



From the Desk  
of the  
**Chief Economist**

**BANK ISLAM**

# **CPI FELL BY 0.2% AT THE BEGINNING OF 2021**

**24 FEBRUARY 2021**

**ECONOMIC RESEARCH**

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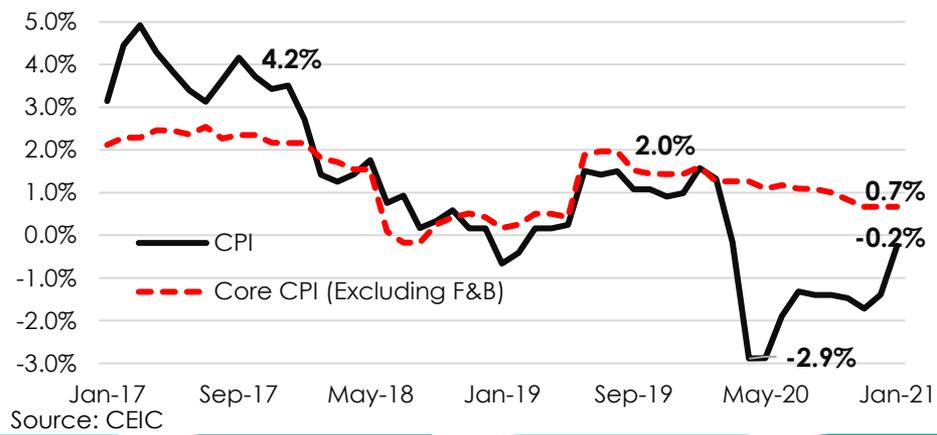
**NOR JANNAH ABDULLAH**

# CPI DECLINED BY 0.2% IN JANUARY 2021

**01** **Headline Inflation**  
 Jan 2021: -0.2%  
 Dec 2020: -1.4%

**02** **Core Inflation**  
 Jan 2021: 0.7%  
 Dec 2020: 0.7%

## Inflation Rate, y-o-y% (Jan 2017- Jan 2021)



**Food & Non-Alcoholic Beverages**

Jan 2021: 1.5%  
 Dec 2020: 1.4%

**Alcoholic Beverages & Tobacco**

Jan 2021: 0.7%  
 Dec 2020: 0.6%

**Clothing & Footwear**

Jan 2021: -0.4%  
 Dec 2020: -0.4%

**Housing, Water, Electricity, Gas & Other Fuels**

Jan 2021: -0.7%  
 Dec 2020: -3.3%

**Furnishings, Household Equipment & Routine Household Maintenance**

Jan 2021: 0.2%  
 Dec 2020: -0.1%

**Health**

Jan 2021: 0.7%  
 Dec 2020: 1.0%

**Transport**

Jan 2021: -5.1%  
 Dec 2020: -8.4%

**Communication**

Jan 2021: 0.0%  
 Dec 2020: 0.0%

**Recreation Services & Culture**

Jan 2021: 0.1%  
 Dec 2020: 0.2%

**Education**

Jan 2021: 0.2%  
 Dec 2020: 0.6%

**Restaurants & Hotels**

Jan 2021: -0.1%  
 Dec 2020: -0.2%

**Miscellaneous Goods & Services**

Jan 2021: 1.8%  
 Dec 2020: 2.2%

# COSTS OF FOODS INCREASED DURING JANUARY 2021

|  | Weight        | Jan-20      | Feb-20      | Mar-20       | Apr-20       | May-20       | Jun-20       | Jul-20       | Aug-20       | Sep-20       | Oct-20       | Nov-20       | Dec-20       | Jan-21       |
|--|---------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Consumer Price Index (CPI)</b>                | <b>100.0%</b> | <b>1.6%</b> | <b>1.3%</b> | <b>-0.2%</b> | <b>-2.9%</b> | <b>-2.9%</b> | <b>-1.9%</b> | <b>-1.3%</b> | <b>-1.4%</b> | <b>-1.4%</b> | <b>-1.5%</b> | <b>-1.7%</b> | <b>-1.4%</b> | <b>-0.2%</b> |
| Food and Non-Alcoholic Beverages                 | 29.5%         | 0.9%        | 0.8%        | 1.2%         | 1.2%         | 1.2%         | 1.6%         | 1.4%         | 1.3%         | 1.4%         | 1.5%         | 1.4%         | 1.4%         | 1.5%         |
| Alcoholic Beverages and Tobacco                  | 2.4%          | 0.1%        | 0.2%        | 0.3%         | 0.2%         | 0.2%         | 0.2%         | 0.3%         | 0.3%         | 0.5%         | 0.5%         | 0.5%         | 0.6%         | 0.7%         |
| Clothing and Footwear                            | 3.2%          | -1.2%       | -1.1%       | -1.3%        | -1.2%        | -1.1%        | -1.1%        | -0.6%        | -0.6%        | -0.6%        | -0.4%        | -0.5%        | -0.4%        | -0.4%        |
| Housing,Water,Electricity,Gas & Other Fuels      | 23.8%         | 1.7%        | 1.6%        | 1.6%         | -2.2%        | -2.6%        | -2.6%        | -2.6%        | -3.0%        | -3.0%        | -3.0%        | -3.3%        | -3.3%        | -0.7%        |
| Furnishings, Household Equipment and Maintenance | 4.1%          | 1.2%        | 1.0%        | 0.8%         | 0.3%         | -0.2%        | -0.2%        | -0.1%        | -0.1%        | 0.1%         | 0.1%         | -0.1%        | -0.1%        | 0.2%         |
| Health   | 1.9%          | 1.4%        | 1.3%        | 1.4%         | 1.2%         | 1.2%         | 1.1%         | 1.1%         | 1.1%         | 1.1%         | 1.1%         | 1.0%         | 1.0%         | 0.7%         |
| Transport  | 14.6%         | 3.9%        | 2.4%        | -8.9%        | -21.5%       | -20.8%       | -14.3%       | -10.3%       | -9.9%        | -9.9%        | -10.2%       | -11.1%       | -8.4%        | -5.1%        |
| Communication                                    | 4.8%          | 1.5%        | 1.5%        | 1.5%         | 1.6%         | 1.6%         | 1.6%         | 1.6%         | 1.6%         | 1.6%         | 0.0%         | 0.0%         | 0.0%         | 0.0%         |
| Recreation and Culture                           | 4.8%          | 0.9%        | 0.7%        | 0.7%         | 0.6%         | 0.7%         | 0.6%         | 0.7%         | 0.6%         | 0.1%         | 0.2%         | 0.1%         | 0.2%         | 0.1%         |
| Education  | 1.3%          | 1.7%        | 1.3%        | 1.3%         | 1.2%         | 1.0%         | 0.8%         | 1.2%         | 1.1%         | 0.7%         | 0.7%         | 0.6%         | 0.6%         | 0.2%         |
| Restaurants and Hotels                           | 2.9%          | 1.1%        | 1.1%        | 0.9%         | 0.7%         | 0.9%         | 0.3%         | 0.2%         | 0.1%         | 0.1%         | 0.1%         | 0.0%         | -0.2%        | -0.1%        |
| Miscellaneous Goods and Services                 | 6.7%          | 2.5%        | 2.5%        | 2.6%         | 2.3%         | 2.8%         | 3.0%         | 2.9%         | 3.1%         | 2.7%         | 2.8%         | 2.3%         | 2.2%         | 1.8%         |
| <b>Core CPI</b>                                  |               | <b>1.6%</b> | <b>1.3%</b> | <b>1.3%</b>  | <b>1.3%</b>  | <b>1.1%</b>  | <b>1.2%</b>  | <b>1.1%</b>  | <b>1.1%</b>  | <b>1.0%</b>  | <b>0.8%</b>  | <b>0.7%</b>  | <b>0.7%</b>  | <b>0.7%</b>  |

Source: CEIC

1

Malaysia's Consumer Price Index (CPI) continued to fall by 0.2% year-on-year (y-o-y) in January 2021 though at a softer pace as compared to -1.4% in December last year (Consensus: -0.8% vs. Bank Islam: -0.6%)

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It marks the eleventh consecutive month of decline, largely weighed by the cost of Transport. However, the Transport sub-index also posted a slower decrease of 5.1% in January 2021 from -8.4% in the preceding month.

3

Apart from that, costs for Housing, Water, Electricity, Gas & Other Fuels (January 2021: -0.7% vs. December 2020: -3.3%), as well as Clothing & Footwear (January 2021: -0.4% vs. December 2020: -0.4%) dropped during January 2021.

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Be that as it may, prices for Food & Non-Alcoholic Beverages (January 2021: 1.5% vs. December 2020: 1.4%), Alcoholic Beverages & Tobacco (January 2021: 0.7% vs. December 2020: 0.6%) and Furnishings, Household Equipment & Maintenance (January 2021: 0.2% vs. December 2020: -0.1%) increased in January 2021.

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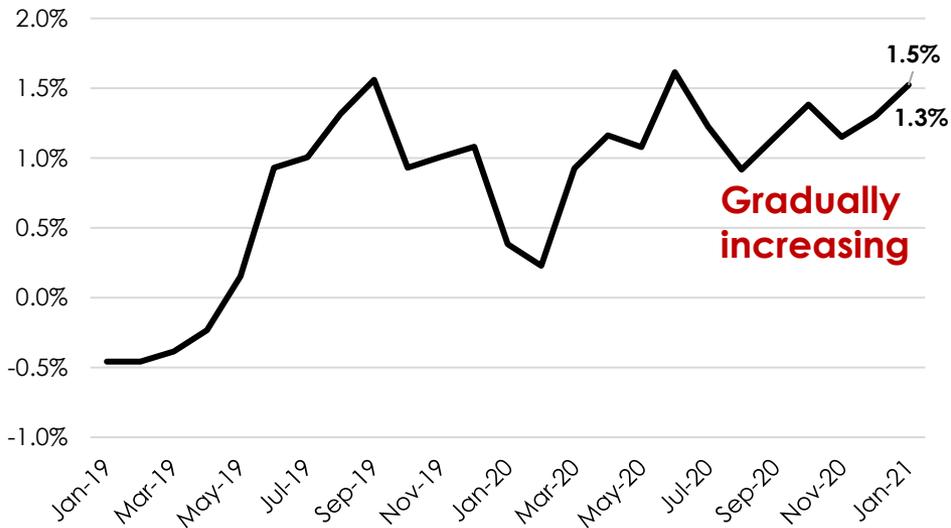
Core CPI which excludes most volatiles items of fresh food, as well as administered prices of goods and services remained unchanged for the third straight month at 0.7% in January 2021 (December 2020: 0.7%).

| Consumer Price Index    | Jan-20 | Feb-20 | Mar-20 | Apr-20 | May-20 | Jun-20 | Jul-20 | Aug-20 | Sep-20 | Oct-20 | Nov-20 | Dec-20 | Jan-21 |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 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%  | -0.2%  |
| WP 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%  | 0.1%   |
| Selangor & WP 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%  | 0.2%   |
| 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%  | -0.6%  |
| 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%  | -0.5%  |
| 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%  | -0.8%  |
| 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%  | 0.1%   |
| 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%  | 0.2%   |
| 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%  | 0.3%   |
| 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%  | -0.8%  |
| 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%  | 0.0%   |
| 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%  | -0.1%  |
| Sabah & WP 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%  | -1.5%  |
| 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%  | -1.2%  |

Sources: CEIC, DOSM

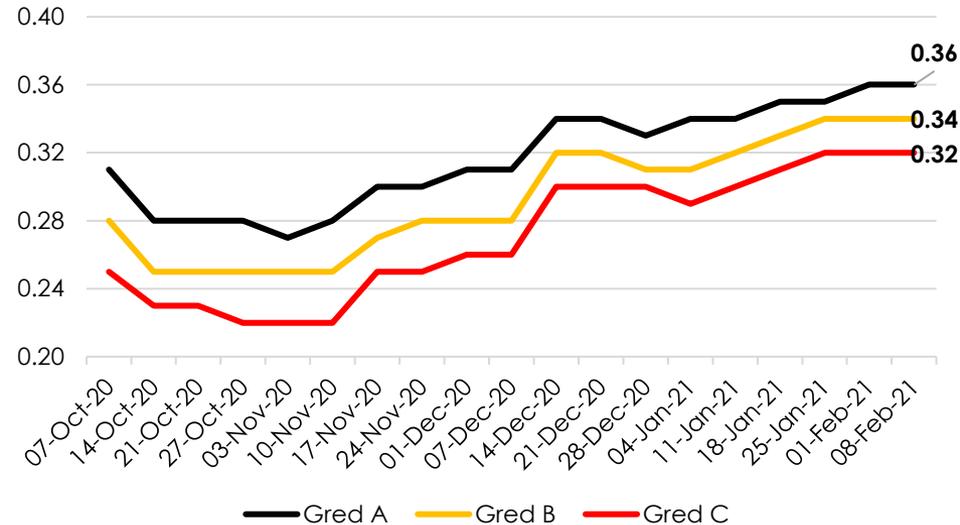
- ✓ At states level, Terengganu recorded the highest price appreciation by 0.3% in January 2021 (December 2020: -1.0%). This was followed by Selangor & Federal Territory of Putrajaya (January 2021: 0.2% vs. December 2020: -0.9%) and Kelantan (January 2021: 0.2% vs. December 2020: -1.2%).
- ✓ Meanwhile, price declines were seen in Sabah & Federal Territory of Labuan (January 2021: -1.5% vs. December 2020: -2.0%), Sarawak (January 2021: -1.2% vs. December 2020: -1.9%), Kedah & Perlis (January 2021: -0.8% vs. December 2020: -2.2%), Johor (January 2021: -0.8% vs. December 2020: -2.0%), Melaka (January 2021: -0.6% vs. December 2020: -2.0%), Negeri Sembilan (January 2021: -0.5% vs. December 2020: -1.9%) and Perak (January 2021: -0.1% vs. December 2020: -1.4%).

### Food At Home, y-o-y%



Source: CEIC

### Average Egg Price (RM/ egg)

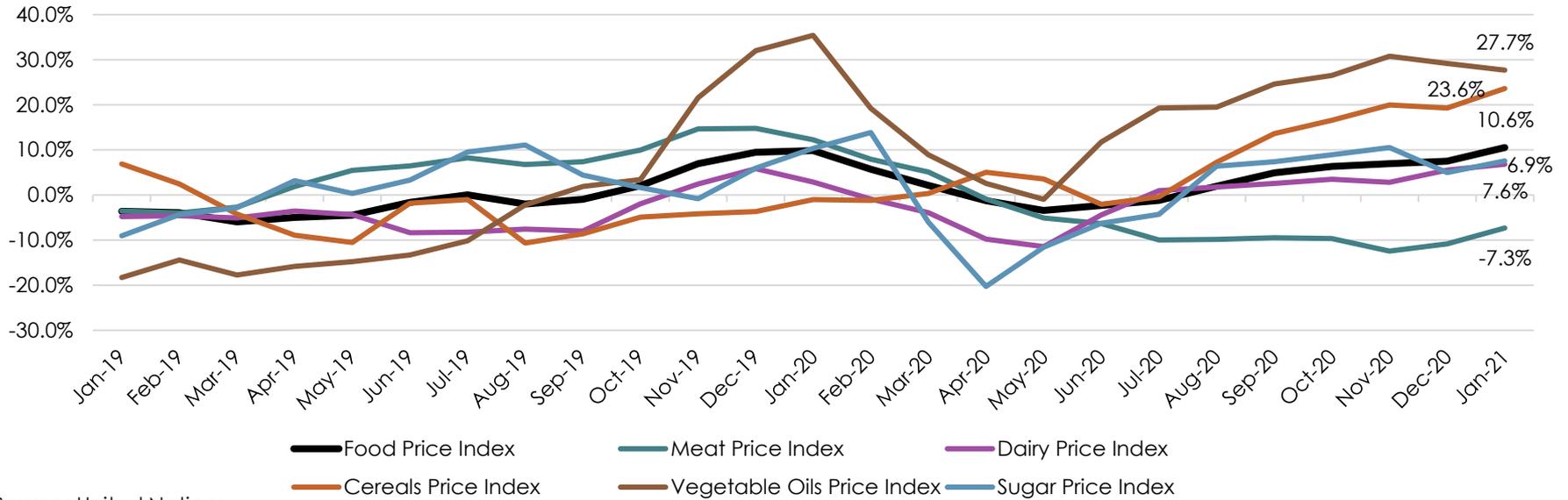


Source: Department of Veterinary Services

- ✓ The inflation for Food At Home which contributed 16.9% to the total CPI continued to see an upward trend in January 2021, rising by 1.5% compared to 1.3% in December 2020.
- ✓ Within the sub-indices, price for vegetables went up significantly by 4.4% in January 2021 from 3.6% previously while inflation for Milk, Cheese & Eggs rebounded by 1.8% in January 2021 after declining by 0.3% in December last year.
- ✓ In addition, average egg price (Gred A) rose to RM0.36 per egg as at 8 February 2021 compared to RM0.33 per egg as at 28 December 2020.
- ✓ This suggests that most people felt the effects of higher food prices which reduced the consumers' real incomes particularly the lower-class and middle-class income earners.

# INCREASE IN PRICES OF FOOD & BEVERAGE IN LINE WITH FOOD AND AGRICULTURE ORGANISATION INDEX

**Growth In Food and Agriculture Organization Food Price Indices, y-o-y%**



Source: United Nations

- ✓ The Food and Agriculture Organization's food price index, which measures monthly changes for a basket of cereals, oilseeds, dairy products, meat and sugar, grew by 10.6% y-o-y in January 2021 (December: 2020: 7.5%). This marks the sixth consecutive month of growth in the index.
- ✓ Amongst the sub-indices, the vegetables oil price index gained the most by 27.7% y-o-y in January 2021 (December 2020: 29.2%) to reach 138.8 points, the highest since May 2012. The rise in the index was driven in part by the lower-than-expected palm oil production in Indonesia and Malaysia. Soy oil prices were fuelled by reduced export opportunities and prolonged strikes in Argentina.
- ✓ Although the meat price index was the only laggard with a 7.3% y-o-y decline in January 2021 (December 2020: -10.3%), it was notable that the sub-index recorded four straight months of month-on-month gains. International price quotations for all meat types that constitute the index increased in January, with those of poultry meat rising the most, especially for Brazilian origins, underpinned by brisk global import demand while avian influenza outbreaks constrained poultry exports from several European countries.
- ✓ Likewise, prices of chicken meat in Malaysia have risen with an average price of RM4.76 per kg in January 2021 as compared to RM4.53 per kg in December 2020.

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



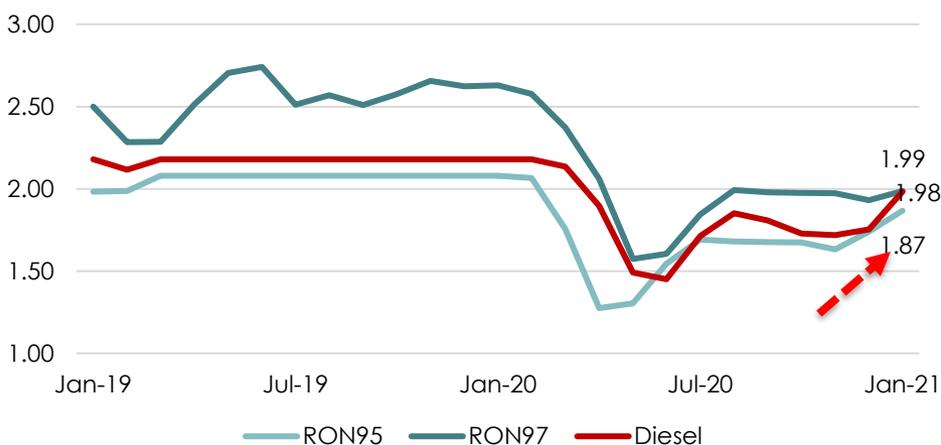
- ✓ On further scrutiny, costs of Transport have continued to drop particularly for Fuel & Lubricating Personal Transport Equipment. Nevertheless, the decline was at a much slower pace compared to the previous month (January 2021: -10.1% vs. December 2020: -16.2%).
- ✓ This was in conformity with the 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 |
| Dec-20 | 1.74       | 1.99   | 1.98   | -16.3%              | -24.4% | -9.0%  |
| Jan-21 | 1.87       | 2.17   | 2.04   | -10.2%              | -15.9% | -6.3%  |

Source: CEIC

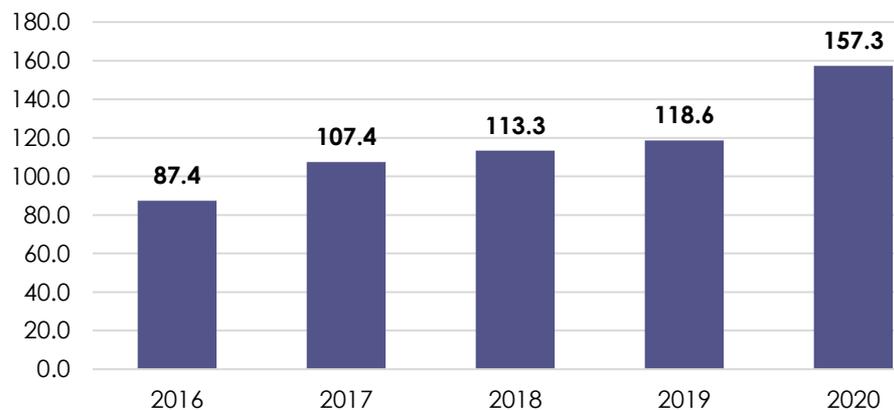
### Average Fuel Prices (RM / litre)



- ✓ The movement of the average fuel prices were also in line with the 9.7% increase in the monthly average of Brent crude oil price to USD55.15 per barrel in January 2021 from USD50.26 per barrel in December.
- ✓ Thus far in February 2021, Brent crude oil price has risen by 9.7% amid the output disruptions caused by the storm in Texas coupled with the optimism stoked by the ongoing vaccine roll-outs in many countries worldwide.
- ✓ All in all, **we are forecasting CPI to rebound by 1.8% in 2021 (2020: -1.2%)** amid the anticipated economic growth should the vaccination program run smoothly in the country.

- ✓ As of late, yields of MGS have been exhibiting a positive trend whereby yields of 3-Y, 5-Y and 10-Y MGS stood at 1.91%, 2.28% and 2.97% respectively as at 23 February 2021 compared to 1.87%, 2.10% and 2.65% on 31 December 2020.
- ✓ The rise in MGS yields have been in tandem with the sharp increase in the US Treasury yields which saw the 10-Y rose to more than 1.30%. Additionally, the bullish views on the economic prospects following the vaccine rollout is also being reflected in the equity market with the benchmark indices such as DJIA, S&P 500 and NASDAQ continues to post record high performance. In light of this, the expectation of higher inflation compared to last year and presumably a higher overnight policy rate by Bank Negara Malaysia (BNM) at some point in the future warrants for cautious view in the fixed income markets.
- ✓ Nevertheless, the reaction may be somewhat premature as vaccination campaigns are still in early stages. Other headwinds may appear in the form of peoples' reluctance of getting the vaccine until further clarity of its side effects is made known to the public. This may prolong the journey to reach herd immunity and delay the country's progress to reopen the economy on a large scale.
- ✓ In fact, we believe the downside risks for OPR is clearly visible given that it will take a while before the country could reach the herd immunity thereby limiting the pace of the reopening of the economy. Despite that, it would be a close call for BNM whether they would cut the rate or stand pat in light of the favourable external condition.

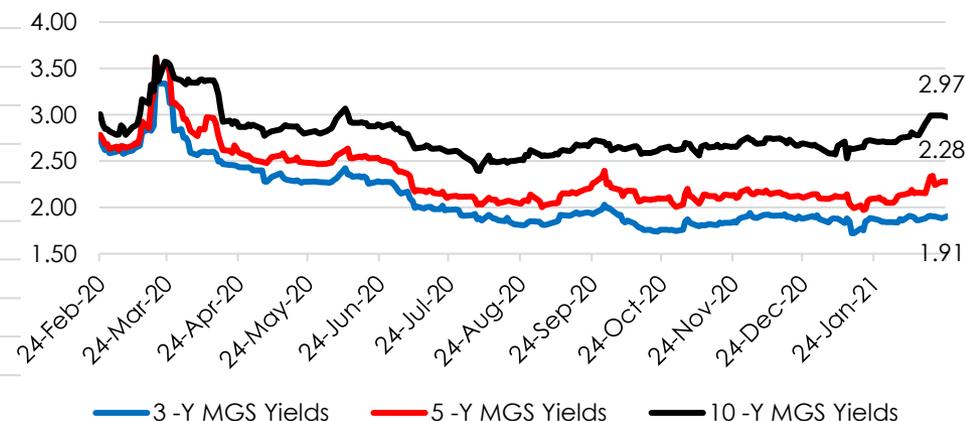
**MGS and GII Issuance (RM Billion)**



Source: CEIC

ECONOMIC RESEARCH

**Malaysian Government Securities Yields (%)**



Source: Bank Negara Malaysia

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A cityscape at sunset with a pink bar at the bottom. The sky is filled with soft, golden light and scattered clouds. The city buildings are silhouetted against the bright horizon. A prominent road with traffic is visible in the foreground.

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