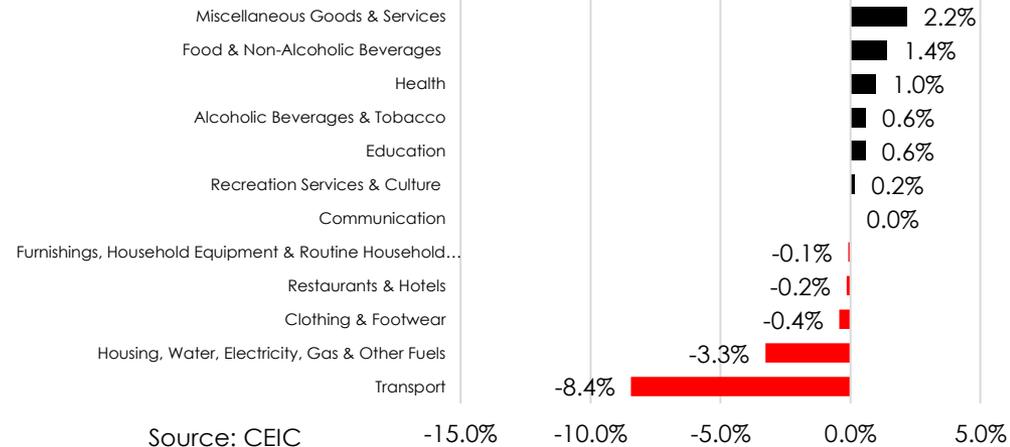
Inflation, y-o-y%



Source: CEIC

--- CPI — Core CPI

CPI sub-indices, y-o-y%



Source: CEIC

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Malaysia's Consumer Price Index (CPI) continued to decline by 1.4% year-on-year (y-o-y) in December last year albeit at a softer pace compared to -1.7% in November 2020 (Bank Islam estimates: -1.6%).

It marks the tenth consecutive month of decline, largely weighed by the cost of transport. However, the transport sub-index also posted a slower decrease of 8.4% in December 2020 from double-digit drop at 11.1% previously. On a similar note, the cost of clothing & footwear recorded softer decline at 0.4% in December 2020 (November 2020: -0.5%). Apart from that, housing, water, electricity, gas & other fuels and furnishings, household equipment & routine household maintenance maintained their negative print of 3.3% (November 2020: -3.3%) and 0.1% (November 2020: -0.1%) during December 2020 respectively.

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Nonetheless, price for alcoholic beverages & tobacco and recreation services & culture ticked up by 0.6% (November 2020: 0.5%) and 0.2% (November 2020: 0.1%) in December 2020 while health, communication and education remained unchanged at 1.0% (November 2020: 1.0%), 0.0% (November 2020: 0.0%) and 0.6% (November 2020: 0.6%) respectively.

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Core CPI which excludes most volatiles items of fresh food, as well as administered prices of goods and services remained unchanged at 0.7% in December 2020 (November 2020: 0.7%).

CPI RECORDED FULL-YEAR DECLINE AT 1.2%

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On a quarterly basis, the headline CPI deepened by 1.5% y-o-y in 4Q2020 from -1.4% in 3Q2020 while the Core CPI softened to 0.7% in 4Q2020 from 1.1% in 3Q2020.

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With the 1.4% decline during December 2020, this has brought the full-year reading down to 1.2% in 2020 from a 0.7% increase in 2019. On the contrary, the Core CPI maintained a positive growth of 1.1% in 2020 (2019: 1.1%)

	Weight	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	3Q2020	4Q2020	2019	2020
Consumer Price Index	100.0%	-1.4%	-1.4%	-1.5%	-1.7%	-1.4%	-1.4%	-1.5%	0.7%	-1.2%
Food & Non-Alcoholic Beverages	29.5%	1.3%	1.4%	1.5%	1.4%	1.4%	1.4%	1.4%	1.7%	1.3%
Alcoholic Beverages & Tobacco	2.4%	0.3%	0.5%	0.5%	0.5%	0.6%	0.4%	0.5%	1.5%	0.3%
Clothing & Footwear	3.2%	-0.6%	-0.6%	-0.4%	-0.5%	-0.4%	-0.6%	-0.4%	-2.0%	-0.8%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	-3.0%	-3.0%	-3.0%	-3.3%	-3.3%	-2.9%	-3.1%	1.9%	-1.7%
Furnishings, Household Equipment & Routine Household Maintenance	4.1%	-0.1%	0.1%	0.1%	-0.1%	-0.1%	-0.1%	0.0%	1.4%	0.3%
Health	1.9%	1.1%	1.1%	1.1%	1.0%	1.0%	1.1%	1.1%	0.7%	1.1%
Transport	14.6%	-9.9%	-9.9%	-10.2%	-11.1%	-8.4%	-10.0%	-9.8%	-3.1%	-10.0%
Communication	4.8%	1.6%	1.6%	0.0%	0.0%	0.0%	1.6%	0.0%	0.4%	1.1%
Recreation Services & Culture	4.8%	0.6%	0.1%	0.2%	0.1%	0.2%	0.5%	0.2%	0.7%	0.4%
Education	1.3%	1.1%	0.7%	0.7%	0.6%	0.6%	1.0%	0.6%	1.4%	1.0%
Restaurants & Hotels	2.9%	0.1%	0.1%	0.1%	0.0%	-0.2%	0.1%	0.0%	1.2%	0.5%
Miscellaneous Goods & Services	6.7%	3.1%	2.7%	2.8%	2.3%	2.2%	2.9%	2.5%	0.4%	2.7%
Core CPI		1.1%	1.0%	0.8%	0.7%	0.7%	1.1%	0.7%	1.1%	1.1%

Sources: CEIC, DOSM

CPI BY STATES AND TERRITORIES

Consumer Price Index (Y-o-y%)	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	3Q2020	4Q2020	2019	2020
Nationwide	1.6%	1.3%	-0.2%	-2.9%	-2.9%	-1.9%	-1.3%	-1.4%	-1.4%	-1.5%	-1.7%	-1.4%	-1.4%	-1.5%	0.7%	-1.2%
Kuala Lumpur	1.8%	1.5%	0.2%	-2.0%	-1.9%	-1.3%	-1.0%	-0.9%	-0.8%	-0.8%	-1.2%	-0.9%	-0.9%	-1.0%	1.3%	-0.6%
Selangor & Putrajaya	2.1%	1.6%	0.3%	-2.3%	-2.2%	-1.3%	-0.7%	-0.7%	-0.8%	-0.8%	-1.2%	-0.9%	-0.8%	-1.0%	0.9%	-0.6%
Melaka	0.9%	0.6%	-0.9%	-3.6%	-3.6%	-2.6%	-2.2%	-2.2%	-2.2%	-2.3%	-2.6%	-2.0%	-2.2%	-2.3%	0.1%	-1.9%
Negeri Sembilan	1.6%	1.1%	-0.6%	-3.7%	-3.6%	-2.4%	-1.8%	-1.9%	-1.9%	-2.0%	-2.4%	-1.9%	-1.8%	-2.1%	0.7%	-1.6%
Johor	1.8%	1.4%	-0.2%	-3.4%	-3.4%	-2.2%	-1.7%	-1.7%	-1.9%	-2.1%	-2.1%	-2.0%	-1.8%	-2.1%	0.7%	-1.5%
Pahang	1.5%	1.5%	-0.1%	-3.1%	-3.1%	-1.7%	-1.3%	-1.4%	-1.4%	-1.8%	-2.1%	-1.3%	-1.4%	-1.7%	0.3%	-1.2%
Kelantan	1.0%	0.9%	-0.4%	-3.3%	-3.7%	-2.4%	-1.6%	-1.7%	-1.7%	-1.7%	-1.7%	-1.2%	-1.7%	-1.5%	0.4%	-1.5%
Terengganu	1.2%	1.1%	-0.6%	-3.5%	-3.6%	-2.1%	-1.2%	-1.3%	-1.4%	-1.4%	-1.5%	-1.0%	-1.3%	-1.3%	0.1%	-1.3%
Kedah & Perlis	1.4%	1.1%	-0.8%	-3.9%	-3.7%	-2.5%	-1.9%	-2.1%	-2.2%	-2.3%	-2.6%	-2.2%	-2.1%	-2.4%	0.2%	-1.8%
Pulau Pinang	1.6%	1.3%	0.1%	-2.4%	-2.3%	-1.4%	-1.1%	-1.1%	-1.2%	-1.2%	-1.5%	-1.1%	-1.2%	-1.3%	1.1%	-0.9%
Perak	1.4%	1.3%	-0.3%	-3.0%	-2.9%	-2.0%	-1.5%	-1.5%	-1.6%	-1.7%	-2.0%	-1.4%	-1.6%	-1.7%	0.6%	-1.3%
Sabah and Labuan	1.0%	0.8%	-0.9%	-3.7%	-3.6%	-2.7%	-2.1%	-2.2%	-2.2%	-2.3%	-2.5%	-2.0%	-2.1%	-2.3%	0.1%	-1.9%
Sarawak	1.2%	1.1%	-0.9%	-3.8%	-3.8%	-2.6%	-1.9%	-2.1%	-2.1%	-2.1%	-2.4%	-1.9%	-2.0%	-2.1%	0.0%	-1.8%

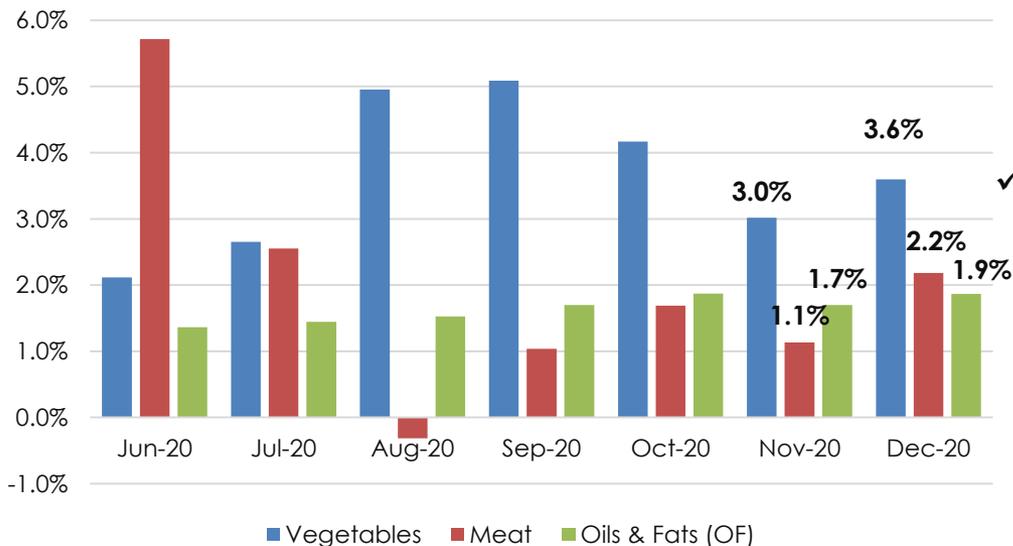
Sources: CEIC, DOSM

- ✓ The CPI for all states decreased between -0.9% to -2.2% during December. The steepest decline was seen in Kedah & Perlis (December: -2.2% vs. November: -2.6%). This was followed by Sabah & Federal Territory of Labuan (December: -2.0% vs. November: -2.5%) Melaka (December : -2.0% vs. November : -2.6%) and Johor (December : -2.0% vs. November : -2.1%).
- ✓ Overall, Selangor & Putrajaya, Kuala Lumpur, Pahang, Kelantan, Terengganu, Pulau Pinang and Perak recorded a smaller decline in CPI relative to the national level in December 2020.
- ✓ On a quarterly basis, Selangor & Putrajaya and Kuala Lumpur both saw the smallest decline in 4Q2020 at 1.0% compared to an 0.8% and 0.9% drop in 3Q2020 respectively.
- ✓ For the full year of 2020, Selangor & Putrajaya and Kuala Lumpur saw the smallest decline in CPI, both dropping by only -0.6% compared to an increase of 0.9% and 1.3% respectively in 2019.

OUR VIEW – COSTS OF FOODS ARE STILL HIGH

- ✓ Despite lower price level in Malaysia, the costs of foods are still remained high. This can be seen in price of Vegetables (December: 3.6% vs. November: 3.0%), Meat (December: 2.2% vs. November: 1.1%), as well as Oils & Fat (December: 1.9% vs. November: 1.7%).
- ✓ Last year, bread producer, Gardenia Bakeries has decided to increase the prices of its selected products up to RM0.20 starting 1 December 2020. The products include Funky Strawberry and Choco Malto, Delicia Soft Roll - Butter Toffee, Delicia Sambal Bilis, Fluffy Bun Red Bean, Toast'em Butter Raisin, Delicia Butterscotch, Choco Raisin, Raspberry Milk and Cranberries.
- ✓ The revised prices were made due to rising prices of raw materials such as vegetable fat, cocoa powder, milk and packaging.
- ✓ These could really explain why the costs of living remain the main concern among Malaysians and why producers are charging higher prices to customers as prices of goods especially products that are deemed essentials are still at elevated level.

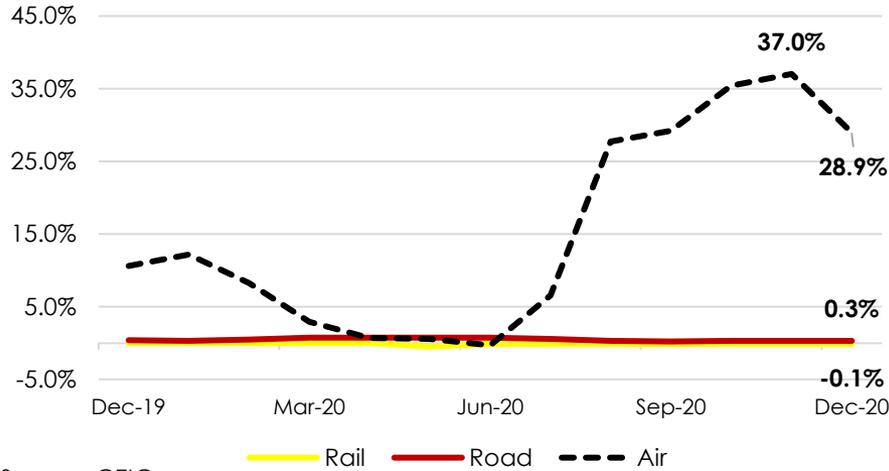
Costs of Essential Goods, y-o-y%



- ✓ Notwithstanding that, credit has to be given to the authorities such as the Domestic Trade and Consumer Affairs Ministry (KPDNHEP) which has been proactive to ensure that the prices of essential items remained under control.
- ✓ For instance, during the Christmas celebration in December last year, the Festive Season Maximum Price Control Scheme (SHMMP) involving 19 essential festive season items was closely monitored to avoid any profiteering activities by the sellers and to make sure that maximum manufacture, wholesale and retail prices are in line with current price trend.

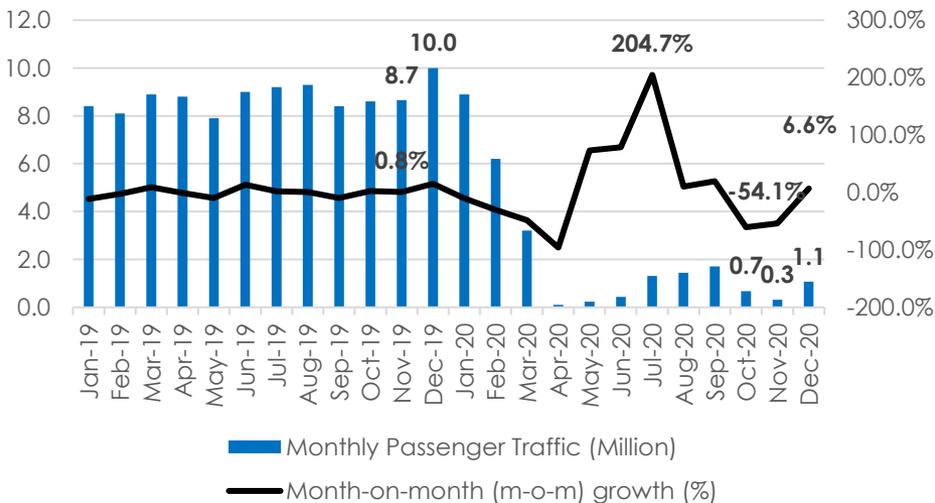
OUR VIEW – AIR PASSENGER TRANSPORT INFLATION MARKED ITS SIXTH CONSECUTIVE MONTH OF INCREASE

Passenger Transport Inflation, y-o-y %



Source: CEIC

Monthly Passenger Traffic at Malaysia Airports



Source: Malaysia Airports Holdings Berhad

- ✓ Amongst the passenger transport category, inflation for air transport jumped the most by 28.9% in December (November: 37.0%). This marks the sixth consecutive month of increase for air transport inflation.
- ✓ The government lifted the nationwide interstate travel ban effective from 7 December 2020. Therefore, it was no surprise that Malaysia Airports Holdings Berhad's (MAHB) traffic performance in December 2020 increased by 6.6% month-on-month (m-o-m) after it nosedived by 54.1% in the previous month.
- ✓ According to booking site, Agoda, 52.0% of accommodations on the site were fully booked in Kuala Lumpur during Christmas. Likewise, Melaka saw 48.0% of properties being fully booked, while in Penang, around 53.0% had been reserved.
- ✓ As demand for domestic travel peaked in December, airlines were somehow able to offer cheaper prices for tickets which explains the decline in the inflation rate of air transport in December compared to the month before.
- ✓ The substantial increase in inflation for air passenger transport was however partially weighed down by other components such as Fuel & Lubricating Equipment and Operation of Personal Transport Equipment which declined by 16.2% (November 2020: -21.5%) and 11.0% (November 2020: -14.4%) respectively in December 2020.

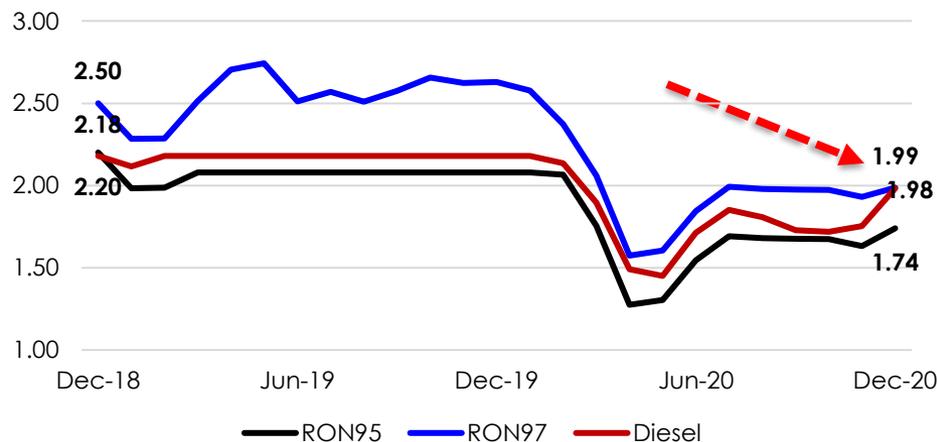
OUR VIEW – RISE IN BRENT CRUDE OIL PRICE COULD CUSHION THE DROP IN INFLATION DUE TO MCO 2.0

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



Source: CEIC

Average Fuel Prices (RM / litre)



Source: CEIC
ECONOMIC RESEARCH

- ✓ As mentioned earlier, costs of transport have continued to drop particularly for Fuel & Lubricating Personal Transport equipment. Nevertheless, the decline was at a much slower pace compared to the previous month (December: -16.2% vs. November: 21.5%).
- ✓ This was in conformity with the slower decline in average fuel prices for RON95, RON97 and Diesel shown in the table below.

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

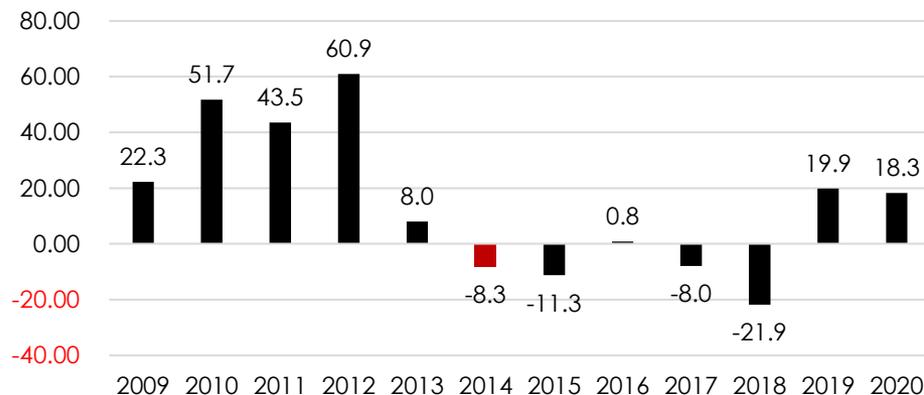
Month	Price (RM)			Year-on-year Change		
	RON 95	RON 97	Diesel	RON 95	RON 97	Diesel
Nov-20	1.63	1.93	1.75	-21.6%	-26.4%	-19.6%
Dec-20	1.74	1.99	1.98	-16.3%	-24.4%	-9.0%

Source: CEIC

- ✓ The movement of the average fuel prices were also in line with the 14.3% increase in the monthly average of Brent crude oil price to USD50.26 per barrel in December from USD43.98 per barrel in November.
- ✓ Thus far in January 2021, Brent crude oil price has risen by 8.5% amid the additional output cuts planned by Saudi Arabia for February and March this year. Therefore, this could cushion the downward pressure on inflation caused by the MCO 2.0 due to the strong correlation of fuel prices with Brent crude oil price at more than 70.0%.
- ✓ In addition, a smooth shipment of the vaccine to Malaysian shores in February 2021 could brighten up business sentiment in the country.
- ✓ All in all, **we are forecasting CPI to rebound by 0.9% in 2021 (2020: -1.1%)** amid the expected GDP growth of 4.0% for the same year.

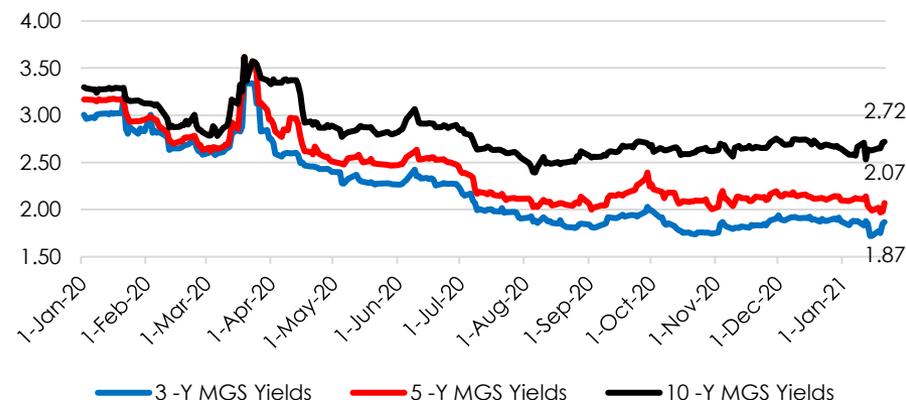
- ✓ The current low inflation level provides a ground for a further cut in the overnight policy rate (OPR) by Bank Negara Malaysia (BNM). Furthermore, the government has reimposed the MCO 2.0 in all states except for Sarawak effective from 13 January 2021 to 4 February 2021 due to the surge in Covid-19 infections nationwide.
- ✓ In response to this, the government announced the RM15.0 billion Perlindungan Ekonomi dan Rakyat Malaysia (PERMAI) on 18 January 2021. On further scrutiny, the assistance package will be mainly financed by sources of funds coming mostly from the existing budget 2021 with more prudent spending.
- ✓ As such, the government will be able to manage the fiscal deficit from increasing further to mitigate risks of another rating downgrade.
- ✓ Henceforth, the government could only afford to focus more in terms of monetary support by reducing the OPR in order to curb the impact from the MCO 2.0 which will have significant bearing on human mobility. With that, we are of the view that the OPR will be reduced by 25 basis points in the next BNM policy meeting in March 2021 due to the aforementioned circumstances.
- ✓ In relation to the bond market, a reduction in the OPR will push MGS yields lower, enabling bond investors to record mark-to-market gains on their existing holdings.
- ✓ Meanwhile, a highly fluid economic environment will continue to attract investors to allocate more of their investments in the bond market rather than equities which will also lead to lower MGS yields. Recall that foreign investors have been net buyers of Malaysian bonds for the past two years.

Foreign Fund Flow in Bond Market, RM Billion



Source: CEIC
ECONOMIC RESEARCH

Malaysian Government Securities Yields (%)



Source: Bank Negara Malaysia

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An aerial photograph of a city skyline at sunset, with a prominent pink bar at the bottom. The sky is filled with soft, golden light and scattered clouds. The city features numerous high-rise buildings, with a particularly tall, slender skyscraper on the left. A highway with traffic is visible in the foreground, winding through the city. The overall mood is warm and serene.

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