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KUALA LUMPUR (Aug 17): Inflation in Malaysia may pick up in the remaining months of the year despite easing for a second straight month in July, as economists warn that higher energy, freight and food costs could gradually spill over into consumer prices.

Headline inflation, as measured by the consumer price index, slowed to 1.8% year-on-year in July, from 1.9% in June and 2% in May, coming in slightly below the 1.9% median estimate in a Bloomberg survey.

Despite the moderation, Kenanga Research identified energy prices as the main upside risk to the inflation outlook amid lingering geopolitical threats to global crude oil supply.

“Higher crude prices could feed through to transport, food and production costs, while a prolonged disruption would raise the risk of broader second-round inflation effects,” Kenanga noted. The research house added that sustained energy and freight costs could elevate logistics expenses, while “El Niño-related weather disruptions also remain an upside risk to food inflation”.

RHB Research echoed these concerns, saying Malaysia’s inflation path for the rest of the year will be shaped by movements in global commodity prices, changes in domestic policies and potential upside from food prices.

Cost pressure building seen lifting Malaysia’s inflation later this year despite softer July reading — economists

BY LUQMAN AMIN
theedgemalaysia.com

Adverse weather and prolonged dry conditions could reduce harvests of key Asean agricultural commodities, such as rice and palm oil, it added, while higher fuel and fertiliser costs threaten to push global food prices higher.

Upstream cost pressures are already building domestically. Malaysia’s producer price index rose 9.2% year-on-year in June, accelerating from 7.8% in May, driven by broad-based producer price increases across all major sectors, according to RHB Research.

“While these developments could exert additional cost pressures, domestic policy measures, stable demand conditions, a relatively stable ringgit, and gradual pass-through to consumer prices should help keep inflation contained,” RHB Research said, projecting that the impact on headline and core inflation will remain gradual and manageable.

Both Kenanga Research and RHB Research maintained their full-year headline inflation forecasts at 2.1% for 2026 — slightly above the year-to-date rate of 1.8%, and tracking near the midpoint of Bank Negara Malaysia’s official forecast range of 1.5% to 2.5% for 2026.

RHB Research also outlined a risk scenario where severe supply disruptions from a sharp escalation of geopolitical tensions could drive Brent crude to US\$140 (RM568) per barrel. Such a scenario could push Malaysia’s headline inflation to around 3.2% to around 3.2%, it said.

Its estimates suggest that every 1% increase in Brent crude prices raises Malaysia’s inflation, by roughly 0.01 percentage point in the same month and another 0.02 percentage point in the following month.

Read also: Malaysia’s July inflation eases to 1.8% as transport price gains slow