



From the Desk
of the
Chief Economist

BANK ISLAM

CONSUMER INFLATION HIGHER BY 2.5% IN 2021 AS DEMAND PICKS UP

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ECONOMIC RESEARCH

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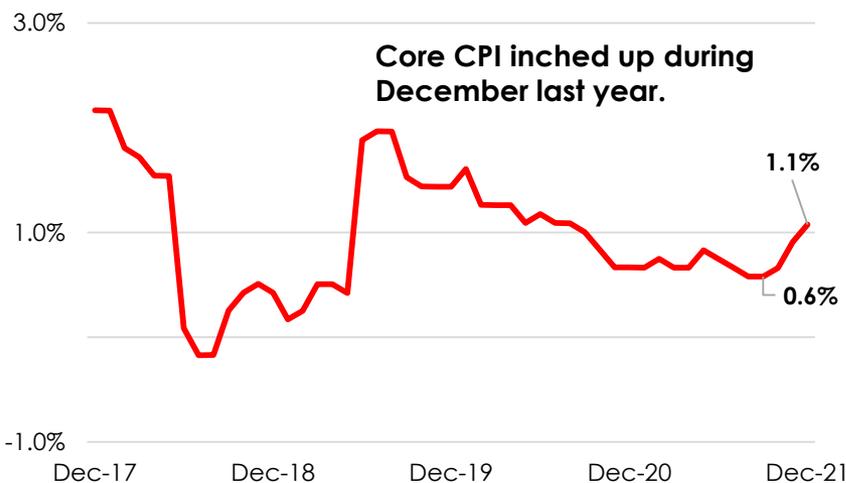
CPI, y-o-y%



Malaysia's Consumer Price Index (CPI) grew by 3.2% year-on-year (y-o-y) in December 2021 which was slightly slower compared to 3.3% previously (Consensus: 3.4%).

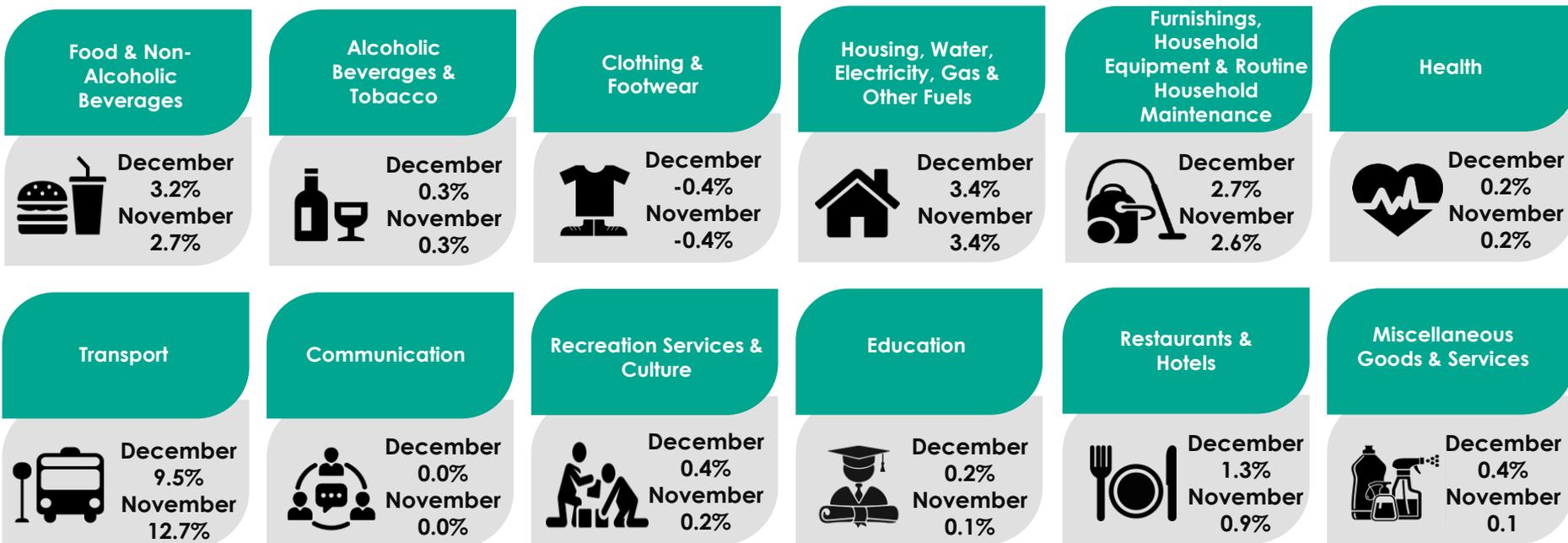
- ✓ This was mainly due to cost of Transport which softened by 9.5% in December last year (November 2021: 12.7%) as base effect from fuel price dissipates.
- ✓ Nevertheless, Food and Non-Alcoholic Beverages sub-index which contributed a sizeable share of 29.5% of total CPI has been on an uptrend, rising by 3.2% in December 2021 from 2.7% in November 2021.
- ✓ Similarly, price for Furnishings, Household Equipment & Routine Household Maintenance (December 2021: 2.7% vs. November 2021: 2.6%), Recreation Services & Culture (December 2021: 0.4% vs. November 2021: 0.2%), Education (December 2021: 0.2% vs. November 2021: 0.1%), Restaurants & Hotels (December 2021: 1.3% vs. November 2021: 0.9%) and Miscellaneous Goods & Services (December 2021: 0.4% vs. November 2021: 0.1%) was also higher during December 2021.

Core CPI, y-o-y%



Sources: CEIC, DOSM

CORE INFLATION WAS HIGHER IN DECEMBER 2021



Sources: CEIC, DOSM

- ✓ Meanwhile, cost of Housing, Water, Electricity, Gas & Other Fuels maintained at 3.4% in December 2021 (November 2021: 3.4%).
- ✓ The Core CPI which excludes most volatile items of fresh food, as well as administered prices of good and services surged by 1.1% in December 2021 from 0.9% in the previous month.
- ✓ On a quarterly basis, the inflation rate stood up by 3.2% in 4Q2021 (3Q2021: 2.2%) while the core inflation increased to 0.8% in the same period (3Q2021: 0.7%).
- ✓ In 2021, the inflation rate jumped by 2.5% from 1.2% contraction in 2020. Notwithstanding, the core inflation in 2021 moderated by 0.7% compared to 1.1% in the preceding year.

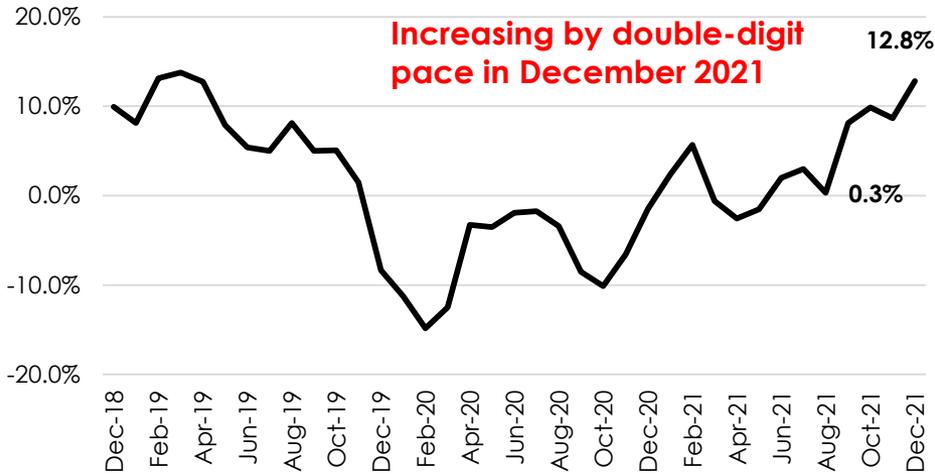
CORE INFLATION WAS HIGHER IN DECEMBER 2021

	Weight	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	3Q2021	4Q2021	2020	2021
Consumer Price Index	100.0%	4.4%	3.4%	2.2%	2.0%	2.2%	2.9%	3.3%	3.2%	2.2%	3.2%	-1.2%	2.5%
Food & Non-Alcoholic Beverages	29.5%	1.5%	1.3%	1.3%	1.2%	1.9%	1.9%	2.7%	3.2%	1.4%	2.6%	1.3%	1.7%
Alcoholic Beverages & Tobacco	2.4%	0.7%	0.7%	0.5%	0.4%	0.4%	0.3%	0.3%	0.3%	0.4%	0.3%	0.3%	0.5%
Clothing & Footwear	3.2%	-0.5%	-0.4%	-0.4%	-0.4%	-0.5%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.8%	-0.4%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	3.2%	3.2%	0.7%	0.6%	0.7%	3.2%	3.4%	3.4%	0.7%	3.3%	-1.7%	1.5%
Furnishings, Household Equipment & Routine Household Maintenance	4.1%	2.1%	2.0%	1.7%	1.7%	1.7%	2.1%	2.6%	2.7%	1.7%	2.5%	0.3%	1.6%
Health	1.9%	0.6%	0.5%	0.4%	0.3%	0.3%	0.2%	0.2%	0.2%	0.3%	0.2%	1.1%	0.4%
Transport	14.6%	26.0%	16.6%	11.6%	11.0%	11.0%	11.3%	12.7%	9.5%	11.2%	11.1%	-10.0%	11.0%
Communication	4.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.1%	0.0%
Recreation Services & Culture	4.8%	0.6%	0.6%	0.6%	0.7%	0.6%	0.2%	0.2%	0.4%	0.6%	0.3%	0.4%	0.4%
Education	1.3%	0.3%	0.5%	0.1%	0.0%	-0.1%	-0.1%	0.1%	0.2%	0.0%	0.1%	1.0%	0.2%
Restaurants & Hotels	2.9%	0.2%	0.5%	0.7%	0.6%	0.3%	0.6%	0.9%	1.3%	0.5%	0.9%	0.5%	0.4%
Miscellaneous Goods & Services	6.7%	0.7%	0.3%	0.1%	-0.6%	-0.5%	-0.2%	0.1%	0.4%	-0.3%	0.1%	2.7%	0.5%
Core CPI		0.8%	0.7%	0.7%	0.6%	0.6%	0.7%	0.9%	1.1%	0.7%	0.8%	1.1%	0.7%

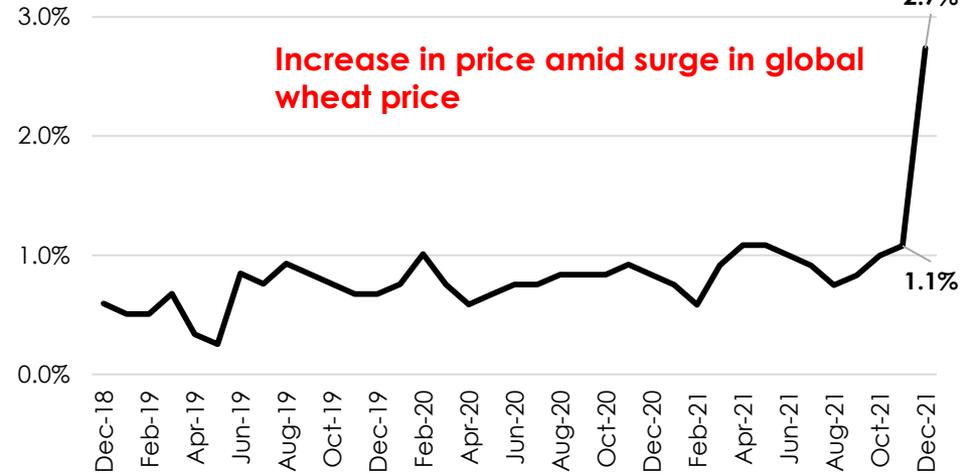
Sources: CEIC, DOSM

FOOD PRICE REMAINED ON AN UPTREND

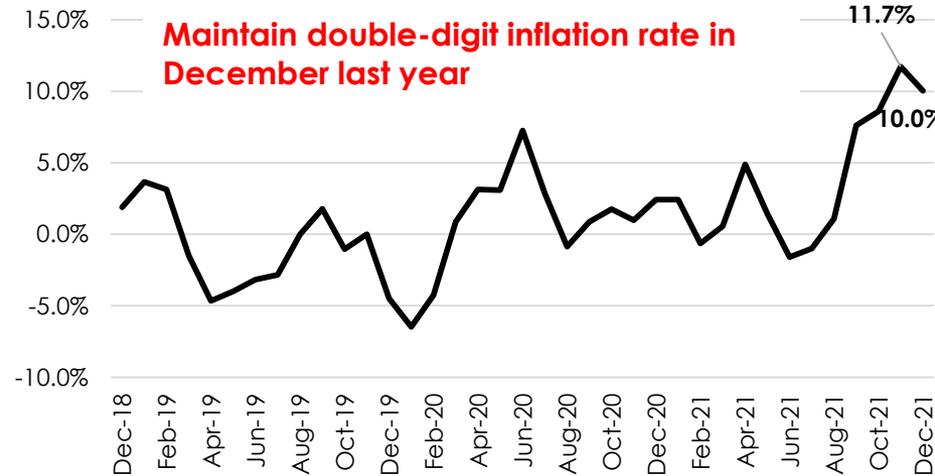
CPI: Eggs, y-o-y%



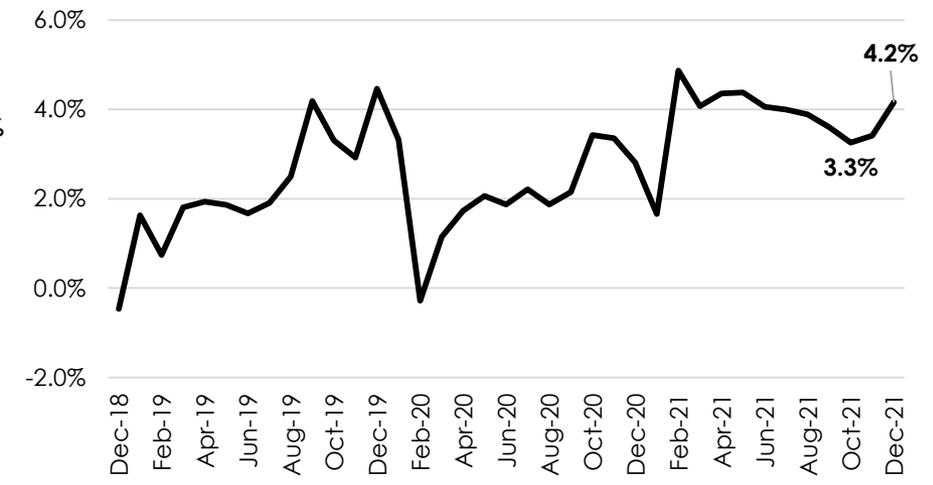
CPI: Bread & Bakery Products, y-o-y%



CPI: Fresh Meat, y-o-y%



CPI: Fresh Seafood, y-o-y%

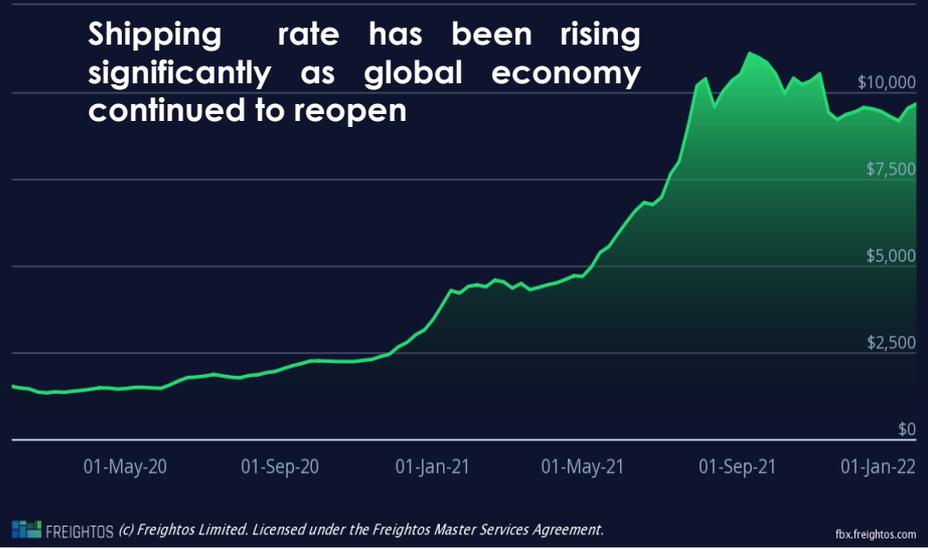


Freightos Baltic Index (FBX) Global Container Index

FBX Global Container Freight Index

21-Jan-22 | \$9,656

Shipping rate has been rising significantly as global economy continued to reopen



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Source: Freightos Data

- ✓ **Shipping cost remains high** - The Global Container Freight Index shows that the shipping cost surged by more than 120.0% y-o-y on 14 January 2022 to USD9,526.0 per Forty-Foot Equivalent Unit (FEU) from USD4,226.0 per FEU in early 2020. Hence, prolonged tight container capacity and port congestion are likely to cause the elevated price to stay well into 2022 and heighten inflation risk.
- ✓ **Volatility in commodities price and prolonged supply-related disruptions will exert further pressure on global inflation.**
- ✓ **Costs will be passed to consumers** - The latest CPI data shows that the consumers are feeling the pinch as businesses had to adjust to a surge of inflation. Furthermore, raw material shortages alongside short in labour supply could push the inflation higher and take a bite out of growth.

✓ **Bank Negara Malaysia (BNM) may want to shift from its accommodative stance during second half this year** - The BNM still have a comfortable policy space judging from the difference between Malaysia's Overnight Policy Rate (OPR) and the U.S. Federal Fund Rate (FFR) which stands at 150 basis points (bps). However, the policy room is likely to narrow as the U.S. Federal Reserve (Fed) has signaled an earlier rate hike as soon as March this year. Thus, the BNM may want to unwind the accommodative monetary policy by increase the OPR by 25 bps in 2H2022.

✓ **All in all, we anticipate the CPI to grow by 2.3% for 2022 following a 2.5% increase in 2021 as base effect from fuel price recedes.**

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