

ECONOMIC REVIEW | October 2019 Producer Price Index

Overall PPI Worsens as Manufacturing and Mining Posted Larger Decline

- *PPI contracted for one-solid year. Malaysia's producer cost remained deflationary for one-solid year with the latest figure at -2.9%yoy in Oct-19. The largest drop since Feb-19 was mainly due to higher decline in input prices of mining and manufacturing. Meanwhile, PPI of agriculture rebounded to positive growth, beating the down cycle.*
- *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 will stay low for 4Q19 and early 2020. Despite the overall decline for manufacturing PPI, PPI for food product manufacturing posted lower negative growth of -3.5%yoy. It had been on improving trend since Dec-18. This could be due to a combination two factors; Ringgit depreciation and our position as net food importer.*
- *We foresee producer deflation to hover at 2% for 2019. We foresee producer prices deflation to widen this year to 2% from -1.1% in 2018. Up to Oct-19, producer inflation averaged -2.1% 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 one-solid year. Malaysia's producer cost remained deflationary for one-solid year with the latest figure at -2.9%yoy in Oct-19. The largest drop since Feb-19 was mainly due to higher decline in input prices of mining and manufacturing. Meanwhile, PPI of agriculture rebounded to positive growth, beating the down cycle. 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%		
	Aug-19	Sep-19	Oct-19	Aug-19	Sep-19	Oct-19
PPI	0.2	0.7	(0.2)	(1.9)	(2.4)	(2.9)
Agri, forestry & fishing	5.2	(0.7)	(0.2)	(0.9)	(1.1)	1.5
Mining	(2.0)	6.0	(2.5)	(10.9)	(14.4)	(18.2)
Manufacturing	0.0	0.3	0.1	(1.0)	(1.0)	(1.3)
Electricity and gas	0.4	(0.9)	(0.1)	2.2	1.3	1.3
Food Product	0.0	1.1	0.4	(6.0)	(4.5)	(3.5)

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 will stay low for 4Q19 and early 2020. Despite the overall decline for manufacturing PPI, PPI for food product manufacturing posted lower negative growth of -3.5%yoy. It had been on improving trend since Dec-18. This could be due to a combination two factors; Ringgit depreciation and our position as net food importer. As food items hold a significant share in Malaysia's CPI, we expect that the improvement to partly offset the benign inflation caused by marked decline in transport component in the CPI basket. On the other hand, low input prices would be positive to Malaysia's industrial activities. Cost of both crude materials and intermediate materials supplies & components remain in contraction mode however the former registered higher decline while the latter improved slightly. Meanwhile, the growth of capital equipment PPI continued expanding, but at moderating pace of 1.9%yoy; this was the lowest in 5-months period.

Table 2: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Aug-19	Sep-19	Oct-19	Aug-19	Sep-19	Oct-19
PPI By Stage of Processing (SP)	(0.1)	0.2	0.7	(1.9)	(2.4)	(2.9)
Crude Materials for Further Processing (CM)	(0.7)	(0.6)	3.0	(7.5)	(8.5)	(11.4)
Intermediate Materials Supplies and Components (IM)	0.1	0.4	0.1	(1.7)	(1.8)	(1.4)
Finished Goods (FG)	0.0	0.3	0.3	1.8	1.3	0.7
Capital Equipment (CE)	0.1	0.5	0.4	3.9	3.0	1.9

Source: CEIC, MIDFR

PPI weaken further as global oil prices decline. In Oct-19, most of the key economies' producer inflation remains in negative territory at a higher rate amid declining global oil prices. The US PPI growth declined further to -3.0%yoy, the biggest drop since Aug-16. Similarly, China PPI continued declining and worsened to -4.7%yoy. In contrast, Japan producer deflation moderated to -0.4%yoy from -1.1%yoy in the previous month. Nevertheless, this marked the 5th-straight month of declination amid trade disputes and increasing sales tax starting in Oct-19. The average price of Brent crude oil contracted by -25.4%yoy in Oct-19 worse than -21.6%yoy recorded in the previous month. Furthermore, US-China trade crusade 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%)

	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
Malaysia	(1.5)	(1.4)	(1.5)	(1.8)	(2.2)	(1.9)	(2.4)	(2.9)
Indonesia	2.0	2.3	2.3	1.0	0.3	(0.2)	(0.8)	
Thailand	0.4	0.7	0.0	(1.1)	(1.2)	(1.7)	(1.9)	(2.5)
Philippines	4.8	2.5	1.0	1.4	0.7	1.5	(0.2)	
Japan	1.3	1.3	0.7	(0.2)	(0.6)	(0.9)	(1.1)	(0.4)
China	(2.6)	(2.4)	(3.4)	(4.5)	(4.7)	(4.7)	(4.6)	(4.7)
EU	2.0	1.9	1.0	0.1	(0.4)	(0.9)	(1.0)	
USA	0.8	0.9	(0.7)	(1.9)	(1.6)	(2.0)	(2.7)	(3.0)

Source: CEIC, MIDFR


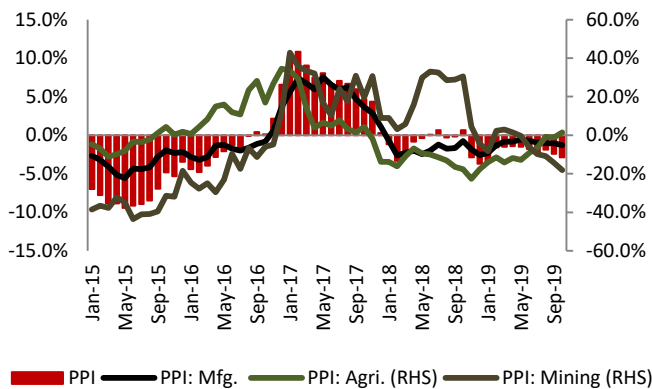
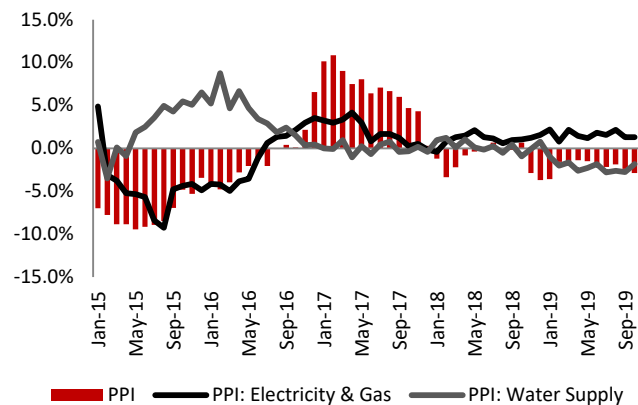
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Chart 1: PPI Performance by Sector (YoY%)



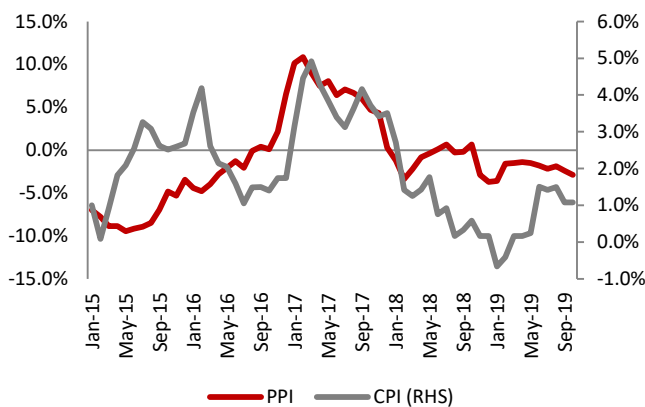
Source: CEIC, MIDFR

Chart 2: PPI vs Utilities (YoY%)



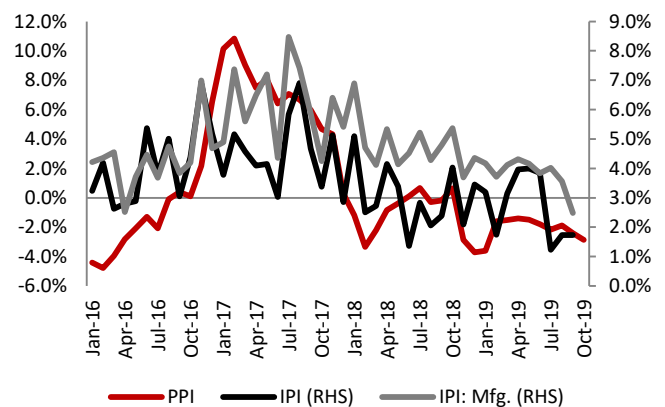
Source: CEIC, MIDFR

Chart 3: PPI vs CPI (YoY%)



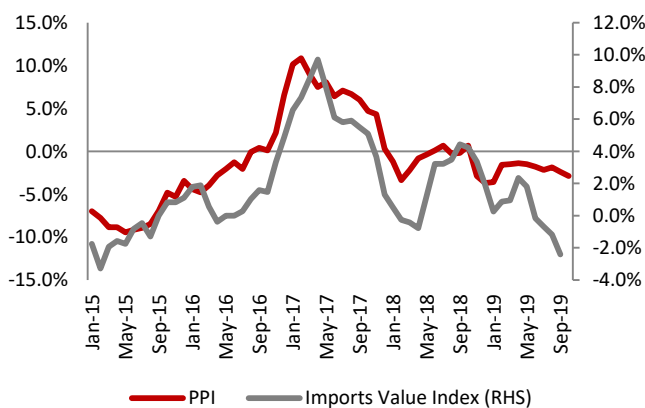
Source: CEIC, MIDFR

Chart 4: PPI vs IPI (YoY%)



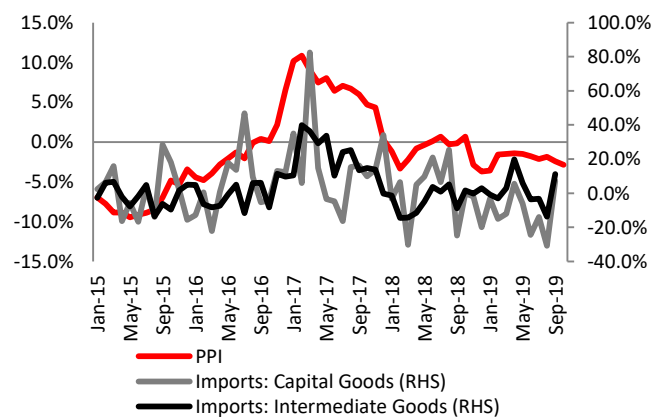
Source: CEIC, BLOOMBERG, MIDFR

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



Source: CEIC, MIDFR

Chart 6: PPI vs Imports (YoY%)



Source: CEIC, MIDFR

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