



From the Desk
of the
Chief Economist

BANK ISLAM

INFLATION INCREASED AT A SLOWER RATE IN FEBRUARY

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ECONOMIC RESEARCH

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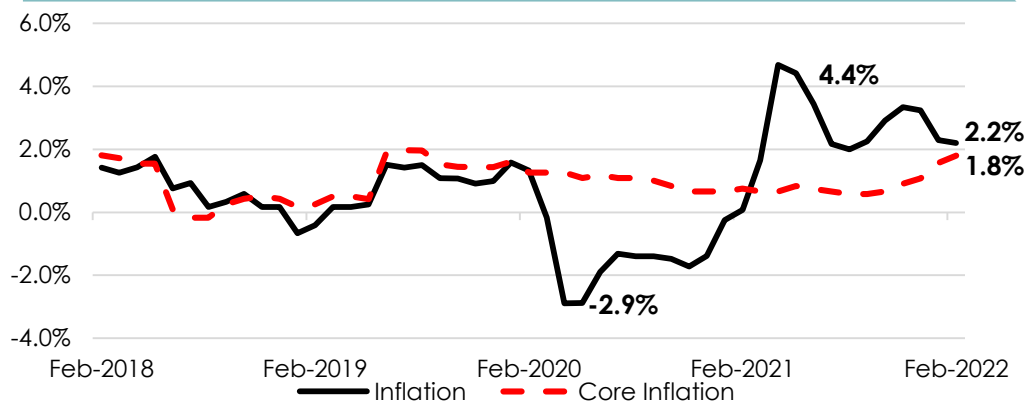
FARAH SHAKIRAH ABDUL KARIM

INFLATION MODERATED BY 2.2% IN FEBRUARY

01 **Headline Inflation**
 February 2.2%
 January 2.3%

02 **Core Inflation**
 February 1.8%
 January 1.6%

Inflation Rate, y-o-y% (Feb 2018 – Feb 2022)



Source: CEIC

Food & Non-Alcoholic Beverages February 3.7% January 3.6%	Alcoholic Beverages & Tobacco February 0.4% January 0.4%	Clothing & Footwear February -0.2% January -0.3%	Housing, Water, Electricity, Gas & Other Fuels February 0.8% January 0.7%	Furnishings, Household Equipment & Routine Household Maintenance February 3.2% January 3.1%	Health February 0.5% January 0.3%
Transport February 3.9% January 6.0%	Communication February 0.0% January 0.0%	Recreation Services & Culture February 1.6% January 1.2%	Education February 0.7% January 0.7%	Restaurants & Hotels February 2.6% January 2.1%	Miscellaneous Goods & Services February 1.1% January 0.6%

Sources: CEIC, DOSM

COST OF FOOD & NON-ALCOHOLIC BEVERAGES, AS WELL AS HOUSING, WATER, ELECTRICITY, GAS & OTHER FUELS WERE HIGHER DURING FEBRUARY

	Weight	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	2M2021	2M2022
Consumer Price Index	100.0%	0.1%	1.7%	4.7%	4.4%	3.4%	2.2%	2.0%	2.2%	2.9%	3.3%	3.2%	2.3%	2.2%	-0.1%	2.3%
Food & Non-Alcoholic Beverages	29.5%	1.4%	1.5%	1.9%	1.5%	1.3%	1.3%	1.2%	1.9%	1.9%	2.7%	3.2%	3.6%	3.7%	1.5%	3.7%
Alcoholic Beverages & Tobacco	2.4%	0.7%	0.6%	0.7%	0.7%	0.7%	0.5%	0.4%	0.4%	0.3%	0.3%	0.3%	0.4%	0.4%	0.7%	0.4%
Clothing & Footwear	3.2%	-0.4%	-0.3%	-0.4%	-0.5%	-0.4%	-0.4%	-0.4%	-0.5%	-0.4%	-0.4%	-0.4%	-0.3%	-0.2%	-0.4%	-0.2%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	-0.8%	-0.8%	3.1%	3.2%	3.2%	0.7%	0.6%	0.7%	3.2%	3.4%	3.4%	0.7%	0.8%	-0.8%	0.7%
Furnishings, Household Equipment & Routine Household Maintenance	4.1%	0.3%	0.9%	1.6%	2.1%	2.0%	1.7%	1.7%	1.7%	2.1%	2.6%	2.7%	3.1%	3.2%	0.2%	3.2%
Health	1.9%	0.7%	0.5%	0.5%	0.6%	0.5%	0.4%	0.3%	0.3%	0.2%	0.2%	0.2%	0.3%	0.5%	0.7%	0.4%
Transport	14.6%	-2.0%	9.8%	27.0%	26.0%	16.6%	11.6%	11.0%	11.0%	11.3%	12.7%	9.5%	6.0%	3.9%	-3.6%	4.9%
Communication	4.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Recreation Services & Culture	4.8%	0.1%	0.5%	0.7%	0.6%	0.6%	0.6%	0.7%	0.6%	0.2%	0.2%	0.4%	1.2%	1.6%	0.1%	1.4%
Education	1.3%	0.1%	0.0%	0.2%	0.3%	0.5%	0.1%	0.0%	-0.1%	-0.1%	0.1%	0.2%	0.7%	0.7%	0.1%	0.7%
Restaurants & Hotels	2.9%	-0.3%	0.0%	0.2%	0.2%	0.5%	0.7%	0.6%	0.3%	0.6%	0.9%	1.3%	2.1%	2.6%	-0.2%	2.3%
Miscellaneous Goods & Services	6.7%	1.6%	1.0%	1.2%	0.7%	0.3%	0.1%	-0.6%	-0.5%	-0.2%	0.1%	0.4%	0.6%	1.1%	1.7%	0.9%
Core CPI		0.7%	0.7%	0.7%	0.8%	0.7%	0.7%	0.6%	0.6%	0.7%	0.9%	1.1%	1.6%	1.8%	0.7%	1.7%

Sources: DOSM, CEIC

- 1** Malaysia's Consumer Price Index (CPI) grew moderately by 2.2% year-on-year (y-o-y) in February, after rising by 2.3% in the previous month (Consensus: 2.4%, Bank Islam: 2.5%)
- 2** This was mainly attributed by the slower price increases for Transport at 3.9% during the month from a 6.0% growth in the preceding month.
- 3** Nonetheless, higher costs of Food and Non-Alcoholic Beverages (February: 3.7% vs. January: 3.6%), as well as Housing, Water, Electricity, Gas & Other Fuels (February: 0.8% vs. January: 0.7%) were seen in February. These sub-indexes accounted for 53.3% of total CPI.

- 4** The similar pattern was also seen in Furnishings, Household Equipment & Routine Household Maintenance (February 3.2% vs. January: 3.1%), Health (February: 0.5% vs. January: 0.3%), Recreation Services & Culture (February: 1.6% vs. January: 1.2%), Restaurants & Hotels (February: 2.6% vs. January: 2.1%) and Miscellaneous Goods & Services (February: 1.1% vs. January: 0.6%) which recorded a higher inflation rate during February.
- 5** The Core CPI which excludes most volatile items of fresh food, as well as administered prices of good and services went up by 1.8% in February compared to a 1.6% growth in the previous month.
- 6** Cumulatively, the CPI rebounded by 2.3% in 2M2022 from a 0.1% contraction in the same period last year. Meanwhile, the Core CPI increased by 1.7% in 2M2022 (2M2021: 0.7%).

States	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	2M2021	2M2022
Nationwide	0.1%	1.7%	4.7%	4.4%	3.4%	2.2%	2.0%	2.2%	2.9%	3.3%	3.2%	2.3%	2.2%	-0.1%	2.3%
WP Kuala Lumpur	0.2%	1.5%	3.8%	3.7%	3.0%	2.0%	1.6%	1.5%	2.0%	2.4%	2.3%	1.8%	1.9%	0.2%	1.8%
Selangor & WP Putrajaya	0.4%	1.9%	4.7%	4.5%	3.5%	2.4%	2.0%	2.2%	3.1%	3.7%	3.7%	2.9%	2.9%	0.3%	2.9%
Melaka	-0.2%	1.3%	4.4%	4.1%	3.2%	2.0%	2.0%	2.3%	3.1%	3.7%	3.2%	2.0%	2.0%	-0.4%	2.0%
Negeri Sembilan	-0.1%	1.8%	5.0%	4.7%	3.5%	2.1%	2.0%	2.2%	3.2%	3.7%	3.3%	1.8%	1.8%	-0.3%	1.8%
Johor	-0.2%	1.5%	4.9%	4.6%	3.4%	2.1%	2.0%	2.4%	3.1%	3.5%	3.4%	2.2%	1.9%	-0.5%	2.1%
Pahang	0.2%	1.9%	5.6%	5.1%	3.9%	2.5%	2.4%	2.8%	3.7%	4.1%	3.6%	2.1%	1.9%	0.1%	2.0%
Kelantan	0.7%	2.3%	5.7%	5.6%	4.1%	2.4%	2.4%	2.8%	3.6%	4.0%	3.8%	2.4%	2.1%	0.4%	2.3%
Terengganu	0.8%	2.8%	6.3%	6.2%	4.4%	2.8%	2.6%	3.1%	3.9%	4.3%	3.9%	2.7%	2.4%	0.6%	2.6%
Kedah & Perlis	-0.3%	1.6%	5.1%	4.8%	3.5%	2.1%	2.1%	2.4%	3.2%	3.7%	3.7%	2.4%	2.2%	-0.5%	2.3%
Pulau Pinang	0.2%	1.5%	3.9%	3.7%	2.9%	1.8%	1.6%	1.8%	2.5%	3.0%	3.1%	2.0%	2.0%	0.1%	2.0%
Perak	0.2%	1.7%	4.7%	4.5%	3.6%	2.2%	2.1%	2.5%	3.4%	4.0%	3.7%	2.5%	2.2%	0.0%	2.3%
Sabah & WP Labuan	-1.0%	0.8%	3.9%	3.6%	2.6%	1.4%	1.4%	1.4%	2.1%	2.4%	2.0%	1.9%	1.8%	-1.3%	1.9%
Sarawak	-0.7%	1.2%	4.3%	4.1%	2.9%	2.3%	2.4%	2.5%	2.4%	2.7%	2.5%	2.1%	2.0%	-0.9%	2.0%

Sources: CEIC, DOSM

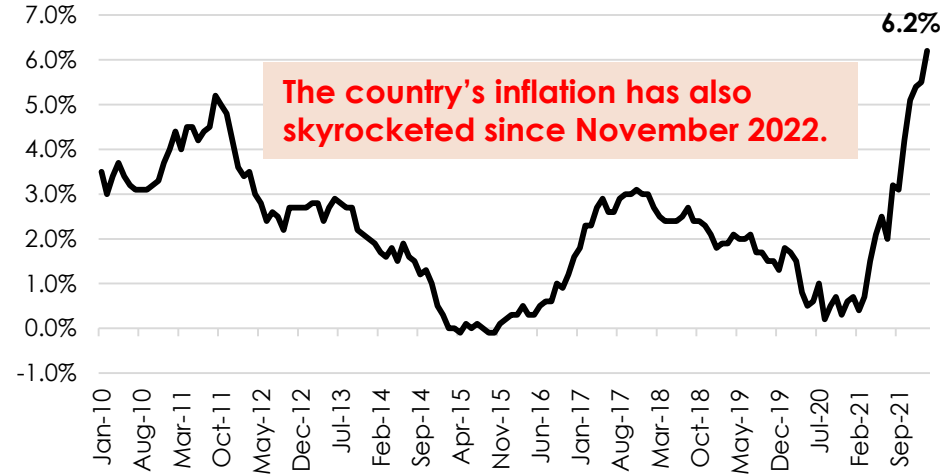
- ✓ Majority of the states recorded a marginal increase in inflation for the month of February. However, Selangor & WP Putrajaya (February: 2.9% vs. January: 2.9%) and Terengganu (February: 2.4% vs. January: 2.7%) recorded an inflation which was above the national inflation of 2.2% during the said month.
- ✓ Meanwhile, WP Kuala Lumpur (February: 1.9% vs. January: 1.8%), Negeri Sembilan (February: 1.8% vs. January: 1.8%), as well as Sabah & WP Labuan (February: 1.8% vs. January: 1.9%) were the three states with the lowest CPI reading in February.
- ✓ Cumulatively, all states posted higher price inflation during 2M2022 as compared to same period last year, led by Selangor & WP Putrajaya and Terengganu, registering at 2.9% (2M2021: 0.3%) and 2.6% (2M2021: 0.6%) respectively.

RISING INFLATIONARY PRESSURE WAS SEEN GLOBALLY

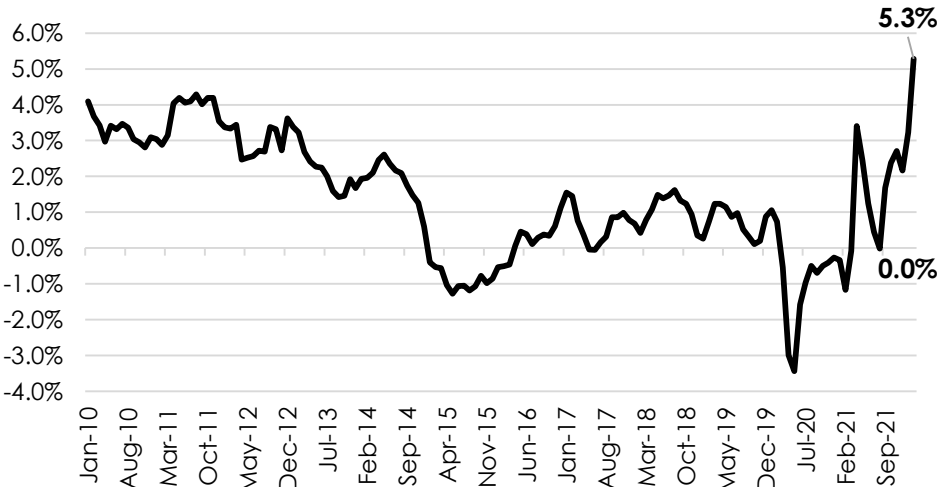
U.S. CPI, y-o-y%



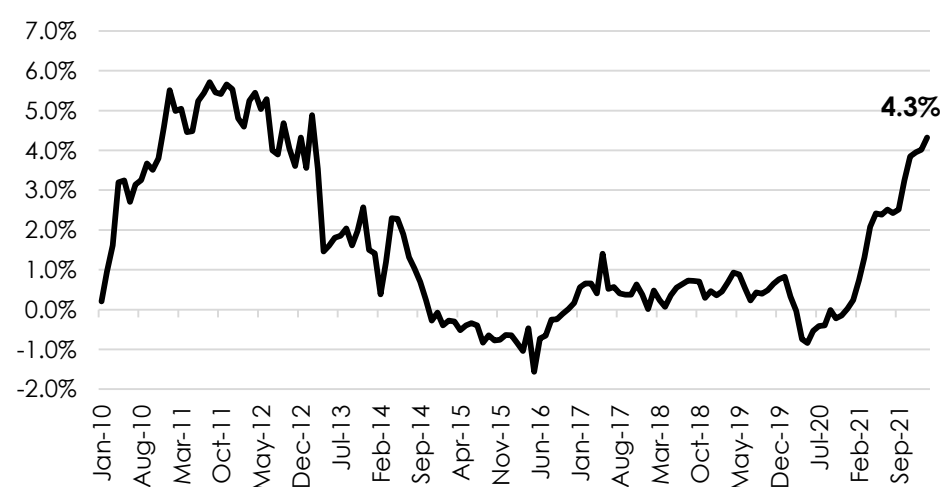
U.K. CPI, y-o-y%



Thailand CPI, y-o-y%



Singapore, y-o-y%



FOOD PRICES SOARED IN FEBRUARY

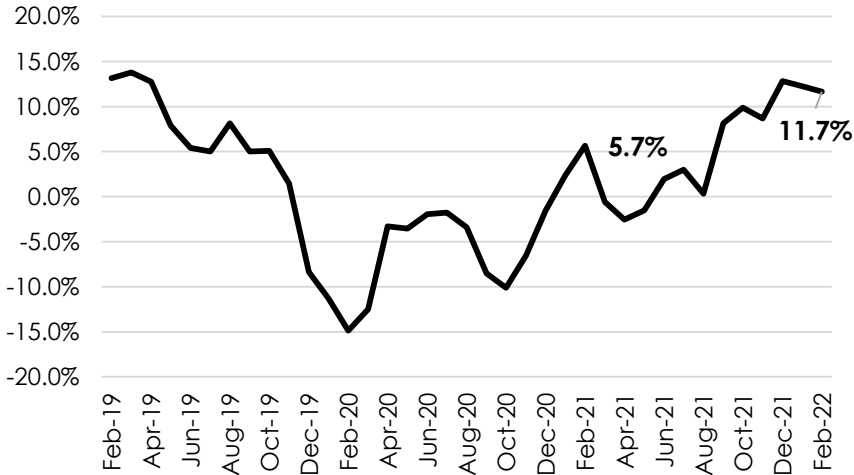
Food Items	Unit	Average Price (RM)			m-o-m%	y-o-y%
		Feb-21	Jan-22	Feb-22		
Roti Canai	Each	1.07	1.18	1.19	0.8%	11.2%
Fried Kuey Teow	1 Plate	5.35	5.46	5.51	0.9%	3.0%
Nasi Lemak	Each	2.80	2.97	2.97	0.0%	6.1%
Chicken Rice	1 Plate	5.36	5.78	5.83	0.9%	8.8%
Teh Tarik	Cup	1.54	1.71	1.71	0.0%	11.0%
Kopi-O	Cup	1.30	1.41	1.43	1.4%	10.0%
Egg Grade A	10 Each	3.67	4.43	4.44	0.2%	21.0%
Egg Grade B	10 Each	3.33	4.18	4.22	1.0%	26.7%
Egg Grade C	10 Each	3.18	4.01	4.05	1.0%	27.4%
Siakap	Kg	17.99	19.38	20.02	3.3%	11.3%
Beef	Kg	32.50	35.56	35.76	0.6%	10.0%
Chicken	Kg	7.23	9.48	9.46	-0.2%	30.8%
Cuttlefish (10-12cm)	Kg	34.48	30.94	30.03	-2.9%	-12.9%
Coconut Grated	Kg	8.48	7.54	7.60	0.8%	-10.4%
Tomatoes	Kg	6.15	6.12	6.78	10.8%	10.2%
Indian Big Onions	Kg	4.82	4.76	4.85	1.9%	0.6%
Chilli (Kulai)	Kg	15.12	17.32	18.88	9.0%	24.9%
Average Price Increases					1.7%	11.2%

- ✓ Volatility in commodity prices can be transmitted directly to domestic inflation.
- ✓ True enough, Malaysia's basic food products have been averaging above 11.0% in February (January: 5.4%) due to direct impacts from soaring commodity prices.
- ✓ For instance, price of chicken jumped by 30.8% to RM9.46/kg in February 2022 from RM7.23/kg in February 2021. Similarly, egg prices for a different grade increased by a double-digit in the said month.
- ✓ Hence, the restaurant owners have no choice but to raise their prices on menus.
- ✓ Data from DOSM shows that Malaysian favourite food - Roti Canai and Nasi Lemak prices rose by 11.2% (January: 3.5%) and 6.1% (January: 3.8%) respectively in February as costs of raw materials have become more expensive.
- ✓ Therefore, the proposed new national minimum wage of RM1,500 per month could push up the cost of goods and services moving forward.

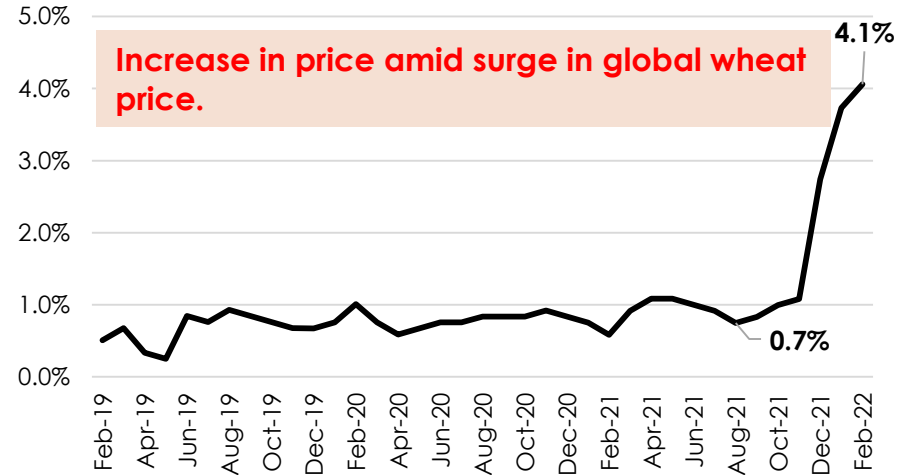
Source: Department of Statistics Malaysia (DOSM)

FOOD PRICE REMAINED ON AN UPTREND

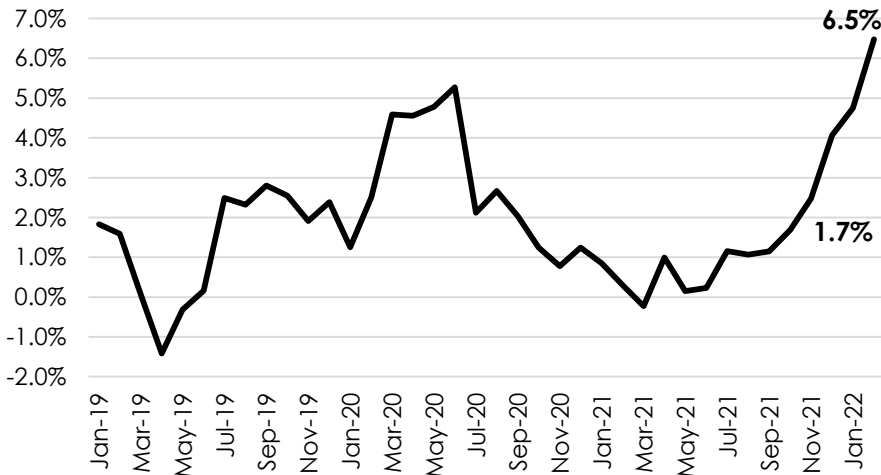
CPI: Eggs, y-o-y%



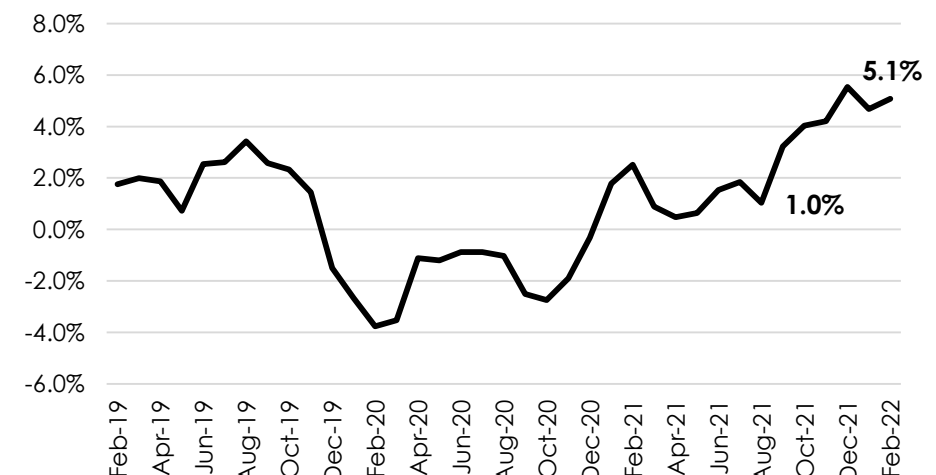
CPI: Bread & Bakery Products, y-o-y%



CPI: Vegetables-Potatoes, y-o-y%

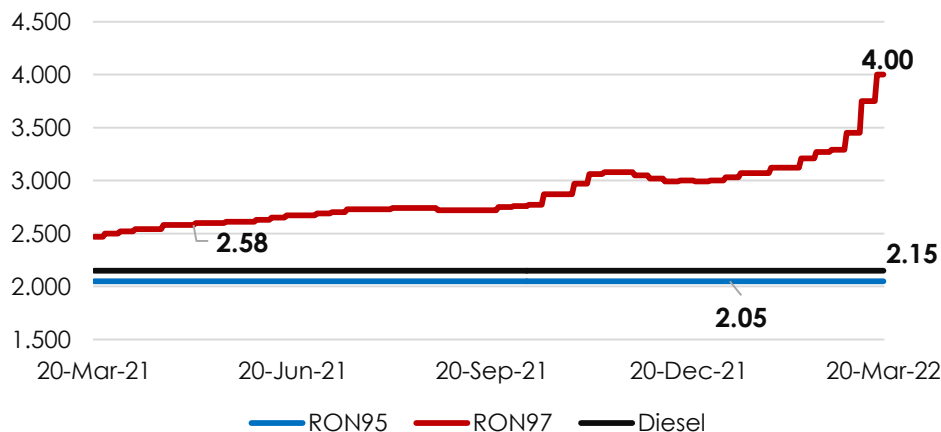


CPI: Milk, Cheese & Eggs, y-o-y%



- ✓ **Knock-on effect from the RM1,500 minimum wage** – The government decided to implement minimum wage of RM1,500 effective May this year. This would create second round effect to prices of goods and services following higher costs of labour and operating expenditures. We foresee that businesses have the ability to pass on the rise in their input cost to the end consumers given that Malaysian households are deemed to be price taker. Additionally, the high tendency to spend based on the Marginal Propensity to Consume (MPC) which is at around 0.60 would ensure that price offered by the sellers would be cleared, thereby new price level (higher) would be established.
- ✓ **Rising RON97 would nudge CPI slightly higher** – The retail price of RON97 petrol was set according to the actual market price. As at 20 March 2022, the RON97 petrol price surged by 61.9% y-o-y to RM4.00 per litre from RM2.47 per litre last year. This may have an impact to CPI albeit marginally given consumption of RON97 may not be as much as RON95 and Diesel and has lower weightings in CPI.
- ✓ **All in all, we are maintaining our CPI growth forecast of 2.5% this year (2021: 2.5%)** subject to the evolving outlook of fuel subsidies. The projected CPI would need to be revised higher in the event of lower subsidies for fuel to be implemented in the near future. For now, our baseline assumption is that the government may hold on to the prevailing subsidies level in order to ensure cost of living will not spiral.

Petrol Prices, RM/litre



Petrol Prices in Malaysia:

Date	Price, RM per litre			y-o-y change, %		
	RON95	RON97	Diesel	RON95	RON97	Diesel
20-Mar-22	2.05	4.00	2.15	0.0%	61.9%	0.0%
20-Mar-21	2.05	2.47	2.15	12.6%	16.5%	15.0%

Sources: CEIC, Bank Islam

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