

Malaysia Consumer Price Index

December inflation surprises at 1.6%, the highest in almost a year

- **Headline inflation rose to 1.6% YoY in December (Nov: 1.4%), exceeding both our forecast and market consensus of 1.4%**

- For 2025, inflation averaged 1.4% YoY (2024: 1.8%; KIBB: 1.4%), well below its 10-year average of 1.8%, reflecting softer housing (1.6%; 2024: 3.0%), transport (0.5%; 2024: 0.9%), and communication (-4.2%; 2024: -1.5%).
- **Core inflation** edged up to a 26-month high of 2.3% in December (Nov: 2.2%), driven mainly by base effects. The full-year core rate rose to 2.0% from 1.8% in 2024.
- **4Q25** inflation increased marginally to 1.4% (3Q25: 1.3%), largely due to higher prices for alcohol and tobacco.
- **On a monthly basis**, headline CPI rose by 0.3% (Nov: 0.0%), the fastest pace in ten months, as food prices accelerated.

- **Higher CPI reflects increases in food, electricity and transport**

- **Food and Beverages** (1.5%; Nov: 1.5%): unchanged from November due to base effects. On a monthly basis, prices rose 0.4% (Nov: 0.0%), the strongest increase since October 2024, driven by a surge in food-at-home costs at 0.9% (Nov: 0.1%). Fish, eggs and vegetables led the rise amid seasonal holiday demand.
- **Housing, Water, Electricity, Gas and Other Fuels** (0.9%; Nov: 0.7%): climbed to a two-month high. Prices rebounded by 0.2% MoM (Nov: -0.1%), reflecting a 2.5% increase in electricity bills as automatic fuel adjustment rebates declined
- **Transport** (0.1%; Nov: 0.2%): eased due to base effects but rose 0.2% MoM, led by a sharp increase in international airfares of 15.9% following a contraction in November (-3.2%), reflecting year-end travel demand.

- **Mixed inflation signals across major economies**

- **US** (2.7%; Nov: 2.7%): held steady, in line with expectations, while core stabilised at 2.6%, below consensus. Food prices remained benign, suggesting tariffs have had a more muted inflationary impact than feared. Data quality concerns linked to the government shutdown may reinforce the Fed's cautious stance, with rates likely unchanged at the next meeting.
- **EU** (1.9%; Nov: 2.1%): fell to a seven-month low, though services inflation remained sticky. Core inflation eased to 2.3% (Nov: 2.4%), reinforcing expectations that the ECB will hold rates, with the next move more likely to be a hike than a cut.
- **China** (0.8%; Nov: 0.7%): rose to the highest since February 2023, driven by higher vegetable prices amid supply shortages. Core inflation stayed at 1.2% for a third consecutive month. Despite the pickup, inflation remains well below the official target of around 2.0%, pointing to the need for additional stimulus in 2026 to revive demand.

- **Energy subsidies and imported disinflation to cap inflation below 2.0% in 2026 (1.9%; 2025: 1.4%), despite rising risks**

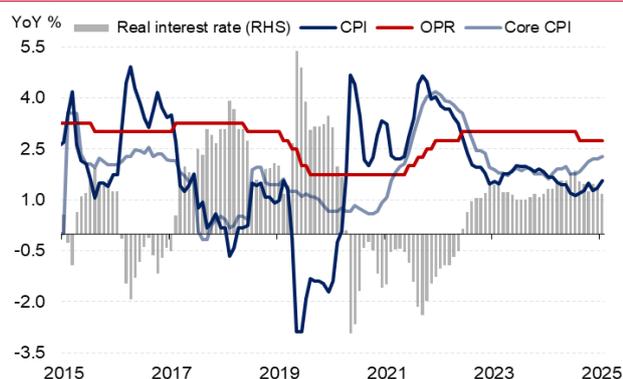
- Inflation risks tilt modestly to the upside into 2026. Firms outside targeted subsidy schemes face higher operating costs, while the increase in the SST rate raises the likelihood of gradual second-round effects. The planned introduction of a multi-tier levy for migrant workers this year may add further cost pressures in labour-intensive sectors. Rising geopolitical tensions also pose upside risks to prices. Taken together, these factors could lift average inflation to around 1.9% in 2026 (2025: 1.4%), with core inflation edging up to 2.2% (2025: 2.0%). Offsetting these pressures, continued energy subsidies under Budi95 and imported disinflation from a stronger ringgit should keep inflation below its 30-year average of 2.3%.
- **Policy outlook:** Despite the upside surprise in December inflation and stronger-than-expected 4Q25 advance GDP growth of 5.7%, we expect BNM to keep the OPR unchanged at 2.75%. External conditions remain fragile and geopolitical risks elevated. With growth likely to moderate to around 4.5% in 2026, the current policy stance remains accommodative, supporting domestic activity, anchors inflation expectations, and preserves room to respond to adverse shocks.

Table 1: Global Inflation (% YoY)

	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25
US	2.7	2.9	3.0	N/A	2.7	2.7
EU	2.0	2.1	2.2	2.1	2.1	1.9
UK	3.8	3.8	3.8	3.6	3.2	N/A
Japan	3.1	2.7	2.9	3.0	2.9	N/A
S. Korea	2.1	1.7	2.1	2.4	2.4	2.3
Singapore	0.6	0.5	0.7	1.2	1.2	N/A
China	0.0	-0.4	-0.3	0.2	0.7	0.8
Indonesia	2.4	2.3	2.7	2.9	2.7	2.9
Thailand	-0.7	-0.8	-0.7	-0.8	-0.5	-0.3

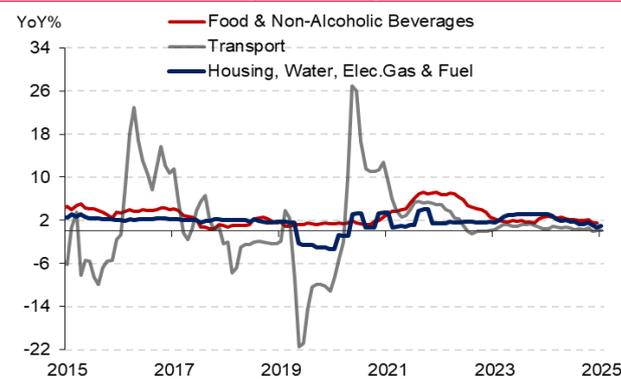
Source: Bloomberg, Kenanga Research

Graph 1: Real Interest Rate, Inflation Rates and OPR



Source: Macrobond, Kenanga Research

Graph 2: CPI Growth by Main Categories



Source: Macrobond, Kenanga Research

20 January 2026

Table 2: Malaysia Consumer Price Index Growth Trend (% YoY)

Base 2010=100	weight	2023	2024	2025	Dec -24	Jul -25	Aug -25	Sep -25	Oct -25	Nov -25	Dec -25
CPI	100.0	2.5	1.8	1.4	1.7	1.2	1.3	1.5	1.3	1.4	1.6
Core Inflation		3.0	1.8	2.0	1.6	1.8	2.0	2.1	2.2	2.2	2.3
Food & Beverages	29.8	4.8	2.0	2.0	2.7	1.9	2.0	2.1	1.5	1.5	1.5
Alcoholic Beverages & Tobacco	1.9	0.7	0.7	0.9	0.8	0.6	0.4	0.3	0.3	2.4	2.5
Clothing & Footwear	2.7	0.2	-0.3	-0.2	-0.5	-0.2	-0.1	-0.2	-0.3	-0.1	0.1
Housing, Water, Electricity, Gas & Other Fuels	23.2	1.7	3.0	1.6	3.2	1.3	1.2	1.5	1.1	0.7	0.9
Furnishing, Household Equipment & Routine Household Maintenance	4.3	2.3	0.7	0.2	0.4	0.1	0.2	0.2	0.3	0.2	0.3
Health	2.7	2.1	1.8	1.2	1.1	1.2	1.1	1.3	1.5	1.5	1.5
Transport	11.3	1.1	0.9	0.5	0.4	0.4	0.2	0.7	-0.1	0.2	0.1
Information & Communication	6.6	-2.9	-1.5	-4.2	-5.4	-6.4	-5.6	-4.5	-2.4	-1.3	0.9
Recreation, Sport & Culture	3.0	1.5	1.8	1.1	1.7	0.8	0.9	0.9	1.2	1.2	0.8
Education	1.3	1.9	1.5	2.3	1.5	2.2	2.4	2.4	2.4	2.6	2.8
Restaurants & Accommodation Services	3.4	5.5	3.1	3.2	2.9	3.1	3.5	3.3	3.4	3.4	3.1
Insurance, Financial Services, Miscellaneous Goods & Services	9.8	2.5	3.0	4.4	3.2	3.9	4.0	4.8	6.0	5.6	5.7

Source: Macrobond, Kenanga Research

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Published by:

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