



24 OCT, 2025

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New Straits Times, Malaysia



BENIGN INFLATION ENVIRONMENT

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Analysts say firmer ringgit, cheaper petrol under Budi95 and stable commodity prices helping to preserve purchasing power

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MALAYSIANS are unlikely to face sharp price increases for the rest of this year, with inflation expected to hover near 1.5 per cent, said economists.

They said a firmer ringgit, cheaper petrol under the Budi Madani RON95 (Budi95) programme and stable global commodity prices are helping to steady consumer costs and preserve purchasing power.

Economists from five research houses unanimously agreed that the country's price environment remains benign, cushioning households from the effects of subsidy rationalisation and modest tariff adjustments.

MILD INFLATION PICK-UP

Headline inflation edged up 1.5 per cent year-on-year in September from 1.3 per cent in August, the highest reading since February. Core inflation, which excludes volatile food and energy components, also rose slightly to 2.1 per cent from 2.0 per cent.

Despite this, Hong Leong Investment Bank Bhd (HLIB Research) economist Felicia Ling said upstream cost pressures remained subdued, with the Producer Price Index contracting 2.8 per cent year-on-year in August.

This means that while consumer prices rose slightly, producer costs continued to decline, suggesting overall inflation remained under control.

"On the external front, global commodity prices have remained stable, with Brent crude below US\$65 per barrel since Oct 10," Ling said in a note.

"The appreciation of the ringgit and lower retail petrol prices under the Budi95 initiative further contributed to a benign inflation environment."

HLIB Research has maintained its 2025 Consumer Price Index (CPI) growth forecast at 1.5 per cent.

PRICE PRESSURES CONTAINED

Maybank Investment Bank Bhd (Maybank IB) economists Azri Rosli and Suhaimi Ilias said September's



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uptick was largely driven by price increases in certain categories.

These included personal care and miscellaneous goods, which rose 4.8 per cent year-on-year, food and beverage (up 2.1 per cent) and transport (up 0.7 per cent).

The mild increase followed a series of policy changes, such as the minimum wage hike, the expanded Sales and Service Tax (SST) and Tenaga Nasional Bhd's tariff review in July.

"Inflation remained muted despite these structural adjustments. The subsequent exemptions and higher SST registration thresholds helped contain price pressures," they said.

Maybank IB projects inflation to average 1.5 per cent this year and 2.0 per cent in 2026, with modest risks from pending reviews of fuel, water tariffs, labour costs and excise duties.

WHAT LIES AHEAD

Taking a more conservative view, Public Investment Bank Bhd economist Sabrina Edora said mild cost pressures in the fourth quarter could nudge inflation higher.

Even so, she said policy buffers

With inflation risks remaining subdued, monetary policy retains room for manoeuvre going into 2026. This will allow potential easing should non-electrical and electronics exports continue to weaken and external demand deteriorate further.

CIMB SECURITIES SDN BHD

such as the automatic fuel adjustment mechanism and Budi95 would keep price hikes in check.

"Given the wide coverage of the subsidy and the resulting drop in effective pump prices, we anticipate limited pass-through to overall inflation, barring any significant cost spillovers in the logistics sector," she said.

Edora expects inflation in 2026 to remain within the Finance Ministry's projected 1.3 to 2.0 per cent, leaning towards the upper end.

SPILOVERS

CGS International economists Mas

Aida Che Mansor and Nazmi Idrus expect water supply inflation to remain elevated over the next 11 months.

Price pressures could also arise from personal items such as jewellery, reflecting higher precious metal prices that may be captured in October's inflation data.

"While we believe the RON95 fuel price adjustment at end-September will exert minimal price pressure, we remain cautious of potential spillover effects on other CPI components in October," they said.

With the base effect in play and gold prices trending higher, CGS

International expects the CPI to peak in January 2026.

The firm maintained its CPI forecasts of 1.6 per cent for 2025 and 2.0 per cent for 2026.

STABLE OUTLOOK

Overall, CIMB Securities Sdn Bhd research head Michelle Chia and senior economist Azri Azhar said price pressures remain contained on the supply and demand side.

They said stable price movements following subsidy rationalisation indicate limited inflationary pressure, while labour market tightness points to mild but manageable cost growth.

The research house expects headline inflation to average 1.5 per cent in 2025 and 2.0 per cent in 2026, with the Overnight Policy Rate likely to stay at 2.75 per cent by year end.

"With inflation risks remaining subdued, monetary policy retains room for manoeuvre going into 2026. This will allow potential easing should non-electrical and electronics exports continue to weaken and external demand deteriorate further," it said.