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**29 August 2019**

## ECONOMIC REVIEW | July 2019 Producer Price Index

# PPI Contracted For Ninth Consecutive Month amid Declining Commodity Prices

- *PPI contracted for ninth straight months. Malaysia's producer cost remains deflationary for the ninth consecutive months as PPI shrank further by -2.2%yoy in July-19. This was mainly due to higher decrease in input prices of mining and manufacturing sectors. Factory input price have contracted for 19-consecutive months. Manufacturing sector still held the largest share at 81.6% in determining the producers' inflation.*
- *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. Referring to input price of food product, the component has been falling since Dec-17. Despite this, the rate of decline has slowed since Dec-18 with the latest at -7.2%yoy in July-19.*
- *We forecast producer deflation at -1.8% for 2019. We foresee producer prices deflation to widen this year at -1.5% from -1.1% in 2018. Up to June-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 on the anticipation of a more targeted fuel subsidy in place and increasing costs from the food component.*

**PPI contracted for ninth straight months.** Malaysia's producer cost remains deflationary for the ninth consecutive months as PPI shrank further by -2.2%yoy in July-19. This was mainly due to higher decrease in input prices of mining and manufacturing sectors. Factory input price have contracted for 19-consecutive months. Manufacturing sector still held the largest share at 81.6% in determining the producers' inflation. Meanwhile, PPI for agriculture gradually recovered to lower negative rates compared to previous months. We expect the PPI to remain low given that retail fuel prices of RON95 and Diesel are capped at lower levels than 2018's average prices.

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

| | MoM% | | | YoY% | | |
|---|---|---|---|---|---|---|
| | May-18 | Jun-18 | Jul-18 | May-18 | Jun-18 | Jul-18 |
| PPI | 0.2 | (0.9) | (0.1) | (1.5) | (1.8) | (2.2) |
| Agri, forestry & fishing | (1.6) | 1.1 | 1.3 | (12.8) | (9.2) | (6.5) |
| Mining | 2.7 | (8.7) | (1.2) | (0.4) | (6.4) | (9.9) |
| Manufacturing | 0.1 | (0.3) | (0.1) | (0.6) | (0.8) | (0.9) |
| Electricity and gas | 0.1 | (0.2) | 0.2 | 1.2 | 1.8 | 1.5 |
| Extraction of Petroleum & Natural Gas | 2.7 | (8.7) | (1.2) | (0.4) | (6.4) | (9.9) |
| Food Product | (0.2) | (0.5) | (0.3) | (8.0) | (7.9) | (7.2) |

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. Referring to input price of food product, the component has been falling since Dec-17. Despite this, the rate of decline has slowed since Dec-18 with the latest at -7.2%yoy in July-19. As food items hold almost the majority share in Malaysia's CPI, we expect the improvement to partly offset the weak inflation caused by significant decline in transport component. Food inflation is predicted to stay above the overall CPI given that Malaysia is a net importer of food. On the other hand, low input prices would somehow support Malaysia's industrial activities. Cost of crude materials was stagnant in July-19 after eight months of negative growth while intermediate materials supplies & components remain in contraction mode for the 19$^{th}$ month.

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

| | MoM% | | | YoY% | | |
|---|---|---|---|---|---|---|
| | May-18 | Jun-18 | Jul-18 | May-18 | Jun-18 | Jul-18 |
| PPI By Stage of Processing (SP) | 0.2 | (0.9) | (0.1) | (1.5) | (1.8) | 0.0 |
| Crude Materials for Further Processing (CM) | 0.2 | (3.8) | (0.7) | (5.0) | (7.0) | 0.0 |
| Intermediate Materials Supplies and Components (IM) | 0.2 | (0.8) | 0.1 | (0.8) | (1.4) | (1.8) |
| Finished Goods (FG) | 0.4 | 0.4 | 0.0 | 0.1 | 1.3 | 1.3 |
| Capital Equipment (CE) | 0.6 | 0.7 | 0.1 | 1.2 | 3.3 | 3.4 |

Source: CEIC, MIDFR

**PPI remain weak globally.** In July-19, most of the key economies' producer inflation remains in negative territory. China and Japan PPI growth contracted further to 4.7%yoy and 0.6%yoy while the US's improved slightly to -1.6%yoy but remain negative. US-China trade impasses cause business sentiment to deteriorate. Businesses may be less keen to make new investments and try to reduce existing costs due to uncertainty in future demand. Besides that, global oil prices also fell due to the US-China trade war escalation. The average price of Brent crude oil contracted by -14.3%yoy to USD 64.2pb in July-19. Falling oil price could be one of the major factors that pushed down the input prices.

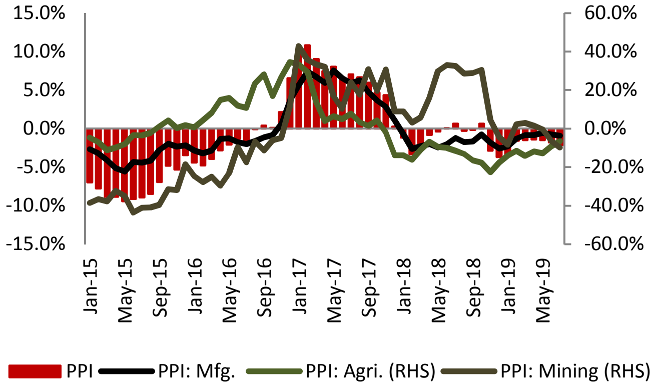
**Table 3: Global Producer Price Index (YoY%)**

| | Dec-18 | Jan-19 | Feb-19 | Mar-19 | Apr-19 | May-19 | Jun-19 | Jul-19 |
|---|---|---|---|---|---|---|---|---|
| Malaysia | (3.7) | (3.6) | (1.6) | (1.5) | (1.4) | (1.5) | (1.8) | (2.2) |
| Indonesia | 3.4 | 2.2 | 2.1 | 2.0 | 2.3 | 2.3 | 1.0 | |
| Thailand | (0.5) | (1.1) | (0.6) | 0.4 | 0.7 | 0.0 | (1.1) | (1.2) |
| Philippines | 0.2 | 3.7 | 3.2 | 4.4 | 1.9 | 0.9 | 1.0 | |
| Japan | 1.4 | 0.6 | 0.9 | 1.3 | 1.2 | 0.6 | (0.1) | (0.6) |
| China | (3.8) | (4.0) | (3.5) | (2.6) | (2.4) | (3.4) | (4.5) | (4.7) |
| EU | 1.9 | 1.8 | 1.9 | 2.0 | 1.9 | 1.0 | 0.1 | |
| USA | 2.4 | 0.6 | (0.1) | 0.8 | 0.9 | (0.8) | (1.9) | (1.6) |

Source: CEIC, MIDFR

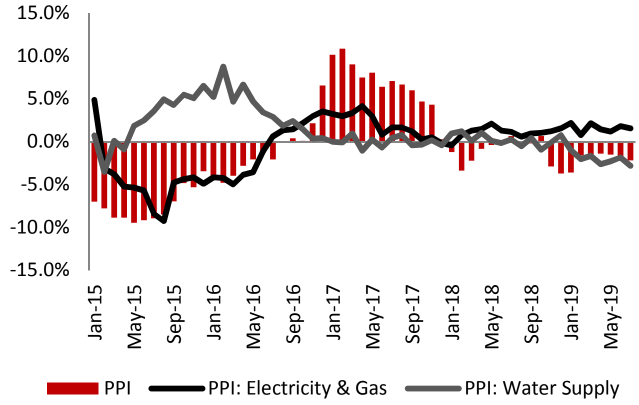
**We forecast producer deflation at -1.8% for 2019.** We foresee producer prices deflation to widen this year at -1.5% from -1.1% in 2018. Up to June-19, producer inflation averaged -1.9% mainly due to RON95 price cap which is lower than last year's average price. Moving forward, we foresee the number to improve slightly on the anticipation of a more targeted fuel subsidy in place and increasing costs from the food component.

**Chart 1: PPI Performance by Sector (YoY%)**



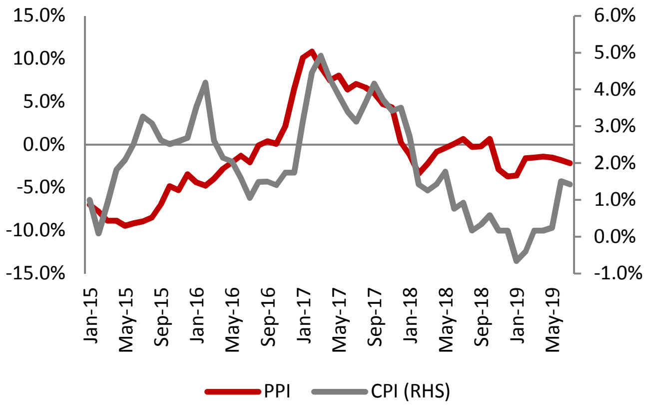

Source: CEIC, MIDFR

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



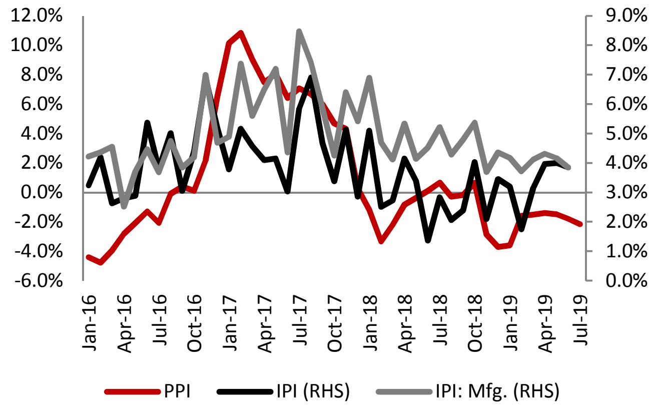

Source: CEIC, MIDFR

**Chart 3: PPI vs CPI (YoY%)**



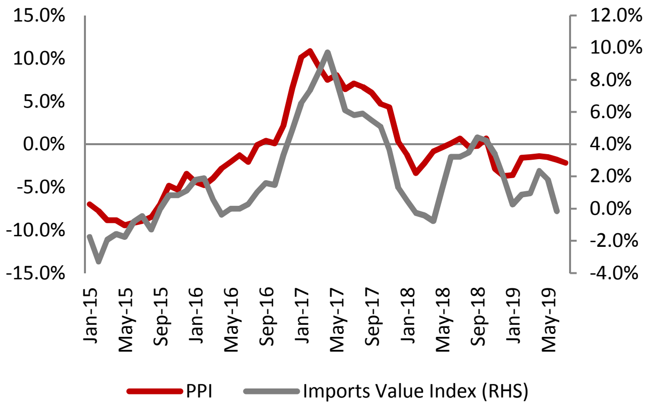

Source: CEIC, MIDFR

**Chart 4: PPI vs IPI (YoY%)**



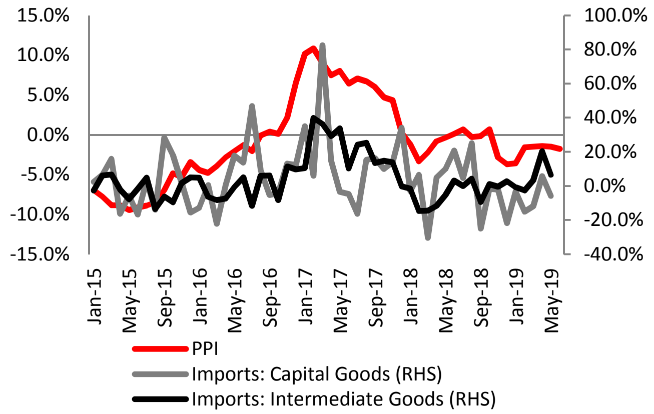

Source: CEIC, BLOOMBERG, MIDFR

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




Source: CEIC, MIDFR

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




Source: CEIC, MIDFR

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