

ECONOMIC REVIEW | February 2019 Producer Price Index

PPI Remains Contractionary – Signaling Low Inflationary Pressure in 1H19

- *PPI stays on contractionary path. Malaysia's producer cost remains deflationary as PPI shrank by -1.6%yoy in Feb-19. This is mainly due to continuous falling input prices of manufacturing and agriculture sectors. Factory input price has been on negative growth for 14-consecutive months.*
- *Sign of continuing consumer's deflation. As a leading indicator of price changes at the consumer level, the latest PPI number suggests that Malaysia's headline inflation to stay low for the first quarter of 2019 as well as in 2Q19. Referring to input price of food product, the component fell by -10.1%yoy in Feb-19. As food items hold almost the majority share in Malaysia's CPI, we expect headline inflation to pick-up at a modest pace.*
- *Producer price index is expected to rise 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 stays on contractionary path. Malaysia's producer cost remains deflationary as PPI shrank by -1.6%yoy in Feb-19. This is mainly due to continuous falling input prices of manufacturing and agriculture sectors. Factory input price has been on negative growth for 14-consecutive months. Manufacturing sector still held the largest share at 81.6% in determining the producers' inflation. We expect the of PPI to remain low for the first half of 2019 given that retail fuel prices of RON95 and Diesel are capped at lower levels than 2018's average prices.

Table 1: Producer Price Indices by Selected Sector

	MoM%			YoY%		
	Dec-18	Jan-19	Feb-19	Dec-18	Jan-19	Feb-19
PPI	(1.3)	0.6	0.6	(3.7)	(3.6)	(1.6)
Agriculture, forestry & fishing	0.9	7.2	0.2	(17.6)	(14.0)	(11.6)
Mining	(8.9)	1.8	4.7	(4.3)	(8.4)	2.4
Manufacturing	(0.7)	(0.1)	0.2	(2.6)	(2.3)	(1.3)
Electricity and gas	0.1	0.3	(0.3)	1.6	2.2	0.8
Extraction of Petroleum & Natural Gas	(8.9)	1.8	4.7	(4.3)	(8.4)	2.4
Food Product	(1.6)	(0.6)	1.0	(12.5)	(11.4)	(10.1)

Source: CEIC, MIDFR

Sign of continuing consumer's deflation. As a leading indicator of price changes at the consumer level, the latest PPI number suggests that Malaysia's headline inflation to stay low for the first quarter of 2019 as well as in 2Q19. Referring to input price of food product, the component fell by -10.1%yoy in Feb-19. As food items hold almost the majority share in Malaysia's CPI, we expect headline inflation to pick-up at a modest pace. Nevertheless, food inflation is predicted to stay above the overall CPI given that Malaysia is a net importer of food. On the other hand, continuous falling of input prices would support Malaysia's industrial activities. Cost of crude materials, intermediate materials supplies & components and finished goods remain on contractions in Feb-19.

Table 2: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Dec-18	Jan-19	Feb-19	Dec-18	Jan-19	Feb-19
PPI By Stage of Processing (SP)	(1.3)	0.6	0.6	(3.7)	(3.6)	(1.6)
Crude Materials for Further Processing (CM)	(5.5)	3.7	2.3	(9.9)	(9.7)	(2.9)
Intermediate Materials Supplies and Components (IM)	(0.7)	(0.3)	0.1	(2.3)	(2.2)	(1.9)
Finished Goods (FG)	0.7	0.1	0.2	(1.9)	(1.8)	(0.2)
Capital Equipment (CE)	1.1	0.3	0.7	(1.4)	(1.6)	1.5

Source: CEIC, MIDFR

ASEAN countries' PPI slid in unison. In the Feb-19, most of the PPI in emerging economies recorded contractions. Modest pick-up in global commodity prices during 4Q18 and 1Q19 among others is the major factor which had led to a push down in input prices. For instance, Thailand's PPI contracted by -0.6%yoy, third-consecutive months of negative growth while the US shrank by -0.3%yoy, the first contraction since Oct-16. Similarly, China's PPI remained in negative territory of -3.5%yoy since Nov-17. Moving forward, we foresee a slight rebound in PPI globally amid gradual pick up in the global energy prices in 2Q19.

Table 3: Global Producer Price Index (YoY%)

	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
Malaysia	0.7	(0.3)	(0.2)	0.7	(2.9)	(3.7)	(3.6)	(1.6)
Indonesia	4.9	4.7	4.5	4.1	3.8	3.6	3.2	2.9
Thailand	2.2	1.8	1.3	1.7	0.9	(0.5)	(1.1)	(0.6)
Philippines	0.9	0.8	1.8	1.1	0.4	0.3	3.6	
Singapore	10.9	9.8	7.9	8.5	4.1	0.8	(1.9)	
Japan	3.1	3.1	3.0	3.0	2.3	1.5	0.6	0.8
China	(0.9)	(2.1)	(3.1)	(3.4)	(2.9)	(3.8)	(4.0)	(3.5)
EU	3.7	3.7	3.7	4.0	3.0	1.9	1.8	
USA	5.6	5.0	4.5	5.0	2.9	3.0	0.4	(0.3)

Source: CEIC, MIDFR


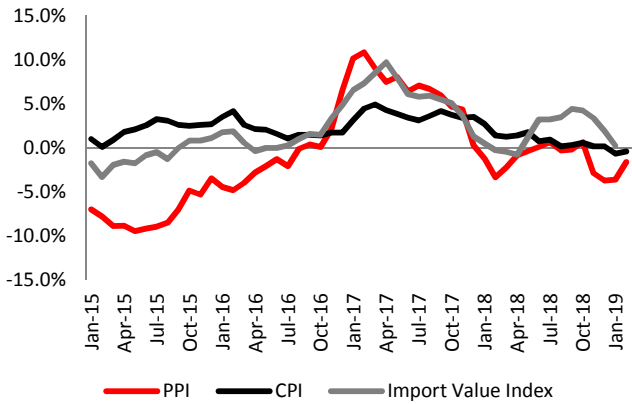
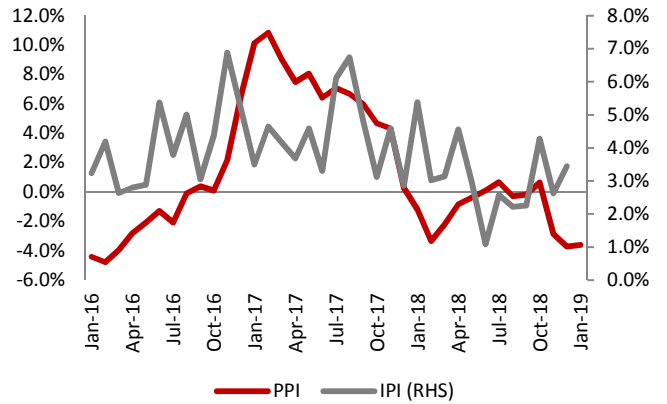
Producer price index is expected to rise by 1.5% in 2019. Amid low base effects, we foresee producer price inflation to average at 1.5% in 2019. We anticipate inflationary pressure from fuel-related items to pick up gradually, in tandem with modest improvement global energy prices and solid demand by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

Chart 1: PPI vs CPI (YoY%)



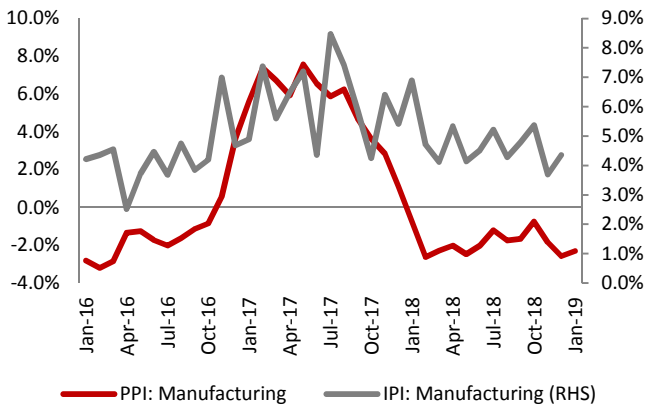
Source: CEIC, MIDFR

Chart 2: PPI vs IPI (YoY%)



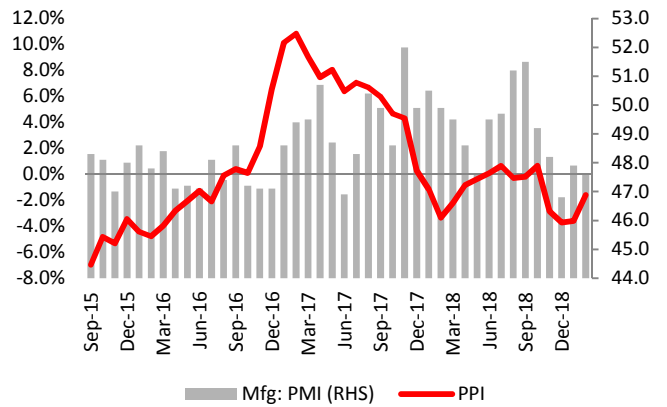
Source: CEIC, MIDFR

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



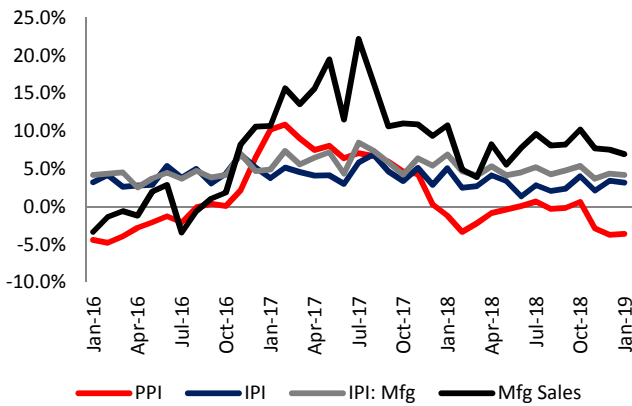
Source: CEIC, MIDFR

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



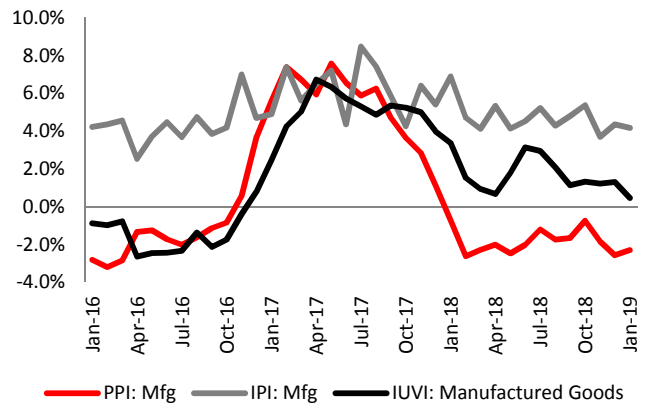
Source: CEIC, BLOOMBERG, MIDFR

Chart 5: PPI vs Manufacturing Sales (YoY%)



Source: CEIC, MIDFR

Chart 6: PPI vs Imports (YoY%)



Source: CEIC, MIDFR

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