



From the Desk
of the
Chief Economist

BANK ISLAM

INFLATION RATE CONTINUES TO TREND DOWNWARDS IN AUGUST

24 SEPTEMBER 2021

ECONOMIC RESEARCH

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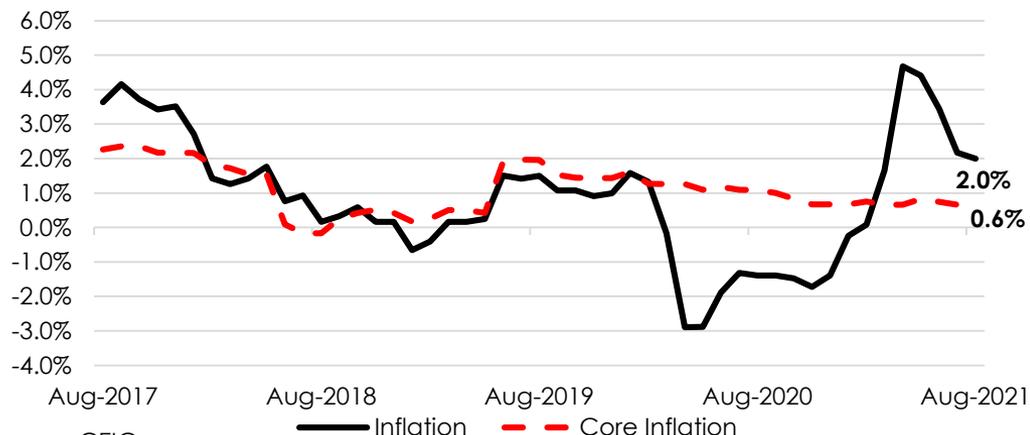
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CPI GREW SOFTER BY 2.0% IN AUGUST

Inflation rate, y-o-y% (August 2017 – August 2021)



Source: CEIC

Headline Inflation

August
2.0%
July
2.2%

Core Inflation

August
0.6
July
0.7%



Food & Non-Alcoholic Beverages



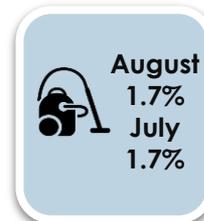
Alcoholic Beverages & Tobacco



Clothing & Footwear



Housing, Water, Electricity, Gas & Other Fuels



Furnishings, Household Equipment & Routine Household Maintenance



Health



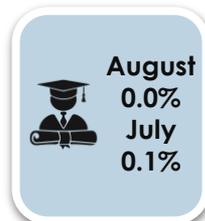
Transport



Communication



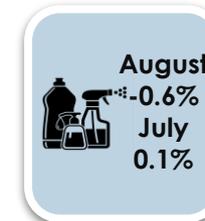
Recreation Services & Culture



Education



Restaurants & Hotels



Miscellaneous Goods & Services

MODEST PRICE INCREASES IN FOOD & NON-ALCOHOLIC BEVERAGES AND HOUSING, WATER, ELECTRICITY, GAS & OTHER FUELS DRAGGED INFLATION

	Weight	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	8M2020	8M2021
Consumer Price Index	100.0%	-0.2%	0.1%	1.7%	4.7%	4.4%	3.4%	2.2%	2.0%	-1.0%	2.3%
Food & Non-Alcoholic Beverages	29.5%	1.5%	1.4%	1.5%	1.9%	1.5%	1.3%	1.3%	1.2%	1.2%	1.4%
Alcoholic Beverages & Tobacco	2.4%	0.7%	0.7%	0.6%	0.7%	0.7%	0.7%	0.5%	0.4%	0.2%	0.6%
Clothing & Footwear	3.2%	-0.4%	-0.4%	-0.3%	-0.4%	-0.5%	-0.4%	-0.4%	-0.4%	-1.0%	-0.4%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	-0.7%	-0.8%	-0.8%	3.1%	3.2%	3.2%	0.7%	0.6%	-1.0%	1.0%
Furnishings, Household Equipment & Routine Household Maintenance	4.1%	0.2%	0.3%	0.9%	1.6%	2.1%	2.0%	1.7%	1.7%	0.4%	1.3%
Health	1.9%	0.7%	0.7%	0.5%	0.5%	0.6%	0.5%	0.4%	0.3%	1.2%	0.5%
Transport	14.6%	-5.1%	-2.0%	9.8%	27.0%	26.0%	16.6%	11.6%	11.0%	-10.0%	11.0%
Communication	4.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.5%	0.0%
Recreation Services & Culture	4.8%	0.1%	0.1%	0.5%	0.7%	0.6%	0.6%	0.6%	0.7%	0.7%	0.5%
Education	1.3%	0.2%	0.1%	0.0%	0.2%	0.3%	0.5%	0.1%	0.0%	1.2%	0.2%
Restaurants & Hotels	2.9%	-0.1%	-0.3%	0.0%	0.2%	0.2%	0.5%	0.7%	0.6%	0.7%	0.2%
Miscellaneous Goods & Services	6.7%	1.8%	1.6%	1.0%	1.2%	0.7%	0.3%	0.1%	-0.6%	2.7%	0.8%
Core CPI		0.7%	0.7%	0.7%	0.7%	0.8%	0.7%	0.7%	0.6%	1.2%	0.7%

Sources: DOSM, CEIC

01

Malaysia's Consumer Price Index (CPI) continued to rise at a softer pace of 2.0% year-on-year (y-o-y) in August after rising by 2.2% in the previous month, maintaining its positive growth for seven straight months since February amid a low base effect from last year. **(Consensus: 2.2%).**

02

This was mainly attributable to the modest price increase in Food & Non-Alcoholic Beverages (August: 1.2% vs. July: 1.3%) and Housing, Water Electricity, Gas & Other Fuels (August: 0.6% vs. July: 0.7%) in August compared to the month before. Both sub-indices accounted for 53.3% of the total CPI.

03

Apart from that, price for Transport also grew moderately by 11.0% in August from an expansion of 11.6% in the preceding month while maintaining a double-digit growth for the fifth consecutive month.

04

Be that as it may, the price for Recreation Services & Culture increased by 0.7% in August, extending a gain of 0.6% in July, albeit at slower pace.

05

The Core CPI which excludes most volatile items of fresh food, as well as administered prices of good and services recorded a softer inflation rate at 0.6% in August (July: 0.7%).

06

Cumulatively, the CPI jumped by 2.3% in 8M2021 from a 1.0% contraction in the same period last year. Meanwhile, the Core CPI growth softened by 0.7% in 8M2021 (8M2020: 1.2%).

	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	8M2020	8M2021
Malaysia	-0.2%	0.1%	1.7%	4.7%	4.4%	3.4%	2.2%	2.0%	-1.0%	2.3%
W.P. Kuala Lumpur	0.1%	0.2%	1.5%	3.8%	3.7%	3.0%	2.0%	1.6%	-0.4%	2.0%
Selangor & W.P. Putrajaya	0.2%	0.4%	1.9%	4.7%	4.5%	3.5%	2.4%	2.0%	-0.4%	2.4%
Melaka	-0.6%	-0.2%	1.3%	4.4%	4.1%	3.2%	2.0%	2.0%	-1.7%	2.0%
Negeri Sembilan	-0.5%	-0.1%	1.8%	5.0%	4.7%	3.5%	2.1%	2.0%	-1.4%	2.3%
Johor	-0.8%	-0.2%	1.5%	4.9%	4.6%	3.4%	2.1%	2.0%	-1.2%	2.2%
Pahang	0.1%	0.2%	1.9%	5.6%	5.1%	3.9%	2.5%	2.4%	-1.0%	2.7%
Kelantan	0.2%	0.7%	2.3%	5.7%	5.6%	4.1%	2.4%	2.4%	-1.4%	2.9%
Terengganu	0.3%	0.8%	2.8%	6.3%	6.2%	4.4%	2.8%	2.6%	-1.3%	3.3%
Kedah & Perlis	-0.8%	-0.3%	1.6%	5.1%	4.8%	3.5%	2.1%	2.1%	-1.6%	2.3%
Pulau Pinang	0.0%	0.2%	1.5%	3.9%	3.7%	2.9%	1.8%	1.6%	-0.7%	1.9%
Perak	-0.1%	0.2%	1.7%	4.7%	4.5%	3.6%	2.2%	2.1%	-1.1%	2.3%
Sabah & W.P. Labuan	-1.5%	-1.0%	0.8%	3.9%	3.6%	2.6%	1.4%	1.4%	-1.7%	1.4%
Sarawak	-1.2%	-0.7%	1.2%	4.3%	4.1%	2.9%	2.3%	2.4%	-1.6%	1.9%

Source: CEIC

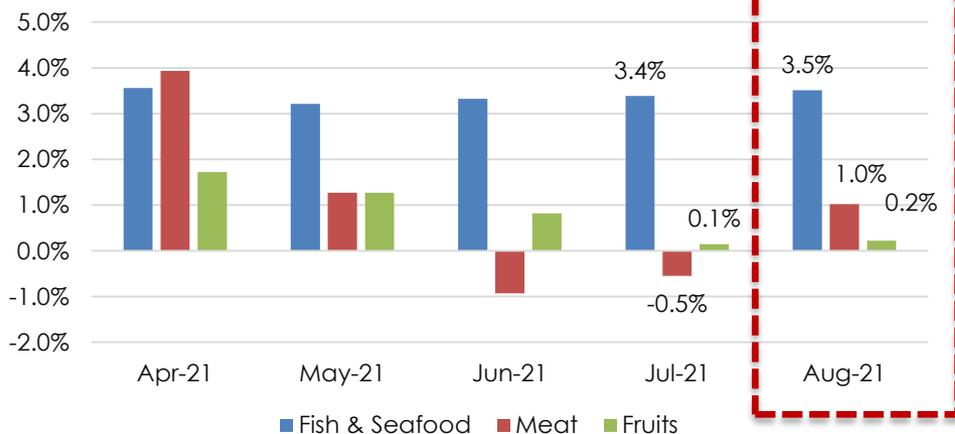
- ✓ Most of the states reported softer inflation during August such as Terengganu (August: 2.6% vs. July: 2.8%), Pahang (August: 2.4% vs. July: 2.5%), Perak (August: 2.1% vs. July: 2.2%), W.P. Kuala Lumpur (August: 1.6% vs. July: 2.0%), Pulau Pinang (August: 1.6% vs. July: 1.8%), Negeri Sembilan (August: 2.0% vs. July: 2.1%), Johor (August: 2.0% vs. July: 2.1%), and Selangor & W.P. Putrajaya (August: 2.0% vs. July: 2.4%).
- ✓ Nevertheless, Sarawak was the only state that posted higher inflation at 2.4% in August after going up by 2.3% previously.
- ✓ On a cumulative basis, consumer prices in all states have rebounded in 8M2021 with Terengganu recording the highest inflation of 3.3% compared to -1.3% in 8M2020. This was followed by Kelantan and Pahang, where consumer prices were higher by 2.9% (8M2020: -1.4%) and 2.7% (8M2020: -1.0%) during 8M2021 respectively.

Consumer Price Index	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	8M2020	8M2021
Malaysia	-0.2%	0.1%	1.7%	4.7%	4.4%	3.4%	2.2%	2.0%	-1.0%	2.3%
Indonesia	1.6%	1.4%	1.4%	1.4%	1.7%	1.3%	1.5%	1.6%	2.3%	1.5%
Philippines	4.2%	4.7%	4.5%	4.5%	4.5%	4.1%	4.0%	4.9%	2.5%	4.4%
Thailand	-0.3%	-1.2%	-0.1%	3.4%	2.4%	1.2%	0.5%	0.0%	-1.0%	0.7%
Singapore	0.2%	0.7%	1.3%	2.1%	2.4%	2.4%	2.5%	2.4%	-0.2%	1.8%
China	-0.3%	-0.2%	0.4%	0.9%	1.3%	1.1%	1.0%	0.8%	3.5%	0.6%
India	4.1%	5.0%	5.5%	4.2%	6.3%	6.3%	5.6%	5.3%	6.6%	5.3%
U.S.	1.4%	1.7%	2.6%	4.2%	5.0%	5.4%	5.4%	5.3%	1.2%	3.8%

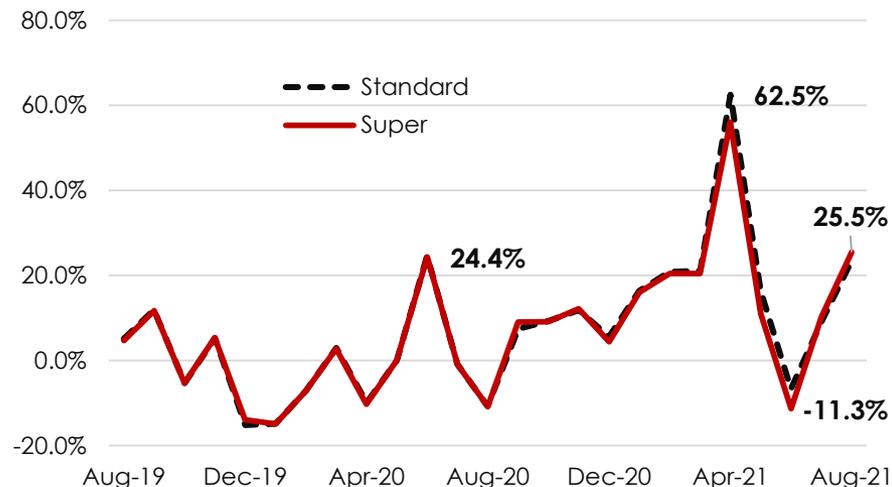
Sources: CEIC, DOSM

- ✓ Malaysia's growth in the CPI during August was in conformity with its regional peers such as Singapore which saw its CPI growing softer at 2.4% during the month compared to 2.5% in July.
- ✓ The U.S. and India both recorded the largest CPI growth in August at 5.3% compared to 5.4% and 5.6% in the preceding month respectively.
- ✓ In the U.S., a faster price increase was seen in new vehicles (August: 7.6% vs. July: 6.4%) partly attributable to the global chip shortage that led to pricier electronic components for manufacturing vehicles.
- ✓ Meanwhile for India, consumer prices rose at a quicker pace for fuel and light (August: 13.0% vs. July: 12.4%), signalling that economic activities are gradually picking up.
- ✓ On the other hand, China saw the slowest growth in CPI in August at 0.8% (July: 1.0%), the lowest figure in five months amid a steeper decline in cost of food with pork prices dropping faster amid the spread of the African swine fever in the country.

Costs of Food, y-o-y% (April - August, 2021)



Average Chicken Price, y-o-y%



Sources: CEIC, DOSM

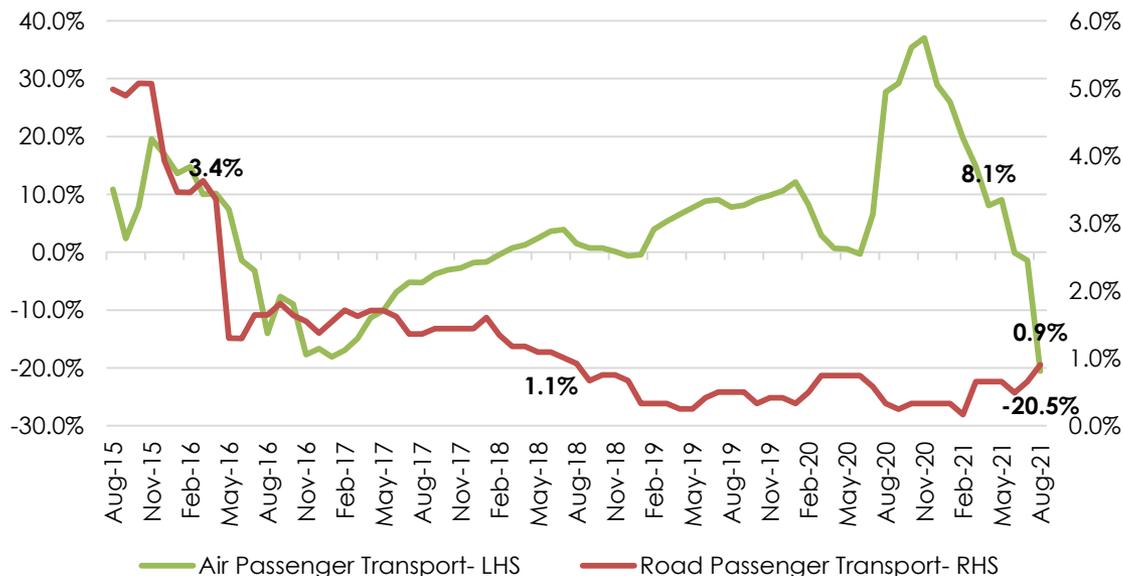
Source: Department of Veterinary Services

- ✓ Although we have seen a deflationary trend for the costs of Food (August: 1.2% vs. July: 1.3%), there were some of the food items which recorded higher costs such as Fish & Seafood (August: 3.5% vs. July: 3.4%), Meat (August: 1.0% vs. July: -0.5%) and Fruits (August: 0.2% vs. July: 0.1%).
- ✓ This is in tandem with the current issue on chicken prices which have been increasing in previous weeks. According to the latest data from the Department of Veterinary Services, retail price for Standard Chicken (August: RM8.45/kg vs. July: RM8.35/kg) and Super Chicken (RM9.60/kg vs. July: RM9.45/kg) jumped by 23.6% and 25.5% respectively in August.
- ✓ Rising costs of production due to the increase in the price of imported chicken feed and labour charges are among the main reasons for higher chicken prices in Malaysia. According to the Federation of Livestock Farmers' Associations of Malaysia (FLFAM), the cost of raw feed materials is beyond the control of the poultry industry and it affects not only Malaysia but the whole world.
- ✓ However, credit has to be given to the Agriculture and Food Industries Ministry (MAFI) and the Domestic Trade and Consumer Affairs Ministry (KPDNHEP) that continues with their effort to ensure enforcement of rules with regard to the price hike issue.

AIR TRANSPORT INFLATION WITNESSED A HUGE DROP AS LOOSENING OF INTER-STATE TRAVEL RESTRICTIONS WAS NOT WIDE

- ✓ Among the components of the Transport sector, we observed that the prices for air passenger transport saw a significant decline, dropping by 20.5% y-o-y in August from just a 1.4% contraction in July.
- ✓ A possible explanation for this would be the implementation of the recovery movement control order (RMCO) in August last year which allowed flights for inter-state travel.
- ✓ In contrast to August this year, the relaxation of movement restrictions for fully vaccinated individuals with regard to inter-state travel was only applicable for long-distance married couples and parents visiting children below 18 years old.
- ✓ With such loosening of restrictions applicable to the respective individuals, we opine that the preferred mode of transport by these individuals would be by road. As such, the prices for road transport inched higher by 0.9% in August (July: 0.7%).

Passenger Transport Inflation, y-o-y%



Source: CEIC

FUELS & LUBRICANTS FOR PERSONAL TRANSPORT EQUIPMENT WAS THE COMPONENT WHICH SAW A FASTER GROWTH

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



- ✓ Although most components of the Transport sector showed slower price increases, there was an exception for the Operation of Personal Transport Equipment which saw its CPI grow by 14.7% y-o-y in August (July: 14.3%).
- ✓ On further scrutiny, prices for the Fuels & Lubricants For Personal Transport Equipment sub-component which rose by 22.7% in August compared to 21.8% in the previous month.

- ✓ The stronger growth for prices of Fuels & Lubricants For Personal Transport Equipment sub-component was in line with the average fuel prices (RON95, RON97 and Diesel) which grew faster than the month before.
- ✓ We observed that the higher growth in fuel prices was partly attributable to the low-base effect coming from lower prices in the same month last year. Recall that in August 2020, the monthly average fuel prices were lower compared to July 2020.

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

Month	Price (RM per litre)			Year-on-year change (%)		
	RON95	RON97	Diesel	RON95	RON97	Diesel
Apr-21	2.05	2.55	2.15	60.8%	61.9%	44.2%
May-21	2.05	2.60	2.15	57.1%	62.1%	48.3%
Jun-21	2.05	2.65	2.15	32.8%	43.8%	25.5%
Jul-21	2.05	2.71	2.15	21.1%	36.2%	16.2%
Aug-21	2.05	2.73	2.15	22.1%	38.2%	19.0%

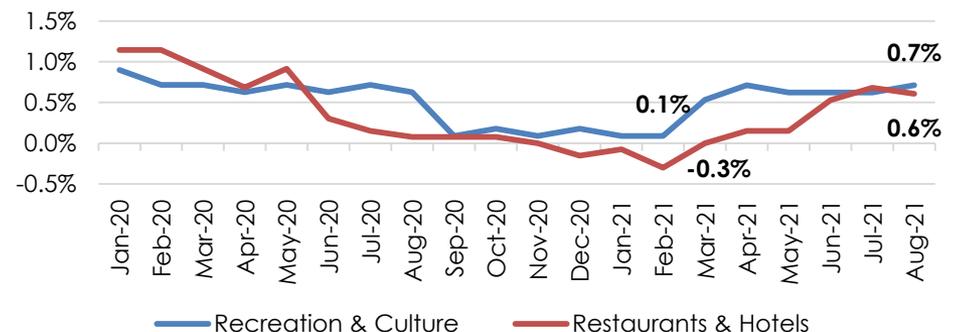
Source: CEIC

- ✓ In the months to come, we opine that the gradual relaxation of movement restrictions for fully vaccinated individuals combined with more states transitioning into remaining phases of the National Recovery Plan (NRP) will likely see some of the 'revenge spending' being reflected in prices of goods and services.
- ✓ The Langkawi travel bubble for domestic tourism which started on 16 September will definitely lead to higher prices for good and services related to Restaurant & Hotels and Recreation & Culture underpinned by pent-up demand. In addition, Genting Highlands, Melaka and Tioman Island will join Malaysia's travel bubble and may reopen to visitors beginning on 1 October, spurring stronger consumer spending in tourism related sectors.
- ✓ On a broader scale, the bottleneck in the global supply chain evident through congestion at ports could somewhat lead to higher prices. For instance, port operators such as Westports at Port Klang is experiencing congestion amid the high dwell time* for containers of around 16 days currently compared to 6 days prior to the pandemic.
- ✓ The ongoing congestion at ports may cause shippers to opt for air freight which is faster but costlier, eventually leading to higher transport costs that could be passed on to customers. Henceforth, higher overall prices stemming from higher transportation costs could not be ruled out.
- ✓ It could be argued that production activities could be ramped up as more workers are being fully vaccinated and subsequently ease supply chain bottlenecks. However, manufacturers could face a hard time in rehiring man power especially if they already felt the impact from the previous lockdowns. Therefore, a supply and demand imbalance may continue to persist.
- ✓ All in all we reiterate our **CPI growth forecast of 2.5% in 2021 following a -1.1% growth in 2020** based on the aforementioned factors.

NRP progress as at 24 September 2021

States				
Phase 1	Phase 2	Phase 3	Phase 4	
Kedah	Pulau Pinang	Perlis	Labuan	
	Perak			
	Kelantan			
	Sabah	Pahang		
	Federal Territory Of Kuala Lumpur			
	Federal Territory Of Putrajaya			
	Selangor	Terengganu		Negeri Sembilan
	Melaka			
	Johor	Sarawak		

CPI Growth for Recreation & Culture and Restaurant & Hotels, %



Source: CEIC

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