SURGE IN OIL PRICES

'Aviation sector most exposed to Middle East crisis'

KUALA LUMPUR: The logistics sector, especially aviation, is among the earliest industries to be affected by the Middle East conflict.

IPPFA Sdn Bhd director of investment strategy and country economist Mohd Sedek Jantan said aviation is the most exposed since fuel is the largest component of its operating costs.

"A surge in oil prices will pressure margins and lead to operational adjustments, including capacity or workforce reductions. This will spread to other sub-sectors such as shipping and land transport, as the entire supply chain depends on energy costs and global trade flows.

"In the longer term, export-orientated manufacturing will be the most vulnerable, as weak global demand affects new orders and capacity utilisation rates," he told Berita Harian on Tuesday.

World Bank president Ajay Banga warned of an unemployment crisis in developing countries due to the Middle East war, citing a job shortage for about 1.2 billion individuals who will enter employment in developing countries over the next 10 to 15 years.

Sedek said the warning is well-founded, but the impact on Malaysia is expected to be more indirect.

"The conflict in the Middle East also influences the global economy through trade channels and market sentiment.

"Early indicators to watch include Asia's economic performance, particularly China, through data such as retail sales and manufacturing sector activity. A slowdown in China will typically spread across the region, thereby affecting regional trade momentum.

"At the domestic level, indicators such as the Purchasing Managers' Index, wholesale and retail sales value and the Industrial Production Index can provide early signals on the direction of the economy."

Sedek said employment risk unfolds through gradual adjustments in sectors most sensitive to energy costs and global demand.

Universiti Putra Malaysia School of Business and Economics senior lecturer Dr Chakrin Utit said export-oriented manufacturing, particularly the electrical and electronics industry, is at risk.

He said declining external demand would lead to lower production.

"Companies may limit new hiring, reduce working hours or cut their workforce."

He said logistics and transport also face high risk due to their dependence on oil, with rising fuel costs forcing companies to restructure operations and reduce their workforce.

He said micro, small and medium enterprises are the most vulnerable due to their small profit margins and limited financial resources.

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