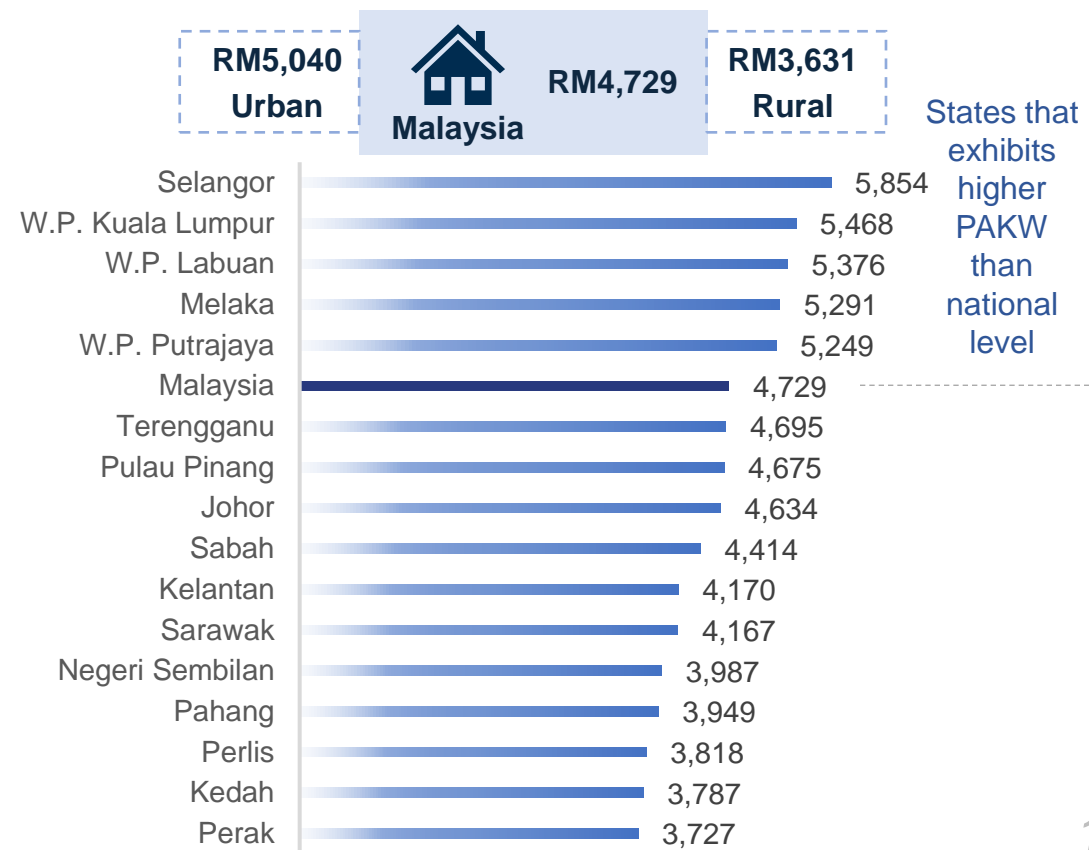


Understanding Malaysia's Inflation and Cost of Living: A Q&A Analysis

This insight explores the growing disconnect between Malaysia's inflation rate and the rising cost of living. While official inflation figures remain relatively stable, many Malaysians continue to struggle with affordability challenges. Hence, we break down the key drivers behind these issues and outline potential policy responses to ease financial burdens.

- Inflation vs. cost of living:** Inflation, measured by the Consumer Price Index (CPI), tracks price increases broadly but does not fully capture actual household financial pressures, regional disparities, or lifestyle-related expenses.
- Inflation trends:** Malaysia's inflation has remained within 2–3% in recent years, but external shocks, fiscal policies, and monetary decisions significantly influence price movements and household costs.
- Regional cost of living differences:** Urban areas like KL have higher costs due to expensive housing and services, while rural areas face lower prices but fewer economic opportunities, creating disparities in affordability.
- Income and cost of living dynamics:** Higher wages in cities do not always offset rising living costs, while rural households with lower incomes are more vulnerable to even small price increases, reinforcing regional economic inequality.

Basic Expenditure of Decent Living (PAKW) for households in Malaysia in 2023



Sources: DOSM

What's the difference between inflation and cost of living?



Inflation

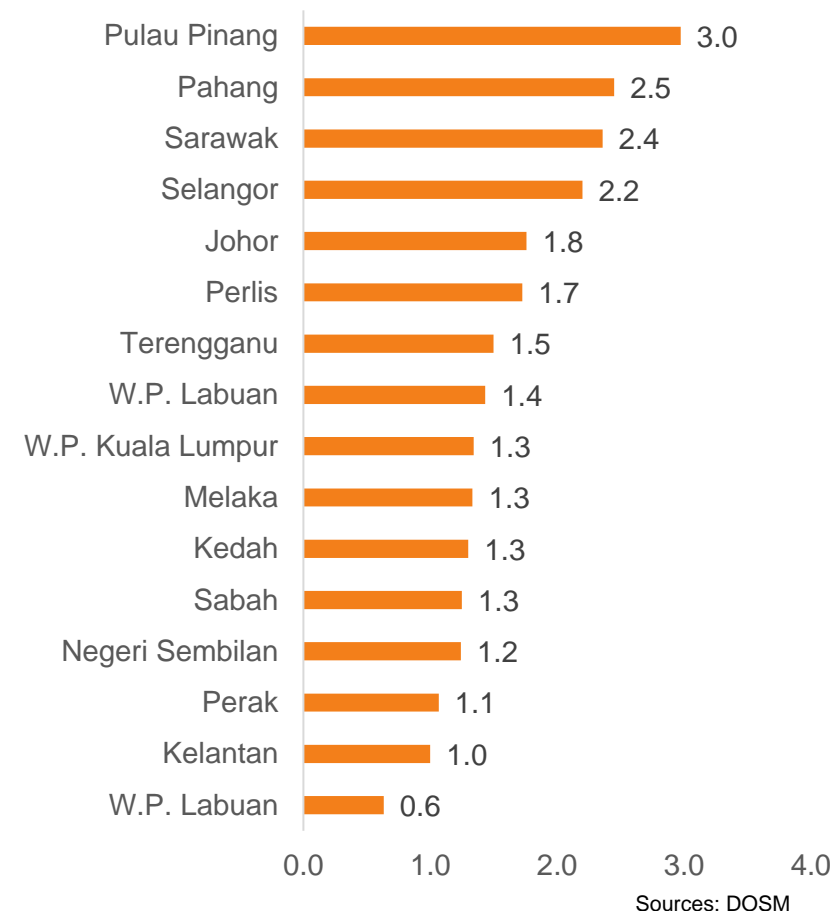
Inflation refers to the **overall rise in the prices of goods and services** over time, typically measured by the Consumer Price Index (CPI). The CPI tracks price changes based on a fixed "basket" of goods and services that represent the average household's consumption patterns, offering a broad gauge of inflation trends. However, while this approach provides a useful macroeconomic indicator, it has limitations in reflecting the actual financial pressures households face, as it may not fully capture regional price differences, shifts in consumer behavior, or the true cost of maintaining a particular standard of living.



Cost of living

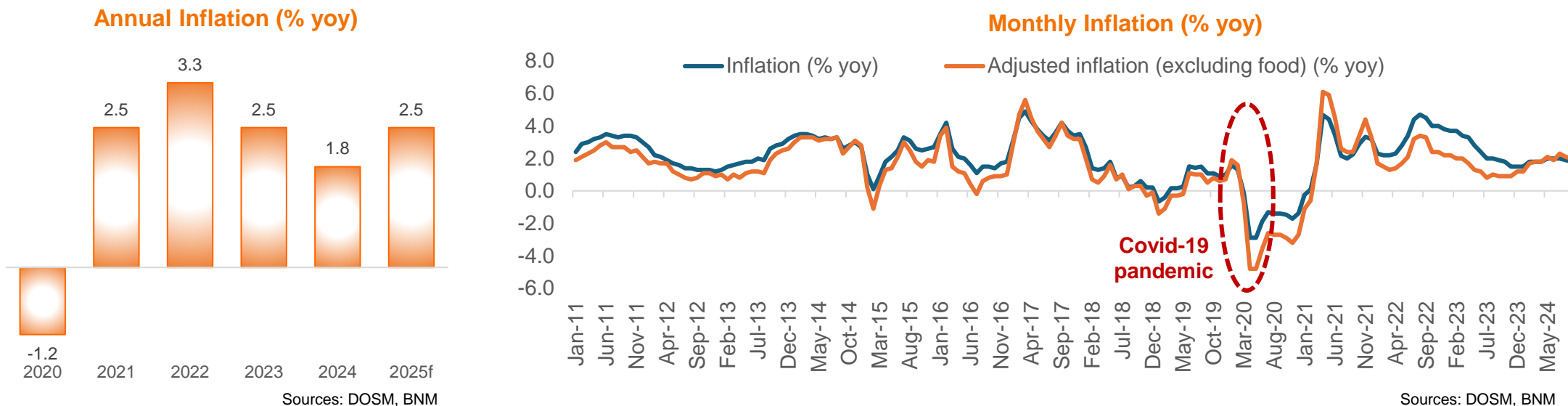
The cost of living extends beyond the CPI by **capturing the actual expenses households face to maintain their standard of living**, including factors the CPI may overlook. Regional housing market differences, such as higher rents in KL compared to rural areas, significantly impact costs. Additional household costs—including childcare, utilities, taxes, and insurance—further shape financial burdens. Lifestyle choices and consumption patterns influence spending, as preferences for premium goods or services create varying cost pressures. Moreover, non-monetary factors like commute times, environmental quality, and public safety indirectly raise living expenses by necessitating higher transportation or private service costs.

Inflation by state, 2024 (% yoy)



"The information provided in this article is for general informational purposes only. While we strive to provide accurate and up-to-date information, we make no representations or warranties of any kind, express or implied, about the completeness, accuracy, reliability, suitability, or availability of the information contained herein. Any reliance you place on such information is therefore strictly at your own risk. In no event will we be liable for any loss or damage arising from the use of this article or the information presented within."

How has inflation been trending over the past few years?



Over the last decade, Malaysia’s headline inflation has been relatively contained, with annual rates typically hovering between 2–3%. However, the picture becomes more nuanced when we look at core inflation—which excludes volatile items such as food and fuel—and analyze its trends over time. External shocks, such as global supply chain disruptions and shifts in commodity prices, have periodically pushed inflation higher, even if temporarily. Additionally, domestic factors like changes in fiscal policy, wage adjustments, and monetary decisions by BNM play significant roles in shaping inflation trends.

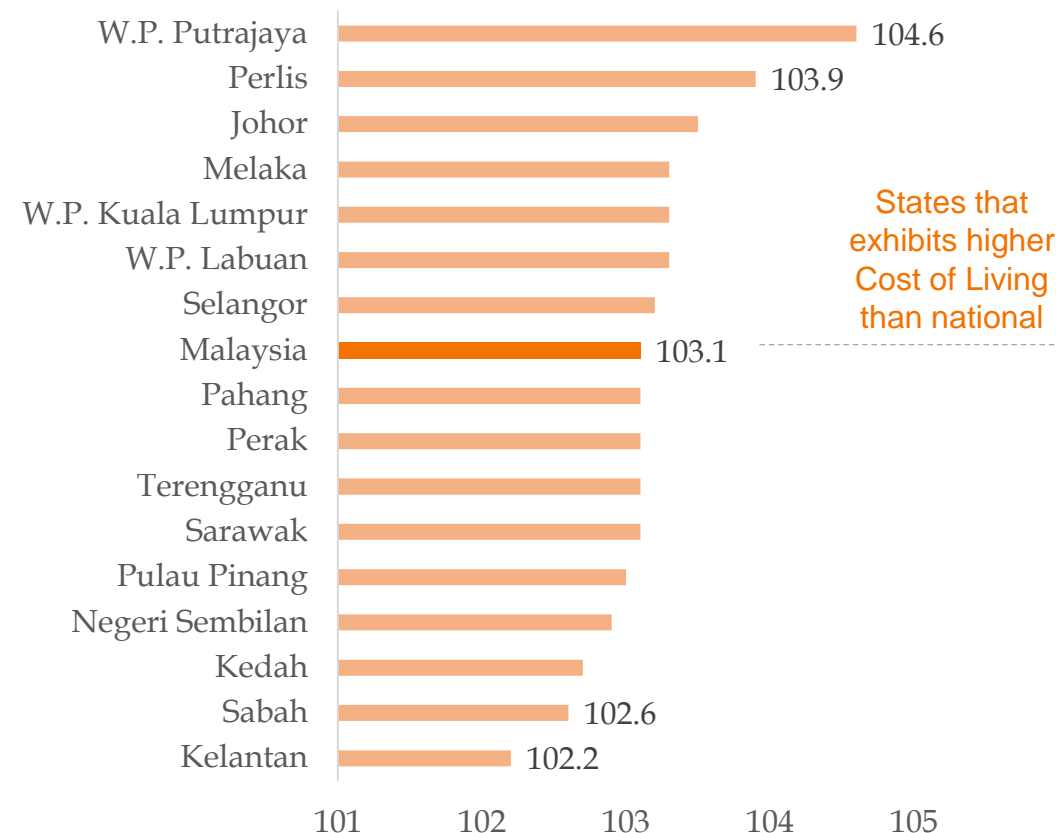
For example, during the COVID-19 pandemic, supply constraints and altered consumption patterns led to atypical price movements, and while inflation eventually stabilized, the recovery period showed some persistent upward pressure on prices. This underscores the importance of distinguishing between headline figures and the underlying trends that affect everyday expenses.

Why does the cost of living vary from state to state?

Regional variations in Malaysia’s cost of living are driven by structural economic factors, urbanization, and local market conditions. Major urban centers like Kuala Lumpur face higher living costs due to strong demand for housing, transportation, and modern amenities. Although the cities offer greater job opportunities and access to premium services, they come with higher property prices, expensive rentals, and rising utility costs.

In contrast, smaller towns and rural areas may enjoy lower nominal housing prices but often struggle with limited access to high-paying jobs, fewer public transport options, and longer commutes that add hidden expenses. Beyond direct price differences, broader socioeconomic factors—such as population density, industrial development, and local wage levels—further shape the cost of living. For instance, a higher Cost of Living Index (KSH) in urban areas reflects not only the immediate expenses but also the lifestyle adjustments required to maintain a certain standard of living. Similarly, the Basic Expenditure of Decent Living (PAKW) provides a realistic benchmark for household financial pressures by accounting for varying consumption needs and local conditions. Ultimately, assessing affordability in Malaysia demands a holistic approach that considers both income levels and expenditure patterns, rather than relying solely on headline inflation figures.

DOSM Cost of Living Index 2023



Sources: DOSM

How do income levels in different states influence the cost of living?

Thresholds of Monthly Household Disposable Income by Household Group and Strata, Malaysia, 2022

Strata	Income Thresholds (RM)		
	Bottom 40%	Middle 40%	Top 20%
Malaysia	< 4,500	4,500 - 9,919	≥ 9,920
Urban	< 5,110	5,110 - 10,709	≥ 10,710
Rural	< 3,100	3,100 - 6,209	≥ 6,210

Sources: Household Income and Expenditure Survey 2022, DOSM

Income levels are both a driver and a consequence of regional cost differences. In urban centers, higher wages can sometimes offset the higher cost of living, but they do not always keep pace with rapidly rising expenses. Consequently, even well-paid urban workers may struggle with housing affordability and other cost pressures. Meanwhile, in many rural areas, lower average incomes mean that even modest price increases can significantly affect household budgets.

This dynamic creates a complex picture of economic well-being. In some cases, higher incomes in cities lead to increased spending and a higher demand for premium services, which in turn drives up prices. Conversely, in rural areas, while the cost of basic necessities might be lower, limited income growth and fewer job opportunities mean that residents are more vulnerable to even small increases in costs. This interplay between income and expenses often contributes to regional inequality.

Thresholds of Monthly Household Disposable Income by Household Group and State, Malaysia, 2022

State	Income Thresholds (RM)		
	Bottom 40%	Middle 40%	Top 20%
Malaysia	< 4,500	4,500 - 9,919	≥ 9,920
Johor	< 4,880	4,880 - 10,159	≥ 10,160
Kedah	< 3,250	3,250 - 6,479	≥ 6,480
Kelantan	< 2,670	2,670 - 5,759	≥ 5,760
Melaka	< 4,550	4,550 - 9,739	≥ 9,740
Negeri Sembilan	< 3,740	3,740 - 7,979	≥ 7,980
Pahang	< 3,720	3,720 - 6,889	≥ 6,890
Pulau Pinang	< 4,740	4,740 - 9,479	≥ 9,480
Perak	< 3,240	3,240 - 6,749	≥ 6,750
Perlis	< 3,780	3,780 - 7,229	≥ 7,230
Selangor	< 7,010	7,010 - 12,889	≥ 12,890
Terengganu	< 4,650	4,650 - 8,279	≥ 8,280
Sabah	< 3,350	3,350 - 7,389	≥ 7,390
Sarawak	< 3,580	3,580 - 7,979	≥ 7,980
W.P. Kuala Lumpur	< 7,130	7,130 - 13,349	≥ 13,350
W.P. Labuan	< 4,810	4,810 - 8,749	≥ 8,750
W.P. Putrajaya	< 7,960	7,960 - 15,049	≥ 15,050

Sources: Household Income and Expenditure Survey 2022, DOSM

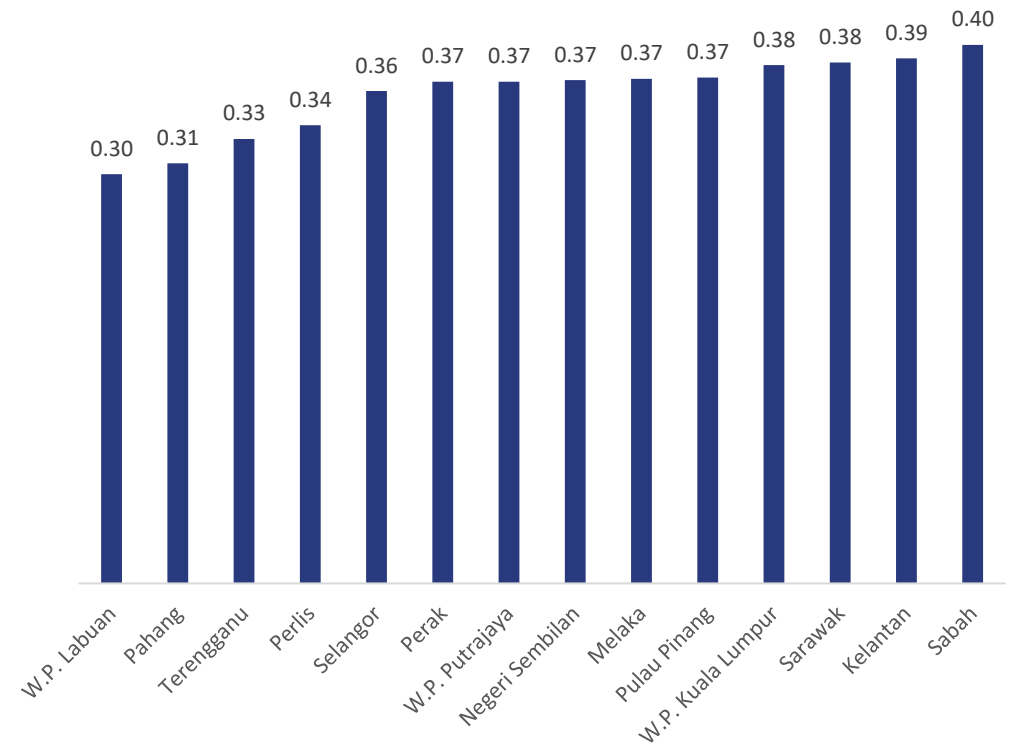
What are the main challenges Malaysians face due to the rising cost of living and what can be done to alleviate the burden?

The rising cost of living presents a multifaceted challenge for many Malaysians. For low- and middle-income households, increased prices for food, housing, transportation, and education directly affect daily life. Even as overall inflation figures might appear manageable, these households often experience sharper price increases in the items that make up the bulk of their expenditures. This pressures are not just financial, but also carries social and psychological implications. Many Malaysians feel that despite stable economic growth, their standard of living has not kept pace with their aspirations. This disconnect fuels public discontent, especially among younger generations who face uncertainty in achieving milestones such as home ownership and quality education for their children.

Policy recommendation:

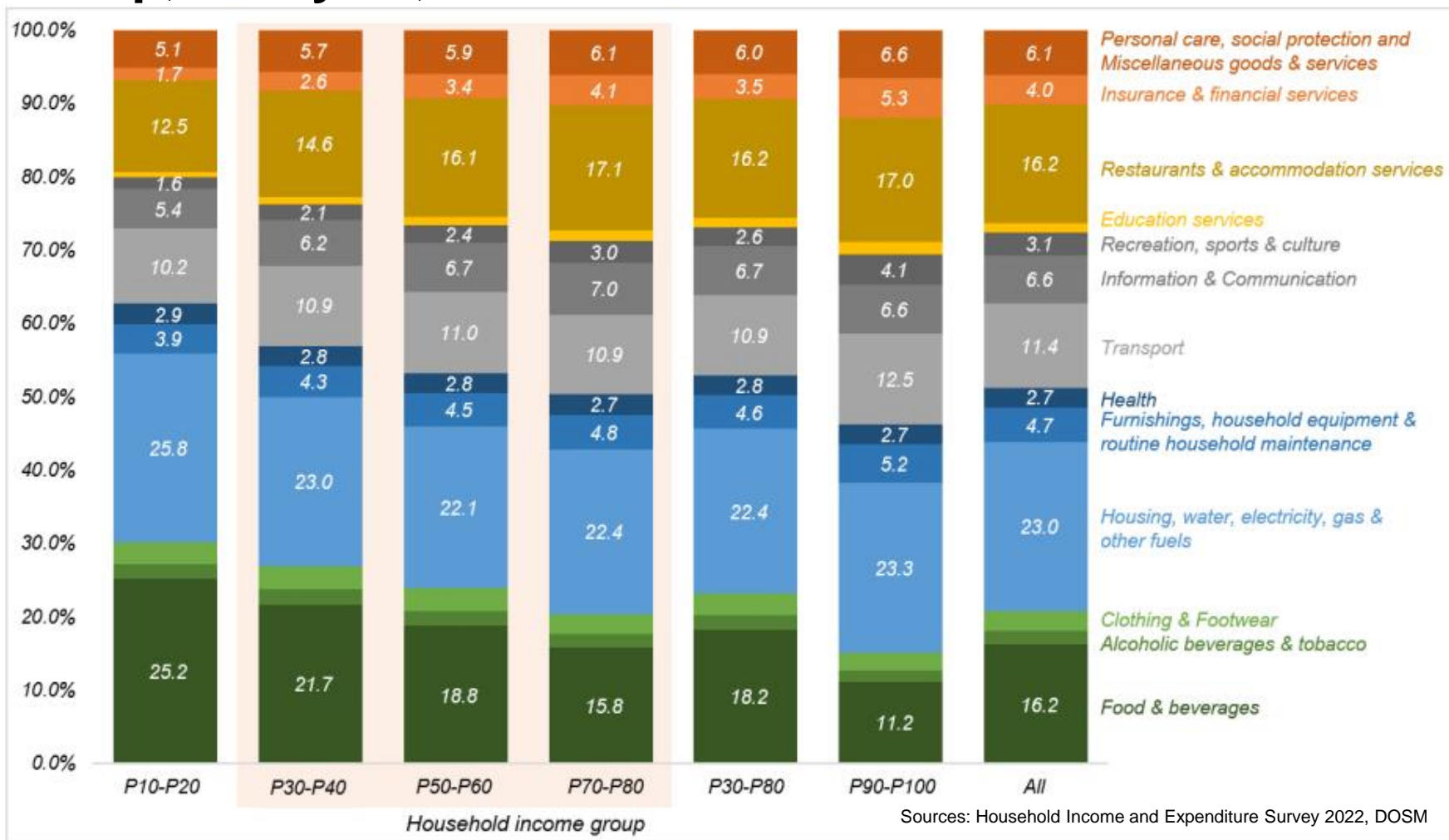
To alleviate these pressures, policymakers could implement targeted interventions. Measures such as cash assistance programs or wage growth initiatives are critical to keep pace with rising living costs. Additionally, improving access to affordable financing and encouraging savings can help build financial resilience among lower-income households. Such policy steps are crucial for reducing economic inequality and ensuring that the benefits of growth are more evenly distributed.

Gini coefficient by state, 2022



Sources: Cost of Living Indicators, 2023, DOSM

Annex - Composition of Household Consumption Expenditure by Expenditure Group, Malaysia, 2022



Sources: Household Income and Expenditure Survey 2022, DOSM

Dr Mohd Afzanizam Abdul Rashid – Chief Economist
Raja Zarina Raja Mohammad - Economist

7 FEBRUARY 2025