MALAYSIA INFLATION EASES ON TRANSPORT RELIEF

17 JULY 2026

ECONOMIC RESEARCH

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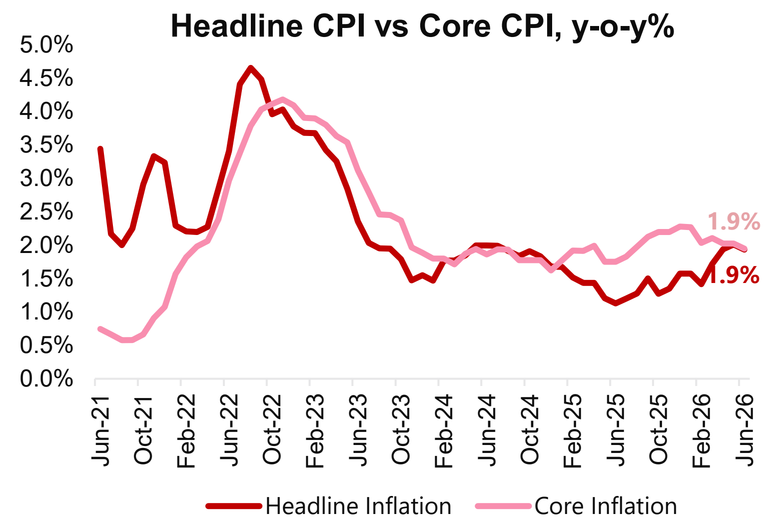
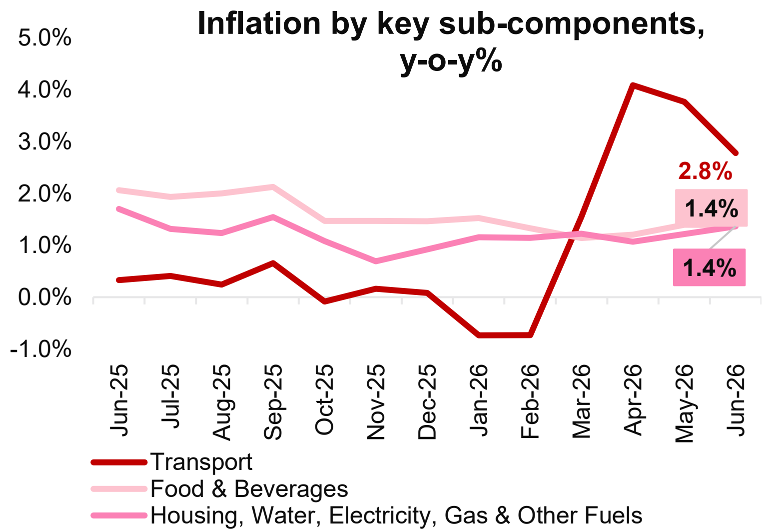
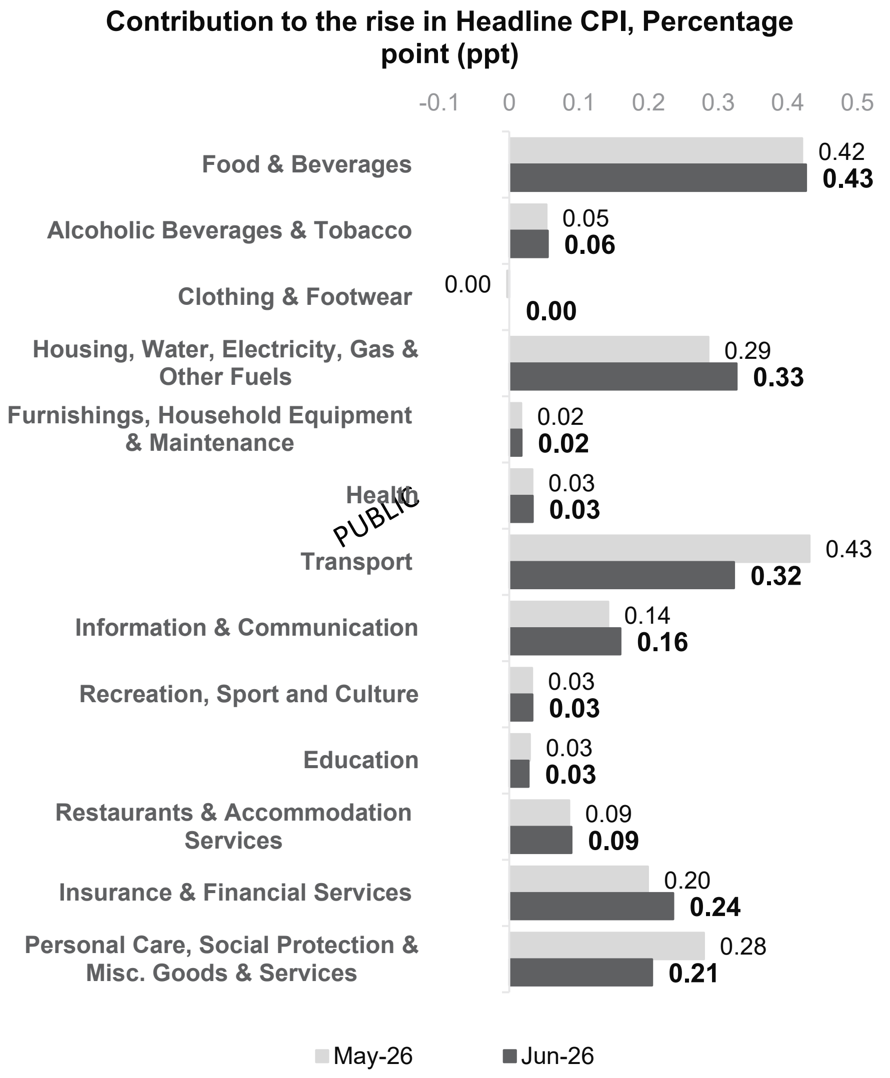
HEADLINE CPI SLOWS AS TRANSPORT COSTS RETREAT

BANK ISLAM







- **Headline inflation eased slightly to 1.9% y-o-y** in June, breaking a four-month uptrend. Core inflation also grew by 1.9% y-o-y, highlighting contained underlying pressures.
- While the food & beverage index held steady at 1.4% y-o-y, **transport inflation moderated sharply** from 3.8% in May to 2.8% in June, contributing only 0.32ppt to overall CPI compared with 0.43ppt in the previous month.
- The moderation was driven by slower increases in public transport services (6.5%; May: 6.8%) and operation of personal transport equipment (3.1%; May: 4.2%). **Fuel prices also rose at a slower pace** than in the past three months, reflecting the decline in Brent crude to an average of USD85.40/barrel in June following U.S.-Iran ceasefire talks.
- However, **should geopolitical tensions intensify, Brent crude prices could rebound, potentially reversing the recent moderation in fuel inflation**.
- Notably, **meat prices recorded a sharp increase**, rising 1.5% y-o-y in June (May: 0.2%). This significant acceleration reflects **Malaysia's status as a net importer of meat products**, where higher import costs are feeding directly into domestic food inflation.
- Meanwhile, the housing, water, electricity, gas & fuels category rose faster at 1.4% y-o-y in June (May: 1.2%).

Sources: DOSM, CEIC Data, BNM, Bank Islam

COMPONENT BREAKDOWN: INFLATION HEATMAP

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Component	Weight	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26
Headline CPI	100.0	1.2	1.1	1.2	1.3	1.5	1.3	1.4	1.6	1.6	1.4	1.7	1.9	2.0	1.9
Food & Beverages	29.8	2.1	2.1	1.9	2.0	2.1	1.5	1.5	1.5	1.5	1.3	1.1	1.2	1.4	1.4
Alcoholic Beverages & Tobacco	1.9	0.6	0.6	0.6	0.4	0.3	0.3	2.4	2.5	2.5	2.6	2.7	2.8	2.8	2.8
Clothing & Footwear	2.7	-0.2	-0.3	-0.2	-0.1	-0.2	-0.3	-0.1	0.1	0.0	0.0	-0.1	-0.1	-0.1	0.0
Housing, Water, Electricity, Gas & Other Fuels	23.2	1.7	1.7	1.3	1.2	1.5	1.1	0.7	0.9	1.2	1.1	1.2	1.1	1.2	1.4
Furnishings, Household Equipment & Maintenance	4.3	0.2	0.1	0.1	0.2	0.2	0.3	0.2	0.3	0.2	0.2	0.1	0.4	0.4	0.4
Health	2.7	1.1	1.2	1.2	1.1	1.3	1.5	1.5	1.5	1.4	1.2	1.4	1.4	1.2	1.2
Transport	11.3	0.7	0.3	0.4	0.2	0.7	-0.1	0.2	0.1	-0.7	-0.7	1.6	4.1	3.8	2.8
Information & Communication	6.6	-5.2	-5.4	-6.4	-5.6	-4.5	-2.4	-1.3	0.9	0.7	0.5	1.4	2.0	2.1	2.4
Recreation, Sport and Culture	3.0	0.9	0.8	0.8	0.9	0.9	1.2	1.2	0.8	0.9	0.8	1.0	0.9	1.1	1.1
Education	1.3	2.2	2.2	2.2	2.4	2.4	2.4	2.6	2.8	3.2	2.8	2.5	2.4	2.2	2.1
Restaurants & Accommodation Services	3.4	3.0	2.8	3.1	3.5	3.3	3.4	3.4	3.1	3.0	2.5	2.6	2.6	2.5	2.6
Insurance & Financial Services	4.0	1.5	1.5	5.5	5.6	5.6	5.6	5.6	5.6	5.5	4.7	4.9	4.9	4.9	5.7
Personal Care, Social Protection & Misc. Goods & Services	5.8	3.7	4.2	3.9	4.0	4.8	6.0	5.6	5.7	6.6	6.9	7.0	4.8	4.8	3.4
Non-Food	70.2	0.7	0.6	0.8	0.9	1.1	1.1	1.2	1.6	1.6	1.5	2.1	2.3	2.3	2.2

Sources: DOSM, CEIC Data, BNM, Bank Islam

KEY SUB-COMPONENT BREAKDOWN: INFLATION HEATMAP

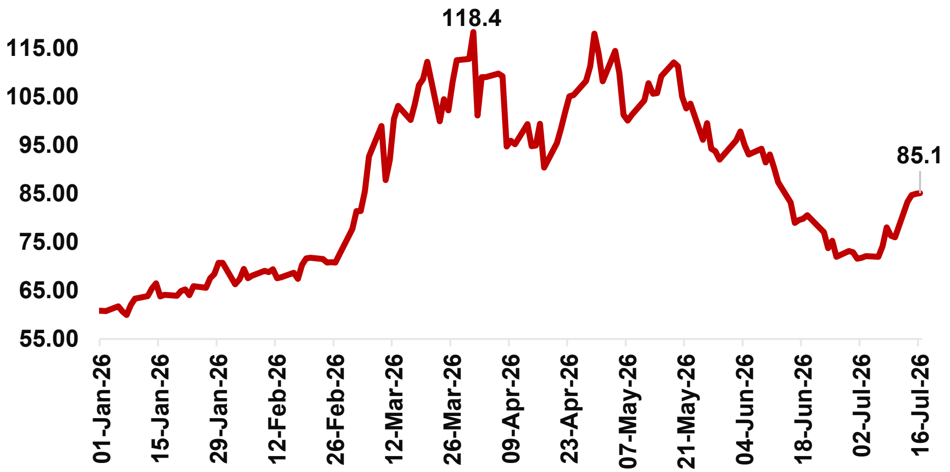
BANK ISLAM

Sub-component	Weight	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26
Food and Beverages (FB)	**29.8**	2.1	1.9	2.0	2.1	1.5	1.5	1.5	1.5	1.3	1.1	1.2	1.4	1.4
Food	**29.0**	2.0	1.9	1.9	2.0	1.4	1.4	1.5	1.5	1.3	1.1	1.2	1.4	1.4
Food Away From Home	13.4	4.7	4.3	4.3	4.4	2.9	2.8	2.7	2.5	2.4	2.3	2.6	2.5	2.4
Food at Home	15.6	-0.4	-0.3	-0.1	0.0	0.0	0.1	0.3	0.6	0.3	0.1	0.0	0.3	0.5
Cereals & Cereal Products (CC)	*2.3*	-0.3	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5	-0.3	-0.5	-0.1	0.2	0.1	0.2
Meat	*2.3*	-1.1	-0.9	-0.5	-0.1	-0.7	0.7	0.7	1.3	1.7	0.9	0.6	0.2	1.5
Fish & Seafood	*3.9*	1.6	1.8	2.3	1.5	1.7	2.1	2.2	2.2	2.5	1.5	1.2	1.6	1.4
Milk, Cheese and Eggs (MC)	*1.3*	-1.8	-1.1	-1.4	0.0	0.6	-1.0	-0.1	0.3	0.1	0.0	-0.9	-0.8	0.1
Oils & Fats (OF)	*0.7*	1.7	1.5	1.4	1.3	1.5	1.3	0.9	0.3	-0.2	-0.2	0.1	0.0	0.2
Fruits & nuts	*1.1*	0.1	-0.3	-0.7	-0.1	1.0	0.9	0.9	0.5	0.0	0.5	1.8	1.4	1.0
Vegetables	*1.8*	-7.2	-6.6	-6.5	-5.5	-6.0	-6.1	-4.2	-3.0	-6.0	-4.9	-4.7	-1.5	-1.8
Sugar, Jam, Honey, Choc & Confect (SJ)	*0.5*	1.0	0.8	0.6	0.7	0.9	0.8	0.7	0.7	0.5	0.5	0.4	0.5	0.5
Foods Product N.E.C	*1.7*	2.8	2.9	2.8	2.8	2.5	2.2	1.7	1.4	1.0	1.0	0.9	0.5	0.6
Non-alcoholic beverages	**0.8**	5.4	5.2	4.0	4.0	3.8	3.7	3.1	2.6	2.3	0.2	0.4	0.2	0.1
Housing, Water, Electricity, Gas & Other Fuels	**23.2**	1.7	1.3	1.2	1.5	1.1	0.7	0.9	1.2	1.1	1.2	1.1	1.2	1.4
Actual Rental For Housing	*17.7*	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.5	1.5	1.5	1.4	1.4
Maintenance & Repair of Dwelling	*1.2*	4.7	4.7	4.9	4.3	5.1	5.0	5.2	2.6	3.2	3.3	2.3	2.4	2.6
Water Supply & Miscellaneous Services	*1.2*	0.5	0.5	2.6	6.5	6.5	6.1	6.1	7.1	6.8	6.8	6.8	6.8	6.8
Electricity, Gas & Other Fuels	*3.1*	0.0	-3.4	-4.5	-4.2	-8.4	-10.3	-8.3	-7.2	-4.5	-4.0	-4.5	-3.1	-2.3
Transport	**11.3**	0.3	0.4	0.2	0.7	-0.1	0.2	0.1	-0.7	-0.7	1.6	4.1	3.8	2.8
Purchase of Vehicles	*1.6*	0.5	0.5	0.3	0.4	0.1	0.9	0.9	0.2	-0.4	-0.5	-0.2	-0.2	-0.2
Operation of Personal Transport Equipment	*8.9*	0.3	0.3	0.4	0.8	-0.3	-0.2	-0.3	-1.0	-1.2	1.5	4.8	4.2	3.1
Public Transport Services	*0.7*	0.3	1.5	-0.2	-0.3	2.8	2.6	2.5	0.8	3.8	7.0	7.0	6.8	6.5
Transport Services of Goods	*0.1*	2.0	2.0	0.1	-0.8	-1.3	-1.0	-1.4	-1.4	-1.9	-1.9	-1.3	-1.3	-1.3

Sources: DOSM, CEIC Data, BNM, Bank Islam

OUTLOOK

Brent Crude in USD per barrel



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- Brent crude prices have recently surged above USD85/barrel following **renewed U.S.-Iran tensions and military exchanges, sparking fears of supply disruption through the Strait of Hormuz**. The risk is compounded by Iran's signal that it may leverage Houthi allies in Yemen to disrupt the Bab el-Mandeb Strait, a chokepoint handling around 12% of global trade.
- At the same time, **Ukraine has intensified drone strikes on Russian oil refineries, reducing Russia's refining capacity and tightening global fuel supply**. These developments have reignited concerns about global energy security, with oil markets bracing for further volatility if disruptions escalate.
- Rising global energy costs are driving up fertilizer production expenses, making imported fertilizer more expensive for Malaysia. This raises agricultural input costs and increases the likelihood that food imports will become pricier, adding pressure to CPI's food component.
- Businesses facing higher input costs across the supply chain may pass them on to consumers, amplifying inflationary pressures. Heightened geopolitical risk also strengthens the U.S. dollar as a safe haven, weakening the ringgit and worsening imported inflation.
- **However, Malaysia's inflation remains relatively contained due to government interventions**. Food price controls on essential items and subsidies, particularly the nationwide diesel price cap at RM2.10/litre effective July 1 help cushion households from global cost pass-through. These measures have kept headline CPI within Bank Negara Malaysia's forecast range of 1.5–2.5%.
- Meanwhile, the government need to manage subsidy burdens, as prolonged support could strain fiscal resources.
- Overall, Malaysia's inflation trajectory is increasingly exposed to dual geopolitical shocks namely the Middle East supply risks and Ukraine's refinery attacks. Yet, food price controls and fuel subsidies are containing headline CPI in the near term.
- **We maintain our projection at 2.5%**, the upper end of BNM's forecast range, reflecting both the cushioning effect of subsidies and the persistence of underlying cost pressures.

THANK YOU