

ECONOMIC REVIEW | September 2019 Producer Price Index

Overall PPI Worsens as Agriculture and Mining Posted Larger Decline

- *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 eleventh straight months. Malaysia's producer cost remains deflationary for the eleventh consecutive months at -2.4%yoy in Sep-19. The largest drop since Feb-19 was mainly due to higher decline in input prices of agriculture and mining. Meanwhile, manufacturing input prices maintain at -1%yoy drop. 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%		
	Jul-18	Aug-18	Sep-18	Jul-18	Aug-18	Sep-18
PPI	(0.1)	0.2	0.7	(2.2)	(1.9)	(2.4)
Agri, forestry & fishing	1.3	5.2	(0.7)	(6.5)	(0.9)	(1.1)
Mining	(1.2)	(2.0)	6.0	(9.9)	(10.9)	(14.4)
Manufacturing	(0.1)	0.0	0.3	(0.9)	(1.0)	(1.0)
Electricity and gas	0.2	0.4	(0.9)	1.5	2.2	1.3
Food Product	(0.3)	0.0	1.1	(7.2)	(6.0)	(4.5)

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 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 -4.5%yoy. It has 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 crude materials and intermediate materials supplies & components remain in contraction mode. Meanwhile, capital equipment PPI growth continued expanding but at slightly moderating pace of 3.9%yoy.

Table 2: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Jul-18	Aug-18	Sep-18	Jul-18	Aug-18	Sep-18
PPI By Stage of Processing (SP)	(0.1)	0.2	0.7	(2.2)	(1.9)	(2.4)
Crude Materials for Further Processing (CM)	(0.7)	(0.6)	3.0	(7.7)	(7.5)	(8.5)
Intermediate Materials Supplies and Components (IM)	0.1	0.4	0.1	(1.8)	(1.7)	(1.8)
Finished Goods (FG)	0.0	0.3	0.3	1.3	1.8	1.3
Capital Equipment (CE)	0.1	0.5	0.4	3.4	3.9	3.0

Source: CEIC, MIDFR

PPI weaken further as global oil prices decline. In Sep-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 -2.7%yoy, the biggest drop since Aug-16. Similarly, Japan PPI growth contracted further to -1.1%yoy, the fourth consecutive decline and the sharpest since Dec-16 amid trade disputes and rising speculation of a further monetary stimulus. Meanwhile, China PPI continued declining but at a marginally improving rate of 4.6%yoy. The average price of Brent crude oil contracted by -21.6%yoy in Sep-19 worse than -19.5%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%)

	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
Malaysia	(1.6)	(1.5)	(1.4)	(1.5)	(1.8)	(2.2)	(1.9)	(2.4)
Indonesia	2.1	2.0	2.3	2.3	1.0	0.3	(0.2)	
Thailand	(0.6)	0.4	0.7	0.0	(1.1)	(1.2)	(1.7)	(1.9)
Philippines	3.4	4.8	2.5	0.9	1.3	0.6	1.5	(0.1)
Japan	0.9	1.3	1.3	0.7	(0.2)	(0.6)	(0.9)	(1.1)
China	(3.5)	(2.6)	(2.4)	(3.4)	(4.5)	(4.7)	(4.7)	(4.6)
EU	1.9	2.0	1.9	1.0	0.1	(0.4)	(0.9)	
USA	(0.1)	0.8	0.9	(0.7)	(1.9)	(1.6)	(2.0)	(2.7)

Source: CEIC, MIDFR


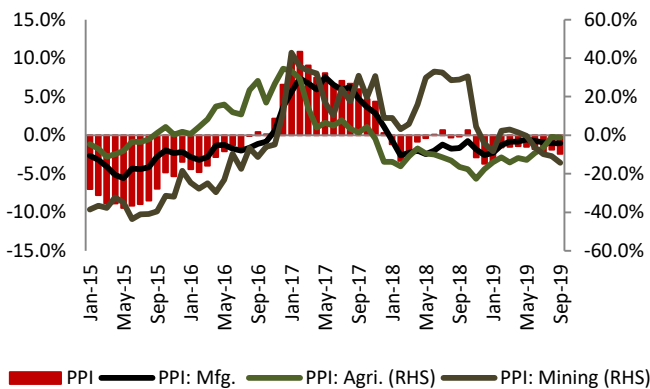
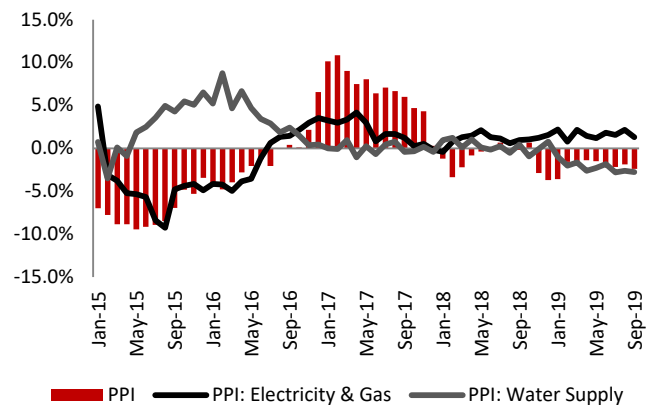
We forecast producer deflation at -1.8% for 2019. We foresee producer prices deflation to widen this year at -1.8% from -1.1% in 2018. Up to Aug-19, producer inflation averaged -2% mainly due to RON95 price cap which is lower than last year's average price. Moving forward, we foresee the number to improve slightly buoyed by increasing costs from the food component. 

Chart 1: PPI Performance by Sector (YoY%)



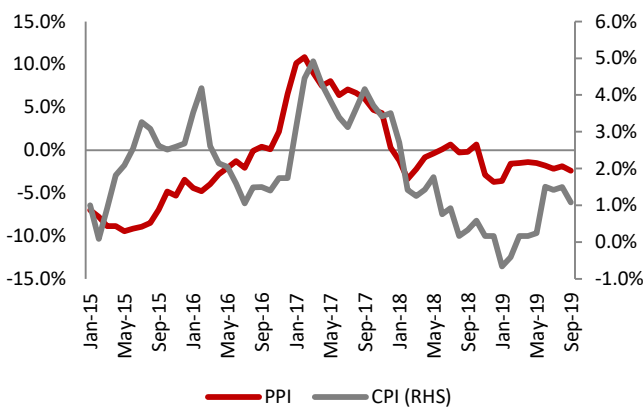
Source: CEIC, MIDFR

Chart 2: PPI vs Utilities (YoY%)



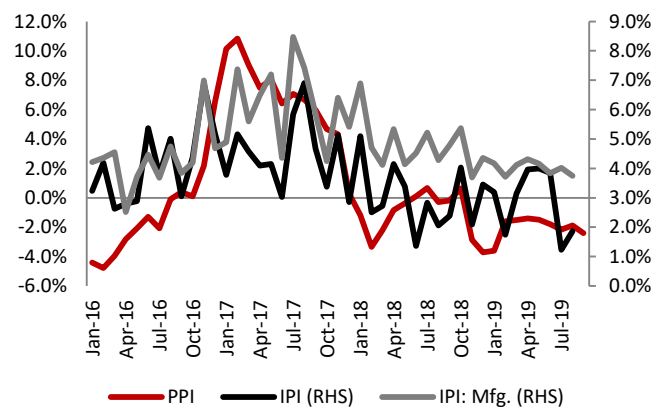
Source: CEIC, MIDFR

Chart 3: PPI vs CPI (YoY%)



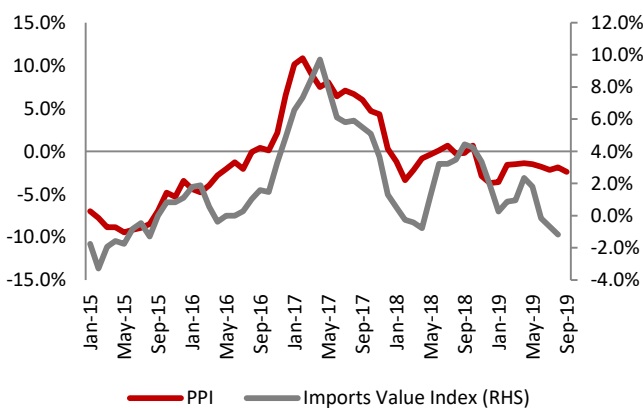
Source: CEIC, MIDFR

Chart 4: PPI vs IPI (YoY%)



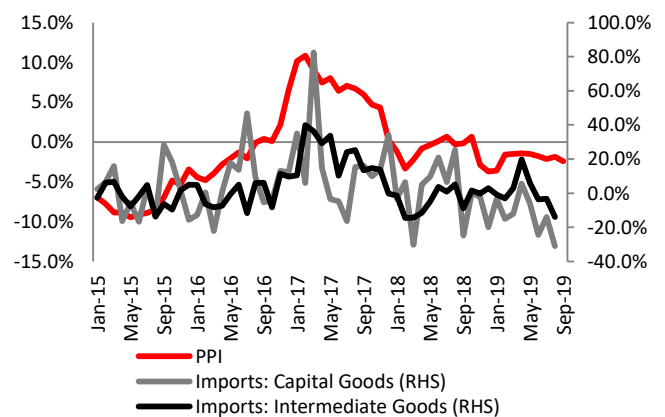
Source: CEIC, BLOOMBERG, MIDFR

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



Source: CEIC, MIDFR

Chart 6: PPI vs Imports (YoY%)



Source: CEIC, MIDFR

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