



From the Desk
of the
Chief Economist

BANK ISLAM

CPI RECORDED A POSITIVE GROWTH OF 0.1% IN FEBRUARY THIS YEAR

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ECONOMIC RESEARCH

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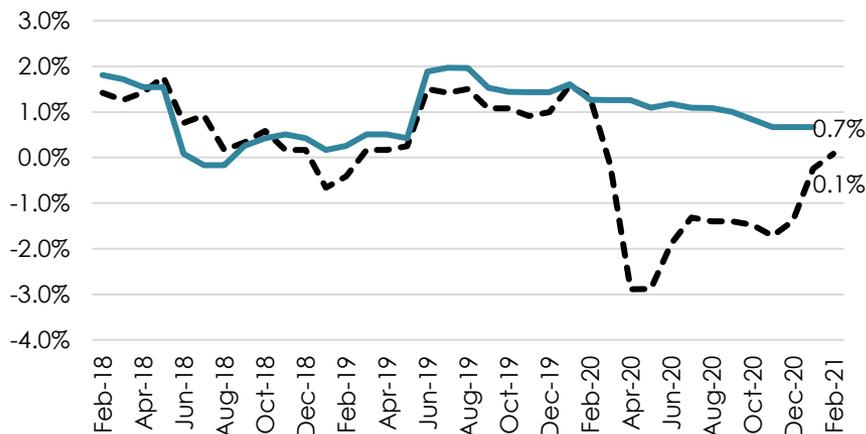
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CPI GREW POSITIVELY BY 0.1% IN FEBRUARY 2021

Inflation, y-o-y%



Source: CEIC

--- CPI — Core CPI

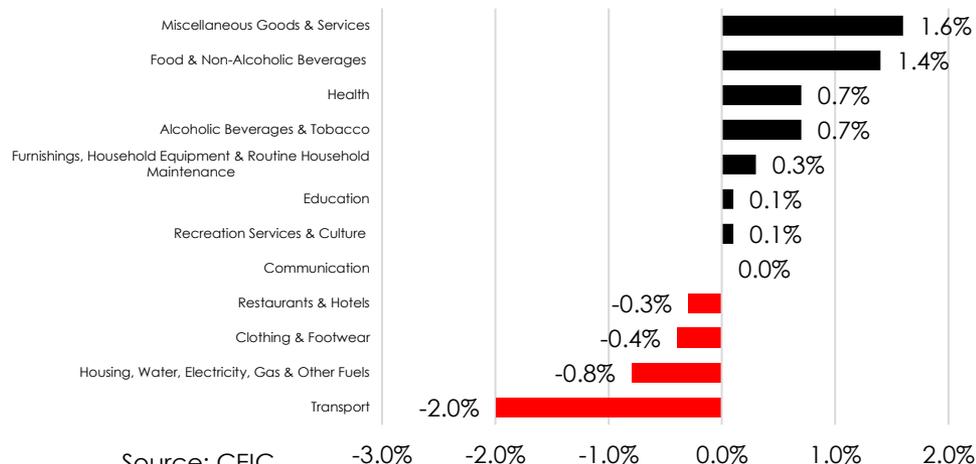
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Malaysia's Consumer Price Index (CPI) rebounded by 0.1% year-on-year (y-o-y) in February (January: -0.2%) after declining for 11 straight months since March last year (Consensus: 0.2%, Bank Islam: 0.5%).

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This was mainly due to the slower decline in the price of Transport (February: -2.0% vs. January: -5.1%) which has contributed significant share of 14.6% of total CPI. On the other hand, inflation for Furnishings, Household Equipment & Routine Household Maintenance was slightly higher by 0.3% in February (January: 0.2%). Meanwhile, the cost for Food & Non-Alcoholic Beverages (February: 1.4% vs. January: 1.5%), Education (February: 0.1% vs. January: 0.2%) and Miscellaneous Goods & Services (February: 1.6% vs. January 1.8%) moderated during February this year.

CPI Sub-indices, y-o-y%



Source: CEIC

3

On a different note, prices for Housing, Water, Electricity, Gas & Other Fuels (February: -0.8% vs. January: -0.7%) and Restaurants & Hotels (February: -0.3% vs. January: -0.1%) dropped further in February.

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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 February (January: 0.7%).

CPI GREW POSITIVELY BY 0.1% IN FEBRUARY 2021

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On a cumulative basis, inflation rate fell marginally by 0.1% in 2M2021 from a 1.5% increase in the same period last year.

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As for the core inflation, it softened by 0.7% in 2M2021 from 1.4% in 2M2020.

	Weight	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	2M2020	2M2021
Consumer Price Index	100.0%	-1.4%	-1.5%	-1.7%	-1.4%	-0.2%	0.1%	1.5%	-0.1%
Food & Non-Alcoholic Beverages	29.5%	1.4%	1.5%	1.4%	1.4%	1.5%	1.4%	0.9%	1.4%
Alcoholic Beverages & Tobacco	2.4%	0.5%	0.5%	0.5%	0.6%	0.7%	0.7%	0.2%	0.7%
Clothing & Footwear	3.2%	-0.6%	-0.4%	-0.5%	-0.4%	-0.4%	-0.4%	-1.1%	-0.4%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	-3.0%	-3.0%	-3.3%	-3.3%	-0.7%	-0.8%	1.7%	-0.7%
Furnishings, Household Equipment & Routine Household Maintenance	4.1%	0.1%	0.1%	-0.1%	-0.1%	0.2%	0.3%	1.1%	0.2%
Health	1.9%	1.1%	1.1%	1.0%	1.0%	0.7%	0.7%	1.4%	0.7%
Transport	14.6%	-9.9%	-10.2%	-11.1%	-8.4%	-5.1%	-2.0%	3.2%	-3.6%
Communication	4.8%	1.6%	0.0%	0.0%	0.0%	0.0%	0.0%	1.5%	0.0%
Recreation Services & Culture	4.8%	0.1%	0.2%	0.1%	0.2%	0.1%	0.1%	0.8%	0.1%
Education	1.3%	0.7%	0.7%	0.6%	0.6%	0.2%	0.1%	1.5%	0.1%
Restaurants & Hotels	2.9%	0.1%	0.1%	0.0%	-0.2%	-0.1%	-0.3%	1.1%	-0.2%
Miscellaneous Goods & Services	6.7%	2.7%	2.8%	2.3%	2.2%	1.8%	1.6%	2.5%	1.7%
Core CPI		1.0%	0.8%	0.7%	0.7%	0.7%	0.7%	1.4%	0.7%

Sources: CEIC, DOSM

CPI BY STATES AND TERRITORIES

States	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	2M2020	2M2021
Nationwide	1.3%	-0.2%	-2.9%	-2.9%	-1.9%	-1.3%	-1.4%	-1.4%	-1.5%	-1.7%	-1.4%	-0.2%	0.1%	1.5%	-0.1%
WP Kuala Lumpur	1.5%	0.2%	-2.0%	-1.9%	-1.3%	-1.0%	-0.9%	-0.8%	-0.8%	-1.2%	-0.9%	0.1%	0.2%	1.6%	0.2%
Selangor & WP Putrajaya	1.6%	0.3%	-2.3%	-2.2%	-1.3%	-0.7%	-0.7%	-0.8%	-0.8%	-1.2%	-0.9%	0.2%	0.4%	1.4%	0.3%
Melaka	0.6%	-0.9%	-3.6%	-3.6%	-2.6%	-2.2%	-2.2%	-2.2%	-2.3%	-2.6%	-2.0%	-0.6%	-0.2%	0.8%	-0.4%
Negeri Sembilan	1.1%	-0.6%	-3.7%	-3.6%	-2.4%	-1.8%	-1.9%	-1.9%	-2.0%	-2.4%	-1.9%	-0.5%	-0.1%	1.4%	-0.3%
Johor	1.4%	-0.2%	-3.4%	-3.4%	-2.2%	-1.7%	-1.7%	-1.9%	-2.1%	-2.1%	-2.0%	-0.8%	-0.2%	1.6%	-0.5%
Pahang	1.5%	-0.1%	-3.1%	-3.1%	-1.7%	-1.3%	-1.4%	-1.4%	-1.8%	-2.1%	-1.3%	0.1%	0.2%	1.5%	0.1%
Kelantan	0.9%	-0.4%	-3.3%	-3.7%	-2.4%	-1.6%	-1.7%	-1.7%	-1.7%	-1.7%	-1.2%	0.2%	0.7%	1.0%	0.4%
Terengganu	1.1%	-0.6%	-3.5%	-3.6%	-2.1%	-1.2%	-1.3%	-1.4%	-1.4%	-1.5%	-1.0%	0.3%	0.8%	1.2%	0.6%
Kedah & Perlis	1.1%	-0.8%	-3.9%	-3.7%	-2.5%	-1.9%	-2.1%	-2.2%	-2.3%	-2.6%	-2.2%	-0.8%	-0.3%	1.2%	-0.5%
Pulau Pinang	1.3%	0.1%	-2.4%	-2.3%	-1.4%	-1.1%	-1.1%	-1.2%	-1.2%	-1.5%	-1.1%	0.0%	0.2%	1.4%	0.1%
Perak	1.3%	-0.3%	-3.0%	-2.9%	-2.0%	-1.5%	-1.5%	-1.6%	-1.7%	-2.0%	-1.4%	-0.1%	0.2%	1.3%	0.0%
Sabah & WP Labuan	0.8%	-0.9%	-3.7%	-3.6%	-2.7%	-2.1%	-2.2%	-2.2%	-2.3%	-2.5%	-2.0%	-1.5%	-1.0%	0.9%	-1.3%
Sarawak	1.1%	-0.9%	-3.8%	-3.8%	-2.6%	-1.9%	-2.1%	-2.1%	-2.1%	-2.4%	-1.9%	-1.2%	-0.7%	1.2%	-0.9%

Sources: CEIC, DOSM

- ✓ Among the states, Terengganu recorded the highest price appreciation of 0.8% in February (January: 0.3%). This was followed by Kelantan (February: 0.7% vs. January: 0.2%) and Selangor & Federal Territory of Putrajaya (February: 0.4% vs. January: 0.2%).
- ✓ Meanwhile, price declines were seen in Sabah & Federal Territory Labuan (February: -1.0% vs. January: -1.5%), Sarawak (February: -0.7% vs. January: -1.2%), Kedah & Perlis (February: -0.3% vs. January: -0.8%), Johor (February: -0.2% vs. January: -0.8%), Melaka (February: -0.2% vs. January: -0.6%) and Negeri Sembilan (February: -0.1% vs. January: -0.5%).
- ✓ For 2M2021, Terengganu (2M2021: 0.6% vs. 2M2020: 1.2%) and Kelantan (2M2021: 0.4% vs. 2M2020: 1.0%) registered the highest increase in price level, though at a slower pace as compared to the same period last year.

Consumer Price Index	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	2M2020	2M2021
Malaysia	1.3%	-0.2%	-2.9%	-2.9%	-1.9%	-1.3%	-1.4%	-1.4%	-1.5%	-1.7%	-1.4%	-0.2%	0.1%	1.5%	-0.1%
Indonesia	3.0%	3.0%	2.7%	2.2%	2.0%	1.5%	1.3%	1.4%	1.4%	1.6%	1.7%	1.6%	1.4%	2.8%	1.5%
Philippines	2.6%	2.5%	2.2%	2.1%	2.5%	2.7%	2.4%	2.3%	2.5%	3.3%	3.5%	4.2%	4.7%	2.8%	4.4%
Thailand	0.7%	-0.5%	-3.0%	-3.4%	-1.6%	-1.0%	-0.5%	-0.7%	-0.5%	-0.4%	-0.3%	-0.3%	-1.2%	0.9%	-0.8%
Singapore	0.3%	0.0%	-0.7%	-0.8%	-0.5%	-0.4%	-0.4%	0.0%	-0.2%	-0.1%	0.0%	0.2%	0.7%	0.6%	0.5%
China	5.2%	4.3%	3.3%	2.4%	2.5%	2.7%	2.4%	1.7%	0.5%	-0.5%	0.2%	-0.3%	-0.2%	5.3%	-0.3%
India	6.6%	5.8%	7.2%	6.3%	6.2%	6.7%	6.7%	7.3%	7.6%	6.9%	4.6%	4.1%	5.0%	7.1%	4.5%

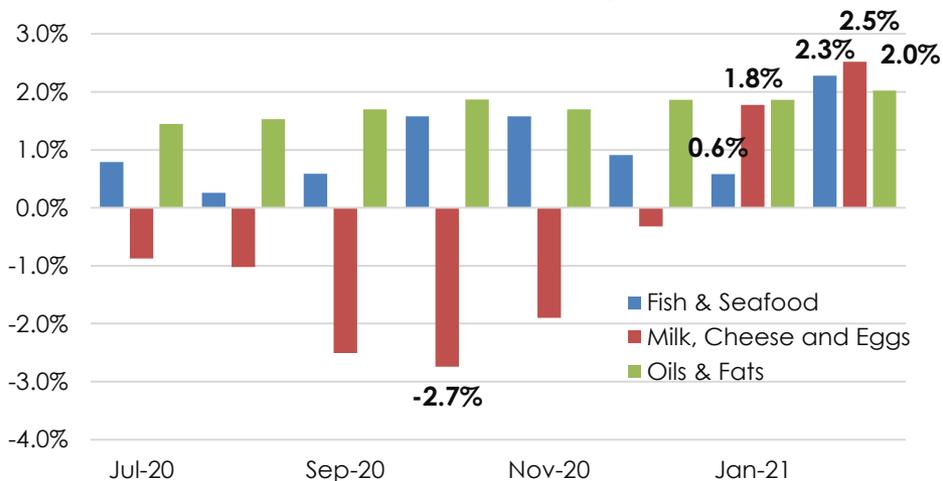
Sources: CEIC, DOSM

- ✓ Malaysia's growth in the CPI during February 2021 was in line with some of its regional peers which showed an increase in their respective CPI.
- ✓ For instance, India recorded the largest CPI growth in February of 5.0% (January: 4.1%) as prices in the Fuel & Light index and the Transportation & Communication index hit a record high during the month.
- ✓ Closer to Malaysia, Singapore saw a 0.7% growth in its CPI for February (January: 0.2%), driven by higher private transport inflation.
- ✓ In contrast, Thailand recorded a deeper decline in its CPI at 1.2% in February (January: -0.3%), marking a 12th straight month of decline. This was due to lower food prices and government measures to curb living costs, particularly utility bills.
- ✓ For 2M2021, India (2M2021: 4.5% vs. 2M2020: 7.1%) highest increase in price level compared to the same period last year.

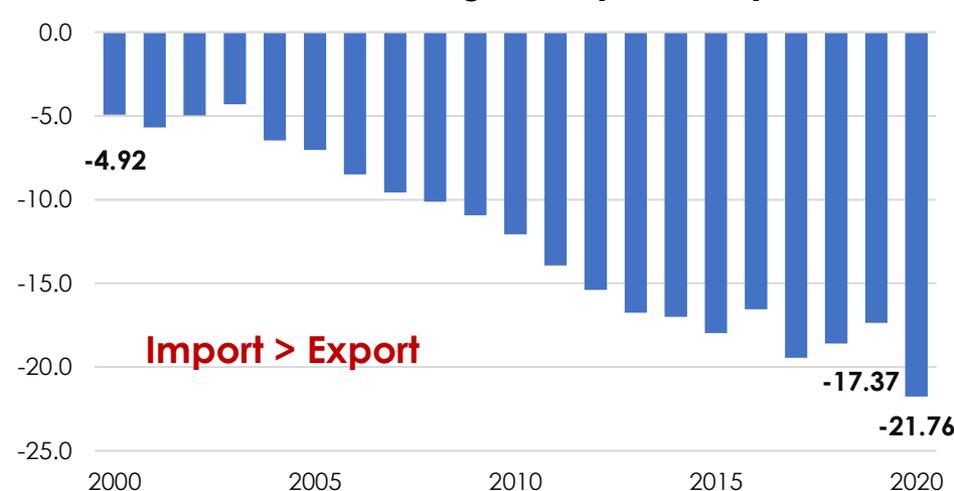
OUR VIEW – COSTS OF FOODS ARE STILL HIGH

- ✓ The implementation of the Movement Control Order (MCO) 2.0 and higher demand during Chinese New Year have caused price fluctuations in essential food items.
- ✓ This can be seen in price of Fish & Seafood (February: 2.3% vs. January: 0.6%), Milk, Cheese and Eggs (February: 2.5% vs. January: 1.8%), as well as Oils & Fat (February: 2.0% vs. January: 1.9%), suggesting prices of foods remained high.
- ✓ Apart from that, Malaysia's position as a net importer of food, has also affected the final cost of products sold to customers. Thus far, Malaysia's trade deficits in the agrofood sector stood at RM1.81 billion in January 2021 (December 2020: -RM1.83 billion). This was higher as compared to the RM1.79 billion deficit in the same period last year. In 2020, Malaysia recorded a RM21.76 billion trade deficit in foods and live animals (2019: -RM17.37 billion), reflecting higher imports of agrofood products to satisfy domestic consumption.
- ✓ These could really explain why the costs of living continue to be the main issue surrounding Malaysians as prices of goods especially products that are considered as essentials are still at an elevated level.

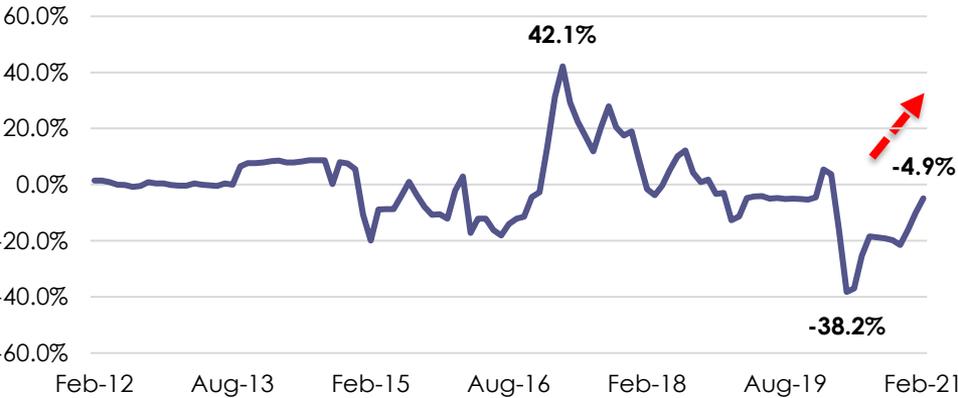
Costs of Foods, y-o-y%



Trade Deficit in Agrofood (RM Billion)

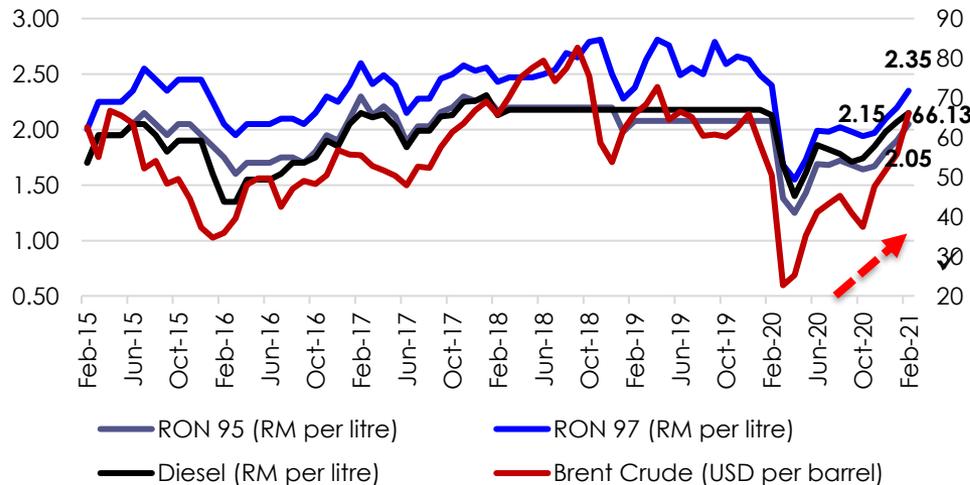


Costs of Fuels & Lubricating Personal Transport Equipment, y-o-y%



Source: CEIC

Malaysia Petrol Price vs. Brent Crude Oil Price



Source: CEIC

Note: Prices are taken at the end of each month

- ✓ On further scrutiny, 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 (February: -10.1% vs. January: -4.9%).
- ✓ 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
Jan-21	1.87	2.17	2.04	-10.2%	-15.9%	-6.3%
Feb-21	1.95	2.25	2.13	-5.7%	-5.3%	-0.4%

Source: CEIC

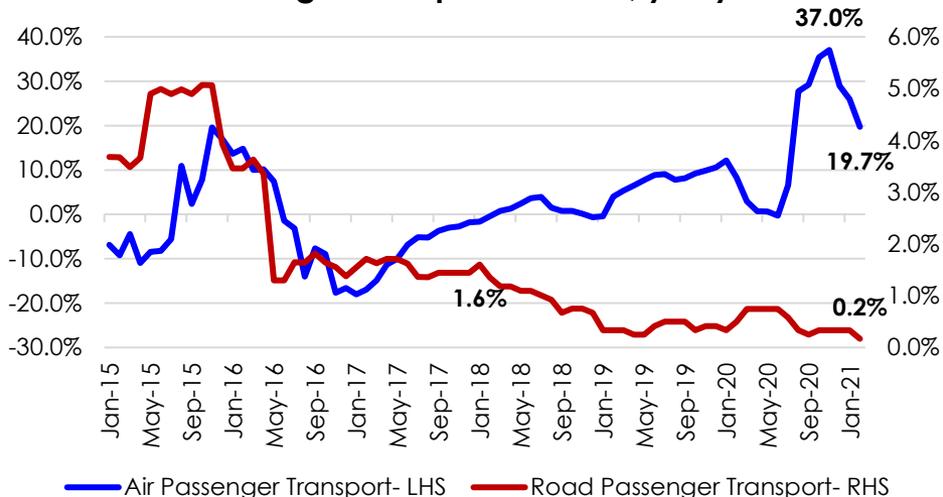
Note: Prices are averaged for each month

- ✓ The upward movement of the average Malaysian fuel prices was also in line with the monthly 12.9% increase in the average Brent crude oil price to USD62.28 per barrel in February from USD55.15 per barrel in January. Recall that the correlation between Malaysian fuel prices and Brent crude oil price is above 80.0%.
- Under the latest PEMERKASA stimulus package, the government announced that the price of RON95 and Diesel will be fixed at a ceiling price of RM2.05 per litre and RM2.15 per litre respectively. Therefore, inflationary pressures will only be felt for RON97 users should the Brent crude oil increase further amid subdued worries from fresh lockdowns in Europe.

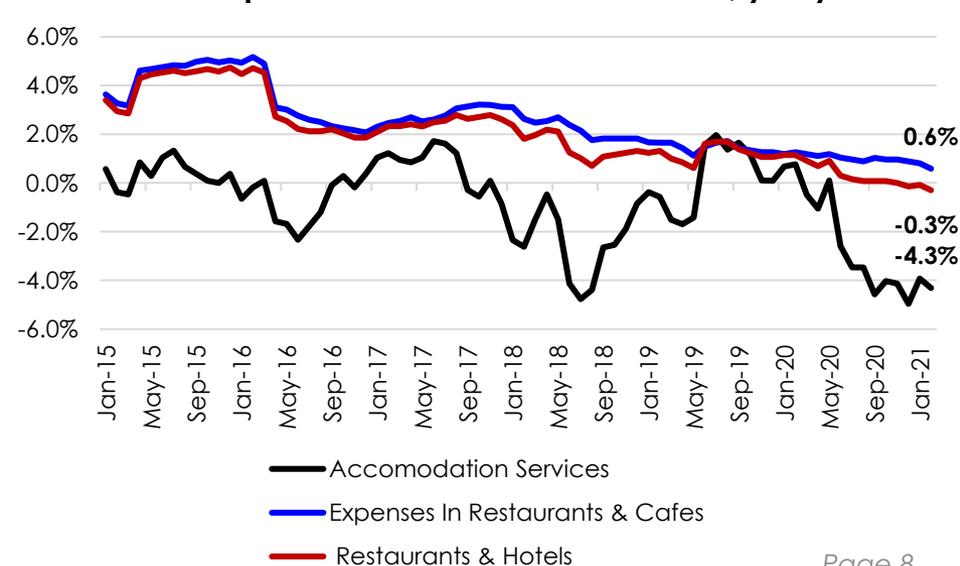
OUR VIEW – IMPACT OF INTERSTATE TRAVEL BETWEEN RMCO STATES

- ✓ With more movement restrictions being eased by the government, we foresee that inflationary pressures will inch higher in the coming months. For instance, interstate travel is now being only allowed between states that are under the Recovery Movement Control Order (RMCO) via a registered tour agency that has obtained police approval to travel. These states are Perlis, Melaka, Pahang, Terengganu, Sabah, as well as the Federal Territories of Putrajaya and Labuan.
- ✓ Therefore, we expect the CPI for Road Passenger Transport to increase higher in the coming months after recording a smaller increase of 0.2% in February (January: 0.3%). Likewise, the CPI for Restaurants & Hotels will also show a lesser decline from March onwards after dropping by 0.3% in February (January: -0.1%).
- ✓ As more tourists within the RMCO states are expected to visit popular tourist eating spots, it is reasonable to assume that the CPI for Food & Non-Alcoholic Beverages would indirectly rise too.
- ✓ However, the CPI for Air Passenger Transport may continue to be subdued as interstate travel must only use tour vehicles registered under the Ministry of Tourism and Culture.
- ✓ Taking all of the factors into consideration, we reiterate that the **CPI will rebound by 1.8% in 2021 (2020: -1.2%)** amid the anticipated economic recovery should the vaccination program run smoothly in the country.

Passenger Transport Inflation, y-o-y%

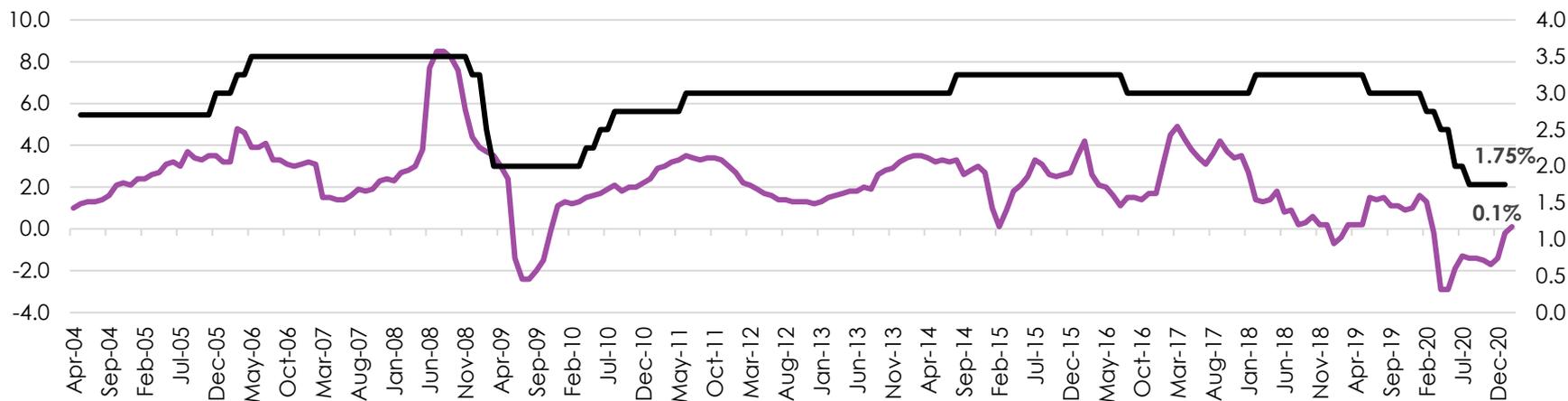


CPI Components of Restaurants & Hotels, y-o-y%



OUR VIEW-FUTURE IMPLICATIONS ON THE OVERNIGHT POLICY RATE (OPR)

CPI, y-o-y% change vs. OPR,%



Source: CEIC

— CPI y-o-y % change — OPR

- ✓ Malaysia's inflation rate is likely to be higher in the near future following the lower base factor recorded last year alongside with the elevated levels of global crude oil prices. Admittedly, this would give the impression that Bank Negara Malaysia (BNM) may want to raise the OPR in order to anchor the inflation expectation. However, a possible hike in the policy rates appears to be a premature move given that the spare capacity which remains prevalent in key sectors namely in the services related industries.
- ✓ Additionally, there have been concerns over the pace of the vaccination program in the developed markets. This is especially true after the news about AstraZeneca's Covid-19 vaccine causing blood clots. Nevertheless, the European Medicines Agency concluded that blood clots associated with thrombocytopenia, a condition with low levels of blood platelets, are rare occurrences among vaccine recipients.
- ✓ While the US Federal Reserve officials have reiterated their stance that they would remain to be accommodative, the bond markets may not necessarily follow their advice. In particular, elevated levels of crude oil prices combined with positive economic data can be construed that normalisation in the monetary policy would occur at some point in the future. The dichotomy between the views of policy makers and the bond market suggests the fixed income prices are expected to be more volatile going forward.

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