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ECONOMIC REVIEW | December 2017 Producer Price Index

Moderating PPI Trend – Dec's Rate at 14-Months Low

- *Producer prices expanded by 6.7% in 2017. Underpin by recovery in global commodity prices and upbeat economic momentum, input prices returned to positive territory as the cost inflation was hovering at negative territories in 2015 and 2016.*
- *Tapering consumer's price pressure. Via pass-through effects mechanism, we can expect Malaysia's headline inflation to taper down below December's 3.5% in January as cost inflation grew by tepid pace of 0.3%yoy and in fact, contracted by 0.5% on monthly basis.*
- *Producer price index is expected to expand by 3.2% in 2018. We anticipate inflationary pressure from fuel-related items to moderate, in tandem with steady gradual rise in global commodity prices especially crude oil. However, volatility in commodity prices and natural disaster effects stay as downside risks for the producer price index.*

Producer prices expanded by 6.7% in 2017. Underpin by recovery in global commodity prices and upbeat economic momentum, input prices returned to positive territory as the cost inflation was hovering at negative territories in 2015 and 2016. Nevertheless, the cost inflation tone down to 14-months low in December, mainly due to unfavourable base effects. By sector, the deceleration of input price growth in extraction of petroleum & natural gas indirectly pulled down inflationary pressure in mining sector. In addition, we noticed other sectors experienced similar slowdown in input price change in the final month of 2017. Moving forward, we foresee the cost inflation to grow at moderate pace in 2018 amid unfavourable base effect as well as stable and gradual rise in commodity prices.

Table 1: Producer Price Indices by Selected Sector

	MoM%			YoY%		
	Oct-17	Nov-17	Dec-17	Oct-17	Nov-17	Dec-17
PPI	(0.6)	0.7	(0.5)	4.7	4.3	0.3
Agriculture, forestry & fishing	(1.4)	(0.3)	(5.3)	4.3	(1.8)	(13.8)
Mining	0.7	4.6	(0.6)	19.6	30.7	8.9
Manufacturing	(0.6)	0.4	0.1	3.6	2.8	1.1
Electricity and gas	(0.2)	0.2	(0.3)	0.3	0.5	(0.2)
Food Product	0.2	0.8	(2.1)	2.1	0.4	(4.7)

Source: CEIC, MIDFR

Tapering consumer's price pressure. Via pass-through effects mechanism, we can expect Malaysia's headline inflation to taper down below December's 3.5% in January as cost inflation grew by tepid pace of 0.3%yoy and in fact, contracted by 0.5% on monthly basis. In addition, cost of food products shrank by 4.7%yoy, in tandem with the prices trend reflected in agriculture related sector. Hence, this could reduce consumer's food prices growth and indirectly provide slight relief on cost of living especially for low income earners.

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Low input cost will support industrial activities. With the declining input cost inflation in December 2017, we opine this would support industrial and business activities in 2018. For instance, Malaysia's Nikkei Manufacturing PMI averaged at 49.9 points in 2H17 as compared to 49 points in 1H17. The PMI performance is among others supported by the declining input cost inflation during the second half. Therefore, we view the low input cost inflation in 2018 would give additional support for industrial and business activities in Malaysia, thus finally translating into steady GDP growth.

Table 2: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Oct-17	Nov-17	Dec-17	Oct-17	Nov-17	Dec-17
PPI	(0.6)	0.7	(0.5)	4.7	4.3	0.3
Crude Materials for Further Processing (CM)	0.8	3.2	(2.4)	10.2	13.6	(1.3)
Intermediate Materials Supplies and Components (IM)	(0.8)	0.0	0.1	4.9	2.8	0.9
Finished Goods (FG)	(0.8)	0.1	0.0	0.2	0.3	0.1
Capital Equipment (CE)	(1.1)	0.2	0.0	(0.4)	(0.3)	(0.7)

Source: CEIC, MIDFR

Global PPI eased in the last month of 2017. Overall producer prices in China recorded at 4.9%yoy, lower than the previous month following government restrictions for polluting industries. The slowdown is also partly due to a high base last year with price gains in raw materials falling from their peaks besides softening economic activities. Similarly, US also recorded a lower PPI at 2.6%yoy compared to 3.1%yoy in November backed by declining costs for services. Meanwhile, PPI in Singapore rose by 0.6%yoy, far lower than upwardly revised 5.4%yoy in the prior month and the weakest since November 2016 in place of the index of oil which rose at a slower pace and non-oil which declined faster. Moving forward, we foresee PPI will continue to decline for most of the economies as economic activity continue to soften.

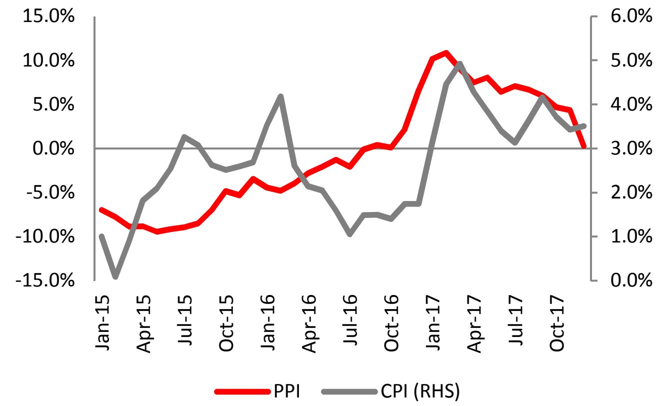
Table 3: Global Producer Price Index (YoY%)

	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-18
Malaysia	6.4	7.1	6.7	6.0	4.7	4.3	0.3
Indonesia	3.4	2.2	2.1	2.1	2.5	2.8	
Thailand	(1.2)	(1.3)	(0.6)	0.5	0.1	0.5	(0.6)
Philippines	(1.9)	(0.9)	(0.4)	(0.7)	0.2	(1.3)	
Singapore	3.2	4.8	5.9	5.2	3.6	5.4	0.6
Japan	2.2	2.6	2.9	3.1	3.4	3.5	3.1
China	5.5	5.5	6.3	6.9	6.9	5.8	4.9
EU	2.4	2.0	2.5	2.8	2.5	2.8	
United States	1.9	1.9	2.4	2.6	2.8	3.1	2.6

Source: CEIC, MIDFR

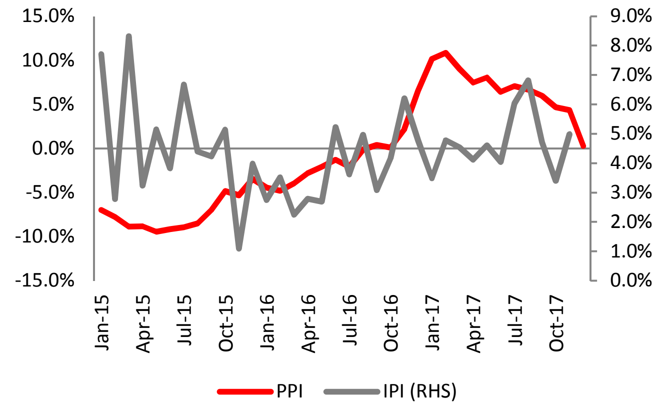
Producer price index is expected to expand by 3.2% in 2018. Amid unfavourable base effects, we foresee input cost inflation to average at 3.2% this year. We anticipate inflationary pressure from fuel-related items to moderate, in tandem with steady gradual rise in global commodity prices especially crude oil. However, volatility in commodity prices and natural disaster effects stay as downside risks for the producer price index.

Chart 1: PPI vs CPI (YoY%)



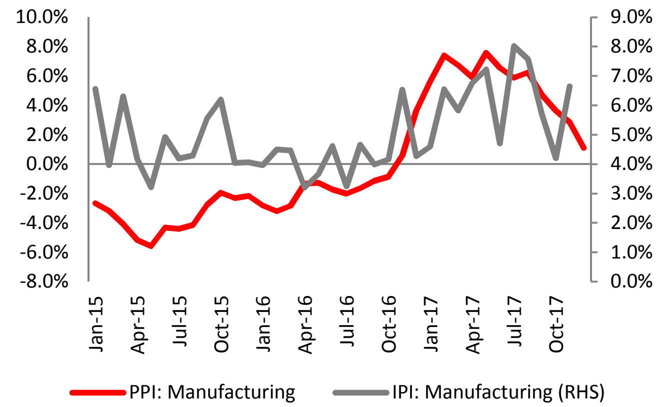
Source: CEIC, MIDFR

Chart 2: PPI vs IPI (YoY%)



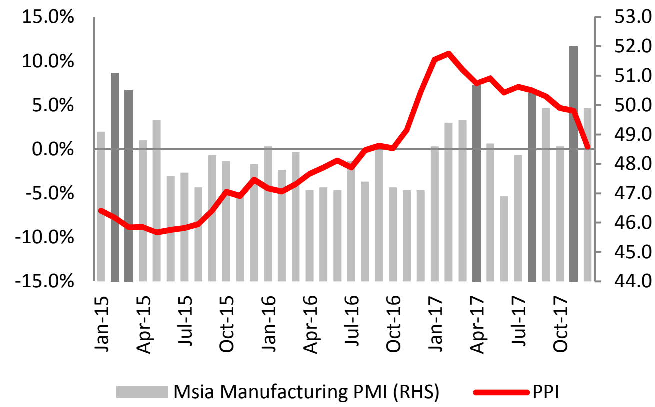
Source: CEIC, MIDFR

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



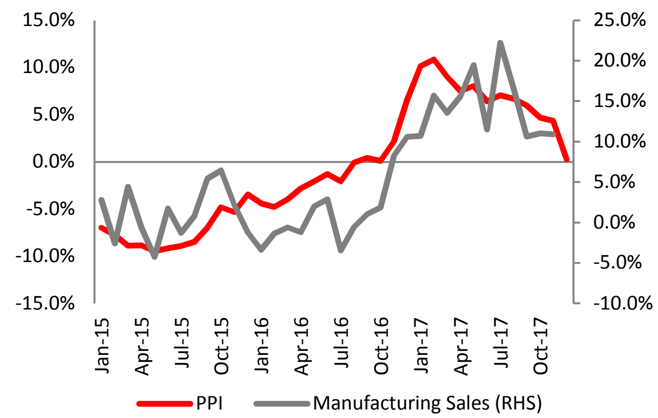
Source: CEIC, MIDFR

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



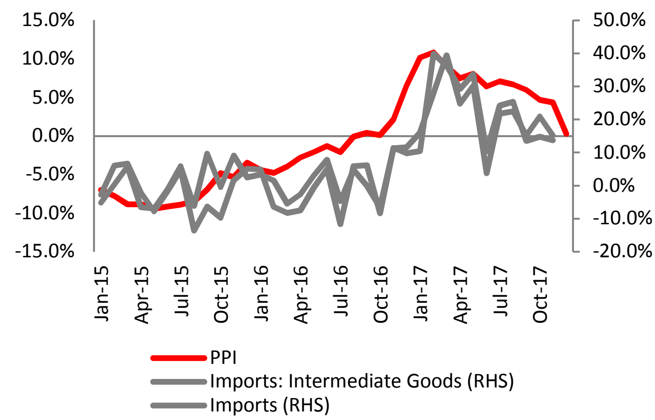
Source: CEIC, BLOOMBERG, MIDFR

Chart 5: PPI vs Manufacturing Sales (YoY%)



Source: CEIC, MIDFR

Chart 6: PPI vs Imports (YoY%)



Source: CEIC, MIDFR

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