

ECONOMIC REVIEW | November 2019 Producer Price Index

PPI Posted Inflation after a Year as Input Prices of Agriculture and Mining Rebounded

- PPI rebounded after a year. Malaysia's producer cost rebounded to positive territory in Nov-19 at 1.2%yoy after one solid year of deflation. Input prices of manufacturing which held around 80% of the total PPI remain deflationary but at a smaller decline of -0.7%yoy. The fall was offset by agriculture and mining components. PPI of agriculture continued on uptrend by recording double digit growth of almost 20%yoy, the highest pace since Feb-17.*
- Inflationary pressure to increase. 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 gradually increase starting 2020. Despite the overall decline for manufacturing PPI, PPI for food product manufacturing posted lower negative growth of -0.5%yoy. It had been on an improving trend since Dec-18.*
- We foresee producer inflation at 2.9% for 2019. For this year, we estimated producer deflation of 2%yoy. Year-to-date, producer price changes averaged at -1.8%yoy. For 2020, we foresee producer prices to rebound to inflation of 2.9% mainly due to the removal of domestic fuel price cap. Based on the latest development, the targeted fuel subsidy which was scheduled to begin in Jan-20 has been postponed but it is likely to come into effect by 2Q19 once the mechanism is ready.*

PPI rebounded after a year. Malaysia's producer cost rebounded to positive territory in Nov-19 at 1.2%yoy after one solid year of deflation. Input prices of manufacturing which held around 80% of the total PPI remain deflationary but at a smaller decline of -0.7%yoy. The fall was offset by agriculture and mining components. PPI of agriculture continued on uptrend by recording double digit growth of almost 20%yoy, the highest pace since Feb-17. Meanwhile, those of mining recorded at 13-month high of 6.4%yoy, partially attributed to higher crude oil prices globally.

Table 1: Producer Price Indices by Selected Sector

	MoM%			YoY%		
	Sep-18	Oct-18	Nov-18	Sep-18	Oct-18	Nov-18
PPI	0.7	(0.2)	1.3	(2.4)	(2.9)	1.2
Agri, forestry & fishing	(0.7)	(0.2)	10.5	(1.1)	1.5	19.9
Mining	6.0	(2.5)	8.9	(14.4)	(18.2)	6.4
Manufacturing	0.3	0.1	(0.2)	(1.0)	(1.3)	(0.7)
Electricity and gas	(0.9)	(0.1)	(0.3)	1.3	1.3	0.6
Food Product	1.1	0.4	0.9	(4.5)	(3.5)	(0.5)

Source: CEIC, MIDFR

Inflationary pressure to increase. 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 gradually increase starting 2020. Despite the overall decline for manufacturing PPI, PPI for food product manufacturing posted lower negative growth of -0.5%yoy. It had been on an 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 the biggest share in Malaysia's CPI basket, we expect it to have a significant impact to the overall inflation. Besides that, cost of crude materials rebounded to positive territory after a year under contraction while those of intermediate material supplies & component are still declining but at the softest pace in nearly two years. Furthermore, growth of capital equipment PPI registered higher at 3%yoy. The better price performance of intermediate and capital goods could be due to demand-pull as economic activities particularly of construction are expected to be upbeat next year given that a number of mega/large projects are resumed.

Table 2: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Sep-18	Oct-18	Nov-18	Sep-18	Oct-18	Nov-18
PPI By Stage of Processing (SP)	0.7	(0.2)	1.3	(2.4)	(2.9)	1.2
Crude Materials for Further Processing (CM)	3.0	(1.7)	6.5	(8.5)	(11.4)	5.9
Intermediate Materials Supplies and Components (IM)	0.1	0.4	0.4	(1.8)	(1.4)	(0.4)
Finished Goods (FG)	0.3	(0.3)	(0.2)	1.3	0.7	1.4
Capital Equipment (CE)	0.4	(0.5)	(0.4)	3.0	1.9	3.0

Source: CEIC, MIDFR

PPI rose as global oil prices increase. In Nov-19, most of the key economies' producer inflation improved on the back of increasing global oil prices. The average price of Brent crude oil contracted by -4.3%yoy in Nov-19, the lowest fall in seven months. Japan and Philippines's PPI recorded positive growth after few months of decline. We could foresee more increase of prices in Japan moving forward due to the increasing sales tax. In a similar note, the US and China's deflation moderated to -1.6%yoy and -4%yoy respectively. The US-China progress towards a partial trade deal could have improved the business sentiment hence increase opportunities for new investments or expansions on the prospect of better demand moving forward.

Table 3: Global Producer Price Index (YoY%)

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
Malaysia	(1.4)	(1.5)	(1.8)	(2.2)	(1.9)	(2.4)	(2.9)	1.2
Indonesia	2.3	2.3	1.0	0.3	(0.2)	(0.8)	(1.2)	
Thailand	0.7	0.0	(1.1)	(1.2)	(1.7)	(1.9)	(2.5)	(2.1)
Philippines	2.5	1.0	1.4	0.7	1.5	(0.0)	(0.8)	0.5
Japan	1.3	0.7	(0.2)	(0.6)	(0.9)	(1.1)	(0.4)	0.1
China	(2.4)	(3.4)	(4.5)	(4.7)	(4.7)	(4.6)	(4.7)	(4.0)
EU	1.9	1.0	0.1	(0.3)	(0.9)	(1.0)	(1.5)	
USA	0.9	(0.7)	(1.9)	(1.8)	(2.0)	(2.7)	(3.0)	(1.6)

Source: CEIC, MIDFR


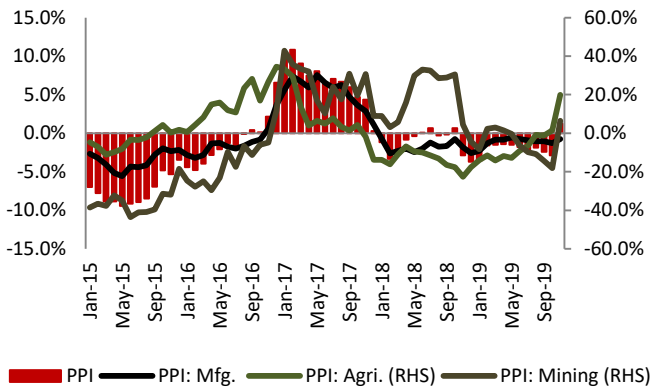
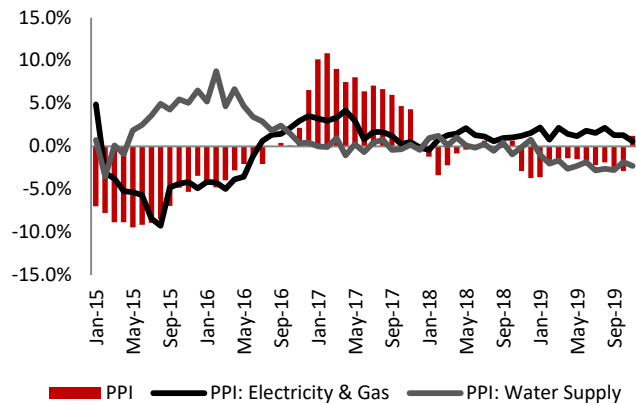
We foresee producer inflation at 2.9% for 2019. For this year, we estimated producer deflation of 2%yoy. Year-to-date, producer price changes averaged at -1.8%yoy. For 2020, we foresee producer prices to rebound to inflation of 2.9% mainly due to the removal of domestic fuel price cap. Based on the latest development, the targeted fuel subsidy which was scheduled to begin in Jan-20 has been postponed but it is likely to come into effect by 2Q19 once the mechanism is ready. In addition, increasing costs from the food and utilities components moving forward would contribute to the overall inflationary pressure. 

Chart 1: PPI Performance by Sector (YoY%)



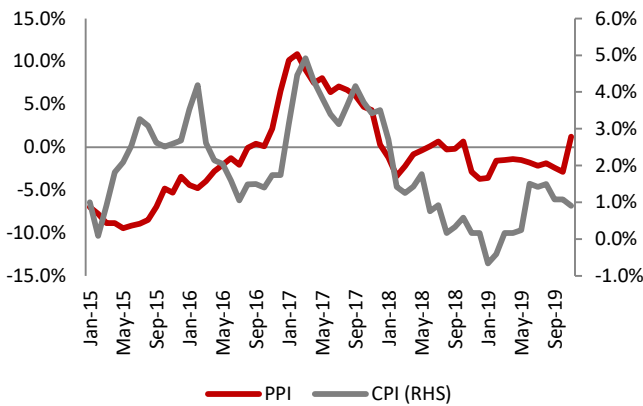
Source: CEIC, MIDFR

Chart 2: PPI vs Utilities (YoY%)



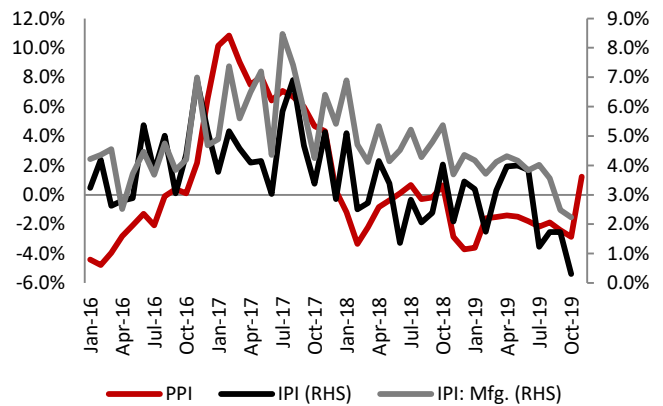
Source: CEIC, MIDFR

Chart 3: PPI vs CPI (YoY%)



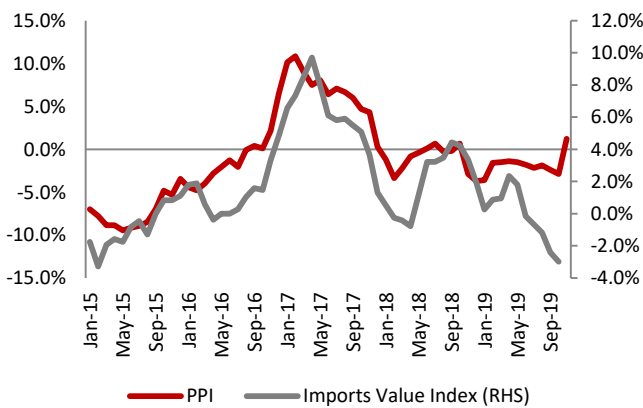
Source: CEIC, MIDFR

Chart 4: PPI vs IPI (YoY%)



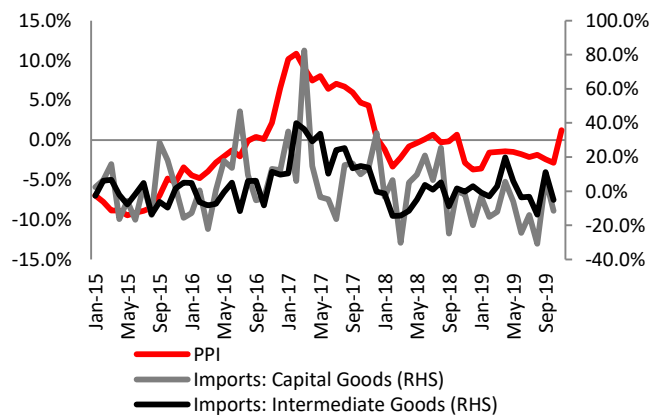
Source: CEIC, BLOOMBERG, MIDFR

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



Source: CEIC, MIDFR

Chart 6: PPI vs Imports (YoY%)



Source: CEIC, MIDFR

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