Headline Inflation Edges Up on Transport Spike, While Core Moderates

Economic Review
Oct-26 Consumer Price Index



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Economic Review

- Malaysia's headline inflation edged slightly higher to +1.9%yoy in Oct-26 (Sep-26: +1.8%yoy), remaining well-contained despite ongoing upside risks. The uptick was primarily driven by higher energy prices, with the transport inflation accelerating to +4.2%yoy in Oct-26 (Sep-26: +2.5%yoy). Similarly, the housing, water, electricity, gas & other fuels component picked up to +1.9%yoy (Sep-26: +1.4%yoy),
- Core inflation moderated further to +1.5%yoy (Sep-26: +1.7%yoy), registering monthly contraction of -0.1%mom (Sep-26: +0.3%mom). With core prices well-anchored on the back of resilient domestic demand, this suggests that underlying demand-driven price pressures continued to be manageable.
- Overall, we revise our headline inflation forecast lower to +1.8% for 2026 (previous: +2.0%), reflecting still-contained year-to-date inflation despite persistent upside risks. Despite resilient domestic demand and anchored core inflation, consumer prices face upside pass-through risks from elevated producer costs, energy market volatility, supply chain bottlenecks, and higher fuel and fertiliser expenses.

Headline inflation picked up as non-food picked up

Malaysia's headline inflation edged slightly higher to +1.9%yoy in Oct-26 (Sep-26: +1.8%yoy), remaining well-contained despite ongoing upside risks. The uptick was primarily driven by higher energy prices, with the transport inflation accelerating to +4.2%yoy in Oct-26 (Sep-26: +2.5%yoy). Similarly, the housing, water, electricity, gas & other fuels component picked up to +1.9%yoy (Sep-26: +1.4%yoy), though cushioned by the higher threshold of electricity bill protection (raised from 600 kWh to 800 kWh per month, effective until year-end). Non-food inflation rose accordingly to +2.1%yoy (Sep-26: +1.8%yoy). Conversely, food and beverages inflation eased slightly to +1.8%yoy (Sep-26: +1.9%yoy), reflecting mainly the softer rise in food prices (+1.2%yoy; Sep-26: +1.8%yoy). However, within the subgroup of food and beverages, vegetable prices spiked to +2.9%yoy (Sep-26: +0.9%yoy), while other prices remained stable. In contrast to the higher headline reading, core CPI inflation eased despite elevated cost pressures, volatile global energy markets, supply chain disruptions, and higher fuel and fertiliser costs, which continued to pose upside risks of pass-through to consumer prices. 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 increased

Core inflation moderated further to +1.5%yoy (Sep-26: +1.7%yoy), registering monthly contraction of -0.1%mom (Sep-26: +0.3%mom). With core prices well-anchored on the back of resilient domestic demand, this suggests that underlying demand-driven price pressures continued to be manageable. By strata, urban inflation increase to +2.0%yoy, similar to rural inflation, which increased to +1.7%yoy (Sep-26: +1.5%yoy). At the state level, inflation generally increased higher, although several states recorded rates above the national average, led by

Negeri Sembilan to +2.6%yoy (Sep-26: +2.4%yoy), followed by Kedah at +2.5%yoy (Sep-26: +2.2%yoy), while Putrajaya and Johor were both at +2.3%yoy).

Global food inflation accelerates, and upside risks persist

Global food price inflation accelerated further to +5.9%yoy in Oct-26 (Sep-26: +5.4%yoy; Aug-26: +3.0%yoy), reflecting intensified price pressures across major agricultural commodities. The pickup in Oct-26 was primarily driven by a sharp surge in sugar prices (+28.8%yoy; Sep-26: +14.4%yoy) alongside persistently elevated vegetable oils (+17.6%yoy; Sep-26: +18.3%yoy) and cereals (+12.6%yoy; Sep-26: +16.7%yoy). Meanwhile, poultry meat inflation re-accelerated to +9.6%yoy (Sep-26: +6.3%yoy), while overall meat prices rebounded out of deflation to +0.4%yoy (Sep-26: -0.6%yoy). Dairy prices continued to contract, though at a slower pace of -16.9%yoy (Sep-26: -19.1%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 keep price pressure elevated

Ringgit depreciation also exerts upward pressure on Malaysia's inflation outlook by elevating import costs across raw materials, intermediate goods, and essential food staples. These cost-push dynamics are further compounded by sticky global food inflation and persistently high international commodity prices. Crucially, ongoing transit disruptions in the Strait of Hormuz—a critical maritime chokepoint facilitating over one-third of global urea and fertilizer trade—threaten to significantly inflate agricultural input and crop production expenses, posing a direct pass-through risk to domestic food prices and overall headline CPI.

PPI accelerated further, rising cost pressure

Malaysia's Producer Price Index (PPI) accelerated further to +12.0%yoy in Sep-26 (Aug-26: +10.7%), marking the seventh consecutive month of expansion and the fastest pace since Nov-21. The outturn exceeded the previous reading and reflected persistent upstream cost pressures arising from supply disruptions associated with the ongoing Middle East conflict. On a monthly basis, PPI rose +1.6%mom (Aug-26: +1.0%), indicating accelerating price momentum across the production chain. Manufacturing producer prices increased by +9.4%yoy (Aug-26: +8.8%), largely driven by higher prices for coke & refined petroleum products (+35.0%) and computer, electronic & optical products (+12.9%). Mining prices surged +54.1%yoy (Aug-26: +41.2%), supported by a sharp increase in crude petroleum extraction prices (+74.2%). Meanwhile, agriculture price growth moderated to +2.9%yoy (Aug-26: +4.6%), although animal production remained elevated at +11.9%. Utility-related prices also eased, with water supply rising +5.5%yoy (Aug-26: +7.8%) and electricity & gas increasing +3.2%yoy (Aug-26: +6.4%). The stronger-than-expected increase in producer prices signals that cost-push inflation pressures remain elevated, driven primarily by energy-related sectors amid ongoing geopolitical disruptions. The sharp rise in mining and petroleum-related prices suggests that upstream inflationary pressures could continue to feed into manufacturing costs and selected consumer prices in the coming months.

Global inflation edged higher, central banks remain cautiously hawkish

In the US, headline CPI inflation accelerated to +3.7%yoy in Sep-26 after holding steady at +3.4%yoy in Aug-26 (and Jul-26), signaling renewed upward price pressure. While the Oct-26 annual CPI inflation is not available because no data was reported last year due to government closure, the sustained monthly rise in the headline (+0.4%mom) and core (+0.3%mom) readings. Despite inflation remained persistently above the Fed's +2.0% target, the Fed's FOMC left the target range for federal funds rate unchanged at 3.75% - 4.00% at its Oct-26 meeting. While the Fed intends to evaluate incoming data before making further policy adjustments, the central bank continues to signal hawkish stance, with market pricing in high chance for rate hike at the upcoming meeting in Dec-26.

In the euro area, headline CPI inflation picked up further to +4.0%yoy in Oct-26, extending its upward trajectory from +3.8%yoy in Sep-26 and +3.2%yoy in Aug-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 +3.5%yoy (3.45%) in Sep-26, rising from +3.1%yoy in Aug-26 and +2.8%yoy in Jul-26, keeping the Bank of England cautious about potential second-round effects from elevated energy prices.

Across Asia, inflation trends were mixed in Oct-26, though upward pressures remained pronounced in key ASEAN economies. Headline inflation climbed further in the Philippines (+7.8%yoy from +7.2%yoy in Sep-26) and Thailand (+3.9%yoy from +2.8%yoy), while holding steady in Indonesia (+3.2%yoy). Conversely, inflation moderated slightly in Taiwan (+2.4%yoy

from +2.5%yoy), South Korea (+2.8%yoy from +2.9%yoy), and China (+1.0%yoy from +1.2%yoy). Overall, persistent price pressures across major economies are likely to keep central banks vigilant and sustain the likelihood of further monetary policy tightening, with upside risks driven by energy prices, supply chain disruptions, and trade-related cost pressures.

Upside inflation risks persist

Despite the more encouraging reading in Malaysia's manufacturing PMI report, which increased to 51.0 in Oct-26 (Sep-26: 49.9) which marked the first expansion in four months, manufacturing firms continued to highlight challenges from mounting cost pressures. Input inflation accelerated amid steeper transport and material costs stemming from the ongoing Middle East conflict. To protect profit margins, businesses increasingly transferred these higher input expenses downstream, pushing output charge inflation higher. 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.

Revising our 2026 inflation projection to 1.8%

Overall, we revise our headline inflation forecast lower to +1.8% for 2026 (previous: +2.0%), reflecting still-contained year-to-date inflation despite persistent upside risks. Despite resilient domestic demand and anchored core inflation, consumer prices face upside pass-through risks from elevated producer costs, energy market volatility, supply chain bottlenecks, and higher fuel and fertiliser expenses. Government price controls, targeted fuel subsidies, and BNM's calibrated monetary stance will help contain these pressures without dampening economic momentum. However, renewed geopolitical shocks remain a key wildcard capable of reigniting inflation through global trade and commodity supply disruptions.

Table 1: Malaysia – Consumer price index by component

	Weight (%)	MoM%			YoY%		
		Aug-26	Sep-26	Oct-26	Aug-26	Sep-26	Oct-26
Core CPI	-	0.3	0.3	-0.1	1.8	1.7	1.5
Headline CPI	100.0	0.3	0.1	0.1	1.9	1.8	1.9
Food and Beverages	29.8	0.3	0.1	0.1	1.9	1.9	1.8
Food	29.0	0.2	0.1	0.1	1.9	1.8	1.2
Food at Home	15.6	0.3	0.0	0.1	1.4	1.2	1.2
Food Away from Home	13.4	0.3	0.2	0.2	2.5	2.6	2.5
Non-Food	70.2	0.3	0.1	0.1	1.9	1.8	2.1
Alcoholic Beverages & Tobacco	1.9	0.1	0.0	0.1	2.8	2.8	2.9
Clothing & Footwear	2.7	0.0	0.0	0.0	0.1	0.2	0.3
Housing, Water, Electricity, Gas & Other Fuels	23.2	0.4	-0.4	0.0	2.1	1.4	1.9
Furnishings, Household Equip & Maintenance	4.3	0.2	-0.1	0.2	0.4	0.3	0.5
Health	2.7	0.2	0.1	0.2	1.3	1.4	1.4
Transport	11.3	0.6	0.6	0.7	2.0	2.5	4.2
Information and Communication	6.6	0.0	0.3	0.0	2.5	1.8	1.8
Recreation, Sport and Culture	3.0	0.1	0.1	0.2	1.1	1.2	1.2
Education	1.3	0.1	0.2	0.0	1.9	2.1	1.8
Restaurants & Accommodation Services	3.4	0.4	0.1	0.1	2.1	2.2	2.1
Insurance & Financial Services	4.0	0.0	0.2	0.0	1.0	1.2	1.2
Personal Care, Social Protect & Misc. Goods & Svc	5.8	0.5	0.4	-0.1	3.2	2.8	1.2

Source: Macrobond, DOSM, MBSBR

Table 2: Inflation by region (YoY%)

	May-26	Jun-26	Jul-26	Aug-26	Sep-26	Sep-26
Urban	1.9	1.8	1.8	2.0	1.8	2.0
Rural	1.8	1.8	1.7	1.7	1.5	1.7
Kedah	2.2	2.0	2.3	2.3	2.2	2.5
Perlis	1.3	1.3	1.3	1.2	0.6	1.0
Pulau Pinang	1.9	1.8	1.6	1.7	1.5	1.6
Perak	1.3	1.3	1.2	1.2	1.1	1.5
Selangor	1.8	1.8	1.8	2.1	1.9	2.1
Putrajaya	2.2	2.0	1.8	2.0	2.2	2.3
Kuala Lumpur	2.4	2.2	2.2	2.1	1.8	1.8
Melaka	2.1	1.9	1.8	2.0	1.5	1.8
Negeri Sembilan	2.6	2.5	2.5	2.5	2.4	2.6
Johor	2.5	2.5	2.1	2.3	2.2	2.3
Pahang	2.8	2.6	2.3	2.3	2.1	2.2
Kelantan	0.8	0.8	0.9	1.1	0.7	1.1
Terengganu	1.9	1.9	1.8	1.2	1.2	1.3
Sabah	2.0	1.9	1.9	1.8	1.9	1.9
Sarawak	0.5	0.4	0.3	0.5	0.5	0.6

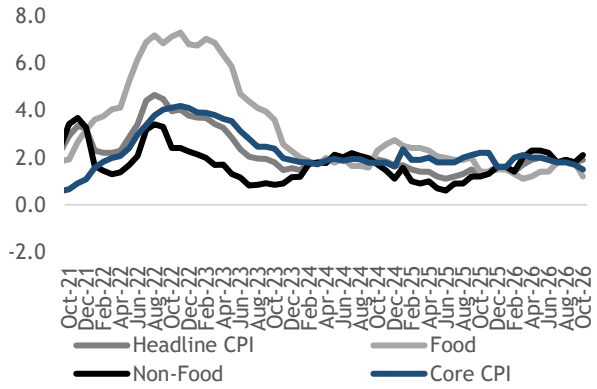
Source: Macrobond, MBSBR

Table 3: Global Headline CPI Inflation (YoY%)

	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26	Oct-26
Malaysia	1.9	2.0	1.9	1.8	1.9	1.8	1.9
Indonesia	2.4	3.1	3.3	2.8	3.2	3.2	3.2
Singapore	1.8	1.8	1.9	2.2	2.3	2.2	n.a
Thailand	2.9	2.8	2.4	1.9	2.5	2.8	3.9
Philippines	7.2	6.8	6.4	6.2	6.2	7.2	7.8
Taiwan	1.9	2.3	2.5	2.4	2.4	2.5	2.4
South Korea	2.8	3.1	3.2	2.8	3.1	2.9	2.8
China	1.2	1.2	1.0	0.7	1.1	1.2	1.0
Japan	1.2	1.4	1.7	2.0	1.9	2.2	n.a
Euro Area	3.0	3.2	2.8	2.9	3.2	3.8	4.0
UK	2.8	2.8	2.6	2.8	3.1	3.45	n.a
USA	3.8	4.2	3.5	3.4	3.4	3.7	n.a
PCE Prices	*3.6*	*3.8*	*3.5*	*3.7*	*3.4*	3.7	n.a

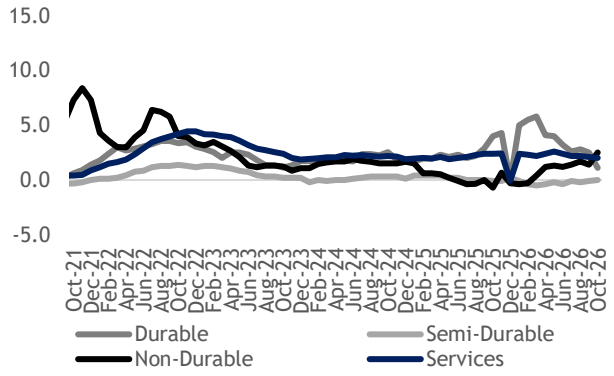
Source: Macrobond, National Authorities, MBSBR

Chart 1: Key CPI Data (YoY%)



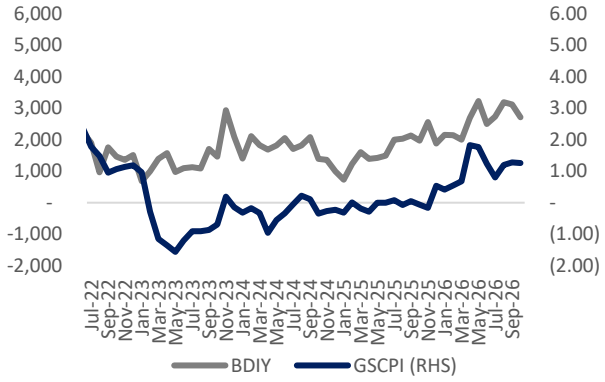
Source: Macrobond, MBSBR

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



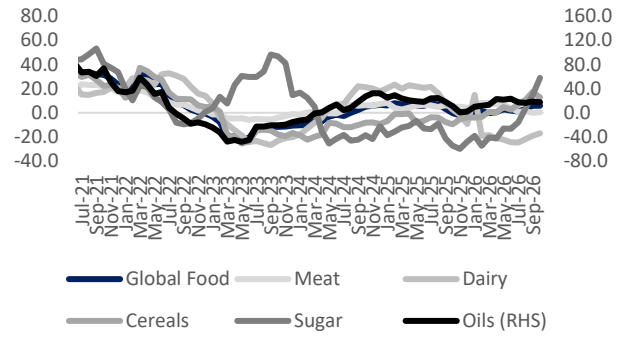
Source: Macrobond, MBSBR

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



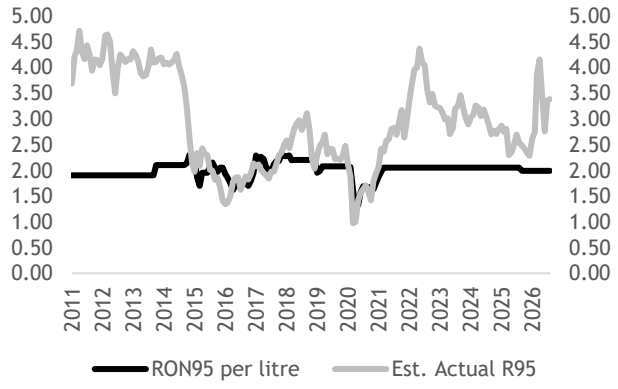
Source: Macrobond, MBSBR

Chart 4: Global Food Inflation (YoY%)



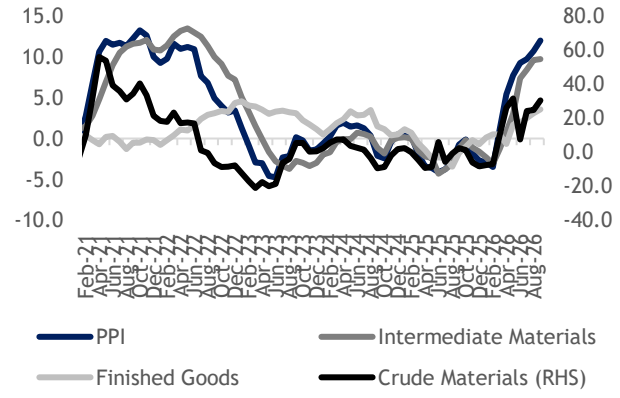
Source: Macrobond, MBSBR

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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