Headline and Core Inflation Moderated Despite a Spike in Transport Prices

Economic Review
Sep-26 Consumer Price Index



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Economic Review

- 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 eased as food and non-food eased

Malaysia's headline inflation eased slightly to +1.8%yoy in Sep-26 (Aug-26: +1.9%yoy), showing well-contained inflation despite the upside risk, slightly below our and market consensus of +1.9%yoy. However, the higher energy prices caused the transport inflation component to spike higher to +2.5%yoy in Sep-26 (Aug-26: +2.0%yoy). The food and beverages inflation remained steady at +1.9%yoy for the second month. Non-food inflation edged slightly lower to +1.8%yoy (Aug-26: +1.9%yoy). The housing, water, electricity, gas & other fuels inflation component moderated to +1.4%yoy (Aug-26: +2.1%yoy), as the government and Tenaga Nasional Berhad (TNB) announced the increase in electricity protection threshold from 600 kWh to 800kWh per month, which took place from 1-Sep-26 till 31-Dec-26. Meanwhile, core inflation remains well-anchored on the back of resilient domestic demand, despite the elevated cost pressures, volatile global energy markets, supply chain disruptions, and higher fuel and fertiliser costs, which pose upside risks of pass-through to consumer prices in the coming months. While government price controls and targeted fuel subsidies should soften the impact of upstream cost pressures, BNM's balanced monetary stance continues to foster price stability without impeding economic momentum. That said, renewed geopolitical disruptions remain a pivotal wild card that could drive headline inflation higher through broader supply-chain and global commodity spillovers.

Core inflation eased, while both urban and rural inflation moderated

Core inflation also eased to +1.8%yoy in Sep-26 (Aug-26: +1.7%yoy), and monthly core inflation eased as well, falling by -0.1%mom after a +0.3%mom increase in Aug-26. This suggests that underlying demand-driven prices remain manageable. By strata, urban inflation eased to +1.8%yoy, similar to rural inflation, which eased lower to +1.5%yoy (Aug-26: +1.7%yoy). At the state level, inflation generally moderated, although several states recorded rates above the national average, led by Negeri Sembilan to +2.4%yoy (Aug-26: +2.5%yoy), followed by Kedah, Johor, and Putrajaya (All +2.2%yoy).

Global food inflation higher and upside risks persist

Global food price inflation accelerated further to +5.8%yoy in Sep-26 (Aug-26: +3.1%yoy; Jul-26: +1.5%yoy), reflecting intensified price pressure across major agricultural commodities. The sharp pickup in Sep-26 was primarily driven by significant surges in cereals (+17.2%yoy; Aug-26: +10.5%yoy), vegetable oils (+18.3%yoy; Aug-26: +16.4%yoy), and sugar prices (+14.7%yoy; Aug-26: +3.7%yoy). Meanwhile, poultry meat inflation moderated to +6.8%yoy (Aug-26: +9.8%yoy), while meat prices slipped slightly into deflation territory at -0.01%yoy (Aug-26: +1.2%yoy). Dairy prices also continued to contract, though at a slower pace of -19.1%yoy (Aug-26: -21.7% 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 may exert higher upside pressure

Ringgit depreciation continues to exert upward pressure on Malaysia's inflation outlook via higher import costs for raw materials, intermediate goods, and food staples. This effect is further heightened by sticky global food prices and elevated commodity expenses. Crucially, lingering transit disruptions in the Strait of Hormuz, which facilitates more than a third of global urea and fertiliser trade, threaten to drive up farming and crop production costs, creating a direct pass-through risk to domestic food inflation and overall headline CPI.

PPI accelerated further, indicating higher cost pressure

Malaysia’s producer price pressures intensified further in Aug-26, with the Producer Price Index (PPI) accelerating to +10.7%yoy (Jul-26: +9.7%yoy), marking the strongest increase in producer prices in recent months. On a monthly basis, PPI increased by +1.0%mom (Jul-26: +0.7%mom), indicating that upstream cost pressures remained elevated. The acceleration was driven mainly by the mining sector, reflecting higher crude petroleum and natural gas prices, while producer prices in the manufacturing sector also increased further, supported by petroleum-related products and electronics manufacturing. Cost pressures remained broad-based across the production chain, with prices for crude materials, intermediate materials and components, as well as finished goods, all recording stronger increases compared with the previous month. Continued increases in electronics-related manufacturing prices were also consistent with the ongoing strength in E&E-related activities and resilient industrial demand. Looking ahead, elevated commodity and energy prices are expected to remain a key source of producer cost pressures. While the pass-through to consumer inflation has remained manageable thus far, sustained increases in input costs could gradually feed into downstream prices if producers become less able to absorb higher operating expenses. Nevertheless, continued strength in export-oriented manufacturing activities should continue to provide support to Malaysia’s industrial sector in the near term.

Global inflation pressures edged higher, keeping central banks cautious

In the US, headline CPI inflation accelerated to +3.7%yoy in Sep-26 after holding steady at +3.4%yoy in Aug-26, signaling renewed upward price pressure. While core inflation previously showed signs of easing, headline inflation remains well above the Fed’s 2.0% target. In response, 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 CPI inflation picked up further to +3.8%yoy in Sep-26, extending its upward trend from +3.2% in Aug-26 and +2.9% in Jul-26. In response to these persistent inflation risks, the ECB raised its key policy rates by +25 bps at its Sep-26 meeting. Meanwhile, UK headline inflation accelerated to +3.1%yoy in Aug-26 from +2.8% 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 trends were generally higher in Sep-26. Headline inflation rose in the Philippines (+7.2%yoy from +6.2%), Thailand (+2.8%yoy from +2.5%), Indonesia (+3.28%yoy from +3.2%), Taiwan (+2.5%yoy from +2.4%), and China (+1.2%yoy from +1.1%), while South Korea moderated slightly to +2.9%yoy. In Malaysia, inflation remained stable at +1.8%yoy. Overall, this broad-based regional pickup in inflation is likely to keep central banks vigilant and increases the likelihood of further monetary policy tightening. Upside risks persist, driven by energy prices, supply chain 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

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 fell into a slight contraction to 49.9 in Sep-26 from 50.2 in Aug-26. Input cost inflation moderated for a fifth consecutive month to its lowest level since February, while output price inflation slowed to a seven-month low. Nevertheless, business confidence remained constrained, with year-ahead outlook sentiment edging down to a five-month low.

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. Although domestic demand remains resilient and core inflation well-anchored, elevated producer prices, volatile global energy markets, supply chain disruptions, and higher fuel and fertiliser costs pose upside risks of 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 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%		
		Jul-26	Aug-26	Sep-26	Jul-26	Aug-26	Sep-26
Core CPI	-	0.0	0.3	0.3	1.8	1.8	1.7
Headline CPI	100.0	0.0	0.3	0.1	1.8	1.9	1.8
Food and Beverages	29.8	0.3	0.3	0.1	1.8	1.9	1.9
Food	29.0	0.3	0.2	0.1	1.8	1.9	1.8
Food at Home	15.6	0.3	0.3	0.0	1.2	1.4	1.2
Food Away from Home	13.4	0.3	0.3	0.2	2.5	2.5	2.6
Non-Food	70.2	(0.2)	0.3	0.1	1.8	1.9	1.8
Alcoholic Beverages & Tobacco	1.9	0.1	0.1	0.0	2.7	2.8	2.8
Clothing & Footwear	2.7	0.1	0.0	0.0	0.1	0.1	0.2
Housing, Water, Electricity, Gas & Other Fuels	23.2	0.2	0.4	-0.4	1.8	2.1	1.4
Furnishings, Household Equip & Maintenance	4.3	0.1	0.2	-0.1	0.3	0.4	0.3
Health	2.7	0.1	0.2	0.1	1.1	1.3	1.4
Transport	11.3	(1.1)	0.6	0.6	1.4	2.0	2.5
Information and Communication	6.6	0.1	0.0	0.3	3.4	2.5	1.8
Recreation, Sport and Culture	3.0	0.2	0.1	0.1	1.2	1.1	1.2
Education	1.3	0.2	0.1	0.2	2.0	1.9	2.1
Restaurants & Accommodation Services	3.4	0.2	0.4	0.1	2.0	2.1	2.2
Insurance & Financial Services	4.0	0.0	0.0	0.2	1.1	1.0	1.2
Personal Care, Social Protect & Misc. Goods & Svc	5.8	(0.5)	0.5	0.4	2.9	3.2	2.8

Source: Macrobond, DOSM, MBSBR

Table 2: Inflation by region (YoY%)

	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26
Urban	2.0	1.9	1.8	1.8	2.0	1.8
Rural	1.6	1.8	1.8	1.7	1.7	1.5
Kedah	1.9	2.2	2.0	2.3	2.3	2.2
Perlis	1.6	1.3	1.3	1.3	1.2	0.6
Pulau Pinang	1.8	1.9	1.8	1.6	1.7	1.5
Perak	1.2	1.3	1.3	1.2	1.2	1.1
Selangor	2.0	1.8	1.8	1.8	2.1	1.9
Putrajaya	2.1	2.2	2.0	1.8	2.0	2.2
Kuala Lumpur	2.5	2.4	2.2	2.2	2.1	1.8
Melaka	1.9	2.1	1.9	1.8	2.0	1.5
Negeri Sembilan	2.5	2.6	2.5	2.5	2.5	2.4
Johor	2.4	2.5	2.5	2.1	2.3	2.2
Pahang	2.8	2.8	2.6	2.3	2.3	2.1
Kelantan	0.8	0.8	0.8	0.9	1.1	0.7
Terengganu	1.9	1.9	1.9	1.8	1.2	1.2
Sabah	2.1	2.0	1.9	1.9	1.8	1.9
Sarawak	0.4	0.5	0.4	0.3	0.5	0.5

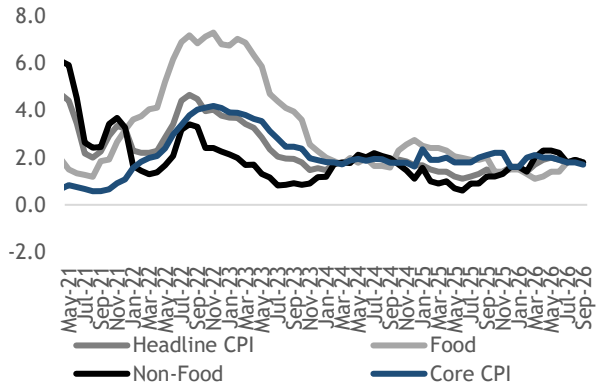
Source: Macrobond, MBSBR

Table 3: Global Headline CPI Inflation (YoY%)

	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26
Malaysia	1.7	1.9	2.0	1.9	1.8	1.9	1.8
Indonesia	3.5	2.4	3.1	3.3	2.8	3.2	3.28
Singapore	1.8	1.8	1.8	1.9	2.2	2.3	n.a
Thailand	-0.1	2.9	2.8	2.4	1.9	2.5	2.8
Philippines	4.1	7.2	6.8	6.4	6.2	6.2	7.2
Taiwan	1.5	1.9	2.3	2.5	2.4	2.4	2.5
South Korea	2.1	2.8	3.1	3.2	2.8	3.1	2.9
China	1.0	1.2	1.2	1.0	0.7	1.1	1.2
Japan	1.0	1.2	1.4	1.7	2.0	1.9	n.a
Euro Area	2.6	3.0	3.2	2.8	2.9	3.2	3.8
UK	3.3	2.8	2.8	2.6	2.8	3.1	n.a
USA	3.3	3.8	4.2	3.5	3.4	3.4	3.7
PCE Prices	*3.5*	*3.6*	*3.8*	*3.5*	*3.7*	*3.4*	n.a

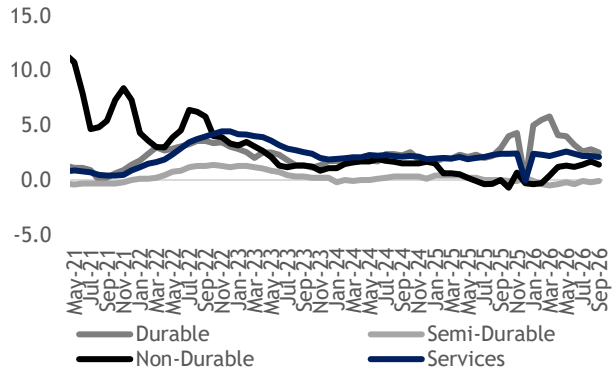
Source: Macrobond, National Authorities, MBSBR

Chart 1: Key CPI Data (YoY%)



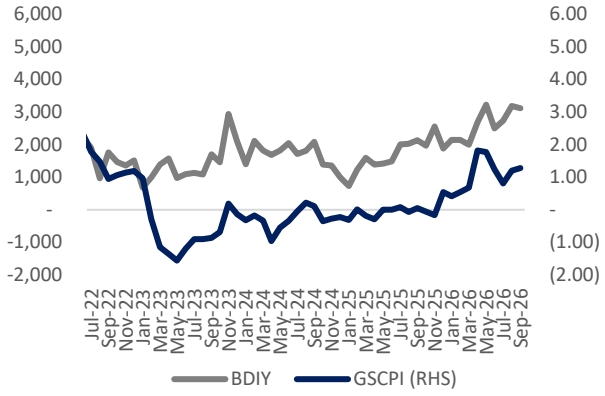
Source: Macrobond, MBSBR

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



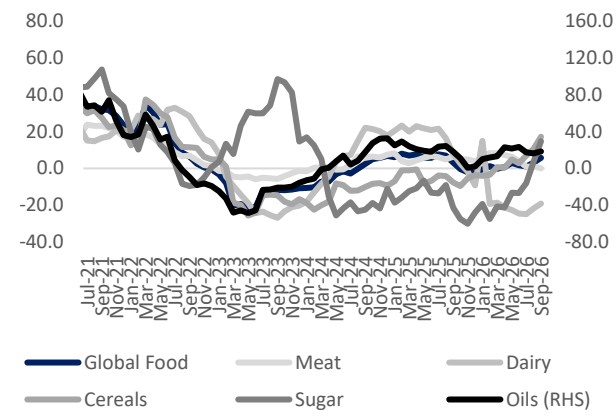
Source: Macrobond, MBSBR

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



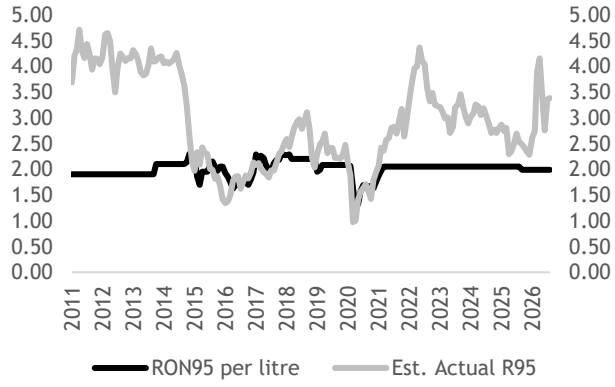
Source: Macrobond, MBSBR

Chart 4: Global Food Inflation (YoY%)



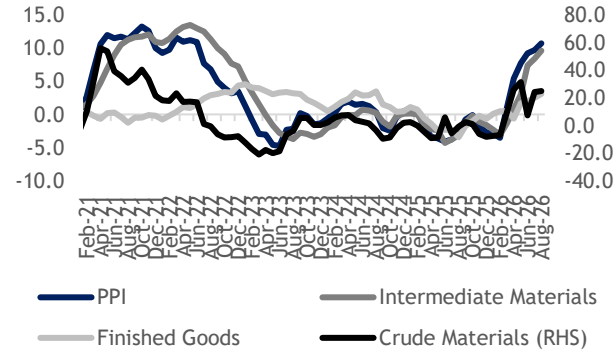
Source: Macrobond, MBSBR

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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