Inflation Moderates to +1.4%, but Energy Volatility Looms on the Horizon

Economic Review
Feb-26 Consumer Price Index



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Economic Review

- Malaysia's headline CPI inflation eased to +1.4%yoy in Feb-26, slightly below our estimate and market consensus of 1.5%. The reading showed that inflation moderated slightly after a few months of stabilising at +1.6%yoy, the easing of the price pressure in Feb-26 was attributable to the weaker food & beverages and non-food inflation, which both eased to +1.3%yoy (Jan-26: +1.5%yoy) and +1.4%yoy (Jan-26: +1.6%yoy), respectively.
- By strata, inflation in the urban areas eased marginally to +1.4%yoy in Feb-26 (Jan-26: +1.5%yoy), while the inflation in the rural areas, however, increased to +1.4%yoy (Jan-26: +1.3%yoy). Among states, the pace of Feb-26 inflation in Pahang (+2.1%yoy), Negeri Sembilan (+2.0%yoy), and Sabah (+1.8%yoy) exceeded the national inflation rate.
- Given the currently mild inflation readings, we maintain our 2026 inflation forecast at +1.8% (2025: 1.4%). While we continue to monitor potential price pressures arising from policy changes such as the broader scope of SST, the unchanged subsidised RON95 price at RM1.99 per litre has limited the upside risk to CPI inflation.

Headline inflation eased to +1.4%yoy

Malaysia's headline CPI inflation eased to +1.4%yoy in Feb-26, slightly below our estimate and market consensus of +1.5%yoy. Inflation moderated slightly after a few months of stabilising at +1.6%yoy, signaling easing price pressures in Feb-26 attributable to the weaker inflation for food & beverages and non-food components, which eased to +1.3%yoy (Jan-26: +1.5%yoy) and +1.4%yoy (Jan-26: +1.6%yoy) respectively. Looking at the breakdown, under the food component, prices of both foods at home and foods away from home rose slower at +0.3%yoy (Jan-26: +0.6%yoy) and +2.4%yoy (Jan-26: +2.5%yoy), respectively. Meanwhile, among the non-food components, housing, water, electricity, gas & other fuels; health; information and communication; recreation, sports and culture; education; and insurance & financial services all recorded slower readings than in Jan-26.

Core inflation remains moderate, but it might not be for long

Core inflation also eased lower last month to +2.0%yoy in Feb-26 (Jan-26: +2.3%yoy), which indicates an easing of the underlying price pressure. On a monthly basis, core CPI only increased by +0.1%mom (Jan-26: +0.4%mom), easing from the fastest reading in one year recorded in the previous month. We believe inflation in 2026 would be shaped by the transition to targeted subsidies and ongoing fiscal reforms, yet it remains contained by limited demand pressures despite steady domestic demand. However, the recent conflict in the Middle East has pushed oil prices higher to above USD100pb. The elevated global oil and energy prices also posed strain on the global supply chain. This supply shocks could be passed through to core inflation components such as transport and utilities, in addition to higher food inflation because of higher input costs.

Global food prices continue to be in deflation territory in Feb-26

Global food prices continued to register deflation in Feb-26, falling further by -1.0%yoy (Jan-26: -0.3%yoy), mainly due to the continued contraction in prices of poultry (-0.2%yoy), sugar (-27.3%yoy), cereals (-3.5%yoy), and dairy (-19.2%yoy). Meanwhile, the meat price inflation picked up to +8.0%yoy (Jan-25: +7.4%yoy), and oil prices increased faster at +11.7%yoy (Jan-26: +10.2%yoy). We forecast the moderate price increase in inflation will continue throughout the 1QCY26 period, driven by both supply and demand factors.

Imported inflation is limited by the stronger ringgit and lower global food prices

While Malaysia remains structurally sensitive to global food price volatility and currency fluctuations, the outlook for imported inflation has become increasingly favourable at the moment. The recent appreciation of the ringgit and the decline of the global food prices are effectively reducing the impact of external cost pressures. Consequently, we anticipate a moderated inflationary pass-through to the household sector if the situation continues. The primary upward pressure on domestic costs remains the expanded scope of the Sales and Service Tax (SST), particularly the adjustments applied to selected imported food items. This pressure is further compounded by resilient consumer spending, supported by government fiscal measures and pre-emptive monetary easing by Bank Negara Malaysia mid-last year. While the targeted petrol price adjustments for non-citizens are partially offset by relatively lower subsidised RON95 rates, food inflation remains a persistent concern, as the upside risk to food inflation is the price spike in fertiliser and urea prices. This was in tandem with the heightened risk in the Middle East, due to the surge in energy costs, and the disruptions of fertilisers shipments. Reports indicate that over one-third of the global fertiliser trade moves through the Straits of Hormuz route. Therefore, this could lead to upside pressure on the inflation outlook.

Table 1: Malaysia – Consumer price index by component

	Weight (%)	MoM%			YoY%		
		Dec-25	Jan-26	Feb-26	Dec-25	Jan-26	Feb-26
Core CPI	-	(0.1)	0.4	0.1	2.3	2.3	2.0
Headline CPI	100.0	0.3	0.1	0.2	1.6	1.6	1.4
Food and Beverages	29.8	0.5	0.2	0.0	1.5	1.5	1.3
Food	29.0	0.5	0.2	0.0	1.5	1.5	1.3
Food at Home	15.6	0.9	0.1	-0.2	0.3	0.6	0.3
Food Away from Home	13.4	0.1	0.3	0.2	2.7	2.5	2.4
Non-alcoholic Beverages	0.8	(0.2)	(0.1)	(0.2)	3.1	2.6	2.3
Non-Food	70.2	0.2	0.1	0.3	1.6	1.6	1.4
Alcoholic Beverages & Tobacco	1.9	0.1	0.1	0.1	2.5	2.5	2.6
Clothing & Footwear	2.7	0.0	0.0	0.1	0.1	0.0	0.0
Housing, Water, Electricity, Gas & Other Fuels	23.2	0.2	0.3	0.7	0.9	1.2	1.1
Furnishings, Household Equip & Maintenance	4.3	0.0	(0.1)	0.0	0.3	0.2	0.2
Health	2.7	0.2	0.2	0.0	1.5	1.4	1.2
Transport	11.3	0.2	(0.4)	0.2	0.1	(0.7)	(0.7)
Information and Communication	6.6	0.6	(0.1)	(0.2)	0.9	0.7	0.5
Recreation, Sport and Culture	3.0	(0.2)	0.2	0.0	0.8	0.9	0.8
Education	1.3	0.2	0.7	0.1	2.8	3.2	2.8
Restaurants & Accommodation Services	3.4	0.0	0.3	0.1	3.1	0.9	2.5
Insurance & Financial Services	4.0	0.0	0.0	0.0	5.6	5.5	4.7
Personal Care, Social Protect & Misc. Goods & Svc	5.8	0.1	1.0	1.0	5.7	6.6	6.9

Source: Macrobond, DOSM, MBSBR

Inflation eased slightly in the urban areas

By strata, inflation in the urban areas eased marginally to +1.4%yoy in Feb-26 (Jan-26: +1.5%yoy), while the inflation in the rural areas, however, increased to +1.4%yoy (Jan-26: +1.3%yoy). Among states, the pace of Feb-26 inflation in Pahang (+2.1%yoy), Negeri Sembilan (+2.0%yoy), and Sabah (+1.8%yoy) exceeded the national inflation rate.

Table 2: Inflation by region (YoY%)

	MoM%			YoY%		
	Dec-26	Jan-26	Feb-26	Dec-26	Jan-26	Feb-26
Urban	0.1	0.1	0.2	1.5	1.5	1.4
Rural	0.2	0.2	0.3	1.3	1.3	1.4
Peninsular Malaysia	0.2	0.2	0.1	1.4	1.4	1.4
Kedah	0.2	0.2	0.4	1.2	1.2	1.3
Perlis	0.2	0.2	0.0	1.5	1.5	1.0
Pulau Pinang	0.2	0.2	0.2	1.5	1.5	1.6
Perak	0.2	0.2	0.1	1.0	1.0	1.0
Selangor	0.1	0.1	0.2	1.6	1.6	1.3

Putrajaya	0.1	0.1	0.4	1.2	1.2	1.4
Kuala Lumpur	0.1	0.1	0.2	1.6	1.6	1.6
Melaka	0.2	0.2	0.3	1.4	1.4	1.4
Negeri Sembilan	0.0	0.0	0.2	1.9	1.9	2.0
Johor	0.1	0.1	0.2	1.9	1.9	1.6
Pahang	0.3	0.3	0.3	1.9	1.9	2.1
Kelantan	0.1	0.1	0.1	0.4	0.4	0.2
Terengganu	0.1	0.1	0.4	1.2	1.2	1.6
Sabah	0.1	0.1	0.7	1.4	1.4	1.8
Sarawak	0.1	0.1	0.2	1.1	1.1	0.9

Source: Macrobond, MBSBR

PPI deflated faster in Jan-26

Malaysia's producer prices fell at a faster pace by -2.9%yoy in Jan-25 (Dec-25: -2.7%yoy), marking the steepest decline since Jul-25 and extending an 11-month streak of deflation. This largely reflected sharper deflation in the mining PPI (-11.7%yoy; Dec-25: -8.8%yoy) with contraction in the extraction of crude petroleum (-11.8%yoy) and natural gas (-11.5%yoy). The deflation in the agriculture, forestry & fishing sector, however, fell at a slower rate of –8.3%yoy (Dec-25: -12.1%yoy), though still weighed down by the lower prices for growing of perennial crops (-14.7%yoy). The manufacturing sector posted a slightly steeper deflation of -1.7%yoy (Dec-25: -1.3%yoy) with a fall in the manufacturer of coke & refined petroleum products index (-5.8%yoy). However, prices rose for the water supply (+10.2%yoy) and electricity & gas (+4.9%yoy). On a monthly basis, producer prices ticked up by +0.1%mom (Dec-25: -0.2%mom) as prices edged up for the mining (+1.9%mom), water supply (+0.6%mom), and agriculture (+0.3%mom) sectors. The gap between PPI deflation and CPI inflation continues to widen in Jan-26, as headline CPI rose by +1.6%yoy, unchanged from the previous month. Looking ahead, renewed cost pressures following the rise in energy prices could put pressures on local producers. Price dynamics will continue to be influenced by policy measures, such as subsidy rationalisation for essential goods as part of the fiscal consolidation. At the same time, higher disposable income from SSPA Phase 2 salary adjustments and government transfers, including the February 2026 SARA Special Transfer, could support demand-pull inflation, though within manageable levels.

Table 3: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Nov-25	**Dec-25**	**Jan-26**	**Nov-25**	**Dec-25**	**Jan-26**
PPI	(0.3)	(0.2)	0.1	(1.8)	(2.7)	(2.8)
Crude Materials	(2.7)	(0.8)	1.5	(6.2)	(8.3)	(7.4)
Foodstuffs	0.3	0.2	0.8	4.7	4.3	4.5
Non-food	(3.4)	(1.2)	1.7	(8.5)	(11.0)	(9.9)
Non-food ex fuel	(7.2)	(1.8)	(0.3)	(15.9)	(19.1)	(14.2)
Crude Fuel	(0.7)	(0.8)	3.0	(2.6)	(4.8)	(7.1)
Intermediate Materials	0.3	0.0	(0.5)	(1.1)	(1.6)	(2.3)
Manufactured Goods	(0.3)	(0.1)	(0.3)	(0.7)	(2.1)	(3.5)
Construction	0.2	(0.4)	0.7	4.7	4.7	5.8
Processed Fuel & Lubricants	0.3	(0.8)		(7.5)	(6.7)	
Containers	1.6	(0.9)	(1.1)	4.2	4.5	2.9
Supplies	1.4	1.0	0.0	2.5	2.7	2.7
Finished Goods	0.3	(0.2)	0.4	(0.2)	(0.7)	(0.6)
Consumer Goods	(0.1)	0.0	0.2	(0.2)	(0.5)	(0.1)
Consumer Goods ex. Foods	0.0	0.2	0.2	(1.0)	(1.0)	(0.4)
Capital Equipment	0.5	(0.4)	0.6	(0.1)	(1.0)	(0.9)

Source: DOSM, MBSBR

Heightened inflationary concerns due to cost-push inflation stemming from higher oil prices

The CPI inflation was generally higher across the selected countries last month. In the US, the headline and core CPI inflation remained unchanged at +2.4%yoy and +2.5%yoy, respectively, in Feb-26. At the FOMC meeting in Mar-26, the Fed maintained the target range for fed funds at 3.50-3.75%, despite adjusting higher the forecast for headline PCE inflation to +2.7% (previous forecast: +2.4%) and core inflation to +2.7% (previous forecast: +2.5%). Meanwhile, the headline CPI inflation for the euro area picked up to +1.9%yoy in Feb-26 (Jan-26: +1.7%yoy). President Christine Lagarde reiterated that both the central bank and the euro area inflation outlook are in a "good place". The UK headline inflation eased to +3.0%yoy in Jan-26. In Asia, China's inflation saw a strong increase to +1.3%yoy in Feb-26, a jump from the +0.2%yoy recorded in Jan-26. Taiwan's inflation also picked up to +1.4%yoy (Jan-26: +1.3%yoy). In Indonesia, inflation also spiked higher to +4.8%yoy (Jan-26: +3.5%yoy), reaching its highest level since Mar-24 attributable to stronger inflation across the board. Although we anticipate a sustained bias toward accommodative monetary policy, the recent spike in Brent crude oil prices—triggered by the conflict in the Middle East—presents a heightened global inflationary risk. A prolonged conflict remains a primary concern, as a protracted war would likely cause these inflationary pressures to become more entrenched and complicate the path for the central bank's easing cycle. Separately, we remain cautious regarding the impact of elevated tariffs and a volatile trade landscape, notwithstanding the current one-year trade truce between the US and China. Sector-specific tariffs pose a further risk, likely to intensify price pressures—particularly within the US.

Table 4: Global Headline CPI Inflation (YoY%)

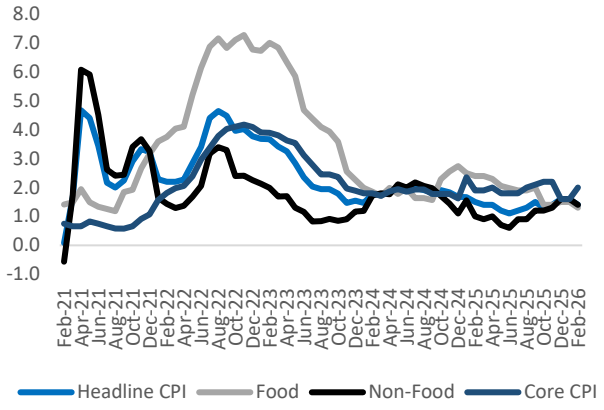
	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26
Malaysia	1.3	1.5	1.3	1.4	1.6	1.6	1.4
Indonesia	2.3	2.7	2.9	2.7	2.9	3.5	4.8
Singapore	0.5	0.7	1.2	1.2	1.2	n/a	n.a
Thailand	(0.8)	(0.8)	(0.8)	(0.5)	(0.3)	(0.7)	-0.9
Philippines	1.5	1.7	1.7	1.5	1.8	2.0	2.4
Taiwan	1.5	1.3	1.6	1.6	1.6	1.3	1.4
South Korea	1.7	2.1	2.4	2.4	2.3	2.0	2.0
China	(0.6)	(0.5)	(0.1)	0.5	0.7	0.2	1.4
Japan	2.7	2.9	3.0	2.9	2.1	1.5	n.a
Euro Area	2.0	2.2	2.1	2.1	2.0	1.7	1.9
UK	3.7	3.8	3.6	3.3	3.3	3.0	n.a
USA	2.9	3.0	n/a	2.7	2.7	2.4	2.4
PCE Prices	2.7	2.8	2.7	2.8	2.9	2.8	n.a

Source: Macrobond, National Authorities, MBSBR

Expect inflation to accelerate gradually, given the higher oil prices, but remain under control

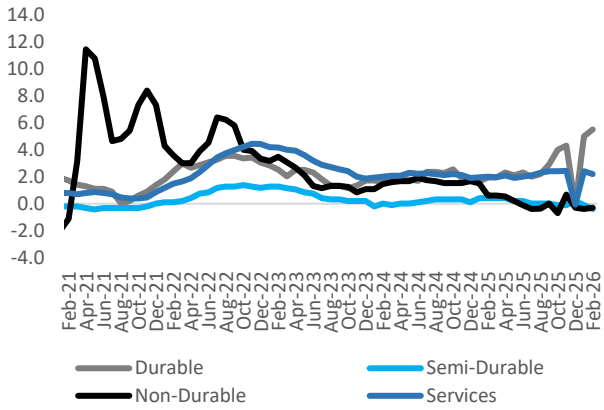
Given the currently mild inflation readings, we maintain our 2026 inflation forecast at +1.8% (2025: 1.4%). While we continue to monitor potential price pressures arising from policy changes such as the broader scope of SST, the unchanged subsidised RON95 price at RM1.99 per litre has limited the upside risk to CPI inflation. The government also stressed its decision to maintain the current subsidized RON95 prices, despite the spike in oil prices above the USD100pb, which will add to the government's fuel subsidy burden. If oil prices remain elevated for an extended period, any decision to adjust the subsidised price higher will directly feed into inflation. However, the more severe upside risk will affect those who are excluded from the BUDI95 fuel subsidy framework. Higher transport costs paid by the Micro, Small, and Medium Enterprises (MSMEs), especially following the surge in unsubsidised fuel prices, may lead to pass-through from the increase in business expenses to higher selling prices. On top of that, the higher fertiliser prices may also feed into the food production, which will push food prices higher. In other words, we expect inflation pressures triggered by changes on the supply side, while demand pressures remain under control despite robust consumer spending, healthy labour market, and supportive fiscal measures. Our baseline forecast remains a 'Hold' on the OPR at 2.75%. With private consumption acting as a primary growth engine and inflation risks currently balanced, there is no immediate pressure for a policy shift. BNM is likely to prioritise monetary stability while remaining vigilant against supply-side shocks that could disrupt the domestic price floor.

Chart 1: Key CPI Data (YoY%)



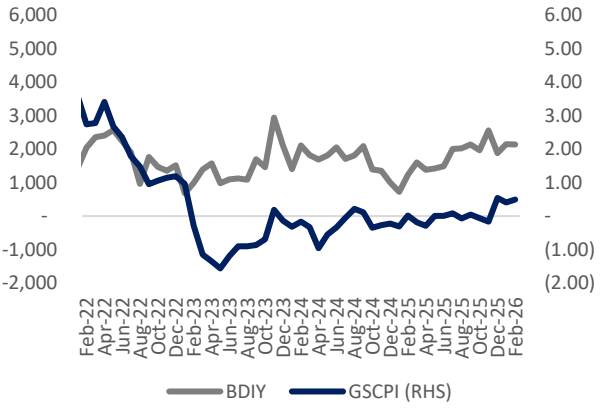
Source: Macrobond, MBSBR

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



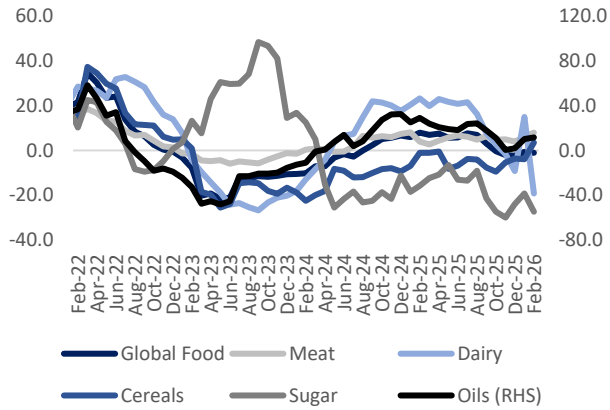
Source: Macrobond, MBSBR

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



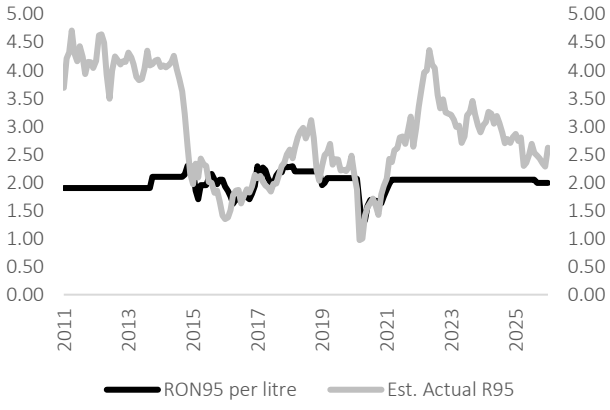
Source: Macrobond, MBSBR

Chart 4: Global Food Inflation (YoY%)



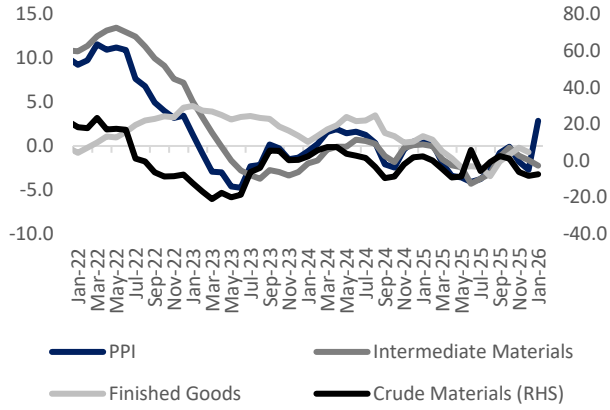
Source: Macrobond, MBSBR

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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