

## ECONOMIC REVIEW | September 2018 Producer Price Index

### PPI Contracted for Second Consecutive Month by 0.2% in September amid Rising Commodity Prices

- *PPI continue to dip. Malaysia's producer inflation contracted for the second consecutive month at -0.2%yoy in Sep-18. Manufacturing sector which hold the largest weightage of total PPI basket at 81.6% dragged the overall PPI as it continued to decline at 1.7%yoy.*
- *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 Oct-18 will remain low. In fact, cost inflation of food products and manufacturing sector continued to be in negative territory of -9.5%yoy and -1.7% respectively in Sep-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 continue to dip.** Malaysia's producer inflation contracted for the second consecutive month at -0.2%yoy in Sep-18. Manufacturing sector which hold the largest weightage of total PPI basket at 81.6% dragged the overall PPI as it continued to decline at 1.7%yoy. In addition, agriculture, forestry & fishing contracted further by 16.4%yoy. Meanwhile, mining input prices remain strong, soaring by 28.9%yoy, the sixth consecutive month of double digit growth since Apr-18. Looking ahead, we foresee overall PPI will rise modestly following pick-up in global crude oil prices and implementation of SST.

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

	MoM%			YoY%		
	Jul-18	Aug-18	Sep-18	Jul-18	Aug-18	Sep-18
Overall PPI	0.3	(0.1)	1.2	0.7	(0.3)	(0.2)
Agriculture, forestry & fishing	(1.6)	(0.7)	(0.5)	(11.5)	(13.2)	(16.4)
Mining	2.6	(0.9)	10.3	32.6	28.6	28.9
Manufacturing	0.1	0.1	0.3	(1.2)	(1.7)	(1.7)
Electricity and gas	0.4	(0.2)	(0.1)	1.1	0.6	1.0
Extraction of Petroleum & Natural Gas	2.6	(0.9)	10.3	32.6	28.6	28.9
Food Product	(1.0)	(1.3)	(0.5)	(7.6)	(8.8)	(9.5)

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 Oct-18 will remain low. In fact, cost inflation of food products and manufacturing sector continued to be in negative territory of -9.5%yoy and -1.7% respectively in Sep-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. This 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.** For the first nine months, producer inflation is averaged at -0.9%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 expands by 2.2%yoy in Aug-18 however missed market expectations of 2.5%yoy. Meanwhile, exports in the same month contracted marginally by 0.3%yoy, partly due to fewer working days as a result of Eid al-adha and Merdeka holidays. Looking at Malaysia's Nikkei Manufacturing PMI, it increased further to 51.5 points in Sep-18, highest in ten months. 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%		
	Jul-18	Aug-18	Sep-18	Jul-18	Aug-18	Sep-18
PPI By Stage of Processing (SP)	0.3	(0.1)	1.2	0.7	(0.3)	(0.2)
Crude Materials for Further Processing (CM)	0.1	(0.8)	4.1	11.1	7.2	7.1
Intermediate Materials Supplies and Components (IM)	0.5	0.3	0.3	(1.2)	(1.4)	(1.5)
Finished Goods (FG)	0.0	(0.2)	0.8	(3.1)	(3.3)	(2.7)
Capital Equipment (CE)	0.0	0.0	1.3	(3.4)	(3.5)	(2.5)


Source: CEIC, MIDFR

**Continuous slowdown in key economies.** Producer inflation moderated further for most of the key economies in Sep-18 despite mounting trade conflicts between the US and China. For instance, US's producer inflation eased further to 2.6%yoy in Sep-18 following 2.8%yoy registered in the prior month. In tandem, consumer inflation fell to 2.3%yoy during the month from 2.7%yoy recorded earlier. Likewise, China's cost inflation continued moderating to 3.6%yoy in Sep-18 (Aug-18: 4.1%yoy), the lowest gain in five months as prices of means of production went up at a softer rate of 4.6%yoy compared to 5.1%yoy in Aug-18. Among ASEAN countries, producer inflation slowed further to 12.1%yoy for Singapore while increased to 1.3%yoy for Thailand.

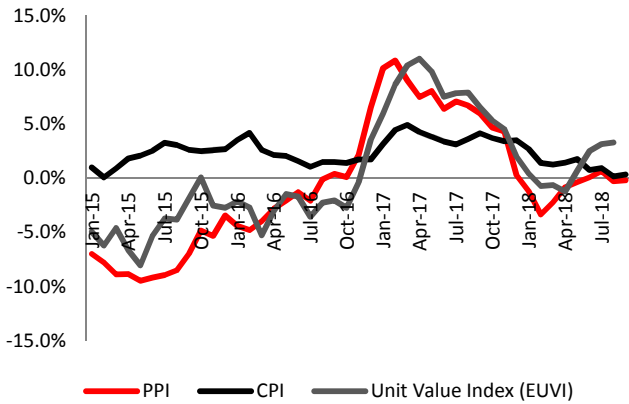
**Table 3: Global Producer Price Index (YoY%)**

	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
Malaysia	(3.4)	(2.2)	(0.8)	(0.4)	0.1	0.7	(0.3)	(0.2)
Indonesia	3.4	3.5	4.9	5.9	6.6	7.5	7.4	
Thailand	(1.9)	(1.4)	(0.8)	0.7	1.8	2.2	1.1	1.3
Philippines	(0.6)	(0.9)	0.4	0.9	0.9	0.2	0.0	
Singapore	(1.1)	0.5	2.6	8.6	11.7	13.5	12.8	12.1
Japan	2.5	2.0	2.0	2.6	2.8	3.0	3.0	3.0
China	3.6	3.1	3.4	4.1	4.7	4.6	4.1	3.6
EU	1.7	2.0	1.9	3.0	3.6	4.3	4.2	
United States	2.8	2.9	2.7	3.1	3.4	3.3	2.8	2.6

Source: CEIC, MIDFR

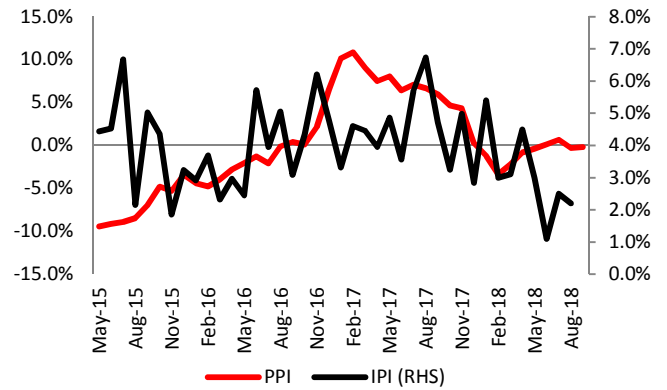
**Producer price index is expected to contract by 1% in 2018.** Amid higher base effects, we foresee producer price inflation to average at -1% this year. We anticipate inflationary pressure from fuel-related items to pick-up at steady pace, in tandem with steady gradual rise in global crude oil prices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



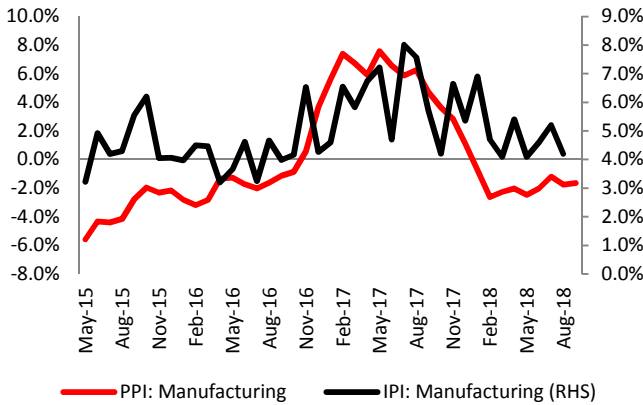
Source: CEIC, MIDFR

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



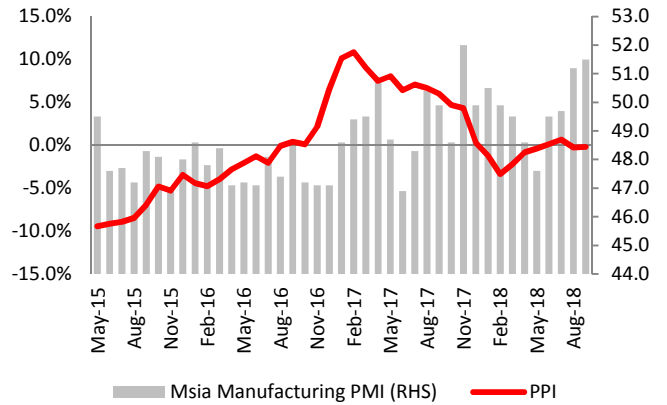
Source: CEIC, MIDFR

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



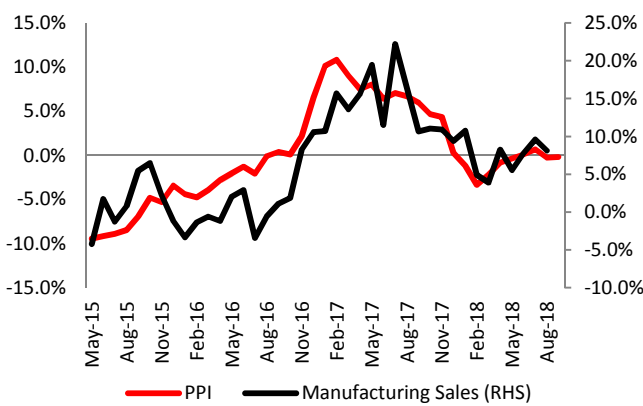
Source: CEIC, MIDFR

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



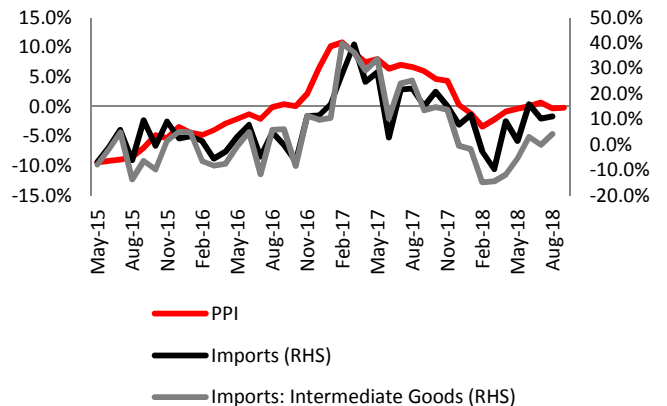
Source: CEIC, BLOOMBERG, MIDFR

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



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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