



From the Desk
of the
Chief Economist

BANK ISLAM

CPI GREW FASTER AT 2.2% IN SEPTEMBER

22 OCTOBER 2021

ECONOMIC RESEARCH

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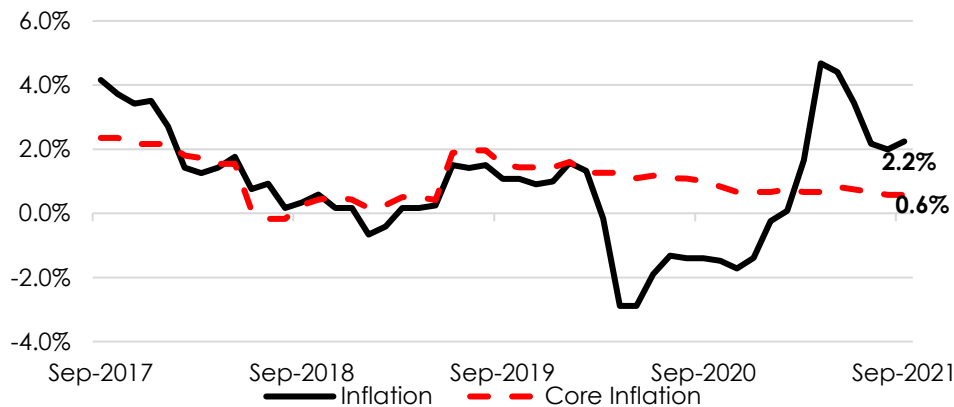
RAJA ADIBAH RAJA HASNAN

INFLATION RATE INCREASED BY 2.2% IN SEPTEMBER

01 **Headline Inflation**
 September **2.2%**
 August **2.0%**

02 **Core Inflation**
 September **0.6%**
 August **0.6%**

Inflation Rate, y-o-y% (Sept 2017 – Sept 2021)




Source: CEIC

Food & Non-Alcoholic Beverages

 **September 1.9%**
August 1.2%

Alcoholic Beverages & Tobacco

 **September 0.4%**
August 0.4%

Clothing & Footwear

 **September -0.5%**
August -0.4%


Housing, Water, Electricity, Gas & Other Fuels

 **September 0.7%**
August 0.6%

Furnishings, Household Equipment & Routine Household Maintenance

 **September 1.7%**
August 1.7%


Health

 **September 0.3%**
August 0.3%


Transport

 **September 11.0%**
August 11.0%


Communication

 **September 0.0%**
August 0.0%


Recreation Services & Culture

 **September 0.6%**
August 0.7%


Education

 **September -0.1%**
August 0.0%

Restaurants & Hotels

 **September 0.3%**
August 0.6%

Miscellaneous Goods & Services

 **September -0.5%**
August -0.6%

HIGHER CPI WAS DRIVEN BY COST OF FOOD & NON-ALCOHOLIC BEVERAGES, AS WELL AS 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	2Q 2021	3Q 2021	9M2020	9M2021
Consumer Price Index	100.0%	-0.2%	0.1%	1.7%	4.7%	4.4%	3.4%	2.2%	2.0%	2.2%	4.1%	2.2%	-1.0%	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%	1.6%	1.4%	1.2%	1.5%
Alcoholic Beverages & Tobacco	2.4%	0.7%	0.7%	0.6%	0.7%	0.7%	0.7%	0.5%	0.4%	0.4%	0.7%	0.4%	0.3%	0.5%
Clothing & Footwear	3.2%	-0.4%	-0.4%	-0.3%	-0.4%	-0.5%	-0.4%	-0.4%	-0.4%	-0.5%	-0.5%	-0.4%	-1.0%	-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%	0.7%	-1.2%	1.0%
Furnishings, Household Equipment & Routine Household Maintenance	4.1%	0.2%	0.3%	0.9%	1.6%	2.1%	2.0%	1.7%	1.7%	1.7%	1.9%	1.7%	0.3%	1.4%
Health	1.9%	0.7%	0.7%	0.5%	0.5%	0.6%	0.5%	0.4%	0.3%	0.3%	0.6%	0.3%	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%	23.0%	11.2%	-10.0%	10.9%
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%	1.5%	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%	0.6%	0.6%	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%	0.3%	0.0%	1.1%	0.1%
Restaurants & Hotels	2.9%	-0.1%	-0.3%	0.0%	0.2%	0.2%	0.5%	0.7%	0.6%	0.3%	0.3%	0.5%	0.6%	0.2%
Miscellaneous Goods & Services	6.7%	1.8%	1.6%	1.0%	1.2%	0.7%	0.3%	0.1%	-0.6%	-0.5%	0.7%	-0.3%	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%	0.7%	1.2%	0.7%

Sources: DOSM, CEIC

1

Malaysia's Consumer Price Index (CPI) rose by 2.2% year-on-year (y-o-y) in September, extending a gain of 2.0% in the previous month amid a low base effect from last year. **(Consensus: 2.1%).**

2

The upturn was contributed by the rising in Food & Non-Alcoholic Beverages (September: 1.9% vs. August: 1.2%) in September which forms a sizeable share of 29.5% out of the total CPI.

3

Apart from that, the cost for Housing, Water, Electricity, Gas & Other Fuels (September: 0.7% vs. August: 0.6%) increased at a faster pace during the said month.

4

Meanwhile, Transport grew by 11.0% in September, the same as previous month while maintaining its double-digit growth for seventh consecutive months since March.

5

The Core CPI which excludes most volatile items of fresh food, as well as administered prices of good and services remains unchanged at 0.6% in September (August: 0.6%).

6

On a quarterly basis, the inflation rate moderated by 2.2% in 3Q2021 (2Q2021: 4.1%) while the core inflation remains unchanged at 0.7% in the same period (2Q2021: 0.7%). As for 9M2021, the inflation rate rebounded by 2.3% from a 1.0% contraction in 9M2020. Nevertheless, the core inflation grew at a slower rate of 0.7% in 9M2021 after increasing by 1.2% in 9M2020.

ALL STATES RECORDED HIGHER INFLATION EXCEPT FOR W.P. KUALA LUMPUR

	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	2Q2021	3Q2021	9M2020	9M2021
Malaysia	-0.2%	0.1%	1.7%	4.7%	4.4%	3.4%	2.2%	2.0%	2.2%	4.1%	2.2%	-1.0%	2.3%
W.P. Kuala Lumpur	0.1%	0.2%	1.5%	3.8%	3.7%	3.0%	2.0%	1.6%	1.5%	3.5%	1.7%	-0.5%	1.9%
Selangor & W.P. Putrajaya	0.2%	0.4%	1.9%	4.7%	4.5%	3.5%	2.4%	2.0%	2.2%	4.2%	2.2%	-0.5%	2.4%
Melaka	-0.6%	-0.2%	1.3%	4.4%	4.1%	3.2%	2.0%	2.0%	2.3%	3.9%	2.1%	-1.8%	2.0%
Negeri Sembilan	-0.5%	-0.1%	1.8%	5.0%	4.7%	3.5%	2.1%	2.0%	2.2%	4.4%	2.1%	-1.5%	2.3%
Johor	-0.8%	-0.2%	1.5%	4.9%	4.6%	3.4%	2.1%	2.0%	2.4%	4.3%	2.2%	-1.3%	2.2%
Pahang	0.1%	0.2%	1.9%	5.6%	5.1%	3.9%	2.5%	2.4%	2.8%	4.8%	2.6%	-1.0%	2.7%
Kelantan	0.2%	0.7%	2.3%	5.7%	5.6%	4.1%	2.4%	2.4%	2.8%	5.1%	2.6%	-1.4%	2.9%
Terengganu	0.3%	0.8%	2.8%	6.3%	6.2%	4.4%	2.8%	2.6%	3.1%	5.6%	2.8%	-1.3%	3.2%
Kedah & Perlis	-0.8%	-0.3%	1.6%	5.1%	4.8%	3.5%	2.1%	2.1%	2.4%	4.5%	2.2%	-1.6%	2.3%
Pulau Pinang	0.0%	0.2%	1.5%	3.9%	3.7%	2.9%	1.8%	1.6%	1.8%	3.5%	1.7%	-0.7%	1.9%
Perak	-0.1%	0.2%	1.7%	4.7%	4.5%	3.6%	2.2%	2.1%	2.5%	4.2%	2.3%	-1.1%	2.3%
Sabah & W.P. Labuan	-1.5%	-1.0%	0.8%	3.9%	3.6%	2.6%	1.4%	1.4%	1.4%	3.4%	1.4%	-1.7%	1.4%
Sarawak	-1.2%	-0.7%	1.2%	4.3%	4.1%	2.9%	2.3%	2.4%	2.5%	3.8%	2.4%	-1.6%	2.0%

Sources: CEIC, DOSM

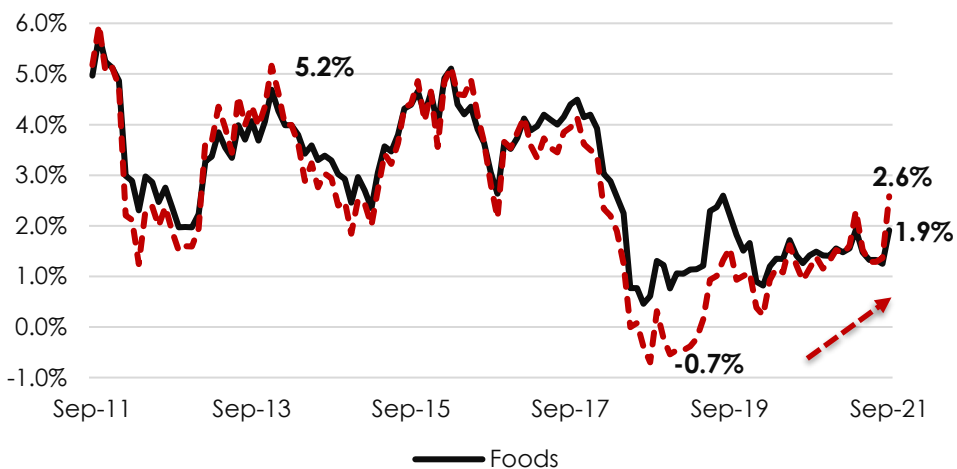
- ✓ Most of the states reported an increase in prices during September with the highest inflation seen in Terengganu which rose by 3.1% in September from 2.6% previously. This was followed by Pahang (September: 2.8% vs. August: 2.4%), Kelantan (September: 2.8% vs. August: 2.4%), Perak (September: 2.5% vs. August: 2.1%) and Sarawak (September: 2.5% vs. August: 2.4%). Nevertheless, W.P. Kuala Lumpur was the only state that registered a softer inflation rate of 1.5% in September compared to 1.6% in August.
- ✓ On a cumulative basis, consumer prices in all states have rebounded during first nine months this year. Within the states, Terengganu recorded the highest inflation of 3.2% during 9M2021 (9M2020: -1.3%) while Sabah & W.P. Labuan posted the softest increase consumer prices at 1.4% in 9M2021 (9M2020: -1.7%).

Countries	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	2Q2021	3Q2021	9M2020	9M2021
Malaysia	-0.2%	0.1%	1.7%	4.7%	4.4%	3.4%	2.2%	2.0%	2.2%	4.1%	2.2%	-1.0%	2.3%
Indonesia	1.6%	1.4%	1.4%	1.4%	1.7%	1.3%	1.5%	1.6%	1.6%	1.5%	1.6%	2.2%	1.5%
Thailand	-0.3%	-1.2%	-0.1%	3.4%	2.4%	1.2%	0.5%	0.0%	1.7%	2.4%	0.7%	-1.0%	0.8%
Philippines	4.2%	4.7%	4.5%	4.5%	4.5%	4.1%	4.0%	4.9%	4.8%	4.4%	4.6%	2.5%	4.5%
Singapore	0.2%	0.7%	1.3%	2.1%	2.4%	2.4%	2.5%	2.4%	n/a	2.3%	n/a	-0.2%	n/a
India	4.1%	5.0%	5.5%	4.2%	6.3%	6.3%	5.6%	5.3%	4.3%	5.6%	5.1%	6.7%	5.2%
U.S.	1.4%	1.7%	2.6%	4.2%	5.0%	5.4%	5.4%	5.3%	5.4%	4.8%	5.3%	1.2%	4.0%
China	-0.3%	-0.2%	0.4%	0.9%	1.3%	1.1%	1.0%	0.8%	0.7%	1.1%	0.8%	3.3%	0.6%

Sources: CEIC, DOSM

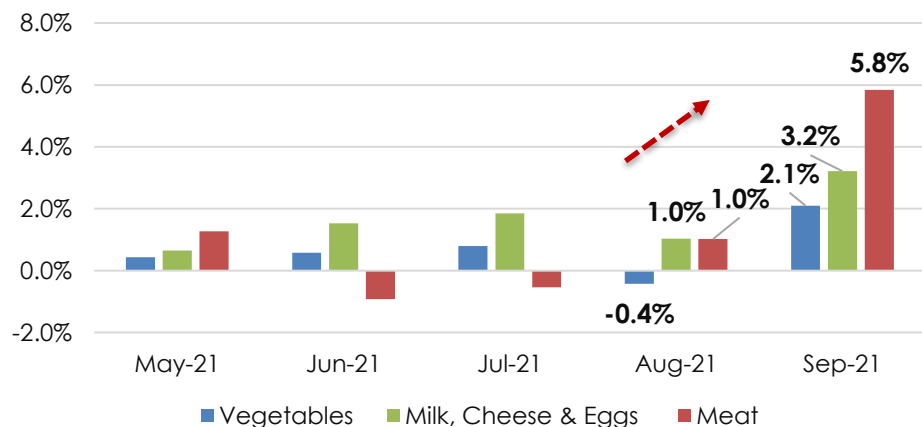
- ✓ Some of Malaysia's regional peers recorded a softer price increase such as the Philippines, India and China, while Malaysia and the U.S. were seen an uptick in their price inflation.
- ✓ However, the U.S. inflation rate reached 5.4% in September (August: 5.3%), the highest level in 13 years amid rising concerns over supply chain bottlenecks and accelerating consumer demand, which have lifted the cost of good and services.
- ✓ On further scrutiny, inflationary pressure was prevalent in the costs of food, rising by 4.6% y-o-y in September (August: 3.7%), a figure not seen since December 2011. Apart from that, energy prices continued to increase at a double-digit growth for the seventh straight month since March this year (September: 24.8% vs. August: 25.0%), contributing to the higher overall price index level in September. As the fossil fuel industry is vulnerable to extreme weather, this is one of the reasons why energy prices have been surging recently.
- ✓ Thus far, a gauge of the U.S. inflation expectation for the next five years which is the 5-year breakeven inflation rate has reached its highest level in more than 16 years at 2.77% as at 22 October, suggesting that the price pressures will continue into next year.

Foods vs. Food Away From Home, y-o-y%



Sources: CEIC, DOSM

Costs of Food, y-o-y% (May - September, 2021)



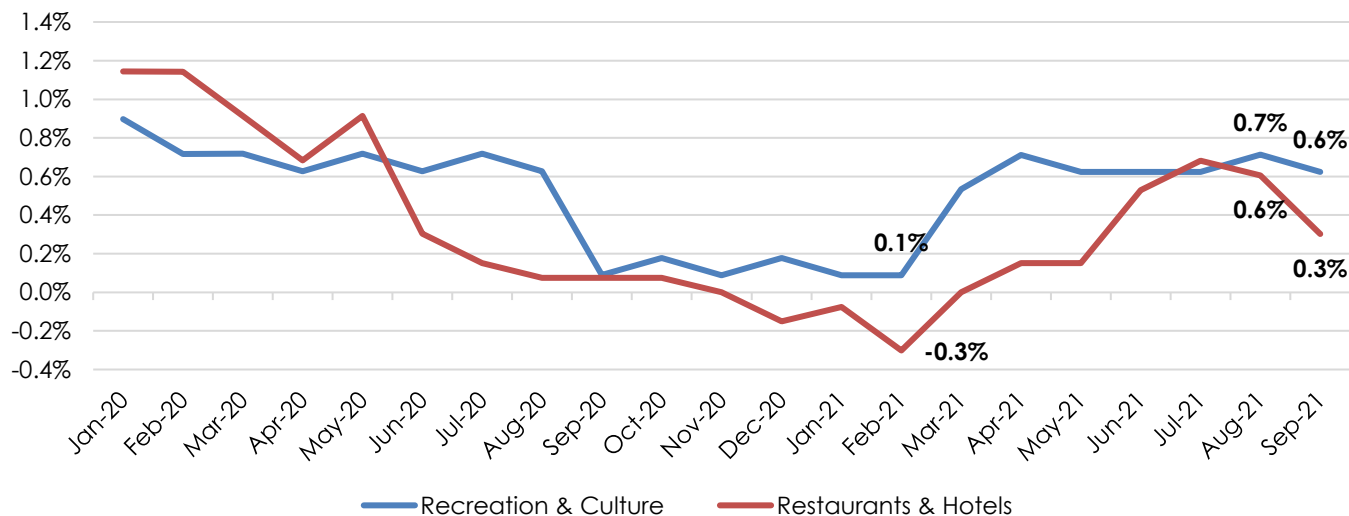
Sources: CEIC, DOSM

- ✓ The rise in the cost of goods particularly for essential products continues to be a pressing issue in Malaysia as consumers are gradually losing their purchasing power.
- ✓ This can be seen from the costs of foods, which rose by 1.9% y-o-y in September from a 1.2% growth in the preceding month with the majority of the sub-groups registering an increase in price.
- ✓ Costs of meat recorded the highest price inflation, surging by 5.8% in September (August: 1.0%) driven by the increase in the average price of chicken at RM9.35 per kilogram (kg) in September (August: RM8.52/kg) as compared to RM8.50/kg in the same period last year.
- ✓ This was followed by costs of milk, cheese & eggs (September: 3.2% vs. August: 1.0%), as well as vegetables (September: 2.4% vs. August: -0.4%) during September.
- ✓ Consequently, low income earners who spend a larger share of their family budget on foods would experience a higher rate of inflation when food prices rise faster than prices of other products.

PRICES FOR RECREATION & CULTURE AND RESTAURANT & HOTELS HAVE YET TO PICK UP BUT SIGNS OF TRACTION ARE THERE

- ✓ The CPI growth for Recreation & Culture (September: 0.6% vs. August: 0.7%) and Restaurants & Hotels (September: 0.3% vs. August: 0.6%) were slower as inter-state travel was still not allowed.
- ✓ Signs of recovery in the hospitality sector in some states has been clear following the lifting of the inter-state travel ban. For example, hotel occupancy rates in Johor Bahru and Muar have increased up to 80.0% at some establishments since the inter-state travel was allowed on 11 October according to Johor state executive committee member, Datuk Onn Hafiz Ghazi.
- ✓ Meanwhile, hotels in Pangkor Island, Perak have recorded a 78.0% occupancy rate, making it the highest number of rooms booked in the state since the reopening of state borders.
- ✓ In light of the uptick in demand for the hospitality sector, it is important to note that about half of the 2,300 members of the Malaysia Budget Hotel Association have closed down due to the pandemic.
- ✓ Given the drop in supply of hotels combined with the surge in demand for accommodations, price increases for hotel fares is inevitable in the coming months especially in December.

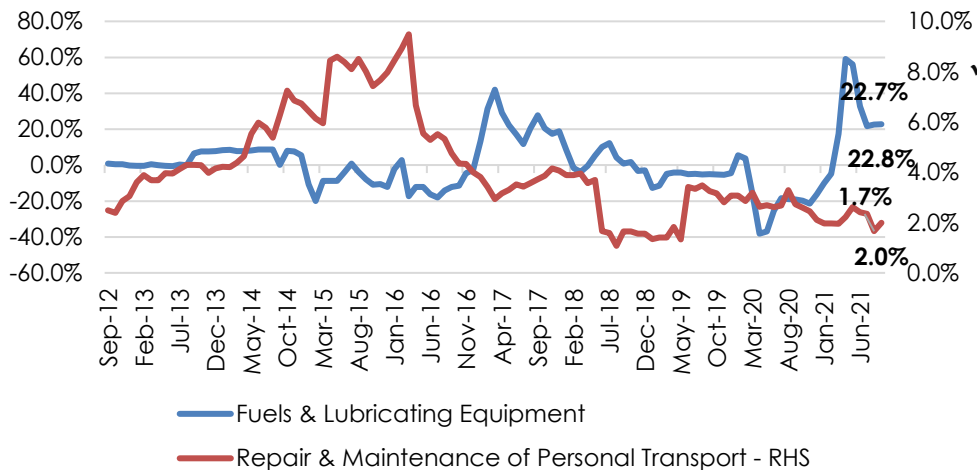
CPI Growth for Recreation & Culture and Restaurant & Hotels, y-o-y%



Source: CEIC

PRICES FOR REPAIR & MAINTENANCE OF PERSONAL TRANSPORT EQUIPMENT GREW FASTER AMID INCREASED MOBILITY

Cost of Fuels & Lubricating Equipment vs. Cost of Repair & Maintenance of Personal Transport, y-o-y%

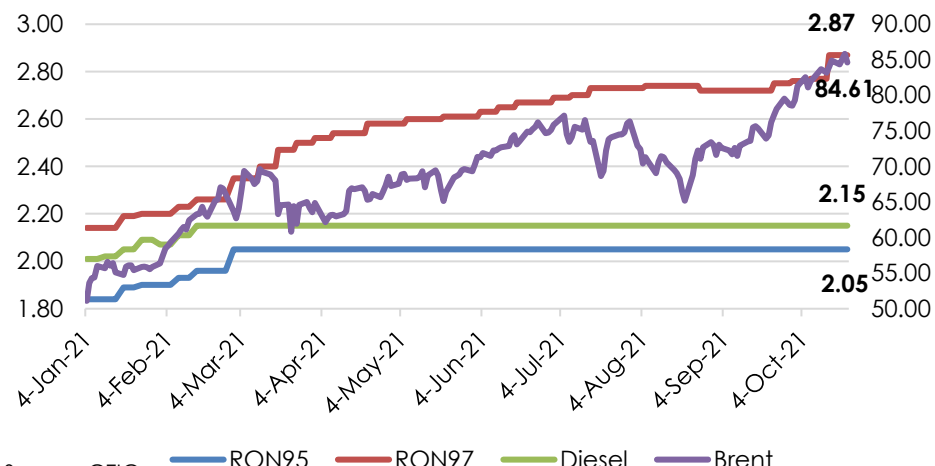


Source: CEIC

- ✓ Meanwhile, the prices of Fuels & Lubricants For Personal Transport grew by 22.7% in September (August: 22.8%).
- ✓ The rate of change in prices of Fuels & Lubricants For Personal Transport Equipment sub-component was little changed despite the gradual advance in Brent crude oil price, gaining by 63.2% on a Year-To-Date (YTD) basis .
- ✓ The reason being is that the prices of RON95 and Diesel remained to be capped at RM2.05 per litre and RM2.15 per litre respectively.
- ✓ We believe that the government's move to impose a ceiling on petrol prices would help to contain the overall inflationary pressures in the Transport sector.

- ✓ Under the Transport sector, the Operation of Personal Transport Equipment sub-sector saw its CPI grow by 14.8% y-o-y in September (August: 14.7%).
- ✓ On further scrutiny, prices for the Repair & Maintenance of Personal Transport rose stronger by 2.0% in September compared to 1.7% in the previous month. We opine that this could be due to less stricter movement restrictions whereby inter-district travel was allowed within Selangor, Putrajaya and Kuala Lumpur starting from 10 September. Therefore, more people may have done some maintenance work on their vehicles prior to travelling to other districts especially for leisure purposes.

Malaysia Petrol Prices, RM per litre vs. Brent Crude Oil Price, USD per barrel

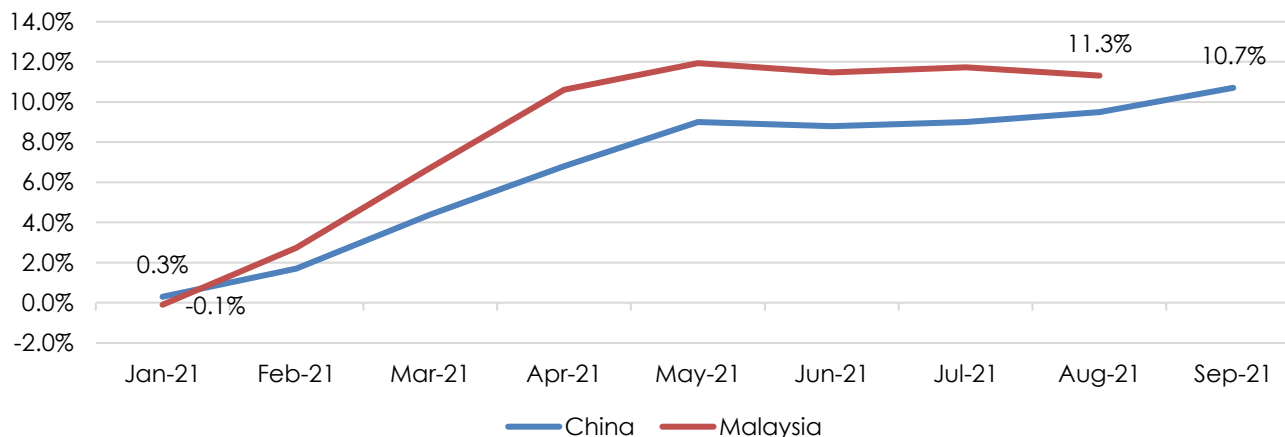


Source: CEIC

Note: As at 21 October 2021

- ✓ Looking ahead for the remainder of 4Q2021, festivities such as Deepavali and Christmas will likely bolster consumer spending especially after inter-state travel has been allowed to resume effective from 11 October. People celebrating these festivities will take the opportunity to visit their family members during the festive period after a series of lockdowns and hence, the rise in expenditure for food, drinks and furniture is inevitable.
- ✓ While overseas travel is allowed for Malaysians but subject to a 14-day quarantine on return, Malaysians are expected to prefer domestic travel in the next three to six months as they remain cautious about the infection risks. Therefore, spending related to travel and tourism is likely to be focused within Malaysia.
- ✓ As we foresee pent-up demand to be unleashed in the coming months based on the aforementioned matters, risks of a prolonged inflationary environment remains amid a global rush for raw materials. This is evident through China's producer price inflation which grew by 10.7% y-o-y, the fastest rise in almost 26 years. Chinese factories could also face a hike in electricity costs due to a power crunch. We strongly believe that suppliers in China will not simply absorb the higher overhead costs but instead pass it over to customers.
- ✓ Given that China is Malaysia's major trading partner, contributing 23.4% of Malaysia's imports in 8M2021, the manufacturers in Malaysia could likely bear the brunt of higher prices. However, a second-round effect may occur if the increase in costs is reflected in prices charged to consumers.
- ✓ All in all, **we stand firm with our CPI growth forecast of 2.5% in 2021 following a -1.1% growth in 2020 based on the aforementioned factors.** As mentioned earlier, we foresee inflationary pressures to pick up in 4Q2021 owing to the pent-up demand. At the same time, we have to be cognizant that prices tend to be stickier on the upside.

Producer Price Index Growth of China and Malaysia, 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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