



From the Desk
of the
Chief Economist

BANK ISLAM

CPI JUMPED BY 2.9% IN OCTOBER

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ECONOMIC RESEARCH

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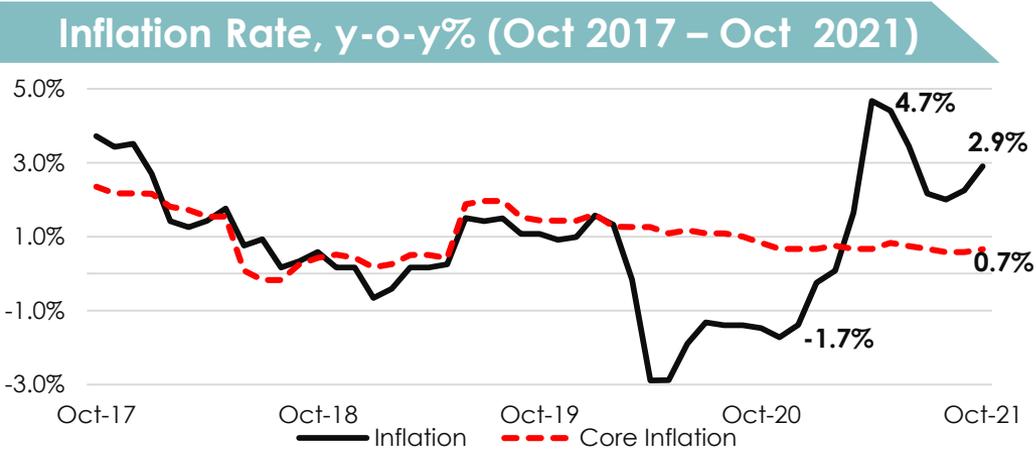
NOR JANNAH ABDULLAH

RAJA ADIBAH RAJA HASNAN

INFLATION RATE GREW BY 2.9% IN OCTOBER

01 **Headline Inflation**
 October 2.9%
 September 2.2%

02 **Core Inflation**
 October 0.7%
 September 0.6%



Source: CEIC

Food & Non-Alcoholic Beverages

October 1.9%
 September 1.9%

Alcoholic Beverages & Tobacco

October 0.3%
 September 0.4%

Clothing & Footwear

October -0.4%
 September -0.5%

Housing, Water, Electricity, Gas & Other Fuels

October 3.2%
 September 0.7%

Furnishings, Household Equipment & Routine Household Maintenance

October 2.1%
 September 1.7%

Health

October 0.2%
 September 0.3%

Transport

October 11.3%
 September 11.0%

Communication

October 0.0%
 September 0.0%

Recreation Services & Culture

October 0.2%
 September 0.6%

Education

October -0.1%
 September -0.1%

Restaurants & Hotels

October 0.6%
 September 0.3%

Miscellaneous Goods & Services

October -0.2%
 September -0.5%

HIGHER CPI WAS DRIVEN BY COST OF TRANSPORT AND HOUSING, WATER, ELECTRICITY, GAS & OTHER FUELS

	Weight	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	10M2020	10M2021
Consumer Price Index (CPI)	100.0%	-0.2%	0.1%	1.7%	4.7%	4.4%	3.4%	2.2%	2.0%	2.2%	2.9%	-1.1%	2.3%
Food and 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%	1.2%	1.6%
Alcoholic Beverages and 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%	0.5%
Clothing and Footwear	3.2%	-0.4%	-0.4%	-0.3%	-0.4%	-0.5%	-0.4%	-0.4%	-0.4%	-0.5%	-0.4%	-0.9%	-0.4%
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%	-1.4%	1.3%
Furnishings, Household Equipment and Routine Household Maintenance	4.1%	0.2%	0.3%	0.9%	1.6%	2.1%	2.0%	1.7%	1.7%	1.7%	2.1%	0.3%	1.5%
Health	1.9%	0.7%	0.7%	0.5%	0.5%	0.6%	0.5%	0.4%	0.3%	0.3%	0.2%	1.2%	0.5%
Transport	14.6%	-5.1%	-2.0%	9.8%	27.0%	26.0%	16.6%	11.6%	11.0%	11.0%	11.3%	-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%	1.4%	0.0%
Recreation and Culture	4.8%	0.1%	0.1%	0.5%	0.7%	0.6%	0.6%	0.6%	0.7%	0.6%	0.2%	0.6%	0.5%
Education	1.3%	0.2%	0.1%	0.0%	0.2%	0.3%	0.5%	0.1%	0.0%	-0.1%	-0.1%	1.1%	0.1%
Restaurants and Hotels	2.9%	-0.1%	-0.3%	0.0%	0.2%	0.2%	0.5%	0.7%	0.6%	0.3%	0.6%	0.5%	0.2%
Miscellaneous Goods and Services	6.7%	1.8%	1.6%	1.0%	1.2%	0.7%	0.3%	0.1%	-0.6%	-0.5%	-0.2%	2.7%	0.6%
Core CPI		0.7%	0.7%	0.7%	0.7%	0.8%	0.7%	0.7%	0.6%	0.6%	0.7%	1.2%	0.7%

Sources: DOSM, CEIC

1

Malaysia's Consumer Price Index (CPI) increased further by 2.9% year-on-year (y-o-y) in October, (September: 2.2%), marking a positive growth for nine straight months. **(Consensus: 2.8%, Bank Islam: 2.3%)**

2

The main upward pressure was contributed by the double-digit growth of Transport at 11.3% in October, extending a gain of 11.0% in the previous month due to rising in fuel prices, mirroring the hike in global oil prices.

3

Similarly, the price for Housing, Water, Electricity, Gas & Other Fuels jumped by 3.2% during the said month (September: 0.7%), following the discontinuation of three-month monthly electricity discount offered under PEMULIH package that ended on 30 September 2021.

4

Meanwhile, Food and Non-Alcoholic Beverages which formed a sizeable share of 29.5% out of total CPI recorded a sustained growth in October of 1.9% (September: 1.9%).

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The Core CPI which excludes most volatile items of fresh food, as well as administered prices of good and services was fairly stable at 0.7% in October (September: 0.6%), suggesting that the pass through effect could be somewhat muted.

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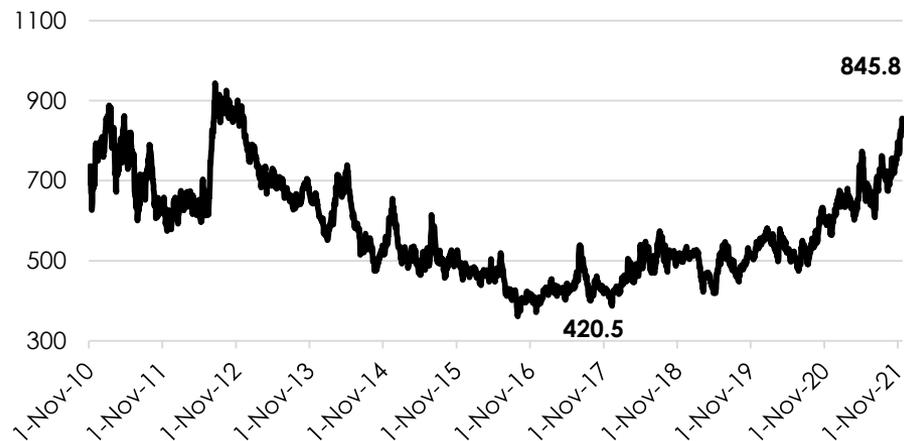
Cumulatively, the CPI rebounded by 2.3% in 10M2021 from a 1.1% contraction in the same period last year. However, the Core CPI moderated by 0.7% in the same period this year (10M2020: 1.2%).

States	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	10M2020	10M2021
Nationwide	-0.2%	0.1%	1.7%	4.7%	4.4%	3.4%	2.2%	2.0%	2.2%	2.9%	-1.1%	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%	-0.5%	1.9%
Selangor & WP Putrajaya	0.2%	0.4%	1.9%	4.7%	4.5%	3.5%	2.4%	2.0%	2.2%	3.1%	-0.5%	2.5%
Melaka	-0.6%	-0.2%	1.3%	4.4%	4.1%	3.2%	2.0%	2.0%	2.3%	3.1%	-1.8%	2.1%
Negeri Sembilan	-0.5%	-0.1%	1.8%	5.0%	4.7%	3.5%	2.1%	2.0%	2.2%	3.2%	-1.5%	2.4%
Johor	-0.8%	-0.2%	1.5%	4.9%	4.6%	3.4%	2.1%	2.0%	2.4%	3.1%	-1.3%	2.3%
Pahang	0.1%	0.2%	1.9%	5.6%	5.1%	3.9%	2.5%	2.4%	2.8%	3.7%	-1.1%	2.8%
Kelantan	0.2%	0.7%	2.3%	5.7%	5.6%	4.1%	2.4%	2.4%	2.8%	3.6%	-1.5%	2.9%
Terengganu	0.3%	0.8%	2.8%	6.3%	6.2%	4.4%	2.8%	2.6%	3.1%	3.9%	-1.3%	3.3%
Kedah & Perlis	-0.8%	-0.3%	1.6%	5.1%	4.8%	3.5%	2.1%	2.1%	2.4%	3.2%	-1.7%	2.4%
Pulau Pinang	0.0%	0.2%	1.5%	3.9%	3.7%	2.9%	1.8%	1.6%	1.8%	2.5%	-0.8%	2.0%
Perak	-0.1%	0.2%	1.7%	4.7%	4.5%	3.6%	2.2%	2.1%	2.5%	3.4%	-1.2%	2.4%
Sabah & WP Labuan	-1.5%	-1.0%	0.8%	3.9%	3.6%	2.6%	1.4%	1.4%	1.4%	2.1%	-1.8%	1.5%
Sarawak	-1.2%	-0.7%	1.2%	4.3%	4.1%	2.9%	2.3%	2.4%	2.5%	2.4%	-1.7%	2.0%

Sources: CEIC, DOSM

- ✓ Majority of the states recorded an increase in prices with nine states such as Terengganu (October: 3.9% vs. September: 3.1%), Pahang (October: 3.7% vs. September: 2.8%), Kelantan (October: 3.6% vs. September: 2.8%), Perak (October: 3.4% vs. September: 2.5%), Negeri Sembilan (October: 3.2% vs. September: 2.2%), Kedah & Perlis (October: 3.2% vs. September: 2.4%), Selangor & WP Putrajaya (October: 3.1% vs. September: 2.2%), Melaka (October: 3.1% vs. September: 2.3%) and Johor (October: 3.1% vs. September: 2.4%), surpassing the national inflation rate of 2.9% in October.
- ✓ Meanwhile, Sarawak was the only state that saw a slower price increase of 2.4% during the month compared to the month before whereby prices rose by 2.5%.
- ✓ Cumulatively, all states posted higher inflation during 10M2021 as compared to the same period last year, led by Terengganu and Kelantan, which rose by 3.3% (10M2020: -1.3%) and 2.9% (10M2020: -1.5%) respectively.

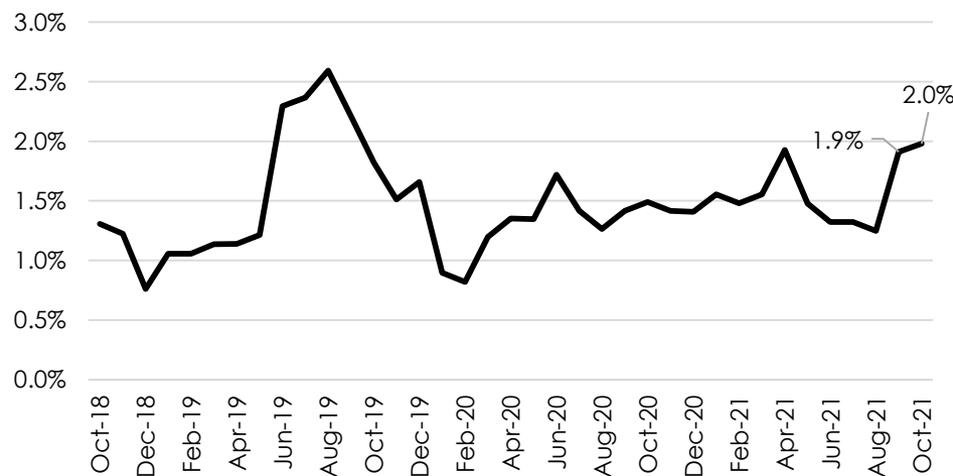
U.S Wheat Futures, USD per bushel



Source: Investing.co

*Data as at 24 November 2021

CPI: Food, y-o-y%



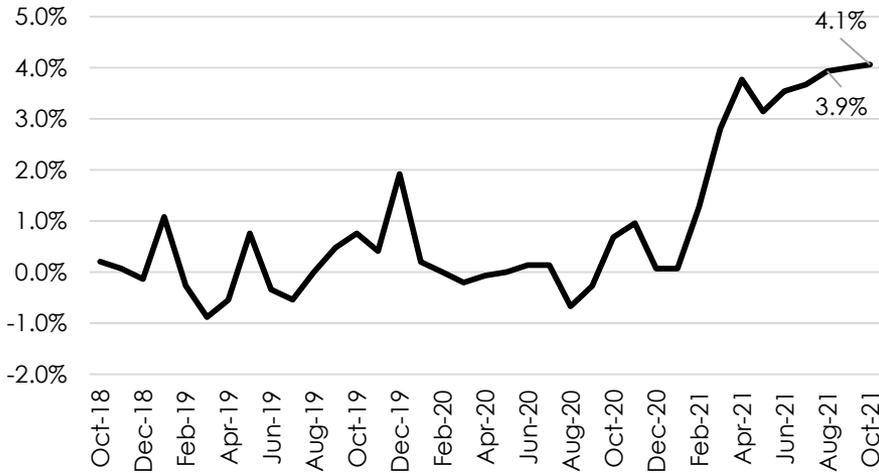
Source: CEIC

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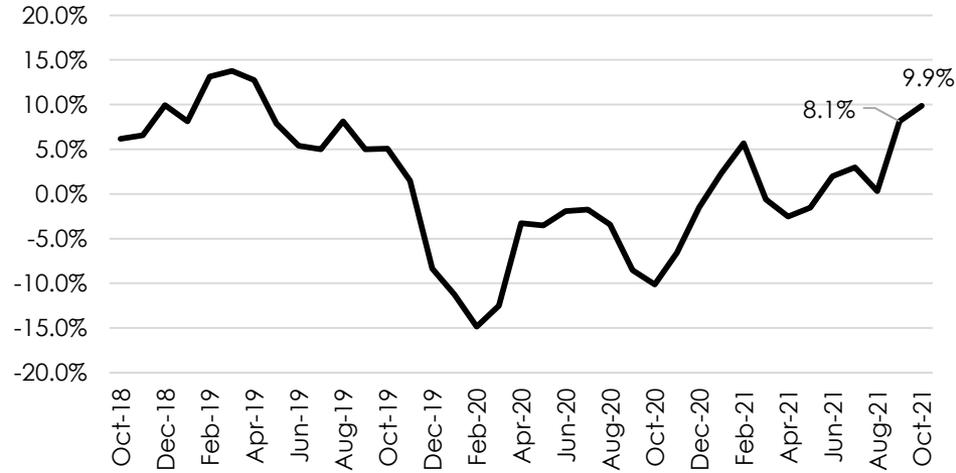
- ✓ The prolonged supply disruption amplified by port congestions and global warming has caused the food inflation to be elevated across the world.
- ✓ The wheat price jumped by more than 40.0% (24 November 2021: USD836.8 per bushel vs. 30 November 2020: USD580.3 per bushel) in the last 12 months after major exporters such as Canada, Russia and the U.S. had poor harvests following unfavorable weather conditions.
- ✓ This was somewhat in tandem with the move of local bread producer Gardenia Bakeries to revise the retailer and consumer prices of most of its products effective from 1 December 2021. According to Gardenia, this is due to the hike in the cost of raw materials which includes wheat and freight charges.
- ✓ For instance, the new price for a loaf of Gardenia Original Classic 400g bread will be raised to RM2.80 from RM2.38, representing a 17.6% increase.
- ✓ In addition, the price for chicken meat also went up from RM4.8 per kg on 25 January to RM6.2 per kg on 13 October.
- ✓ Therefore, the rise in raw material prices would be another pressure point for the food supply chain that is already grappling with labour shortages.
- ✓ Following this, we foresee the food inflation to persist for a period of time as the impact will be felt by household and government, especially nation reliant on imports.

SOME OF THE FOOD PRODUCTS WHICH RECORDED A SIGNIFICANT RISE IN PRICE

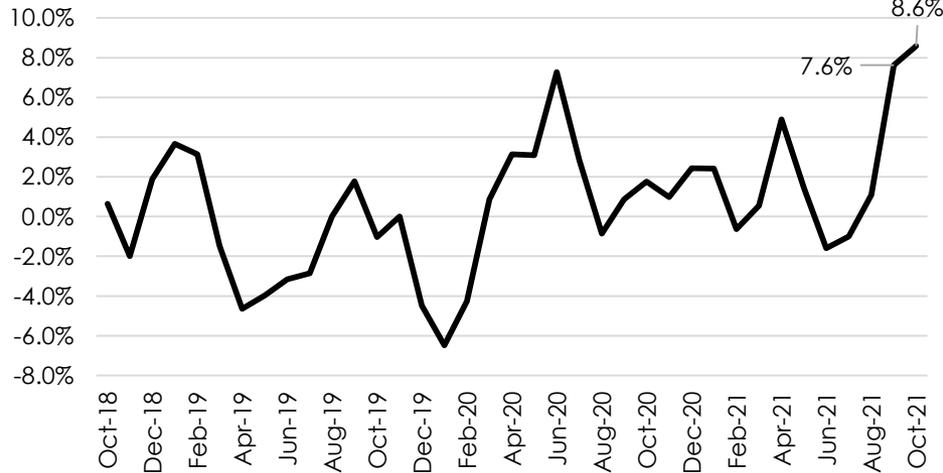
CPI: Fresh Fish, y-o-y%



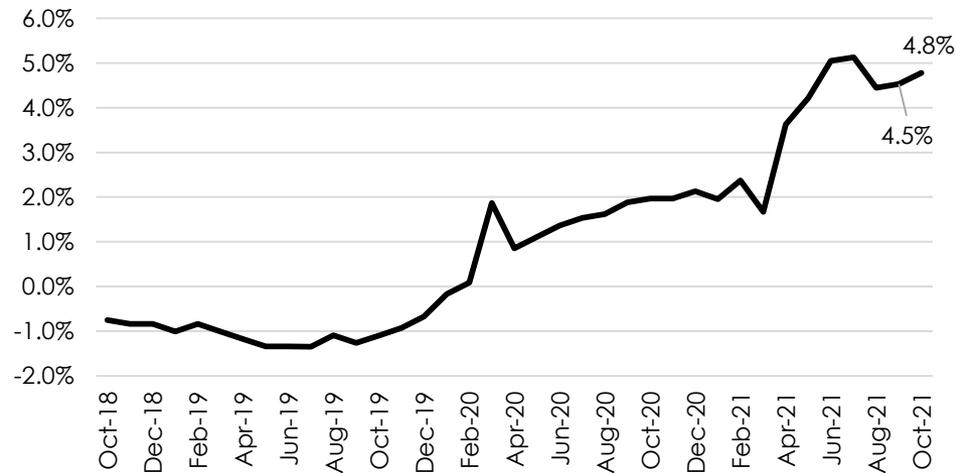
CPI: Eggs, y-o-y%



CPI: Fresh Meat, y-o-y%

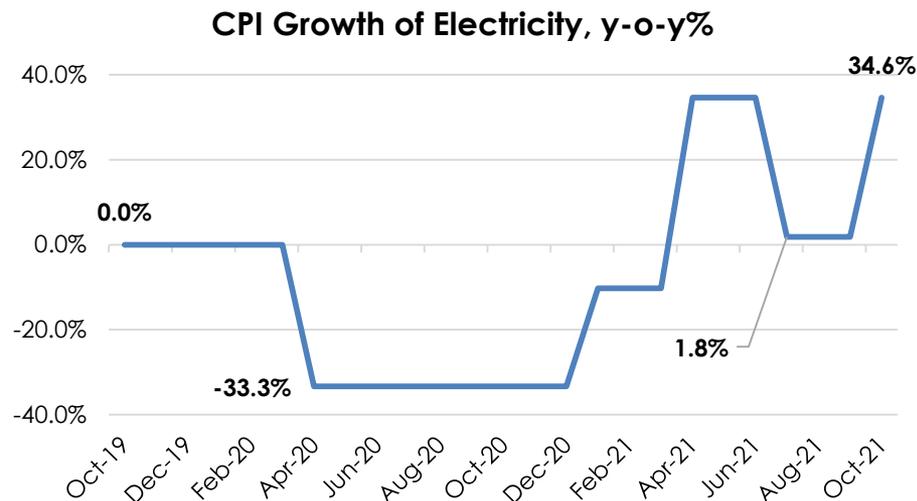


CPI: Oils, y-o-y%

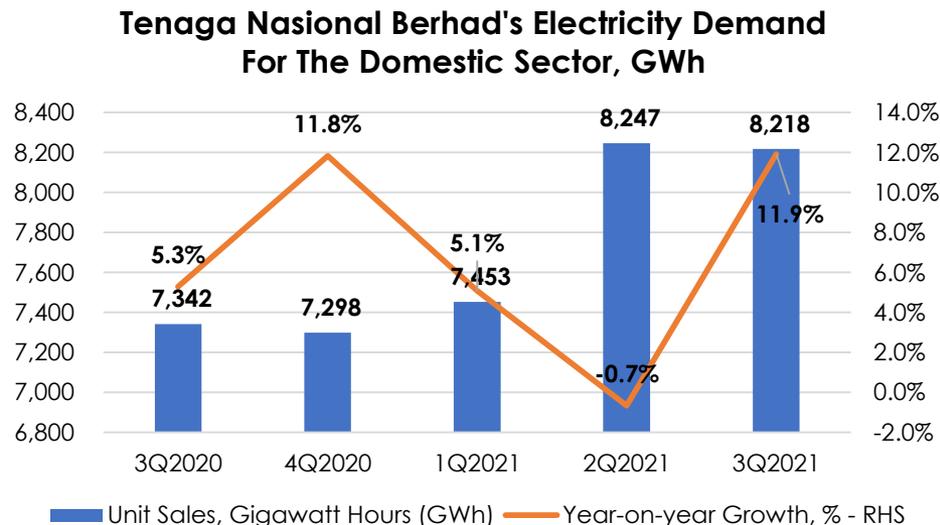


THE LAPSE OF ELECTRICITY BILL DISCOUNTS FOR CONSUMERS FUELLED THE RISE IN PRICES OF ELECTRICITY

- ✓ The CPI of electricity saw a remarkable growth of 34.6% y-o-y in October following three-straight months of growth remaining at 1.8% from July to September.
- ✓ As highlighted earlier, the PEMULIH electricity bill discount for domestic and Micro Small and Medium Enterprises (MSMEs) was only valid from 1 July to 30 September.
- ✓ Moreover, there was also a low base effect from last year as the CPI growth of electricity contracted by 33.3% from April to December last year following the electricity bill discounts given under the Prihatin Rakyat economic package during the same period in that year.
- ✓ The resumption of inter-state travel from 11 October may have also led to people staying at home stay accommodations during their holiday. Home stay accommodations which are most likely parked under the domestic consumer category would then have experienced an increase in electricity consumption.
- ✓ On further scrutiny, Tenaga Nasional Berhad (TNB)'s electricity demand for the domestic sector saw a 11.9% increase in 3Q2021 (2Q2021: -0.7%). This was even before the resumption of inter-state travel was allowed.
- ✓ Henceforth, we cannot discount the possibility of stronger electricity consumption by domestic consumers combined with higher electricity prices in the months to come.



Source: CEIC



Source: TNB

- ✓ Looking ahead for the remainder of 4Q2021, the elevated commodity prices would continue to exert inflationary pressures. For instance, the Brent crude oil price has risen by 60.9% from the start of the year as at 25 November amid the pickup seen in the aviation industry following loosened travel restrictions, bolstering further demand for jet fuel.
- ✓ Even on the corporate level, Nestle’s headquarter in Switzerland raised its sales guidance in late October, saying that it now expects a full-year organic growth of 6.0% to 7.0% for its sales. This is after strong coffee sales and price hikes to the tune of 2.1% which pushed organic sales 6.5% higher in 3Q2021 in the wake of input cost inflation. At the same time, Nestle (Malaysia) Berhad recorded a net profit of RM148.0 million in 3Q2021 (2Q2021: RM134.5 million) and warned that rising commodity prices such as coffee will be their key challenge ahead.
- ✓ Notwithstanding these aforementioned matters, the U.S. President Joe Biden plans to release 50.0 million barrels of oil from its Strategic Petroleum Reserve, the biggest release in the history of the U.S.. China will also join the coordinated global efforts to release oil reserves “based on its own needs” which may limit the upside in global oil prices and subsequently petrol prices in Malaysia that are not subsidised, namely RON 97 fuel.

Coffee Futures, USD per lbs



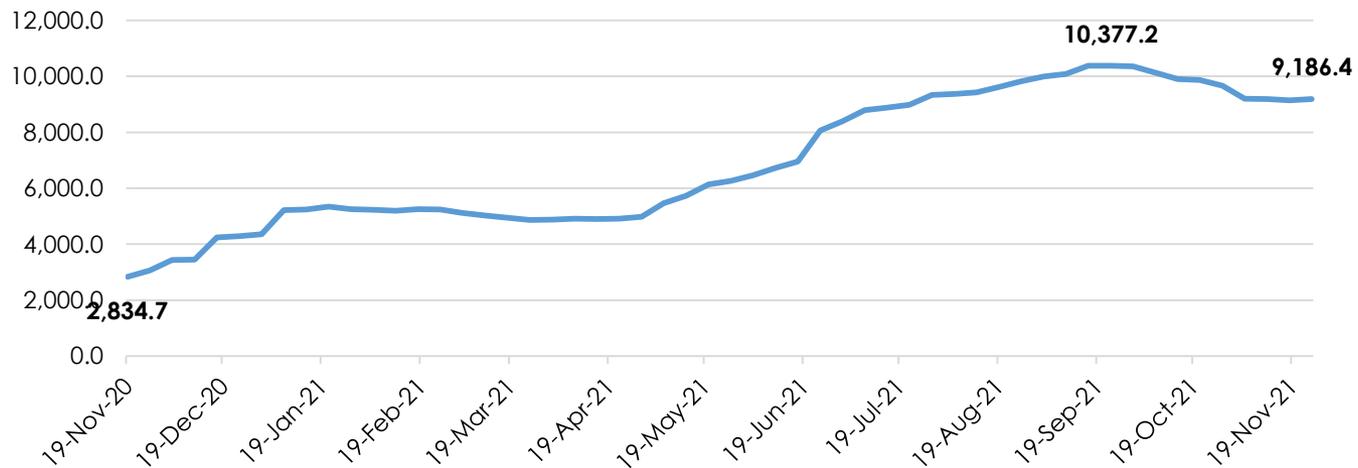
Source: CEIC

Brent Crude Oil Price, USD per barrel



- ✓ In addition, freight rates (which have been said to be one of the major determinants of the higher global inflation) have been showing some signs of easing recently.
- ✓ For example, the World Container Index published by Drewry Maritime Research which provides weekly assessments of container freight rates saw a 8.9% decline to reach USD9,186.4 per 40 foot container on 25 November after touching a historical high of USD10,377.2 per 40 foot container on 23 September.
- ✓ Perhaps, manufacturers and other businesses may have been able to streamline their supply chain processes to mitigate any possible bottlenecks.
- ✓ All in all, **we are revising our CPI growth forecast to 2.3% in 2021 (previously 2.5%) following a -1.1% growth in 2020.**
- ✓ Although the surge in consumer spending in the coming months prior to festive seasons such as Christmas and Chinese New Year is inevitable, we have to bear in mind about the price administered goods under the Price Control and Anti-Profitteering Act 2011 (PCAPA 2011) which includes food items such as rice, fresh meat, oils, flour and other cereal grains. Non-food items like gas, fuels and lubricants are also covered under the PCAPA 2011. As such, we believe that the price administered goods will be able to contain overall inflationary pressures, especially with regard to food products moving forward.

World Container Index, USD per 40 foot container



Source: Drewry Maritime Research

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