

# Beyond the Headline: Inflation through the Eyes of Households

## Introduction

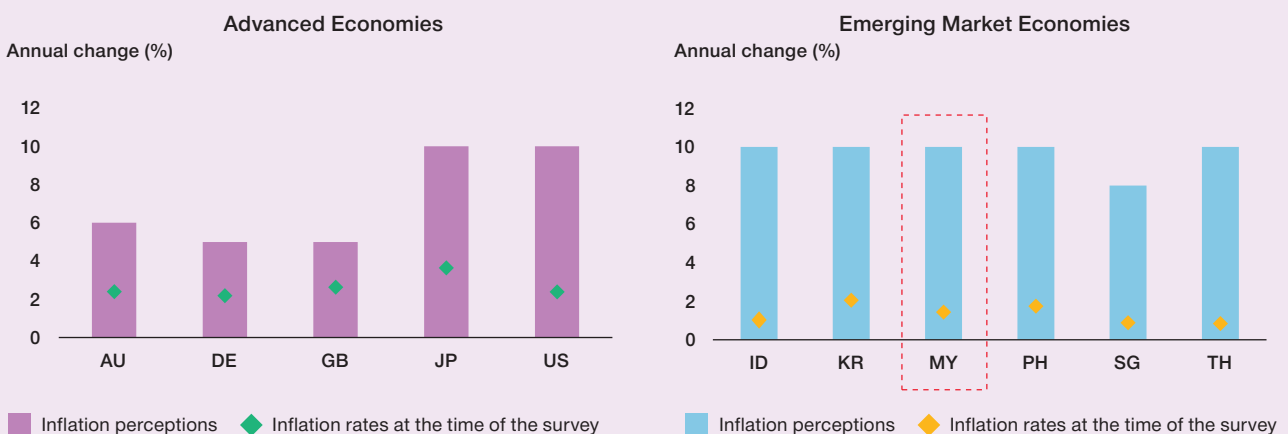
Inflation in Malaysia has eased to its lowest level in five years. In 2025, headline inflation, measured as the year-on-year growth in the Consumer Price Index (CPI), averaged 1.4%.<sup>1</sup> But, high cost of living remains a major concern for many households. This partly reflects how inflation is measured in official statistics compared with people’s day-to-day experiences. In this article, we explore why this experience can feel different from the headline inflation figures – a pattern seen in Malaysia and many other countries around the world.

## It is natural for inflation to be viewed in a way that reflects people’s own experiences or opinions

Media headlines and everyday conversations about prices tend to draw on people’s own experiences, especially when it comes to familiar vegetables like *sawi* or everyday meals such as *nasi lemak* and *roti canai*. These day-to-day observations naturally shape how many Malaysians perceive inflation.

Evidence from around the world, including Malaysia, shows that people often perceive inflation to be higher than what official figures report. This is especially the case after periods of sharp price increases, such as those that followed the COVID-19 pandemic (Chart 1) (Weber et al. (2021); Anesti et al. (2024)). This is understandable, as households feel the price changes directly in their daily spending.

**Chart 1: Household Inflation Perceptions\* Are Elevated Above Prevailing Inflation Rates**



\* Household inflation perceptions typically refer to how households perceive the magnitude of past price changes. In contrast, inflation expectations refer to the magnitude of future price changes expected by households (European Central Bank Economic Bulletin, 2021).

Note: AU = Australia, DE = Germany, GB = Great Britain, JP = Japan, US = United States, ID = Indonesia, KR = Korea, MY = Malaysia, PH = Philippines, SG = Singapore, TH = Thailand

Source: Adapted from ‘A global survey of household perceptions and expectations’ (Bank for International Settlements (BIS), 2025). The BIS conducted a cross-country survey in March–April 2025 examining households’ inflation perceptions and expectations, finding that households in all surveyed economies consistently perceived inflation over the past 12 months to be higher than official published rates

<sup>1</sup> Inflation is measured by the Consumer Price Index (CPI), which is published by Department of Statistics, Malaysia (DOSM) monthly. For further information, please refer to the white box article on ‘Inflation, the Cost of Living and the Living Wage’ in BNM’s Annual Report 2018.

Households tend to form their views on inflation and price changes in two main ways.

First, **households’ impressions of prices are largely influenced by the items they buy frequently**, such as staple food and beverages. This tendency, also known as frequency bias, means that regularly bought items weigh more heavily on their perception of inflation. To better reflect this experience, economists use indicators such as the **Everyday Price Index (EPI)**, which assigns greater weight to frequently purchased items in the CPI. By emphasising these regular purchases, the EPI captures price changes that more closely mirror households’ day-to-day experiences.

Second, **households’ perceptions are also shaped by how price changes are remembered**. Price increases tend to leave a stronger and more lasting impression than price declines, even when both occur. This behavioural pattern, known as memory bias, is captured in the **Perceived Price Index (PePI)**. The PePI is similar to the EPI but includes only items that have recorded price increases, while excluding those that have fallen in price.<sup>2</sup> As a result, the PePI often shows a higher rate of inflation than both the CPI and the EPI, reflecting the stronger impression that price hikes leave on households.

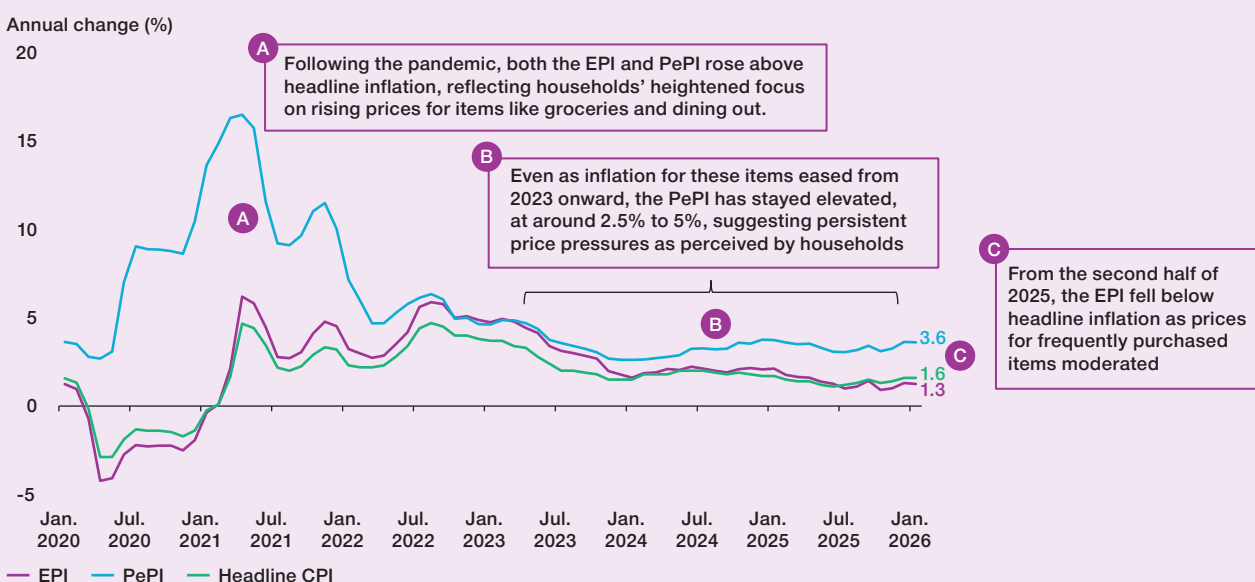
Recent trends in the data illustrate this clearly. Prices of everyday items such as fresh food, petrol and utilities have eased, helped by softer global commodity prices and recent policy reforms (Table 1).<sup>3</sup> As a result, the EPI has fallen below headline inflation. Even so, the PePI has stayed high (Chart 2). This suggests that many households still feel inflation is elevated because earlier price increases continued to stand out more than the more recent price declines.

**Table 1: Price Movements for Selected Items (2025 vs. 2024)**

Price increases	Price declines	Prices stable (mainly price-administered items)
<ul style="list-style-type: none"> <li>Eating out: 4.1% (2024: 3.6%)</li> <li>Water bills: 5.5% (2024: 28%)</li> <li>Rent: 2.0% (2024: 1.7%)</li> </ul>	<ul style="list-style-type: none"> <li>Vegetables: -4.4% (2024: 2.5%)</li> <li>Electricity: -3.4% (2024: 1.6%)</li> <li>Petrol: -0.9% (2024: -0.2%)</li> </ul>	<ul style="list-style-type: none"> <li>Toll facilities</li> <li>Government hospital fees</li> </ul>

Source: Department of Statistics, Malaysia

**Chart 2: Malaysia’s CPI, EPI and PePI**



Note: EPI and PePI are constructed by Bank Negara Malaysia using DOSM price data.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

<sup>2</sup> For more information, please refer to the box article ‘Inflation: Perception vs. Reality’ in BNM’s First Quarter of 2017 Quarterly Bulletin.  
<sup>3</sup> For example, policies include fuel subsidy rationalisation under BUDI95 and electricity tariff revision.

## So why do we still rely on the CPI?

The CPI is designed to measure overall inflation across the entire economy. It is built on a broad and representative basket of goods and services that reflects the spending patterns of the average household. To capture this full picture, the CPI includes not only everyday essentials but also items that are purchased less frequently, such as computers and household appliances.

Because of this wider coverage, and its consistent methodology across countries, the CPI provides the most complete and internationally comparable measure of inflation. This is why it remains the primary indicator used to assess inflation trends and guide policy decisions.

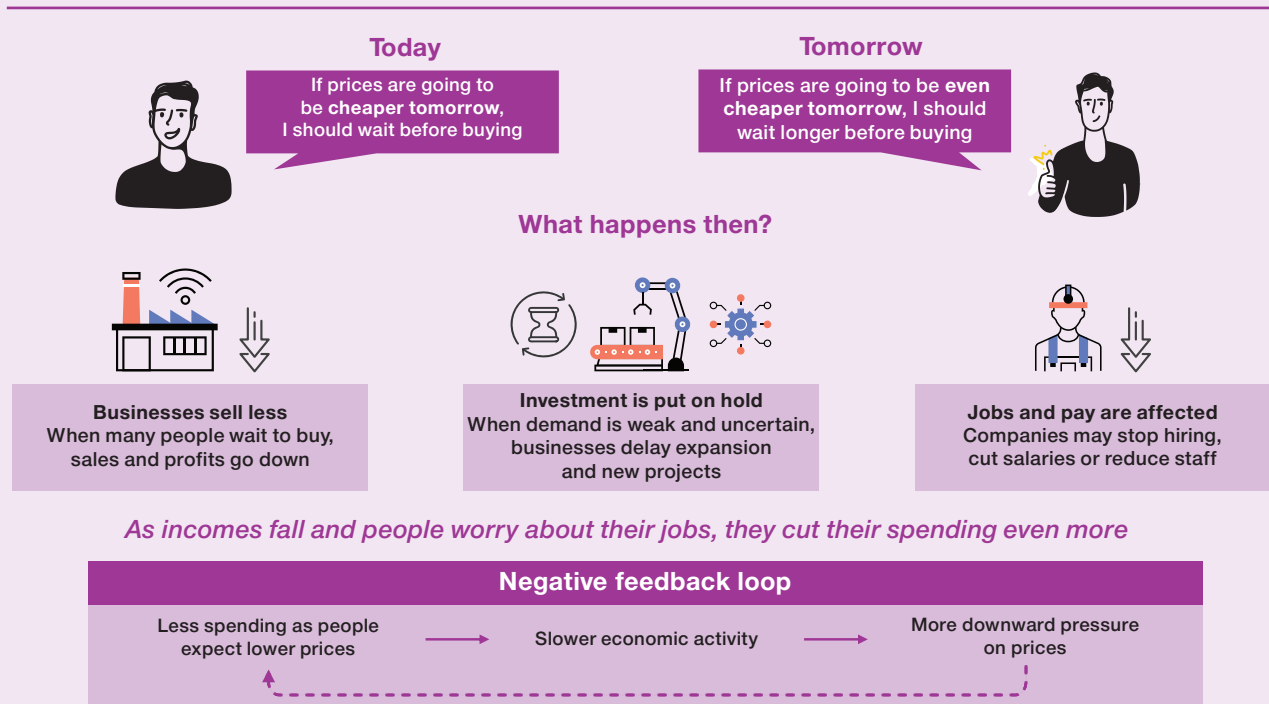
At the same time, to gain a more holistic understanding of inflation as felt by households, some economists also examine the EPI and PePI. Each of these indicators highlights a different angle of how people experience price changes in their daily lives. Taken together, the CPI, EPI and PePI provide a deeper and more nuanced picture – balancing lived experience with the broader economic perspective.

## Inflation measures price growth, not price levels

Inflation measures how **fast** prices are rising, not how high prices already are. Many people think about inflation by comparing today’s prices with what they were before, sometimes from years ago. When everyday expenses feel high, it is natural to wish that prices could return to those earlier, more familiar levels. These past price points often serve as a reference for how households assess whether their purchasing power has improved or weakened.

But for *prices to fall back* to earlier levels would mean deflation. While deflation may sound appealing at first, especially when living costs feel high, it can create deeper problems in the economy. If people expect prices to keep falling, they may delay spending in the hope of getting a better deal later. When this behaviour becomes widespread, it can weaken demand, reduce business revenues, and lead to job losses and delayed investment, setting off a cycle of weaker economic activity (Diagram 1).

Diagram 1: When Falling Prices Create Bigger Problems



Source: Bank Negara Malaysia

## PROMOTING MONETARY STABILITY

Prices play an important role in the economy. They signal changes in supply and demand to enable a more efficient allocation of resources. In some cases, price increases are a natural and necessary part of this process. For example, when the demand for a product is more than available supply, prices may rise until they reach a point where buyers' willingness to pay matches what sellers are willing to provide. This was seen during the COVID-19 pandemic when global demand for rubber gloves far exceeded available supply, causing average selling prices to more than double. In other cases, price changes could partly reflect better quality or features – for example, getting a phone with a better camera or longer battery life. In these situations, people may be paying more not just because of higher costs, but because they are receiving a better product in return.

For some essential goods, the Government may step in and sometimes cap prices through subsidies or price controls to ease short-term price pressures. However, such measures are costly for the Government. In addition, if such caps stay in place for too long, they can also distort supply and demand. For instance, in the case of price controls, producers may struggle to stay profitable when the cost of producing a product rises above its fixed selling price. In turn, they may cut back on production, or focus production towards exports markets offering higher prices, leading to supply shortages – commonly known as the 'empty shelves phenomenon'.

### Purchasing power depends on prices, as well as wages

As the central bank, one of Bank Negara Malaysia's (BNM) key objectives is to ensure low and stable inflation. This is important as stable and predictable prices allow households and businesses to better plan their spending, saving and investment decisions. In turn, this helps to support economic activity and growth.

Preserving households' purchasing power, however, depends not only on prices, but also on incomes. Namely, when price increases are slow and predictable, households can maintain their purchasing power as long as wages rise alongside prices. In such conditions, steady inflation allows incomes time to adjust, helping households cope with higher prices and plan their spending with greater confidence.

Recent developments in Malaysia help illustrate this dynamic. In 2025, overall prices increased by 1.4% while nominal wages per worker grew by 1.7%,<sup>4</sup> bolstered by policy support and firm economic activity. However, a closer look at how wage and price levels have evolved since before the pandemic shows why many households still feel the strain. From 2019 to 2024, the headline CPI increased by 9.3%, while nominal wages per worker grew by just 7.2%. In other words, this means that the average person must work more hours to afford the same basket of goods. This is clearly illustrated in the case of food: as food prices rose faster than wages in recent years, households must now work longer just to meet their usual food expenses (Chart 3).

**Chart 3: Working Hours Needed to Afford Monthly Food Expenditure\***



\* Based on gross median income and average spending on food, with the assumption of nine working hours/day and five working days/week.

Source: Bank Negara Malaysia estimates using data from Household Income and Expenditure Surveys 2019 and 2024, Department of Statistics, Malaysia

<sup>4</sup> Nominal wages per worker refers to the wages of workers in the private-sector manufacturing and services industries.

Recent income measures, such as revisions to the minimum wage,<sup>5</sup> have helped to ease the burden of more than five million workers in Malaysia. Over the longer term, however, deeper structural reforms are needed to address the root causes of subdued wage growth in Malaysia.

First, there is a need to create more high-skilled and high-paying jobs. In 2025, high-skilled jobs made up only 26% of new positions, lower than the 5-year (2020–24) average of 30%. This decline reflects Malaysia's slow transition from low to high value-added industries, muted adoption of technology and low research and development (R&D) investment. To address these gaps, reforms that promote industrial upgrading and support firms' transition into more complex, high-value production are essential. In this vein, initiatives such as the National Industrial Masterplan (NIMP2030) and the National Investment Aspirations (NIA) aim to attract higher quality investments, promote technology-intensive production and generate more high-skilled jobs.

At the same time, supply-side reforms are equally important to ensure the workforce can meet rising skill demands. Persistent skills mismatches and limited support for upskilling and reskilling continue to limit workers' access to better-paying opportunities. Elevating education and training systems, deepening industry linkages and expanding opportunities for lifelong learning will be critical.

Overall, a comprehensive reform agenda is needed to address persistent gaps in the labour market, raise productivity and create more opportunities for better-paying jobs.<sup>6</sup> Without addressing these underlying conditions, wage growth could continue to lag price increases, leading to an erosion in living standards over the long term.<sup>7</sup>

## Conclusion: Perceptions and Policy

At the end of the day, inflation is not just about numbers. Household experiences shape perceptions and expectations of inflation, influencing key economic decisions such as consumption, savings and wage expectations. These, in turn, impact firms' price-setting behaviour and create broader ripple effects on the economy. When expectations of high inflation become widespread, they can also influence inflation itself. In extreme cases, if people expect prices to rise faster than usual, their behaviour can end up keeping inflation high for longer and affect a wider range of goods and services.<sup>8</sup>

In pursuit of low and stable inflation, BNM's main tool is monetary policy. When inflation is high, BNM adjusts monetary policy to manage overall demand in the economy, slowing the pace of price increases. The aim is to ensure low and stable inflation, rather than an environment of deflation, which could harm the economy. However, monetary policy alone cannot fully preserve purchasing power, as households' wellbeing is also shaped by wage growth, productivity and broader cost of living trends.

Even with moderate inflation, many households continue to grapple with higher living costs amid slow wage growth. To secure better living standards and strengthen purchasing power, income growth needs to outpace increases in prices. When expenses rise faster than incomes, even small price increases can feel significant to households, shaping how affordable things seem and how they view the broader economy.

Ultimately, strengthening households' purchasing power requires a holistic and coordinated policy strategy. This entails complementing monetary policy with targeted fiscal support for vulnerable groups and implementing structural reforms that boost incomes and productivity. By tackling both price and wage dynamics, policymakers can safeguard purchasing power and support sustainable economic growth over the long term.

<sup>5</sup> In 2025, Malaysia's minimum wage was raised to RM1,700 from RM1,500.

<sup>6</sup> At this juncture, ongoing efforts by the Government to strengthen education and skills development include reforms to technical and vocational education (TVET) and expanded industry-linked training initiatives.

<sup>7</sup> For more information on policies addressing labour market challenges and wage growth, please refer to the box article 'Sustaining the Engine: The Evolving Drivers behind Malaysia's Private Consumption Growth' in BNM's Economic and Monetary Review 2025 and the feature article 'Curbing Inflation, Easing Costs: The Policy Perspective' in BNM's Annual Report 2024.

<sup>8</sup> During the post-pandemic reopening of the economy, many people expected prices to rise faster than usual given the environment of pent-up demand and supply disruptions. In turn, as costs rose, businesses were able to increase prices more easily without losing customers, contributing to broad-based inflation which peaked at 4.7% in August 2022.

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