



From the Desk
of the
Chief Economist

BANK ISLAM

CPI CONTINUED TO DECLINE FOR NINTH STRAIGHT MONTH

23 DECEMBER 2020

ECONOMIC RESEARCH

DR. MOHD AFZANIZAM ABDUL RASHID

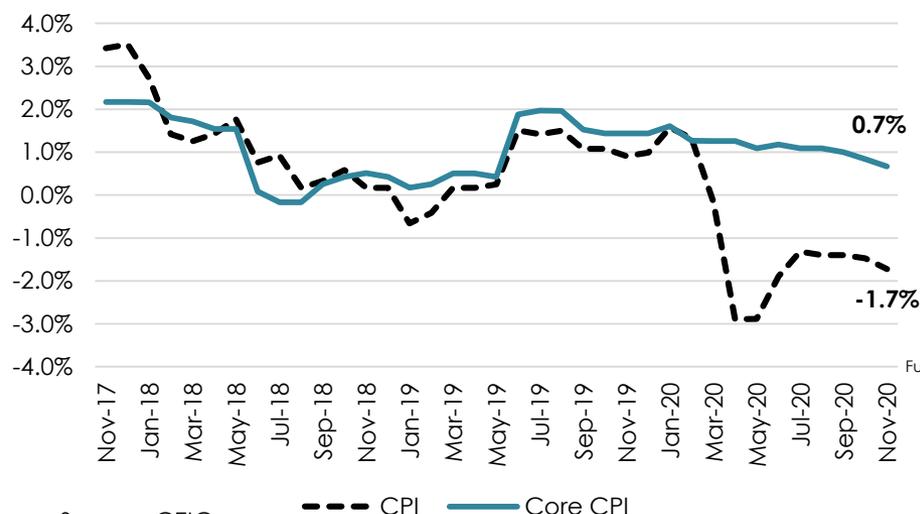
ADAM MOHAMED RAHIM

SHAFIZ BIN JAMALUDDIN

NOR JANNAH ABDULLAH

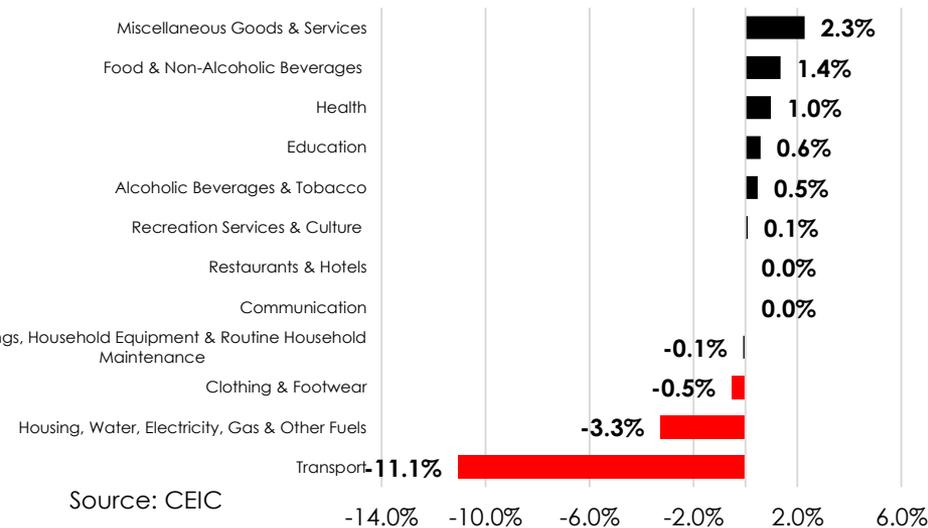
HEADLINE CPI IN NOVEMBER WAS DRAGGED BY TRANSPORT COST

CPI, y-o-y%



Source: CEIC

CPI sub-indices, y-o-y%



Source: CEIC

1

Malaysia's Consumer Price Index (CPI) declined further by 1.7% year-on-year (y-o-y) in November after dropping by 1.5% in the previous month. (Consensus: -1.5% , Bank Islam: -1.5%).

2

This was mainly dragged by decline in price of Transport (November: -11.1% vs. October: -10.2%), Housing, Water, Electricity, Gas & Other Fuels (November: -3.3% vs. October: -3.0%), Clothing & Footwear (November: -0.5% vs. October: -0.4%) and Furnishings, Household Equipment & Routine Household Maintenance (November: -0.1% vs. October: 0.1%), forming a sizeable share of 45.7% of total CPI.

3

Apart from that, cost for Alcoholic Beverages & Tobacco remained at 0.5% in November (October: 0.5%) while the price for Communication remained unchanged at 0.0%, similar to what was seen in October.

4

On the other hand, inflation for Food & Non-Alcoholic Beverages (November: 1.4% vs. October: 1.5%), Health (November: 1.0% vs. October: 1.1%), Recreation Services & Culture (November: 0.1% vs. October: 0.2%), Education (November: 0.6% vs. October: 0.7%), Restaurants & Hotels (November: 0.0% vs. October: 0.1%) and Miscellaneous Goods & Services (November: 2.3% vs. October: 2.8%) recorded slower increases in November.

CPI WAS DOWN BY 1.1% IN 11M2020

5

Core CPI which excludes most volatiles items of fresh food, as well as administered prices of goods and services saw a slower increase of 0.7% in November compared to the 0.8% gain in the previous month.

6

On a cumulative basis, the inflation rate decreased by 1.1% in 11M2020 from a 0.6% increase in the same period last year. However, the Core CPI was sustained at 1.1% in 11M2020 (11M2019: 1.1%).

	Weight	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	11M2019	11M2020
Consumer Price Index	100.0%	-1.9%	-1.3%	-1.4%	-1.4%	-1.5%	-1.7%	0.6%	-1.1%
Food & Non-Alcoholic Beverages	29.5%	1.6%	1.4%	1.3%	1.4%	1.5%	1.4%	1.6%	1.3%
Alcoholic Beverages & Tobacco	2.4%	0.2%	0.3%	0.3%	0.5%	0.5%	0.5%	1.6%	0.3%
Clothing & Footwear	3.2%	-1.1%	-0.6%	-0.6%	-0.6%	-0.4%	-0.5%	-2.0%	-0.9%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	-2.6%	-2.6%	-3.0%	-3.0%	-3.0%	-3.3%	1.9%	-1.6%
Furnishings, Household Equipment & Routine Household Maintenance	4.1%	-0.2%	-0.1%	-0.1%	0.1%	0.1%	-0.1%	1.4%	0.3%
Health	1.9%	1.1%	1.1%	1.1%	1.1%	1.1%	1.0%	0.6%	1.2%
Transport	14.6%	-14.3%	-10.3%	-9.9%	-9.9%	-10.2%	-11.1%	-3.2%	-10.1%
Communication	4.8%	1.6%	1.6%	1.6%	1.6%	0.0%	0.0%	0.3%	1.2%
Recreation Services & Culture	4.8%	0.6%	0.7%	0.6%	0.1%	0.2%	0.1%	0.7%	0.5%
Education	1.3%	0.8%	1.2%	1.1%	0.7%	0.7%	0.6%	1.4%	1.0%
Restaurants & Hotels	2.9%	0.3%	0.2%	0.1%	0.1%	0.1%	0.0%	1.2%	0.5%
Miscellaneous Goods & Services	6.7%	3.0%	2.9%	3.1%	2.7%	2.8%	2.3%	0.2%	2.7%
Core CPI		1.2%	1.1%	1.1%	1.0%	0.8%	0.7%	1.1%	1.1%

Source: CEIC, DOSM

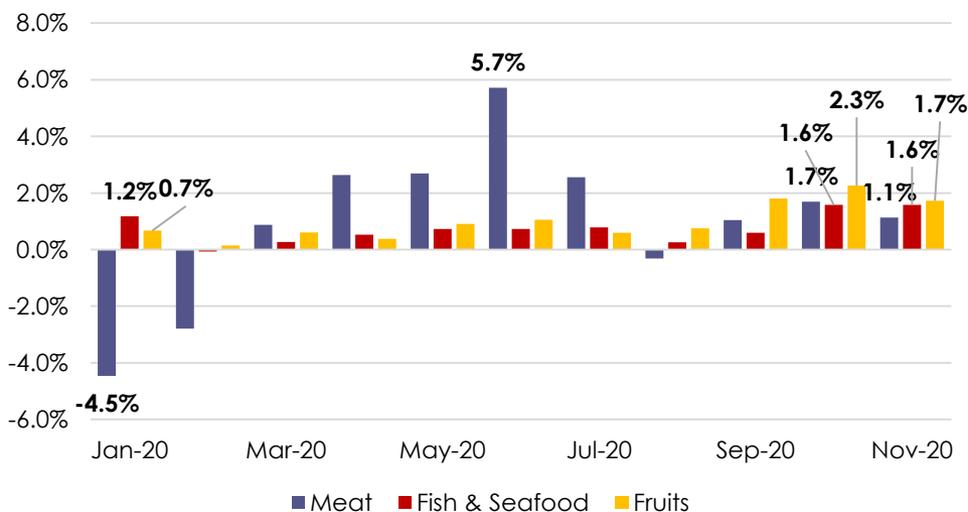
Consumer Price Index (Y-o-y%)	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	11M2019	11M2020
Nationwide	1.6%	1.3%	-0.2%	-2.9%	-2.9%	-1.9%	-1.3%	-1.4%	-1.4%	-1.5%	-1.7%	0.6%	-1.1%
Kuala Lumpur	1.8%	1.5%	0.2%	-2.0%	-1.9%	-1.3%	-1.0%	-0.9%	-0.8%	-0.8%	-1.2%	1.3%	-0.6%
Selangor & 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%	-0.6%
Melaka	0.9%	0.6%	-0.9%	-3.6%	-3.6%	-2.6%	-2.2%	-2.2%	-2.2%	-2.3%	-2.6%	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%	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%	0.6%	-1.4%
Pahang	1.5%	1.5%	-0.1%	-3.1%	-3.1%	-1.7%	-1.3%	-1.4%	-1.4%	-1.8%	-2.1%	0.2%	-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%	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%	0.0%	-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%	0.1%	-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%	-0.8%
Perak	1.4%	1.3%	-0.3%	-3.0%	-2.9%	-2.0%	-1.5%	-1.5%	-1.6%	-1.7%	-2.0%	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%	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%	0.0%	-1.7%

Source: CEIC, DOSM

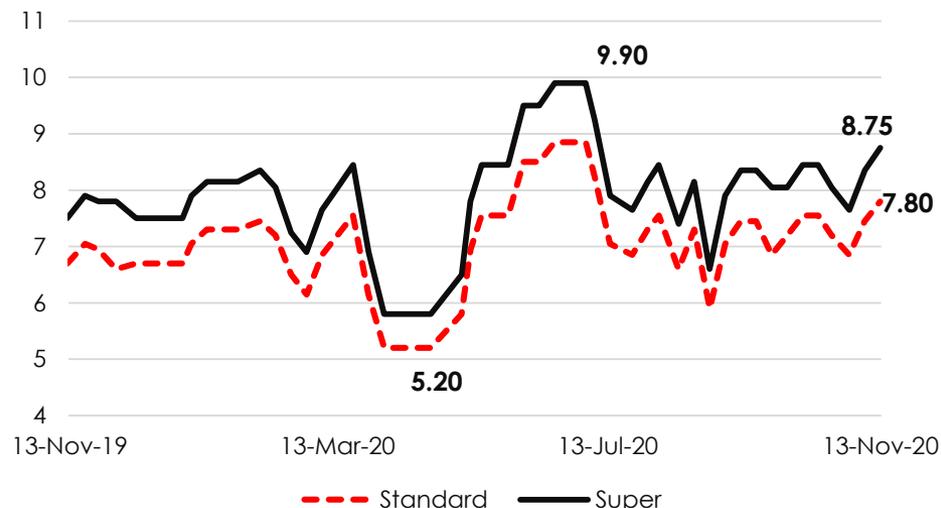
- ✓ The CPI for all states decreased between -1.2% to -2.6% during November. The highest decline was seen in Melaka (November: -2.6% vs. October: -2.3%), Kedah & Perlis (November: -2.6% vs. October: -2.3%). This was followed by Sabah & Federal Territory of Labuan (November: -2.5% vs. October: -2.3%) and Sarawak (November: -2.4% vs. October: -2.1%).
- ✓ Overall, all states except Selangor & Putrajaya, Kuala Lumpur, Terengganu and Pulau Pinang recorded a larger decline in CPI relative to the national level in November 2020.
- ✓ For 11M2020, Selangor & Putrajaya and Kuala Lumpur saw the smallest decline in CPI, dropping by only -0.6%.

- ✓ The headline CPI has been exhibiting a downward trend for the ninth consecutive month since March this year, mainly dragged by the transport sub-index amid low global crude oil prices and weaker demand conditions due to the Covid-19 crisis.
- ✓ Notwithstanding this, the prices of foods remained high. This can be seen in price of Fruits (November: 1.7% vs. October: 2.3%), Meat (November: 1.1% vs. October: 1.7%), and Fish & Seafoods (November: 1.6% vs. October: 1.6%) which were higher than a year ago. In addition, the Deepavali festivities partially contributed to the inflationary pressure seen in these food items.
- ✓ Apart from that, data from the Department of Veterinary Services Malaysia showed that prices of chicken meat rose by 16.4% to RM7.80 per kilogram (kg) as at 13 November 2020 (latest available data) from RM6.70 per kg on 12 November last year.
- ✓ Overall, such conditions highlight that costs of living continue to be the main issue surrounding Malaysians despite the overall downward trend in the CPI.

Costs of Essentials Goods, y-o-y%

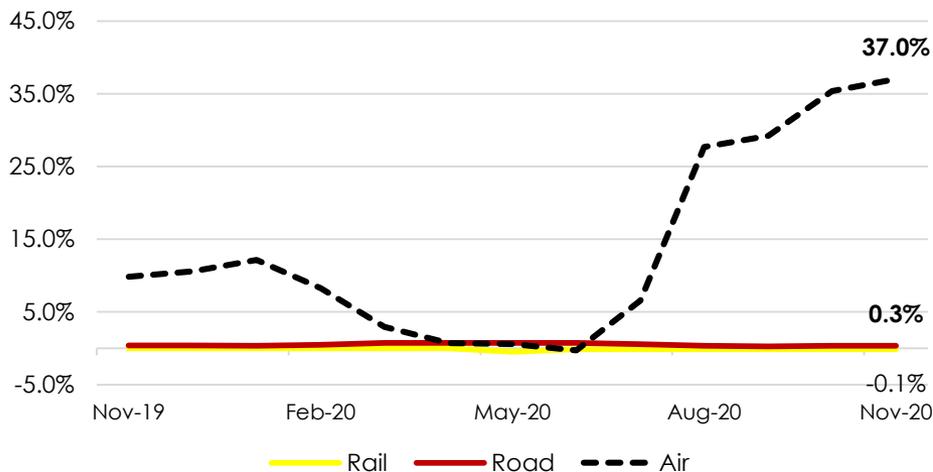


Chicken Price (RM per kg)



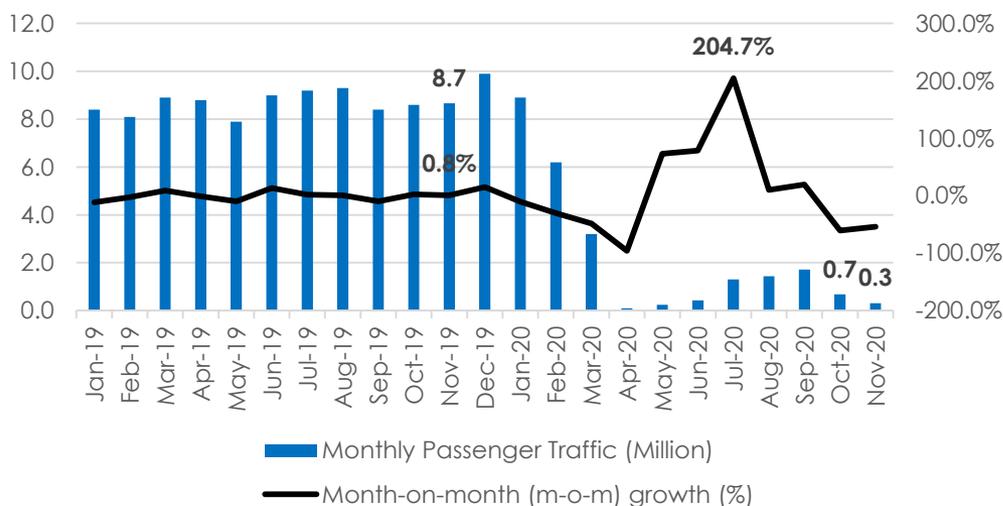
OUR VIEW – AIR PASSENGER TRANSPORT INFLATION CONTINUED ITS ASCENT

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 37.0% in October (November: 35.4%).
- ✓ Malaysia Airports Holdings Berhad's (MAHB) traffic performance in November was largely affected by the full effect of the Conditional Movement Control Order (CMCO) for the whole month of November 2020.
- ✓ As such, passenger traffic at airports operated by MAHB declined by 54.1% month-on-month in November 2020 (October 2020: -60.5%).
- ✓ With only travellers with permission from the authorities being allowed to fly, we opine that airlines had no option but to hike ticket prices since leisure domestic and international travel was not allowed under the CMCO.
- ✓ 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 21.5% (October 2020: -19.8%) and 14.4% (October 2020: -13.2%) respectively in November 2020.

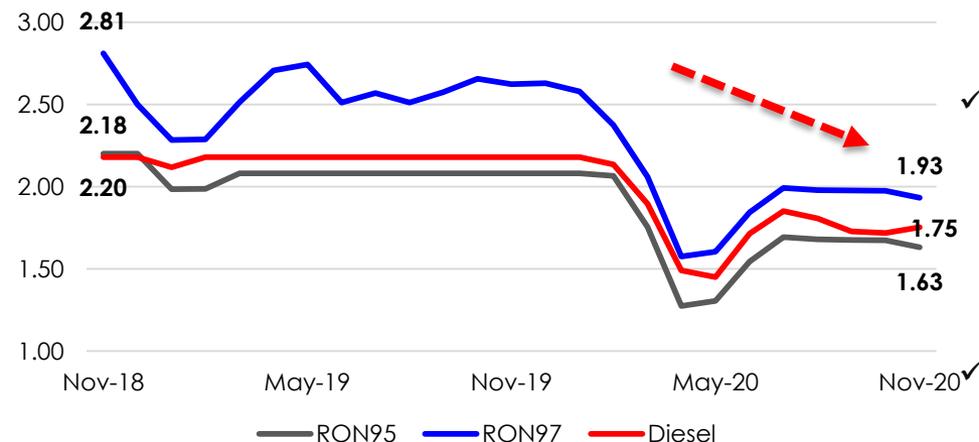
OUR VIEW – RISE IN FUEL PRICES WILL PUSH UP INFLATION IN DECEMBER

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



Source: CEIC

Average Fuel Prices (RM / litre)

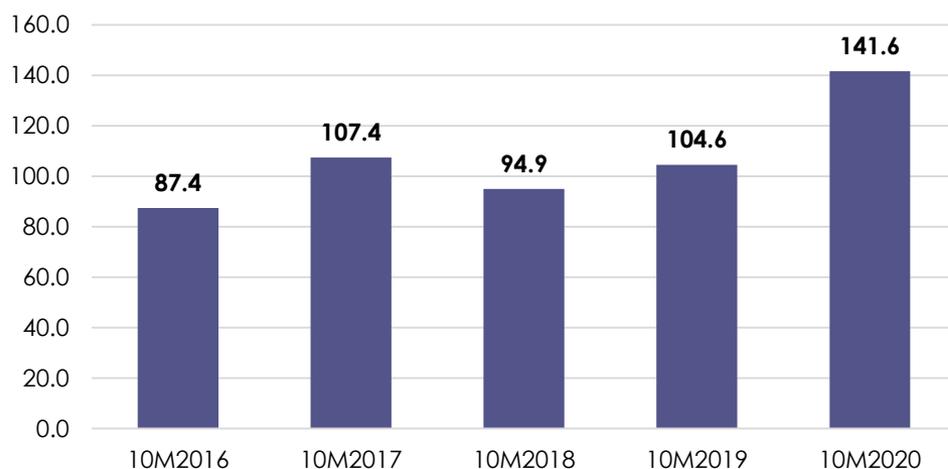


Source: CEIC
ECONOMIC RESEARCH

- ✓ As mentioned earlier, costs of transport have continued to drop particularly for Fuel & Lubricating Personal Transport equipment (November: -21.5% vs. October: -19.8%) as crude oil prices remain low globally.
- ✓ On further scrutiny, average fuel prices for RON95 (November 2020: RM1.63 vs. November 2019: RM2.08), RON97 (November 2020: RM1.93 vs. November 2019: RM2.62) and Diesel (November 2020: RM1.75 vs. November 2019: RM2.18) were lower by 21.6%, 26.4% and 19.6% during November.
- ✓ Certain restrictions have been given some leeway such as interstate travel and opening of public sporting facilities at 50.0% capacity under the CMCO effective 7 December 2020. Therefore, we opine that December will experience an upward inflationary pressure especially in the Recreation Services & Culture and Restaurants & Hotels index. The flexibility granted to have gatherings such as weddings within a certain capacity will also support the inflation for the Food & Non-Alcoholic Beverages index in December.
- ✓ In line with the month-to-date average of Brent crude oil price of USD49.83 per barrel in December 2020 being higher than the average of USD43.98 per barrel in November 2020, average fuel prices are expected to be higher. Therefore, we expect the inflation of Transport index to experience a softer y-o-y drop in December.
- ✓ All in all, **we are maintaining our 2020 full year forecast for CPI at -1.1%** (2019: 0.7%) before rebounding by 2.0% amid the anticipated economic recovery which will boost demand across sectors.

- ✓ The current low inflation level provides a ground for a further cut in the overnight policy rate (OPR) by Bank Negara Malaysia (BNM). However, we opine that it is apt for BNM to maintain the OPR at 1.75% throughout 2021 should any threats from the pandemic intensify. This is especially after the UK discovered a new variant of the Covid-19 in the country which is 70.0% more transmissible.
- ✓ With news of the mutated virus sending jitters across markets worldwide, investors may decide to increase their exposure in safe haven assets such as bonds compared to equities which are riskier. Henceforth, a shift of investors from the equity market to the bond market will likely put downward pressure on bond yields.
- ✓ If concerns on the mutated virus were to prolong in the next few months, the higher expected issuances of MGS and GII in 2021 to fund the nation's development expenditure will likely be well absorbed by bond investors.
- ✓ This factor could also lead to lower bond yields in light of the lower supply once these bonds have been subscribed by many investors. To date, the total issuance for MGS and GII stood at RM141.6 billion in 10M2020 compared to RM104.6 billion in the 10M2019.

MGS and GII Issuance (RM Billion)



Source: CEIC, Bond Info Hub
ECONOMIC RESEARCH

Malaysian Government Securities Yields (%)



Source: Bank Negara Malaysia

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