

## ECONOMIC REVIEW | February 2018 Producer Price Index

### PPI Contracted for Two Consecutive Months as Prices Fell Further For Agriculture

- *Producer prices continued to fall for two consecutive months. On a yearly basis, Malaysia's producer prices recorded the steepest decline since Jul-16 at 3.4%, mainly due to unfavourable base effects.*
- *Tapering consumer's price pressure. Via pass-through mechanism, we can expect Malaysia's headline inflation to taper down further in March as producer's cost inflation contracted.*
- *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.*

**Producer prices continued to fall for two consecutive months.** On a yearly basis, Malaysia's producer prices recorded the steepest decline since Jul-16 at 3.4%, mainly due to unfavourable base effects. Furthermore, on a monthly basis, input inflation also went down to negative reading after an upwardly revised of 0.5% gain in Jan-18. The decline was mainly due to the cost for both of manufacturing and agriculture, forestry & fishing which fell more than the previous month. In contrast, we noticed cost rebounded for electricity and gas supply to positive territories, while the cost of water supply and mining went up at a softer pace. Moving forward, we foresee the slowdown inflationary pressure will stay throughout the year.

**Table 1: Producer Price Indices by Selected Sector**

	MoM%			YoY%		
	17-Dec	18-Jan	18-Feb	17-Dec	18-Jan	18-Feb
PPI	(0.5)	0.5	(1.5)	0.3	(1.2)	(3.4)
Agriculture, forestry & fishing	(5.3)	2.7	(2.5)	(13.8)	(13.8)	(16.2)
Mining	(0.6)	6.3	(6.3)	8.9	8.9	3.1
Manufacturing	0.1	(0.4)	(0.8)	1.1	(0.7)	(2.6)
Electricity and gas	(0.3)	(0.3)	1.10	(0.2)	(0.4)	0.8
Food Product	(2.1)	(1.8)	(0.6)	(4.7)	(8.9)	(10.0)

Source: CEIC, MIDFR

**Tapering consumer's price pressure.** Via pass-through mechanism, we can expect Malaysia's headline inflation to taper down further in March as producer's cost inflation contracted. In addition, cost of food products shrank by 10.0%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.

**Low input cost will support industrial activities.** With the declining input cost inflation in Feb-18, we opine this would support industrial and business activities this year. For instance, Malaysia's IPI and manufacturing sales expanded by 3%yoy and 10.8%yoy respectively in Jan-18 which will translate into increase in job added, stable wage growth and indirectly provide additional support for Malaysia's domestic demand in 2018 which eventually translated into steady GDP growth.

**Table 2: Producer Price Indices by Stage of Processing**

	MoM%			YoY%		
	17-Dec	18-Jan	18-Feb	17-Dec	18-Jan	18-Feb
PPI	(0.5)	0.5	(1.5)	0.3	(1.2)	(3.4)
Crude Materials for Further Processing (CM)	(2.4)	3.5	(4.8)	(1.3)	(1.0)	(5.8)
Intermediate Materials Supplies and Components (IM)	0.1	(0.4)	(0.2)	0.9	(1.5)	(2.9)
Finished Goods (FG)	0.0	(0.1)	(1.4)	0.1	(0.4)	(2.1)
Capital Equipment (CE)	0.0	(0.5)	(2.4)	(0.7)	(0.4)	(2.9)

Source: CEIC, MIDFR

**Global PPI moderated in January.** China's producer inflation cooled to 3.7%yoy in Feb-18, lower than the previous month and the least since Nov-16. Meanwhile, US recorded a higher PPI at 2.8%yoy compared to 2.7%yoy in Jan-18 supported by rising costs for food, energy and trade services which recorded the largest rise since Aug-14. Moreover, PPI in Thailand dropped by 1.9%yoy, far lower than downwardly revised 1.1%yoy in the prior month in place of the softer oil prices. PPI in Singapore also dropped by 0.8%yoy, far lower than downwardly revised 0.2%yoy in the prior month and the weakest since Oct-16 in place of the index of oil which rose at a slower pace and non-oil which declined faster. The declining trends in PPI are broad-based amid of modest pace in commodity prices growth and thus will provide supportive environment for businesses to expand at steady pace in 2018.

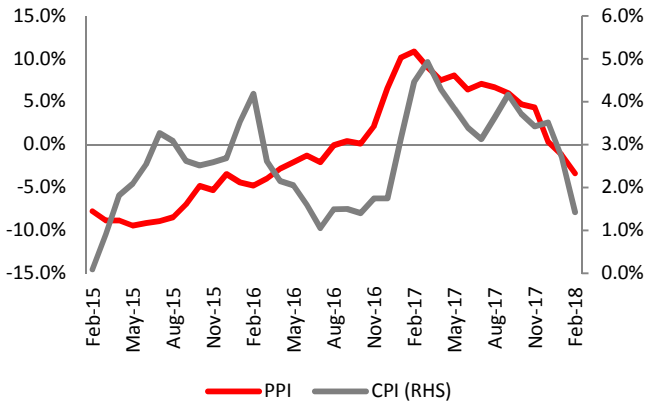
**Table 3: Global Producer Price Index (YoY%)**

	17-Aug	17-Sep	17-Oct	17-Nov	17-Dec	18-Jan	18-Feb
Malaysia	6.7	6	4.7	4.3	0.3	(1.2)	(3.4)
Indonesia	2.1	2.1	2.5	2.8	2.7	3.2	
Thailand	(0.6)	0.5	0.1	0.5	(0.6)	(1.1)	(1.9)
Philippines	(0.4)	(0.7)	0.2	(1.3)	(1.8)	(2.0)	
Singapore	5.9	5.2	3.6	5.4	0.6	(0.2)	(0.8)
Japan	2.9	3.1	3.4	3.5	3.1	2.7	2.5
China	6.3	6.9	6.9	5.8	4.9	4.3	3.7
EU	2.5	2.8	2.5	2.8	1.8	1.5	
United States	2.4	2.6	2.8	3.1	2.6	2.7	2.8

Source: CEIC, MIDFR

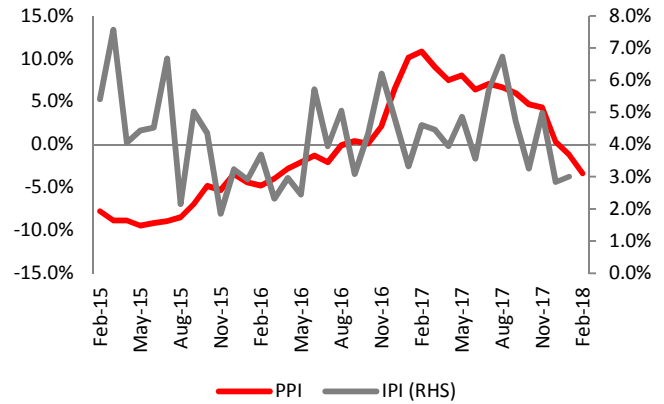
**Producer price index is expected to expand by 3.2% in 2018.** Amid unfavourable base effects, we foresee input cost inflation to average at 3.2% this year. We anticipate inflationary pressure from fuel-related items to moderate, in tandem with steady gradual rise in global commodity prices especially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



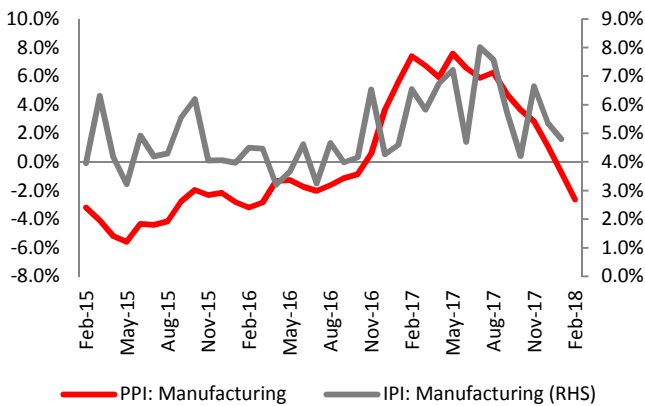
Source: CEIC, MIDFR

**Chart 2: PPI vs IPI (YoY%)**



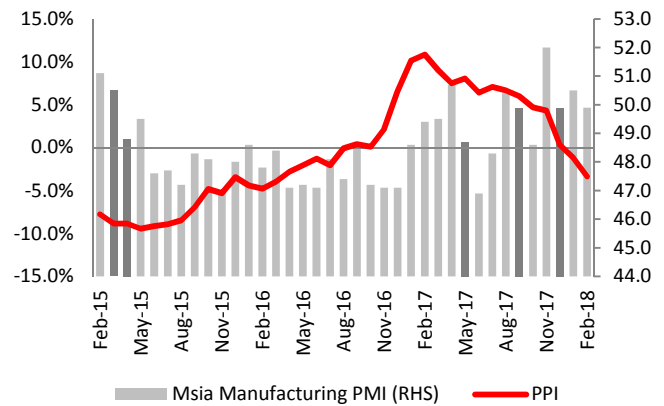
Source: CEIC, MIDFR

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



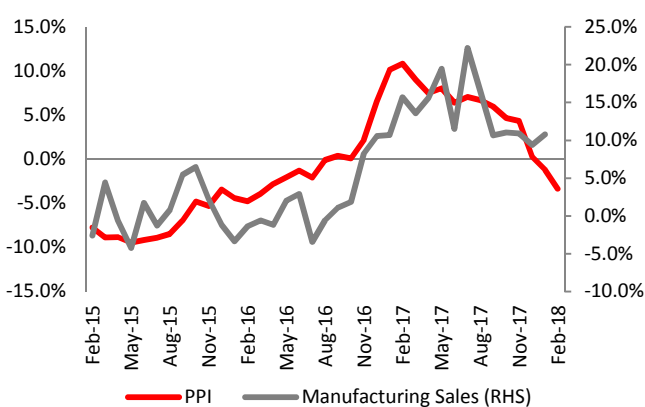
Source: CEIC, MIDFR

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



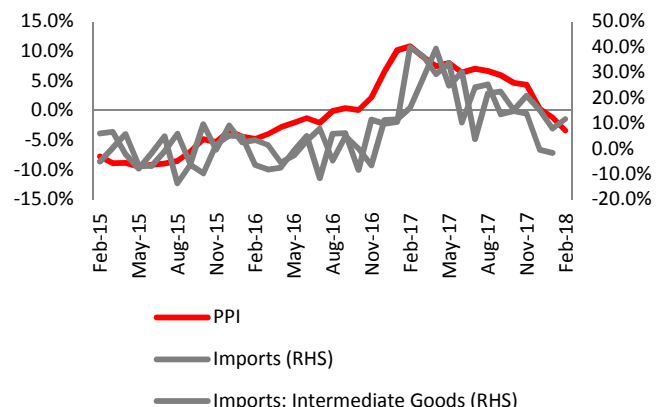
Source: CEIC, BLOOMBERG, MIDFR

**Chart 5: PPI vs Manufacturing Sales (YoY%)**



Source: CEIC, MIDFR

**Chart 6: PPI vs Imports (YoY%)**



Source: CEIC, MIDFR

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