

ECONOMIC REVIEW | October 2018 Producer Price Index

PPI Back to a Positive Territory after Two Consecutive Months of Negative Growth

- PPI rebounds to positive territory. Malaysia's producer inflation rebounded to a positive territory of 0.7%yoy in Oct-18 after a contraction in the previous two months. The growth was buoyed by an increase in index of mining (30.6%yoy) and electricity & gas (1%yoy). Meanwhile, manufacturing sector which hold the largest weightage of total PPI basket at 81.6% continued to register contraction however at an improving pace of 0.7%yoy (-1.7%yoy in Sep-18).*
- 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 Nov-18 will increase yet still at lower percentages. In fact, cost inflation of food products and manufacturing sector continued to be in negative territory of -10.3%yoy and -0.7% respectively in Oct-18. Moving forward, SST which started in Sep-18 could marginally increase price of goods and services. However, stable retail fuel prices and slowing import price growth could offset the gain.*

Producer price index is expected to contract by 1% in 2018. Amid higher base effects, we foresee producer price inflation to average at -1% this year. We anticipate inflationary pressure from fuel-related items to pick-up at steady pace, in tandem with steady gradual rise in global crude oil prices on top of the implementation of SST.

PPI rebounds to positive territory. Malaysia's producer inflation rebounded to a positive territory of 0.7%yoy in Oct-18 after a contraction in the previous two months. The growth was buoyed by an increase in index of mining (30.6%yoy) and electricity & gas (1%yoy). Meanwhile, manufacturing sector which hold the largest weightage of total PPI basket at 81.6% continued to register contraction however at an improving pace of 0.7%yoy (-1.7%yoy in Sep-18). The rising PPI is in line with our expectation that PPI will increase gradually following a pick-up in global crude oil prices and implementation of SST. In upcoming month, PPI growth could be slightly influenced by the global crude oil prices as it went below USD60pb in Nov-18.

Table 1: Producer Price Indices by Selected Sector

	MoM%			YoY%		
	Aug-18	Sep-18	Oct-18	Aug-18	Sep-18	Oct-18
Overall PPI	(0.1)	1.2	0.3	(0.3)	(0.2)	0.7
Agriculture, forestry & fishing	(0.7)	(0.5)	(2.8)	(13.2)	(16.4)	(17.6)
Mining	(0.9)	10.3	2.1	28.6	28.9	30.6
Manufacturing	0.1	0.3	0.4	(1.7)	(1.7)	(0.7)
Electricity and gas	(0.2)	(0.1)	(0.1)	0.6	1.0	1.0
Extraction of Petroleum & Natural Gas	(0.9)	10.3	2.1	28.6	28.9	30.6
Food Product	(1.3)	(0.5)	(0.6)	(8.8)	(9.5)	(10.3)

Source: CEIC, MIDFR

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Positive outlook for industrial activities. For the first ten months, producer inflation averaged at -0.7%yoy. Softer inflationary pressure and stable domestic as well as external demand will support Malaysia's economic activities in 2H18. Fuel subsidization per se could lessen input cost pressure and indirectly support industrial production. Malaysia's industrial production expanded by 2.3%yoy in Sep-18; however, missed market expectations of 2.4%yoy. In addition, exports growth in Sep-18 rebounded on both annually and monthly basis at 6.7% and 1.5% respectively, sustaining value above RM80b despite fewer working days. 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%		
	Aug-18	Sep-18	Oct-18	Aug-18	Sep-18	Oct-18
PPI By Stage of Processing (SP)	(0.1)	1.2	0.3	(0.3)	(0.2)	0.7
Crude Materials for Further Processing (CM)	(0.8)	4.1	1.5	7.2	7.1	7.8
Intermediate Materials Supplies and Components (IM)	0.3	0.3	(0.1)	(1.4)	(1.5)	(0.8)
Finished Goods (FG)	(0.2)	0.8	0.3	(3.3)	(2.7)	(1.7)
Capital Equipment (CE)	0.0	1.3	0.5	(3.5)	(2.5)	(0.9)

Source: CEIC, MIDFR

The US PPI accelerates due to forthcoming biggest sales days. The US producer inflation surged to 2.9%yoy in Oct-18 from 2.6%yoy in the previous month. However, the increase was likely to be a temporary hump as companies preparing for Black Friday and Cyber Monday sales. In line, consumer inflation also increased to 2.5%yoy in Oct-18 (2.3%yoy in Sep-18). Likewise, ASEAN countries such as Thailand and Singapore saw their PPI went up to 1.7%yoy and 12.4%yoy during the same month. In contrast, PPI moderated for China and Japan while contracted for the Philippines. China's business inflation has been on a downtrend since Jun-18 with 3.3%yoy recorded in the latest month.

Table 3: Global Producer Price Index (YoY%)

	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
Malaysia	(2.2)	(0.8)	(0.4)	0.1	0.7	(0.3)	(0.2)	0.7
Indonesia	3.5	4.9	5.9	6.6	7.5	7.4	7.3	
Thailand	(1.4)	(0.8)	0.7	1.8	2.2	1.8	1.3	1.7
Philippines	(0.6)	0.6	1.5	0.2	(0.8)	(0.6)	0.2	(0.6)
Singapore	0.5	2.6	8.6	11.7	13.5	12.8	12.1	12.4
Japan	2.0	2.0	2.6	2.8	3.0	3.0	3.0	2.9
China	3.1	3.4	4.1	4.7	4.6	4.1	3.6	3.3
EU	1.9	1.8	3.0	3.6	4.2	4.3	4.5	
United States	2.9	2.7	3.1	3.4	3.3	2.8	2.6	2.9

Source: CEIC, MIDFR


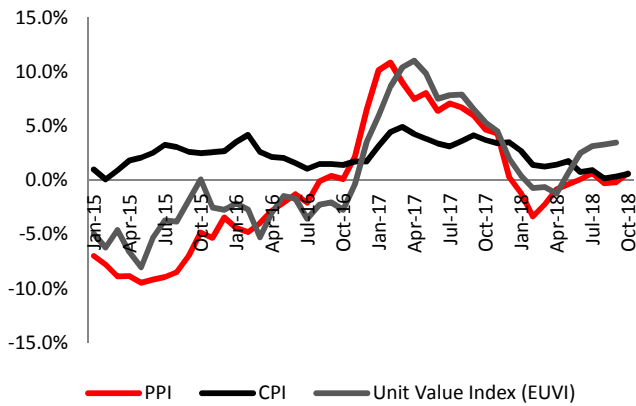
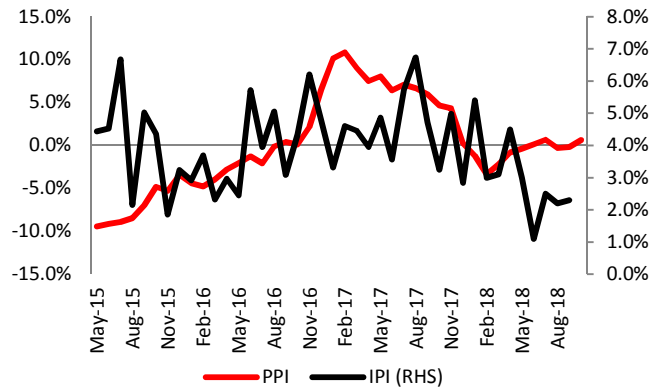
Producer price index is expected to contract by 1% in 2018. Amid higher base effects, we foresee producer price inflation to average at -1% this year. We anticipate inflationary pressure from fuel-related items to pick-up at steady pace, in tandem with steady gradual rise in global crude oil prices on top of the implementation of SST. However, we reckon that prices of agriculture and factory inputs to stay low amid declining agriculture prices and stable domestic fuel prices. 

Chart 1: PPI vs CPI vs Import Unit Value Index (YoY%)



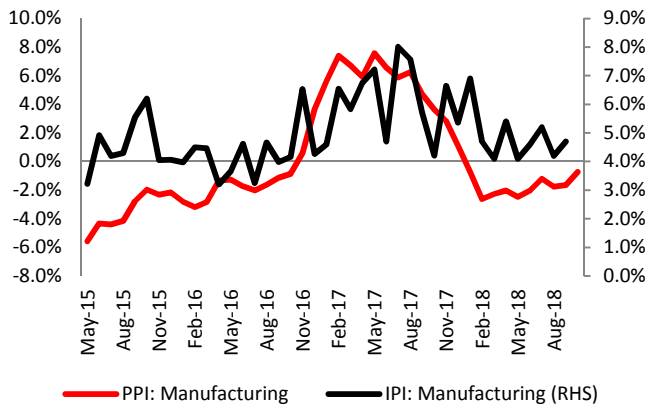
Source: CEIC, MIDFR

Chart 2: PPI vs IPI (YoY%)



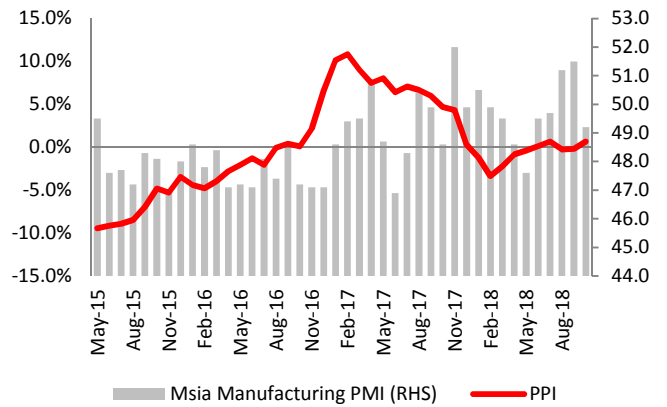
Source: CEIC, MIDFR

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



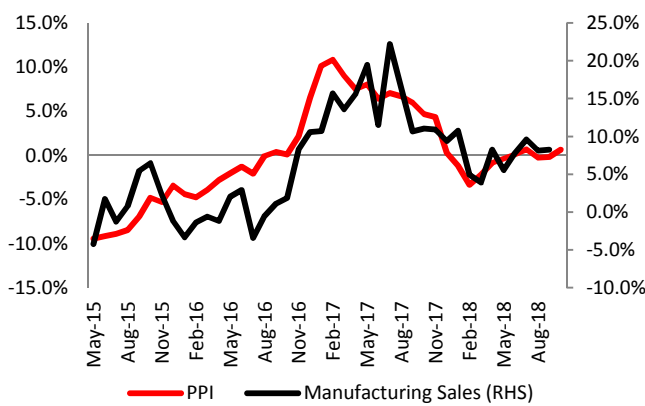
Source: CEIC, MIDFR

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



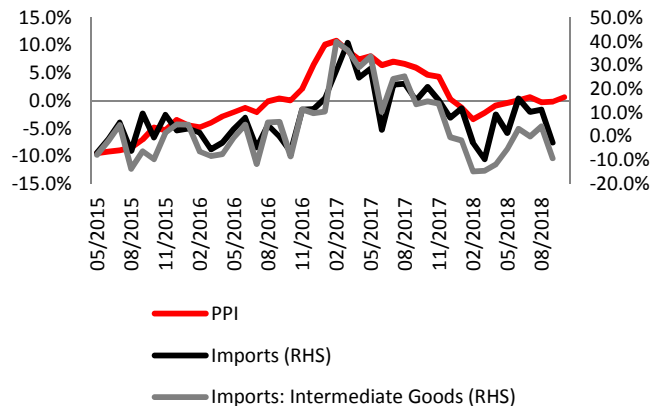
Source: CEIC, BLOOMBERG, MIDFR

Chart 5: PPI vs Manufacturing Sales (YoY%)



Source: CEIC, MIDFR

Chart 6: PPI vs Imports (YoY%)



Source: CEIC, MIDFR

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