Malaysia's Headline CPI Inflation Continued its Gradual Uptrend

Economic Review
Sep-25 Consumer Price Index



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- Malaysia's headline CPI inflation edged higher to +1.5%yoy in Sep-25 (Aug-25: +1.3%yoy), within our estimate and slightly above market consensus of +1.4%yoy. The faster reading indicates that inflation continued its gradual uptrend from +1.1%yoy in Jun-25, which was the lowest print since Feb-21. The inflation for food away from home remained elevated at +4.4%yoy (Aug-25: 4.3%yoy). In contrast, food at home turned flat from the -0.1%yoy contraction in Aug-25.
- By strata, inflation in the urban areas increased to +1.6%yoy in Sep-25 (Aug-25: +1.3%yoy), and the inflation in the rural areas also picked up to 1.2%yoy (Aug-25: +1.0%yoy).
- Given the still mild inflation reading, we keep our 2025 inflation forecast at +1.4% (2024: +1.8%). We continue to monitor potential price pressures stemming from policy amendments, notably the broader scope of the Sales and Service Tax (SST).

Headline inflation continued to edge higher

Malaysia's headline CPI inflation edged higher to +1.5%yoy in Sep-25 (Aug-25: +1.3%yoy), within our estimate and slightly above market consensus of +1.4%yoy. The faster reading indicates that inflation continued its gradual uptrend from +1.1%yoy in Jun-25, which was the lowest print since Feb-21. The inflation for food away from home remained elevated at +4.4%yoy (Aug-25: 4.3%yoy). In contrast, food at home turned flat, from the -0.1%yoy contraction in Aug-25, attributable to the still positive inflation in prices of fish & other seafood (+1.5%yoy; Aug-25: +2.3%yoy), oils & fats (+1.3%yoy; Aug-25: +1.4%yoy), and sugar, confectionary & dessert (+0.7%yoy; Aug-25: +0.6%yoy). Non-food inflation also picked up slightly to +1.2%yoy (Aug-25: +0.9%yoy) driven by stronger inflation in personal care, social protection & miscellaneous goods & services (+4.8%yoy; Aug-25: +4.0%yoy), health (+1.3%yoy; Aug-25: +1.1%yoy), and transport (+0.7%yoy; Aug-25: +0.2%yoy).

Further acceleration in core CPI inflation but underlying price pressures is still under control

Meanwhile, core CPI inflation accelerated marginally to +2.1%yoy (Aug-25: +2.0%yoy), marking the fastest reading since Nov-23. Despite the higher reading, the rate still signals mild underlying price pressures. On monthly basis, the core inflation moderates to +0.3%mom (Aug-25: +0.4%mom), still above +0.1-0.2%mom recorded in Mar-25 to Jul-25. The combined inflationary pressures from last year's key government policy shifts, including the move to targeted subsidies, the increase in utility tariffs, and the Sales and Service Tax (SST) rate hike—have been more muted than initially anticipated. This is evident in the modest price movements observed across the food, non-food, and core inflation categories. While we still expect inflation to accelerate in 4QCY25, we project the pace of increase will remain gradual. The recent expansion of the SST has contributed only marginally to price pressures, suggesting its overall inflationary effect will be contained. This subdued acceleration is also supported by the current trend of crude oil prices remaining below the highs in the previous year, effectively limiting overall upward price pressures.

Global food price inflation continued to ease in Sep-25

Global food price inflation eased to +3.4%yoy in Sep-25 (Aug-25: +6.6%yoy), as the moderation of inflation were seen in the dairy (+8.6%yoy; Aug-25: +15.9%yoy) and oil prices (+17.9%yoy; Aug-25: +24.26%yoy). Meanwhile, prices for sugar and cereals deflated further by -21.2%yoy (Aug-25: -9.0%yoy) and -7.5%yoy (Aug-25: -4.1%yoy). On the other hand, meat prices continued to increase by +6.6%yoy (Aug-25: +4.1%yoy). Malaysia's reliance on imported foods renders the economy vulnerable to fluctuations in global food prices and currency exchange rates. On the back of rising costs and robust demand, we project inflation will accelerate during the 2HCY25. This increase is largely due to the expanded SST coverage, which includes several imported food items that may exert upward pressure on domestic food prices, in addition to stronger demand following the recent fiscal measures and the OPR cut by BNM. Although the petrol price hike will mainly affect non-citizens, its inflationary impact will be offset by a lower subsidized RON95 price effective at the end of Sep-25. Stronger ringgit would also lower import costs and ease price pressures. However, if adverse weather conditions disrupt local agricultural production, it could worsen domestic food inflation.

Table 1: Malaysia – Consumer price index by component

	Weightage (%)	MoM%			YoY%		
		Jul-25	Aug-25	Sep-25	Jul-25	Aug-25	Sep-25
Core CPI	-	0.1	0.4	0.3	1.8	2.0	2.1
Headline CPI	100.0	0.1	0.1	0.2	1.2	1.3	1.5
Food and Beverages	29.8	(0.1)	0.2	0.4	1.9	2.0	2.1
Food	29.0	0.0	0.1	0.2	1.9	1.9	2.0
Food at Home	15.6	(0.3)	0.0	0.2	(0.3)	(0.1)	0.0
Food Away from Home	13.4	0.3	0.2	0.1	4.3	4.3	4.4
Non-alcoholic Beverages	0.8	0.1	0.2	0.0	5.2	4.0	4.0
Non-Food	70.2	0.3	0.2	0.2	0.8	0.9	1.2
Alcoholic Beverages & Tobacco	1.9	0.2	0.0	0.0	0.6	0.4	0.3
Clothing & Footwear	2.7	0.1	0.0	-0.1	(0.2)	(0.1)	(0.2)
Housing, Water, Electricity, Gas & Other Fuels	23.2	(0.4)	0.2	0.3	1.3	1.2	1.5
Furnishings, Household Equip & Maintenance	4.3	0.2	0.1	0.0	0.1	0.2	0.2
Health	2.7	0.3	0.1	0.1	1.2	1.1	1.3
Transport	11.3	0.2	(0.1)	0.2	0.4	0.2	0.7
Information and Communication	6.6	(0.9)	0.8	1.1	(6.4)	(5.6)	(4.5)
Recreation, Sport and Culture	3.0	0.1	0.2	0.0	0.8	1.0	0.9
Education	1.3	0.2	0.2	0.0	2.2	2.4	2.4
Restaurants & Accommodation Services	3.4	0.8	0.4	-0.1	3.1	3.5	3.3
Insurance & Financial Services	4.0	4.6	0.1	0.0	5.5	5.6	5.6
Personal Care, Social Protect & Misc. Goods & Services	5.8	0.0	0.2	0.8	3.9	4.0	4.8

Source: Macrobond, DOSM, MBSBR

Inflation edged higher in both rural and urban areas

By strata, inflation in the urban areas increased to +1.6%yoy in Sep-25 (Aug-25: +1.3%yoy), and the inflation in the rural areas also picked up to 1.2%yoy (Aug-25: +1.0%yoy). Among the states, Johor continued to record inflation above the national rate albeit unchanged at +2.0%yoy, followed by Negeri Sembilan (+1.9%yoy; Aug-25: +1.4%yoy), and Selangor (+1.8%yoy; Aug-25: +1.5%yoy).

Table 2: Inflation by region (YoY%)

	MoM%			YoY%		
	Jul-25	Aug-25	Sep-25	Jul-25	Aug-25	Sep-25
Urban	0.1	0.1	0.3	1.2	1.3	1.6
Rural	(0.1)	0.2	0.2	0.7	1.0	1.2
Peninsular Malaysia	0.1	0.1	0.3	1.2	1.3	1.6
Kedah	(0.2)	0.2	0.3	0.4	0.5	0.9
Perlis	(0.2)	0.2	0.6	0.6	0.7	1.4
Pulau Pinang	0.4	0.1	0.2	1.0	1.0	1.2
Perak	0.0	0.1	0.2	0.8	0.8	0.9
Selangor	0.1	0.1	0.3	1.5	1.5	1.8

Putrajaya	0.2	0.1	0.2	0.8	0.8	1.0
Kuala Lumpur	0.1	0.2	0.3	1.0	1.0	1.3
Melaka	0.2	0.1	0.4	1.3	1.3	1.8
Negeri Sembilan	(-0.1)	0.3	0.4	1.4	1.4	1.9
Johor	0.3	0.2	0.1	1.8	2.0	2.0
Pahang	0.2	0.4	0.2	0.8	1.0	1.4
Kelantan	(0.2)	0.0	0.4	0.0	0.1	0.5
Terengganu	(0.1)	0.7	0.2	0.8	1.5	1.7
Sabah	0.1	0.3	0.1	1.1	1.3	1.3
Sarawak	0.0	0.1	0.2	0.5	0.5	0.6

Source: Macrobond, MBSBR

PPI remained in deflation in Aug-25

The downward pressure in Malaysia's producer prices persisted at a softer decline of -2.8%yoy in Aug-25 (Jul-25: -3.8%yoy), marking the sixth straight month of deflation but the mildest fall since Mar-25. The moderation was attributable to a slower drop in mining PPI (-3.4%yoy; Jul-25: -8.7%yoy), largely due to a smaller contraction in crude petroleum extraction (-5.1%yoy). Meanwhile, PPI for the manufacturing sector continued to deflate by -4.0%yoy, dragged by coke & refined petroleum products (-14.9%yoy) and computer, electronic & optical products (-7.7%yoy). In contrast, agriculture, forestry & fishing surged (+7.3%yoy; Jul-25: +1.1%yoy), boosted by perennial crops (+11.6%yoy), while electricity & gas supply recorded slightly faster PPI inflation of +4.1%yoy (Jul-25: +4.0%yoy) and water supply PPI rebounded, with an increase by +3.4%yoy (Jul-25: -0.1%yoy). On a monthly basis, producer prices edged up by +0.1%mom (Jul-25: +0.3%mom), marking the second consecutive month of increases suggesting upstream cost pressures are gradually increasing, in contrast to sustained weakness in the manufacturing sector on the back of subdued external demand. With PPI inflation continued to hover above the CPI inflation, further declines in cost pressures limited an upward price surge. We think inflation remained under control amid growing domestic economic activities, supported by increased consumption and investment, healthy labour market and fiscal supports.

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Jun-25	**Jul-25**	**Aug-25**	**Jun-25**	**Jul-25**	**Aug-25**
PPI	(0.7)	0.3	0.1	(4.2)	(3.7)	(2.8)
Crude Materials	1.2	0.8	1.6	(5.8)	(5.8)	(0.8)
Foodstuffs	(0.3)	(1.1)	(0.1)	(0.4)	0.1	1.1
Non-food	1.6	1.3	2.1	(7.0)	(7.0)	(1.1)
Non-food ex fuel	(1.2)	4.4	5.1	0.9	2.5	10.9
Crude Fuel	3.4	(0.6)	0.1	(11.1)	(12.3)	(7.9)
Intermediate Materials	(1.8)	0.1	(0.1)	(4.4)	(3.7)	(3.1)
Manufactured Goods	(1.9)	(0.8)	0.1	(2.3)	(2.6)	(2.1)
Construction	0.3	1.3	0.3	(0.3)	0.8	2.1
Processed Fuel & Lubricants	(3.4)	3.1	(1.5)	(12.7)	(9.3)	(8.6)
Containers	0.6	0.3	0.5	(1.3)	(0.3)	(1.2)
Supplies	(0.6)	(0.4)	(0.1)	(3.0)	(2.7)	(2.2)
Finished Goods	0.5	0.1	(0.5)	(2.3)	(2.4)	(3.4)
Consumer Goods	(0.1)	0.5	(0.3)	(1.0)	(0.3)	(0.4)
Consumer Goods ex. Foods	0.1	0.6	(0.3)	(1.6)	(0.7)	(1.0)
Capital Equipment	1.0	(0.3)	(0.6)	(3.2)	(3.8)	(5.6)

Source: DOSM, MBSBR

Easing global inflation supports easing bias

Inflation generally has been trending lower but recording slight increases in Sep-25. In the US, the headline inflation, as of the latest available number, the headline CPI inflation picked up to +2.9%yoy in Aug-25 (Jul-25: +2.7%yoy), but the core inflation remained steady at +3.1%yoy. Meanwhile, headline CPI for euro area also picked up to +2.2%yoy in Sep-25 (Aug-25: +2.0%yoy). Based on the latest ECB minutes indicated that the ECB would keep its interest rates unchanged

in the near term and believes that the current interest rate levels are robust enough in "managing shocks"; being at the lowest level since late 2022. UK headline inflation steadied at +3.8%yoy at Sep-25, stagnating for the third month. In Asia, China's deflationary risk remains a concern; with CPI deflating at -0.5%yoy in Sep-25. Meanwhile, CPI in Indonesia picked up to +2.7%yoy in Sep-25 (Aug-25: +2.3%yoy), while Philippines inflation also moved higher to +1.7%yoy in Sep-25 (Aug-25: +1.5%yoy). Overall, we continue to expect that the central bank's monetary policy direction will remain on an easing bias, given the moderate inflation readings and growing concerns over slowing growth momentum. On another note, we are still concerned that the higher tariffs, with the US threatening 100% additional tariffs on China in response to the wider REE export controls, and the planned tariffs on specific sectors could result in renewed inflationary pressures, especially in the US. Meanwhile, the easing of geopolitical uncertainty has led to reduced concerns about the inflation pressure, especially due to low energy prices.

Table 4: Global Headline CPI Inflation (YoY%)

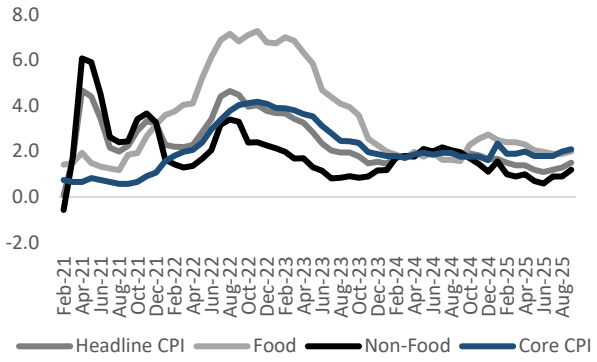
	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25
Malaysia	1.4	1.4	1.2	1.1	1.2	1.3	1.5
Indonesia	1.0	2.0	1.6	1.9	2.4	2.3	2.7
Singapore	0.9	0.9	0.8	0.8	0.6	0.5	n.a
Thailand	0.8	(0.2)	(0.6)	(0.3)	(0.7)	(0.8)	(0.8)
Philippines	1.8	1.4	1.3	1.4	0.9	1.5	1.7
Taiwan	2.0	1.9	1.6	1.4	1.5	1.5	1.3
South Korea	2.1	2.1	1.9	2.2	2.1	1.7	2.1
China	(0.1)	(0.1)	(0.1)	0.1	(0.2)	(0.6)	(0.5)
Japan	3.6	3.6	3.5	3.3	3.1	2.7	n.a.
Euro Area	2.2	2.2	1.9	2.0	2.1	2.0	2.2
UK	2.6	3.5	3.4	3.6	3.8	3.7	3.8
USA	2.4	2.3	2.4	2.7	2.7	2.9	n.a.
PCE Prices	2.3	2.2	2.4	2.6	2.6	2.7	n.a

n.a. = not available
Source: Macrobond, MBSBR

Expect inflation to accelerate gradual but remain under control

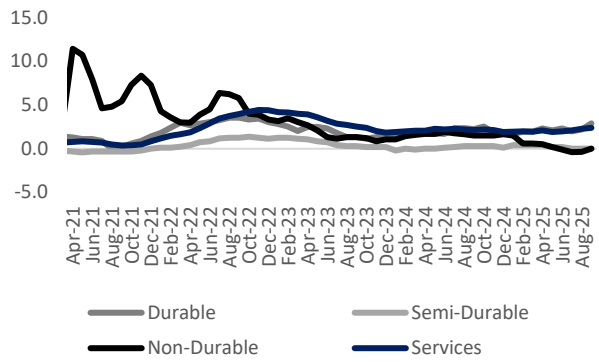
Given the still mild inflation reading, we keep our 2025 inflation forecast at +1.4% (2024: +1.8%). We continue to monitor potential price pressures stemming from policy amendments, notably the broader scope of the Sales and Service Tax (SST). The reduction in the subsidised RON95 petrol price to RM1.99 per litre is an additional factor expected to mitigate upward pressures on transport-related costs. However, a key upside risk remains from the design of the BUDI95 fuel subsidy programme as the exclusion of Micro and Small and Medium Enterprises (MSMEs) forces this segment to consume higher unsubsidised fuel costs, potentially leading to a passthrough of the increase in business costs to final consumer prices. In addition, we foresee a potential buildup of demand-side pressures following the OPR cut in Jul-25. This is expected to stimulate greater consumer spending, further supported by a healthy labour market (with positive employment and wage growth), recent fiscal measures, and the delay in the subsidy adjustment. Despite the potential increase in demand, we expect the OPR to be kept at 2.75% for the rest of the year as overall price pressures remain contained.

Chart 1: Key CPI Data (YoY%)



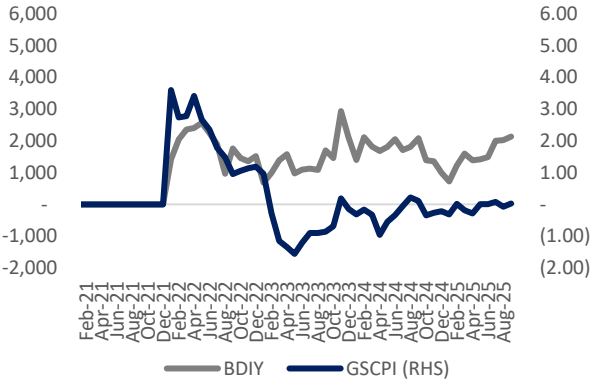
Source: Macrobond, MBSBR

Chart 2: CPI by Type of Product (YoY%)



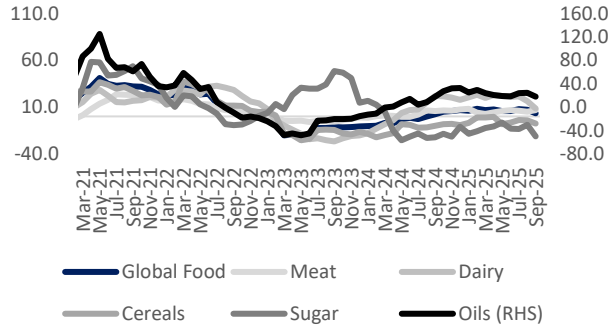
Source: Macrobond, MBSBR

Chart 3: Baltic Dry Index (BDI) vs Global Supply Chain Pressure Index (GSCPI



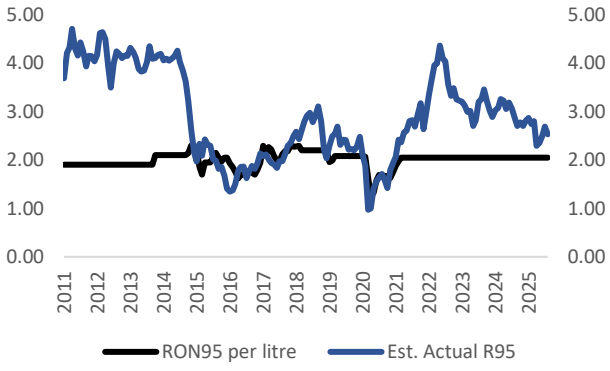
Source: Macrobond, MBSBR

Chart 4: Global Food Inflation (YoY%)



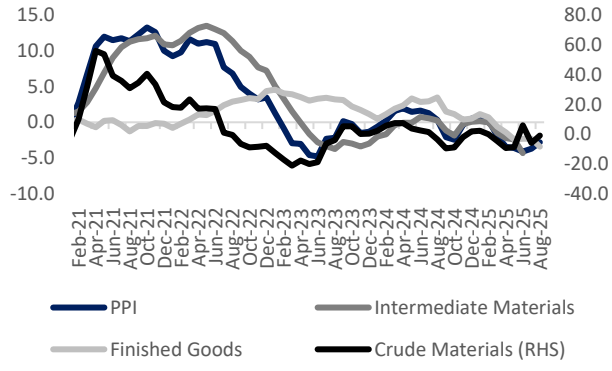
Source: Macrobond, MBSBR

Chart 5: Subsidized vs. Estimated Actual RON95 Price (RM per litre)



Source: DOSM, MBSBR

Chart 6: PPI (YoY%)



Source: DOSM, MBSBR

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