Malaysia's Inflation Slows to +1.8%yoy in Jul-26 as Transport Inflation Eases

Economic Review
Jul-26 Consumer Price Index



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- Malaysia's headline CPI inflation moderated to +1.8%yoy (Jun-26: +1.9%yoy). The reading was marginally lower than our estimate (+1.9%yoy) and the market consensus (+1.9-2.0%yoy). The Jul-26 data saw some easing of energy prices, as a result, transport inflation eased for the third month to +1.4%yoy (Jun-26: +2.8%yoy).
- Core inflation also eased further to +1.8%yoy in Jul-26 (Jun-26: +1.9%yoy), with monthly core inflation remaining flat from the previous month, indicating stability in the underlying price pressures.
- We maintain our headline inflation forecast at +2.0% in 2026 (2025: +1.4%) despite the recent moderation in consumer prices. While underlying demand remains resilient and core inflation is relatively stable, we remain cautious over upside risks from elevated cost pressures and potential supply shocks.

Headline inflation eased again amid lower energy prices

Malaysia's headline CPI inflation moderated to +1.8%yoy (Jun-26: +1.9%yoy). The reading was marginally lower than our estimate (+1.9%yoy) and the market consensus (+1.9-2.0%yoy). The Jul-26 data saw some easing of energy prices, as a result, transport inflation eased for the third month to +1.4%yoy (Jun-26: +2.8%yoy). In addition, the moderation in non-food inflation to +1.8%yoy (Jun-26: +2.2%yoy) was also due to the slower inflation for insurance and financial services (+1.1%yoy; Jun-26: +5.7%yoy). Meanwhile, food inflation picked up to +1.8%yoy (Jun-26: +1.4%yoy), the highest in 10 months, as inflation for foods at home accelerated to +1.2%yoy (Jun-26: +0.5%yoy) driven by higher prices of meat, eggs, and vegetables.

Underlying pressures were rather stable

Core inflation also eased further to +1.8%yoy in Jul-26 (Jun-26: +1.9%yoy), with monthly core inflation remaining flat from the previous month, indicating stability in the underlying price pressures. Meanwhile, by strata, inflation in the urban areas eased were unchanged at +1.8%yoy, and similarly the rate for rural areas remained at +1.7%yoy. Inflation rate on the states level were generally unchanged or eased lower, although the rates for some states remained above the national inflation level, namely Negeri Sembilan (+2.5%yoy), Pahang (+2.3%yoy), and Kuala Lumpur (+2.2%yoy).

Easing global food prices but risks remained on the upside

Global food price inflation moderated to +1.0%yoy in Jul-26 (Jun-26: +1.8%yoy), marking the second month of moderation. The moderation in Jul-26 was mainly attributable to the slower rise in prices of meat (+0.8%yoy; Jun-26: +4.26%yoy), poultry (+0.1%yoy; Jun-26: +6.7%yoy), and oils (+17.3%yoy; Jun-26: +17.3%yoy). Meanwhile, dairy products continued to decline (-24.8%yoy; Jun-26: -24.7%yoy), while sugar prices deflation also slowed (-8.0%yoy; Jun-26: -13.1%yoy). On the other hand, prices of cereals increased faster by +6.8%yoy (Jun-26: +2.5%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, added with supply chain disruptions and higher production costs. This sustained cost-push pressure is expected to trigger a broader, lagged pass-through effect across agricultural markets, keeping global food inflation sticky.

Weaker ringgit and supply disruptions could add to Malaysia's inflation and cost pressures

The weaker ringgit could add to Malaysia's inflation and cost pressures through higher import costs, particularly for imported food, intermediate inputs and other production materials. While some easing in global food prices may help to contain overall inflation, upside risks remain from elevated energy and commodity prices, as well as continued supply disruptions. In particular, the prolonged closure of the Strait of Hormuz remains a key concern given its importance as a transit route for more than one-third of global fertiliser and urea trade. Any sustained disruption could raise fertiliser costs, increase agricultural production expenses and eventually feed through to higher food prices and the broader CPI basket.

Mounting pressures from higher production costs

Malaysia's Producer Price Index (PPI) accelerated to +9.2%yoy in Jun-26 (May-26: +7.8%yoy), marking its fourth consecutive month of growth and the fastest annual increase since Jun-22. The sustained rise was driven by stronger cost pressures amid continued supply chain disruptions linked to the Middle East conflict. On a monthly basis, PPI growth eased to +0.6%mom (May-26: +1.1%mom). The sharper annual increase in PPI was led by higher manufacturing costs (+7.2%yoy; May-26: +3.5%yoy), driven by sharp increases in coke & refined petroleum products (+30.1%yoy) and computer, electronic & optical products (+8.3%yoy). Agricultural output prices remained firm (+9.1%yoy; May-26: +8.9%yoy), supported by higher prices in fishing and perennial crops. Utility costs also increased across water supply and electricity & gas. In contrast, mining growth moderated to +29.0%yoy (May-26: +52.6%yoy), despite strong growth in crude petroleum extraction (+40.7%yoy). Looking ahead, the stronger PPI reading points to continued cost pressures. As such, we believe the inflation outlook remains subject to upside risks, particularly if supply disruptions remain prolonged.

Easing inflation reduces near-term pressure for policy tightening

CPI inflation generally eased across major economies in Jul-26. In the US, headline inflation moderated to +3.4%yoy (Jun-26: +3.5%yoy), while core CPI eased to +2.5%yoy (Jun-26: +2.6%yoy), indicating some moderation in underlying price pressures. Nevertheless, inflation remains above the Fed's 2% target, with three FOMC members voting for a +25bps hike at the Jul-26 meeting.

In the euro area, inflation edged higher to +2.9%yoy in Jul-26 from +2.8%yoy in Jun-26. This followed the ECB's +25bps rate hike in Jun-26, alongside upward revisions to its 2026 and 2027 inflation forecasts to 3.0% and 2.3%, respectively. Meanwhile, UK inflation eased to 2.6% in Jun-26, although the Bank of England remains cautious over possible second-round effects from elevated energy prices.

Across Asia, inflation also generally moderated in Jul-26, pointing to easing regional price pressures. Overall, the recent moderation in inflation reduces the urgency for further near-term monetary tightening, although upside risks remain from energy prices, supply disruptions and trade-related cost pressures. In the US, markets currently favour the Fed keeping rates unchanged in Sep-26, with the probability of a +25bps hike falling to around 30%.

Persistent upside inflation risks despite early signs of easing

Supply-side inflation risks remain elevated as geopolitical tensions continue to keep energy and production costs high. Subsidy rationalisation is also adding directly to consumer prices, while higher fuel and fertiliser costs could raise operating expenses for MSMEs and agricultural producers, creating further downstream cost pressures. The manufacturing PMI was unchanged at 50.7 in Jul-26, but both input costs and output prices increased at their fastest pace in five months. Meanwhile, business confidence fell to a 3-month low, reflecting continued concerns over rising costs and geopolitical uncertainty.

Maintain 2026 inflation projection at 2.0%

We maintain our headline inflation forecast at +2.0% in 2026 (2025: +1.4%) despite the recent moderation in consumer prices. While underlying demand remains resilient and core inflation is relatively stable, we remain cautious over upside risks from elevated cost pressures and potential supply shocks. Higher producer prices, volatile global energy costs, supply-chain disruptions and higher fuel and fertiliser costs could still feed through to consumer prices in the coming months. Government price controls and fuel subsidies should help cushion some of these pressures, while BNM's balanced policy stance should continue to support price stability without adversely constraining domestic demand. Nevertheless, the risk for higher inflation from renewed geopolitical disruptions remains high, given the its impacts on international trade activity and global commodity supply. On balance, we retain our +2.0% inflation forecast, as the recent easing in CPI does not fully offset the risk of stronger cost-push pressures.

Table 1: Malaysia – Consumer price index by component

	Weight (%)	MoM%			YoY%		
		May-26	Jun-26	Jul-26	May-26	Jun-26	Jul-26
Core CPI	-	0.0	0.0	0.0	2.0	1.9	1.8
Headline CPI	100.0	0.1	0.0	0.0	2.0	1.9	1.8
Food and Beverages	29.8	0.3	0.2	0.3	1.4	1.4	1.8
Food	29.0	0.2	0.2	0.3	1.4	1.4	1.8
Food at Home	15.6	0.2	0.3	0,3	0.3	0.5	1.2
Food Away from Home	13.4	0.3	0.2	0.3	2.5	2.4	2.5
Non-Food	70.2	0.1	(0.2)	(0.2)	2.3	2.2	1.8
Alcoholic Beverages & Tobacco	1.9	0.0	0.1	0.1	2.8	2.8	2.7
Clothing & Footwear	2.7	0.0	0.0	0.1	(0.1)	0.0	0.1
Housing, Water, Electricity, Gas & Other Fuels	23.2	0.5	0.2	0.2	1.2	1.4	1.8
Furnishings, Household Equip & Maintenance	4.3	0.1	0.0	0.1	0.4	0.4	0.3
Health	2.7	(0.1)	0.0	0.1	1.2	0.4	1.1
Transport	11.3	(0.5)	(0.8)	(1.1)	3.8	2.8	1.4
Information and Communication	6.6	0.0	0.0	0.1	2.1	2.4	3.4
Recreation, Sport and Culture	3.0	0.1	0.1	0.2	1.1	1.1	1.2
Education	1.3	0.1	0.1	0.2	2.2	2.1	2.0
Restaurants & Accommodation Services	3.4	0.3	0.1	0.2	2.5	2.6	2.0
Insurance & Financial Services	4.0	0.0	0.8	0.0	4.9	5.7	1.1
Personal Care, Social Protect & Misc. Goods & Svc	5.8	(0.1)	(0.9)	0.0	4.8	3.4	2.9

Source: Macrobond, DOSM, MBSBR

Table 2: Inflation by region (YoY%)

	May-26	Jun-26	Jul-26
Urban	1.9	1.8	1.8
Rural	1.7	1.7	1.7
Kedah	2.2	2.0	1.8
Perlis	1.3	1.3	1.3
Pulau Pinang	1.9	1.8	1.6
Perak	1.3	1.3	1.2
Selangor	1.8	1.8	1.8
Putrajaya	2.2	2.0	1.8
Kuala Lumpur	2.4	2.2	2.2
Melaka	2.1	1.9	1.8
Negeri Sembilan	2.6	2.5	2.5
Johor	2.5	2.5	2.1
Pahang	2.8	2.6	2.3
Kelantan	0.8	0.8	0.9
Terengganu	1.9	1.9	1.8
Sabah	2.0	1.9	1.9
Sarawak	0.5	0.4	0.3

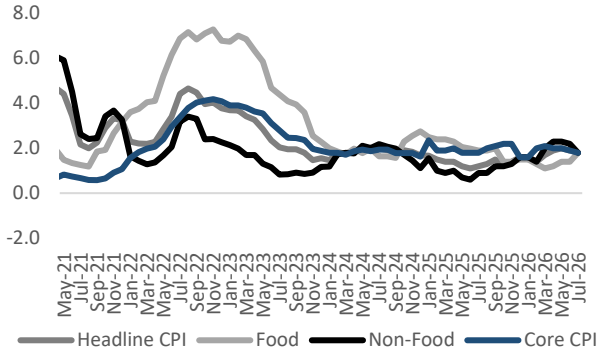
Source: Macrobond, MBSBR

Table 3: Global Headline CPI Inflation (YoY%)

	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26
Malaysia	1.6	1.4	1.7	1.9	2.0	1.9	1.8
Indonesia	3.5	4.8	3.5	2.4	3.1	3.3	2.8
Singapore	1.4	1.2	1.8	1.8	1.8	1.9	n.a
Thailand	(0.7)	-0.9	-0.1	2.9	2.8	2.4	1.9
Philippines	2.0	2.4	4.1	7.2	6.8	6.4	6.2
Taiwan	1.4	1.5	1.5	1.9	2.3	2.5	2.4
South Korea	2.0	2.0	2.1	2.8	3.1	3.2	2.8
China	0.2	1.3	1.0	1.2	1.2	1.0	0.5
Japan	1.5	1.3	1.0	1.2	1.4	1.7	n.a
Euro Area	1.7	1.9	2.6	3.0	3.2	2.8	2.9
UK	3.0	3.0	3.3	2.8	2.8	n.a	n.a
USA	2.4	2.4	3.3	3.8	4.2	3.5	3.4
PCE Prices	2.8	2.8	3.5	3.8	4.1	3.7	n.a

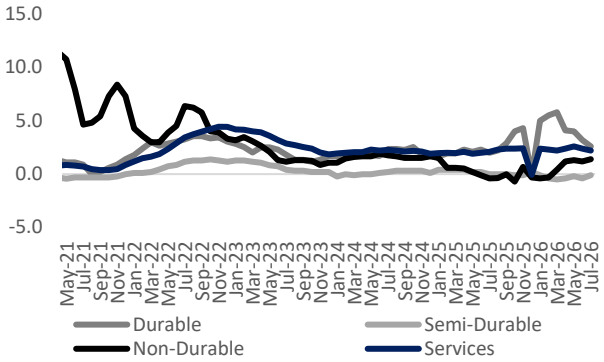
Source: Macrobond, National Authorities, MBSBR

Chart 1: Key CPI Data (YoY%)



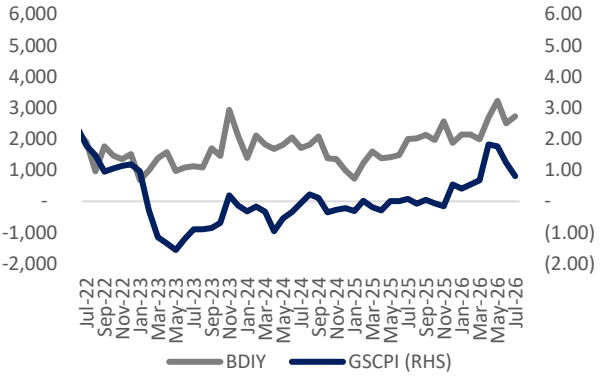
Source: Macrobond, MBSBR

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



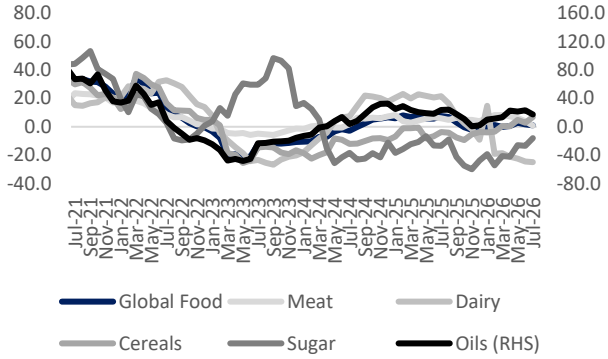
Source: Macrobond, MBSBR

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



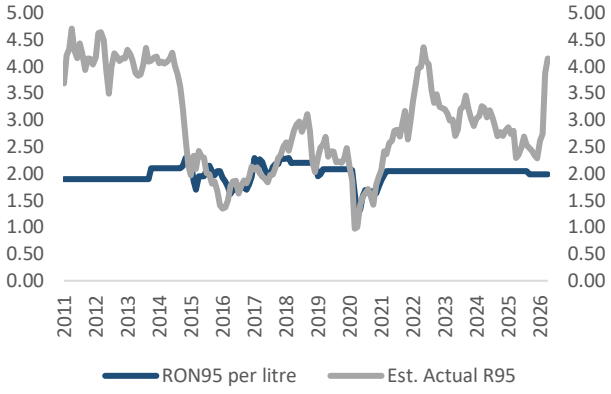
Source: Macrobond, MBSBR

Chart 4: Global Food Inflation (YoY%)



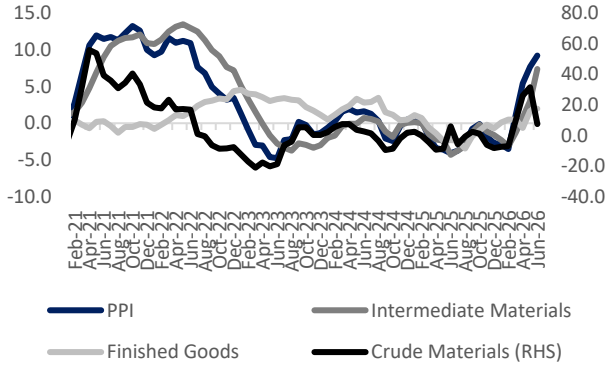
Source: Macrobond, MBSBR

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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