

ECONOMIC REVIEW | December 2018 Producer Price Index

33-Month Low PPI Number Softens Inflationary Pressure 1Q19

- *PPI hits almost 3-year low. Malaysia's producer inflation slid further down into negative territory of -3.7%yoy in Dec-18. It is the sharpest drop recorded since early Mar-16. This is mainly contributed by a drastic fall in prices from the manufacturing sector by -2.6%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 will remain low for the first quarter of 2019. Looking forward, we are witnessing either an overall fall or moderation in prices which may supposedly grant relief on the lower income groups and a stimulus to boost consumer spending as well as industrial investment.*
- *Producer price index is expected to improve by 1.5% in 2019. Amid low base effects, we foresee producer price inflation to average at 1.5% in 2019. We anticipate inflationary pressure from fuel-related items to pick up gradually, in tandem with modest improvement global energy prices and solid demand by developed and emerging economies.*

PPI hits almost 3-year low. Malaysia's producer inflation slid further down into negative territory of -3.7%yoy in Dec-18. It is the sharpest drop recorded since early Mar-16. This is mainly contributed by a drastic fall in prices from the manufacturing sector by -2.6%yoy. Manufacturing sector holds the largest weightage of total PPI basket at 81.6%. The agriculture, forestry & fishing sector experiences 14-consecutive months of contraction in producer prices. Among others, the contraction in PPI is aligned to the declining global crude oil prices in Dec-18. During the month, Brent oil price registered at \$USD57pbd and first time contraction in 18-month at -11.6%yoy.

Table 1: Producer Price Indices by Selected Sector

	MoM%			YoY%		
	Oct-18	Nov-18	Dec-18	Oct-18	Nov-18	Dec-18
PPI	0.3	(2.8)	(1.3)	0.7	(2.9)	(3.7)
Agriculture, forestry & fishing	(2.8)	(6.4)	0.9	(17.6)	(22.7)	(17.6)
Mining	2.1	(16.4)	(8.9)	30.6	4.5	(4.3)
Manufacturing	0.4	(0.7)	(0.7)	(0.7)	(1.8)	(2.6)
Electricity and gas	(0.1)	0.3	0.1	1.0	1.2	1.6

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 will remain low for the first quarter of 2019. In addition, reintroduction of floating retail fuel prices in Jan-19 would pressure down inflation on both consumer and producer levels especially with the current global energy prices. Looking forward, we are witnessing either an overall fall or moderation in prices which may supposedly grant relief on the lower income groups and a stimulus to boost consumer spending as well as industrial investment.

Boosts for industrial activities. For 2018, producer inflation averaged at -1.1%yoy. A moderation in inflationary pressures and demand stemmed from domestic and external would continue to support Malaysia's economy in 1H19. We foresee Malaysia's external trade performance as well as industrial productions to continue expanding during the first half on the back of low inflationary environment and steady demand from domestic and external front.

Table 2: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Oct-18	Nov-18	Dec-18	Oct-18	Nov-18	Dec-18
PPI By Stage of Processing (SP)	0.3	(2.8)	(1.3)	0.7	(2.9)	(3.7)
Crude Materials for Further Processing (CM)	1.5	(10.9)	(5.5)	7.8	(6.9)	(9.9)
Intermediate Materials Supplies and Components (IM)	(0.1)	(0.6)	(0.7)	(0.8)	(1.5)	(2.3)
Finished Goods (FG)	0.3	(0.9)	0.7	(1.7)	(2.6)	(1.9)

Source: CEIC, MIDFR

ASEAN countries' PPI slid in unison. In the final month of 2019, most of PPI in developed and emerging economies moderated. The contraction in global energy prices is the major factor push down the input prices. For instance, Thailand's PPI shrank by -0.5%yoy, lowest in 8-month and Singapore's is at 10-month low. Similarly, China's PPI is at 21-month low. Moving forward, we foresee continuous slowdown in PPI globally amid sluggish pick up in the global energy prices in 1Q19.

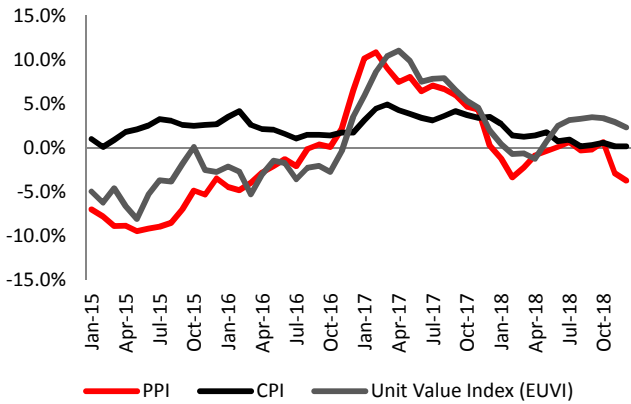
Table 3: Global Producer Price Index (YoY%)

	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
Malaysia	(0.4)	0.1	0.7	(0.3)	(0.2)	0.7	(2.9)	(3.7)
Indonesia	5.9	6.6	7.5	7.4	7.3	7.1	5.3	
Thailand	0.7	1.8	2.2	1.8	1.3	1.7	0.9	(0.5)
Philippines	1.5	1.1	1.0	0.9	1.8	1.1	0.8	0.8
Singapore	8.6	11.7	13.5	12.8	12.1	12.7	5.1	(0.4)
Japan	2.6	2.8	3.0	3.0	3.0	3.0	2.3	1.5
China	4.1	4.6	4.6	4.1	3.6	3.3	2.7	0.9
EU	1.9	1.8	3.0	3.6	4.2	4.3	4.5	
United States	3.1	3.3	3.4	3.0	2.6	2.9	2.5	2.5

Source: CEIC, MIDFR

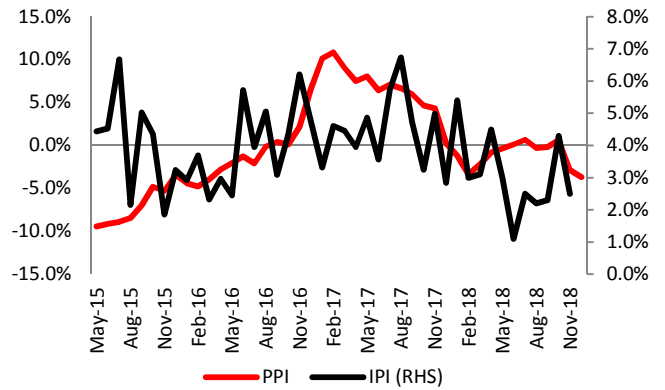
Producer price index is expected to improve by 1.5% in 2019. Amid low base effects, we foresee producer price inflation to average at 1.5% in 2019. We anticipate inflationary pressure from fuel-related items to pick up gradually, in tandem with modest improvement global energy prices and solid demand by developed and emerging economies. 

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



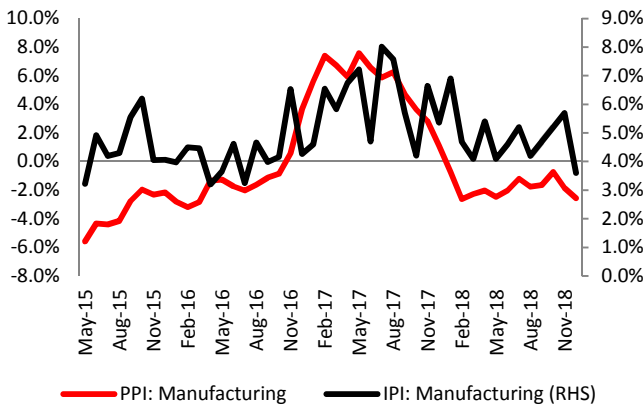
Source: CEIC, MIDFR

Chart 2: PPI vs IPI (YoY%)



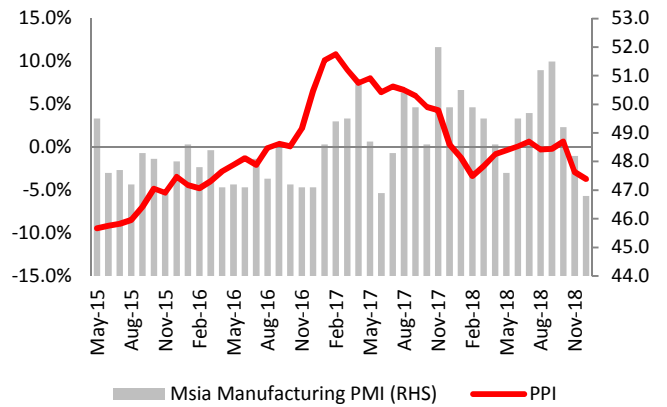
Source: CEIC, MIDFR

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



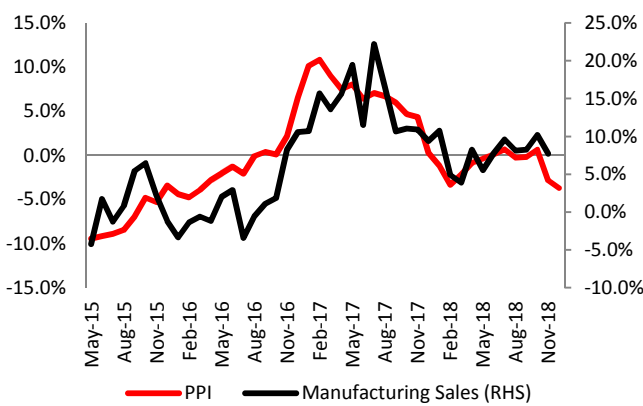
Source: CEIC, MIDFR

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



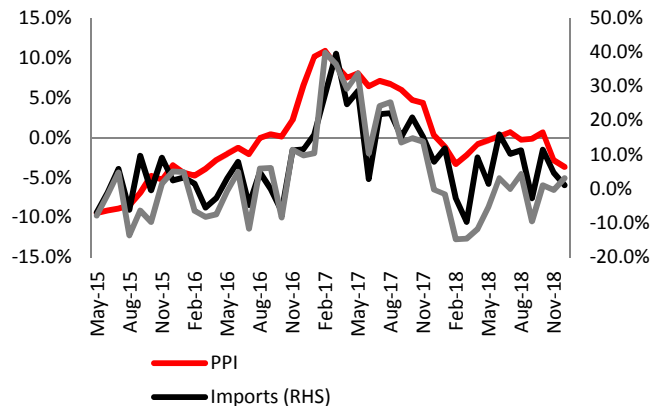
Source: CEIC, BLOOMBERG, MIDFR

Chart 5: PPI vs Manufacturing Sales (YoY%)



Source: CEIC, MIDFR

Chart 6: PPI vs Imports (YoY%)



Source: CEIC, MIDFR

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