HEADLINE INFLATION SOFTENS, THOUGH FOOD AND UTILITY PRESSURES PERSIST

17 AUGUST 2026

ECONOMIC RESEARCH

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EASING TRANSPORT COSTS MASK EMERGING FOOD AND UTILITY PRICE PRESSURES

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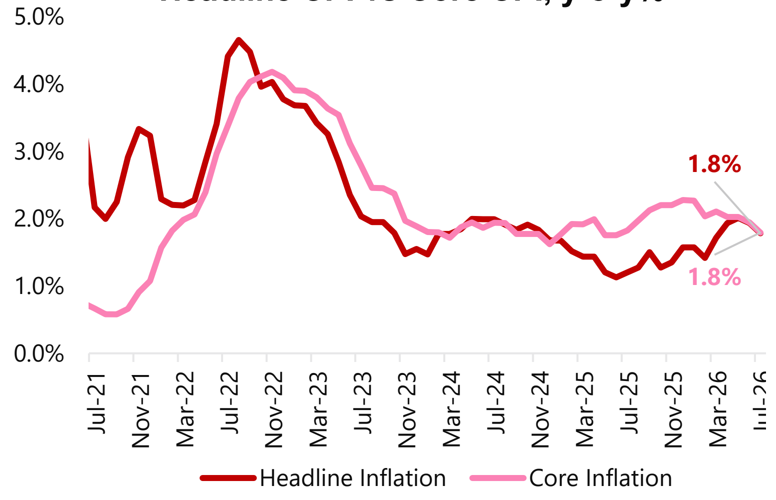
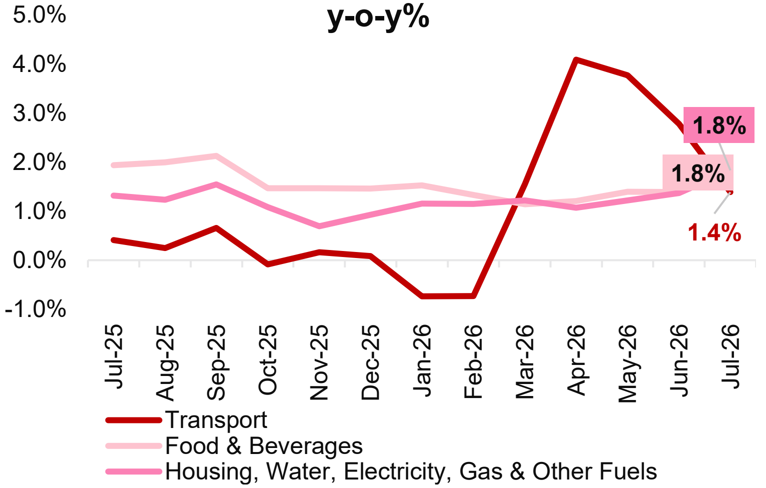
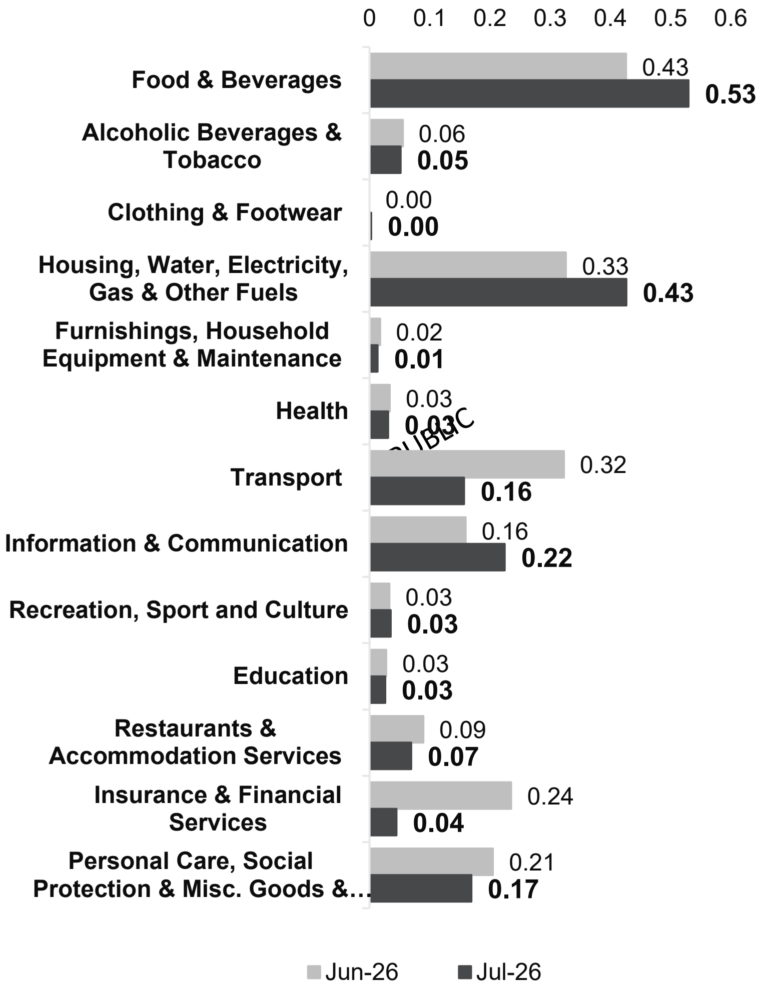
Headline CPI vs Core CPI, y-o-y%



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



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



- **Headline inflation eased to 1.8% y-o-y in July (Jun: 1.9%), partly driven by slower transportation inflation**, which moderated further to 1.4%, reflecting softer fuel-related price pressures.
- While the cost of public transport services remained elevated at 6.5%, inflation in the operation of personal transport equipment sub-segment, which accounts for 8.9% of the total CPI basket, slowed to 1.3% (Jun: 3.1%). This was largely driven by lower fuel prices during the month, particularly RON95 petrol, which continues to be capped at RM1.99/litre under the government's subsidy mechanism.
- **While lower transportation costs helped contain overall inflation, food price pressures continued to build.** The food and beverages index rose 1.8% y-o-y in July, the highest in 10 months, as **food-at-home inflation accelerated to 1.2% (Jun: 0.5%) marking the strongest increase since Dec-18** (1.3%). The trend suggests that underlying food price pressures may be gradually emerging.
- Prices of meat (3.2%; Jun: 1.5%), vegetables (1.0%; Jun: -1.8%), as well as milk, cheese and eggs (0.8%; Jun: 0.1%), rose at a faster pace during the month. **As expected, the lagged impact of higher oil prices appears to be filtering into food prices**, with the food and beverages component contributing 0.53 ppts to overall inflation.
- **Other emerging inflationary pressures were also evident in the housing, water, electricity, gas and other fuels category, which increased by 1.8%** (Jun: 1.4%). In particular, the electricity, gas and other fuels sub-category rose by 2.0% (Jun: -2.3%), recovery from 12 consecutive months of deflation.

Sources: DOSM, CEIC Data, BNM, Bank Islam

COMPONENT BREAKDOWN: INFLATION HEATMAP

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Component	Weight	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26
Headline CPI	100.0	1.2	1.3	1.5	1.3	1.4	1.6	1.6	1.4	1.7	1.9	2.0	1.9	1.8
Food & Beverages	29.8	1.9	2.0	2.1	1.5	1.5	1.5	1.5	1.3	1.1	1.2	1.4	1.4	1.8
Alcoholic Beverages & Tobacco	1.9	0.6	0.4	0.3	0.3	2.4	2.5	2.5	2.6	2.7	2.8	2.8	2.8	2.7
Clothing & Footwear	2.7	-0.2	-0.1	-0.2	-0.3	-0.1	0.1	0.0	0.0	-0.1	-0.1	-0.1	0.0	0.1
Housing, Water, Electricity, Gas & Other Fuels	23.2	1.3	1.2	1.5	1.1	0.7	0.9	1.2	1.1	1.2	1.1	1.2	1.4	1.8
Furnishings, Household Equipment & Maintenance	4.3	0.1	0.2	0.2	0.3	0.2	0.3	0.2	0.2	0.1	0.4	0.4	0.4	0.3
Health	2.7	1.2	1.1	1.3	1.5	1.5	1.5	1.4	1.2	1.4	1.4	1.2	1.2	1.1
Transport	11.3	0.4	0.2	0.7	-0.1	0.2	0.1	-0.7	-0.7	1.6	4.1	3.8	2.8	1.4
Information & Communication	6.6	-6.4	-5.6	-4.5	-2.4	-1.3	0.9	0.7	0.5	1.4	2.0	2.1	2.4	3.4
Recreation, Sport and Culture	3.0	0.8	0.9	0.9	1.2	1.2	0.8	0.9	0.8	1.0	0.9	1.1	1.1	1.2
Education	1.3	2.2	2.4	2.4	2.4	2.6	2.8	3.2	2.8	2.5	2.4	2.2	2.1	2.0
Restaurants & Accommodation Services	3.4	3.1	3.5	3.3	3.4	3.4	3.1	3.0	2.5	2.6	2.6	2.5	2.6	2.0
Insurance & Financial Services	4.0	5.5	5.6	5.6	5.6	5.6	5.6	5.5	4.7	4.9	4.9	4.9	5.7	1.1
Personal Care, Social Protection & Misc. Goods & Services	5.8	3.9	4.0	4.8	6.0	5.6	5.7	6.6	6.9	7.0	4.8	4.8	3.4	2.9
Non-Food	70.2	0.8	0.9	1.1	1.1	1.2	1.6	1.6	1.5	2.1	2.3	2.3	2.2	1.8

Sources: DOSM, CEIC Data, BNM, Bank Islam

KEY SUB-COMPONENT BREAKDOWN: INFLATION HEATMAP

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Sub-component	Weight	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26
Food and Beverages (FB)	**29.8**	1.9	2.0	2.1	1.5	1.5	1.5	1.5	1.3	1.1	1.2	1.4	1.4	1.8
Food	**29.0**	1.9	1.9	2.0	1.4	1.4	1.5	1.5	1.3	1.1	1.2	1.4	1.4	1.8
Food Away From Home	13.4	4.3	4.3	4.4	2.9	2.8	2.7	2.5	2.4	2.3	2.6	2.5	2.4	2.5
Food at Home	15.6	-0.3	-0.1	0.0	0.0	0.1	0.3	0.6	0.3	0.1	0.0	0.3	0.5	1.2
Cereals & Cereal Products (CC)	*2.3*	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5	-0.3	-0.5	-0.1	0.2	0.1	0.2	0.2
Meat	*2.3*	-0.9	-0.5	-0.1	-0.7	0.7	0.7	1.3	1.7	0.9	0.6	0.2	1.5	3.2
Fish & Seafood	*3.9*	1.8	2.3	1.5	1.7	2.1	2.2	2.2	2.5	1.5	1.2	1.6	1.4	1.1
Milk, Cheese and Eggs (MC)	*1.3*	-1.1	-1.4	0.0	0.6	-1.0	-0.1	0.3	0.1	0.0	-0.9	-0.8	0.1	0.8
Oils & Fats (OF)	*0.7*	1.5	1.4	1.3	1.5	1.3	0.9	0.3	-0.2	-0.2	0.1	0.0	0.2	0.2
Fruits & nuts	*1.1*	-0.3	-0.7	-0.1	1.0	0.9	0.9	0.5	0.0	0.5	1.8	1.4	1.0	1.1
Vegetables	*1.8*	-6.6	-6.5	-5.5	-6.0	-6.1	-4.2	-3.0	-6.0	-4.9	-4.7	-1.5	-1.8	1.0
Sugar, Jam, Honey, Choc & Confect (SJ)	*0.5*	0.8	0.6	0.7	0.9	0.8	0.7	0.7	0.5	0.5	0.4	0.5	0.5	0.4
Foods Product N.E.C	*1.7*	2.9	2.8	2.8	2.5	2.2	1.7	1.4	1.0	1.0	0.9	0.5	0.6	0.7
Non-alcoholic beverages	**0.8**	5.2	4.0	4.0	3.8	3.7	3.1	2.6	2.3	0.2	0.4	0.2	0.1	0.1
Housing, Water, Electricity, Gas & Other Fuels	**23.2**	1.3	1.2	1.5	1.1	0.7	0.9	1.2	1.1	1.2	1.1	1.2	1.4	1.8
Actual Rental For Housing	*17.7*	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.5	1.5	1.5	1.4	1.4	1.4
Maintenance & Repair of Dwelling	*1.2*	4.7	4.9	4.3	5.1	5.0	5.2	2.6	3.2	3.3	2.3	2.4	2.6	2.5
Water Supply & Miscellaneous Services	*1.2*	0.5	2.6	6.5	6.5	6.1	6.1	7.1	6.8	6.8	6.8	6.8	6.8	7.3
Electricity, Gas & Other Fuels	*3.1*	-3.4	-4.5	-4.2	-8.4	-10.3	-8.3	-7.2	-4.5	-4.0	-4.5	-3.1	-2.3	2.0
Transport	**11.3**	0.4	0.2	0.7	-0.1	0.2	0.1	-0.7	-0.7	1.6	4.1	3.8	2.8	1.4
Purchase of Vehicles	*1.6*	0.5	0.3	0.4	0.1	0.9	0.9	0.2	-0.4	-0.5	-0.2	-0.2	-0.2	-0.2
Operation of Personal Transport Equipment	*8.9*	0.3	0.4	0.8	-0.3	-0.2	-0.3	-1.0	-1.2	1.5	4.8	4.2	3.1	1.3
Public Transport Services	*0.7*	1.5	-0.2	-0.3	2.8	2.6	2.5	0.8	3.8	7.0	7.0	6.8	6.5	6.5
Transport Services of Goods	*0.1*	2.0	0.1	-0.8	-1.3	-1.0	-1.4	-1.4	-1.9	-1.9	-1.3	-1.3	-1.3	-1.3

Sources: DOSM, CEIC Data, BNM, Bank Islam

OUTLOOK

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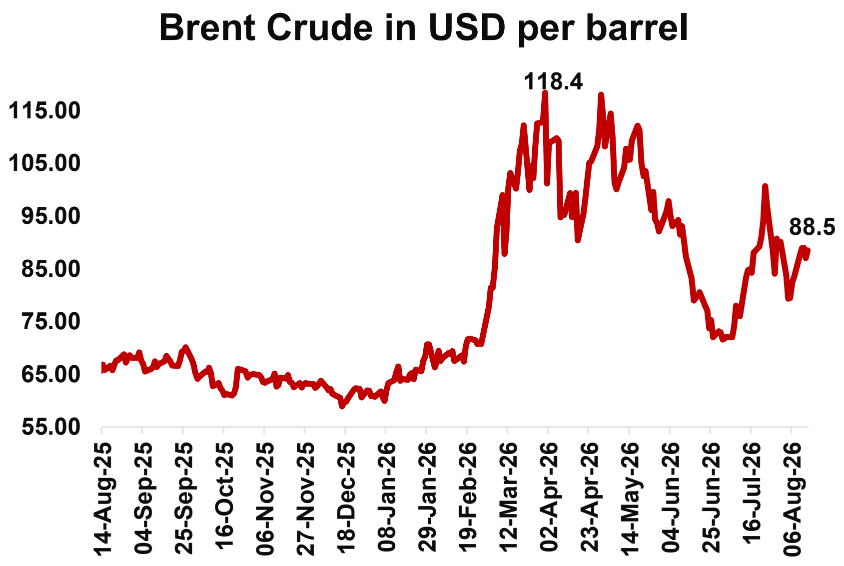

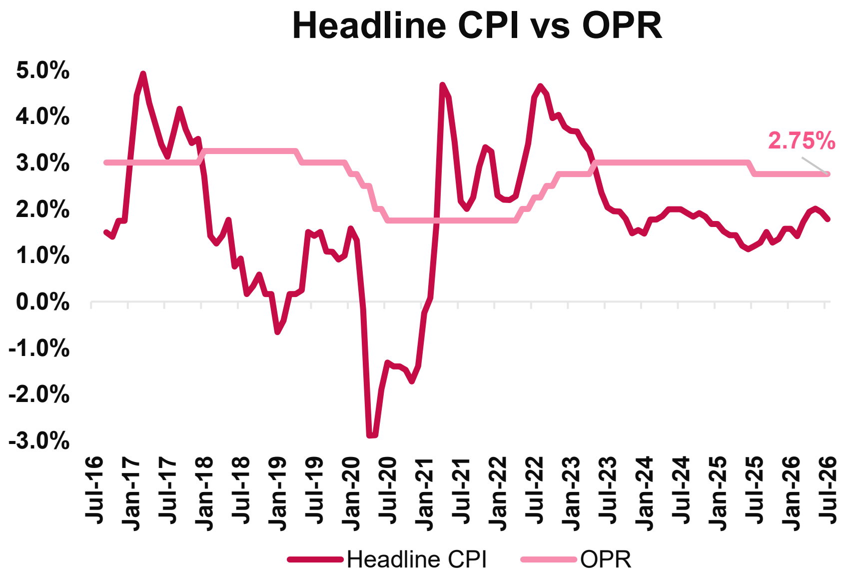

Sources: DOSM, CEIC Data, BNM, Bank Islam

- **The moderation in transportation costs continued to support a softer headline inflation outcome in July**. Lower fuel-related costs helped ease transport inflationary pressures during the month. However, inflation in the food and beverages as well as housing, water, electricity, gas and other fuels categories continued to trend higher. Together, accounting for over half (52.2%) of the CPI basket, sustained increases in these components could place upward pressure on overall inflation in the months ahead.
- **Malaysia's inflation trajectory is expected to gradually firm, driven primarily by rising food prices**. The food and beverages category, which makes up nearly 30% of the CPI basket, has shown a steady upward trend, with both food-at-home and food-away-from-home inflation gaining momentum. Notably, several key food categories have begun to record stronger price increases after experiencing declines in preceding months, particularly vegetables and meat products, suggesting that underlying food price pressures are becoming more apparent.
- **The recent turnaround in vegetable prices highlights the emergence of cost-driven pressures within the food supply chain**. Vegetable inflation returned to positive territory after remaining negative for 18 consecutive months, reflecting rising agricultural production costs, including higher fertiliser prices amid elevated global energy costs. In addition, increased transportation expenses for imported food products may have contributed to the price recovery, as higher input and logistics costs are gradually passed through to consumers.
- **Weather-related risks and external cost pressures are likely to keep food inflation elevated**. Potential climate disruptions, including the adverse effects of El Niño, could constrain agricultural output and further tighten food supply conditions. At the same time, higher imported food costs and logistics expenses may reinforce upward pressure on food prices. Nevertheless, barring any significant external shocks, broader inflationary pressures are expected to remain relatively moderate.
- Meanwhile, **the outlook for energy prices remains a key source of uncertainty**. Geopolitical tensions in the Middle East continue to pose upside risks to global oil prices, particularly amid unresolved U.S.-Iran negotiations and ongoing concerns over shipping security in the Strait of Hormuz. Any further escalation that disrupts energy supply routes could trigger renewed increases in crude oil prices, leading to higher fuel and transportation costs and potentially slowing the pace of disinflation.
- **We maintain our forecast for Malaysia's CPI inflation to average 2.5% in 2026**, as underlying price pressures remain broadly contained despite emerging upside risks from food and energy prices.
- From a monetary policy perspective**, Bank Negara Malaysia (BNM) is expected to keep the Overnight Policy Rate (OPR) unchanged at 2.75%**, as the current policy setting remains appropriate in supporting economic growth while preserving price stability.

THANK YOU