May-26 Inflation Accelerates to +2.0% yoy as Supply-Side Energy Risks Linger

Economic Review
May-26 Consumer Price Index



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- Malaysia's headline CPI inflation accelerated further to +2.0%yoy (Apr-26: +1.9%yoy). This is the fastest inflation since Aug-23, similar to the market consensus and within our expectations. This May-26 data continues to capture the global energy inflation on the back of the heightened conflicts in the Middle East. Non-food inflation remained strong at +2.3%yoy (Apr-26: +2.3%yoy); within the non-food components, inflation was higher in the housing, water, electricity, gas & other fuels (+1.2%yoy).
- Annual core inflation was unchanged at +2.0%yoy in May-26, with the monthly core inflation easing slightly to 0.0%mom (Apr-26: +0.1%mom) which reflects some easing in the underlying price pressures.
- We keep our forecast that the headline inflation will increase to +2.0% this year (2025: +1.4%). Demand conditions are expected to remain resilient, supported by higher consumer spending, stable labour market, and supportive fiscal measures. Nevertheless, price pressures are expected to be predominantly supply-driven, as stable core inflation suggests underlying demand pressures remained contained.

Headline inflation accelerated to +2.0%yoy, the fastest since Aug-23

Malaysia's headline CPI inflation accelerated further to +2.0%yoy (Apr-26: +1.9%yoy). This is the fastest inflation since Aug-23, similar to the market consensus and within our expectations. This May-26 data continues to capture the global energy inflation on the back of the heightened conflicts in the Middle East. Non-food inflation remained strong at +2.3%yoy (Apr-26: +2.3%yoy); within the non-food components, inflation was higher in the housing, water, electricity, gas & other fuels (+1.2%yoy). Meanwhile, the food inflation also increased faster by +1.4%yoy (Apr-26: +1.2%yoy), driven by the higher inflation for foods at home (+0.3%yoy; Apr-26: +0.0%yoy).

Underlying pressures were rather stable

Annual core inflation was unchanged at +2.0%yoy in May-26, with the monthly core inflation easing slightly to 0.0%mom (Apr-26: +0.1%mom) which reflects some easing in the underlying price pressures. Meanwhile, by strata, inflation in the urban areas eased to +1.9%yoy (Apr-26: +2.0%yoy) while the rate for rural areas slowed to +1.7%yoy. Inflation rates in some of the states have been picking up at rates above the national level; the highest rate in Pahang at +2.8%yoy, followed by Negeri Sembilan (+2.6%yoy), and Johor (+2.5%yoy).

Upside risk to global food prices

Global food prices continue to increase in May-26, increasing faster by +2.9%yoy (Apr-26: +2.2%yoy) and marking the third consecutive month of uptrend in the global food inflation. The higher reading in May-26 was mainly driven by the increased prices for cereal (+4.8%yoy) and poultry (+2.0%yoy), in contrast to the moderate inflation for meat (+6.3%yoy) and oil (+21.5%yoy). On the other hand, prices of dairy (-22.4%yoy) and sugar (-13.1%yoy) declined in May-26. The structural threat to global food commodities remains tilted to the upside due to persistent geopolitical friction in the Middle East. Prolonged disruptions are poised to keep input costs —specifically marine transit and fertiliser— elevated, triggering a broader pass-through effect across agricultural markets.

Expectation of a weaker ringgit and higher food prices may feed into inflation.

While Malaysia remains structurally exposed to exogenous commodity shocks and foreign exchange volatility, the near-term outlook for imported inflation appears relatively balanced. The recent appreciation of the Ringgit serves as a critical buffer, effectively mitigating imported price pressures; however, this currency tailwind is partially countered by the synchronised surge in global food commodity prices, which continues to pose a distinct upside risk to the domestic CPI trajectory. However, given the latest shift of expectations on the trajectory of US fed funds rate, the ringgit may be on a weakening trajectory later this year. Consequently, should these dynamics persist, we expect a mild inflationary pass-through to consumers, but the current elevated short-term higher energy prices may continue to persist and further hit consumers. Nonetheless, rising input costs driven by elevated imported energy prices remain a key risk, with the potential to spill over into broader components of the CPI basket. Targeted petrol price adjustments for non-citizens have been broadly effective to contain price pressures, mitigated by the subsidised fuel prices. The primary upside risk, therefore, stems from surging fertiliser and urea prices, triggered by the Middle East tensions. Because over one-third of global fertiliser trade transits the Strait of Hormuz, the combination of rising energy costs and shipping disruptions will also pose a significant upside risk to the broader inflation outlook.

PPI accelerated further in Apr-26, indicating a steeper rise in cost pressures

Cost pressures in Malaysia surged in Apr-26 as PPI rebounded to +5.4%yoy (Mar-26: +1.1%yoy), marking the second straight month of inflation after 12 months of deflation. The turnaround in PPI reflects producer prices have been rising at the fastest pace since August 2022, signaling producer-level cost pressures intensifying amid mounting disruptions from the war in Iran. By sector, the Industrial and primary sectors saw a broad-based rebound, led by a +53.4%yoy surge in mining, rebounding from-26.5%yoy drop in Mar-26, propelled by a +74.5%yoy jump in crude petroleum extraction. Manufacturing prices also swung back into positive territory at +1.1%yoy (Mar-26: -0.8%yoy), buoyed by a +3.8%yoy increase in electronics and optical goods. Agriculture, forestry, and fishing also turned around, rising +2.7%yoy (Mar-26: -5.6%yoy) due to gains in perennial crops and fishing. Additionally, utility costs amplified the upside as electricity and gas accelerated to +10.6%yoy, while water supply growth stayed robust at +10.8%yoy. By stage of production, there were escalating cost pressures across all production stages. Crude materials for further processing surged +26.1%yoy (Mar-26: +9.8%yoy), propelled by a +31.2%yoy jump in non-food materials. Intermediate materials rebounded strongly to +8.0%yoy (Mar-26: -1.3%yoy), driven primarily by higher construction inputs. Meanwhile, downstream finished goods edged up a mild increase of +0.7%yoy, supported by a +0.8%yoy increase in capital equipment costs. We foresee that increased cost pressures could translate into higher consumer prices as PPI inflation exceeded CPI inflation since Apr-26. Producers who are unable to fully absorb the higher prices may opt to pass on some of the cost increases to end consumers.

Inflationary pressure causing central bank on a hawkish bias

The CPI inflation was generally higher across the selected countries last month. In the US, the headline inflation spiked higher to +4.2%yoy in May-26 (Apr-26: +3.8%yoy), hitting the highest level since Apr-23. Core CPI inflation in the US picked up marginally to +2.9%yoy (Apr-26: +2.8%yoy), the highest level since Sep-25. Similarly, headline CPI inflation for the euro area also increased to +3.2%yoy (Apr-26: +3.0%yoy), with the core inflation surging to +2.6%yoy (Apr-26: +2.2%yoy). The ECB delivered a +25bps rate hike at its Jun-26 meeting, marking its first increase since 2023. Policymakers noted that the Middle East conflict is intensifying price pressures, justifying the hike across multiple economic scenarios. Reflecting these persistent risks, the ECB upwardly revised its inflation projections: headline CPI is now forecast at 3.0% for 2026 and 2.3% for 2027, while core inflation expectations were bumped to 2.5% for both years. The UK headline inflation increased to +4.2%yoy in May-26 (Apr-26: +3.8%yoy). In Asia, China's inflation picked up to +1.5%yoy in May-26 (Apr-26: +1.3%yoy). In Taiwan, inflation also increased to +2.3%yoy (Apr-26: +1.9%yoy), similar to South Korea which the rate increased to +3.1%yoy (Apr-26: +2.8%yoy). A prolonged conflict would lock in global inflationary pressures, forcing central banks into a hawkish stance. Reflecting this, markets have abandoned all expectations of rate cuts by the US Fed, pivoting instead toward a potential hike later this year while peer central banks also prepare for further tightening. Beyond geopolitics, a volatile trade landscape and targeted tariffs also present an additional upside risk to inflation, especially within the US.

Upside risks from supply-side adjustments

Supply-side factors remain tilted toward higher inflation. Protracted geopolitical friction keeps energy costs elevated, driving up manufacturing and transport overheads. Consequently, any reduction in subsidies acts as a direct consumer price shock, while MSMEs facing higher unsubsidised fuel costs are forced to pass along higher expenses on their consumers, thus generating secondary cost-push pressures. These dynamics are exacerbated by rising agricultural inputs like fertilisers, leaving food price stability vulnerable. The recent Manufacturing PMI report contracted to 49.0 in May-26, down from the four-year high in the previous month of 51.6, On the price front, input costs rose, driven by higher raw material and fuel prices, although inflation eased from April's recent peak. Meanwhile, output price inflation also eased as firms sought to remain competitive. On the other hand, inflation outlook could improve gradually following corrections in the oil and energy prices. This easing price pressures may last subject to the durability of the peace deal between the US and Iran.

Maintain inflation forecast for 2026 at +2.0%

We keep our forecast that the headline inflation will increase to +2.0% this year (2025: +1.4%). Demand conditions are expected to remain resilient, supported by higher consumer spending, stable labour market, and supportive fiscal measures. Nevertheless, price pressures are expected to be predominantly supply-driven, as stable core inflation suggests underlying demand pressures remained contained. Government policy and fuel subsidies will be vital to mitigating price shocks from the elevated global energy prices. Nonetheless, domestic inflation should remain manageable, with BNM expected to stay highly vigilant while keeping monetary policy stable. Government policy supports and fuel subsidies will be vital to mitigating price shocks, though heightened geopolitical risks threaten to keep energy prices high and extend inflationary pressures.

Table 1: Malaysia – Consumer price index by component

	Weight (%)	MoM%			YoY%		
		Mar-26	Apr-26	May26	Mar-26	Apr-26	May-26
Core CPI	-	0.2	0.1	0.0	2.1	2.0	2.0
Headline CPI	100.0	0.3	0.4	0.1	1.7	1.9	2.0
Food and Beverages	29.8	(0.1)	0.1	0.3	1.1	1.2	1.4
Food	29.0	(0.1)	0.1	0.2	1.1	1.2	1.4
Food at Home	15.6	(0.3)	(0.4)	0.2	0.1	0.0	0.3
Food Away from Home	13.4	0.1	0.5	0.3	2.3	2.6	2.5
Non-Food	70.2	0.5	0.5	0.1	2.0	2.3	2.3
Alcoholic Beverages & Tobacco	1.9	0.1	0.2	0.0	2.7	2.8	2.8
Clothing & Footwear	2.7	(0.1)	0.0	0.0	(0.1)	(0.1)	(0.1)
Housing, Water, Electricity, Gas & Other Fuels	23.2	0.1	(0.1)	0.5	1.2	1.1	1.2
Furnishings, Household Equip & Maintenance	4.3	0.1	0.2	0.1	0.1	0.4	0.4
Health	2.7	0.2	0.2	(0.1)	1.4	1.4	1.2
Transport	11.3	2.1	2.5	(0.5)	1.6	4.1	3.8
Information and Communication	6.6	0.8	1.6	0.0	1.4	2.0	2.1
Recreation, Sport and Culture	3.0	0.2	0.3	0.1	1.0	0.9	1.1
Education	1.3	0.2	0.2	0.1	2.5	2.4	2.2
Restaurants & Accommodation Services	3.4	(0.1)	0.4	0.3	2.6	2.6	2.5
Insurance & Financial Services	4.0	0.3	0.0	0.0	4.9	4.9	4.9
Personal Care, Social Protect & Misc. Goods & Svc	5.8	0.4	(0.7)	(0.1)	7.0	4.8	4.8

Source: Macrobond, DOSM, MBSBR

Table 2: Inflation by region (YoY%)

	Mar-26	Apr-26	May-26
Urban	1.8	2.0	1.9
Rural	1.6	1.8	1.7
Kedah	1.9	1.9	2.2
Perlis	1.3	1.6	1.3
Pulau Pinang	1.8	1.8	1.9
Perak	1.1	1.2	1.3
Selangor	1.6	2.0	1.8
Putrajaya	1.5	2.1	2.2
Kuala Lumpur	2.2	2.5	2.4
Melaka	1.6	1.9	2.1
Negeri Sembilan	2.2	2.5	2.6
Johor	2.0	2.4	2.5
Pahang	2.5	2.8	2.8
Kelantan	0.7	0.8	0.8
Terengganu	1.7	1.9	1.9
Sabah	2.1	2.1	2.0
Sarawak	1.2	0.4	0.5

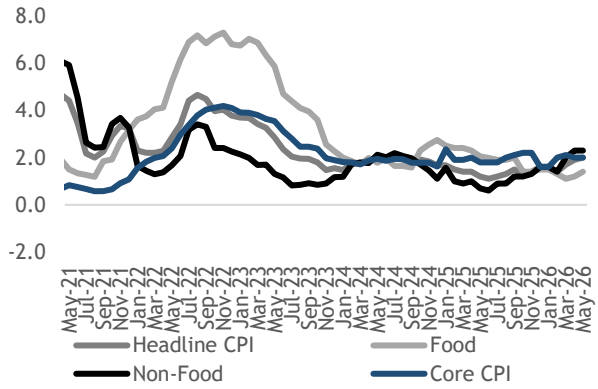
Source: Macrobond, MBSBR

Table 3: Global Headline CPI Inflation (YoY%)

	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26
Malaysia	1.4	1.6	1.6	1.4	1.7	1.9	2.0
Indonesia	2.7	2.9	3.5	4.8	3.5	2.4	3.1
Singapore	1.2	1.2	1.4	1.2	1.8	1.8	n.a
Thailand	(0.5)	(0.3)	(0.7)	-0.9	-0.1	2.9	2.8
Philippines	1.5	1.8	2.0	2.4	4.1	7.2	6.8
Taiwan	1.6	1.6	1.4	1.5	1.5	1.9	2.3
South Korea	2.4	2.3	2.0	2.0	2.1	2.8	3.1
China	0.5	0.7	0.2	1.4	1.1	1.3	1.5
Japan	2.9	2.1	1.5	1.3	1.0	1.2	1.4
Euro Area	2.1	2.0	1.7	1.9	2.6	3.0	3.2
UK	3.3	3.3	3.0	3.0	3.3	n.a	2.9
USA	2.7	2.7	2.4	2.4	3.3	3.8	4.2
PCE Prices	2.8	2.9	2.8	2.8	3.5	3.8	n.a

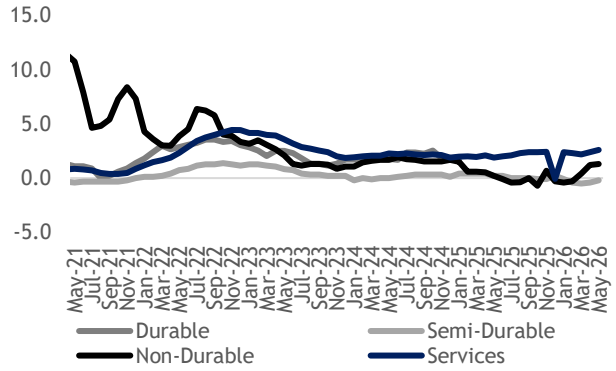
Source: Macrobond, National Authorities, MBSBR

Chart 1: Key CPI Data (YoY%)



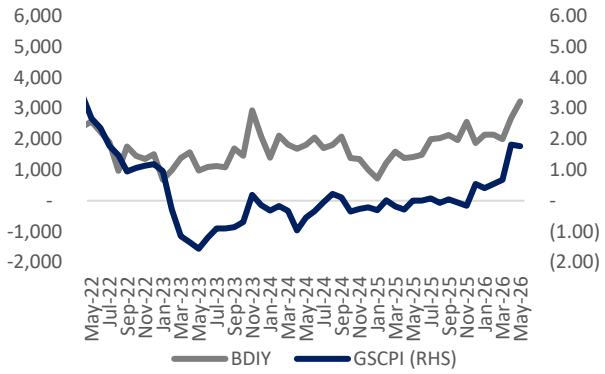
Source: Macrobond, MBSBR

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



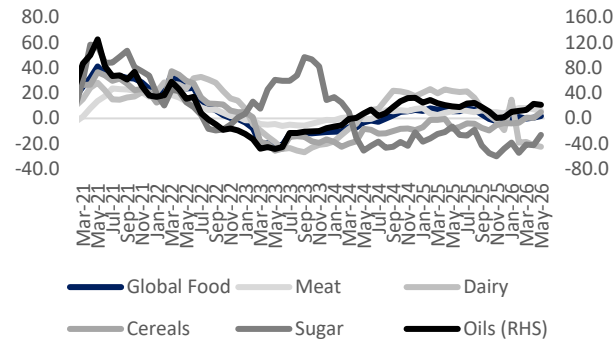
Source: Macrobond, MBSBR

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



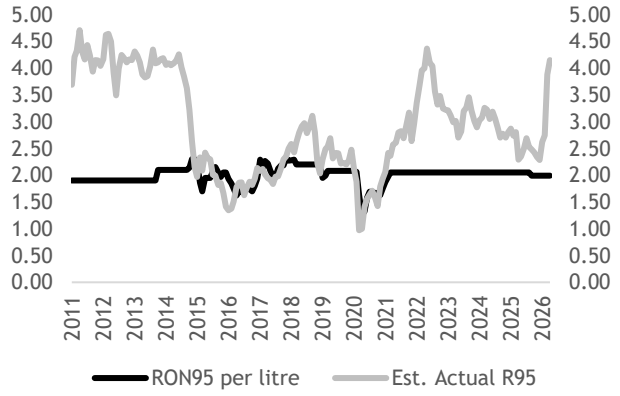
Source: Macrobond, MBSBR

Chart 4: Global Food Inflation (YoY%)



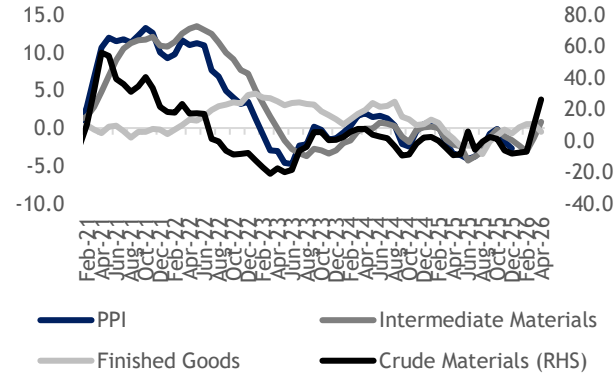
Source: Macrobond, MBSBR

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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