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INFLATION REMAINS BENIGN, BUT COST-PUSH RISKS ARE EMERGING

19 OCTOBER 2026

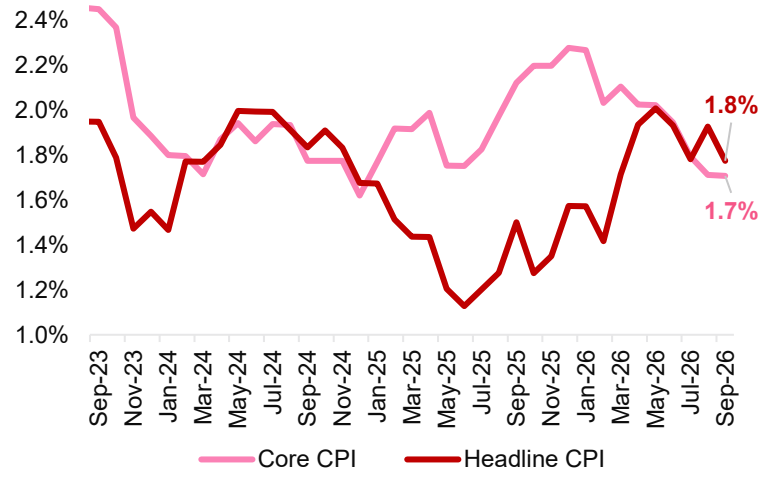
ECONOMIC RESEARCH

FARAH ZAZREEN ZAINUDIN

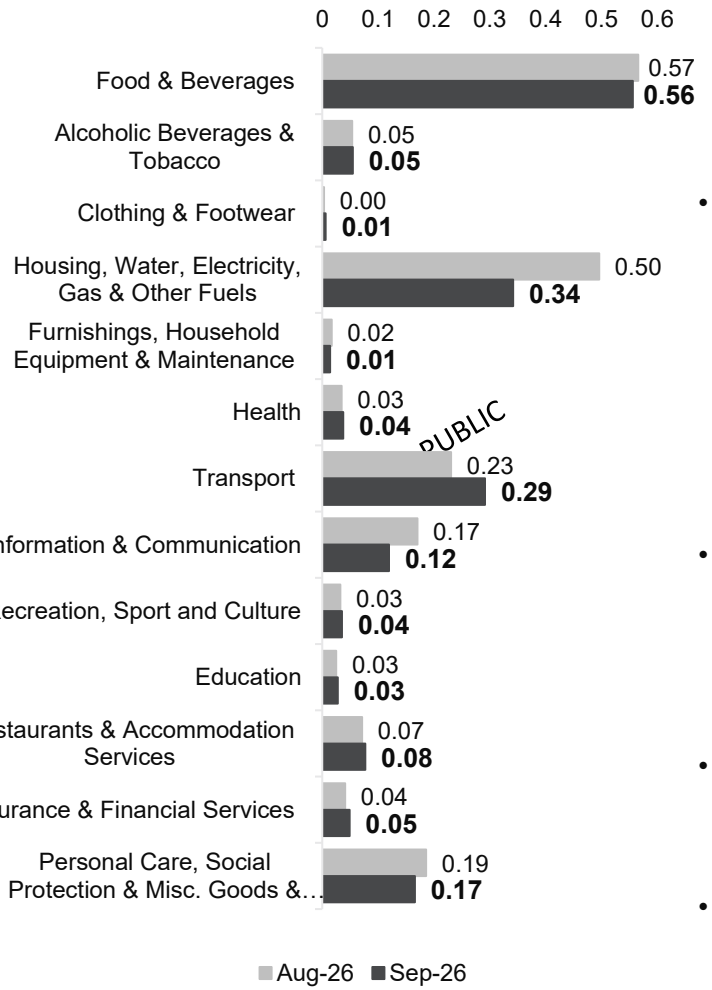
HEADLINE INFLATION REMAINS SUBDUED AMID SOFTER UTILITY AND ICT COSTS

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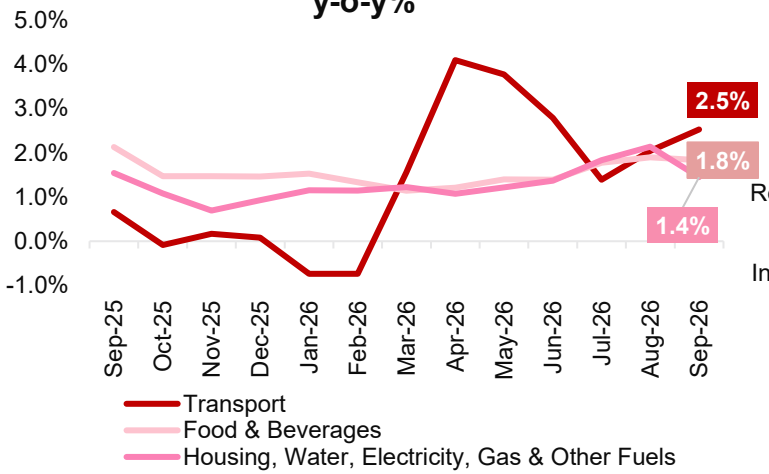
Headline CPI vs Core CPI, y-o-y %



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



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



Sources: DOSM, CEIC Data, BNM, Bank Islam

- **Headline inflation remained well contained in September, easing marginally to 1.8% y-o-y** from 1.9% in August, while core inflation was unchanged at 1.7% for a second consecutive month, indicating that underlying price pressures remain subdued.
- **Food and non-alcoholic beverages**, which account for nearly 30% of the CPI basket, **moderated slightly to 1.8%** (August: 1.9%). The softer outturn was primarily driven by easing food-at-home inflation at 1.2% (August: 1.4%). Nevertheless, **food-away-from-home inflation stayed elevated and edged higher to 2.6%** (August: 2.5%), suggesting continued cost pass-through within the services sector.
- Furthermore, **utility-related price pressures eased during the month, in particular electricity inflation slowed markedly to 0.2% y-o-y** (August: 3.6%), following the expansion of the electricity bill protection mechanism from households consuming up to 600 kWh to 800 kWh. At the same time, inflation in water supply and miscellaneous services moderated to 1.3% (August: 5.1%). In addition, **inflation in the information and communication segment moderated to 1.8%** (August: 2.6%), likely reflecting intensified competition among telecommunications providers, which contributed to lower prices for communication services and subscription packages.
- However**, transport inflation accelerated to 2.5% in September** from 2.0% in August. The increase was partly driven by the sharp rise in global crude oil prices, with Brent crude averaging USD116.8/barrel in September (August: USD90.9/barrel). This was reflected in higher market-based fuel prices, particularly RON97 as well as diesel and RON95 purchases above the subsidized quota.
- Looking ahead, the widening CPI-PPI gap suggests that producer price pressures have strengthened much faster than consumer inflation. While headline CPI remained relatively contained, PPI surged to 10.7% in August, signaling a significant increase in upstream cost pressures.
- The divergence indicates that cost pass-through to consumers has remained limited thus far, supported by subsidy mechanisms, price controls and competitive market conditions. Nevertheless, if elevated producer costs persist, a gradual transmission to consumer prices could materialise, posing upside risks to inflation in the coming quarters.

COMPONENT BREAKDOWN: INFLATION HEATMAP

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

Sources: DOSM, CEIC Data, BNM, Bank Islam

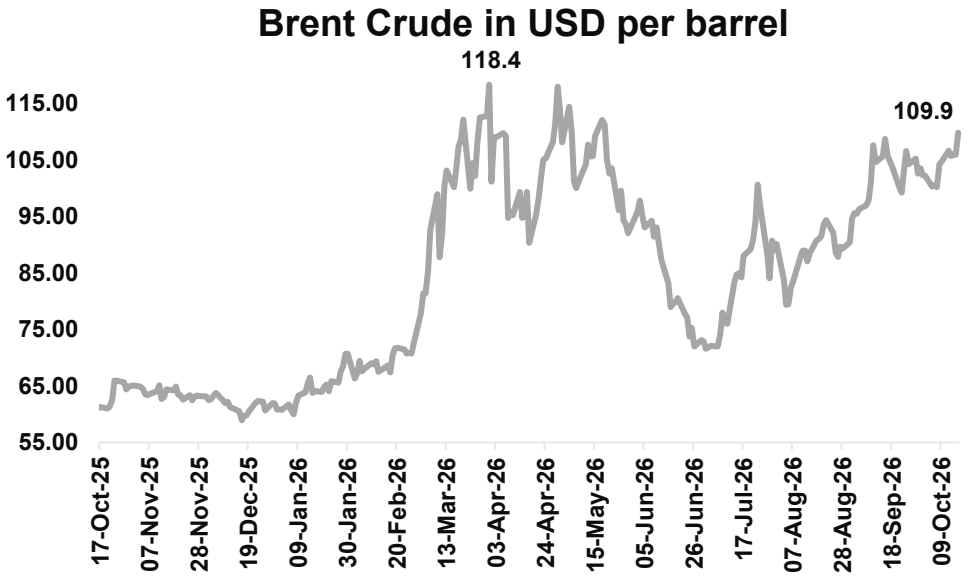
KEY SUB-COMPONENT BREAKDOWN: INFLATION HEATMAP

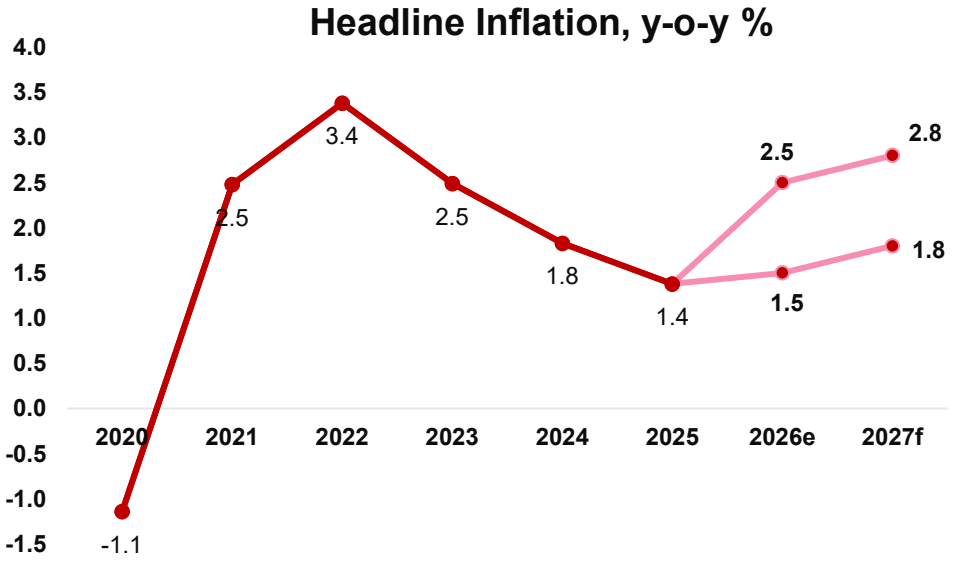
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Sub-component	Weight	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26
Food and Beverages (FB)	**29.8**	2.1	1.5	1.5	1.5	1.5	1.3	1.1	1.2	1.4	1.4	1.8	1.9	1.8
Food	**29.0**	2.0	1.4	1.4	1.5	1.5	1.3	1.1	1.2	1.4	1.4	1.8	1.9	1.9
Food Away From Home	13.4	4.4	2.9	2.8	2.7	2.5	2.4	2.3	2.6	2.5	2.4	2.5	2.5	2.6
Food at Home	15.6	0.0	0.0	0.1	0.3	0.6	0.3	0.1	0.0	0.3	0.5	1.2	1.4	1.2
Cereals & Cereal Products (CC)	*2.3*	-0.6	-0.5	-0.5	-0.5	-0.3	-0.5	-0.1	0.2	0.1	0.2	0.2	0.2	0.2
Meat	*2.3*	-0.1	-0.7	0.7	0.7	1.3	1.7	0.9	0.6	0.2	1.5	3.2	3.5	2.8
Fish & Seafood	*3.9*	1.5	1.7	2.1	2.2	2.2	2.5	1.5	1.2	1.6	1.4	1.1	0.9	1.5
Milk, Cheese and Eggs (MC)	*1.3*	0.0	0.6	-1.0	-0.1	0.3	0.1	0.0	-0.9	-0.8	0.1	0.8	1.5	2.1
Oils & Fats (OF)	*0.7*	1.3	1.5	1.3	0.9	0.3	-0.2	-0.2	0.1	0.0	0.2	0.2	0.1	-0.1
Fruits & nuts	*1.1*	-0.1	1.0	0.9	0.9	0.5	0.0	0.5	1.8	1.4	1.0	1.1	1.4	1.0
Vegetables	*1.8*	-5.5	-6.0	-6.1	-4.2	-3.0	-6.0	-4.9	-4.7	-1.5	-1.8	1.0	2.8	0.9
Sugar, Jam, Honey, Choc & Confect (SJ)	*0.5*	0.7	0.9	0.8	0.7	0.7	0.5	0.5	0.4	0.5	0.5	0.4	0.5	0.4
Foods Product N.E.C	*1.7*	2.8	2.5	2.2	1.7	1.4	1.0	1.0	0.9	0.5	0.6	0.7	1.0	0.7
Non-alcoholic beverages	**0.8**	4.0	3.8	3.7	3.1	2.6	2.3	0.2	0.4	0.2	0.1	0.1	0.0	-0.2
Housing, Water, Electricity, Gas & Other Fuels	**23.2**	1.5	1.1	0.7	0.9	1.2	1.1	1.2	1.1	1.2	1.4	1.8	2.1	1.4
Actual Rental For Housing	*17.7*	1.9	1.9	1.9	1.9	1.9	1.5	1.5	1.5	1.4	1.4	1.4	1.5	1.5
Maintenance & Repair of Dwelling	*1.2*	4.3	5.1	5.0	5.2	2.6	3.2	3.3	2.3	2.4	2.6	2.5	2.9	2.9
Water Supply & Miscellaneous Services	*1.2*	6.5	6.5	6.1	6.1	7.1	6.8	6.8	6.8	6.8	6.8	7.3	5.1	1.3
Electricity, Gas & Other Fuels	*3.1*	-4.2	-8.4	-10.3	-8.3	-7.2	-4.5	-4.0	-4.5	-3.1	-2.3	2.0	3.3	0.1
Transport	**11.3**	0.7	-0.1	0.2	0.1	-0.7	-0.7	1.6	4.1	3.8	2.8	1.4	2.0	2.5
Purchase of Vehicles	*1.6*	0.4	0.1	0.9	0.9	0.2	-0.4	-0.5	-0.2	-0.2	-0.2	-0.2	-0.7	-0.6
Operation of Personal Transport Equipment	*8.9*	0.8	-0.3	-0.2	-0.3	-1.0	-1.2	1.5	4.8	4.2	3.1	1.3	1.8	2.7
Public Transport Services	*0.7*	-0.3	2.8	2.6	2.5	0.8	3.8	7.0	7.0	6.8	6.5	6.5	10.5	7.8
Transport Services of Goods	*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	-0.5

Sources: DOSM, CEIC Data, BNM, Bank Islam

OUTLOOK





Sources: DOSM, CEIC Data, BNM, Bank Islam

- **Malaysia's headline inflation is expected to remain manageable in the near term, although underlying price pressures are likely to strengthen gradually amid elevated global energy prices and rising food-related costs**. The latest escalation in geopolitical tensions in the Middle East and Ukraine-Russia has pushed crude oil prices nearly USD110/barrel on 16 October, marking its highest level since May.
- The attacks around the Strait of Hormuz and threats to Saudi energy infrastructure have heightened fears of tighter crude flows. At the same time, Ukraine's renewed strikes on Russian oil infrastructure raised concerns over Russia's ability to maintain diesel supplies. These conflicts have raised concerns over higher transportation, logistics, and production costs. **Although the immediate pass-through to consumer prices may remain gradual, prolonged supply disruptions could increase the likelihood of broader price adjustments in the coming months**.
- **Closer attention should be given to food inflation as price increases in essential items together with food away from home have become more pronounced**. Higher energy and agricultural input costs, coupled with the weaker ringgit and El Niño-related weather disruptions, could increase domestic food production and import costs. However, the extent of the pass-through will depend on the persistence of these pressures, domestic supply conditions and the ability of businesses to absorb higher costs without fully transferring them to consumers.
- Nevertheless**, targeted assistance, price-control measures, moderating utility and communication costs, and continued efforts to maintain the supply of essential goods are expected to help mitigate the impact on households**, although the extent of the relief will depend on the persistence and severity of external cost pressures.
- Overall, the balance of risks to the inflation outlook remains tilted to the upside. A prolonged geopolitical conflict, sustained oil prices above USD100/barrel, a weaker ringgit and more severe El Niño-related supply disruptions could amplify imported inflation and food-price pressures. Conversely, an easing of geopolitical tensions, normalization of global oil and food prices, a stronger ringgit and softer domestic demand could moderate inflation.
- We therefore expect inflation to remain manageable under the baseline scenario, but the risk of a more persistent increase in consumer prices needs close monitoring.
- **Looking ahead, the Ministry of Finance (MOF) projects headline inflation to average between 1.8% and 2.8% in 2027, following a revised forecast range of 1.5% to 2.5% for 2026**. The in-house forecasts are broadly in line with these projections, at 2.2% for 2027 and 2.0% for 2026, respectively. The higher projection reflects the lagged transmission of energy, food and other input costs, alongside potential adjustments to administered prices, utilities and subsidy mechanisms.

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