

ECONOMIC REVIEW | August 2019 Producer Price Index

Overall PPI Improves as Agriculture Posted Smaller Decline, with Utilities Remained Resilient

- *PPI contracted for tenth straight months. Malaysia's producer cost remains deflationary for the tenth consecutive months however at an improving rate of -1.9%yoy in Aug-19. This was mainly due to lower drop in input prices of agriculture at -0.9%yoy, the smallest fall since Nov-17. In addition, PPI of electricity & gas rose to a seven-month high of 2.2%yoy.*
- *Consumer's inflationary pressure to remain benign. As a 3-6 months leading indicator of price changes at the consumer level, the latest PPI number suggests that Malaysia's headline inflation to stay low for the 2H19. However, consumer inflation in 2H19 will be partly influenced by the low base effect resulting from tax holiday period last year. Despite the overall decline for manufacturing PPI, PPI for food product manufacturing posted lower negative growth of -6%yoy, its lowest fall since Nov-17.*
- *We forecast producer deflation at -1.8% for 2019. We foresee producer prices deflation to widen this year at -1.8% from -1.1% in 2018. Up to Aug-19, producer inflation averaged -1.9% mainly due to RON95 price cap which is lower than last year's average price. Moving forward, we foresee the number to improve slightly buoyed by increasing costs from the food component.*

PPI contracted for tenth straight months. Malaysia's producer cost remains deflationary for the tenth consecutive months however at an improving rate of -1.9%yoy in Aug-19. This was mainly due to lower drop in input prices of agriculture at -0.9%yoy, the smallest fall since Nov-17. In addition, PPI of electricity & gas rose to a seven-month high of 2.2%yoy. These offset bigger fall in input prices of mining and manufacturing. Moving forward, we foresee mining PPI to remain in negative territory given that retail fuel prices of RON95 and Diesel are capped at lower levels than 2018's average prices. This will eventually put a downward pressure on the overall PPI despite mining's relatively small share of total PPI at circa 8% as lower oil prices would have spill over effects to manufacturing sector in particular. Manufacturing PPI held 81.6% of the total PPI.

Table 1: Producer Price Indices by Selected Sector

	MoM%			YoY%		
	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18
PPI	(0.9)	(0.1)	0.2	(1.8)	(2.2)	(1.9)
Agri, forestry & fishing	1.1	1.3	5.2	(9.2)	(6.5)	(0.9)
Mining	(8.7)	(1.2)	(2.0)	(6.4)	(9.9)	(10.9)
Manufacturing	(0.3)	(0.1)	0.0	(0.8)	(0.9)	(1.0)
Electricity and gas	(0.2)	0.2	0.4	1.8	1.5	2.2
Food Product	(0.5)	(0.3)	0.0	(7.9)	(7.2)	(6.0)

Source: CEIC, MIDFR

Consumer's inflationary pressure to remain benign. As a 3-6 months leading indicator of price changes at the consumer level, the latest PPI number suggests that Malaysia's headline inflation to stay low for the 2H19. However, consumer inflation in 2H19 will be partly influenced by the low base effect resulting from tax holiday period last year. Despite the overall decline for manufacturing PPI, PPI for food product manufacturing posted lower negative growth of -6%yoy, its lowest fall since Nov-17. This could be due to a combination two factors; Ringgit depreciation and our position as net food importer. As food items hold a majority share in Malaysia's CPI, we expect that the improvement to partly offset the weak inflation caused by significant decline in transport component in the CPI basket. On the other hand, low input prices would somehow support Malaysia's industrial activities. Cost of crude materials and intermediate materials supplies & components remain in contraction mode but at slightly lower negative rates. Meanwhile, capital equipment PPI growth continued trending upwards since Apr-19 with the latest figure at 3.9%yoy.

Table 2: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18
PPI By Stage of Processing (SP)	(0.9)	(0.1)	0.2	(1.8)	(2.2)	(1.9)
Crude Materials for Further Processing (CM)	(3.8)	(0.7)	(0.6)	(7.0)	(7.7)	(7.5)
Intermediate Materials Supplies and Components (IM)	(0.8)	0.1	0.4	(1.4)	(1.8)	(1.7)
Finished Goods (FG)	0.4	0.0	0.3	1.3	1.3	1.8
Capital Equipment (CE)	0.7	0.1	0.5	3.3	3.4	3.9

Source: CEIC, MIDFR

PPI weaken further as global oil prices decline. In Aug-19, most of the key economies' producer inflation remains in negative territory at a higher rate amid declining global oil prices. Japan PPI growth declined further to -0.9%yoy, the biggest drop since Dec-16 due to sharp decline in cyclical industries such as oil at -9.9%yoy (Jul-19: -8.5%yoy). Similarly, the US PPI growth contracted further to -2%yoy, the biggest decrease since Sep-16. Meanwhile, China PPI maintained at -4.7%yoy, unchanged from previous month. The average price of Brent crude oil contracted by -19.5%yoy in Aug-19 higher than -14.3%yoy recorded in the previous month as the US-China trade discord intensified, besides continuous supply cut by the OPEC. Furthermore, US-China trade impasse causes business sentiment to deteriorate. Businesses may be less keen to make new investments and try to reduce existing costs due to uncertainty of future demand.

Table 3: Global Producer Price Index (YoY%)

	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
Malaysia	(3.6)	(1.6)	(1.5)	(1.4)	(1.5)	(1.8)	(2.2)	(1.9)
Indonesia	2.2	2.1	2.0	2.3	2.3	1.0	0.3	
Thailand	(1.1)	(0.6)	0.4	0.7	0.0	(1.1)	(1.2)	(1.7)
Philippines	4.1	3.6	5.0	2.2	1.3	1.6	0.9	
Japan	0.5	0.9	1.3	1.3	0.7	(0.2)	(0.6)	(0.9)
China	(4.0)	(3.5)	(2.6)	(2.4)	(3.4)	(4.5)	(4.7)	(4.7)
EU	1.8	1.9	2.0	1.9	1.0	0.1	(0.3)	
USA	0.6	(0.1)	0.8	0.9	(0.8)	(1.9)	(1.6)	(2.0)

Source: CEIC, MIDFR


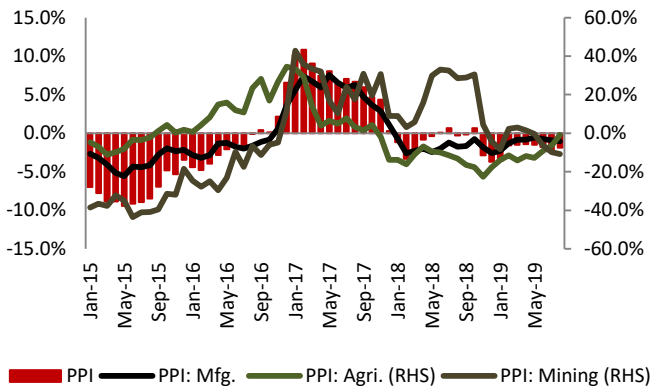
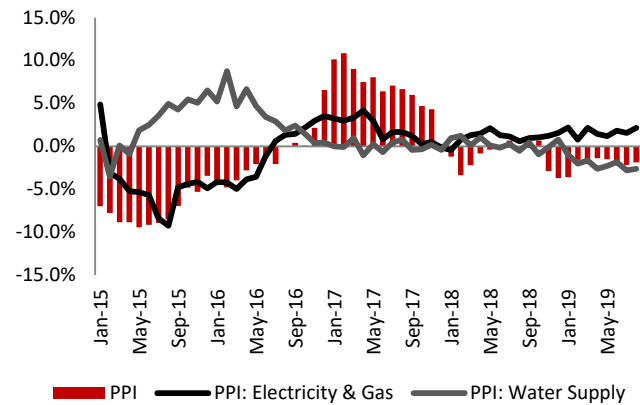
We forecast producer deflation at -1.8% for 2019. We foresee producer prices deflation to widen this year at -1.8% from -1.1% in 2018. Up to Aug-19, producer inflation averaged -1.9% mainly due to RON95 price cap which is lower than last year's average price. Moving forward, we foresee the number to improve slightly buoyed by increasing costs from the food component. 

Chart 1: PPI Performance by Sector (YoY%)



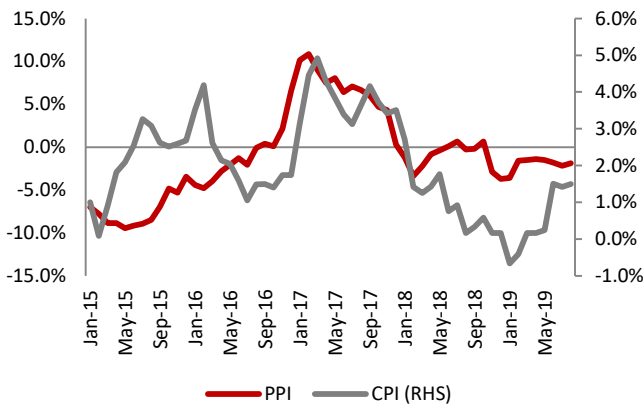
Source: CEIC, MIDFR

Chart 2: PPI vs Utilities (YoY%)



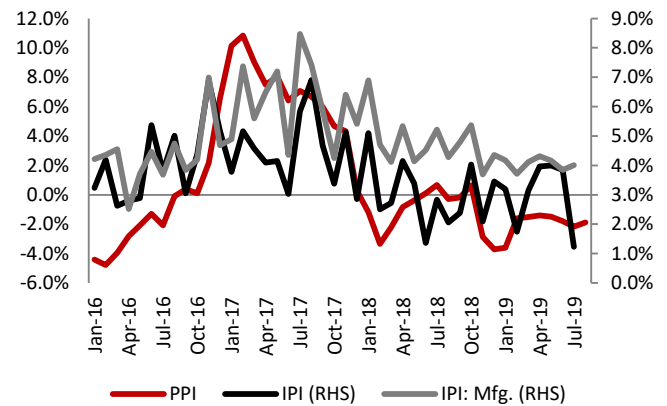
Source: CEIC, MIDFR

Chart 3: PPI vs CPI (YoY%)



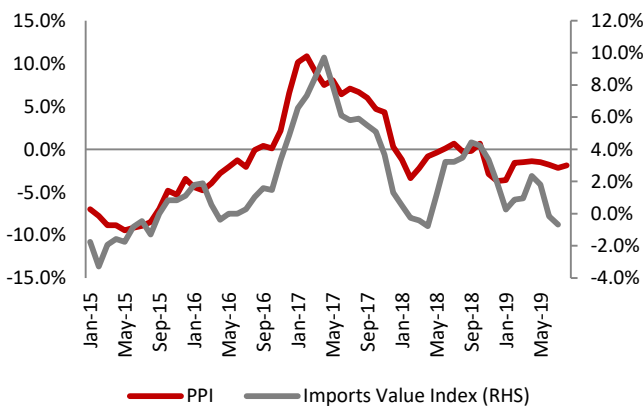
Source: CEIC, MIDFR

Chart 4: PPI vs IPI (YoY%)



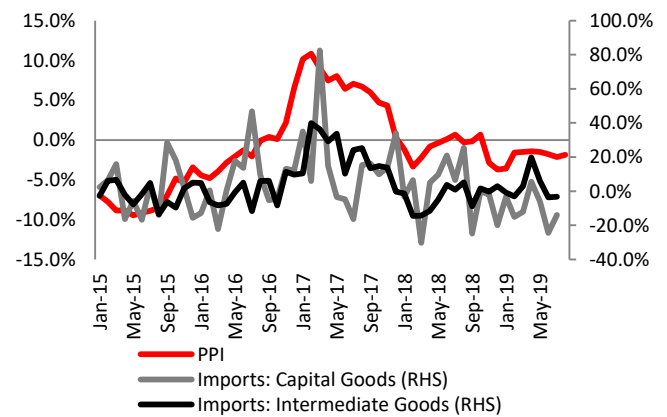
Source: CEIC, BLOOMBERG, MIDFR

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



Source: CEIC, MIDFR

Chart 6: PPI vs Imports (YoY%)



Source: CEIC, MIDFR

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