31 May 2018

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 1st 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, heathy 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.

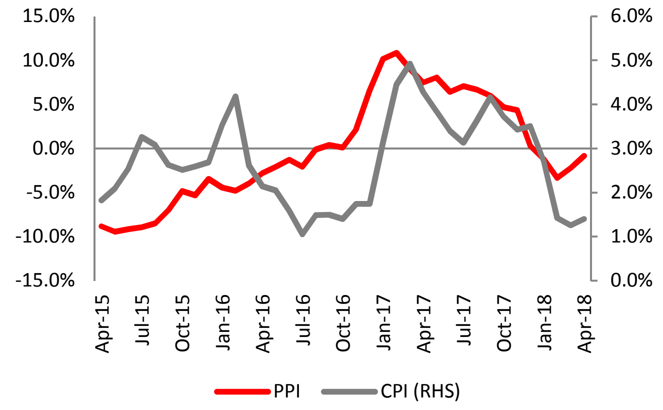
Table 3: Global Producer Price Index (YoY%)

	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

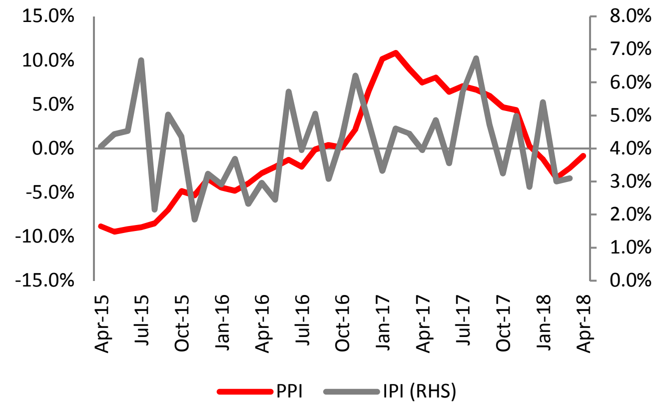
Producer price index is expected to expand by 3.2% in 2018. Amid unfavourable base effects, we foresee input cost inflation to average at 3.2% this year. We anticipate inflationary pressure from fuel-related items to pick-up at steady speed, in tandem with steady gradual rise in global commodity prices. 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%)



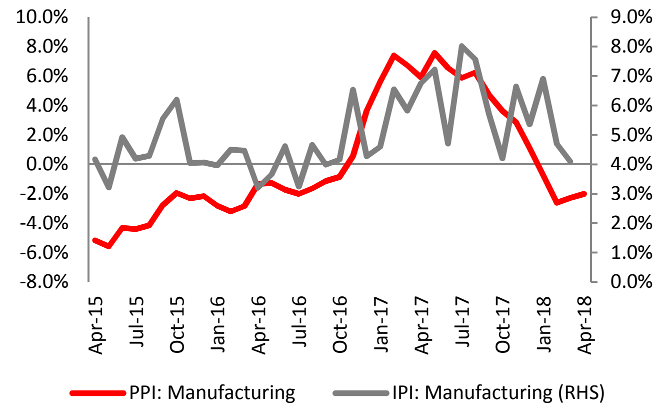
Source: CEIC, MIDFR

Chart 2: PPI vs IPI (YoY%)



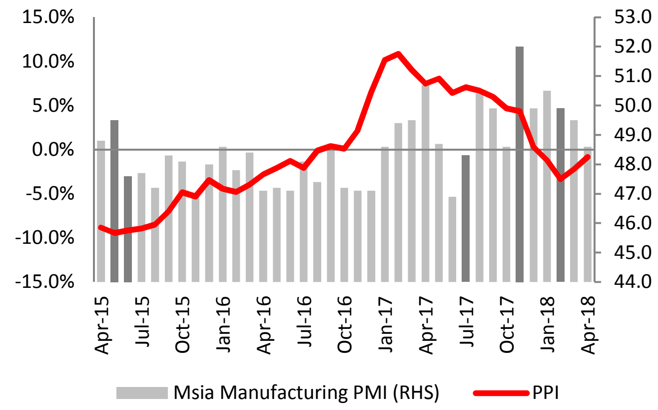
Source: CEIC, MIDFR

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



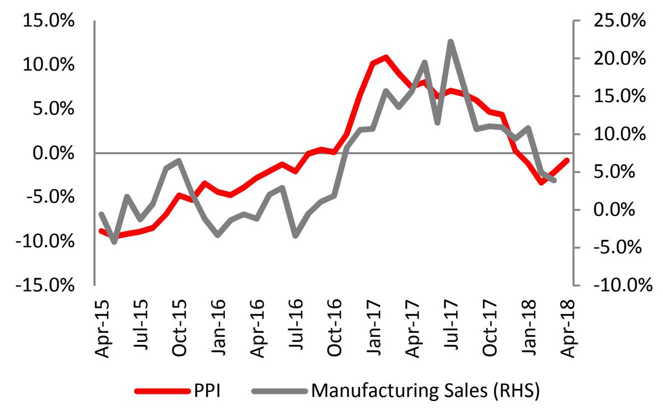
Source: CEIC, MIDFR

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



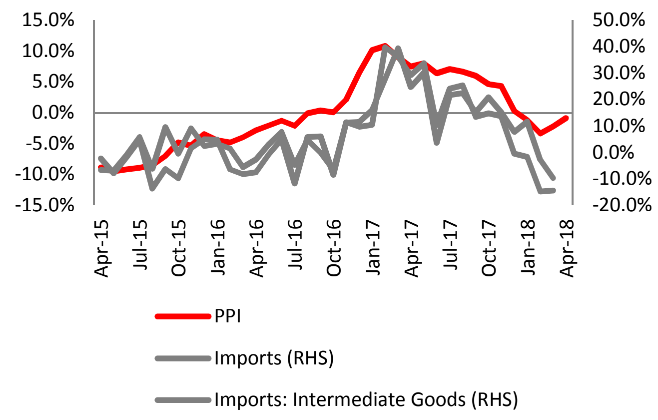
Source: CEIC, BLOOMBERG, MIDFR

Chart 5: PPI vs Manufacturing Sales (YoY%)



Source: CEIC, MIDFR

Chart 6: PPI vs Imports (YoY%)



Source: CEIC, MIDFR

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