30 August 2018

ECONOMIC REVIEW | July 2018 Producer Price Index

PPI Rises for 2nd Consecutive Month by 0.7% in July Driven By Rising Commodity Price

- *PPI continued to increase for 2nd consecutive month. Malaysia's producer inflation went up to 0.7%yoy in Jul-18 from 0.1%yoy recorded in the previous month. The eight-month high figure also marked the second growth for this year mainly driven by mining, electricity & gas supply and water supply sectors which rose by 32.6%yoy, 1.1%yoy and 0.3%yoy respectively.*
- *Positive outlook for industrial activities. Producer inflation of 0.7%yoy which remain low will provides support to industrial and business activities in the upcoming months. Other factors such as tax holiday period and fuel subsidization could lessen input cost pressure and indirectly support industrial production.*
- *Producer price index is expected to expand by 3.2% in 2018. Amid higher base effects, we foresee producer price inflation to average at 3.2% this year. We anticipate inflationary pressure from fuel-related items to pick-up at steady speed, in tandem with steady gradual rise in global commodity prices.*

PPI continued to increase for 2nd consecutive month. Malaysia's producer inflation went up to 0.7%yoy in Jul-18 from 0.1%yoy recorded in the previous month. The eight-month high figure also marked the second growth for this year mainly driven by mining, electricity & gas supply and water supply sectors which rose by 32.6%yoy, 1.1%yoy and 0.3%yoy respectively. Meanwhile, prices for agriculture, forestry & fishing, manufacturing and food product declined. On a monthly basis, PPI likewise increased by 0.3% following a fall of 0.7% in Jun-18. In upcoming month, we opine cost inflationary pressure to stay low amid tax-holiday period. However, rising global commodity prices could induce pressure to the estimate.

Table 1: Producer Price Indices by Selected Sector

	MoM%			YoY%		
	May-18	Jun-18	Jul-18	May-18	Jun-18	Jul-18
PPI	0.3	(0.7)	0.3	(0.4)	0.1	0.7
Agriculture, forestry & fishing	(0.6)	(2.8)	(1.6)	(9.6)	(10.1)	(11.5)
Mining	4.5	(2.8)	2.6	29.8	33.1	32.6
Manufacturing	(0.2)	(0.1)	0.1	(2.5)	(2.0)	(1.2)
Electricity and gas	0.3	(0.8)	0.4	2.1	1.3	1.1
Food Product	(1.4)	(0.7)	(1.0)	(9.0)	(8.2)	(7.6)

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 in Aug-18 will remain low. In fact, cost inflation of food products and manufacturing sector continued to be in negative territory of 7.6%yoy and 1.2% respectively in Jul-18. Tax holiday period which lasts until the end of August could ease price of goods and services. Hence, it indirectly offers slight relief on cost of living especially for B40 income group besides stimulating more consumer spending and corporate profits.

Positive outlook for industrial activities. Producer inflation of 0.7%yoy which remain low will provides support to industrial and business activities in the upcoming months. Other factors such as tax holiday period and fuel subsidization could lessen input cost pressure and indirectly support industrial production. Malaysia's industrial production expanded by 1.1%yoy in Jun-18 however missed market expectations. Meanwhile, exports in the same month grew by 7.6%yoy. Looking at Malaysia's Nikkei Manufacturing PMI, it improved marginally to 49.7 points in Jul-18 as compared to 49.5 points in the prior month. Consequently, we foresee Malaysia's external trade performance as well as industrial productions to continue expanding on the back of low inflation and eventually will be translated into steady economy growth.

Table 2: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	May-18	Jun-18	Jul-18	May-18	Jun-18	Jul-18
PPI	0.3	(0.7)	0.3	(0.4)	0.1	0.7
Crude Materials for Further Processing (CM)	3.8	(1.7)	0.1	9.5	12.3	11.1
Intermediate Materials Supplies and Components (IM)	(0.7)	(0.2)	0.5	(2.7)	(2.5)	(1.2)
Finished Goods (FG)	(0.1)	(0.8)	0.0	(2.7)	(3.4)	(3.1)
Capital Equipment (CE)	0.4	(1.3)	0.0	(2.7)	(3.9)	(3.4)

Source: CEIC, MIDFR

PPI continued to rise for major economies. In overall, producer inflation continued to increase in Jul-18 for major economies. For instance, Singapore's producer inflation jumped to 13.7%yoy in Jul-18 following 11.7%yoy registered in the prior month. It is the fifth straight increase and the highest since Feb-17 as index rose faster for both oil and non-oil products. Similarly, Japan's cost inflation surged to 3.1%yoy during the same month (Jun-18: 2.8%yoy), the highest in eight months mainly driven by higher prices for beverages & food, chemicals and oil & coal products. China and the US also posted an increase in input prices by 4.6%yoy and 3.3%yoy respectively however marginally lower than previous month's readings. The upward trends in PPI are observed to be broad-based, amid of gradual rise in commodity prices hence will provide supportive environment for businesses to expand steadily in 2018.

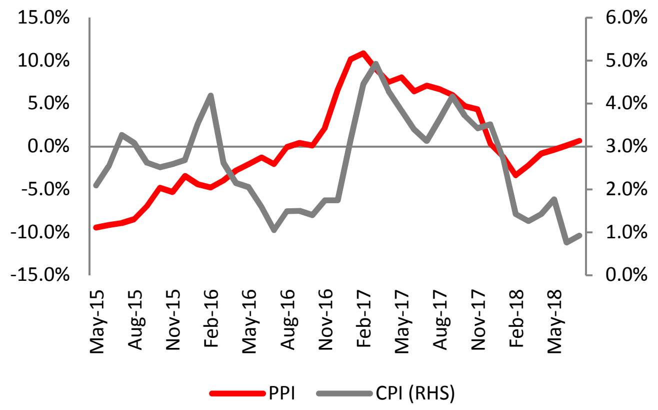
Table 3: Global Producer Price Index (YoY%)

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Malaysia	(1.2)	(3.4)	(2.2)	(0.8)	(0.4)	0.1	0.7
Indonesia	3.2	3.4	3.5	4.9	5.9	6.6	
Thailand	(1.1)	(1.9)	(1.4)	(0.8)	0.7	1.8	2.2
Philippines	(0.5)	(0.6)	(0.9)	0.4	0.9	1.3	
Singapore	(0.2)	(0.9)	1.0	2.5	8.6	11.7	13.7
Japan	2.7	2.6	2.1	2.1	2.7	2.8	3.1
China	4.3	3.7	3.1	3.4	4.1	4.7	4.6
EU	1.6	1.7	2.0	1.9	3.0	3.6	
United States	2.7	2.8	3.0	2.6	3.1	3.4	3.3

Source: CEIC, MIDFR

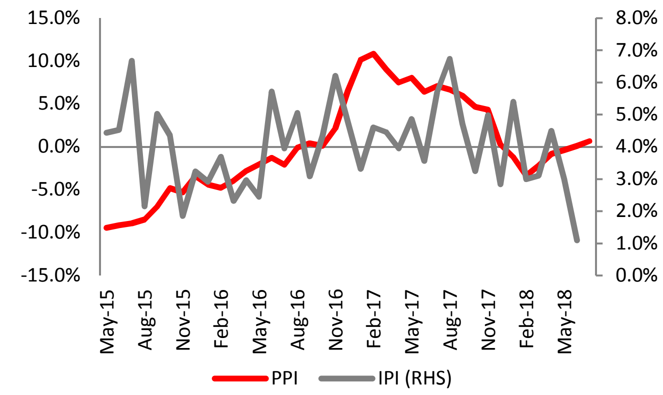
Producer price index is expected to expand by 3.2% in 2018. Amid higher base effects, we foresee producer price inflation to average at 3.2% this year. We anticipate inflationary pressure from fuel-related items to pick-up at steady speed, in tandem with steady gradual rise in global commodity prices. However, we note that volatility in global commodity prices, market uncertainties due to brewing trade spat and geopolitical tensions on top of domestic political qualms are downside risks in placing inflationary pressure for businesses as well as consumers in Malaysia.

Chart 1: PPI vs CPI (YoY%)



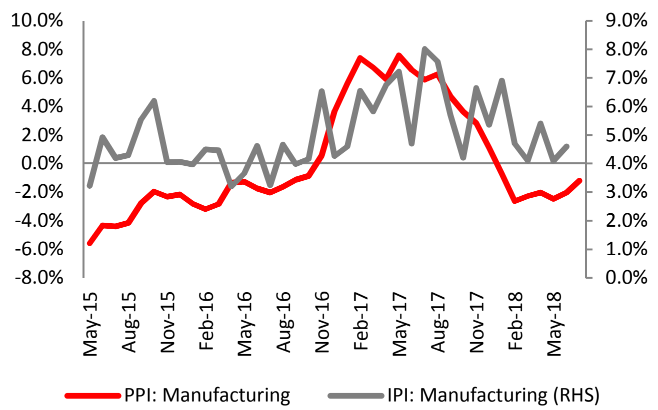
Source: CEIC, MIDFR

Chart 2: PPI vs IPI (YoY%)



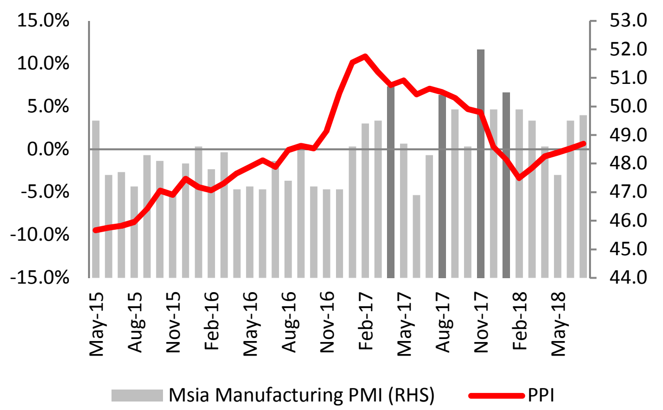
Source: CEIC, MIDFR

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



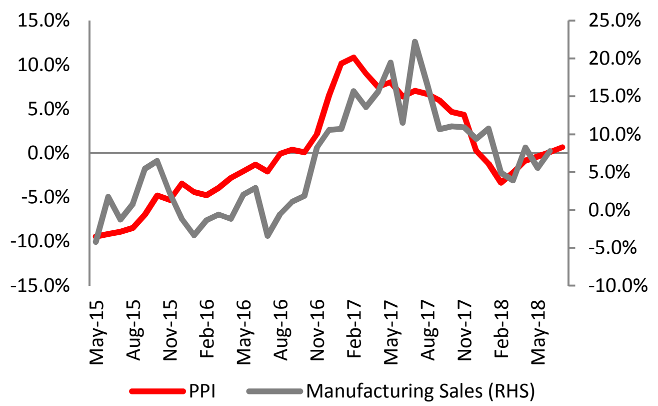
Source: CEIC, MIDFR

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



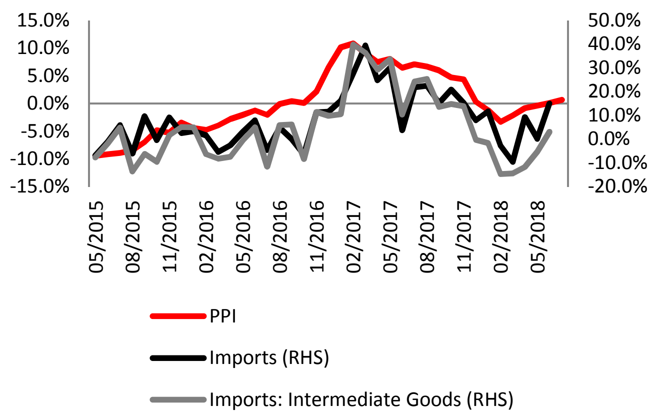
Source: CEIC, BLOOMBERG, MIDFR

Chart 5: PPI vs Manufacturing Sales (YoY%)



Source: CEIC, MIDFR

Chart 6: PPI vs Imports (YoY%)



Source: CEIC, MIDFR

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