



From the Desk
of the
Chief Economist

BANK ISLAM

INFLATION EASED BY 2.3% AT THE START OF THE YEAR

24 FEBRUARY 2022

ECONOMIC RESEARCH

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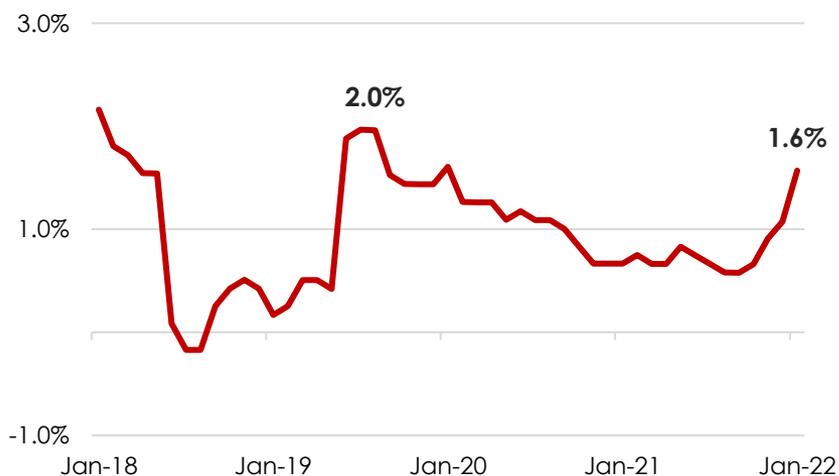
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CPI, y-o-y%



Core CPI, y-o-y%

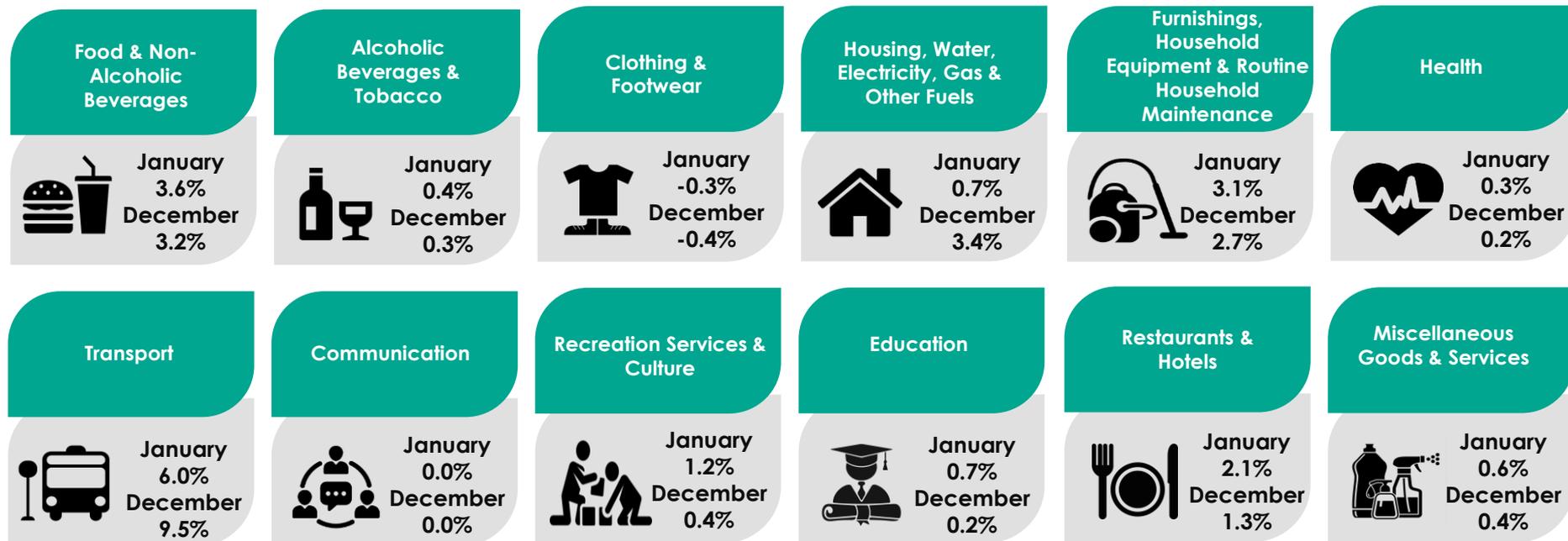


Sources: CEIC, DOSM

Malaysia's Consumer Price Index (CPI) increased moderately by 2.3% year-on-year (y-o-y) in January this year compared to a 3.2% growth in December 2021 (Consensus: 2.5% , Bank Islam: 2.9%).

- ✓ This was mainly attributable by the slower price increases for Housing, Water, Electricity, Gas & Other Fuels (January 2022: 0.7% vs. December 2021: 3.4%), as well as Transport (January 2022: 6.0% vs. December 2021: 9.5%) during January. These sub-indexes accounted for 38.4% out of total CPI.
- ✓ Meanwhile, Food and Non-Alcoholic Beverages which contributed the largest share about 29.5% out of total CPI continued to show an uptrend, rising by 3.6% y-o-y in January (December 2021: 3.2%), driven by an increase in Food away from home component (January 2022: 3.1% vs December 2021: 2.2%).
- ✓ Similarly, the other main groups with heightened price in January include Furnishings, Household Equipment & Routine Household Maintenance (January 2022: 3.1% vs December 2021: 2.7%), Restaurants & Hotels (January 2022: 2.1% vs. December 2021: 1.3%), Recreation Services & Culture (January 2022: 1.2% vs. December 2021: 0.4%), Education (January 2022: 0.7% vs. December 2021: 0.2%), and Miscellaneous Goods & Services (January 2022: 0.6% vs. December 2021: 0.4%).

CORE INFLATION WAS HIGHER IN DECEMBER 2021



Sources: CEIC, DOSM

- ✓ Both Alcoholic Beverages & Tobacco (January 2022: 0.4% vs December 2021: 0.3%) and Health (January 2022: 0.3% vs December 2021: 0.2%) saw a slight increase in cost during January.
- ✓ Notwithstanding, Communication cost remained stagnant while Clothing & Footwear declined by 0.3% y-o-y in January (December 2021: -0.4%).
- ✓ The Core CPI which excludes most volatile items of fresh food, as well as administered prices of good and services climbed by 1.6% in January 2022 from 1.1% in December 2021.

CORE INFLATION SOARED IN JANUARY 2022

	Weight	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
Consumer Price Index	100.0%	-0.2%	0.1%	1.7%	4.7%	4.4%	3.4%	2.2%	2.0%	2.2%	2.9%	3.3%	3.2%	2.3%
Food & Non-Alcoholic Beverages	29.5%	1.5%	1.4%	1.5%	1.9%	1.5%	1.3%	1.3%	1.2%	1.9%	1.9%	2.7%	3.2%	3.6%
Alcoholic Beverages & Tobacco	2.4%	0.7%	0.7%	0.6%	0.7%	0.7%	0.7%	0.5%	0.4%	0.4%	0.3%	0.3%	0.3%	0.4%
Clothing & Footwear	3.2%	-0.4%	-0.4%	-0.3%	-0.4%	-0.5%	-0.4%	-0.4%	-0.4%	-0.5%	-0.4%	-0.4%	-0.4%	-0.3%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	-0.7%	-0.8%	-0.8%	3.1%	3.2%	3.2%	0.7%	0.6%	0.7%	3.2%	3.4%	3.4%	0.7%
Furnishings, Household Equipment & Routine Household Mainte	4.1%	0.2%	0.3%	0.9%	1.6%	2.1%	2.0%	1.7%	1.7%	1.7%	2.1%	2.6%	2.7%	3.1%
Health	1.9%	0.7%	0.7%	0.5%	0.5%	0.6%	0.5%	0.4%	0.3%	0.3%	0.2%	0.2%	0.2%	0.3%
Transport	14.6%	-5.1%	-2.0%	9.8%	27.0%	26.0%	16.6%	11.6%	11.0%	11.0%	11.3%	12.7%	9.5%	6.0%
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%
Recreation Services & Culture	4.8%	0.1%	0.1%	0.5%	0.7%	0.6%	0.6%	0.6%	0.7%	0.6%	0.2%	0.2%	0.4%	1.2%
Education	1.3%	0.2%	0.1%	0.0%	0.2%	0.3%	0.5%	0.1%	0.0%	-0.1%	-0.1%	0.1%	0.2%	0.7%
Restaurants & Hotels	2.9%	-0.1%	-0.3%	0.0%	0.2%	0.2%	0.5%	0.7%	0.6%	0.3%	0.6%	0.9%	1.3%	2.1%
Miscellaneous Goods & Services	6.7%	1.8%	1.6%	1.0%	1.2%	0.7%	0.3%	0.1%	-0.6%	-0.5%	-0.2%	0.1%	0.4%	0.6%
Core CPI		0.7%	0.7%	0.7%	0.7%	0.8%	0.7%	0.7%	0.6%	0.6%	0.7%	0.9%	1.1%	1.6%

Sources: CEIC, DOSM

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

Sources: CEIC, DOSM

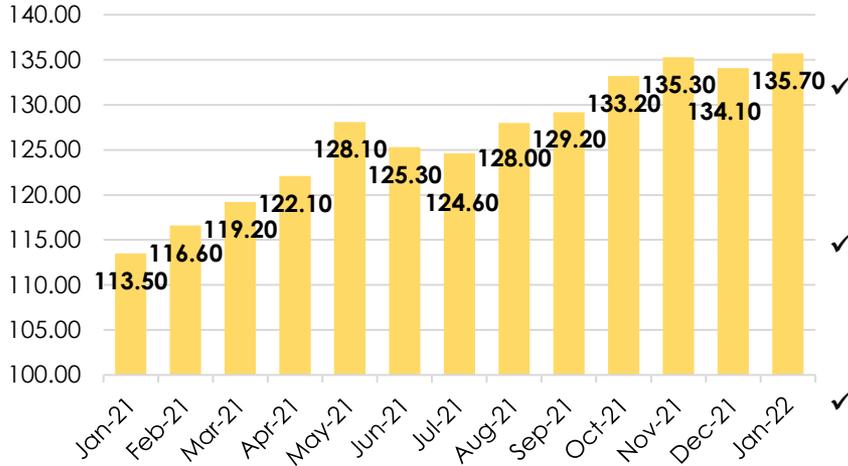
- ✓ In January, all states reported softer inflation with five states showed an increase above the nationwide level of 2.3%, led by Selangor & WP Putrajaya (January 2022: 2.9% vs. December 2021: 3.7%), followed by Terengganu (January 2022: 2.7% vs. December 2021: 3.9%), Perak (January 2022: 2.5% vs. December 2021: 3.7%), Kedah & Perlis (January 2022: 2.4% vs. December 2021: 3.7%) and Kelantan (January 2022: 2.4% vs. December 2021: 3.8%).
- ✓ Meanwhile, WP Kuala Lumpur (January 2022: 1.8% vs. December 2021: 2.3%), Negeri Sembilan (January 2022: 1.8% vs. December 2021: 3.3%), as well as Sabah & WP Labuan (January 2022: 1.9% vs. December 2021: 2.0%) were the three states with the lowest CPI reading during the said month.

Countries	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
Malaysia	-0.2%	0.1%	1.7%	4.7%	4.4%	3.4%	2.2%	2.0%	2.2%	2.9%	3.3%	3.2%	2.3%
Indonesia	1.6%	1.4%	1.4%	1.4%	1.7%	1.3%	1.5%	1.6%	1.6%	1.7%	1.7%	1.9%	2.2%
Thailand	-0.3%	-1.2%	-0.1%	3.4%	2.4%	1.2%	0.5%	0.0%	1.7%	2.4%	2.7%	2.2%	3.2%
Philippines	3.7%	4.2%	4.1%	4.1%	4.1%	3.7%	3.7%	4.4%	4.2%	4.0%	3.7%	3.1%	3.0%
Singapore	0.2%	0.7%	1.3%	2.1%	2.4%	2.4%	2.5%	2.4%	2.5%	3.2%	3.8%	4.0%	4.0%
India	4.1%	5.0%	5.5%	4.2%	6.3%	6.3%	5.6%	5.3%	4.3%	4.5%	4.9%	5.7%	6.0%
U.S.	1.4%	1.7%	2.6%	4.2%	5.0%	5.4%	5.4%	5.3%	5.4%	6.2%	6.8%	7.0%	7.5%
China	-0.3%	-0.2%	0.4%	0.9%	1.3%	1.1%	1.0%	0.8%	0.7%	1.5%	2.3%	1.5%	0.9%

Sources: CEIC, DOSM

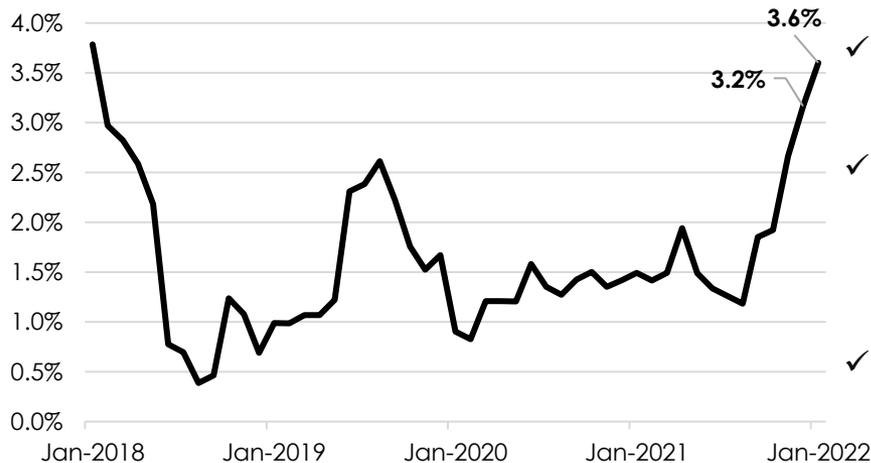
- ✓ Malaysia's growth in the CPI was in conformity with its regional peers such as Philippines and China which saw its CPI growing softer at 2.3% in January 2022 as compared to 3.2% in December last year.
- ✓ However, the U.S. and India both recorded the largest CPI growth in January 2022 at 7.5% (December 2021: 7.0%) and 6.0% (December 2021: 5.7%) respectively.
- ✓ In the U.S., the key drivers for the increase in the inflation during the month was driven by the higher prices of food (January 2022: 7.0% vs. December 2021: 6.3%), electricity (January 2022: 10.7% vs. December 2021: 6.3%), as well as shelter (January 2022: 4.4% vs. December 2021: 4.1%).
- ✓ As for the India, the consumer price rose at a quicker pace in January due to rise in food inflation which soared for the fourth straight month (January 2022: 5.4% vs. December 2021: 4.0%), as well as moderate increase in fuel and light (January 2022: 9.3% vs. December 2021: 11.0%). Though the latest CPI figure (January 2022: 6.01%) has breached the Reserve Bank of India's (RBI) target of 2.0% to 6.0%, its governor reiterated that the high figure was mainly due to the last year's base effect.
- ✓ On the other hand, China saw the slowest growth in CPI in January 2022 at 0.9% (December 2021: 1.5%), signifying its slowest pace in six months amid a steeper decline in the cost of food, particularly the pork prices which plunged by 46.7%, down from a fall of 36.7% in the previous month.

UN FAO Food Price Index, points



Source: United Nation (UN)

CPI: Food & Non Alcoholic Beverages, y-o-y%



Source: CEIC

- ✓ According to United Nations' Food and Agriculture Organisation (FAO), the food price index increased to 135.70 points in January 2022 (December 2021: 134.10 points), reversing its December decline to reach an all-time high.
- ✓ The rebound in January was led by solid gains in both vegetable oils (January 2022: 185.9 points vs. December 2021: 178.5 points) and cereals (January 2022: 140.6 points vs. December 2021: 140.5 points).
- ✓ As economies rebound from the coronavirus impacts, a broader surge in inflation has caused food prices to go up. In relation to this, the FAO cautioned that due to higher costs, poorer populations are at risk in countries reliant on imports.
- ✓ Similarly on the domestic front, Malaysia's food price reflected the trend, rising by 3.6% in January, extending a gain of 3.2% in the previous month.
- ✓ The main upward pressure was seen in the cost of meat which accounted for 2.5% of the total CPI, grew by 7.8% in January 2022 (December 2021: 8.3%), though at slower pace as compared to the previous month.
- ✓ This was due to decline in the average price of raw chicken at RM9.48 per kilogram (kg) during the month (December 2021: RM9.54/kg).
- ✓ Additionally, the price of oil also increased (January 2022: 5.3% vs. December 2021: 5.2%) which was in tandem with the significant increase in the Crude Palm Oil (CPO) price which averaged at RM5,354.50 per tonne in January 2022 (December 2021: RM5,070.00 per tonne).
- ✓ It is only natural that food inflation creeps into the economy due to a disrupted supply chain causing erratic demands, but should the situation persist, it can be a cause of concern.

THE IMPACTS OF HIGHER OIL PRICES ON GOVERNMENT FISCAL POSITION

Brent, USD/Barrel



Source: Bloomberg

Federal Government Operating Expenditures (OE):

RM Billion				Change (%)		
	2020	2021E	2022F	2020	2021E	2022F
Emoluments	83.0	84.5	86.5	3.1%	1.8%	2.3%
Retirement charges	27.5	27.6	28.1	6.3%	0.2%	1.8%
Debt service charges	34.5	39.0	43.1	4.7%	13.1%	10.5%
Grants and transfers to state governments	7.7	7.7	7.9	1.3%	1.0%	2.3%
Supplies and services	29.3	23.3	30.4	-6.9%	-20.7%	30.5%
Subsidies and social assistance	19.8	16.7	17.4	-17.3%	-15.5%	3.9%
Asset acquisition	0.6	0.4	0.5	-18.1%	-34.3%	28.4%
Refunds and write-offs	0.7	0.5	0.4	-26.8%	-21.9%	-26.6%
Grants to statutory bodies	10.3	13.2	14.1	-25.3%	28.2%	6.6%
Others	11.2	6.7	5.2	-75.3%	-40.7%	-21.9%
Total	224.6	219.6	233.5	-14.7%	-2.2%	6.3%
Share of GDP (%)	15.9%	14.5%	14.3%			

Source: Fiscal Outlook 2022

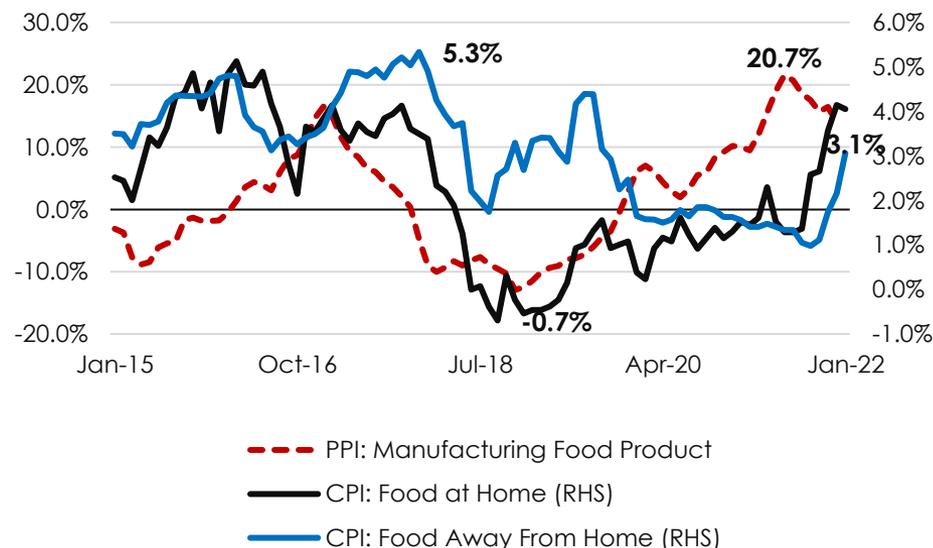
- ✓ Brent crude was trading at USD96.70 per barrel on 23 February and has risen by 24.3% since the start of the year of 2022. The Brent price reached levels not seen since 2014 amid the geopolitical tension between Russia and Ukraine.
- ✓ Based on our analysis, Malaysian Petrol Prices namely RON95 (74.2%), RON97 (86.3%) and Diesel (80.6%) have a strong correlation with the movement in Brent crude oil price.
- ✓ Therefore, a bullish trend in the Brent crude oil price will likely cause petrol prices in Malaysia to increase, prompting the government to look into its fuel subsidy rationalisation.
- ✓ According to the Fiscal Outlook 2022 report, the estimated expenditure for subsidies and social assistance in 2022 (excluding measures announced during the tabling of the Budget) stands at RM17.4 billion higher than RM16.7 billion in 2021.
- ✓ While fuel subsidy would help to alleviate cost burdens for Malaysians and keep inflation rate stable, it is no doubt that they could further strain the government budgets.
- ✓ As such, we foresee that fuel subsidy rationalisation plan could be considered by the government in managing the increasing subsidy bill and rebuilding fiscal space.

- ✓ **Higher costs of electricity for non-domestic users** – According to the Energy Commission (EC), the government is keeping the current base electricity tariff for all electricity users in Peninsular Malaysia from February 2022 to December 2024. However, the government will impose an electricity tariff surcharge of 3.7 sen per kilowatt hour (kWh) for non-domestic users from February to June 2022 due to the increase in coal prices. Following this, the commercial and industrial sectors are expected to experience higher operation costs moving forward.
- ✓ **Second round effect from costs of labour** – Gradual increase in minimum wages from RM1,200 to RM1,500 is likely to occur as the discussion has intensified. Notwithstanding that, the Malaysian Employers Federation (MEF) argued that it will derail economic recovery prospects particularly for small businesses as they are still struggling to recover from the impacts of Covid-19 pandemic. However, if the government consider to raise the minimum wage in the 2H2022, we believe this would create second round effect to costs of goods and services following higher costs of labour.

- ✓ **Higher Producer Price Index (PPI) could exert price pressure for CPI** – Based on our findings from the VAR Granger Causality test, it indicates that PPI does have a causality towards CPI. As such, when companies experienced higher input costs, those costs are expected to be passed on to the subsequent buyers. In Malaysia, PPI for manufactured food products have been rising with a double-digit growth for the tenth straight month (Dec 2021: 13.8% vs. November: 16.5%) since March last year. This could explain why costs of foods in Malaysia have been increasing lately.

- ✓ All in all, based on the abovementioned factors, **we are revising up our CPI growth forecast to 2.5% in 2022** (previous forecast: 2.3%) following a 2.5% increase in 2021.

CPI vs. PPI, y-o-y%



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An aerial photograph of a city skyline at sunset, with a prominent pink bar at the bottom. The sky is filled with soft, golden light and scattered clouds. The city features numerous high-rise buildings, with a particularly tall, slender skyscraper on the left. A highway with traffic is visible in the foreground, winding through the city. The overall mood is warm and serene.

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