

ECONOMIC REVIEW | January 2018 Producer Price Index

Inflationary Pressure Remains Contained as PPI Figure Hits 15-Month Low

- *Producer prices dipped 1.2% in the first month of 2018. On a yearly basis, Malaysia's producer inflation recorded the steepest decline since Jul-16, mainly due to unfavourable base effects.*
- *Tapering consumer's price pressure. Via pass-through effects mechanism, we can expect Malaysia's headline inflation to taper down further in February as cost inflation grew by tepid pace of 0.5%mom and plus contracted by 1.2%yoy.*
- *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 dipped 1.2% in the first month of 2018. On a yearly basis, Malaysia's producer inflation recorded the steepest decline since Jul-16, mainly due to unfavourable base effects. Nevertheless, on a monthly basis, input prices surged to positive reading as compared to a month earlier. The decline is offset by the manufacturing and electricity and gas industry which slumped to negative territories. In addition, we noticed other sectors experienced a steady growth in input price change in January. Moving forward, we foresee the slowdown inflationary pressure will stay throughout the year. Therefore, we maintain our stance of no change in OPR in 2018.

Table 1: Producer Price Indices by Selected Sector

	MoM%			YoY%		
	17-Nov	17-Dec	18-Jan	17-Nov	17-Dec	18-Jan
PPI	(0.7)	(0.5)	0.5	4.3	0.3	(1.2)
Agriculture, forestry & fishing	(0.3)	(5.3)	2.7	(1.8)	(13.8)	(13.8)
Mining	4.6	(0.6)	6.3	30.7	8.9	8.9
Manufacturing	0.4	0.1	(0.4)	2.8	1.1	(0.7)
Electricity and gas	0.2	(0.3)	(0.3)	0.5	(0.2)	(0.4)
Food Product	0.8	(2.1)	(1.8)	0.4	(4.7)	(8.9)

Source: CEIC, MIDFR

Tapering consumer's price pressure. Via pass-through effects mechanism, we can expect Malaysia's headline inflation to taper down further in February as cost inflation grew by tepid pace of 0.5%mom and plus contracted by 1.2%yoy. In addition, cost of food products shrank by 8.9%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 Jan-18, we opine this would support industrial and business activities in this year. For instance, Malaysia's Nikkei Manufacturing PMI surged to 50.5 points as compared to 49.9 points in Dec-17. The PMI performance is among others supported by rising employment and upbeat sentiment owing to the high demand from Asia and EU. 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%		
	17-Nov	17-Dec	18-Jan	17-Nov	17-Dec	18-Jan
PPI	0.7	(0.5)	0.5	4.3	0.3	(1.2)
Crude Materials for Further Processing (CM)	3.2	(2.4)	3.5	13.6	(1.3)	(1.0)
Intermediate Materials Supplies and Components (IM)	0.0	0.1	(0.4)	2.8	0.9	(1.5)
Finished Goods (FG)	0.1	0.0	(0.1)	0.3	0.1	(0.4)
Capital Equipment (CE)	0.2	0.0	0.5	(0.3)	(0.7)	(0.4)

Source: CEIC, MIDFR

Global PPI moderated in January. China's producer inflation cooled to 4.3%yoy in Jan-18, lower than the previous month and the weakest since Nov-16. Meanwhile, US recorded a higher PPI at 2.7%yoy compared to 2.6%yoy in Dec-17 supported by rising costs for energy, household appliances and hospital outpatient care. Moreover, PPI in Singapore dropped by 1.2%yoy, far lower than upwardly revised 0.6%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. 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.

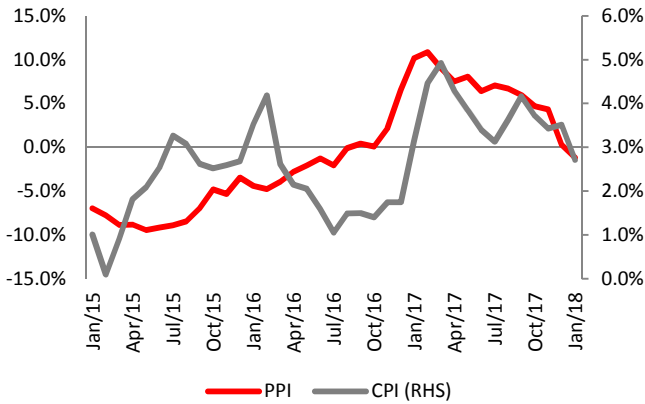
Table 3: Global Producer Price Index (YoY%)

	17-Jul	17-Aug	17-Sep	17-Oct	17-Nov	17-Dec	18-Jan
Malaysia	7.1	6.7	6	4.7	4.3	0.3	(1.2)
Indonesia	2.2	2.1	2.1	2.5	2.8	2.7	
Thailand	(1.3)	(0.6)	0.5	0.1	0.5	(0.6)	(1.1)
Philippines	(0.9)	(0.4)	(0.7)	0.2	(1.3)	(1.8)	
Singapore	4.8	5.9	5.2	3.6	5.4	0.6	(1.9)
Japan	2.6	2.9	3.1	3.4	3.5	3.1	2.7
China	5.5	6.3	6.9	6.9	5.8	4.9	4.3
EU	2	2.5	2.8	2.5	2.8	1.8	
United States	1.9	2.4	2.6	2.8	3.1	2.6	2.7

Source: CEIC, MIDFR

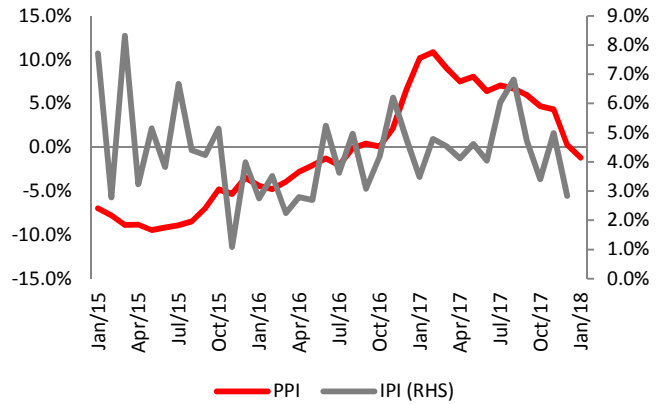
Producer price index is expected to expand by 3.2% in 2018. Amid unfavourable base effects, we foresee input cost inflation to average at 3.2% this year. We anticipate inflationary pressure from fuel-related items to moderate, in tandem with steady gradual rise in global commodity prices especially crude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



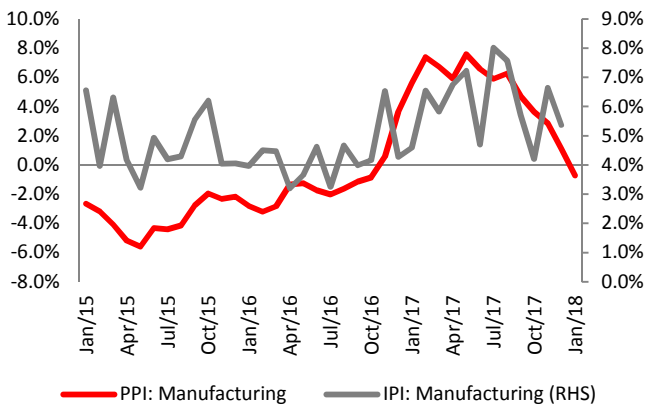
Source: CEIC, MIDFR

Chart 2: PPI vs IPI (YoY%)



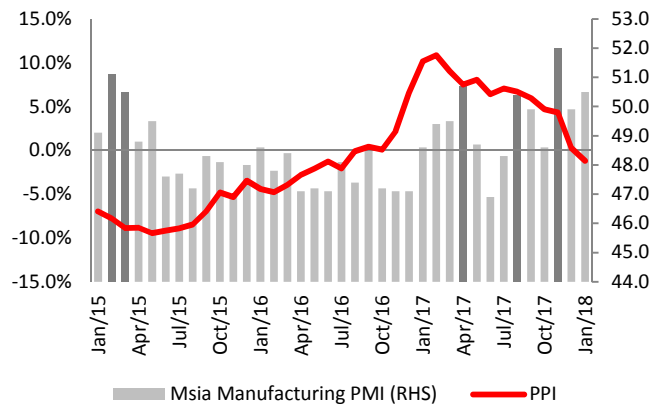
Source: CEIC, MIDFR

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



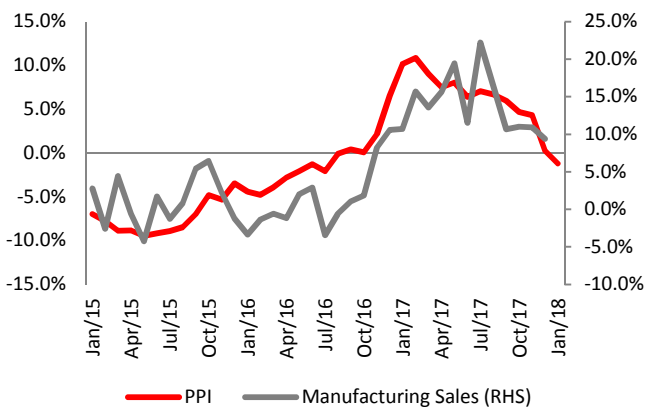
Source: CEIC, MIDFR

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



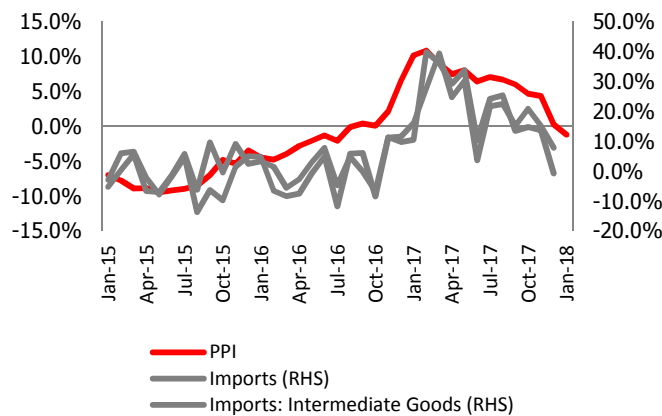
Source: CEIC, BLOOMBERG, MIDFR

Chart 5: PPI vs Manufacturing Sales (YoY%)



Source: CEIC, MIDFR

Chart 6: PPI vs Imports (YoY%)



Source: CEIC, MIDFR

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