



From the Desk  
of the  
**Chief Economist**

**BANK ISLAM**

# **INFLATION ACCELERATED AGAIN IN JUNE**

**23 JULY 2022**

**ECONOMIC RESEARCH**

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# INFLATION HIT 3.4% DURING JUNE, THE HIGHEST SINCE JUNE LAST YEAR

01

**Headline Inflation**

June 3.4%

May 2.8%

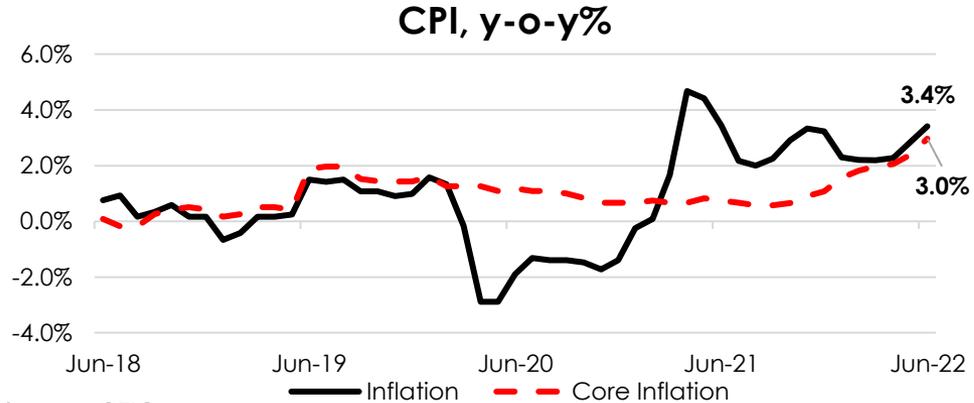
02

**Core Inflation**

June 3.0%

May 2.4%

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



Source: CEIC

**Food & Non-Alcoholic Beverages**



June 6.1%

May 5.2%

**Alcoholic Beverages & Tobacco**



June 0.4%

May 0.4%

**Clothing & Footwear**



June 0.2%

May 0.0%

**Housing, Water, Electricity, Gas & Other Fuels**



June 1.2%

May 1.2%

**Furnishings, Household Equipment & Routine Household Maintenance**



June 3.4%

May 2.9%

**Health**



June 0.6%

May 0.4%

**Transport**



June 5.4%

May 3.9%

**Communication**



June 0.0%

May 0.0%

**Recreation Services & Culture**



June 2.2%

May 1.8%

**Education**



June 1.1%

May 1.0%

**Restaurants & Hotels**



June 5.0%

May 3.7%

**Miscellaneous Goods & Services**



June 2.2%

May 1.9%

Sources: CEIC, DOSM

# FOOD PRICE CONTINUES TO BE THE MAIN DRIVER FOR HIGHER INFLATION RATE

|  | Weight        | Jan-22      | Feb-22      | Mar-22      | Apr-22      | May-22      | Jun-22      | 1Q2022      | 2Q2022      | 1H2021      | 1H2022      |
|--|---------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Consumer Price Index</b>                                      | <b>100.0%</b> | <b>2.3%</b> | <b>2.2%</b> | <b>2.2%</b> | <b>2.3%</b> | <b>2.8%</b> | <b>3.4%</b> | 2.2%        | 2.8%        | 2.3%        | 2.5%        |
| Food & Non-Alcoholic Beverages                                   | 29.5%         | 3.6%        | 3.7%        | 4.0%        | 4.1%        | 5.2%        | 6.1%        | 3.8%        | 5.1%        | 1.5%        | 4.5%        |
| Alcoholic Beverages & Tobacco                                    | 2.4%          | 0.4%        | 0.4%        | 0.5%        | 0.5%        | 0.4%        | 0.4%        | 0.4%        | 0.4%        | 0.7%        | 0.4%        |
| Clothing & Footwear  | 3.2%          | -0.3%       | -0.2%       | -0.3%       | -0.2%       | 0.0%        | 0.2%        | -0.3%       | 0.0%        | -0.4%       | -0.1%       |
| Housing, Water, Electricity, Gas & Other Fuels                   | 23.8%         | 0.7%        | 0.8%        | 0.9%        | 0.8%        | 1.2%        | 1.2%        | 0.8%        | 1.1%        | 1.2%        | 0.9%        |
| Furnishings, Household Equipment & Routine Household Maintenance | 4.1%          | 3.1%        | 3.2%        | 3.0%        | 2.7%        | 2.9%        | 3.4%        | 3.1%        | 3.0%        | 1.2%        | 3.1%        |
| Health   | 1.9%          | 0.3%        | 0.5%        | 0.2%        | 0.2%        | 0.4%        | 0.6%        | 0.3%        | 0.4%        | 0.6%        | 0.3%        |
| Transport  | 14.6%         | 6.0%        | 3.9%        | 2.6%        | 3.0%        | 3.9%        | 5.4%        | 4.2%        | 4.1%        | 10.8%       | 4.2%        |
| Communication  | 4.8%          | 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%          | 1.2%        | 1.6%        | 1.1%        | 1.3%        | 1.8%        | 2.2%        | 1.3%        | 1.8%        | 0.4%        | 1.6%        |
| Education  | 1.3%          | 0.7%        | 0.7%        | 0.9%        | 1.0%        | 1.0%        | 1.1%        | 0.7%        | 1.0%        | 0.2%        | 0.9%        |
| Restaurants & Hotels   | 2.9%          | 2.1%        | 2.6%        | 2.9%        | 3.2%        | 3.7%        | 5.0%        | 2.5%        | 3.9%        | 0.1%        | 3.2%        |
| Miscellaneous Goods & Services                                   | 6.7%          | 0.6%        | 1.1%        | 1.9%        | 1.8%        | 1.9%        | 2.2%        | 1.2%        | 2.0%        | 1.1%        | 1.6%        |
| <b>Core CPI</b>  |               | <b>1.6%</b> | <b>1.8%</b> | <b>2.0%</b> | <b>2.1%</b> | <b>2.4%</b> | <b>3.0%</b> | <b>1.7%</b> | <b>2.5%</b> | <b>0.7%</b> | <b>2.1%</b> |

Sources: DOSM, CEIC

1

Malaysia's Consumer Price Index (CPI) increased by 3.4% year-on-year (y-o-y) in June from 2.8% in May (Consensus: 3.2%, Bank Islam: 3.0%).

2

The main upward pressure was contributed by higher cost of Food & Non-Alcoholic Beverages which surged by 6.1% during the month (May: 5.2%) amid elevated commodity prices.

3

Similarly, the cost of Transport climbed by 5.4% in June (May: 3.9%) due to the rise in price of Operation of Personal Transport Equipment (June: 6.6% vs. May: 5.4%) in the said month.

4

In addition, other sub items also caused the upward inflationary pressures in June except for Alcoholic Beverages & Tobacco (June: 0.4% vs. May: 0.4%) and Communication (June: 0.0% vs. May: 0.0%) which remained unchanged during the month.

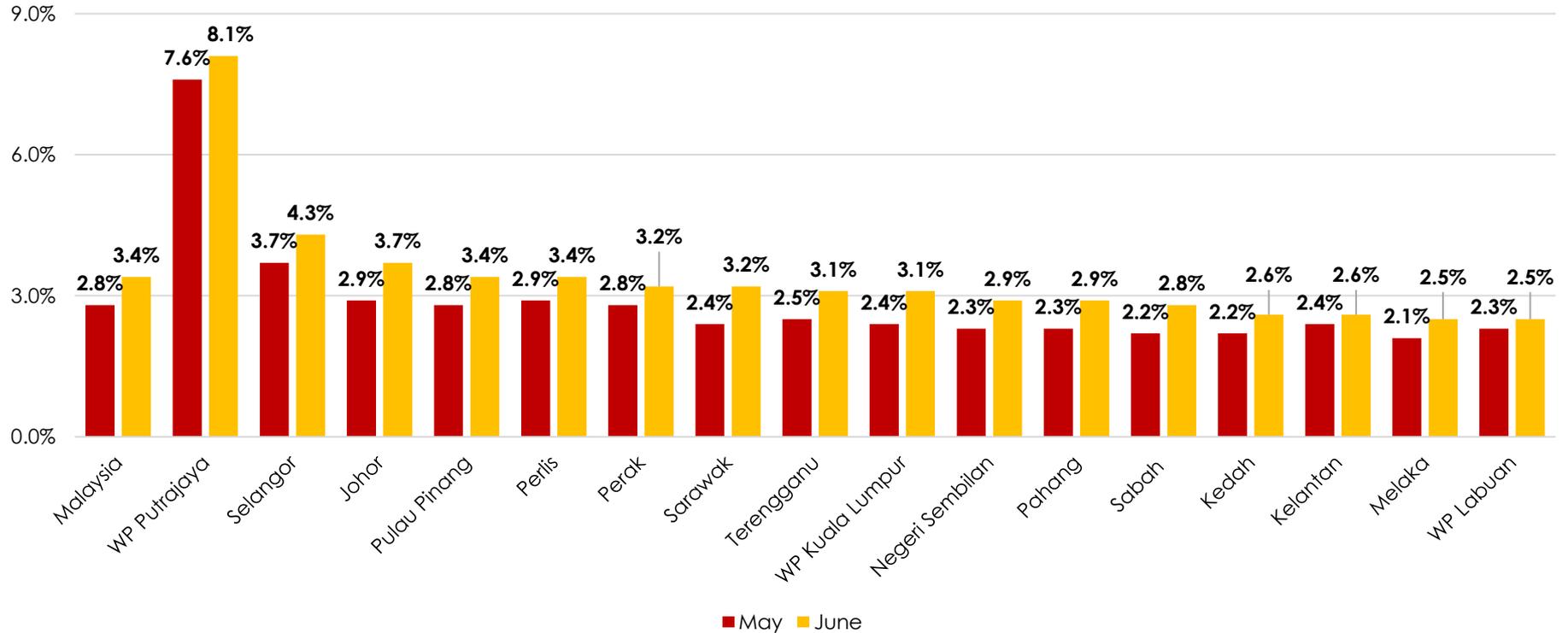
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The Core CPI which excludes most volatile items of fresh food, as well as administered prices of good and services maintained its upward trend to 3.0% in June from 2.4% in May.

6

On a quarterly basis, both headline inflation and core inflation rate rose by 2.8% (1Q2022: 2.2%) and 2.5% (1Q2022: 1.7%) respectively in 2Q2022 as compared to the previous quarter. On the same note, the inflation (1H2022: 2.1% vs. 1H2021: 0.7%) and core inflation (1H2022: 2.1% vs. 1H2021: 0.7%) rate showed the increasing trend during the 1H2022.

## CPI by States, y-o-y%

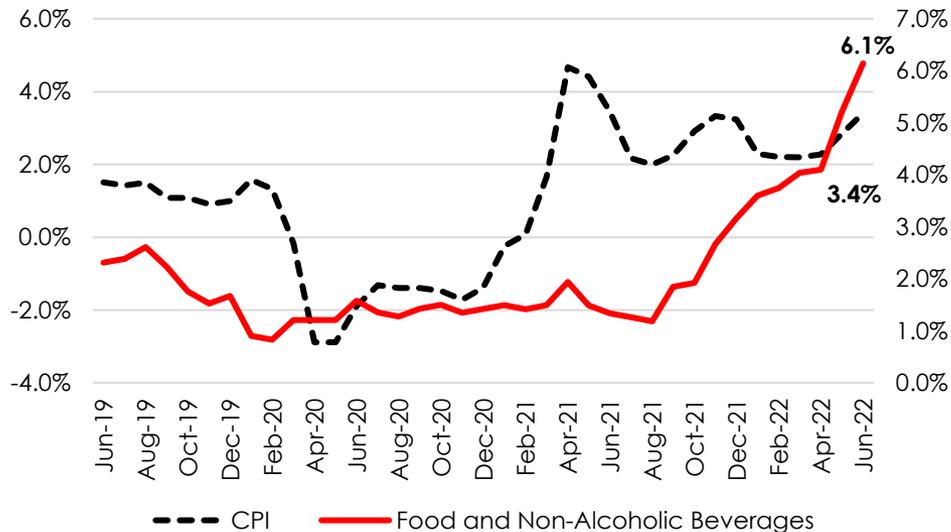


Source: DOSM

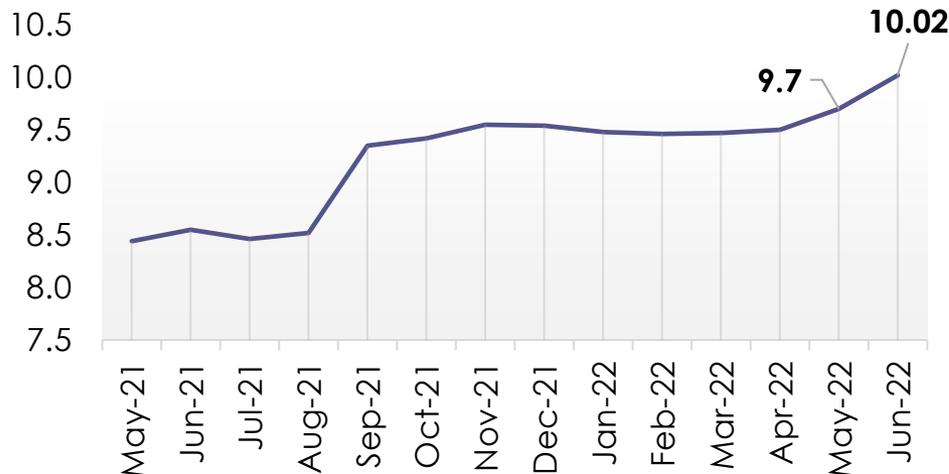
- ✓ Based on the above chart, all states recorded higher inflation during June as compared to the previous month. The highest print was recorded in WP Putrajaya (June: 8.1% vs. May: 7.6%), followed by Selangor (June: 4.3% vs. May: 3.7%) in the said month.
- ✓ Meanwhile, WP Labuan (June: 2.5% vs. May: 2.3%) and Melaka (June: 2.5% vs. May: 2.1%) were the two states with the lowest CPI increase in the month of June.

# INCREASING IN FOOD PRICE IS LIKELY TO PERSIST IN 2H2022

### Inflation, y-o-y%



### Average Chicken Price, RM/kg



Source: DOSM

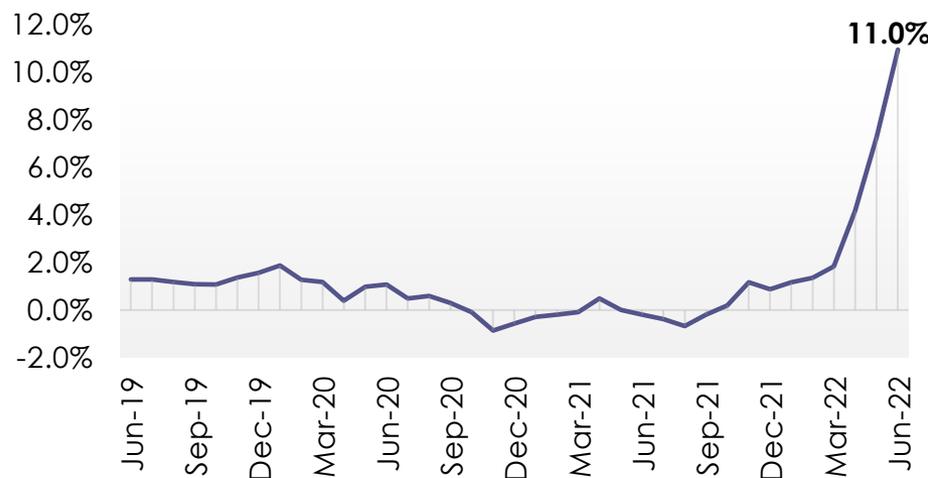
- ✓ Prices of Food and Non-Alcoholic Beverages continued to accelerate in June, rising by 6.1% y-o-y from 5.2% in May.
- ✓ It was the highest since April 2009 (7.5%) due to surge in cost of meat which jumped by double-digit at 11.9% in June from 9.5% previously.
- ✓ Within the sub-indices, price of chicken meat which made up largest share (46.1%) in the group continued to soar by 17.2% in June from 13.4% in May.
- ✓ Apart from that, cost of flour & other cereals grains and eggs have also increased by double-digit at 11.0% (May: 7.3%) and 13.0% (May: 16.3%) respectively in June.
- ✓ Following this, consumers are likely to feel the pinch from higher grocery bills as food prices have become elevated.
- ✓ Hence, the implementation of new retail ceiling price for standard chicken (from RM8.90 to RM9.40 per kilogramme) and eggs (Grade A: RM0.45 each, Grade B: RM0.43 each and Grade C: RM0.41 each) commencing on 1 July should contain the inflation for chicken and eggs in the upcoming months.
- ✓ Nevertheless, there is a need to review and revise the blanket subsidy as it will erode government coffer as it is not sustainable in the longer term.

# FOOD PRICES HAVE BEEN ON UPWARD TREND PRIOR THE ABOLISHMENT OF FOOD SUBSIDY

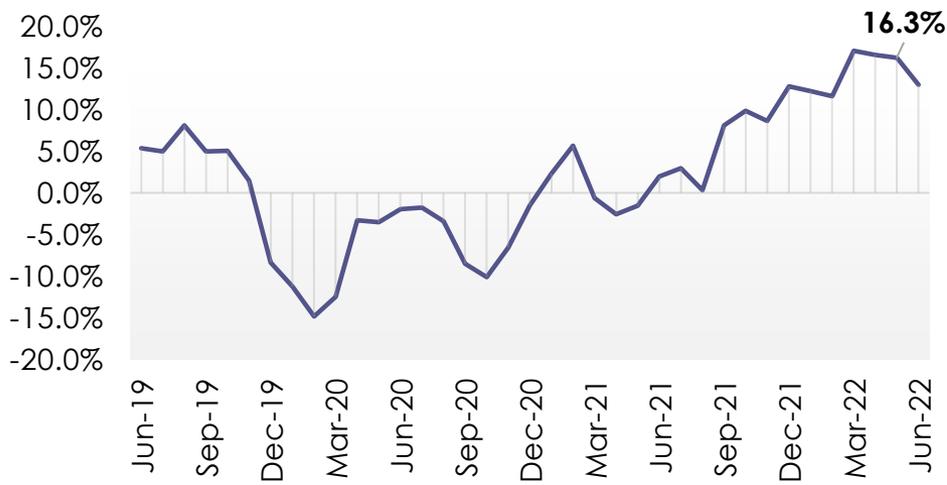
### Meat, y-o-y%



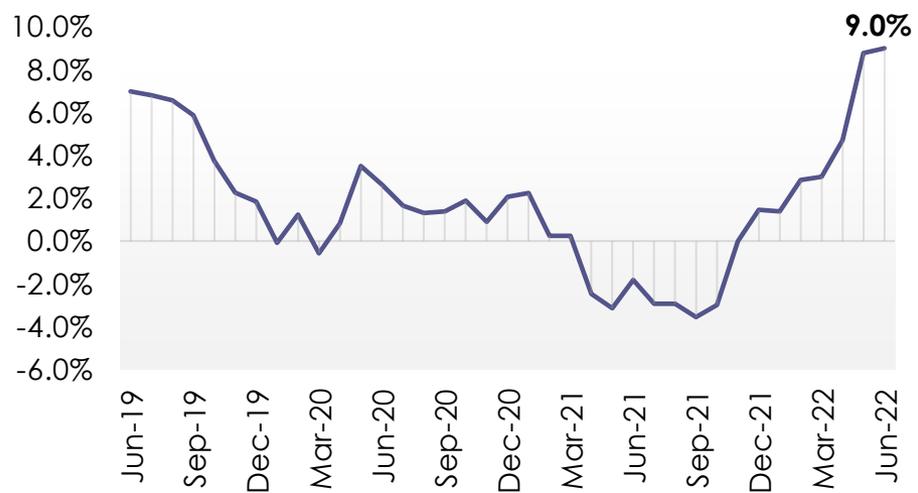
### Flour & Other Cereals Grains, y-o-y%



### CPI: Eggs, y-o-y%



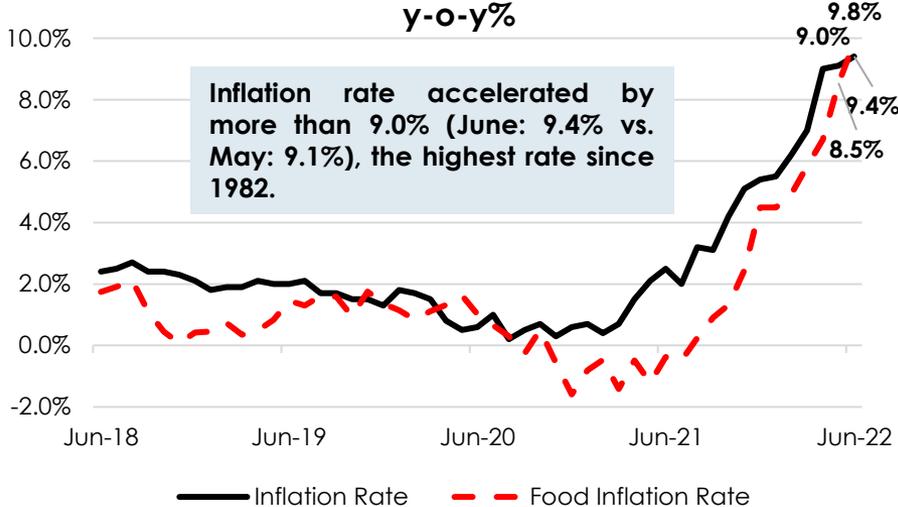
### CPI: Butter, Fats & Animal Oils, y-o-y%



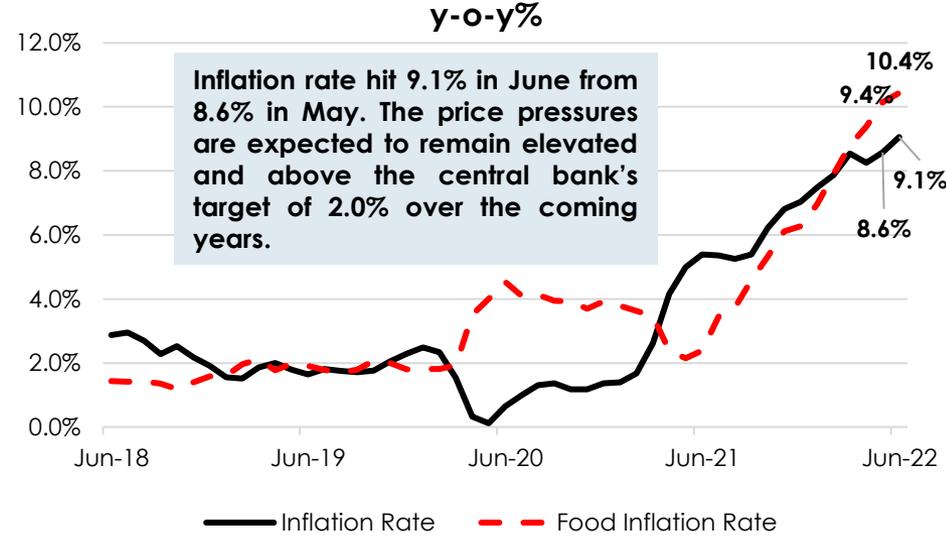
Source: CEIC

# LIKELIWISE, COST OF FOOD IS THE KEY FACTORS FOR SPIKE IN INFLATION ACROSS THE GLOBE

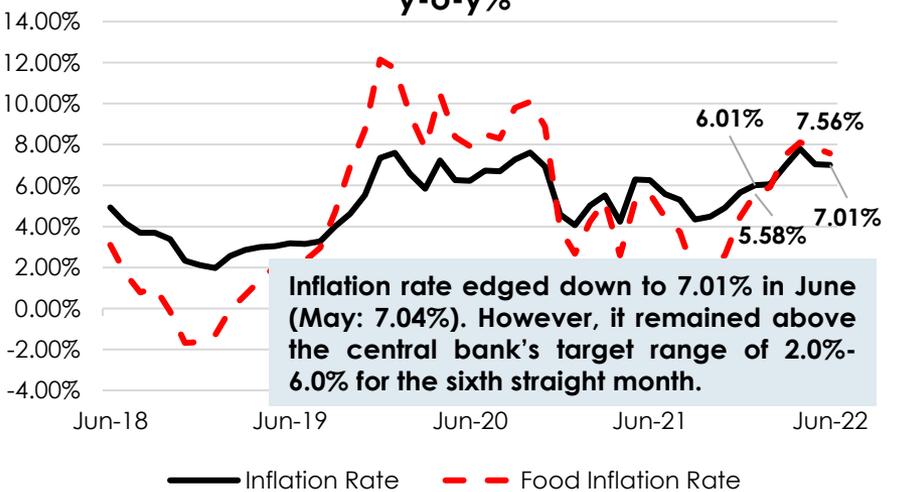
**U.K.: Inflation vs. Food Inflation Rate, y-o-y%**



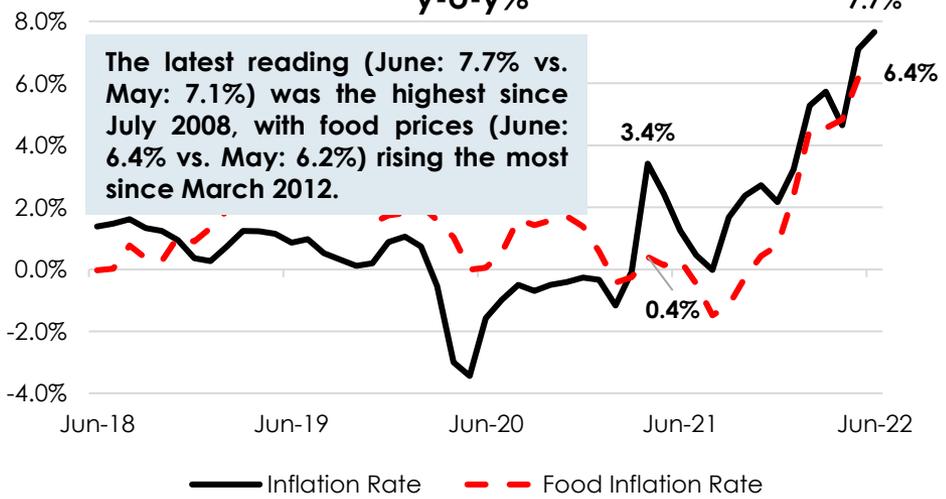
**U.S.: Inflation vs. Food Inflation Rate, y-o-y%**



**India: Inflation vs. Food Inflation Rate, y-o-y%**

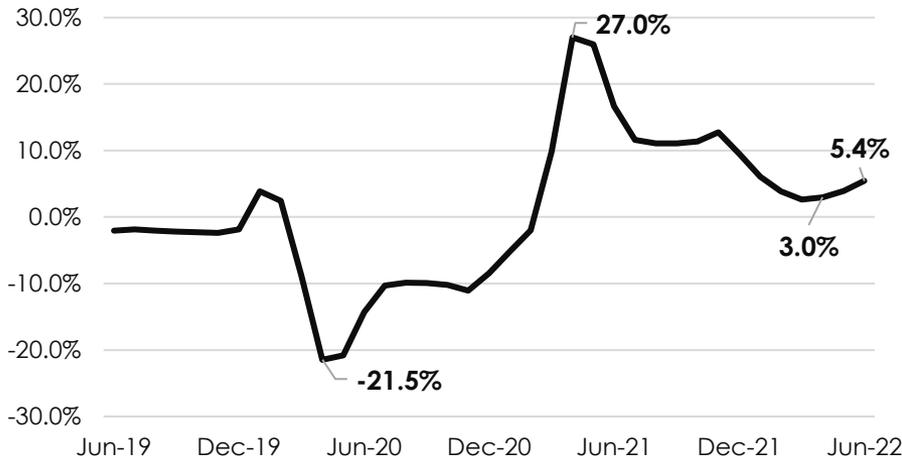


**Thailand: Inflation vs. Food Inflation Rate, y-o-y%**

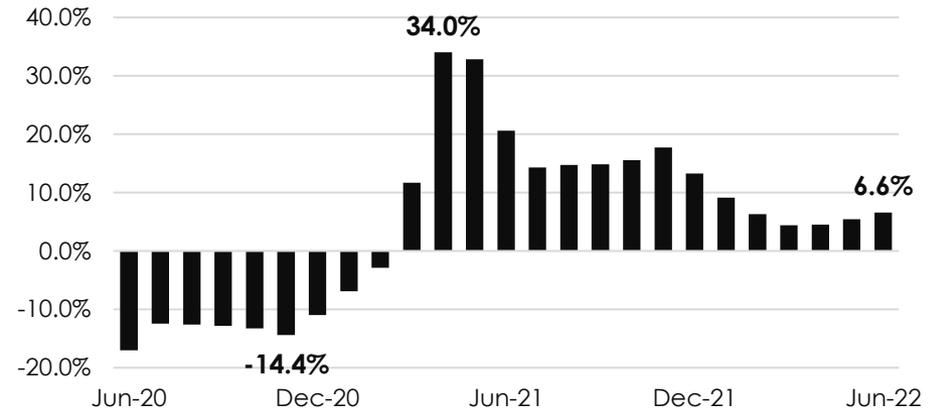


# COSTS OF TRANSPORT JUMPED BY 5.4% IN JUNE, UNDERPINNED BY HIGHER PRICE FOR OPERATION OF PERSONAL TRANSPORT EQUIPMENT

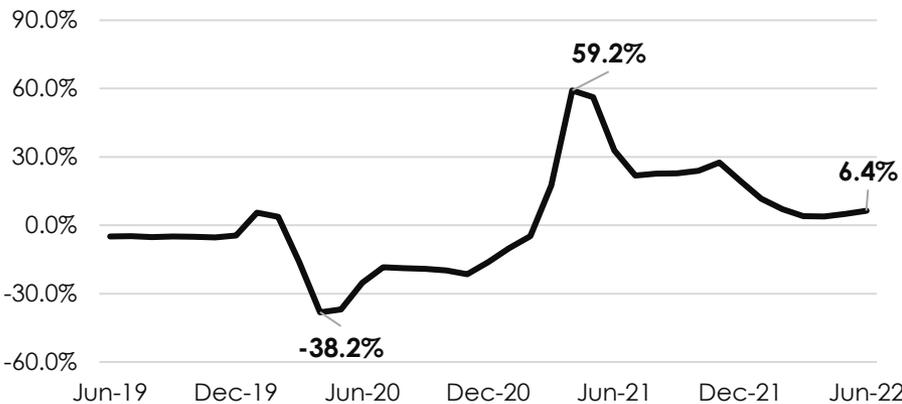
### CPI: Transport, y-o-y%



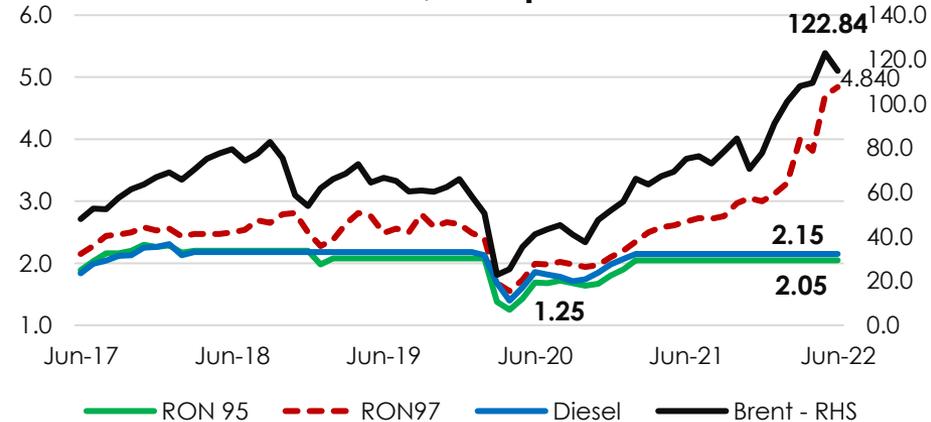
### Costs of Operation of Personal Transport Equipment, y-o-y%



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



### Malaysia's Fuel Prices, RM per litre vs. Brent Price, USD per barrel



Source: CEIC

**While the government is considering other alternative means for dishing out subsidies such as targeted petrol subsidies, the pivoting would likely to intensify the inflationary pressures moving forward.**

# OUR VIEW – THE CENTRAL BANK IS EXPECTED TO CONTRACT THE MONEY SUPPLY IN A BID TO BRING DOWN THE INFLATION

- ✓ **Cost pass-through to end-consumers will be more prevalent during 2H2022** – Cost-push inflation continued to persist due to supply shortages particularly for raw materials and higher prices for production. Thus far, Producer Price Index (PPI) for manufactured food products have been increasing with a double-digit growth for the fifteenth straight month (May: 19.3% vs. April: 18.1%) since March last year. As such, we foresee that businesses have more pricing power at the moment, making price hikes inevitable.
- ✓ Apart from that, the removal of subsidies for bottled cooking oil which took effect on 1 July could heighten the inflationary pressures. While the inflation rate in Malaysia is seen to be "under control", the lower income earners are expected to be worst off given that the big chunk of their budget goes into food related consumption.
- ✓ All in all, we maintained **our CPI growth forecast of 3.5% in 2022 (2021: 2.5%)** as the cost of food, as well as labour shortages are expected to be the main underpinning factors for higher inflation. Following this, we expect Bank Negara Malaysia's (BNM) tightening cycle would continue at a measure and gradual pace. **Hence, our latest Overnight Policy Rate (OPR) projection is set to be at 2.75% (previously made in May: 2.25%) by the end of the year and would be further increased to 3.25% in 2023.**

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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, including a very 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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