

ECONOMIC REVIEW | August 2018 Producer Price Index

PPI Dipped by 0.3% in August Despite Rising Commodity Prices

- PPI dipped by -0.3%yoy after 2-consecutive months of modest expansion. Malaysia's producer inflation contracted by -0.3%yoy in Aug-18. The largest pulling factor is declining in manufacturing input prices of -1.7% and followed by agriculture input prices of -13.2%yoy.
- A conical consumer's inflation. As a leading indicator of price changes at the consumer level, the latest PPI number suggests that Malaysia's headline inflation in Sep-18 will remain low. In fact, cost inflation of food products and manufacturing sector continued to be in negative territory of -8.8%yoy and -1.7% respectively in Aug-18.
- Producer price index is expected to contract by 1% in 2018. Amid higher base effects, we foresee producer price inflation to average at -1% this year. We note that prices of agriculture and factory inputs are predicted to stay low amid declining agriculture prices and stable domestic fuel prices.

PPI dipped by -0.3%yoy after 2-consecutive months of modest expansion. Malaysia's producer inflation contracted by -0.3%yoy in Aug-18. The largest pulling factor is declining in manufacturing input prices of -1.7% and followed by agriculture input prices of -13.2%yoy. Manufacturing and agriculture sectors hold weightage size of 81.6% and 6.7% of total PPI basket. On the other hand, mining input prices remain strong, surging by 28.6%yoy, recording 5-consecutive months of double digit rate since Apr-18. In upcoming month, we foresee overall PPI will rise modestly underpinned by strong pick-up in global crude oil prices and implementation of SST.

Table 1: Producer Price Indices by Selected Sector

	MoM%			YoY%		
	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18
Overall PPI	(0.7)	0.3	(0.1)	0.1	0.7	(0.3)
Agriculture, forestry & fishing	(2.8)	(1.6)	(0.7)	(10.1)	(11.5)	(13.2)
Mining	(2.8)	2.6	(0.9)	33.1	32.6	28.6
Manufacturing	(0.1)	0.1	0.1	(2.0)	(1.2)	(1.7)
Electricity and gas	(0.8)	0.4	(0.2)	1.3	1.1	0.6
Extraction of Petroleum & Natural Gas	(2.8)	2.6	(0.9)	33.1	32.6	28.6
Food Product	(0.7)	(1.0)	(1.3)	(8.2)	(7.6)	(8.8)

Source: CEIC, MIDFR

A conical consumer's inflation. As a leading indicator of price changes at the consumer level, the latest PPI number suggests that Malaysia's headline inflation in Sep-18 will remain low. In fact, cost inflation of food products and manufacturing sector continued to be in negative territory of -8.8%yoy and -1.7% respectively in Aug-18. Apart from tax holiday period, stable retail fuel prices and moderating pace in import price growth soften inflationary pressure in Malaysia. Hence, it indirectly offers slight relief on cost of living especially for B40 income group besides stimulating more consumer spending and corporate profits.

Positive outlook for industrial activities. Year-to-date, average producer inflation is -0.9%yoy. Softer inflationary pressure and stable domestic as well as external demand will support Malaysia's economic activities in 2H18. Malaysia's industrial production expands by 2.5%yoy in Jul-18, beating market expectations of 1.5%yoy. Meanwhile, exports in the same month grow by 9.4%yoy. Looking at Malaysia's Nikkei Manufacturing PMI, it improved to 51.2 points in Aug-18, highest so far in 2018. Consequently, we foresee Malaysia's external trade performance as well as industrial productions to continue expanding on the back of low inflation and eventually will be translated into steady economy growth.

Table 2: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18
PPI By Stage of Processing (SP)	(0.7)	0.3	(0.1)	0.1	0.7	(0.3)
Crude Materials for Further Processing (CM)	(1.7)	0.1	(0.8)	12.3	11.1	7.2
Intermediate Materials Supplies and Components (IM)	(0.2)	0.5	0.3	(2.5)	(1.2)	(1.4)
Finished Goods (FG)	(0.8)	0.0	(0.2)	(3.4)	(3.1)	(3.3)
Capital Equipment (CE)	(1.3)	0.0	0.0	(3.9)	(3.4)	(3.5)

Source: CEIC, MIDFR

A slowdown in PPI amid trade tensions. In overall, producer inflation eased for key economies in Aug-18 despite of more pressures derived from escalating trade war between the US and China. For instance, US's producer inflation for final demand unexpectedly went down to 2.8%yoy in Aug-18 following 3.3%yoy registered in the prior month. In tandem, consumer inflation slowed to 2.7%yoy during the month. Likewise, China's cost inflation moderated to 4.1%yoy in the same month (Jul-18: 4.6%yoy), the lowest in four months as prices of means of production slowed to 5.2%yoy from 6%yoy in Jul-18. Among ASEAN countries, Thailand's producer inflation moderated as well. Input prices increased by 1.8%yoy however lower than 2.2% registered in Jul-18. The moderations in PPI are broad-based amid of modest pace in commodity prices growth.

Table 3: Global Producer Price Index (YoY%)

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
Malaysia	(1.2)	(3.4)	(2.2)	(0.8)	(0.4)	0.1	0.7	(0.3)
Indonesia	5.1	5.2	5.3	5.2	5.1	4.9	4.9	4.7
Thailand	(1.1)	(1.9)	(1.4)	(0.8)	0.7	1.8	2.2	1.8
Philippines	0.1	0.1	(0.6)	0.7	1.5	0.2	0.2	(0.0)
Singapore	0.0	(1.9)	(1.6)	0.7	6.9	7.8	10.9	9.9
Japan	2.7	2.5	2.0	2.0	2.6	2.8	3.0	3.0
China	(2.4)	(3.8)	(4.2)	(2.8)	(1.3)	(0.8)	(0.9)	(2.1)
EU	1.3	1.2	1.4	1.2	2.4	3.2	3.5	
United States	3.8	4.0	4.1	3.8	5.4	5.5	5.8	4.7

Source: CEIC, MIDFR


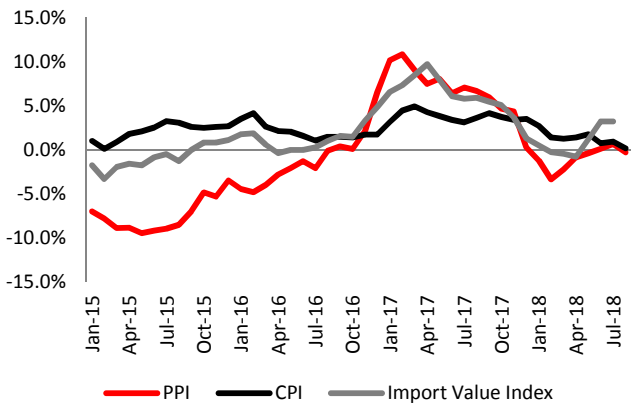
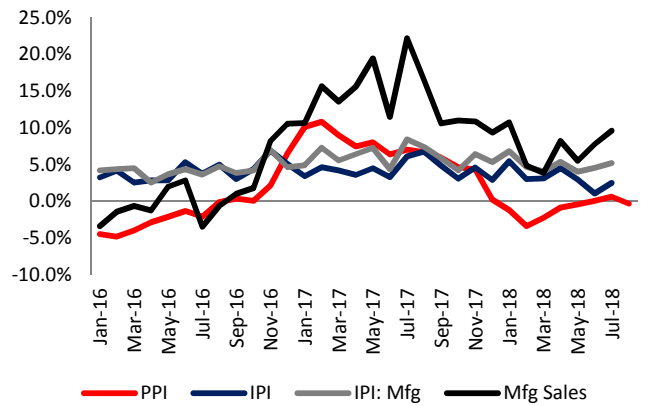
Producer price index is expected to contract by 1% in 2018. Amid higher base effects, we foresee producer price inflation to average at -1% this year. We anticipate inflationary pressure from fuel-related items to pick-up at steady speed, in tandem with steady gradual rise in global crude oil prices and added with the implementation of SST. However, we note that prices of agriculture and factory inputs are predicted to stay low amid declining agriculture prices and stable domestic fuel prices. 

Chart 1: PPI vs CPI vs Import Unit Value Index (YoY%)



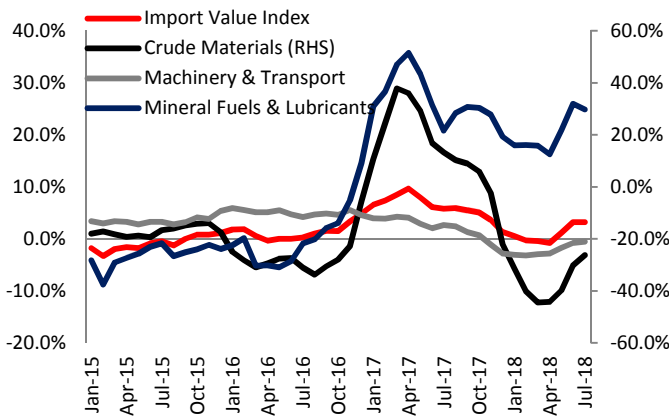
Source: CEIC, MIDFR

Chart 2: PPI vs IPI vs Mfg. Sales (YoY%)



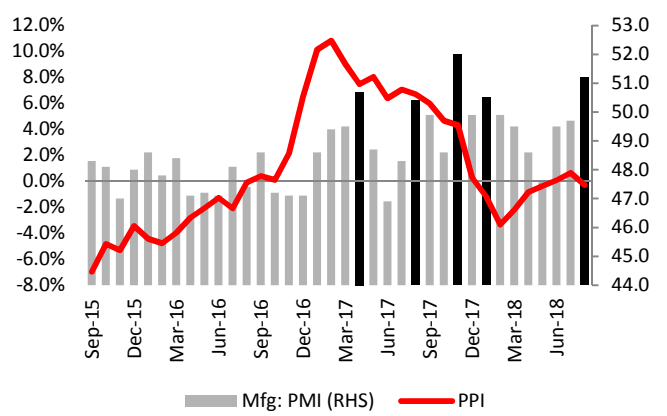
Source: CEIC, MIDFR

Chart 3: IUVI by Major Component (YoY%)



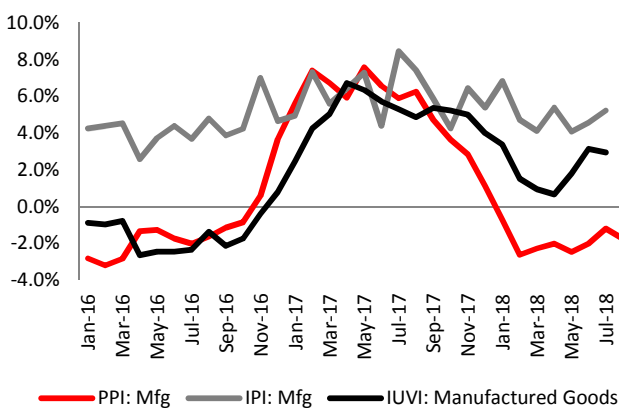
Source: CEIC, MIDFR

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



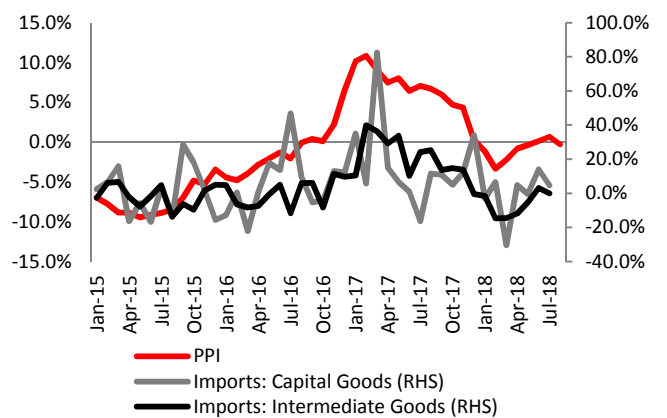
Source: CEIC, BLOOMBERG, MIDFR

Chart 5: Mfg: PPI vs IPI vs IUVI (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.