

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

Inflation picked up in January by 1.6%

Facts

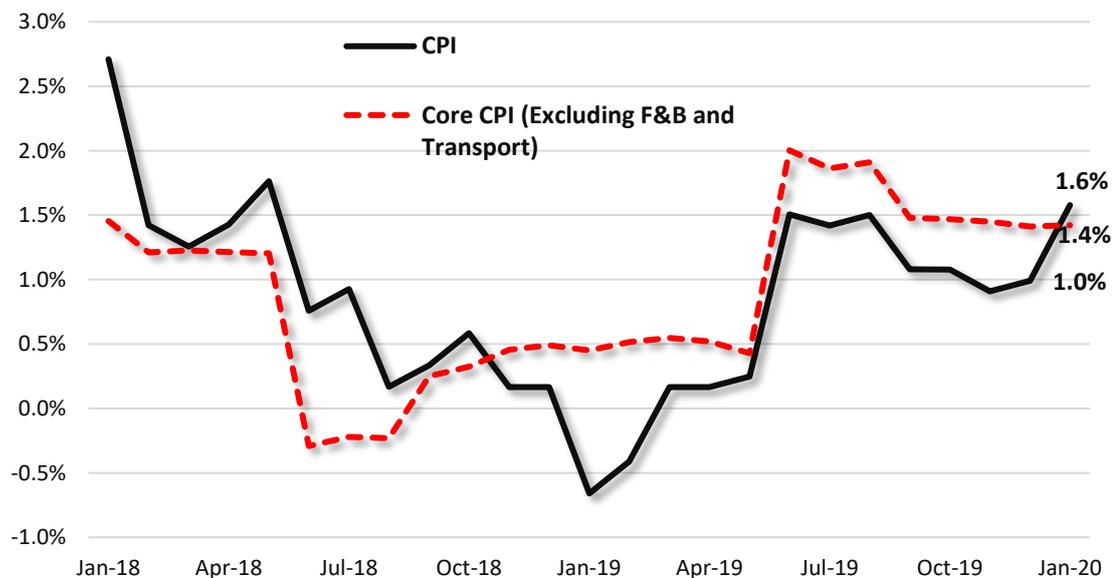
- Malaysian Consumer Price Index (CPI) edged up by 1.6% year-on-year (y-o-y) in January from 1.0% growth in the preceding month (Consensus: 1.7%). This was contributed by the higher price in Transport (January 2020: 3.9% vs. December 2019: -1.9%), as well as in Recreation & Culture (January 2020: 0.9% vs. December 2019: 0.6%). Apart from that, Miscellaneous Goods & Services rose marginally from 2.4% in December 2019 to 2.5% in January this year. These sub-indices accounted for 26.1% of total CPI.
- As for the Transport sub-indices, Fuels & Lubricating Personal Transport Equipment (January 2020: 5.4% vs. December 2019: -4.5%), as well as Transport Services (January 2020: 5.5% vs. December 2019: 4.8%) rose significantly in January.
- In addition, prices for Housing, Water, Electricity, Gas & Other Fuels (January 2020: 1.7% vs. December 2019: 1.7%), Education (January 2020: 1.7% vs. December 2019: 1.7%), Communication (January 2020: 1.5% vs. December 2019: 1.5%) and Health (January 2020: 1.4% vs. December 2019: 1.4%) recorded sustained increases during the month.
- Meanwhile, Food & Non-Alcoholic Beverages eased from 1.7% in December last year to 0.9% in January. Within the sub-indices, prices for Food at Home and Food Away from Home softened from 1.1% and 2.5% in December 2019 to 0.4% and 1.7% in January respectively. This was underpinned by the slower inflation of Fish & Seafoods (January 2020: 1.2% vs. December 2019: 2.5%), Fruits (January 2020: 0.7% vs. December 2019: 1.4%) and Sugar, Jam, Honey, Chocolates & Confectionary (January 2020: 0.1% vs. December 2019: 0.4%).
- At states level, price appreciation was seen in all states with Selangor and Putrajaya recorded the highest level (January 2020: 2.1% vs. December 2019: 1.4%). This was followed by Kuala Lumpur (January 2020: 1.8% vs. December 2019: 1.5%), Johor (January 2020: 1.8% vs. December 2019: 1.1%), Pulau Pinang (January 2020: 1.6% vs. December 2019: 1.0%) and Negeri Sembilan (January 2020: 1.6% vs. December 2019: 0.8%).
- Our core inflation which excludes Food & Non-Alcoholic Beverages and Transport maintained at 1.4% (December 2019: 1.4%) since November last year. This indicates that the inflationary pressure on domestic price is building up.

Table 1: Consumer Price Index (CPI)

	Weight	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
Consumer Price Index	100.0%	0.2%	1.5%	1.4%	1.5%	1.1%	1.1%	0.9%	1.0%	1.6%
Food and Non Alcoholic Beverages	29.5%	1.2%	2.3%	2.4%	2.6%	2.2%	2.2%	1.5%	1.7%	0.9%
Alcoholic Beverages and Tobacco	2.4%	1.3%	2.1%	2.3%	2.5%	2.4%	2.4%	0.4%	0.2%	0.1%
Clothing and Footwear	3.2%	-3.2%	-0.7%	-1.1%	-1.1%	-0.9%	-0.9%	-1.1%	-1.0%	-1.2%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	1.8%	2.3%	1.9%	1.8%	1.6%	1.6%	1.7%	1.7%	1.7%
Furnishings, Household Equipment and Maint.	4.1%	0.5%	3.1%	3.3%	3.2%	2.1%	2.1%	1.5%	1.4%	1.2%
Health	1.9%	-0.3%	1.2%	1.3%	1.4%	1.3%	1.3%	1.4%	1.4%	1.4%
Transport	14.6%	-2.5%	-2.1%	-1.9%	-2.1%	-2.2%	-2.2%	-2.4%	-1.9%	3.9%
Communication	4.8%	-0.9%	2.1%	2.1%	2.2%	-0.1%	-0.1%	1.5%	1.5%	1.5%
Recreation and Culture	4.8%	-0.4%	2.7%	2.4%	2.3%	0.8%	0.8%	0.8%	0.6%	0.9%
Education	1.3%	1.2%	1.4%	1.4%	1.4%	1.8%	1.8%	1.6%	1.7%	1.7%
Restaurants and Hotels	2.9%	0.6%	1.6%	1.7%	1.7%	1.4%	1.4%	1.1%	1.1%	1.1%
Miscellaneous Goods and Services	6.7%	-2.1%	1.4%	1.8%	2.5%	2.7%	2.7%	2.5%	2.4%	2.5%
Core CPI (excluding F&B and Transport)		0.4%	2.0%	1.9%	1.9%	1.5%	1.5%	1.4%	1.4%	1.4%

Sources: DOSM, CEIC, Bank Islam

Chart 1: Malaysian Inflation Rate (y-o-y)



Source: CEIC

Our view

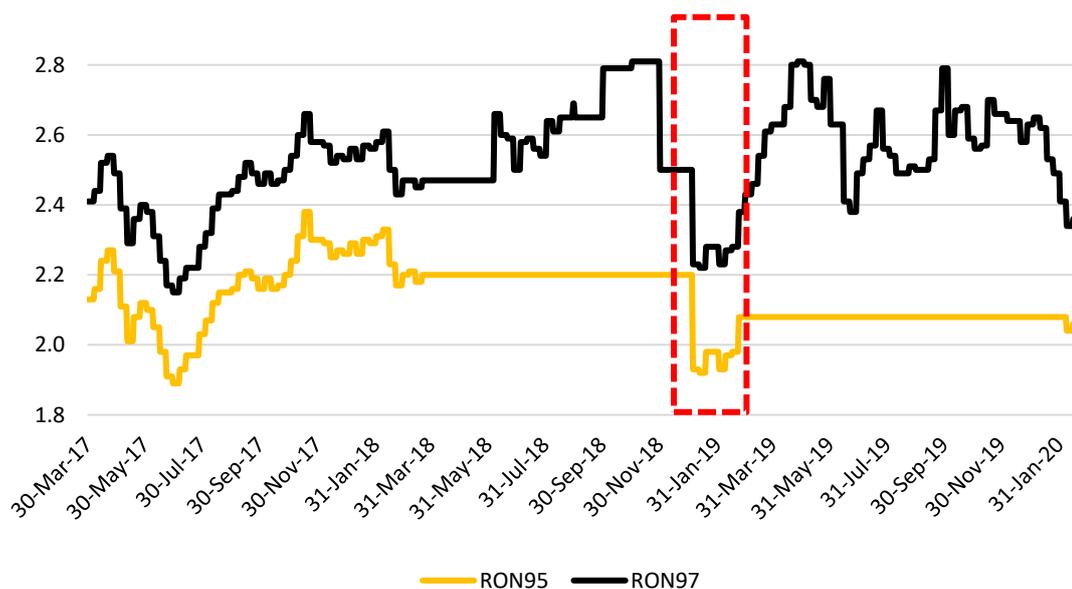
January inflation rose to a twenty-month high of 1.6% from 1.8% recorded in May 2018. This was primarily due to higher transport fuel amid low-base effects on retail fuel prices. Prices for RON95 averaged at RM2.08 per liter in January 2020 against RM1.98 per liter during January 2019. Similarly, RON97 was selling at RM2.49 per liter (average prices) versus RM2.28 per liter in the same period last year. On the same note, Asian economies were experiencing higher inflation rate during the first month of 2020, largely influenced by higher crude oil prices. Brent crude has averaged at USD64 per barrel in January 2020, higher from USD60 per barrel in January last year. Despite that, it has not deter their central banks to prescribe monetary easing. This would mean concern on slowing economic growth has preceded worries over rising inflation rate. At the current juncture, higher inflation rate is expected to be transitory as Brent crude prices has corrected circa USD58 per barrel. The expected weak demand could also keep inflationary pressures in check.

Table 2: Regional Consumer Price Index (CPI)

Country	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
China	3.0%	3.8%	4.5%	4.5%	5.4%
India	4.0%	4.6%	5.5%	7.4%	7.6%
Malaysia	1.1%	1.1%	0.9%	1.0%	1.6%
Philippines	0.9%	0.8%	1.3%	2.5%	2.9%
South Korea	-0.4%	0.0%	0.2%	0.7%	1.5%
Thailand	0.3%	0.1%	0.2%	0.9%	1.1%

Source: CEIC

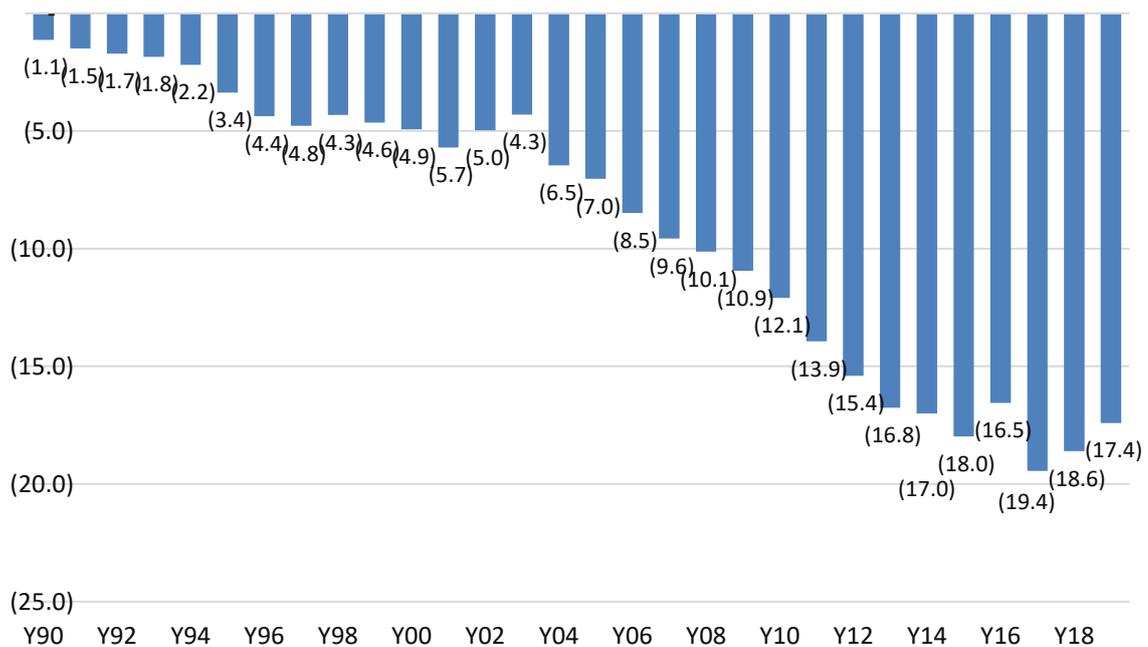
Chart 2: Price for RON95 and RON97



Source: DOSM

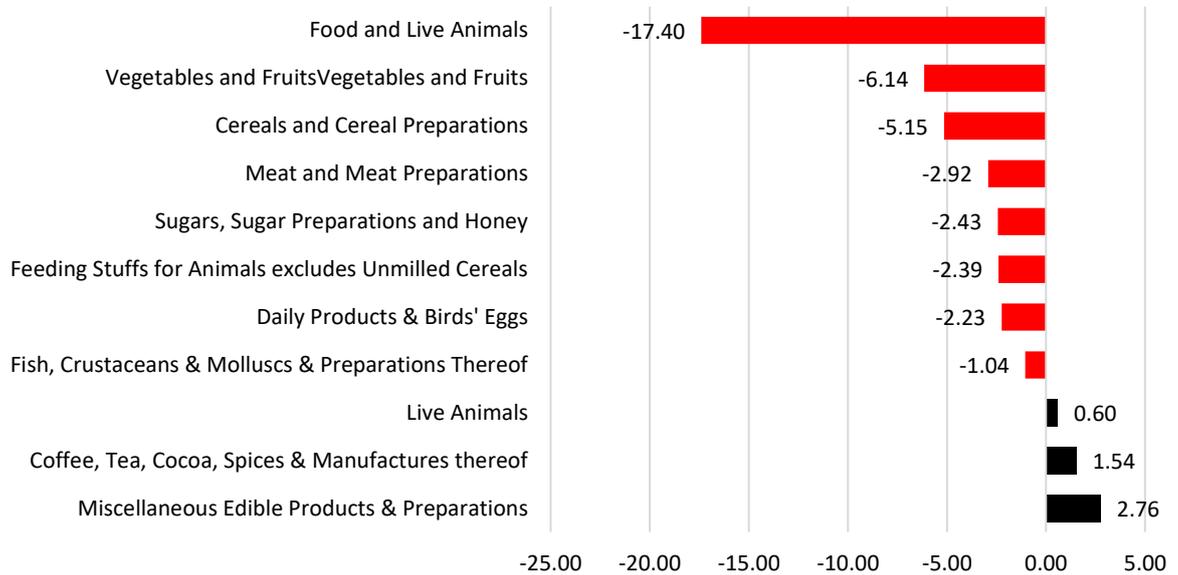
Despite that, issues surrounding the cost of living has always been the subject of debate. While inflation rate has been modest in the past two years (2019: 0.7% vs. 2018: 1.0% vs. 2017: 3.8%), the core inflation rate has been progressively rising (January 2020: 1.4%, 2019: 1.2%, 2018: 0.6%). This suggests that there are pass through effects to other products as a result of higher food and fuel prices. A quick look at the international trade in foodstuff would give us a sense on the transmission from higher food prices to other products. Based on data from the Department of Statistics Malaysia (DOSM), the trade deficits (exports minus imports) on foodstuff have surpassed RM17.0 billion during 2019 from –RM1.1 billion in 1990. Drilling down the sub-indices, Vegetables & Fruits, Cereals & Cereal Preparations and Meat & Meat Preparations were among the largest deficits at RM6.14 billion, RM5.15 billion and RM2.92 billion respectively during 2019. In addition, the Self-Sufficiency Ratio (SSR) for round cabbage and chili stood at 38.7% and 31.9% respectively in 2018, reflecting the country’s ability to produce and meet the domestic demand was very low. This has indirectly contributed to higher imported food inflation due to weakening MYR. As such, the impact of the inflationary pressure from food products on cost of living have been apparent.

Chart 3: Trade Balance in Foodstuff (RM billion)



Source: CEIC

Chart 4: Trade Deficits on Food Products (RM billion)



Sources: CEIC, DOSM, Bank Islam

Table 3: Malaysia Self-Sufficiency Ratio (SSR) and Import Dependency Ratio (IDR)

	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
Tomato	130.1	131.8	125.0	130.1	126.5	4.5	4.8	1.3	2.5	2.9
Mustard	99.4	97.8	99.8	99.3	97.6	1.7	3.2	2.7	5.4	7.8
Cucumber	107.5	101.7	113.8	117.8	112.7	12.3	17.0	13.4	17.0	19.9
Round cabbage	85.7	83.3	61.9	42.2	38.7	14.7	17.0	39.2	58.7	62.2
Spinach	117.6	111.0	115.6	115.7	113.5	1.1	1.0	1.0	1.0	1.0
Long bean	110.6	105.4	107.0	110.5	107.2	1.6	0.8	1.4	1.0	2.0
Lady's finger	105.1	103.2	105.4	106.7	105.8	0.3	0.3	0.6	0.5	0.9
Lettuce	109.8	105.4	113.1	116.7	114.5	12.2	15.1	13.6	27.9	23.4
Brinjal	101.4	102.8	109.7	116.5	115.4	12.0	8.0	9.7	10.1	12.4
Chilli	52.0	51.4	49.1	38.8	31.9	52.9	52.1	55.1	66.9	73.1

Source: DOSM

Notwithstanding that, the recent government measures may have mitigated the rise in the overall cost of living. The reduction in toll rates by 18% this year on PLUS Highways should be able to alleviate some burden on the transportation cost. Apart from that, setting the ceiling price for RON95 at RM2.08 per liter also helped to reduce the fuel cost among the motorists. Toll roads and fuel related costs are embedded in the Transport sub-indices which accounted for 14.6% from the total CPI component. All in all, **we revised down our 2020 inflation projection to 1.2% from 1.8% previously.**

Produced and issued by BANK ISLAM MALAYSIA BERHAD (Bank Islam) for private circulation only or for distribution under circumstances permitted by applicable laws. All information, opinions and estimates contained herein have been compiled or arrived at based on sources and assumptions believed to be reliable and in good faith at the time of issue of this document. This document is for information purposes only and has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. No representation or warranty, expressed or implied is made as to its adequacy, accuracy, completeness or correctness. All opinions and the content of this document are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of Bank Islam as a result of using different assumptions and criteria. No part of this document may be used, reproduced, distributed or published in any form or for any purpose without Bank Islam's prior written permission