

## ECONOMIC REVIEW | July 2021 Consumer Price Index

# Headline Inflation Moderated Further in Jul-21 As Expected

- **Inflation moderated further.** Malaysia's consumer price index (CPI) inflation moderated to +2.2%yoy in Jul-21 (Jun-21: +3.4%yoy). The deceleration in the pace of price increases was more than what we expected mainly due to the lower inflation in transport CPI (+11.6%yoy; Jun-21: +16.6%yoy) and prices of housing & utility charges (+0.7%yoy; Jun-21: 3.2%yoy). The core CPI inflation was unchanged at +0.7%yoy (May-21: +0.8%yoy), indicating low underlying price pressures.
- **First monthly decline in 8 months.** CPI fell by -0.6%mom in Jul-21 (Jun-21: +0.1%mom), the first monthly decline after seven straight months of increase. This was mainly explained by the fall in non-food prices, particularly the lower housing & utility charges (-2.5%mom; Jun-21: 0%mom) following extension of the electricity discounts as part of the government's stimulus package to assist the rakyat during the lockdown.
- **Maintain our forecast for CPI inflation to average 2.3% this year.** We project for inflation to average at 2.3% in 2021 (2020: -1.1%), charting a rebound from the low base last year. After accelerating to +4.2%yoy in 2Q21 (1Q21: +0.5%yoy), we foresee inflation rate to be more moderate in the latter part of the year. The major source of inflation this year will come from cost-push inflation due to rising production costs and constraints in the supply chain.

**Inflation moderated further.** Malaysia's consumer price index (CPI) inflation moderated to +2.2%yoy in Jul-21 (Jun-21: +3.4%yoy). The deceleration in the pace of price increases was more than what we expected mainly due to the lower inflation in transport CPI (+11.6%yoy; Jun-21: +16.6%yoy) and prices of housing & utility charges (+0.7%yoy; Jun-21: 3.2%yoy). Despite the cap in prices of RON95, the current level remained above the levels registered last year. The moderation in utility charges was a result of the electricity discount offered under the PEMULIH fiscal stimulus package. Other price components which contributed to the inflation during the month was sustained inflation in prices of foods & non-alcoholic beverages (+1.3%yoy) and furnishing, housing equipment & maintenance (+1.7%yoy). Excluding the volatile food prices and administered prices of goods & services, the core CPI inflation was unchanged at +0.7%yoy (May-21: +0.8%yoy), indicating low underlying price pressures as the core CPI inflation yet to return back to pre-crisis levels. The weak consumer spending constrained by the extended lockdown and restrictions on people's mobility contributed to the subdued demand pressures on general prices.

**First monthly decline in 8 months.** Sequentially, CPI fell by -0.6%mom in Jul-21 (Jun-21: +0.1%mom) which marked the first monthly decline after seven straight months of increases. This was mainly explained by the fall in non-food prices, particularly the lower housing & utility charges (-2.5%mom; Jun-21: 0%mom) following extension of the electricity discounts as part of the government's stimulus package to assist the rakyat during the lockdown. Meanwhile, the rebound in transport charges (+0.3%mom; Jun-21: -0.2%mom) limited the sequential decline in overall inflation. While the extended full lockdown and weaker domestic consumption contributed to reduced pressures on prices, the increased pressures from the supply side has kept prices generally unchanged.

The monthly inflation may pick up again in view of the recent relaxation of restrictions on the economy, gradual economic reopening and continued cost-push inflation.

**Table 1: Consumer Price Indices**

Indices	MoM%			YoY%		
	May-21	Jun-21	Jul-21	May-21	Jun-21	Jul-21
<b>CPI</b>	0.0	0.1	(0.6)	4.4	3.4	2.2
Non Food	0.1	0.0	(0.9)	5.9	4.5	2.6
Food and Non-Alcoholic Beverages	(0.1)	0.3	0.0	1.5	1.3	1.3
Alcoholic Beverages and Tobacco	0.1	0.1	(0.1)	0.7	0.7	0.5
Clothing and Footwear	(0.1)	0.0	0.0	(0.5)	(0.4)	(0.4)
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	(2.5)	3.2	3.2	0.7
Furnishings, Household Equipment and Maintenance	0.3	0.0	0.0	2.1	2.0	1.7
Health	0.1	0.0	0.0	0.6	0.5	0.4
Transport	0.2	(0.2)	0.3	26.0	16.6	11.6
Communication	0.0	0.0	0.0	0.0	0.0	0.0
Recreation and Culture	(0.1)	0.0	0.0	0.6	0.6	0.6
Education	0.0	0.0	0.0	0.3	0.5	0.1
Restaurants and Hotels	0.1	0.0	0.1	0.2	0.5	0.7
Miscellaneous Goods and Services	0.0	0.1	0.0	0.7	0.3	0.1
<b>Core CPI</b>	0.1	0.0	0.0	0.8	0.7	0.7

Source: CEIC, MIDFR

**Table 2: Changes in Selected Price Sub-Indices**

Sub-Indices	MoM%			YoY%		
	May-21	Jun-21	Jul-21	May-21	Jun-21	Jul-21
Rice	(0.2)	0.1	0.0	(0.1)	(0.1)	(0.1)
Fresh Meat	(1.7)	0.5	(0.5)	1.4	(1.6)	(1.0)
Fresh Seafood	0.9	0.6	0.2	0.4	0.2	0.1
Oils & Fats	0.6	1.1	0.2	4.2	5.0	5.1
Fresh Fruits	(0.2)	0.1	0.0	1.3	0.9	0.1
Fresh Vegetables	(1.1)	0.8	(0.1)	1.4	(1.6)	(1.0)
Food Away From Home	0.1	0.0	0.1	1.4	1.3	1.3
Cigarettes	0.0	0.0	0.0	0.0	0.0	0.0
Electricity	0.0	0.0	(24.4)	34.6	34.6	1.8
Pharmaceutical Products	(0.1)	0.2	(0.2)	0.0	0.0	(0.2)
Fuels & Lubricants for Transportation	0.2	0.1	0.3	56.1	32.8	21.8
Transportation Repair & Maintenance	0.5	0.1	0.1	2.6	2.4	2.3
Other Transportation Charges (Including Toll)	0.0	0.0	0.0	0.1	0.1	0.1
Expenses in Restaurants & Cafes	0.1	0.0	0.1	0.9	0.9	0.9
Insurance for Motor Vehicles	0.0	0.0	0.0	0.0	0.0	0.0

Source: CEIC, MIDFR

**Double-digit increases in fuel-related prices.** Inflation for the fuel & lubricating equipment remained high albeit moderating to +21.6%yoy in Jul-21 (Jun-21: +32.8%yoy). The moderation reflects the slower inflation in the domestic retail fuel prices, mainly the RON95 which increased at more moderate pace of +21.2% (Jun-21: +29.7%yoy). Prices of RON97 and Diesel, on the other hand, increased at faster rates of +37.9%yoy and +18.1%yoy (Jun-21: +31.2%yoy and +15.6%yoy), respectively. For Diesel, the faster price increase was mainly due to lower base because the current price was capped at RM2.15 per liter. For RON95, the increase mainly reflected the further increase in prices, averaging higher at RM2.73 per liter in Jul-21 (Jun-21: RM2.61/liter). Looking ahead, the high oil prices will support the inflation in transport and fuel prices. Although Brent crude benchmark averaged lower at USD69.9 per barrel in first three weeks in Aug-21, somewhat lower than the monthly average of US\$74.29 in Jul-21, the level was still 55.3% higher than the average in August last year. The cap on RON95 and Diesel prices will continue to limit the upward increase, but the low base will keep the energy price inflation in the positives. Furthermore, the growing concern about the global growth recently given the spikes in Covid-19 infections in major and emerging economies already limited the further rise in oil prices.

**Inflation moderated in all key regions.** In line with the moderation in national headline inflation, consumer prices in key regions (Peninsular, Sabah and Sarawak) all recorded slower inflation. With all states registering slower inflation, the inflation rates in Terengganu (+2.8%yoy); Pahang (+2.5%yoy), Selangor & Putrajaya (+2.4%yoy) and Kelantan (+2.4%yoy) were above the national CPI inflation. Factors contributing to the high inflation in these states were mainly from rising prices of transport; furnishing, household equipment & maintenance; and foods. Looking at the trend in food price inflation, Pulau Pinang registered the slowest rise at +0.5%yoy, followed by Kedah & Perlis (+0.6%yoy) and Melaka (+0.7%yoy). We believe the pressures for prices to increase further in many states due to transport costs and food prices, while the electricity discount would limit the inflation in the housing & utility charges.

**Table 3: States Headline Inflation (YoY%)**

	MoM%			YoY%		
	May-21	Jun-21	Jul-21	May-21	Jun-21	Jul-21
<b>Peninsular Malaysia</b>	<b>0.1</b>	<b>0.0</b>	<b>(0.6)</b>	<b>4.5</b>	<b>3.4</b>	<b>2.2</b>
Food & Non-Alcoholic Beverages	0.1	0.2	0.1	1.6	1.3	1.4
Housing & Utilities	0.3	0.0	(2.7)	3.7	3.7	0.9
Transport	0.3	(0.2)	0.4	25.2	16.1	11.2
<b>Sabah</b>	<b>(0.1)</b>	<b>0.0</b>	<b>(0.5)</b>	<b>3.6</b>	<b>2.6</b>	<b>1.4</b>
Food & Non-Alcoholic Beverages	(0.2)	0.2	0.2	0.6	0.8	0.9
Housing & Utilities	0.1	0.0	(2.1)	0.4	0.4	(1.8)
Transport	0.1	(0.2)	(0.2)	29.2	18.3	12.5
<b>Sarawak</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>4.1</b>	<b>2.9</b>	<b>2.3</b>
Food & Non-Alcoholic Beverages	(0.1)	0.1	0.1	0.9	1.0	1.0
Housing & Utilities	0.1	0.0	0.0	0.5	0.5	0.5
Transport	0.1	0.1	0.1	36.2	22.7	15.9

Source: DOSM, MIDFR

**Still high pressures on production costs.** Producer price index (PPI) remained elevated despite moderating slightly to +11.5%yoy in Jun-21 (May-21: +11.9%yoy). The moderation was mainly due to slower PPI inflation for agriculture, mining and electricity & gas. In contrast, the rising producer prices in Jun-21 was underpinned by higher inflation in the manufacturing sector, as well as food products. We expect production costs will continue to contribute towards rising inflation as the ongoing pandemic has resulted in shortages of materials and other supply chain constraints. In addition, high commodity prices also added to the rising costs. With the PPI inflation remaining above the CPI inflation, we foresee further pressures on suppliers to pass cost increases to end consumers.

**Table 4: Producer Price Indices by Selected Sector**

	MoM%			YoY%		
	Mar-21	Apr-21	May-21	Mar-21	Apr-21	May-21
PPI	0.8	1.0	0.2	10.6	11.9	11.5
Agriculture, forestry & fishing	2.8	2.0	-10.5	49.8	60.0	29.8
Mining	1.2	2.1	8.2	92.4	68.5	64.4
Manufacturing	0.5	0.7	0.8	3.5	5.0	6.7
Electricity and gas	1.2	2.1	8.2	-0.8	0.1	-0.2
Food Product	2.8	2.0	-10.5	15.6	19.0	21.6

Source: CEIC, MIDFR

**Table 5: Global Headline Inflation (YoY%)**


	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21
Malaysia	(0.2)	0.1	1.7	4.7	4.4	3.4	2.2
Indonesia	1.6	1.4	1.4	1.4	1.7	1.3	1.5
Philippines	4.2	4.7	4.5	4.5	4.5	4.1	4.0
Thailand	(0.3)	(1.2)	(0.1)	3.4	2.4	1.2	0.5
Singapore	0.2	0.7	1.3	2.1	2.4	2.4	2.5
China	(0.3)	(0.2)	0.4	0.9	1.3	1.1	1.0
Japan	(0.6)	(0.4)	(0.2)	(0.4)	(0.1)	0.2	0.2
Euro Area	0.9	0.9	1.3	1.6	2.0	1.9	2.2
US	1.4	1.7	2.6	4.2	5.0	5.4	5.4

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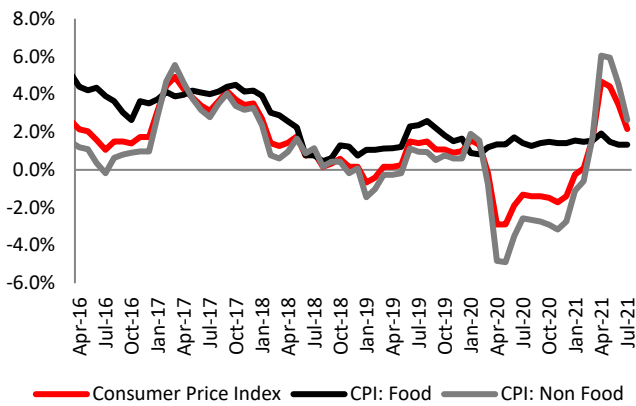
Source: CEIC, MIDFR

**Sustained but some moderation in global inflation.** Headline inflation in many countries remained at high levels, although some countries reported some moderation in their inflation in Jul-21, partly because of the higher base. While the high commodity prices, shortages of materials and rising productions costs resulted in higher inflation, some countries also experienced slower inflation as the tighter restrictions to contain the Covid-19 infections caused domestic spending to weaken. For the US, the CPI inflation rate remained unchanged at 13-year high of +5.4%yoy mainly due to higher inflation in food and new vehicle prices. The struggle faced by the automotive industry from global chip shortages to cope with growing demand also led to high inflation in used car prices. The higher food and energy prices also contributed to the higher inflation in euro area. Meanwhile, China

reported some moderation in inflation due to slower food price inflation. Among ASEAN countries, price increases slowed in Philippines, Malaysia and Thailand due to lower inflation in transport cost amid weaker domestic economic activities because of the tight containment measures. Meanwhile, headline inflation was higher in Singapore and Indonesia which reflected higher inflation in prices of food, energy and transport. Looking ahead, we foresee inflation to be at more normalized levels as inflation rates would moderate because of diminishing base effect. However, the supply-side pressures from rising production costs and supply chain challenges will keep inflation in the positive territory.

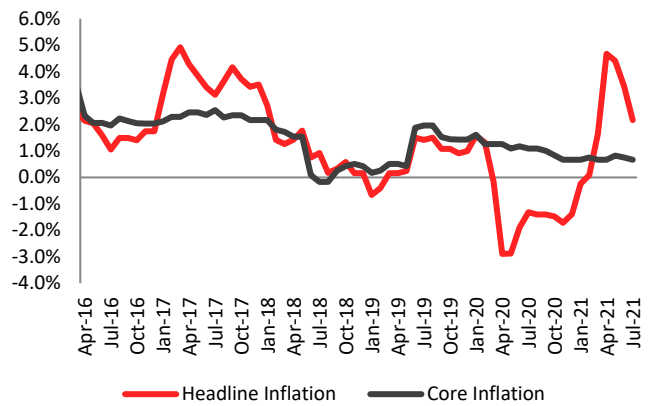
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**Chart 1: CPI: Headline vs Food & Non-food (YoY%)**



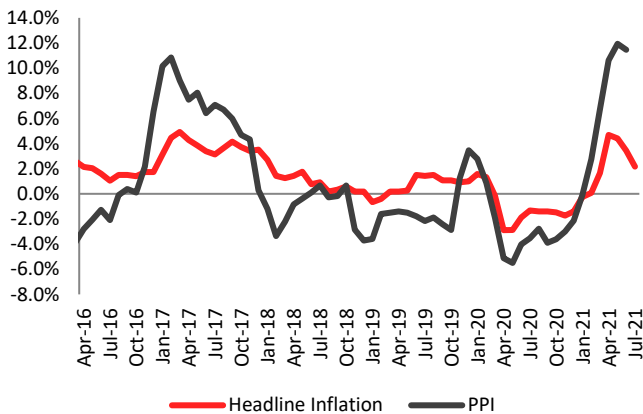
Source: CEIC, MIDFR

**Chart 2: CPI: Headline vs Core (YoY%)**



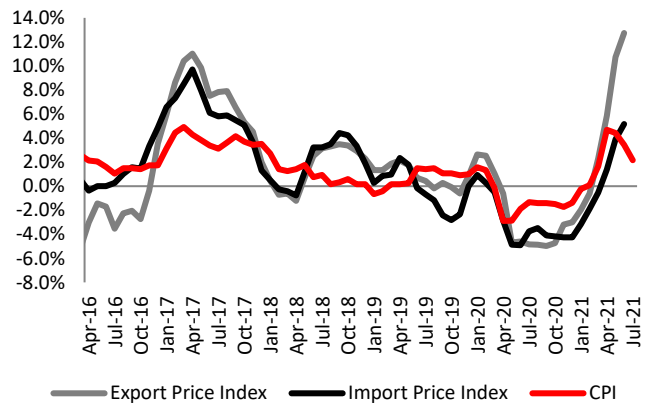
Source: CEIC, MIDFR

**Chart 3: PPI vs CPI (YoY%)**



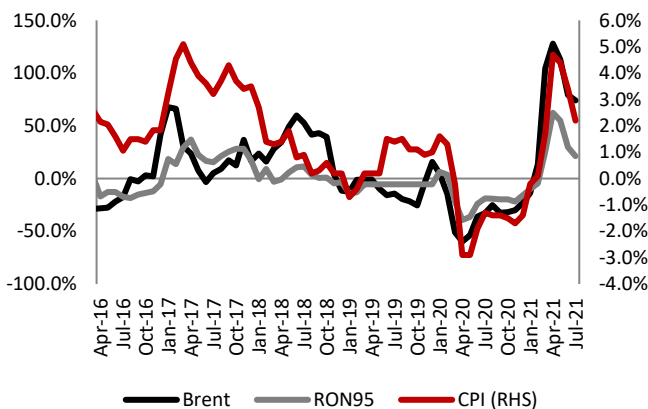
Source: CEIC, MIDFR

**Chart 4: CPI vs Price Index of Imports & Exports (YoY%)**



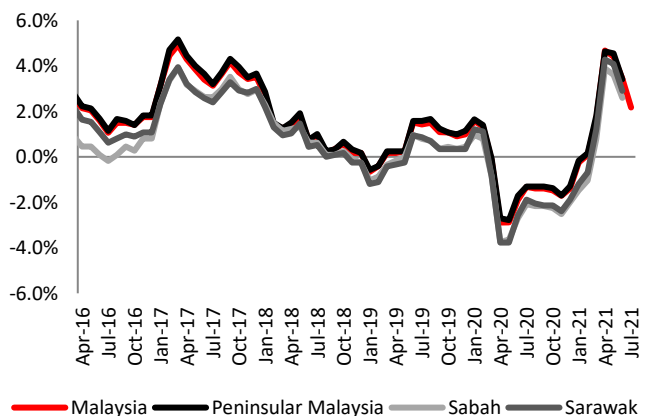
Source: CEIC, MIDFR

**Chart 5: CPI vs Crude & Retail Fuel Prices (YoY%)**



Source: Bloomberg, MIDFR

**Chart 6: Inflation by States (YoY%)**



Source: DOSM, MIDFR

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