

## ECONOMIC REVIEW | April 2018 Producer Price Index

### Subdued Price Pressure Cause PPI to Remain In Negative Trajectory for Four Consecutive Months

- *Producer prices continued to fall for 4-consecutive months. On yearly basis, Malaysia's producer prices contracted by -0.8%yoy in Apr-18, mainly due to unfavourable base effects. Nevertheless, on a monthly basis, input prices rebounded to positive reading as compared to a month earlier.*
- *Low input cost will support industrial activities. With the declining input cost inflation in Apr-18, we opine this would provide support to industrial and business activities in the coming months. Post GE14 period, we noticed retail fuel pump prices have remain unchanged as the newly elected government will retain the price of fuel despite the rise in global crude oil prices.*
- *Producer price index is expected to expand by 3.2% in 2018. Amid unfavourable base effects, we foresee input cost inflation to average at 3.2% this year. We anticipate inflationary pressure from fuel-related items to pick-up at steady speed, in tandem with steady gradual rise in global commodity prices.*

**Producer prices continued to fall for 4-consecutive months.** On yearly basis, Malaysia's producer prices contracted by -0.8%yoy in Apr-18, mainly due to unfavourable base effects. Nevertheless, on a monthly basis, input prices rebounded to positive reading as compared to a month earlier. The decline is offset by the manufacturing, agriculture, forestry & fishing and food product which continued to shrink since Jan-18. In contrast, we noticed other sectors experienced a steady growth in input price change in April. Moving forward, we foresee the slowdown in inflationary pressure will stay throughout the year amid the new economic policies to benefit across stages despite the gradual rise in global commodity prices.

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

	MoM%			YoY%		
	18-Feb	18-Mar	18-Apr	18-Feb	18-Mar	18-Apr
PPI	(1.5)	(0.4)	0.5	(3.4)	(2.2)	(0.8)
Agriculture, forestry & fishing	(2.5)	(2.9)	(1.6)	(16.2)	(11)	(6.8)
Mining	(6.3)	(0.1)	8.5	3.1	5.8	15.9
Manufacturing	(0.8)	(0.4)	(0.2)	(2.6)	(2.3)	(2.0)
Electricity and gas	1.1	0.8	(0.1)	0.8	1.3	1.5
Food Product	(1.8)	(0.6)	(0.8)	(8.9)	(10.0)	(8.3)

Source: CEIC, MIDFR

**Tapering consumer's price pressure.** Via pass-through mechanism, we can expect Malaysia's headline inflation to taper down further in May as producer's cost inflation contracted. In addition, cost of food products shrank by 8.3%yoy, in tandem with the prices trend reflected in the agricultural-related sector. In addition, the zero-rated GST which would be effective on June 1<sup>st</sup> is expected to translate into reduced prices of goods and services. Thus, this could reduce consumer's prices growth and directly provide slight relief on cost of living especially for low income earners. Furthermore, we foresee this will drive back sales for producers and the demand side would add pressure to consumer inflation amid stable wage growth, healthy labour market and the abolishment of GST.

**Low input cost will support industrial activities.** With the declining input cost inflation in Apr-18, we opine this would provide support to industrial and business activities in the coming months. Post GE14 period, we noticed retail fuel pump prices have remain unchanged as the newly elected government will retain the price of fuel despite the rise in global crude oil prices. Hence, we opine this will hold down input cost pressure and indirectly support local industrial production. As expected, Malaysia's external trade activities rebounded to the highest monthly figure ever recorded from the contraction in Feb-18. It is mainly offset by the boom sales to non-major markets such as Hong Kong and South Africa, among others. Consequently, we foresee Malaysia's external trade performance as well as manufacturing sales and industrial productions will continue expanding amid gradual rise in commodity prices on top of fading protectionism threat.

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

	MoM%			YoY%		
	18-Feb	18-Mar	18-Apr	18-Feb	18-Mar	18-Apr
PPI	(1.5)	(0.4)	0.5	(3.4)	(2.2)	(0.8)
Crude Materials for Further Processing (CM)	(4.8)	(1.0)	2.5	(5.8)	(0.7)	3.7
Intermediate Materials Supplies and Components (IM)	(0.2)	(0.6)	0.2	(2.9)	(2.8)	(1.6)
Finished Goods (FG)	(1.4)	0.2	(0.5)	(2.1)	(2.2)	(2.6)
Capital Equipment (CE)	(2.4)	0.7	(0.8)	(2.9)	(2.5)	(2.9)


Source: CEIC, MIDFR

**Global PPI eased in Apr-18.** China's producer inflation advanced by 3.4%yoy, followed a 17-month low in Mar-18, as cost rose faster for means of production and daily use goods. Meanwhile, US PPI grew by 2.6%yoy, due to the moderation in cost of services which somehow ease fears that inflationary pressures were rapidly building. Moreover, Singapore recorded its highest PPI growth since Nov-17 at 2.5%yoy which marked the second increase in PPI as the index of oil went up faster while index of non-oil dropped less than previous month. The moderating PPI trends are seen to be broad-based, amid of gradual rise in commodity prices and thus will provide supportive environment for businesses to expand steadily in 2018.

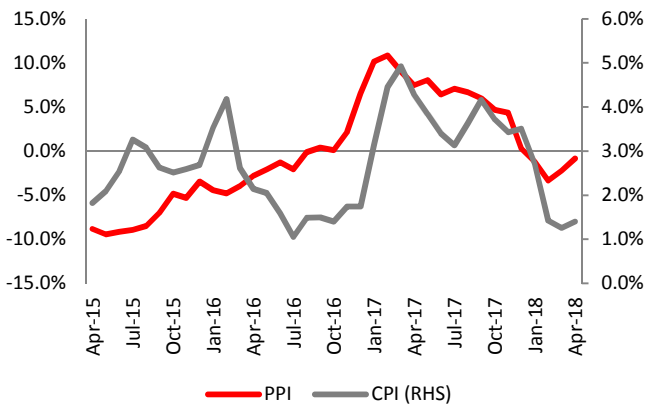
**Table 3: Global Producer Price Index (YoY%)**

	17-Oct	17-Nov	17-Dec	18-Jan	18-Feb	18-Mar	18-Apr
Malaysia	4.7	4.3	0.3	(1.2)	(3.4)	(2.2)	(0.8)
Indonesia	2.5	2.8	2.7	3.2	3.4	3.4	
Thailand	0.1	0.5	(0.6)	(1.1)	(1.9)	(1.4)	
Philippines	0.2	(1.3)	(1.8)	(2.0)	(1.3)	(0.9)	0.5
Singapore	3.6	5.4	0.6	(0.2)	(0.8)	0.9	2.5
Japan	3.4	3.5	3.1	2.7	2.5	2.1	2.0
China	6.9	5.8	4.9	4.3	3.8	3.1	3.4
EU	2.5	2.8	2.2	1.6	1.6	2.1	
United States	2.8	3.1	2.6	2.7	2.8	3.0	2.6

Source: CEIC, MIDFR

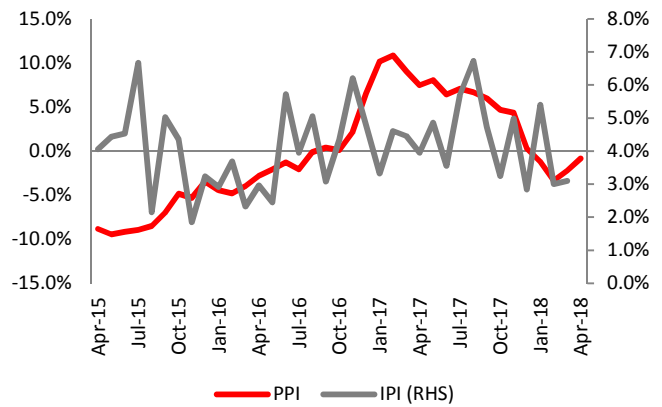
**Producer price index is expected to expand by 3.2% in 2018.** Amid unfavourable base effects, we foresee input cost inflation to average at 3.2% this year. We anticipate inflationary pressure from fuel-related items to pick-up at steady speed, in tandem with steady gradual rise in global commodity prices. However, we note that volatility in global commodity prices and market uncertainties due to trade war and geopolitical tensions are downside risks in putting a steep inflationary pressure for businesses as well as consumers in Malaysia. 

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



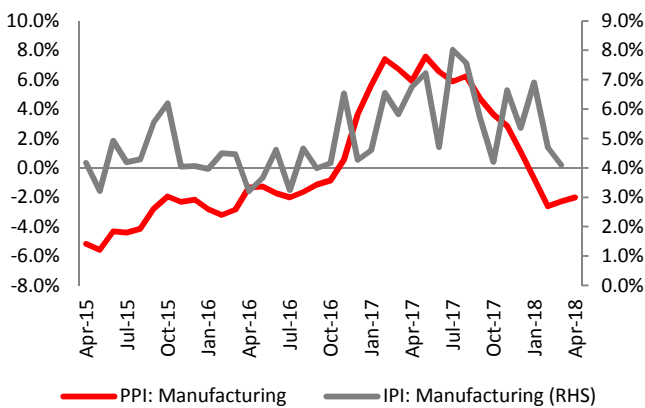
Source: CEIC, MIDFR

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



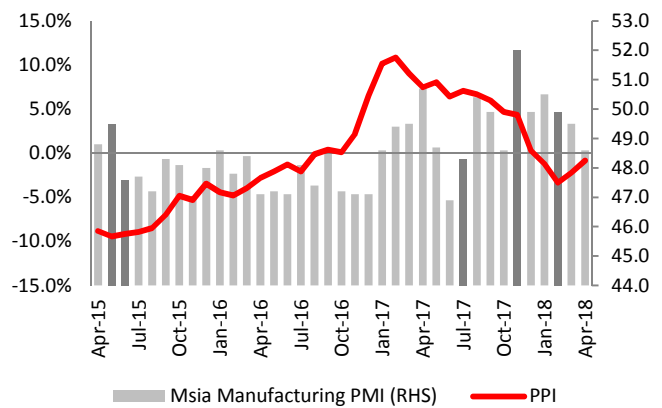
Source: CEIC, MIDFR

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



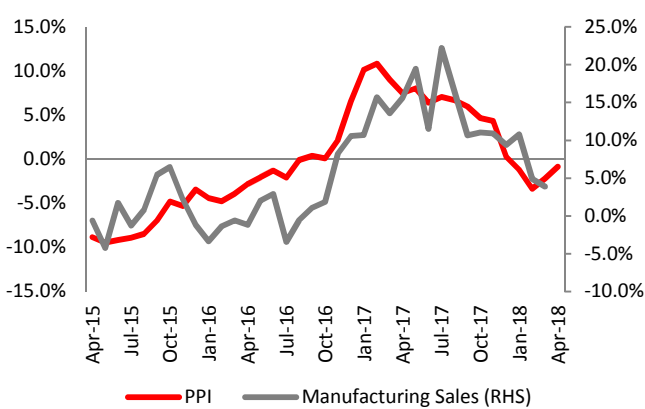
Source: CEIC, MIDFR

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



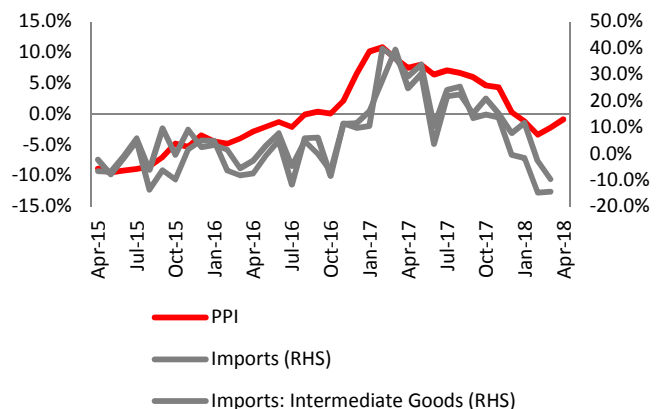
Source: CEIC, BLOOMBERG, MIDFR

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



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

## **DISCLOSURES AND DISCLAIMER**

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.