# Malaysia's June Inflation Eases to 1.9% as Energy Pressures Moderate

Economic Review
June-26 Consumer Price Index




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Economic Review

- Malaysia's headline CPI inflation moderated to +1.9%yoy (May-26: +2.0%yoy), easing back to the level in Apr-26. The reading was lower than our estimate (+2.0%yoy) and the market consensus (+2.1%yoy). The Jun-26 data saw some easing of the energy prices, as a result transport inflation eased to +2.8%yoy (May-26: +3.8%yoy).
- Core inflation also eased lower to +1.9%yoy in Jun-26 (May-26: +2.0%yoy), with monthly core inflation was flat from the previous month, which indicates stability 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. We continue to expect that price pressure will depend on the supply side environment, as stable core inflation suggests underlying demand pressures remained contained.

**Headline inflation eased to +1.9%yoy, amid lower energy prices**

Malaysia's headline CPI inflation moderated to +1.9%yoy (May-26: +2.0%yoy), easing back to the level in Apr-26. The reading was lower than our estimate (+2.0%yoy) and the market consensus (+2.1%yoy). The Jun-26 data saw some easing of the energy prices, as a result transport inflation eased to +2.8%yoy (May-26: +3.8%yoy). Non-food inflation also eased lower to +2.2%yoy (May-26: +2.3%yoy); within the non-food components, inflation eased for health, transport; education; and personal care, social protection & misc. Meanwhile, food inflation was unchanged at +1.4%yoy, as food at home prices increased to +0.5%yoy (May-26: +0.3%yoy).

**Underlying pressures were rather stable**

Core inflation also eased lower to +1.9%yoy in Jun-26 (May-26: +2.0%yoy), with monthly core inflation was flat from the previous month, which indicates stability in the underlying price pressures. Meanwhile, by strata, inflation in the urban areas eased to +1.8%yoy (May-26: +1.9%yoy), while the rate for rural areas was unchanged at +1.7%yoy. Inflation rates in some states have been picking up at rates above the national level; the highest rate in Pahang at +2.6%yoy, followed by Johor and Negeri Sembilan, both recording inflation at +2.5%yoy.

**Upside risk to global food prices**

Global food prices moderated in Jun-26, slowing to +1.7%yoy (May-26: +2.9%yoy), marking the first moderation after 3 consecutive months of uptrend. The weaker reading in Jun-26 mainly attributable to the slower rise in prices of meat (+4.0%yoy; May-26: +6.2%yoy), cereals (+2.8%yoy; May-26: +4.8%yoy), and the continued deflation in dairy products (-24.5%yoy; May-26: -22.4%yoy) and sugar (-13.1%yoy; May-26: -13.4%yoy). On the other hand, prices of poultry increased faster by +7.0yoy (May-26: +3.6%yoy) and oils continue to inflation sharply at +23.3%yoy (May-26: +21.5%yoy). The structural risk premium for global food commodities remains firmly tilted to the upside, driven by persistent geopolitical friction in the Middle East, given the recent flare-up. Prolonged supply-chain disruptions are poised to keep critical upstream input costs specifically marine transit and fertilisers, to remain higher. This sustained cost-push pressure is expected to trigger a broader, lagged pass-through effect across agricultural markets, keeping global food inflation sticky.

**Potentially weaker ringgit and higher food prices are an upside risk**

The shift in market expectations towards policy tightening by the Fed could weaken the ringgit currency in the short run, exposing Malaysia to persistent global commodity shocks. This FX risk is compounded by elevated global food prices and sticky energy costs, though domestic fuel subsidies and targeted petrol pricing continue to cushion the direct impact on consumers. The most critical upside risk, however, stems from Middle East tensions threatening the Strait of Hormuz, the transit bottleneck for over one-third of global fertiliser and urea trade, which could trigger a severe, secondary cost-push spike across agricultural supply chains and the broader CPI basket.

**PPI accelerated further in May-26, indicating higher cost pressures**

Malaysia's PPI inflation accelerated further to +7.8%yoy in May-26 (Apr-26: +5.4%yoy), the fastest rate since Jun-22. This signals higher cost pressures for local producers, mainly for the mining sector (+52.6%yoy; Apr-26: +53.4%) following the +74.5%yoy surge in the crude oil extraction. PPI for the manufacturing sector also rose faster (+3.5%yoy; Apr-26: +1.1%yoy), particularly higher prices in the production of coke and refined petroleum products (+12.3%yoy) and computer, electronic & optical products (+5.7%yoy). Utility sectors continued to be hit by double-digit PPI inflation, which reflects higher producer prices in the water supply (+11.2%yoy) and electricity & gas supply (+10.0%yoy). Meanwhile, PPI for the agriculture, forestry & fishing industry also rose faster (+8.9%yoy; Apr-26: +2.7%yoy), marking the highest reading in 14 months. In line with that, prices of crude materials for further processing surged +31.5%yoy (Apr-26: +26.1%yoy), the fastest pace since Dec-21. The upward price pressures were also recorded for prices of intermediate materials & supplies (+3.0%yoy; Apr-26: +0.8%yoy) and finished goods (+1.7%yoy; Apr-26: +0.7%yoy). With the PPI inflation exceeding the CPI inflation for the second straight month, there is an upside risk to the CPI outlook. Firms may raise selling prices to pass on some of the cost increases to their customers. Prolonged supply disruptions would also keep the PPI inflation elevated. On another note, energy-driven cost pressures could ease, taking into account the current level of crude oil prices, which remained below USD100pb, and gradual improvements in the supply conditions. As the higher inflation is primarily supply-driven, we opine there is no urgency for BNM to change OPR setting this year.

**Inflationary pressure is causing central bank on a hawkish bias**

The CPI inflation generally eased across the selected countries last month. In the US, the headline inflation eased lower to +3.5%yoy in Jun-26 (May-26: +4.2%yoy), marking the first decline in five months. Meanwhile, core CPI eased lower to +2.6%yoy from +2.9%yoy, below market expectations of +2.8%yoy. Similarly, headline inflation for the euro area declined to +2.8%yoy (May-26: +3.2%yoy), with the core inflation fell to +2.4%yoy (May-26: +2.6%yoy). The ECB delivered a hawkish surprise in June 2026, implementing a +25bps rate hike, basically its first policy tightening since 2023. Policymakers noted that intensifying Middle East friction has introduced persistent supply-side price pressures, justifying the move across multiple scenarios. Reflecting these sticky structural risks, the ECB upwardly revised its macroeconomic projections, lifting headline inflation forecasts to 3.0% for 2026 and 2.3% for 2027, while core inflation expectations were raised to 2.5% for both years. In the UK, headline inflation was unchanged at +2.8%yoy in May-26. However, according to the BOE MPC. Officials noted that while global energy prices have moderated since the previous meeting due to developments in the Middle East, they remain structurally elevated and volatile compared to pre-conflict baselines. UK headline CPI inflation has eased to 2.8%. However, the Bank maintains a cautious outlook, projecting a potential near-term rebound later this year as the lagged pass-through of earlier energy price spikes continues to filter into secondary consumer costs. In Asia, China inflation eased lower to +1.2%yoy in Jun-26 (May-26: +1.2%yoy), similar to Indonesia increasing to +3.3%yoy. A prolonged Middle East conflict risks locking in structural global inflationary pressures, forcing major central banks to maintain a strictly hawkish policy stance. Reflecting this shift, markets have entirely priced out near-term easing expectations for the US Federal Reserve, pivoting instead toward the probability of a potential rate hike later this year while peer central banks actively prepare for further tightening cycles. Beyond immediate geopolitical supply shocks, a highly volatile global trade landscape and the implementation of targeted tariffs present an acute, compounding upside risk to inflation—particularly within the domestic US economy.

**Upside risks from supply-side, but signs of easing**

Supply-side factors remain skewed toward higher inflation as protracted geopolitical friction keeps energy and manufacturing overheads elevated. Consequently, any reduction in subsidies acts as a direct consumer price shock, while MSMEs, facing higher unsubsidized fuel costs, are forced to pass these expenses forward, generating secondary cost-push pressures, similar to the agriculture sector with fertiliser. The recent manufacturing PMI rose to 50.7 in Jun-26, showing some recovery in the manufacturing sector. On the price front, Input cost inflation eased to a three-month low in June, providing some relief to wholesale manufacturing pipelines. However, manufacturers aggressively raised their selling prices at a faster pace than in May, indicating strong margin-preservation tactics and an immediate pass-through of lingering overheads to final consumers. Despite these current pricing pressures, manufacturing firms remained highly optimistic regarding production growth over the coming 12 months, signaling robust underlying demand expectations.

**Maintain inflation expectation 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. We continue to expect that price pressure will depend on the supply side environment, 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. Domestic inflation is projected to remain manageable as BNM maintains a vigilant but stable monetary policy posture. While government policy supports and fuel subsidies remain vital tools to cushion consumers against immediate price shocks, the outlook faces persistent upside risks. Renewed geopolitical friction threatens to lock in elevated global energy baselines, potentially extending cost-push inflationary pressures into the second half of the year. Meanwhile, we remain cautious on the elevated PPI pressure which may seep into the CPI basket in the short-term.

**Table 1: Malaysia – Consumer price index by component**

| | Weight (%) | MoM% | | | YoY% | | |
|---|---|---|---|---|---|---|---|
| | | Apr-26 | May-26 | Jun-26 | Apr-26 | May-26 | Jun-26 |
| **Core CPI** | - | 0.1 | 0.0 | 0.0 | 2.0 | 2.0 | 1.9 |
| **Headline CPI** | 100.0 | 0.4 | 0.1 | 0.0 | 1.9 | 2.0 | 1.9 |
| **Food and Beverages** | 29.8 | 0.1 | 0.3 | 0.2 | 1.2 | 1.4 | 1.4 |
| **Food** | 29.0 | 0.1 | 0.2 | 0.2 | 1.2 | 1.4 | 1.4 |
| **Food at Home** | 15.6 | (0.4) | 0.2 | 0.3 | 0.0 | 0.3 | 0.5 |
| **Food Away from Home** | 13.4 | 0.5 | 0.3 | 0.2 | 2.6 | 2.5 | 2.4 |
| **Non-Food** | 70.2 | 0.5 | 0.1 | (0.2) | 2.3 | 2.3 | 2.2 |
| **Alcoholic Beverages & Tobacco** | 1.9 | 0.2 | 0.0 | 0.1 | 2.8 | 2.8 | 2.8 |
| **Clothing & Footwear** | 2.7 | 0.0 | 0.0 | 0.0 | (0.1) | (0.1) | 0.0 |
| **Housing, Water, Electricity, Gas & Other Fuels** | 23.2 | (0.1) | 0.5 | 0.2 | 1.1 | 1.2 | 1.4 |
| **Furnishings, Household Equip & Maintenance** | 4.3 | 0.2 | 0.1 | 0.0 | 0.4 | 0.4 | 0.4 |
| **Health** | 2.7 | 0.2 | (0.1) | 0.0 | 1.4 | 1.2 | 0.4 |
| **Transport** | 11.3 | 2.5 | (0.5) | (0.8) | 4.1 | 3.8 | 2.8 |
| **Information and Communication** | 6.6 | 1.6 | 0.0 | 0.0 | 2.0 | 2.1 | 2.4 |
| **Recreation, Sport and Culture** | 3.0 | 0.3 | 0.1 | 0.1 | 0.9 | 1.1 | 1.1 |
| **Education** | 1.3 | 0.2 | 0.1 | 0.1 | 2.4 | 2.2 | 2.1 |
| **Restaurants & Accommodation Services** | 3.4 | 0.4 | 0.3 | 0.1 | 2.6 | 2.5 | 2.6 |
| **Insurance & Financial Services** | 4.0 | 0.0 | 0.0 | 0.8 | 4.9 | 4.9 | 5.7 |
| **Personal Care, Social Protect & Misc. Goods & Svc** | 5.8 | (0.7) | (0.1) | (0.9) | 4.8 | 4.8 | 3.4 |

Source: Macrobond, DOSM, MBSBR

**Table 2: Inflation by region (YoY%)**

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

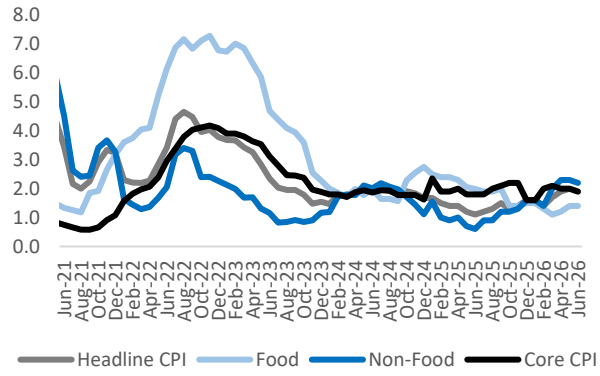
Source: Macrobond, MBSBR

**Table 3: Global Headline CPI Inflation (YoY%)**

| | Dec-25 | Jan-26 | Feb-26 | Mar-26 | Apr-26 | May-26 | Jun-26 |
|---|---|---|---|---|---|---|---|
| **Malaysia** | 1.6 | 1.6 | 1.4 | 1.7 | 1.9 | 2.0 | 1.9 |
| **Indonesia** | 2.9 | 3.5 | 4.8 | 3.5 | 2.4 | 3.1 | 3.3 |
| **Singapore** | 1.2 | 1.4 | 1.2 | 1.8 | 1.8 | 1.8 | n.a |
| **Thailand** | (0.3) | (0.7) | -0.9 | -0.1 | 2.9 | 2.8 | 2.4 |
| **Philippines** | 1.8 | 2.0 | 2.4 | 4.1 | 7.2 | 6.8 | 6.4 |
| **Taiwan** | 1.6 | 1.4 | 1.5 | 1.5 | 1.9 | 2.3 | 2.5 |
| **South Korea** | 2.3 | 2.0 | 2.0 | 2.1 | 2.8 | 3.1 | 3.2 |
| **China** | 0.7 | 0.2 | 1.4 | 1.1 | 1.3 | 1.5 | 1.2 |
| **Japan** | 2.1 | 1.5 | 1.3 | 1.0 | 1.2 | 1.4 | n.a |
| **Euro Area** | 2.0 | 1.7 | 1.9 | 2.6 | 3.0 | 3.2 | 2.8 |
| **UK** | 3.3 | 3.0 | 3.0 | 3.3 | 2.8 | 2.8 | n.a |
| **USA** | 2.7 | 2.4 | 2.4 | 3.3 | 3.8 | 4.2 | 3.5 |
| ***PCE Prices*** | 2.9 | 2.8 | 2.8 | 3.5 | 3.8 | 4.1 | n.a |

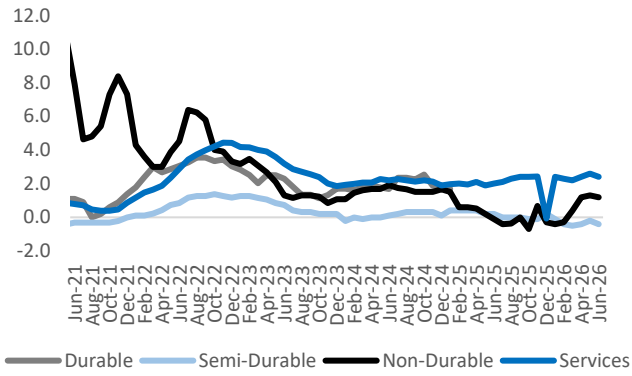
Source: Macrobond, National Authorities, MBSBR

**Chart 1: Key CPI Data (YoY%)**



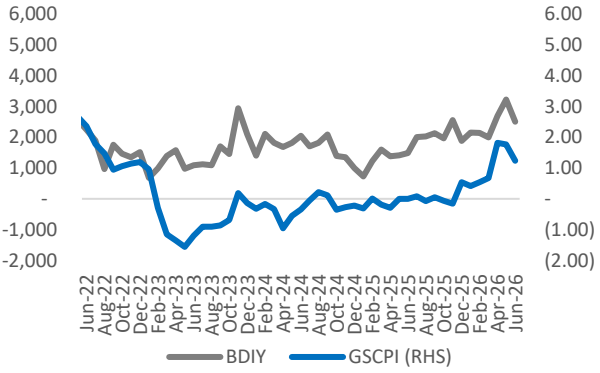

Source: Macrobond, MBSBR

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



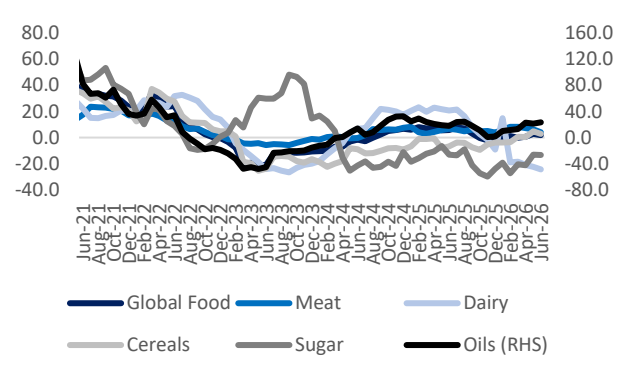

Source: Macrobond, MBSBR

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



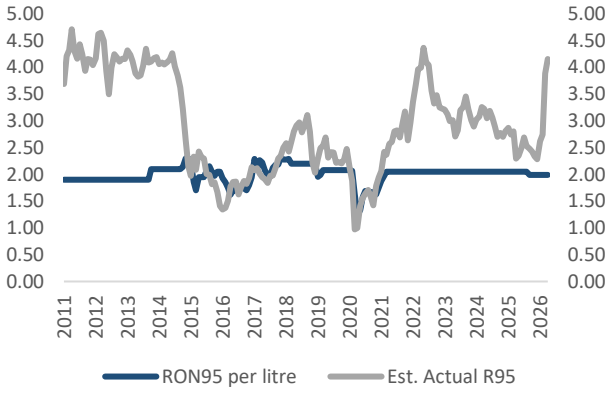

Source: Macrobond, MBSBR

**Chart 4: Global Food Inflation (YoY%)**



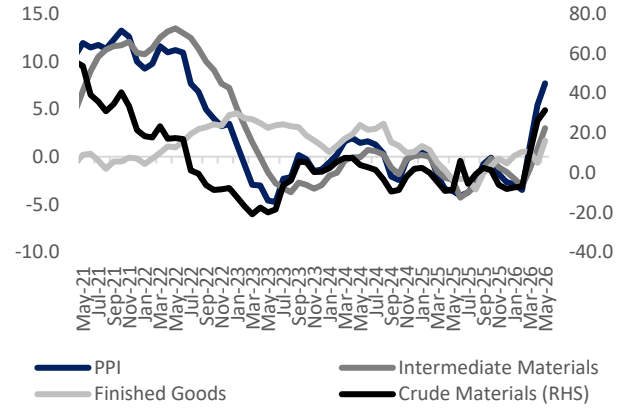

Source: Macrobond, MBSBR

**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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