

## ECONOMIC REVIEW | January 2019 Producer Price Index

### PPI Remains Contractionary – Signaling Low Inflationary Pressure in 1H19

- *PPI stays on contractionary path. Malaysia's producer cost remains deflationary as PPI shrank by -3.6%yoy in Jan-19. This is mainly due to continuous falling input prices of manufacturing sector. Factory input price has been on negative growth for 13-consecutive months.*
- *Sign of continuing consumer's deflation. As a leading indicator of price changes at the consumer level, the latest PPI number suggests that Malaysia's headline inflation will remain low for the first quarter of 2019. Referring to input price of food product, the component fell by -11.4%yoy and -0.6%mom respectively in the first month of 2019.*
- *Producer price index is expected to rise by 1.5% in 2019. Amid low base effects, we foresee producer price inflation to average at 1.5% in 2019. We anticipate inflationary pressure from fuel-related items to pick up gradually, in tandem with modest improvement global energy prices and solid demand by developed and emerging economies*

**PPI stays on contractionary path.** Malaysia's producer cost remains deflationary as PPI shrank by -3.6%yoy in Jan-19. This is mainly due to continuous falling input prices of manufacturing sector. Factory input price has been on negative growth for 13-consecutive months. Manufacturing sector still held the largest share at 81.6% in determining the producers' inflation. In addition, other sectors like agriculture and mining caused the dip in overall PPI. We expect the of PPI to remain low for the first half of 2019 given that retail fuel prices of RON95 and Diesel are capped at lower level than 2018's average prices.

**Table 1: Producer Price Indices by Selected Sector**

	MoM%			YoY%		
	Nov-18	Dec-18	Jan-19	Nov-18	Dec-18	Jan-19
PPI	(2.8)	(1.3)	0.6	(2.9)	(3.7)	(3.6)
Agriculture, forestry & fishing	(6.4)	0.9	7.2	(22.7)	(17.6)	(14.0)
Mining	(16.4)	(8.9)	1.8	4.5	(4.3)	(8.4)
Manufacturing	(0.7)	(0.7)	(0.1)	(1.8)	(2.6)	(2.3)
Electricity and gas	0.3	0.1	0.3	1.2	1.6	2.2
Extraction of Petroleum & Natural Gas	(16.4)	(8.9)	1.8	4.5	(4.3)	(8.4)
Food Product	(2.2)	(1.6)	(0.6)	(12.9)	(12.5)	(11.4)

Source: CEIC, MIDFR

**Sign of continuing consumer's deflation.** As a leading indicator of price changes at the consumer level, the latest PPI number suggests that Malaysia's headline inflation will remain low for the first quarter of 2019. Referring to input price of food product, the component fell by -11.4%yoy and -0.6%mom respectively in the first month of 2019. As food items hold almost the majority share in Malaysia's CPI, we expect headline inflation to continue recording deflation figure in the upcoming months. On the other hand, continuous falling of input prices would support Malaysia's industrial activities. Cost of crude materials, intermediate materials supplies & components and capital equipment remain on contractions in Jan-19.

**Table 2: Producer Price Indices by Stage of Processing**

	MoM%			YoY%		
	Nov-18	Dec-18	Jan-19	Nov-18	Dec-18	Jan-19
PPI By Stage of Processing (SP)	(2.8)	(1.3)	0.6	(2.9)	(3.7)	(3.6)
Crude Materials for Further Processing (CM)	(10.9)	(5.5)	3.7	(6.9)	(9.9)	(9.7)
Intermediate Materials Supplies and Components (IM)	(0.6)	(0.7)	(0.3)	(1.5)	(2.3)	(2.2)
Finished Goods (FG)	(0.9)	0.7	0.1	(2.6)	(1.9)	(1.8)
Capital Equipment (CE)	(1.4)	1.1	0.3	(2.5)	(1.4)	(1.6)


Source: CEIC, MIDFR

**ASEAN countries' PPI slid in unison.** In the first month of 2019, most of the PPI in emerging economies recorded contractions. The decline in global energy prices in 4Q18 among others is the major factor which had led to a push down in input prices. For instance, Thailand's PPI shrank by -1.1%yoy, lowest in 10 months, and Singapore's by -1.9%yoy, a 28-month low. Similarly, China's PPI was at 21-month low of 0.1%yoy. Moving forward, we foresee a steady rebound in PPI globally amid gradual pick up in the global energy prices in 1Q19.

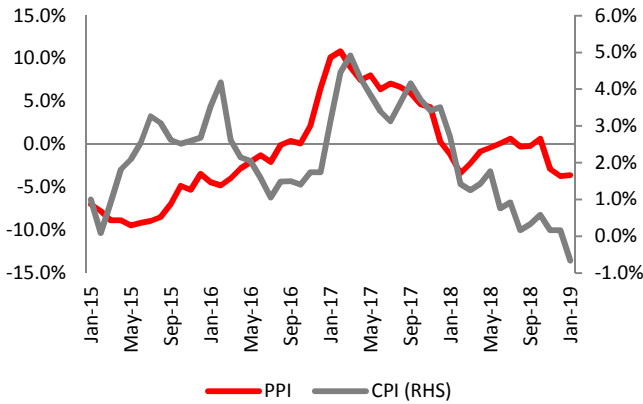
**Table 3: Global Producer Price Index (YoY%)**

	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Malaysia	0.1	0.7	(0.3)	(0.2)	0.7	(2.9)	(3.7)	(3.6)
Indonesia	6.6	7.5	7.4	7.3	7.1	5.3	3.4	
Thailand	1.8	2.2	1.8	1.3	1.7	0.9	(0.5)	(1.1)
Philippines	1.0	0.9	0.8	1.8	1.0	0.7	0.8	
Singapore	11.7	13.5	12.8	12.1	12.7	5.1	(0.4)	(1.9)
Japan	2.8	3.0	3.0	3.0	3.0	2.3	1.5	0.6
China	4.6	4.6	4.1	3.6	3.3	2.7	0.9	0.1
EU	1.9	1.8	3.0	3.6	4.2	4.3	4.5	
United States	3.3	3.4	3.0	2.7	2.9	2.5	2.5	2.0

Source: CEIC, MIDFR

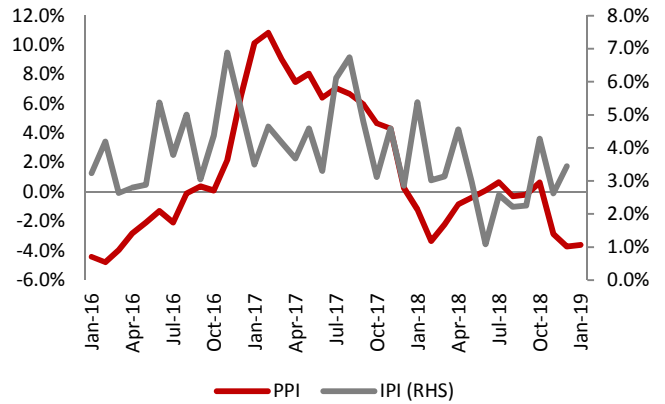
**Producer price index is expected to rise by 1.5% in 2019.** Amid low base effects, we foresee producer price inflation to average at 1.5% in 2019. We anticipate inflationary pressure from fuel-related items to pick up gradually, in tandem with modest improvement global energy prices and solid demand by developed and emerging economies. 

**Chart 1: PPI vs CPI (YoY%)**



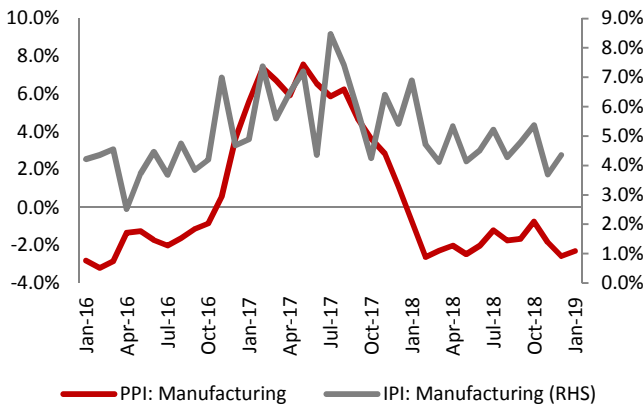
Source: CEIC, MIDFR

**Chart 2: PPI vs IPI (YoY%)**



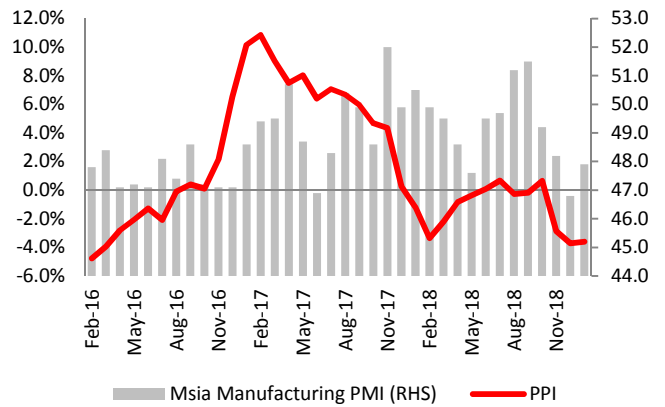
Source: CEIC, MIDFR

**Chart 3: Manufacturing: PPI vs IPI (YoY%)**



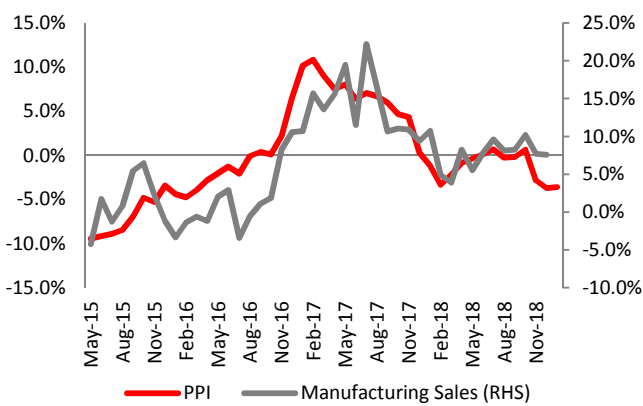
Source: CEIC, MIDFR

**Chart 4: PPI (YoY%) vs Manufacturing PMI (Points)**



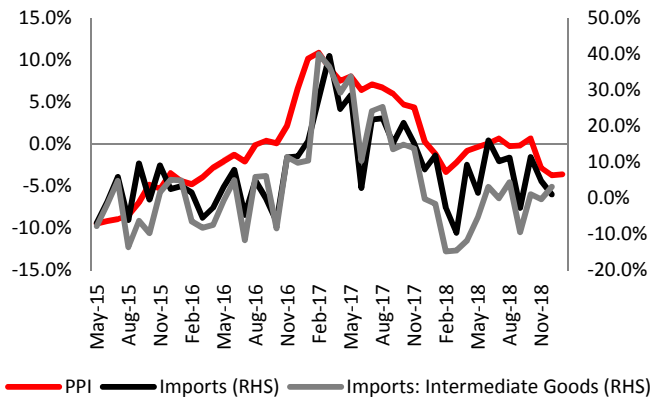
Source: CEIC, BLOOMBERG, MIDFR

**Chart 5: PPI vs Manufacturing Sales (YoY%)**



Source: CEIC, MIDFR

**Chart 6: PPI vs Imports (YoY%)**



Source: CEIC, MIDFR

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