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Consumer Spending and Investment Behaviour under Persistent Inflation in Malaysia: Implications for Household Financial Security and SME Business Strategy: An Integrative Literature Review

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Abstract

Persistent, moderate inflation has reshaped how Malaysian households divide income between present consumption and investment. This paper applies an integrative review methodology, combining government statistics, institutional reports, consumer sentiment surveys, and peer-reviewed studies, to synthesise the relationship between inflation, consumer spending, and household investment behaviour in Malaysia between 2023 and 2026, and its implications for small and medium enterprises (SMEs). The review evaluates the strength of this heterogeneous evidence and analyses it through a constant-comparative process to build conceptual understanding rather than restate individual findings. Findings show that Malaysian headline inflation has remained comparatively low by regional standards (1.4 – 2.5 percent annually), yet consumer anxiety about the cost of living and financial security has strengthened. Households have trimmed discretionary spending, increased precautionary saving, and relied more heavily on the Employees Provident Fund as a retirement anchor, even as household debt remains high relative to GDP. These shifts are uneven across income groups, with the B40 and, increasingly, the M40 segment most vulnerable. For SMEs, cautious demand combined with rising costs has compressed margins and altered pricing and retention strategies. The review integrates these findings into a conceptual framework and synthesis matrix, and identifies gaps for future research.

Keywords: *Inflation; Consumer Spending; Household Saving; SME Strategy; Malaysia*

1. Introduction

Inflation is rarely, in the Malaysian context, an extreme macroeconomic shock in the manner experienced by some emerging markets; rather, it is a persistent, moderate pressure that erodes purchasing power gradually while reshaping how households think about their financial future. Malaysia's headline inflation rate stood at 2.49 percent in 2023 and eased to 1.83 percent in 2024, before edging up again through 2025 and into 2026, with monthly readings reaching 1.9–2.0 percent by mid-2026 (Department of Statistics Malaysia [DOSM], 2026; Trading Economics, 2026a). By regional standards this is a mild trajectory,

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yet survey evidence consistently shows that Malaysian consumers report elevated financial anxiety, with a majority citing rising living costs and inflation as their foremost financial concern (UOB, 2024). This gap between moderate headline inflation and heightened household anxiety is the empirical puzzle this review seeks to address.

The problem is not simply how much prices have risen, but how sustained price pressure interacts with two distinct household decisions: how much to spend today, and how much to set aside or invest for a more secure future. These decisions do not move in lockstep. Evidence reviewed below suggests that Malaysian households have simultaneously cut discretionary spending and increased precautionary saving, while structural indicators such as household debt-to-GDP ratios and retirement savings adequacy remain a source of concern (Ab Kadir et al., 2025; Malay Mail, 2025). This combination of behaviours has direct consequences for businesses, and particularly for small and medium enterprises (SMEs), which form the backbone of the Malaysian economy, accounting for approximately 97 percent of business establishments and close to 39 percent of GDP (Information Management and Business Review, 2025).

This review addresses a specific problem: how does sustained, moderate inflation in Malaysia shape the balance between consumer spending and household investment behaviour, and what does the resulting shift in demand and financial caution mean for SMEs navigating the same inflationary environment? A substantial body of Malaysian literature exists on inflation and consumer spending, and a separate body exists on household saving and retirement adequacy, yet these two literatures, together with the SME-facing implications of both, are rarely drawn together within a single, methodologically explicit synthesis. This paper responds to that gap.

An integrative review design, rather than a narrative or systematic review, was selected deliberately for this task. Narrative reviews typically summarise a body of literature without a structured process for evaluating or reconciling evidence of different types, while systematic reviews are best suited to a narrow question answerable from a homogeneous set of empirical studies. The inflation–spending–investment–SME nexus in Malaysia, by contrast, is documented across markedly heterogeneous sources official statistics, institutional and central bank reports, large commercial sentiment surveys, and peer-reviewed empirical studies using varied designs and sample sizes. Whittemore and Knafl (2005) and Torraco (2005) identify precisely this combination of a broad, applied question and methodologically diverse evidence as the condition under which an integrative review is the most appropriate design, since it permits the simultaneous inclusion, critical evaluation, and synthesis of quantitative, qualitative, and theoretical sources into a single, more complete conceptual account.

This paper is structured as an integrative literature review rather than a primary empirical study. It synthesises secondary sources government statistics, central bank and financial institution reports, consumer sentiment surveys, and peer-reviewed journal articles published between 2023 and 2026 to build a coherent, evidence-graded account of the inflation–spending–investment nexus in Malaysia and its business implications. The remainder of the paper is structured as follows: Section 2 sets out the integrative review methodology, including problem identification, literature search, data evaluation, and data analysis procedures; Section 3 presents the thematic literature review across five areas; Section 4 reports the integrative data synthesis, including a synthesis matrix; Section 5 presents the resulting conceptual framework; Section 6 discusses the implications, tensions, and limitations of the current evidence base; and Section 7 concludes with directions for future research.

2. Methodology: Integrative Review Design

This paper follows the integrative review methodology set out by Whittemore and Knafl (2005), which comprises five iterative stages problem identification, literature search, data evaluation, data analysis, and presentation adapted here to a conceptual/review format.

2.1 Problem Identification

The review question was defined as: how does sustained, moderate inflation shape the balance between Malaysian household consumption and investment behaviour, and what are the consequent implications for SME business strategy? This question was deliberately framed broadly enough to require evidence from macroeconomic, household-finance, and business-strategy literatures, which is the condition under which an integrative design, rather than a narrower systematic review, is methodologically appropriate.

2.2 Literature Search

Sources were identified through targeted searches of government statistical portals (DOSM, BNM), institutional reports (EPF/KWSP, OECD, ASEAN, IMF), reputable financial and business news outlets (Bernama, The Star, Malay Mail, Trading Economics), and peer-reviewed journal databases (including IJRISS, JEEIR, ASSRJ, and Information Management and Business Review), covering material published between January 2023 and mid-2026. Search terms combined “inflation”, “consumer spending”, “household saving/investment”, “household debt”, “B40/M40/T20”, and “SME” with “Malaysia”.

2.3 Data Evaluation

Consistent with the data-evaluation stage of an integrative review, each source was appraised for credibility and fit before inclusion, using three criteria: (a) whether the source reported primary data or survey findings on Malaysian consumer or household financial behaviour, household debt, or SME performance; (b) whether it was published or updated within the 2023–2026 window; and (c) whether it was traceable to an identifiable government agency, financial institution, or peer-reviewed journal. Purely opinion-based commentary without underlying data, and sources predating 2023 unless providing essential definitional or theoretical background, were excluded. Because the included evidence spans markedly different methodological traditions census-scale government statistics, commercial sentiment surveys of several thousand respondents, peer-reviewed studies with sample sizes in the low hundreds, and descriptive industry commentary each source is characterised in Section 4 by its evidence type as part of the synthesis, rather than treated as methodologically equivalent. Where a specific statistic was central to the argument (for example, the inflation rate or the household debt-to-GDP ratio), it was cross-checked against at least one independent source. Given the conceptual nature of the paper, no formal PRISMA-style systematic screening protocol was applied; this is a recognised and appropriate departure for integrative, as opposed to systematic,

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reviews, whose purpose is broad synthesis rather than exhaustive, replicable retrieval.

2.4 Data Analysis

Data analysis followed a constant-comparison approach, in which findings from each source were first grouped into descriptive codes (for example, "discretionary spending cuts", "precautionary saving", "EPF adequacy", "B40 vulnerability", "SME margin compression"), then iteratively compared across sources and collapsed into the five broader thematic categories presented in Section 3. Once organised thematically, the categories were compared against one another rather than only within themselves to identify cross-cutting patterns; this cross-theme comparison, reported in Section 4 as three generalised statements and a synthesis matrix, is the step that distinguishes an integrative synthesis from a theme-by-theme narrative summary.

2.5 Presentation

Findings are presented in three complementary forms consistent with integrative review convention: a thematic narrative synthesis (Section 3); a cross-theme synthesis matrix and generalised statements (Section 4); and a conceptual framework diagram (Section 5) that translates the synthesised findings into a model of how inflation perception transmits through household behaviour to SME outcomes.

3. Literature Review

This section reviews the literature thematically across five areas: (i) Malaysia's inflation trajectory from 2023 to 2026; (ii) inflation and consumer spending behaviour; (iii) inflation, household debt, and investment/saving behaviour; (iv) income-group disparities, with particular attention to the B40, M40, and T20 classifications; and (v) the implications of these consumer-side shift for SMEs and business strategy. Each theme draws on multiple, methodologically distinct evidence types, which are evaluated collectively in Section 4.

3.1 Malaysia's Inflation Trajectory, 2023–2026

Official statistics place Malaysia's annual inflation rate at 2.49 percent in 2023, declining to 1.83 percent in 2024 and to 1.4 percent in 2025, with the Consumer Price Index rising from an index value of 132.8 to 134.6 over that final year (DOSM, 2026). The 2025 increase was driven primarily by housing, water, electricity, gas and other fuels (1.6 percent), insurance and financial services (3.4 percent), restaurants and accommodation services (3.2 percent), and education (2.3 percent), while categories such as information and communication recorded outright price declines (DOSM, 2026). State-level data further show that Johor, Selangor, Negeri Sembilan, and Melaka experienced above-average inflation in 2025, indicating that inflationary pressure is not uniform across the country (DOSM, 2026).

Moving into 2026, monthly data indicate a renewed acceleration, with annual inflation reaching 1.9 percent in April 2026 and 2.0 percent in May 2026 the highest readings since mid-2024 driven by transport, financial services, and personal care categories, even as core inflation (which excludes volatile fresh food and administered prices) remained comparatively stable at around 2.0 percent (Trading Economics, 2026a). Bank Negara Malaysia has held its Overnight Policy Rate steady through this period (at 2.75 – 3.00 percent across 2025–2026 policy meetings), citing contained inflation expectations and resilient domestic demand as justification (Trading Economics, 2026b). The OECD similarly projected inflation would remain moderate through 2024–2025 following the withdrawal of some fuel subsidies, even as buoyant domestic demand and subsidy rationalisation created upside risk (OECD, 2024). This body of official and institutional evidence methodologically the most robust of the sources reviewed, being census-based and administratively verified positions Malaysia's inflation experience as structurally moderate but persistently present, punctuated by category-specific spikes (financial services, transport, education) that fall disproportionately on cost-of-living-sensitive categories.

3.2 Inflation and Consumer Spending Behaviour

Survey-based evidence provides a more granular picture of how Malaysian consumers have responded to this inflationary backdrop than aggregate spending figures alone. The ASEAN Consumer Sentiment Study 2024, a large-scale commercial survey, found that three in five Malaysians reduced spending on non-essential items, more than half actively sought discounts or promotional offers, and over a third reduced utility consumption in response to inflation (UOB, 2024). The same study found that 85 percent of respondents expressed concern about their finances and 70 percent believed a recession was likely within six to twelve months both figures above the regional ASEAN average despite the Malaysian economy having grown by 5.9 percent in the second quarter of 2024 (UOB, 2024). This divergence between macroeconomic performance and household sentiment is a recurring theme across the sentiment-survey evidence base.

A large-scale online consumer survey covering close to 20,000 respondents similarly found that essential categories, led by food and beverages, dominated household budgets, while economic uncertainty ranked as consumers' top overall concern (Vodus, 2024). An earlier survey conducted in early 2023 found that 68 percent of respondents had begun checking prices more carefully before purchasing, and 53 percent reported cutting back on non-essential spending because of inflation (Rakuten Insight, as cited in Statista, 2023). Complementing these commercial survey findings, macro-level analysis by the ASEAN+3 Macroeconomic Research Office noted that robust private consumption supported by labour market recovery, the drawdown of pandemic-era excess savings, and government cash transfers kept core and services inflation persistently sticky through 2023 and into 2024, illustrating that consumer demand and inflation exist in a two-way, mutually reinforcing relationship rather than a simple cause-and-effect chain (AMRO, 2024). Peer-reviewed evidence using Malaysian time-series data, the methodologically most rigorous source in this theme, similarly confirms a significant relationship between disposable income and consumer spending, consistent with the Keynesian absolute income hypothesis, while interest rates show a significant negative relationship with spending, and inflation itself shows only an insignificant direct effect on aggregate spending once these other variables are controlled for (Nizam et al., 2024).

Collectively, this literature indicates a pattern of defensive but not collapsing consumption: Malaysian households have not withdrawn from spending altogether, but they have become markedly more price-sensitive, more selective about discretionary categories, and more anxious about the trajectory of living costs than aggregate inflation figures alone would suggest. Notably, the peer-reviewed time-series evidence and the commercial sentiment surveys point in different directions on the direct role of inflation

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itself a tension that data evaluation makes visible and that is returned to in Section 4.

3.3 Inflation, Household Debt, and Investment/Saving Behaviour

Parallel to changes in spending, the literature documents a shift toward precautionary saving alongside continued high household indebtedness. A structured survey of 385 households in Peninsular Malaysia, grounded in the Life-Cycle Hypothesis, found that perceived inflation pressure has a significant positive effect on saving behaviour, suggesting that as households perceive prices rising, they increase precautionary savings rather than only cutting consumption; perceived income adequacy and perceived government policy effectiveness were similarly positively associated with saving behaviour (Musaddad et al., 2026). This finding is consistent with a broader behavioural-economics reading of household finance, in which inflation functions less as a pure price signal and more as a trigger for anxiety-driven financial caution.

At the same time, structural indicators of retirement readiness remain concerning. As of October 2024, only 36 percent of active EPF members met the existing Basic Savings threshold, and survey evidence indicates that around 70 percent of Malaysians saved less than RM500 per month, or did not save at all, in 2023 (Ab Kadir et al., 2025). In response, the EPF revised its retirement benchmark upward through a new three-tier Retirement Income Adequacy (RIA) framework, recommending Basic Savings of RM390,000 by age 55 by 2028, up from the previous RM240,000 benchmark, explicitly citing the need to account for inflation and rising living costs (EPF, 2024). Notably, EPF's own investment performance has remained resilient over this period: the fund recorded RM82.7 billion in distributable income for 2025 (up 9.5 percent from RM75.5 billion in 2024), with total investment assets reaching RM1.41 trillion, driven substantially by equities (EPF, 2026). Read together, this administrative and institutional evidence suggests that while institutional retirement savings vehicles have continued to generate real returns, individual household-level saving adequacy has not kept pace with rising cost-of-living benchmarks.

Household debt provides a further layer of nuance. Malaysia's household debt-to-GDP ratio stood at approximately 84 percent as of early-to-mid 2025 (RM1.65 trillion), among the highest in the ASEAN region, though the Ministry of Finance emphasised that household financial assets remained roughly 2.1 times larger than household debt, providing a buffer (Malay Mail, 2025; Sarawak Tribune, 2025). Housing loans account for the majority of this debt (around 58 – 61 percent), followed by vehicle and personal financing (Sarawak Tribune, 2025). A separate peer-reviewed study of debt management practices among Malaysian youth found that financial literacy, peer influence, attitude toward debt, and income level significantly predict debt management behaviour, while spending habits alone did not show a significant relationship pointing to financial literacy, rather than spending discipline in isolation, as a key lever for improving household financial resilience (Liew et al., 2025). A related survey of young adults at a Malaysian public university similarly found that macro-level indicators such as interest rate and GDP had weak, statistically insignificant relationships with debt management, whereas individual behaviours comparing loan options and actively managing existing loans were more meaningfully associated with lower debt burdens, reinforcing the view that personal financial literacy and behaviour, rather than macroeconomic conditions alone, drive debt management outcomes (Mokhtar et al., 2026). The introduction of the Consumer Credit Act 2025 reflects a policy response aimed at strengthening consumer protection and encouraging borrowing for productive purposes such as education and business investment rather than short-term consumption (Sarawak Tribune, 2025).

3.4 Income-Group Disparities and the "Squeezed Middle": B40, M40, T20

The inflation–spending–investment relationship is not experienced uniformly across Malaysian households. Average monthly household income reached RM9,155 in 2024, with median disposable income rising to RM5,999 (DOSM, as cited in Jobstreet, 2026; Asia News Network, 2025). However, economists caution that these headline gains overstate real improvements in purchasing power once cost-of-living increases are accounted for, since essentials such as food, transport, housing, and utilities continue to absorb a disproportionate share of income for B40 and M40 households (Asia News Network, 2025).

Evidence on B40 households (the bottom 40 percent by income, broadly under RM5,249 per month) shows that this group spends approximately RM0.80 of every additional RM1 earned, meaning expenditure tracks income almost one-to-one and leaves minimal buffer against price shocks (Household Financial Strain in Malaysia, 2025). A related study applying Engel's Curve theory to over 14,000 Malaysian households, including more than 6,700 B40 households, found that the proportion of income spent on necessities falls as household income rises, underscoring the disproportionate exposure of lower-income households to inflation in essential categories (as cited in Household Financial Strain in Malaysia, 2025).

Perhaps most notable is emerging evidence that the M40 group (households earning roughly RM5,250 – RM11,819 per month), traditionally regarded as financially stable, is increasingly vulnerable. Bank Negara Malaysia data identify the middle-income group as the most indebted segment in terms of debt-to-income ratio, particularly through mortgages and vehicle financing (BNM, as cited in Mat Nawi et al., 2025). A recent conceptual study frames this "shrinking middle" phenomenon through a combined household finance and behavioural economics lens, arguing that M40 vulnerability reflects a structural imbalance between rising liabilities and stagnant financial buffers rather than simply poor financial choices, and noting that real median income growth has not kept pace with inflation in essential categories such as food, transport, housing, healthcare, and education (Mat Nawi et al., 2025). Complementing this, analysis of Malaysia's middle class found that M40 households are frequently caught between supporting extended family members in the B40 group and maintaining their own rising cost obligations, a dynamic that further strains their capacity to save or invest for the future (Penang Institute, 2026).

3.5 Implications for SMEs and Business Strategy

SMEs sit at the intersection of these consumer-side shifts. Malaysian MSMEs account for approximately 97 percent of all business establishments and contributed 39.1 percent to GDP in 2023 (Information Management and Business Review, 2025), making consumer demand patterns directly consequential for the broader economy. Industry commentary for 2024–2025 describes a "double whammy" for SMEs: rising operational and compliance costs, tight cash flow, and margin compression from inflation on

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the cost side, combined with slower payment cycles and more cautious consumer demand on the revenue side (The Star, 2026). The president of the Small and Medium Enterprises Association (SAMENTA) similarly noted that while SME performance strengthened overall through 2025 as inflation moderated and consumer demand firmed in retail, food and beverage, and logistics sub-sectors, this recovery remained uneven, with micro and small businesses especially outside major urban centres continuing to face tighter margins and slower digital adoption (Bernama, 2026).

Regional policy analysis reinforces this picture, noting that supply chain disruption, inflation, and rising interest rates have collectively tested the resilience of SME support systems across ASEAN, prompting governments including Malaysia's to expand targeted financing and guarantee schemes such as the RM5 billion SME Stabilisation Relief Facility and enhanced Credit Guarantee Corporation schemes (ASEAN, 2024; as cited in Press.com.my, 2026). These measures reflect a policy recognition that SMEs cannot simply pass rising costs on to increasingly price-sensitive consumers without risking demand loss, forcing many businesses toward more deliberate pricing, product-mix, and customer-retention strategies rather than blanket price increases. This SME-facing evidence base is also the least methodologically developed of the five themes, relying predominantly on descriptive industry and policy commentary rather than peer-reviewed empirical study an evidence gap made explicit through the data-evaluation stage of this integrative review and discussed further in Section 6.

4. Integrative Data Synthesis

Consistent with the data-analysis stage of an integrative review, the five thematic strands reviewed in Section 3 were compared against one another using a constant-comparative process, rather than summarised independently. This cross-theme comparison, together with an explicit accounting of the type and relative strength of evidence underlying each theme, produced the synthesis matrix in Table 1 and the three generalised statements that follow.

Table 1. Synthesis Matrix: Themes, Evidence Type, and Integrative Contribution

Theme	Representative Sources	Predominant Evidence Type	Integrative Contribution
Inflation trajectory (2023–2026)	DOSM (2026); Trading Economics (2026a, 2026b); OECD (2024)	Administrative / official statistics	Establishes that inflation is structurally moderate but category-specific, anchoring the puzzle the review addresses
Consumer spending behaviour	UOB (2024); Vodus (2024); Statista (2023); AMRO (2024); Nizam et al. (2024)	Commercial sentiment surveys; one peer-reviewed time-series study	Shows defensive but not collapsing consumption; reveals a tension between survey-reported anxiety and econometric evidence of only indirect inflation effects
Household debt and saving/investment	Musaddad et al. (2026); Ab Kadir et al. (2025); EPF (2024, 2026); Malay Mail (2025); Liew et al. (2025); Mokhtar et al. (2026)	Peer-reviewed surveys; institutional/administrative reports	Demonstrates that saving intention is rising but structurally outpaced by debt and retirement-adequacy shortfalls
Income-group disparities (B40/M40/T20)	Household Financial Strain in Malaysia (2025); Mat Nawi et al. (2025); Penang Institute (2026); Asia News Network (2025)	Peer-reviewed and applied econometric studies; policy-institute analysis	Disaggregates the above themes, showing uneven exposure and identifying the M40 as an emerging “squeezed middle”
SME implications and business strategy	The Star (2026); Bernama (2026); ASEAN (2024); Information Management and Business Review (2025)	Descriptive industry and policy commentary	Links household-side caution to business-side margin compression; identified as the thinnest, least peer-reviewed evidence base

Three cross-cutting, integrative statements can be generalised from this comparison.

Statement 1: Inflation operates substantially through perception, not only through the arithmetic of price change.

Malaysia's inflation experience since 2023 has been structurally moderate in aggregate terms but psychologically significant at the household level. Headline inflation of 1.4 – 2.5 percent is modest by historical and regional comparison, yet consumer sentiment data consistently show disproportionately high anxiety about finances

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and the cost of living, with a majority of respondents across multiple independent surveys reporting active behavioural adjustments price-checking, discount-seeking, and discretionary spending cuts (UOB, 2024; Vodus, 2024; Rakuten Insight, as cited in Statista, 2023). Placed alongside the peer-reviewed econometric finding that inflation shows only an insignificant direct effect on aggregate spending once income and interest rates are controlled for (Nizam et al., 2024), the integrative comparison across evidence types rather than either source read alone is what surfaces this perception-versus-arithmetic tension as the review's central empirical puzzle.

Statement 2: Saving intention and actual financial resilience are diverging, and the gap is unevenly distributed.

Households report both cutting discretionary spending and increasing precautionary saving (Musaddad et al., 2026), yet structural indicators a household debt-to-GDP ratio near 84 percent, only around one-third of active EPF members meeting minimum retirement savings benchmarks, and a majority of Malaysians saving under RM500 per month suggest that the intention to save for a better future is frequently outpaced by the reality of debt servicing and stagnant real income growth (Ab Kadir et al., 2025; Malay Mail, 2025). This gap is most acute for B40 households, whose expenditure-to-income ratio leaves almost no financial buffer, and increasingly for M40 households, who are being reframed in recent literature as a financially vulnerable "squeezed middle" rather than a stable middle class (Household Financial Strain in Malaysia, 2025; Mat Nawi et al., 2025).

Statement 3: Household-level financial caution transmits directly into SME cost and demand pressure, and policy is beginning to treat the two as linked.

As consumers become more selective and price-sensitive, and as SMEs simultaneously face their own rising input, compliance, and financing costs, the result is margin compression that cannot easily be resolved through price increases alone, given demand sensitivity among the same inflation-anxious consumer base (The Star, 2026; Bernama, 2026). Government and institutional responses from the EPF's revised retirement adequacy framework to targeted SME financing facilities and the Consumer Credit Act 2025 indicate that policymakers increasingly recognise inflation's dual household-and-business transmission channel, rather than treating consumer financial behaviour and SME performance as separate policy domains (EPF, 2024; Sarawak Tribune, 2025; ASEAN, 2024).

5. Conceptual Framework

The three generalised statements in Section 4 are integrated here into a single conceptual framework, presented in Table 2 as a sequential model. The framework proposes that moderate, category-specific inflation is filtered through household perception before it produces behavioural responses; that these responses are moderated by income group and by pre-existing structural constraints (debt, retirement adequacy); and that the resulting shift in consumer demand transmits onward into SME cost and revenue pressure, which in turn feeds back into policy responses aimed at both households and businesses.

Table 2. Sequential Conceptual Framework: From Inflation to Business Adaptation

Stage	Mechanism	Supporting Theme(s)
1. Price pressure	Moderate, category-specific inflation (housing, financial services, transport, education)	3.1
2. Perception filter	Inflation is interpreted through anxiety and future-cost-of-living expectations, amplifying its behavioural effect beyond its measured magnitude	3.1, 3.2
3. Household behavioural response	Discretionary spending cuts, discount-seeking, and precautionary saving occur simultaneously	3.2, 3.3
4. Moderation by structural constraints	Response is shaped by pre-existing household debt, retirement savings adequacy, and income-group position (B40/M40/T20)	3.3, 3.4
5. SME transmission	Cautious, price-sensitive demand meets SMEs' own rising costs, compressing margins and limiting simple price pass-through	3.5
6. Business and policy adaptation	SMEs shift toward pricing, product-mix, and retention strategies; policymakers expand targeted financing and retirement-adequacy measures	3.5, 4

This framework makes explicit what a purely narrative synthesis would leave implicit: that the pathway from inflation to SME outcomes runs through household perception and income-group position rather than directly from the inflation rate itself. It is offered as a starting point for empirical testing rather than as a validated causal model, since the underlying literature is cross-sectional and descriptive rather than longitudinal, a limitation discussed further in Section 6.

6. Discussion

The integrative synthesis above converges on a central insight: in Malaysia, the relationship between inflation and financial behaviour is mediated more by perceived financial security than by the magnitude of price increases alone. This has several implications worth discussing, alongside a candid assessment of what the integrative design does and does not allow this review to claim.

First, there is a notable tension in the literature between macroeconomic indicators and household-level experience.

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Official statistics and central bank commentary consistently frame Malaysia's inflation as contained and inflation expectations as anchored (DOSM, 2026; Trading Economics, 2026b), while survey-based consumer sentiment research paints a considerably more anxious picture (UOB, 2024). Neither strand of evidence is necessarily wrong; rather, they measure different phenomena realised price change versus perceived financial security and it is precisely the integrative comparison of these different evidence types, rather than reliance on either alone, that surfaces this as a substantive finding rather than a residual anomaly. Future empirical work would benefit from directly modelling this gap.

Second, the income-group disparities documented in Section 3.4 raise a methodological caution for the literature as a whole: national averages, including household income and consumer spending figures, can obscure meaningfully different experiences of inflation across B40, M40, and T20 households. Studies that rely solely on aggregate or mean-based data risk understating the financial strain faced by lower- and middle-income households, whose spending and saving responses to inflation differ structurally from those of higher-income households with larger investment buffers (Household Financial Strain in Malaysia, 2025; Mat Nawi et al., 2025). This suggests that future review and empirical work in this area should disaggregate by income group as a standard practice rather than an optional robustness check.

Third, from a business and policy standpoint, the SME literature reviewed here remains comparatively thin relative to the household-finance literature, a gap made explicit by the data-evaluation stage of this review (Section 2.3) and visible directly in the synthesis matrix (Table 1). Much of the available evidence on SME-facing implications of inflation is descriptive or survey-based (industry association commentary, government reports) rather than derived from peer-reviewed empirical studies directly linking consumer financial behaviour to SME pricing, retention, or product-mix decisions. While the household-side literature is comparatively mature, systematic research connecting household financial caution to specific SME strategic responses in the Malaysian context is still emerging.

Fourth, the integrative design itself carries limitations that should be acknowledged. Because it deliberately admits methodologically heterogeneous sources from large-scale commercial consumer surveys to peer-reviewed academic studies with modest sample sizes (e.g., 385 households in the JEEIR study) comparability across studies is limited by differing definitions, time frames, and sampling methods, and the absence of a formal systematic-review quality-scoring protocol means source weighting in Table 1 reflects reasoned judgement rather than a standardised instrument. This is an accepted trade-off in integrative reviews, which prioritise breadth and conceptual integration over the narrower replicability of a systematic review, but it does mean the resulting framework (Section 5) should be read as a synthesis of the best currently available evidence rather than a statistically validated model. Additionally, because inflation and policy conditions have continued to evolve through 2026, some of the underlying data particularly EPF performance figures and monthly inflation readings will require updating as more recent information becomes available.

7. Conclusion

This integrative review has examined how sustained, moderate inflation in Malaysia between 2023 and 2026 has shaped the balance between consumer spending and household investment behaviour, and what this shift means for SMEs operating in the same environment. By deliberately synthesising government statistics, institutional reports, consumer sentiment surveys, and peer-reviewed studies through an explicit problem-identification, evaluation, and constant-comparison process, the review finds that Malaysian households have responded to inflation less through dramatic changes in aggregate spending and more through a combination of selective discretionary cutbacks, increased precautionary saving intentions, and heightened financial anxiety a response only partially matched by actual gains in financial resilience, given persistently high household debt and retirement savings shortfalls. These dynamics are unevenly distributed, with B40 households facing the tightest income-expenditure margins and M40 households increasingly described in the literature as a financially vulnerable "squeezed middle." For SMEs, which represent the overwhelming majority of Malaysian business establishments, this environment has translated into simultaneous cost-side and demand-side pressure, requiring more deliberate pricing and customer-retention strategies rather than straightforward cost pass-through.

The primary contribution of this review is methodological as well as substantive: it draws together household-finance and SME-facing literatures that have largely developed in parallel, evaluates the relative strength of the diverse evidence underlying each, and integrates both into a single conceptual framework (Section 5) and synthesis matrix (Table 1). Future research should prioritise longitudinal, income-group-disaggregated studies that track household spending and investment decisions jointly with SME pricing and demand responses over time, empirical work that directly tests the perception-versus-arithmetic gap identified in Section 6, and studies that strengthen the comparatively thin peer-reviewed evidence base on SME strategic responses identified in the synthesis matrix. Such research would strengthen the evidence base available to policymakers designing targeted subsidy, financial literacy, and SME support interventions in an environment where inflation, though statistically moderate, continues to weigh heavily on Malaysian households' confidence in securing a better financial future.

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