

ECONOMIC REVIEW | April 2019 Producer Price Index

PPI Remains in Deflationary mode amid Retail Fuel Prices Capping

- *PPI stays on contractionary path. Malaysia's producer cost remains deflationary as PPI shrank by -1.4%yoy in Apr-19. This is mainly due to continuous falling input prices of agriculture and manufacturing sectors. Factory input price has been on negative growth for 16-consecutive months.*
- *Consumer's inflationary pressure to remain benign. As a leading indicator of price changes at the consumer level, the latest PPI number suggests that Malaysia's headline inflation to stay low for the 2Q19 as well as in 3Q19. Referring to input price of food product, the component continues falling for 7-consecutive month by -9.1%yoy in Apr-19.*
- *We forecast producer inflation at 0.7% for 2019. We foresee producer price inflation rate to average at 0.7% this year from 1.5% we initially forecasted due to lower cap of domestic RON95 fuel prices at RM2.08 which tend to make production cheaper for businesses as fuel is required at least to ship goods from one place to another besides businesses that use it as a major input.*

PPI stays on contractionary path. Malaysia's producer cost remains deflationary as PPI shrank by -1.4%yoy in Apr-19. This is mainly due to continuous falling input prices of agriculture and manufacturing sectors. Factory input price has been on negative growth for 16-consecutive months. Manufacturing sector still held the largest share at 81.6% in determining the producers' inflation. We expect the of PPI to remain low given that retail fuel prices of RON95 and Diesel are capped at lower levels than 2018's average price of RM2.20.

Table 1: Producer Price Indices by Selected Sector

	MoM%			YoY%		
	Feb-19	Mar-19	Apr-19	Feb-19	Mar-19	Apr-19
PPI	0.6	(0.3)	0.6	(1.6)	(1.5)	(1.4)
Agri, forestry & fishing	0.2	(5.8)	1.0	(11.6)	(14.2)	(11.9)
Mining	4.7	0.5	6.9	2.4	3.0	1.4
Manufacturing	0.2	0.1	(0.2)	(1.3)	(0.8)	(0.8)
Electricity and gas	(0.3)	2.1	(0.8)	0.8	2.1	1.5
Extraction of Petroleum & Natural Gas	4.7	0.5	6.9	2.4	3.0	1.4
Food Product	1.0	(0.1)	(0.4)	(10.1)	(9.4)	(9.1)

Source: CEIC, MIDFR

Consumer's inflationary pressure to remain benign. As a leading indicator of price changes at the consumer level, the latest PPI number suggests that Malaysia's headline inflation to stay low for the 2Q19 as well as in 3Q19. Referring to input price of food product, the component continues falling for 7-consecutive month by -9.1%yoy in Apr-19. As food items hold almost the majority share in Malaysia's CPI, we expect headline inflation to pick-up at a modest pace. Nevertheless, food inflation is predicted to stay above the overall CPI given that Malaysia is a net importer of food. On the other hand, continuous falling of input prices would support Malaysia's industrial activities. Cost of crude materials, intermediate materials supplies & components and finished goods remain in contraction mode in Apr-19.

Table 2: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Feb-19	Mar-19	Apr-19	Feb-19	Mar-19	Apr-19
PPI By Stage of Processing (SP)	0.6	(0.3)	0.6	(1.6)	(1.5)	(1.4)
Crude Materials for Further Processing (CM)	2.3	(1.1)	4.0	(2.9)	(3.0)	(1.5)
Intermediate Materials Supplies and Components (IM)	0.1	0.1	(0.3)	(1.9)	(1.3)	(1.8)
Finished Goods (FG)	0.2	(0.2)	(0.3)	(0.2)	(0.6)	(0.4)
Capital Equipment (CE)	0.7	(0.1)	(0.5)	1.5	0.7	1.0

Source: CEIC, MIDFR

Cost pressure remains at healthy level. In Apr-19, most of the key economies' PPI improved. Pick-up in global commodity prices in the 1Q19 among others is the major factor that pushed up input prices. For instance, Thailand's PPI rose to 5-month high while Indonesia's at 4-month high. Cost pressure in the US and Japan are seen at accommodative level whereas China's stays in contractionary zone for 17-consecutive months. Moving forward, we foresee PPI to gradually increase amid steady pick up in the global energy prices in 2Q19 and 2H19.

Table 3: Global Producer Price Index (YoY%)

	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
Malaysia	(0.2)	0.7	(2.9)	(3.7)	(3.6)	(1.6)	(1.5)	(1.4)
Indonesia	4.5	4.1	3.8	3.6	3.2	2.9	3.2	3.5
Thailand	1.3	1.7	0.9	(0.5)	(1.1)	(0.6)	0.4	0.7
Philippines	1.9	1.2	0.4	0.3	3.8	3.3	4.5	3.8
Japan	3.0	3.0	2.3	1.5	0.6	0.9	1.3	1.2
China	(3.1)	(3.4)	(2.9)	(3.8)	(4.0)	(3.5)	(2.6)	(2.4)
EU	3.7	4.0	3.0	1.9	1.8	1.9	2.0	
USA	4.5	5.0	3.3	2.4	0.4	(0.3)	0.9	0.9

Source: CEIC, MIDFR


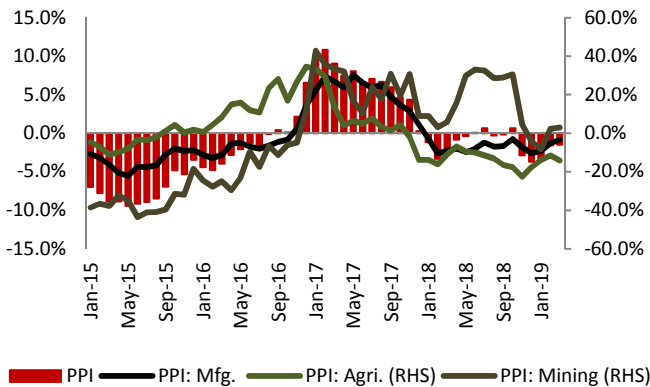
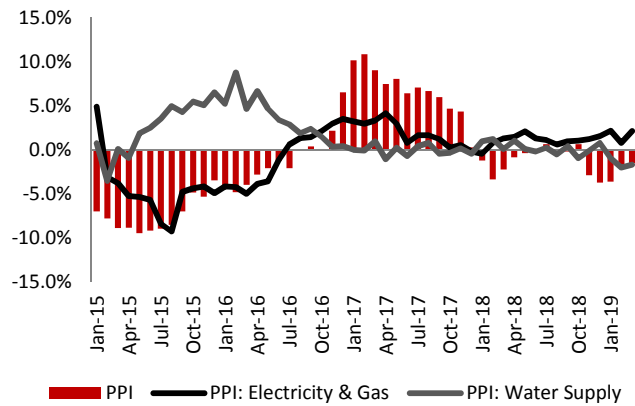
We forecast producer inflation at 0.7% for 2019. We foresee producer price inflation rate to average at 0.7% this year from 1.5% we initially forecasted due to lower cap of domestic RON95 fuel prices at RM2.08 which tend to make production cheaper for businesses as fuel is required at least to ship goods from one place to another besides businesses that use it as a major input. Furthermore, we believe government is unlikely to remove the cap in the nearest time as the proper subsidy mechanism limiting it to the recipients of the Bantuan Sara Hidup (BSH) have yet comes to effect. We anticipate inflationary pressure mainly from fuel-related items to remain weak despite higher expectation of Brent crude oil price at \$75pb for 2019 (2018: \$72pb). 

Chart 1: PPI Performance by Sector (YoY%)



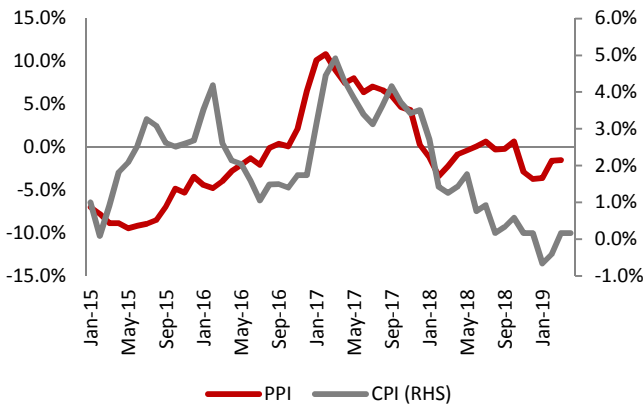
Source: CEIC, MIDFR

Chart 2: PPI vs Utilities (YoY%)



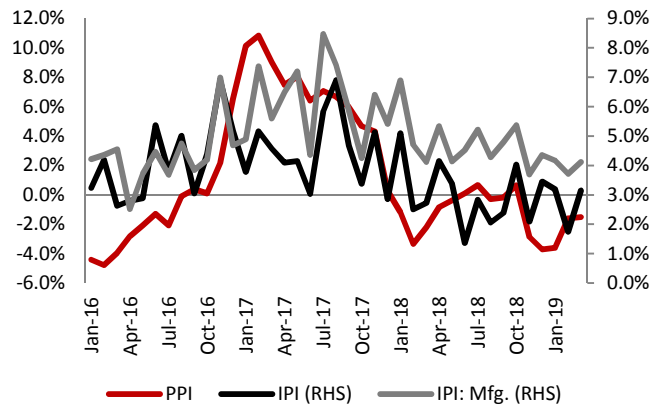
Source: CEIC, MIDFR

Chart 3: PPI vs CPI (YoY%)



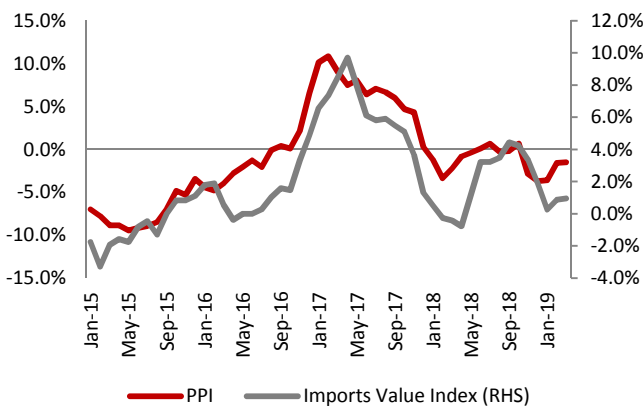
Source: CEIC, MIDFR

Chart 4: PPI vs IPI (YoY%)



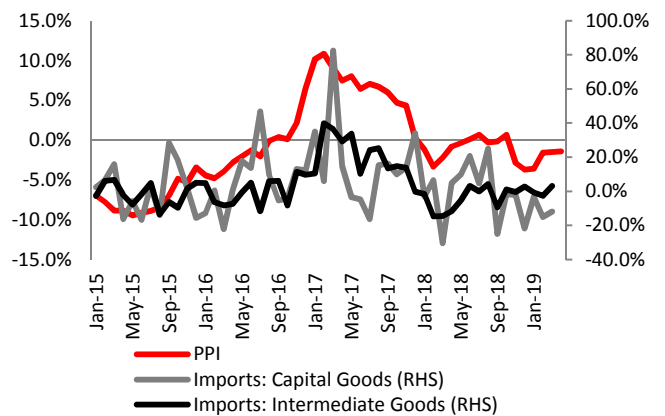
Source: CEIC, BLOOMBERG, MIDFR

Chart 5: PPI vs Imports Value Index (YoY%)



Source: CEIC, MIDFR

Chart 6: PPI vs Imports (YoY%)



Source: CEIC, MIDFR

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