30 April 2018

ECONOMIC REVIEW | March 2018 Producer Price Index

Low Input Price Pressure to Benefit Local Productions as PPI Contracted for 3-Consecutive Months

- *Producer prices continued to fall for 3-consecutive months. On yearly basis, Malaysia's producer prices contracted by -2.2%yoy in Mar-18, marking -2.3%yoy for the overall 1Q18. Input inflation declined to a negative reading of -0.4%mom during the month.*
- *Low input cost will support industrial activities. With the declining input cost inflation in Mar-18, we opine that this would provide support to industrial and business activities in the coming months. Prior to GE14, we saw retail fuel pump prices have remain unchanged since middle of Mar-18.*
- *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 pick-up at steady speed, in tandem with steady gradual rise in global commodity prices.*

Producer prices continued to fall for 3-consecutive months. On yearly basis, Malaysia's producer prices contracted by -2.2%yoy in Mar-18, marking -2.3%yoy decline for 1Q18. Input inflation declined to negative reading of -0.4%mom during the month. The fall was mainly due to the cost for manufacturing, agriculture, forestry & fishing and food products which continued to shrink since Jan-18. In contrast, we noticed index registered for mining and electricity & gas supply went up at a softer pace. Moving forward, we foresee the producer's inflation data to rebound in the second half of 2018 at a slower pace amid of unfavourable base effect and gradual rise in global commodity prices.

Table 1: Producer Price Indices by Selected Sector

	MoM%			YoY%		
	Jan-18	Feb-18	Mar-18	Jan-18	Feb-18	Mar-18
PPI	0.5	(1.5)	(0.4)	(1.2)	(3.4)	(2.2)
Agriculture, forestry & fishing	2.7	(2.5)	(2.9)	(13.8)	(16.2)	(11.0)
Mining	6.3	(6.3)	(0.1)	8.9	3.1	5.8
Manufacturing	(0.4)	(0.8)	(0.4)	(0.7)	(2.6)	(2.3)
Electricity and gas	(0.3)	1.1	0.8	(0.4)	0.8	1.3
Food Product	(1.8)	(0.6)	(0.9)	(8.9)	(10.0)	(9.3)

Source: CEIC, MIDFR

Tapering consumer's price pressure. Via pass-through mechanism, we can expect Malaysia's headline inflation to taper down further in April as producer's cost inflation contracted. In addition, cost of food products shrank by 9.3%yoy, in tandem with the prices trend reflected in the agricultural-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. In addition, we foresee that the demand side would add pressure to consumer inflation amid stable wage growth and a healthy labour market.

Low input cost will support industrial activities. With the declining input cost inflation in Mar-18, we opine this would provide support to industrial and business activities in the coming months. Prior to GE14, we noticed retail fuel pump prices have remained unchanged since middle of Mar-18. Hence, we stagnating fuel prices will hold down input cost pressure and indirectly support local industrial production. Furthermore, Malaysia's external trade activities are expected to rebound from the contraction in Feb-18. Global demand especially from China is seen improving in Mar-18 given that China's imports grew by 14.4%yoy, beating the previous month's growth of 6.3%yoy. Consequently, we foresee Malaysia's external trade as well as manufacturing sales and industrial productions to benefit from the rebound of demand from China.

Table 2: Producer Price Indices by Stage of Processing

	MoM%			YoY%		
	Jan-18	Feb-18	Mar-18	Jan-18	Feb-18	Mar-18
PPI	0.5	(1.5)	(0.4)	(1.2)	(3.4)	(2.2)
Crude Materials for Further Processing (CM)	3.5	(4.8)	(1.0)	(1)	(5.8)	(0.7)
Intermediate Materials Supplies and Components (IM)	(0.4)	(0.2)	(0.6)	(1.5)	(2.9)	(2.8)
Finished Goods (FG)	(0.1)	(1.4)	0.2	(0.4)	(2.1)	(2.2)
Capital Equipment (CE)	(0.5)	(2.4)	0.7	(0.4)	(2.9)	(2.5)

Source: CEIC, MIDFR

Global PPI moderated in Mar-18. China's producer inflation eased to 3.1%yoy in Mar-18, lower than the previous month and in fact, the lowest since Oct-16. Meanwhile, US recorded its highest PPI in four months at 3%yoy compared to 2.8%yoy in Feb-18, supported by rising costs for food, energy and trade. Moreover, PPI in Singapore rebounded to 0.9%yoy after 0.8%yoy fall in the previous month, marked the first increase in PPI since Dec-17 as the index of oil went up more than a month earlier. The moderating PPI trends are seen to be broad-based, amid of gradual pace in commodity prices growth and thus will provide supportive environment for businesses to expand steadily in 2018.

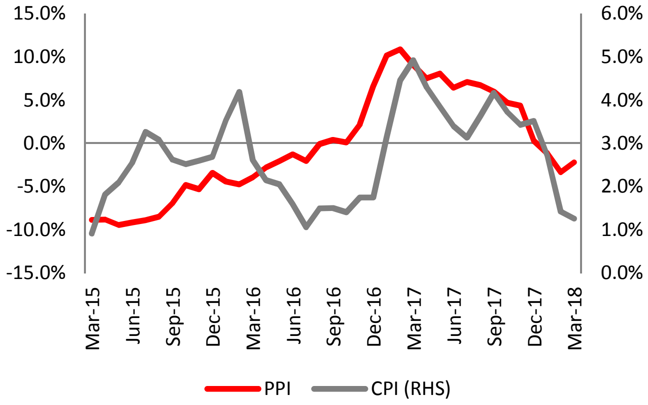
Table 3: Global Producer Price Index (YoY%)

	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
Malaysia	6	4.7	4.3	0.3	(1.2)	(3.4)	(2.2)
Indonesia	2.1	2.5	2.8	2.7	3.2	3.4	
Thailand	0.5	0.1	0.5	(0.6)	(1.1)	(1.9)	(1.4)
Philippines	(0.7)	0.2	(1.3)	(1.8)	(2.0)	(1.3)	(0.9)
Singapore	5.2	3.6	5.4	0.6	(0.2)	(0.8)	0.9
Japan	3.1	3.4	3.5	3.1	2.7	2.5	2.1
China	6.9	6.9	5.8	4.9	4.3	3.8	3.1
EU	2.8	2.5	2.8	2.2	1.6	1.6	
United States	2.6	2.8	3.1	2.6	2.7	2.8	3.0

Source: CEIC, MIDFR

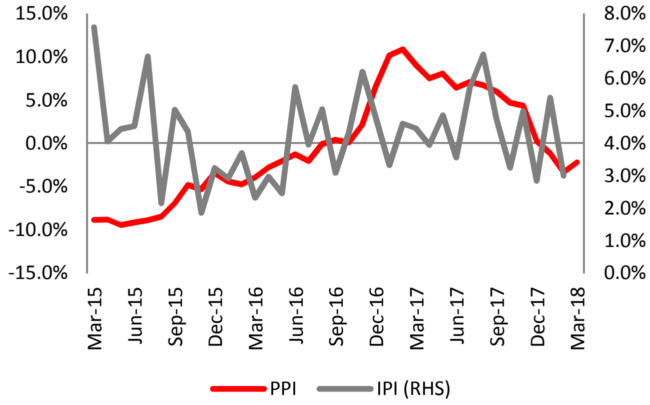
Producer price index is expected to expand by 3.2% in 2018. Amid unfavourable base effects, we foresee input cost inflation to average at 3.2% this year. We anticipate inflationary pressure from fuel-related items to pick-up at steady speed, in tandem with steady gradual rise in global commodity prices. However, we note that volatility in global commodity prices and market uncertainties due to trade war and geopolitical tensions are downside risks in putting a steep inflationary pressure for businesses as well as consumers in Malaysia.

Chart 1: PPI vs CPI (YoY%)



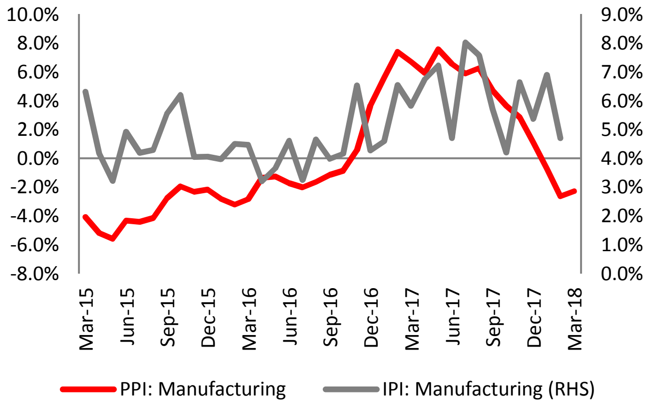
Source: CEIC, MIDFR

Chart 2: PPI vs IPI (YoY%)



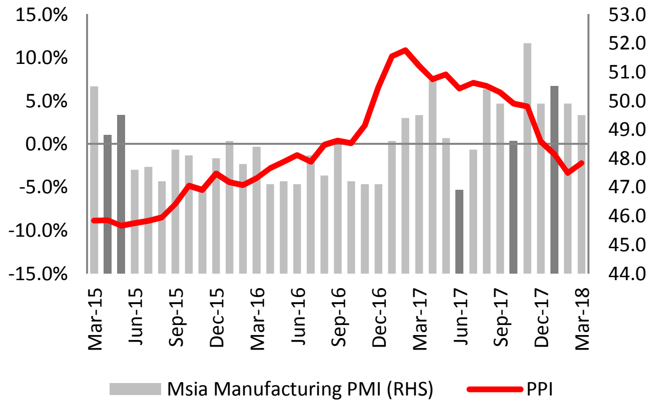
Source: CEIC, MIDFR

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



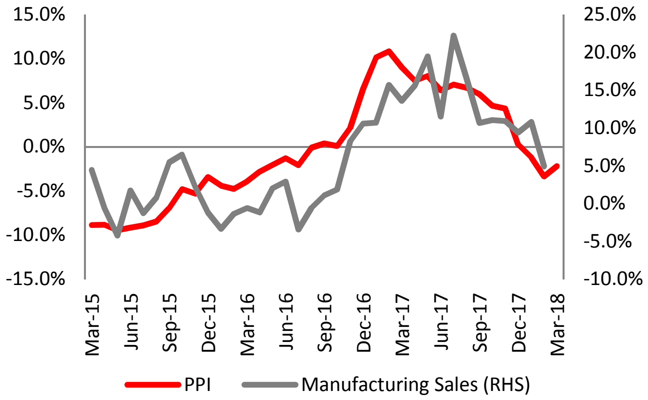
Source: CEIC, MIDFR

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



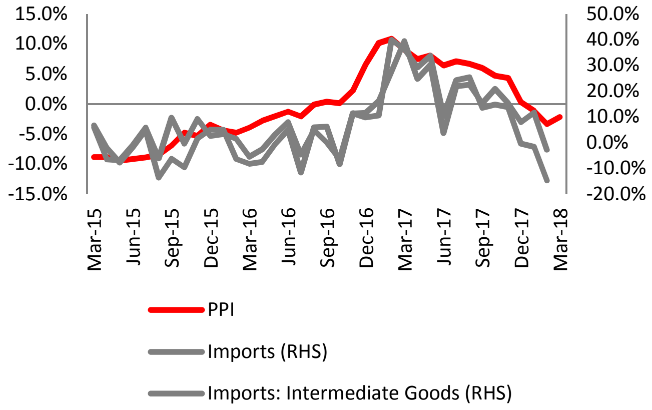
Source: CEIC, BLOOMBERG, MIDFR

Chart 5: PPI vs Manufacturing Sales (YoY%)



Source: CEIC, MIDFR

Chart 6: PPI vs Imports (YoY%)



Source: CEIC, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.