



HEADLINE INFLATION EDGES HIGHER AMID BROAD-BASED PRICE INCREASES

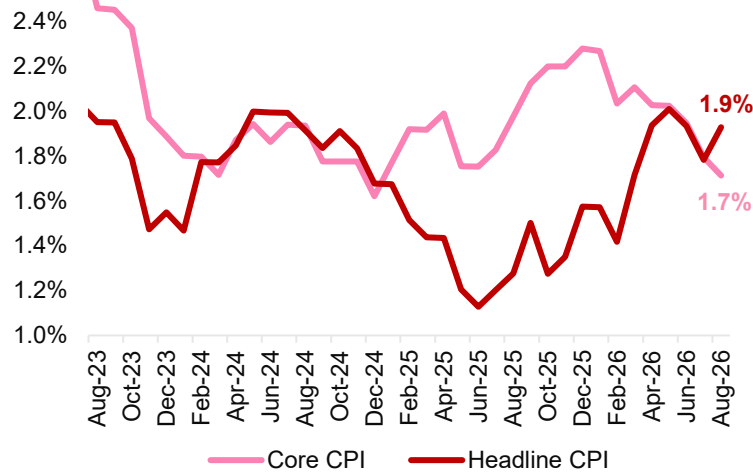
18 SEPTEMBER 2026

ECONOMIC RESEARCH

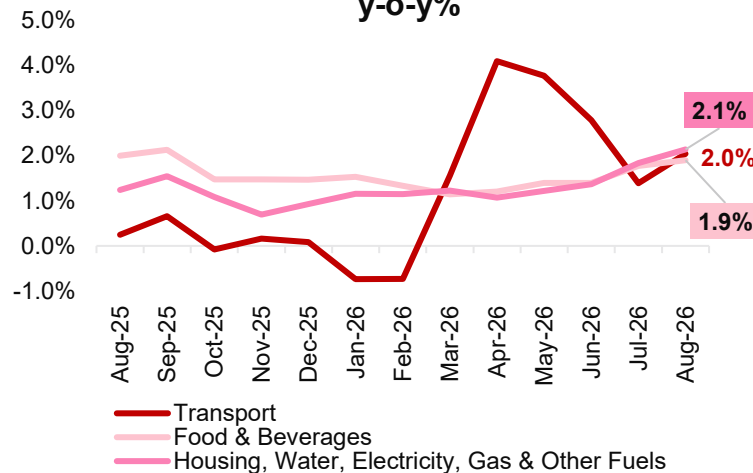
FARAH ZAZREEN ZAINUDIN

EASING TRANSPORT COSTS MASK EMERGING FOOD AND UTILITY PRICE PRESSURES

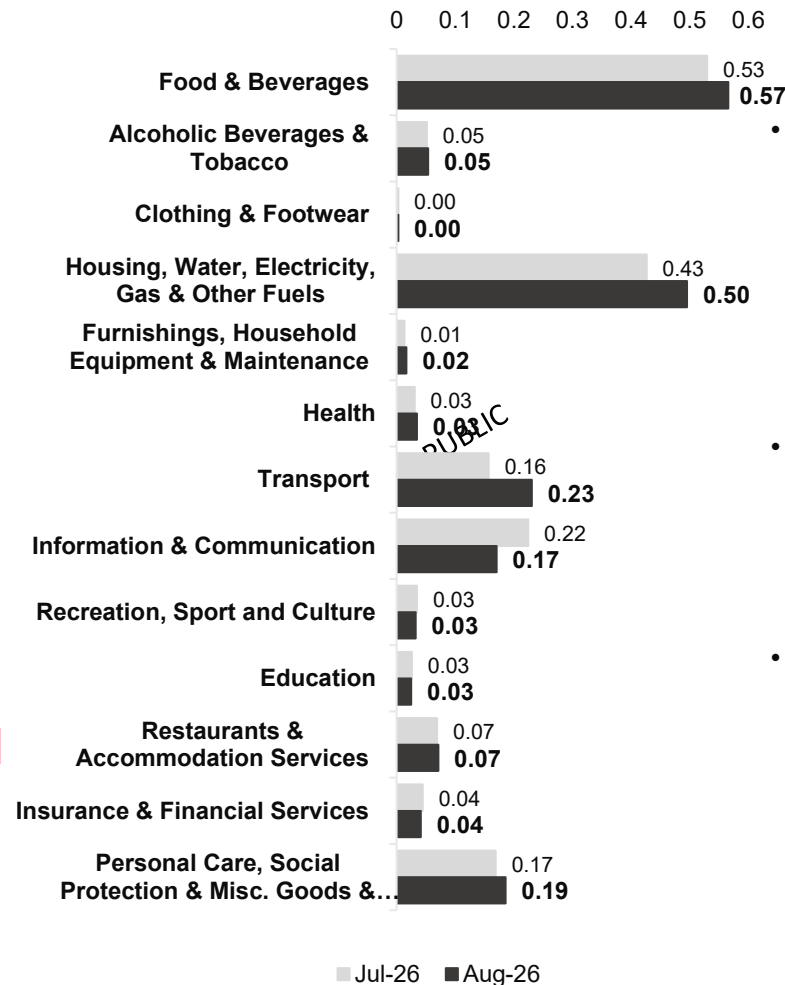
Headline CPI vs Core CPI, y-o-y %



Inflation by key sub-components, y-o-y%



Contribution to the rise in Headline CPI, Percentage point (ppt)



- Headline inflation edged higher to 1.9% y-o-y in August (Jul: 1.8%), driven by broad-based price increases across key categories, namely Food & Beverages (1.9%; Jul: 1.8%), Housing, Water, Electricity, Gas & Other Fuels (2.1%; Jul: 1.8%), and Transport (2.0%; Jul: 1.4%). Together, these categories contributed 1.3 ppts to overall headline CPI. **Core inflation eased marginally to 1.7% y-o-y in August** (Jul: 1.8%), suggesting that underlying price pressures remained relatively contained.
- Within the food segment, **food at home inflation accelerated to 1.4% y-o-y** (Jul: 1.2%), while food away from home remained elevated at 2.5% y-o-y. Prices of meat, vegetables, and milk & dairy products continued to trend higher, consistent with our expectation that the lagged impact of higher energy costs would gradually pass through to food prices approximately four to five months following the oil price shock in March. In addition, **electricity cost accelerated sharply to 3.3% y-o-y** (Jul: 2.0%), lifting overall inflation within the Housing & Utilities category.
- Meanwhile, the increase in transport inflation was largely driven by higher public transport charges, which rose by 10.5% y-o-y amid a sharp increase in passenger air transport fares of 34.8% y-o-y. Meanwhile, inflation in the operation of personal transport equipment inched up to 1.8% y-o-y (July: 1.4%), reflecting higher prices of fuels and lubricants for personal transport equipment.
- Although inflation remains relatively contained, we believe the cost of living experienced by individual households largely depends on their consumption patterns. While the headline CPI compiled by DOSM reflects the average spending behavior across all income groups, it may not fully capture the inflationary pressures faced by specific segments. The B40 group is likely to benefit the most from the government's targeted subsidy and price control measures, as these initiatives are primarily designed to support lower-income households. However, consumers with higher fuel consumption that exceeds the subsidized quota, or those who rely on non-subsidised fuels such as RON97, may continue to face upward cost pressures as the prices remain closely linked to movements in global oil prices.

COMPONENT BREAKDOWN: INFLATION HEATMAP

Component	Weight	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26
Headline CPI	100.0	1.3	1.5	1.3	1.4	1.6	1.6	1.4	1.7	1.9	2.0	1.9	1.8	1.9
Food & Beverages	29.8	2.0	2.1	1.5	1.5	1.5	1.5	1.3	1.1	1.2	1.4	1.4	1.8	1.9
Alcoholic Beverages & Tobacco	1.9	0.4	0.3	0.3	2.4	2.5	2.5	2.6	2.7	2.8	2.8	2.8	2.7	2.8
Clothing & Footwear	2.7	-0.1	-0.2	-0.3	-0.1	0.1	0.0	0.0	-0.1	-0.1	-0.1	0.0	0.1	0.1
Housing, Water, Electricity, Gas & Other Fuels	23.2	1.2	1.5	1.1	0.7	0.9	1.2	1.1	1.2	1.1	1.2	1.4	1.8	2.1
Furnishings, Household Equipment & Maintenance	4.3	0.2	0.2	0.3	0.2	0.3	0.2	0.2	0.1	0.4	0.4	0.4	0.3	0.4
Health	2.7	1.1	1.3	1.5	1.5	1.5	1.4	1.2	1.4	1.4	1.2	1.2	1.1	1.3
Transport	11.3	0.2	0.7	-0.1	0.2	0.1	-0.7	-0.7	1.6	4.1	3.8	2.8	1.4	2.0
Information & Communication	6.6	-5.6	-4.5	-2.4	-1.3	0.9	0.7	0.5	1.4	2.0	2.1	2.4	3.4	2.6
Recreation, Sport and Culture	3.0	0.9	0.9	1.2	1.2	0.8	0.9	0.8	1.0	0.9	1.1	1.1	1.2	1.1
Education	1.3	2.4	2.4	2.4	2.6	2.8	3.2	2.8	2.5	2.4	2.2	2.1	2.0	1.9
Restaurants & Accommodation Services	3.4	3.5	3.3	3.4	3.4	3.1	3.0	2.5	2.6	2.6	2.5	2.6	2.0	2.1
Insurance & Financial Services	4.0	5.6	5.6	5.6	5.6	5.6	5.5	4.7	4.9	4.9	4.9	5.7	1.1	1.0
Personal Care, Social Protection & Misc. Goods & Services	5.8	4.0	4.8	6.0	5.6	5.7	6.6	6.9	7.0	4.8	4.8	3.4	2.9	3.2
Non-Food	70.2	0.9	1.1	1.1	1.2	1.6	1.6	1.5	2.1	2.3	2.3	2.2	1.8	1.9

Sources: DOSM, CEIC Data, BNM, Bank Islam

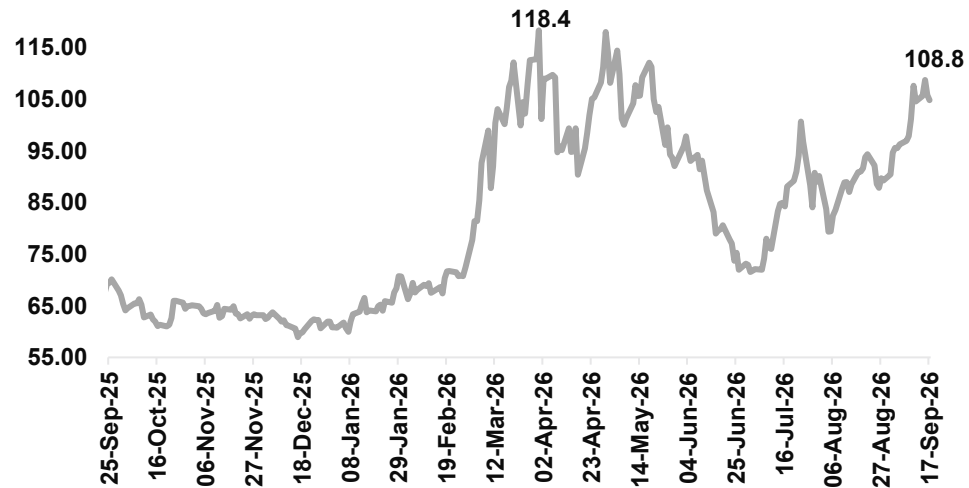
KEY SUB-COMPONENT BREAKDOWN: INFLATION HEATMAP

Sub-component	Weight	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26
Food and Beverages (FB)	29.8	2.0	2.1	1.5	1.5	1.5	1.5	1.3	1.1	1.2	1.4	1.4	1.8	1.9
Food	29.0	1.9	2.0	1.4	1.4	1.5	1.5	1.3	1.1	1.2	1.4	1.4	1.8	1.9
Food Away From Home	13.4	4.3	4.4	2.9	2.8	2.7	2.5	2.4	2.3	2.6	2.5	2.4	2.5	2.5
Food at Home	15.6	-0.1	0.0	0.0	0.1	0.3	0.6	0.3	0.1	0.0	0.3	0.5	1.2	1.4
Cereals & Cereal Products (CC)	2.3	-0.6	-0.6	-0.5	-0.5	-0.5	-0.3	-0.5	-0.1	0.2	0.1	0.2	0.2	0.2
Meat	2.3	-0.5	-0.1	-0.7	0.7	0.7	1.3	1.7	0.9	0.6	0.2	1.5	3.2	3.5
Fish & Seafood	3.9	2.3	1.5	1.7	2.1	2.2	2.2	2.5	1.5	1.2	1.6	1.4	1.1	0.9
Milk, Cheese and Eggs (MC)	1.3	-1.4	0.0	0.6	-1.0	-0.1	0.3	0.1	0.0	-0.9	-0.8	0.1	0.8	1.5
Oils & Fats (OF)	0.7	1.4	1.3	1.5	1.3	0.9	0.3	-0.2	-0.2	0.1	0.0	0.2	0.2	0.1
Fruits & nuts	1.1	-0.7	-0.1	1.0	0.9	0.9	0.5	0.0	0.5	1.8	1.4	1.0	1.1	1.4
Vegetables	1.8	-6.5	-5.5	-6.0	-6.1	-4.2	-3.0	-6.0	-4.9	-4.7	-1.5	-1.8	1.0	2.8
Sugar, Jam, Honey, Choc & Confect (SJ)	0.5	0.6	0.7	0.9	0.8	0.7	0.7	0.5	0.5	0.4	0.5	0.5	0.4	0.5
Foods Product N.E.C	1.7	2.8	2.8	2.5	2.2	1.7	1.4	1.0	1.0	0.9	0.5	0.6	0.7	1.0
Non-alcoholic beverages	0.8	4.0	4.0	3.8	3.7	3.1	2.6	2.3	0.2	0.4	0.2	0.1	0.1	0.0
Housing, Water, Electricity, Gas & Other Fuels	23.2	1.2	1.5	1.1	0.7	0.9	1.2	1.1	1.2	1.1	1.2	1.4	1.8	2.1
Actual Rental For Housing	17.7	1.9	1.9	1.9	1.9	1.9	1.9	1.5	1.5	1.5	1.4	1.4	1.4	1.5
Maintenance & Repair of Dwelling	1.2	4.9	4.3	5.1	5.0	5.2	2.6	3.2	3.3	2.3	2.4	2.6	2.5	2.9
Water Supply & Miscellaneous Services	1.2	2.6	6.5	6.5	6.1	6.1	7.1	6.8	6.8	6.8	6.8	6.8	7.3	5.1
Electricity, Gas & Other Fuels	3.1	-4.5	-4.2	-8.4	-10.3	-8.3	-7.2	-4.5	-4.0	-4.5	-3.1	-2.3	2.0	3.3
Transport	11.3	0.2	0.7	-0.1	0.2	0.1	-0.7	-0.7	1.6	4.1	3.8	2.8	1.4	2.0
Purchase of Vehicles	1.6	0.3	0.4	0.1	0.9	0.9	0.2	-0.4	-0.5	-0.2	-0.2	-0.2	-0.2	-0.7
Operation of Personal Transport Equipment	8.9	0.4	0.8	-0.3	-0.2	-0.3	-1.0	-1.2	1.5	4.8	4.2	3.1	1.3	1.8
Public Transport Services	0.7	-0.2	-0.3	2.8	2.6	2.5	0.8	3.8	7.0	7.0	6.8	6.5	6.5	10.5
Transport Services of Goods	0.1	0.1	-0.8	-1.3	-1.0	-1.4	-1.4	-1.9	-1.9	-1.3	-1.3	-1.3	-1.3	-1.3

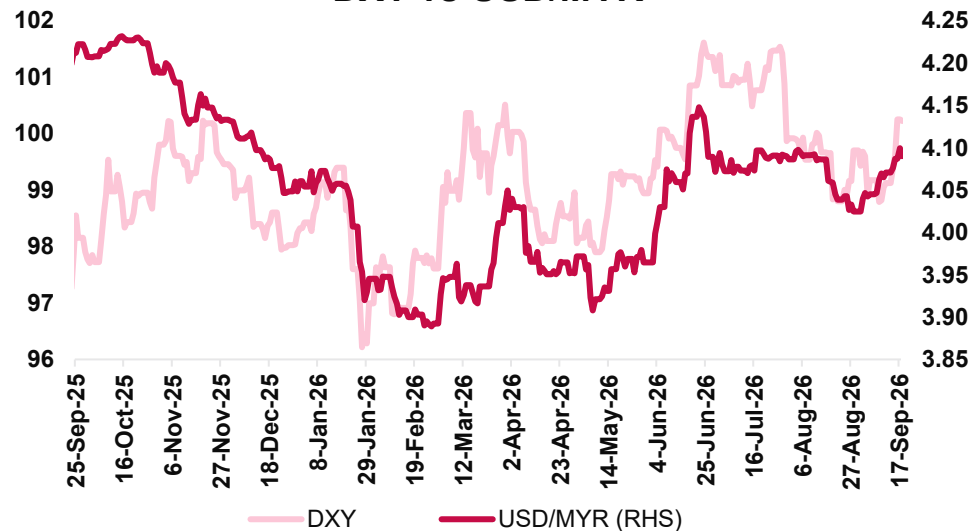
Sources: DOSM, CEIC Data, BNM, Bank Islam

OUTLOOK

Brent Crude in USD per barrel



DXY vs USD/MYR



- Despite heightened global energy risks arising from escalating geopolitical tensions in the Middle East, continued disruptions along the Red Sea shipping route as Houthi forces expand their control around the Bab el-Mandeb Strait, and attacks on energy infrastructure that have pushed Brent crude prices above the USD100 per barrel mark, **we have revised down our 2026 CPI forecast to an average of 2.0%.**
- The **downward revision primarily reflects the continued effectiveness of government intervention measures in mitigating inflationary pressures.** In particular, the BUDI MADANI diesel subsidy programme, which allows eligible recipients to purchase diesel at RM2.10/litre nationwide from 1 July 2026, alongside the RON95 petrol price cap of RM1.99/litre, has helped cushion the impact of higher global oil prices. As a result, transportation inflation has remained relatively contained despite the rise in global energy prices. In addition, government price controls and subsidies on selected essential goods continue to shield households from external cost pressures. **The recent expansion of electricity bill protection from 600 kWh to 800 kWh is expected to provide additional near-term relief to household utility expenses.**
- Nevertheless, **risks remain tilted to the upside.** Further escalation of geopolitical conflicts could disrupt global oil supply chains and key transportation routes, particularly if tensions in the Red Sea intensify and attacks on major oil-producing and exporting facilities affect production and exports. Such developments could result in a sharper increase in oil prices, raising imported energy costs and production expenses.
- While current subsidy measures have cushioned inflationary pressures, **any future subsidy rationalization as part of the government's fiscal consolidation efforts could lead to higher domestic fuel prices and stronger cost pass-through effects.** This would raise transportation and operating costs for businesses, which may ultimately be passed on to consumers through higher prices.
- Food inflation remains another important upside risk given its substantial weight in Malaysia's CPI basket. **Higher global commodity prices, supply chain disruptions, and adverse weather conditions could place upward pressure on food prices.**
- These pressures could be further amplified by exchange rate movements, particularly given Malaysia's reliance on imported food products. **The recent 25bps increase in the Federal Funds Rate, coupled with the Federal Reserve's higher-for-longer policy stance, may bolster demand for the greenback,** which continues to benefit from its safe-haven status amid heightened geopolitical uncertainty. This could encourage capital flows into dollar-denominated assets and exert depreciation pressure on the Ringgit.
- Overall, while we expect headline inflation to average 2.0% in 2026, supported by government intervention measures, risks remain skewed to the upside amid elevated geopolitical tensions, potential oil supply disruptions, and a potentially weaker Ringgit.

BANK ISLAM

THANK YOU