Producer Price Index (Aug-26)

Hits 50-month high as oil shock bites; the peak is still ahead

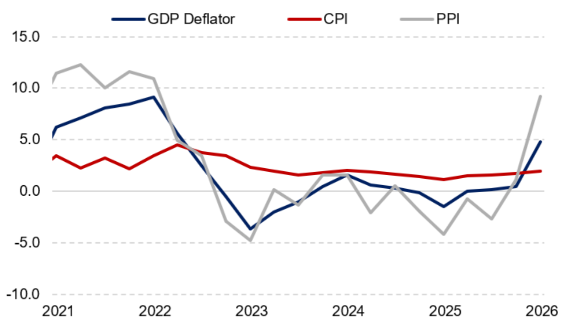
- **Malaysia's Producer Price Index (PPI) rose further to 10.7% in August (Jul: 9.7%), a 50-month high**
  - Sharp price increases in the mining sector and persistent pressure in manufacturing outweighed slower increases in agriculture, forestry and fishing, and in electricity, gas and water supply.
  - On a month-on-month basis, prices rose 1.0% (Jul: 0.7%), a sign that near-term momentum is building.
- **Mining led the rise, with manufacturing adding further pressure**
  - **Mining (41.2%; Jul: 30.5%)**: Prices jumped with MoM rebounding to 6.7% (Jul: 1.1%). Higher prices for crude petroleum extraction (49.8%; Jul: 39.6%) and natural gas (14.7%; Jul: 2.9%) drove the gain. This largely reflects elevated global energy prices amid ongoing tensions between the US and Iran.
  - **Manufacturing (8.8%; Jul: 8.2%)**: Pressure persisted, led by faster price gains in coke and refined petroleum products (33.5%; Jul: 30.4%) and computer, electronic and optical products (12.4%; Jul: 10.5%). However, MoM growth eased to 0.4% (Jul: 0.8%).
  - **Agriculture, Forestry & Fishing (4.6%; Jul: 7.2%)**: Moderated mainly on slower price growth in perennial crops (1.9%; Jul: 6.2%). However, MoM prices rose 0.8% (Jul: 0.7%), pointing to a modest price pick up in the near-term momentum.
- **Producer inflation increased across the production pipeline**
  - **Crude Materials for Further Processing (24.8%; Jul: 24.1%):** Edged up, supported by firmer crude fuel prices (46.5%; Jul: 41.8%)
  - **Intermediate Materials, Supplies & Components (9.6%; Jul: 8.4%)**: Kept rising, driven mainly by processed fuel and lubricants (20.0%; Jul: 13.8%) and manufacturing industries (14.8%; Jul: 12.9%),
  - **Finished Goods (3.1%; Jul: 2.5%)**: Gained momentum, driven mainly by higher capital equipment prices (4.3%; Jul: 3.4%)
- **Producer price inflation increased across major economies**
  - **US (5.4%; Jul: 4.8%):** Rose on higher goods prices, alongside rising airline fares and hospital service costs,
  - **Korea (7.9%; Jul: 7.7%)**: Rose on higher agricultural goods prices as heatwave disrupted supply.
  - **China (3.8%; Jul: 3.5%)**: Edged up on higher energy prices.
- **We keep our 2026 PPI forecast at 6.4% (2025: -2.0%) and expect pressures to ease after October**
  - We expect producer prices to peak in October, then ease towards year-end, assuming energy markets stabilise and ringgit holds steady. That said, renewed Middle East tensions and disruptions in the Strait of Hormuz have pushed crude above USD100 per barrel. A prolonged supply shock could spill over into transport, food and manufacturing costs, and is the key upside risk to our view. El Niño could also disrupt farm output and add to price pressures. On the other hand, any easing in geopolitical tensions would help cap prices.
  - Domestic inflation remains broadly anchored, supported by targeted subsidies. This underpins our revised 2026 CPI forecast of 1.9% (previous: 2.1%; 2025: 1.4%). However, higher energy and freight cost should gradually pass through to logistics, supply chains and food production cost in the coming months. So far, however, subsidies continue to absorb part of the cost, limiting the pass through impact on consumers, as reflected in the modest price increase of finished consumer goods (+1.5%) in spite of the sharp increase in refined petroleum producer prices (+33.5%).

Table 1: Global Producer Price Index (% YoY)

	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26
Japan	3.0	5.5	6.8	7.4	7.7	7.6
Korea	4.1	7.2	8.6	8.5	7.7	7.9
Germany	-0.2	1.7	2.2	1.8	3	4.6
Indonesia	2.3	3.8	5.8	6.5	5.7	6.2
USA	4.3	5.7	5.9	5.6	4.8	5.4
China	0.5	2.8	3.9	4.1	3.5	3.8

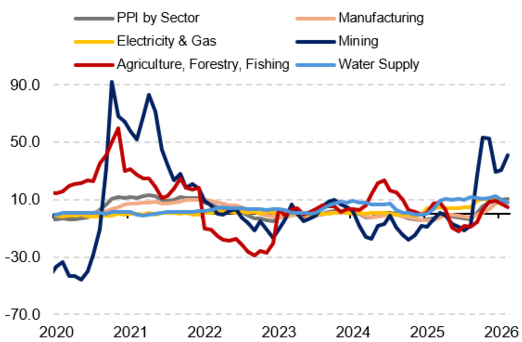
Source: Bloomberg, Kenanga Research

Graph 1: CPI, PPI and GDP Deflator



Source: Macrobond, Kenanga Research

Graph 2: PPI Growth by Sector



Source: Macrobond, Kenanga Research

Table 2: Malaysia Producer Price Index by Sector and Stage of Processing (% YoY)

Base 2010=100	*weight*	2023	2024	2025	Aug -25	Mar -26	Apr -26	May -26	Jun -26	Jul -26	Aug -26
PPI by Sector	**100.0**	**-1.9**	**0.3**	**-2.0**	**-2.8**	**1.1**	**5.4**	**7.8**	**9.2**	**9.7**	10.7
Manufacturing	81.6	-0.2	-0.3	-2.1	-4.0	-0.8	1.1	3.5	7.2	8.2	8.8
Electricity & Gas Supply	3.4	0.4	0.6	1.9	4.1	9.6	10.6	10.0	10.2	6.7	6.4
Mining	7.9	-5.9	-2	-8.2	-3.4	26.5	53.4	52.6	29.0	30.5	41.2
Agriculture, Forestry, Fishing	6.7	-13.8	7.9	3.2	7.3	-5.6	2.7	8.9	9.1	7.2	4.6
Water Supply	0.3	2.4	6.5	4.7	3.4	11.3	10.8	11.2	12.7	10.2	7.8
PPI by Stage of Processing	100.0	-1.9	0.3	-2.0	-2.8	1.1	5.4	7.8	9.2	9.7	10.7
Finished Goods	27.5	3.1	1.9	-1.2	-3.4	-0.1	0.7	1.7	2.0	2.5	3.1
Intermediate Materials, Supplies & Components	56.1	-1.2	-0.5	-1.8	-3.1	-1.3	0.8	3.0	7.4	8.4	9.6
Crude Materials for Further Processing	16.4	-9.6	0.7	-3.7	-0.8	9.8	26.1	31.5	25.0	24.1	24.8

Source: Macrobond, DOSM, Kenanga Research

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

Nurul Hanees Hairulkama
Economist
nurulhanees@kenanga.com.my

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my