Inflation Edges Higher to +1.9%yoy in Aug-26 on Higher Energy Prices

Economic Review
Aug-26 Consumer Price Index



Author
MBSB Research
research@mbsb.com

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- Malaysia's headline CPI inflation increased slightly to +1.9%yoy in Aug-26 (Jul-26: +1.8%yoy), in line with our estimate of +1.9–2.0%yoy and the market consensus of +1.9%yoy. Higher energy prices contributed to the increase, with transport inflation accelerating to +2.0%yoy (Jul-26: +1.4%yoy).
- Core inflation eased to +1.7%yoy in Aug-26 (Jul-26: +1.8%yoy), although monthly core inflation increased by +0.3%mom after remaining flat in the previous month. This suggests that underlying demand-driven price pressures remained manageable despite the firmer monthly reading.
- We maintain our headline inflation forecast at +2.0% for 2026 (2025: +1.4%), reflecting still-contained year-to-date inflation despite persistent upside risks. While domestic demand remains resilient and core inflation is stable, elevated producer prices, volatile global energy costs, supply-chain disruptions and higher fuel and fertiliser prices could pass through to consumer prices in the coming months

Headline inflation edged higher on energy and food prices

Malaysia's headline CPI inflation increased slightly to +1.9%yoy in Aug-26 (Jul-26: +1.8%yoy), in line with our estimate of +1.9–2.0%yoy and the market consensus of +1.9%yoy. Higher energy prices contributed to the increase, with transport inflation accelerating to +2.0%yoy (Jul-26: +1.4%yoy). Non-food inflation also edged higher to +1.9%yoy (Jul-26: +1.8%yoy), despite information and communication inflation moderating to +2.6%yoy (Jul-26: +3.4%yoy). Meanwhile, food inflation rose to +1.9%yoy (Jul-26: +1.8%yoy), as food-at-home inflation accelerated to +1.4%yoy (Jul-26: +1.2%yoy), driven by higher prices of meat, fruits and nuts, and vegetables.

Core inflation eased despite firmer monthly prices

Core inflation eased to +1.7%yoy in Aug-26 (Jul-26: +1.8%yoy), although monthly core inflation increased by +0.3%mom after remaining flat in the previous month. This suggests that underlying demand-driven price pressures remained manageable despite the firmer monthly reading. By strata, urban inflation increased to +2.0%yoy, while rural inflation remained unchanged at +1.7%yoy. At the state level, inflation was generally stable, although several states recorded rates above the national average, led by Negeri Sembilan (+2.5%yoy), followed by Kedah, Johor and Pahang (all +2.3%yoy).

Global food inflation accelerated as upside risks persisted

Global food price inflation spiked to +2.5%yoy in Aug-26 (Jul-26: +0.8%yoy), reversing moderation in the previous month. The increase in Aug-26 was mainly attributable to the higher prices of poultry (+8.4%yoy; Jul-26: +1.1%yoy), meat (+0.1%yoy; +0.0%yoy), cereals (+10.0%yoy; Jul-26: +6.8%yoy), and sugar prices turned positive to +2.7%yoy (Jul-26: -8.0%yoy). Meanwhile, oils inflation remained elevated despite moderating to +16.4%yoy (Jul-26: +17.3%yoy). Risks to global food prices remain tilted to the upside amid persistent Middle East tensions, 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 elevated.

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

A weaker ringgit risks driving up Malaysia's inflation by raising the cost of imported food, raw materials, and intermediate inputs. Recent upticks in global food prices, alongside persistent supply disruptions and high energy and commodity costs, continue to pose upside risks to inflation outlook. 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, in addition to the recent surge in Brent prices to above USD100pb which will add to inflation pressure. Any sustained disruption could raise fertiliser and agricultural production costs, eventually feeding through to higher food prices and the broader CPI basket.

PPI rose further, pointing to sustained cost pressures

Malaysia's Producer Price Index (PPI) accelerated further to +9.7%yoy in Jul-26 (Jun-26: +9.2%yoy), marking the fifth consecutive month of inflation and signalling sustained pressure on producers. By stage of processing, prices of intermediate materials increased faster by +8.4%yoy (Jun-26: +7.4%yoy), while finished goods inflation rose to +2.5%yoy (Jun-26: +2.0%yoy). Crude materials inflation remained elevated at +24.1%yoy, although it moderated slightly from +25.0%yoy in Jun-26. The continued increase in intermediate and finished-goods prices raises the risk of a lagged pass-through to consumer inflation if firms are unable to absorb the higher input costs. In addition, the elevated producer cost pressures could persist as ongoing tensions in the Middle East and disruptions to global energy supply keep energy and input prices high.

Global inflation pressures edged higher, keeping central banks cautious

In the US, headline CPI inflation held at +3.4%yoy in Aug-26, while core inflation eased slightly to +2.4%yoy (Jul-26: +2.5%), pointing to a modest moderation in underlying price pressures. Nevertheless, with inflation remaining above the Fed's 2.0% target, the FOMC voted unanimously to raise the federal funds target range by 25 bps to 3.75–4.00% at its Sep-26 meeting.

In the euro area, headline inflation rose to +3.2%yoy in Aug-26, extending its upward trend from +2.9% in Jul-26 and +2.8% in Jun-26. In response to persistent inflation risks, the ECB raised its key policy rates by 25 bps at its Sep-26 meeting, reinforcing its focus on controlling inflation. Meanwhile, UK inflation accelerated to +3.1%yoy in Aug-26 from +2.9% in Jul-26 and +2.6% in Jun-26, keeping the Bank of England cautious about potential second-round effects from elevated energy prices.

Across Asia, inflation also generally increased in Aug-26, pointing to renewed regional price pressures. Overall, the recent pickup in inflation is likely to keep central banks cautious and increasing the possibility for monetary policy tightening. Upside risks remain, particularly from energy prices, supply disruptions and trade-related cost pressures. In the US, the latest Sep-26 dot plot indicated that most FOMC participants expect at least one further rate hike by year-end.

Upside inflation risks persist despite early signs of easing

Supply-side inflation risks remain elevated as geopolitical tensions continue to keep energy and production costs high. Domestic subsidy rationalisation may also add directly to consumer prices, while higher fuel and fertiliser costs could raise operating expenses for MSMEs and agricultural producers, generating further downstream cost pressures. Malaysia's manufacturing PMI eased to 50.2 in Aug-26 from 50.7 in Jul-26. Although input costs and output charges continued to rise, with both rates of increase slowing to six-month lows and remaining subdued by historical standards. Meanwhile, business confidence remained historically weak and was broadly unchanged from Jul-26.

Maintain 2026 inflation projection at 2.0%

We maintain our headline inflation forecast at +2.0% for 2026 (2025: +1.4%), reflecting still-contained year-to-date inflation despite persistent upside risks. While domestic demand remains resilient and core inflation is stable, elevated producer prices, volatile global energy costs, supply-chain disruptions and higher fuel and fertiliser prices could pass through to consumer prices in the coming months. Government price controls and targeted fuel subsidies should partly cushion these pressures, while BNM's balanced policy stance should continue to support price stability without unduly constraining domestic demand. Nevertheless, renewed geopolitical disruptions could push inflation higher through their effects on international trade and global commodity supplies.

Table 1: Malaysia – Consumer price index by component

	Weight (%)	MoM%			YoY%		
		Jun-26	Jul-26	Aug-26	Jun-26	Jul-26	Aug-26
Core CPI	-	0.0	0.0	0.3	1.9	1.8	1.8
Headline CPI	100.0	0.0	0.0	0.3	1.9	1.8	1.9
Food and Beverages	29.8	0.2	0.3	0.3	1.4	1.8	1.9
Food	29.0	0.2	0.3	0.2	1.4	1.8	1.9
Food at Home	15.6	0.3	0.3	0.3	0.5	1.2	1.4
Food Away from Home	13.4	0.2	0.3	0.3	2.4	2.5	2.5
Non-Food	70.2	(0.2)	(0.2)	0.3	2.2	1.8	1.9
Alcoholic Beverages & Tobacco	1.9	0.1	0.1	0.1	2.8	2.7	2.8
Clothing & Footwear	2.7	0.0	0.1	0.0	0.0	0.1	0.1
Housing, Water, Electricity, Gas & Other Fuels	23.2	0.2	0.2	0.4	1.4	1.8	2.1
Furnishings, Household Equip & Maintenance	4.3	0.0	0.1	0.2	0.4	0.3	0.4
Health	2.7	0.0	0.1	0.2	0.4	1.1	1.3
Transport	11.3	(0.8)	(1.1)	0.6	2.8	1.4	2.0
Information and Communication	6.6	0.0	0.1	0.0	2.4	3.4	2.5
Recreation, Sport and Culture	3.0	0.1	0.2	0.1	1.1	1.2	1.1
Education	1.3	0.1	0.2	0.1	2.1	2.0	1.9
Restaurants & Accommodation Services	3.4	0.1	0.2	0.4	2.6	2.0	2.1
Insurance & Financial Services	4.0	0.8	0.0	0.0	5.7	1.1	1.0
Personal Care, Social Protect & Misc. Goods & Svc	5.8	(0.9)	(0.5)	0.5	3.4	2.9	3.2

Source: Macrobond, DOSM, MBSBR

Table 2: Inflation by region (YoY%)

	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26
Urban	1.8	2.0	1.9	1.8	1.8	2.0
Rural	1.4	1.6	1.8	1.8	1.7	1.7
Kedah	1.9	1.9	2.2	2.0	2.3	2.3
Perlis	1.3	1.6	1.3	1.3	1.3	1.2
Pulau Pinang	1.8	1.8	1.9	1.8	1.6	1.7
Perak	1.1	1.2	1.3	1.3	1.2	1.2
Selangor	1.6	2.0	1.8	1.8	1.8	2.1
Putrajaya	1.6	2.1	2.2	2.0	1.8	2.0
Kuala Lumpur	2.2	2.5	2.4	2.2	2.2	2.1
Melaka	1.6	1.9	2.1	1.9	1.8	2.0
Negeri Sembilan	2.2	2.5	2.6	2.5	2.5	2.5
Johor	2.0	2.4	2.5	2.5	2.1	2.3
Pahang	2.5	2.8	2.8	2.6	2.3	2.3
Kelantan	0.7	0.8	0.8	0.8	0.9	1.1
Terengganu	1.7	1.9	1.9	1.9	1.8	1.2
Sabah	2.1	2.1	2.0	1.9	1.9	1.8
Sarawak	1.2	0.4	0.5	0.4	0.3	0.5

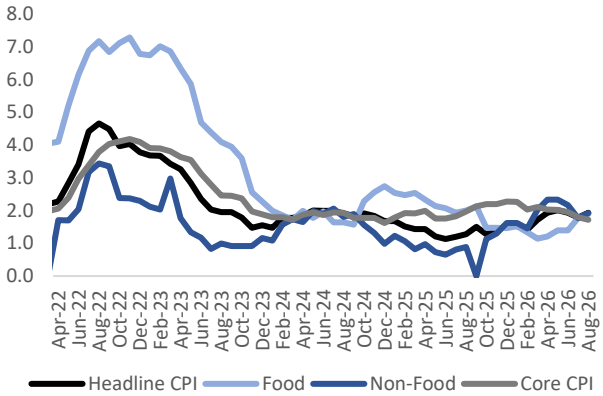
Source: Macrobond, MBSBR

Table 3: Global Headline CPI Inflation (YoY%)

	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26
Malaysia	1.4	1.7	1.9	2.0	1.9	1.8	1.9
Indonesia	4.8	3.5	2.4	3.1	3.3	2.8	3.2
Singapore	1.2	1.8	1.8	1.8	1.9	2.4	n.a
Thailand	-0.9	-0.1	2.9	2.8	2.4	1.9	2.5
Philippines	2.4	4.1	7.2	6.8	6.4	6.2	6.2
Taiwan	1.5	1.5	1.9	2.3	2.5	2.4	2.4
South Korea	2.0	2.1	2.8	3.1	3.2	2.8	3.1
China	1.3	1.0	1.2	1.2	1.0	0.7	1.1
Japan	1.3	1.0	1.2	1.4	1.7	2.0	1.9
Euro Area	1.9	2.6	3.0	3.2	2.8	2.9	3.2
UK	3.0	3.3	2.8	2.8	**2.6**	2.8	3.1
USA	2.4	3.3	3.8	4.2	3.5	3.4	3.4
PCE Prices	*2.8*	*3.5*	*3.8*	*4.1*	*3.7*	*3.7*	*n.a*

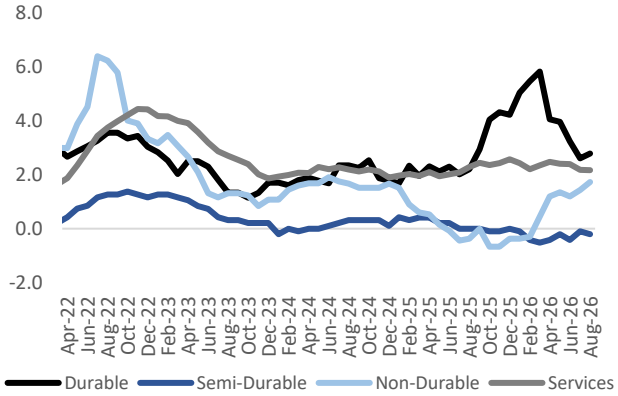
Source: Macrobond, National Authorities, MBSBR

Chart 1: Key CPI Data (YoY%)



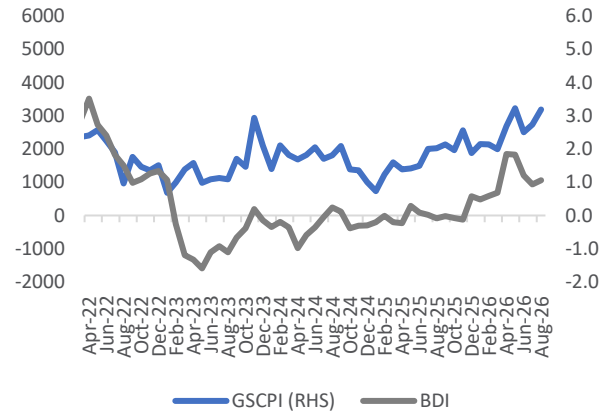
Source: Macrobond, MBSBR

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



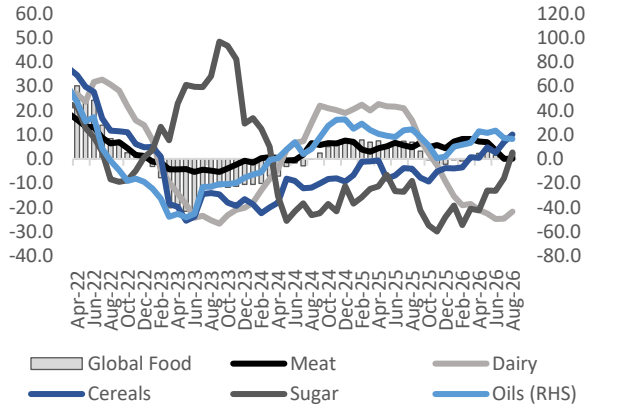
Source: Macrobond, MBSBR

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



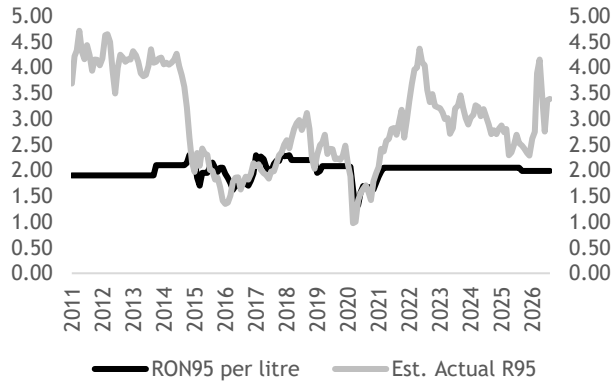
Source: Macrobond, MBSBR

Chart 4: Global Food Inflation (YoY%)



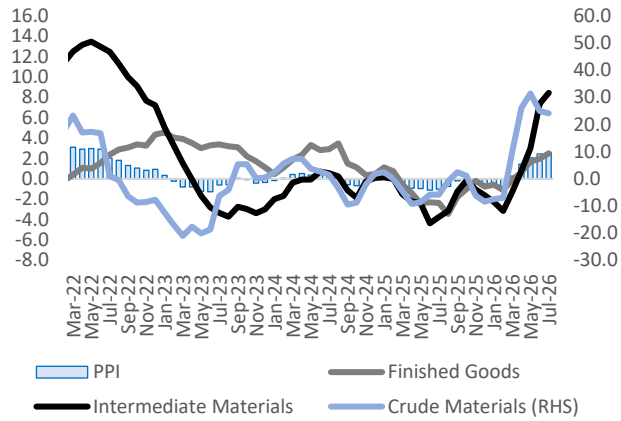
Source: Macrobond, MBSBR

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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