



From the Desk  
of the  
**Chief Economist**

**BANK ISLAM**

# **INFLATIONARY PRESSURES ARE BUILDING UP IN MAY**

**27 JUNE 2022**

**ECONOMIC RESEARCH**

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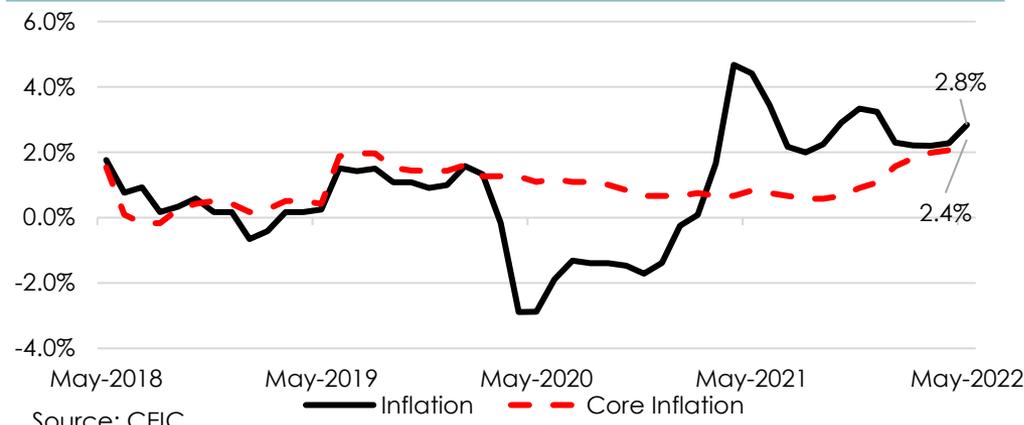
**RAJA ADIBAH RAJA HASNAN**

# INFLATION SURGED TO 2.8% IN MAY

**01** **Headline Inflation**  
 May 2.8%  
 April 2.3%

**02** **Core Inflation**  
 May 2.4%  
 April 2.1%

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



**Food & Non-Alcoholic Beverages**

May 5.2%  
 April 4.1%

**Alcoholic Beverages & Tobacco**

May 0.4%  
 April 0.5%

**Clothing & Footwear**

May 0.0%  
 April -0.2%

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

May 1.2%  
 April 0.8%

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

May 2.9%  
 April 2.7%

**Health**

May 0.4%  
 April 0.2%

**Transport**

May 3.9%  
 April 3.0%

**Communication**

May 0.0%  
 April 0.0%

**Recreation Services & Culture**

May 1.8%  
 April 1.3%

**Education**

May 1.0%  
 April 1.0%

**Restaurants & Hotels**

May 3.7%  
 April 3.2%

**Miscellaneous Goods & Services**

May 1.9%  
 April 1.8%

Sources: CEIC, DOSM

# FOOD & NON-ALCOHOLIC BEVERAGES BECOMES COSTLIER AMID SOARING COMMODITY PRICES

	Weight	Jan-22	Feb-22	Mar-22	Apr-22	May-22	5M2021	5M2022
<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>2.1%</b>	<b>2.4%</b>
Food & Non-Alcoholic Beverages	29.5%	3.6%	3.7%	4.0%	4.1%	5.2%	1.6%	4.2%
Alcoholic Beverages & Tobacco	2.4%	0.4%	0.4%	0.5%	0.5%	0.4%	0.7%	0.4%
Clothing & Footwear	3.2%	-0.3%	-0.2%	-0.3%	-0.2%	0.0%	-0.4%	-0.2%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	0.7%	0.8%	0.9%	0.8%	1.2%	0.8%	0.9%
Furnishings, Household Equipment & Routine Household Maintenance	4.1%	3.1%	3.2%	3.0%	2.7%	2.9%	1.0%	3.0%
Health	1.9%	0.3%	0.5%	0.2%	0.2%	0.4%	0.6%	0.3%
Transport	14.6%	6.0%	3.9%	2.6%	3.0%	3.9%	9.7%	3.9%
Communication	4.8%	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%	0.4%	1.4%
Education	1.3%	0.7%	0.7%	0.9%	1.0%	1.0%	0.2%	0.9%
Restaurants & Hotels	2.9%	2.1%	2.6%	2.9%	3.2%	3.7%	0.0%	2.9%
Miscellaneous Goods & Services	6.7%	0.6%	1.1%	1.9%	1.8%	1.9%	1.3%	1.5%
<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>0.7%</b>	<b>2.0%</b>

Sources: DOSM, CEIC

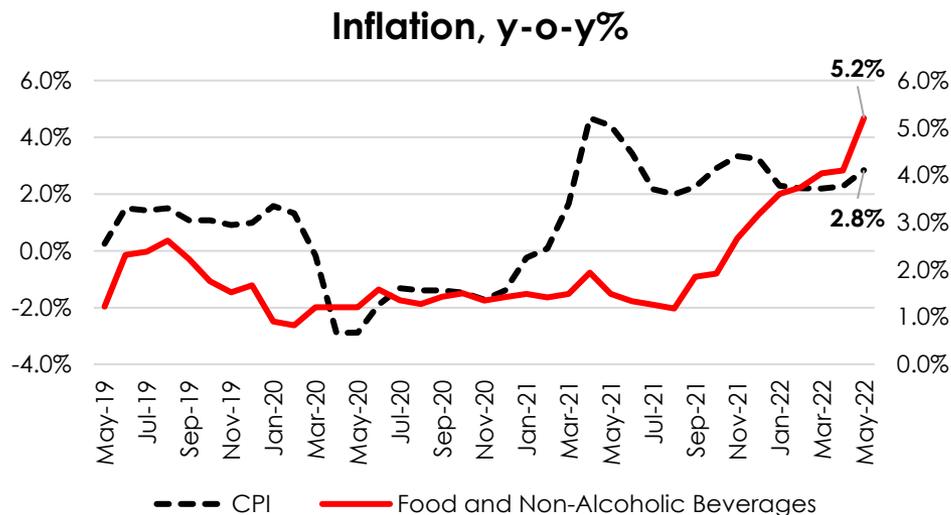
- Malaysia's Consumer Price Index (CPI) rose by 2.8% year-on-year (y-o-y) in May from 2.3% in the previous month (Consensus: 2.6%, Bank Islam: 3.0%).
- The upward inflationary pressure during the month was attributed by the continuous increase in the cost of Food & Non-Alcoholic Beverages (May: 5.2% vs. April: 4.1%), the highest level since October 2011.
- Apart from that, the cost of Transport climbed by 3.9% in May from 3.0% in the previous month, contributed by the increase in the subgroup of Operation of Personal Transport Equipment (May: 5.4% vs. April: 4.5%) during the month.

- Additionally, higher costs were seen in Housing, Water, Electricity, Gas & Other Fuels (May: 1.2% vs. April: 0.8%), Furnishings, Households Equipment & Routine Household Maintenance (May: 2.9% vs. April: 2.7%), Health (May: 0.4% vs. April: 0.2%), Recreation Services & Culture (May: 1.8% vs. April: 1.3%), as well as Restaurants & Hotels (May: 3.7% vs. April: 3.2%) in May.
- The Core CPI which excludes most volatile items of fresh food, as well as administered prices of good and services went up by 2.4 % in May from a 2.1% increase in the previous month.
- Cumulatively, the CPI expanded by 2.4% in 5M2022 from 2.1% in the same period last year. Similarly, the Core CPI jumped by 2.0% during the said period (5M2021: 0.7%).

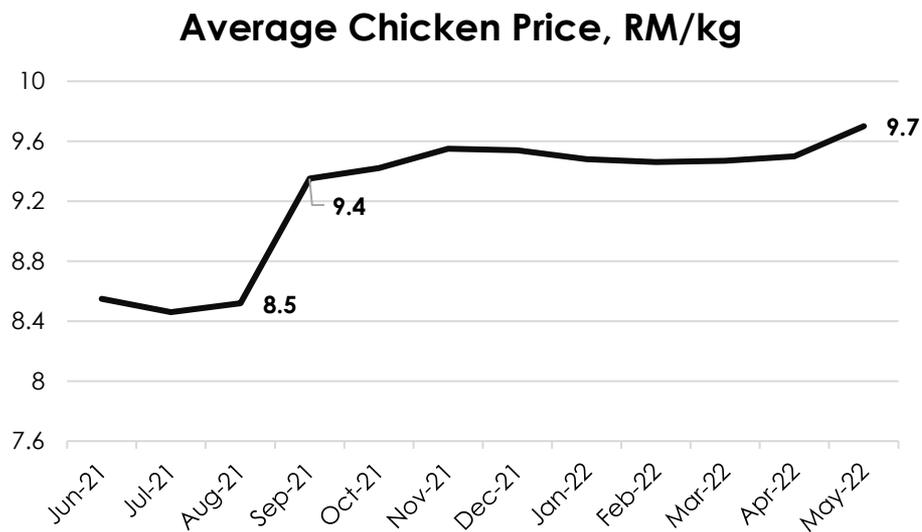
States	Jan-22	Feb-22	Mar-22	Apr-22	May-22	5M2021	5M2022
Nationwide	2.3%	2.2%	2.2%	2.3%	2.8%	2.1%	2.4%
WP Kuala Lumpur	1.8%	1.9%	1.8%	1.8%	2.4%	1.8%	1.9%
Selangor & WP Putrajaya	2.9%	2.9%	2.9%	3.1%	3.7%	2.3%	3.1%
Melaka	2.0%	2.0%	1.9%	1.8%	2.1%	1.8%	2.0%
Negeri Sembilan	1.8%	1.8%	1.6%	1.8%	2.3%	2.2%	1.8%
Johor	2.2%	1.9%	2.0%	2.1%	2.9%	1.9%	2.2%
Pahang	2.1%	1.9%	1.8%	1.6%	2.3%	2.5%	2.0%
Kelantan	2.4%	2.1%	2.1%	2.0%	2.4%	2.8%	2.2%
Terengganu	2.7%	2.4%	2.4%	2.3%	2.5%	3.3%	2.5%
Kedah & Perlis	2.4%	2.2%	2.0%	2.0%	2.2%	2.0%	2.1%
Pulau Pinang	2.0%	2.0%	2.2%	2.3%	2.8%	1.8%	2.3%
Perak	2.5%	2.2%	2.2%	2.4%	2.8%	2.2%	2.4%
Sabah & WP Labuan	1.9%	1.8%	1.3%	1.4%	2.2%	1.1%	1.7%
Sarawak	2.1%	2.0%	1.7%	1.9%	2.4%	1.5%	2.0%

Sources: CEIC, DOSM

- ✓ During May, all states registered higher inflation as compared to the previous month. The highest print was recorded in Selangor & WP Putrajaya (May: 3.7% vs. April: 3.1%), followed by Johor (May: 2.9% vs. April: 2.1%) in the said month.
- ✓ On the flip side, Kedah & Perlis (May: 2.2% vs. April: 2.0%), Sabah & WP Labuan (May: 2.2% vs. April: 1.4%) and Melaka (May: 2.1% vs. April: 1.8%) were the three states with the lowest CPI increase in May.
- ✓ Cumulatively, majority of the states posted a higher inflation during 5M2022 with Selangor & WP Putrajaya recorded the highest at 3.1% as compared to 2.3% in the same period last year.



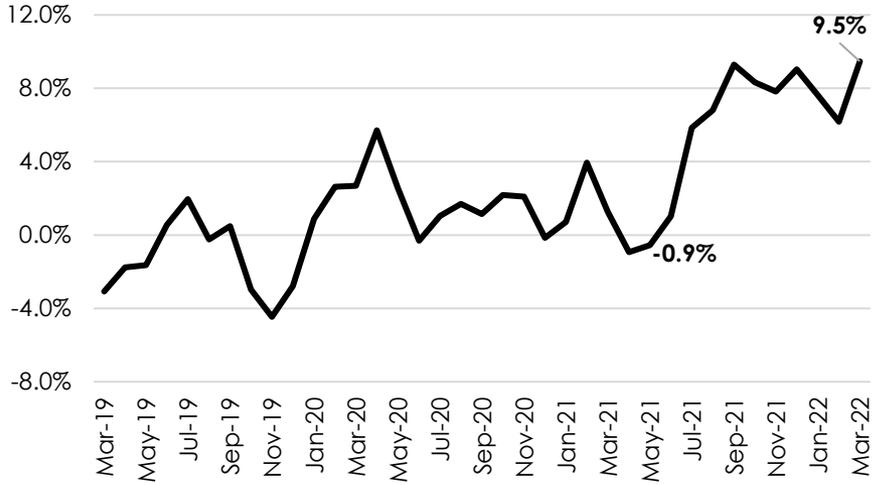
- ✓ Price of Food and Non-Alcoholic Beverages surged by 5.2% y-o-y in May (April: 4.1%), the highest since October 2011 (5.7%) following high commodity prices.
- ✓ Within the sub-indices, price of meat jumped by 9.5% in May (April: 6.2%) as the chicken meat which made up largest share (46.1%) in the group recorded double-digit increase at 13.4% during May (April: 7.5%).
- ✓ According to the DOSM, the average chicken price increased to RM9.70 per kg in May from RM9.50 per kg previously mainly due to surge in cost of animal feed. **This is clearly higher than the stipulated controlled prices of RM8.90 per kilogram.**
- ✓ Overall, cost of food is expected to be higher during second half this year following removal of subsidy on bottled cooking oil alongside with an anticipation of higher new ceiling price for chicken that will be announced by the government.



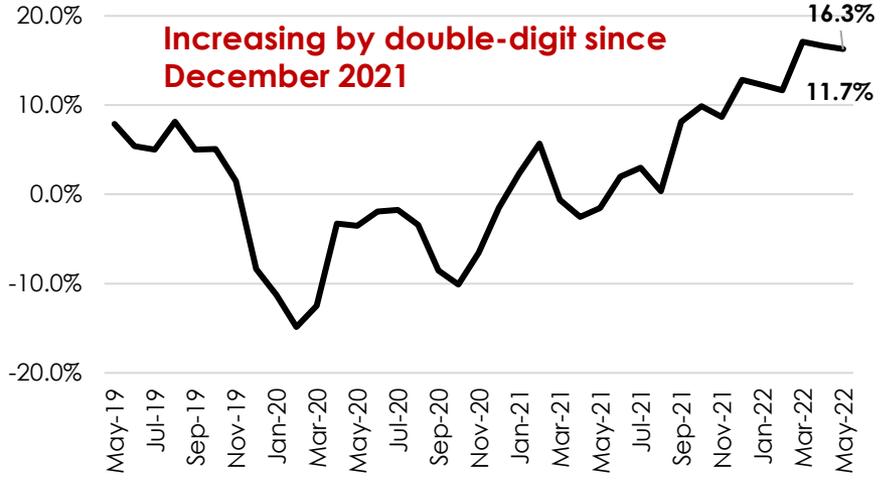
Source: Department of Statistics Malaysia (DOSM)

# MEAT AND EGGS PRICES HAVE BEEN RISING PRIOR ABOLISHMENT OF FOOD SUBSIDY

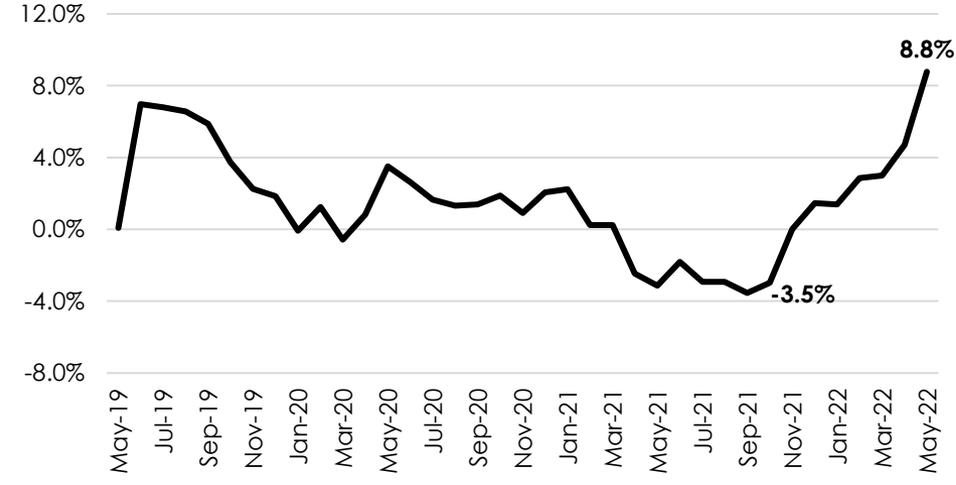
**Meat, y-o-y%**



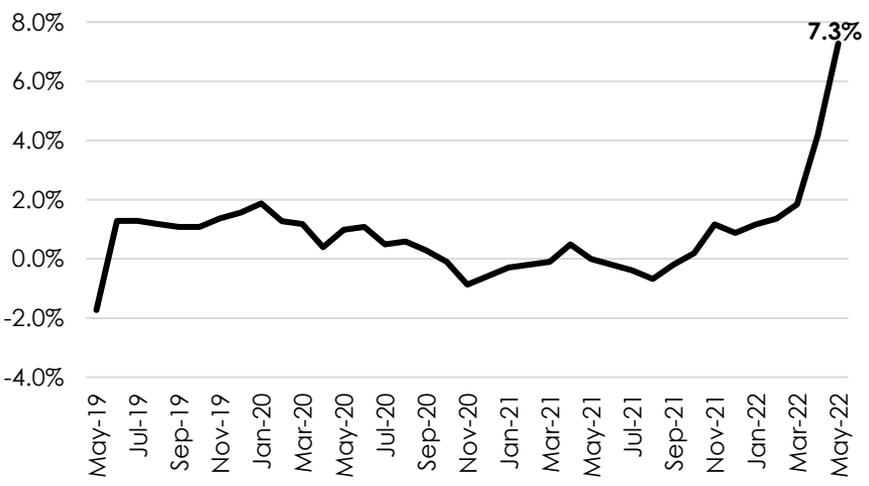
**Eggs, y-o-y%**



**Butter, Fats & Animal Oils, y-o-y%**



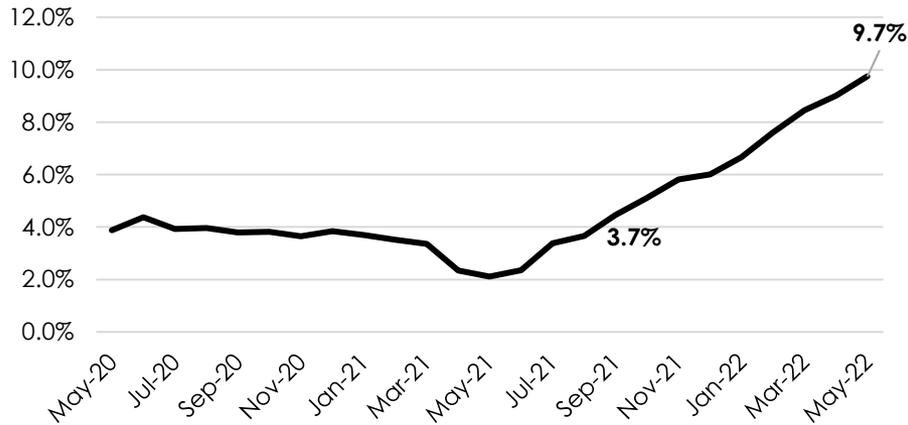
**Flour & Other Cereals Grains, y-o-y%**



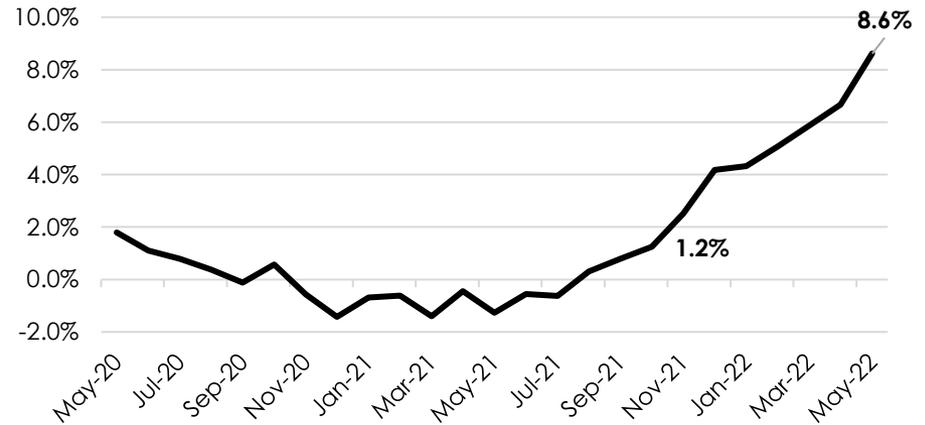
Source: CEIC

# AS LIVING COST HAS BECOME MORE EXPENSIVE, FEW COUNTRIES HAVE INTERVENED BY INTRODUCING TARGETED FISCAL SUPPORT

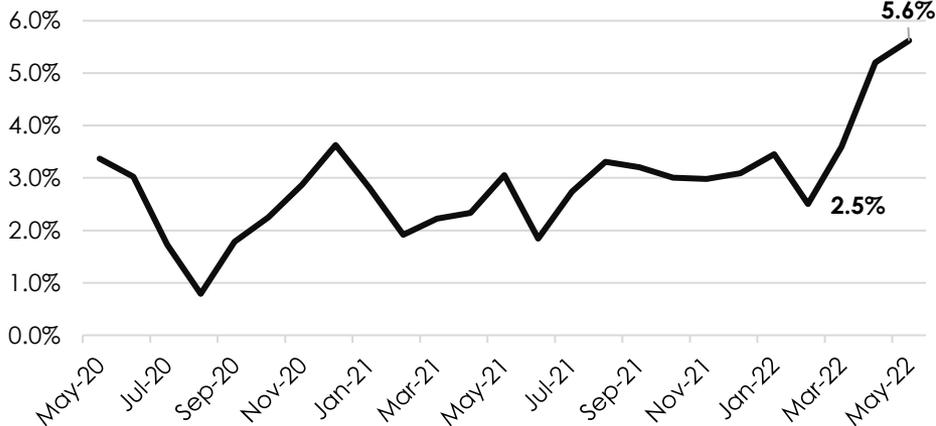
**The U.S. Food & Beverages Price, y-o-y%**



**The U.K. Food and Non-Alcoholic Beverages Price, y-o-y%**



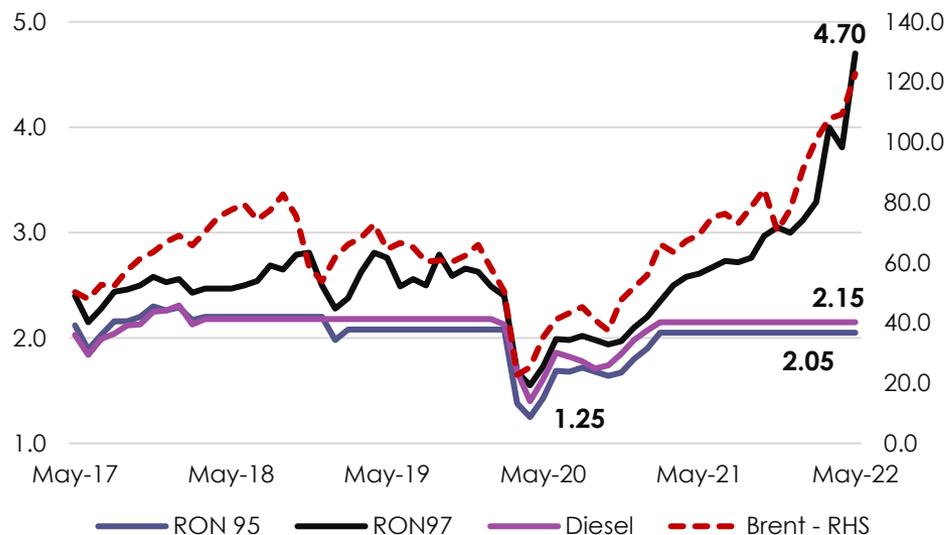
**Indonesia's Food, Beverages & Tobacco Price, y-o-y%**



Source: CEIC

- ✓ The global economies have also been feeling the pinch from rising food prices due to prolonged conflict between Russia and Ukraine.
- ✓ Following this, the authority has decided to prescribe a more targeted measures to ease the burden of consumers.
- ✓ For instance, the U.K. government is providing a GBP15.0 billion energy bill rebate package for almost 28 million households as the country was severely affected by Russia-Ukraine war.
- ✓ In India, the beneficiary of PM Garib Kalyan Anna Yojana (PM-GKAY) will get an additional 5 kg free ration per person every month, doubling the monthly quota as an effort to support the lower income group.

## Malaysia Fuel Prices, RM/litre vs. Brent Price, USD/barrel



Sources: Bloomberg, CEIC

- ✓ Malaysia is among the top 10 nations with the cheapest gasoline price globally.\*
- ✓ The differences in prices across countries probably due to the various taxes and subsidies for gasoline imposed by the governments.
- ✓ Thus far, Malaysian government has capped prices of RON95 and Diesel at RM2.05 and RM2.15 per litre respectively to protect consumers from global oil price increases.
- ✓ However, the government is likely to introduce a targeted fuel subsidy mechanism to cushion the impact of the rising global crude oil prices on the federal government's subsidy bill and fiscal space. Already, Brent price reached more than USD100.00/barrel for the fourth straight month (May: USD122.84/barrel vs. April: USD109.34/barrel) following the impact of the Russia-Ukraine war, as well as supply and demand imbalances issue.
- ✓ All in all, the risk for higher inflation from fuel costs is now depending on the government decision in relation to current fuel subsidies.

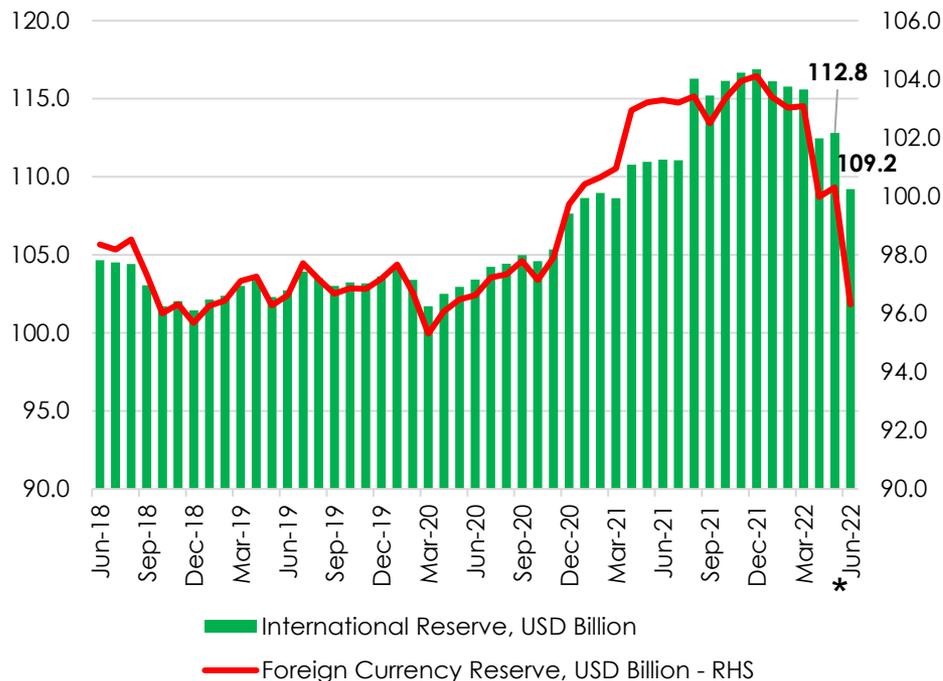
## Fuel Prices, USD/litre:

Countries	Gasoline	Diesel
Malaysia	0.466	0.489
Singapore	2.339	2.182
Thailand	1.507	0.990
Indonesia	1.196	1.312
Philippines	1.571	1.589
Sri Lanka	1.260	1.120
Saudi Arabia	0.621	0.168
Japan	1.252	1.095
U.S.	1.371	1.511
U.K.	2.288	2.387

Source: GlobalPetrolPrices.com

# A DEPRECIATING RINGGIT COULD BRING AN UPSIDE RISK TO INFLATION DURING 2H2022 AS IMPORT BILL WILL RISE

**International Reserve dipped below USD110.0-mark, a level last seen during March 2021**



Sources: DOSM, BNM  
\*Data as of 15 June 2022

**USDMYR**



Ringgit has been lingering around RM4.4000 level and could depreciate depending on how the U.S. battles to fight its highest inflation in four decades.

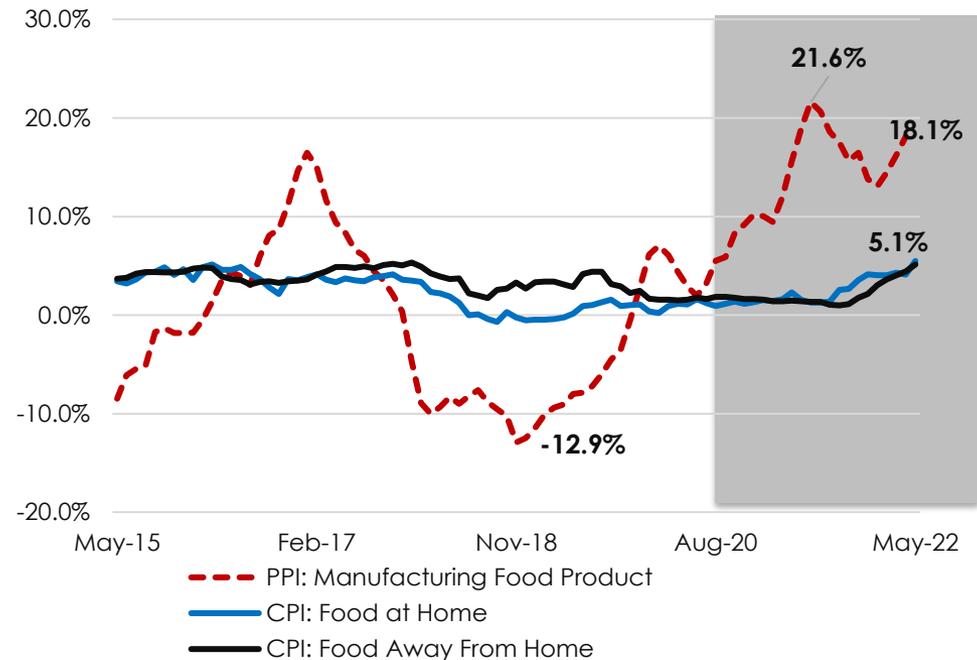
Source: Investing.com  
USDMYR data as of 24 June 2022, 2.30pm

- ✓ Malaysia's international reserve has fallen since the start of the year as the BNM has been intervening the foreign exchange market to stabilise the ringgit.
- ✓ The recent testimony to the Senate Banking Committee saw the massive pushback from the U.S. Congress over the aggressive monetary tightening as risks of recession has heightened. As such, we should not totally discount for the possible pause in the Fed Fund Rate (FFR) hike especially when the U.S. will go for a mid term election in November 2022. This could support ringgit at some point in 2H2022.

# OUR VIEW – INFLATION RATE IS EXPECTED TO INCREASE FURTHER DURING 2H2022

- ✓ **Ensuring targeted assistance can be channeled to eligible recipients** - The government is looking for ways to reduce subsidies and to make it more targeted. However, this can be unpopular move especially at a time talks of possible early election is mounting. Hence, we shall expect the removal of subsidies and adjustment in price control measures will be gradual.
- ✓ **Higher Producer Price Index (PPI) could exert price pressure for CPI** – To recall, our findings from the VAR Granger Causality test indicated that PPI does have a causality towards CPI. As of April this year, PPI for manufactured food products have been growing with a double-digit for the fourteenth straight month (April: 18.1% vs. March: 16.3%). We foresee that businesses have the capacity to pass on the rising input costs to final consumers via substantial price hikes. This could explain why costs of food away from home have been increasing lately (May: 5.1% vs. April: 4.4%).
- ✓ All in all, **we are revising up our CPI growth forecast to 3.5% in 2022** (previous forecast: 2.5%) following a 2.5% increase in 2021. Such projection has taken into consideration the potential material changes should RON95 is adjusted upwards.

CPI vs. PPI, y-o-y%



Source: CEIC

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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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