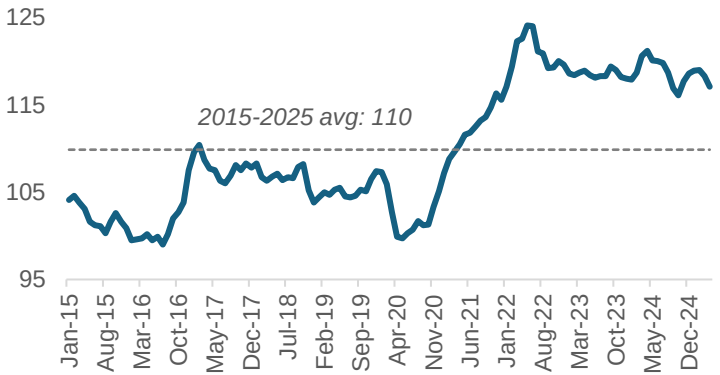
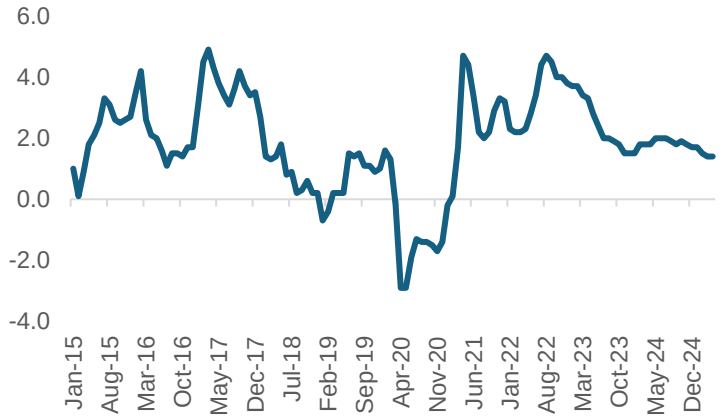
Dr Mohd Afzanizam Abdul Rashid – Chief Economist
Raja Zarina Raja Mohammad - Economist

Malaysia's PPI Falls Further in April — But the Drivers Run Deeper

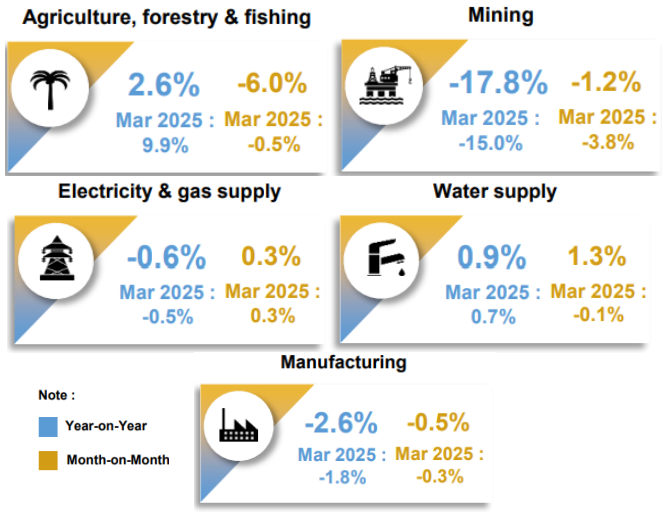
Produce Price Index (levels)



Produce Price Index (% yoy)



Produce Price Index by Sector



Sources: DOSM, CEIC

Producer prices continue to slide in April, dragged by mining and manufacturing

Malaysia's Producer Price Index (PPI) — which tracks changes in input prices at the producer level — **fell 3.4% year-on-year in April**, **extending the downtrend for a second month**. The decline was driven by a steep drop in mining (-17.8%), reflecting lower crude oil and gas prices, and a 2.6% fall in manufacturing costs, mainly due to weaker refined petroleum prices. Meanwhile, agriculture prices rose modestly (+2.6%) on the back of firmer perennial crops, while utilities were mixed — electricity and gas slipped slightly, but water supply edged higher.

While the decline appears broad-based, a closer look reveals deeper forces at play.

At first glance, the recent fall in Malaysia's Producer Price Index (PPI) **looks like a mechanical outcome**, with most sectors showing broad-based declines. But dig a little deeper, and there's more to the story — a mix of **global price corrections, currency effects, and high base comparisons** that are driving the numbers down.

Dr Mohd Afzanizam Abdul Rashid – Chief Economist
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Unpacking the Drop: What's Really Behind Falling Producer Prices?

1

Global Commodity Prices Have Come Off Their Highs

Malaysia's **producer prices tend to move in tandem with global input costs** like crude oil, palm oil, and industrial metals — and for good reason. These inputs are central to our manufacturing and export-driven economy. After peaking in mid-2022, **global prices for these commodities have eased, bringing down production costs across the board.** On top of that, **China's patchy recovery and global inventory destocking** have weighed on raw material demand, pushing input prices lower — and that's showing up in our PPI numbers.

2

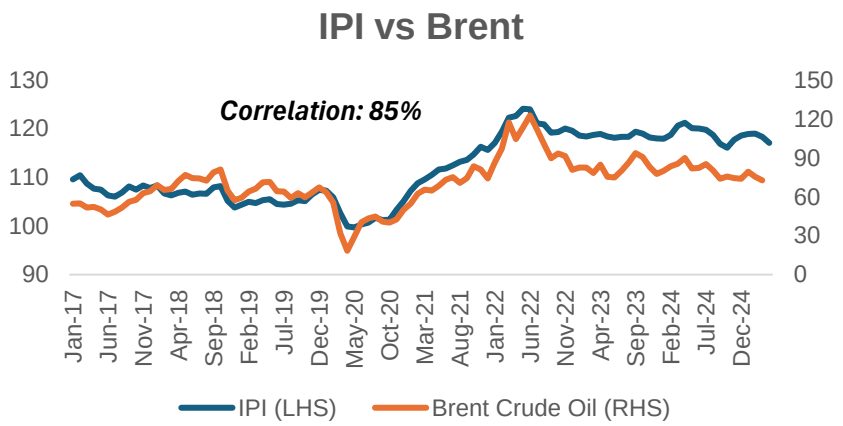
Stronger Ringgit Took Some Pressure Off

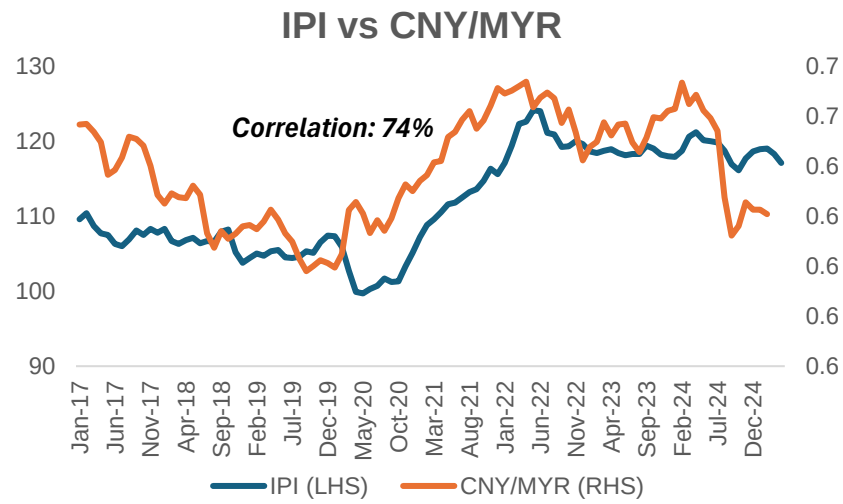
The **Ringgit has seen periods of strength in 2023**, especially against the US Dollar and Chinese Yuan. That means **imported goods — especially intermediate goods and raw materials — became cheaper** for local producers. This FX effect helped take some of the heat off upstream price pressures.

3

It's Also a Base Effect Story

Let's not forget what happened in early 2022: the **Russia-Ukraine war broke out,** global supply chains were still shaky, and commodity prices were surging. That sent Malaysia's PPI sharply higher. Fast forward to today, and those high readings from last year are making this year's numbers look weaker in comparison — **a classic case of base effects**. So even though prices have come down, part of the year-on-year drop is just **statistical noise from a high starting point**.





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Raja Zarina Raja Mohammad - Economist

30 MAY 2025

The Price Disconnect: Why Falling Costs Aren't Reaching Consumers

While producer prices (PPI) have been falling, consumer prices (CPI) are still creeping up — and the **gap between the two is getting wider**. This disconnect **isn't just a statistical oddity**; it tells us something important about how prices are behaving across the economy.

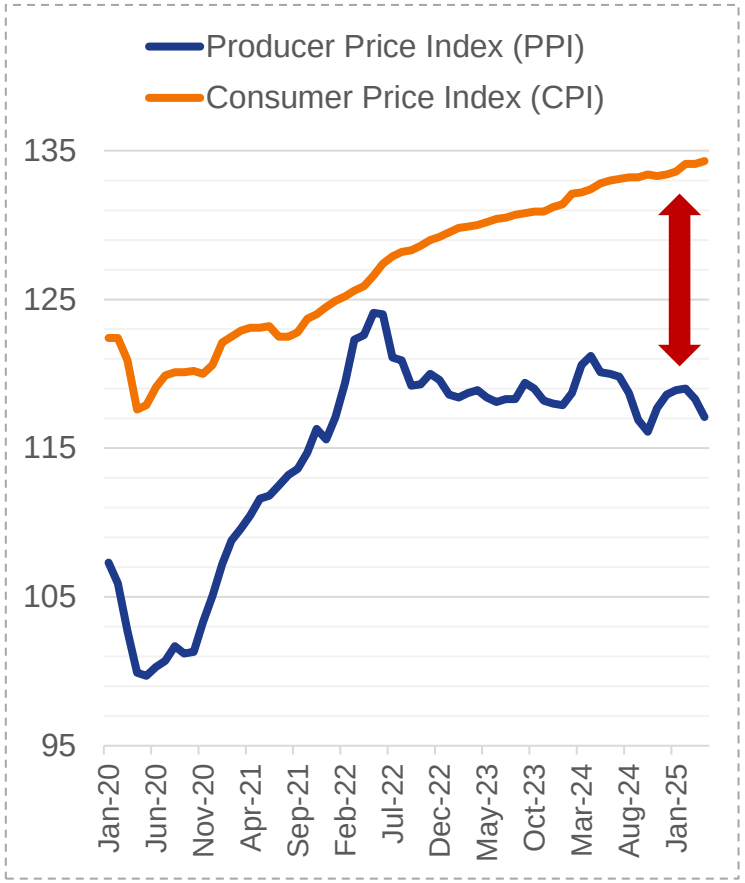
1 Companies Are Rebuilding Margins

Falling input costs haven't translated into cheaper goods or services for consumers — at least not yet. CPI is still inching up. That suggests **many businesses are holding prices steady and taking the opportunity to rebuild margins** after absorbing high costs in 2022. In other words, firms are paying less for materials **but not rushing to pass on those savings**.

2 PPI Deflation Doesn't Automatically Mean CPI Relief

Just because producer prices are dropping doesn't mean the same will happen at the consumer level — especially **when CPI is made up of sticky components** like rent, services, and public transport. These don't respond quickly to changes in raw material costs. So, the gap may persist, unless there's a **major shift in cost structure or policy**.

CPI vs PPI



3 Weak Pass-Through from PPI to CPI

Normally, lower production costs eventually show up in consumer prices — but that pipeline looks clogged. Here's why:

1. Prices for services (like education, health, or dining out) **don't move much with input costs**.
2. In sectors with limited competition, companies have **little incentive to cut prices** — they simply hold steady.
3. **Regulated prices** (like fuel and electricity) further dampen any cost relief consumers might expect.

So even though PPI is falling, consumers aren't really feeling it.

Dr Mohd Afzanizam Abdul Rashid – Chief Economist
Raja Zarina Raja Mohammad - Economist

The Calm Before the Surge? How Fuel Reform Could Change the Game

If the government moves ahead with fuel subsidy rationalisation in 2H2025, we could see the **current PPI–CPI dynamic flip.**

1. CPI Will Likely Jump — Fast and Hard

Fuel is a major item in the CPI basket, especially under Transport, which accounts for about 11.3% of the index. If RON95 subsidies are removed or reduced, expect a sharp rise in headline inflation (albeit low inflation environment at the moment). Unlike the current soft trend, this would be a **policy-driven price shock — and highly visible to consumers**.

2. Second-Round Effects Will Kick In

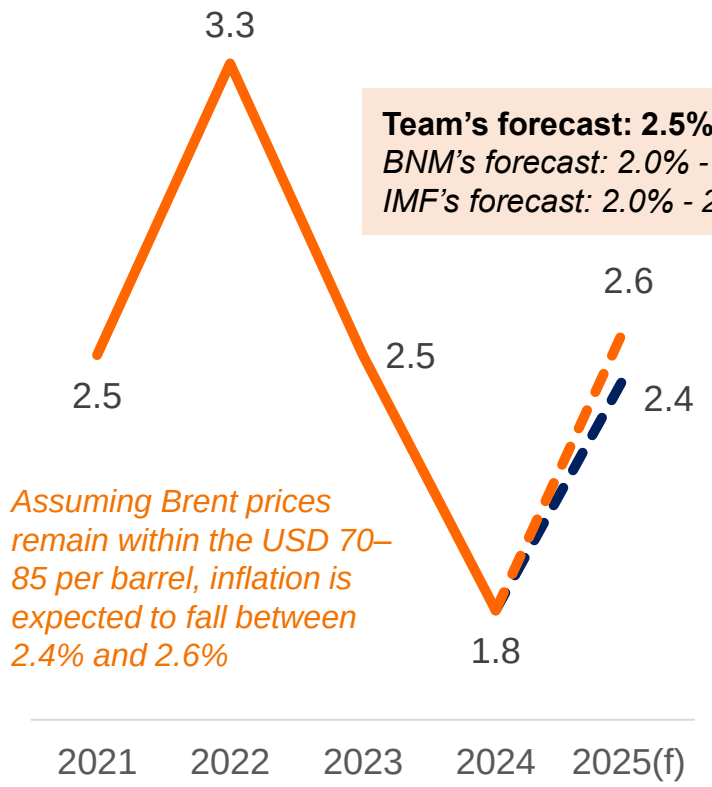
It doesn't stop at the pump. Higher fuel prices mean higher logistics and distribution costs, would **reignite the cost-push transmission** we're not seeing right now.

3. Firms May No Longer Absorb Costs

The cushion that firms have been sitting on — using lower input costs to pad margins — may not be enough if fuel prices jump. Many will **likely pass on the new costs to consumers**, especially in competitive or low-margin sectors.

Bottom line: Right now, falling input costs have eased pressure for producers — many are now enjoying wider margins — but this has yet to translate into meaningful relief for consumers. However, that dynamic could shift quickly if fuel subsidies are lifted in 2H2025. A jump in transport costs would ripple through the supply chain, triggering broader price adjustments and reactivating the cost-push channel.

Inflation (% yoy)



Team's forecast: 2.5%;
BNM's forecast: 2.0% - 3.5%
IMF's forecast: 2.0% - 2.6%

Assuming Brent prices remain within the USD 70–85 per barrel, inflation is expected to fall between 2.4% and 2.6%

Source: DOSM, CEIC BMMB estimates

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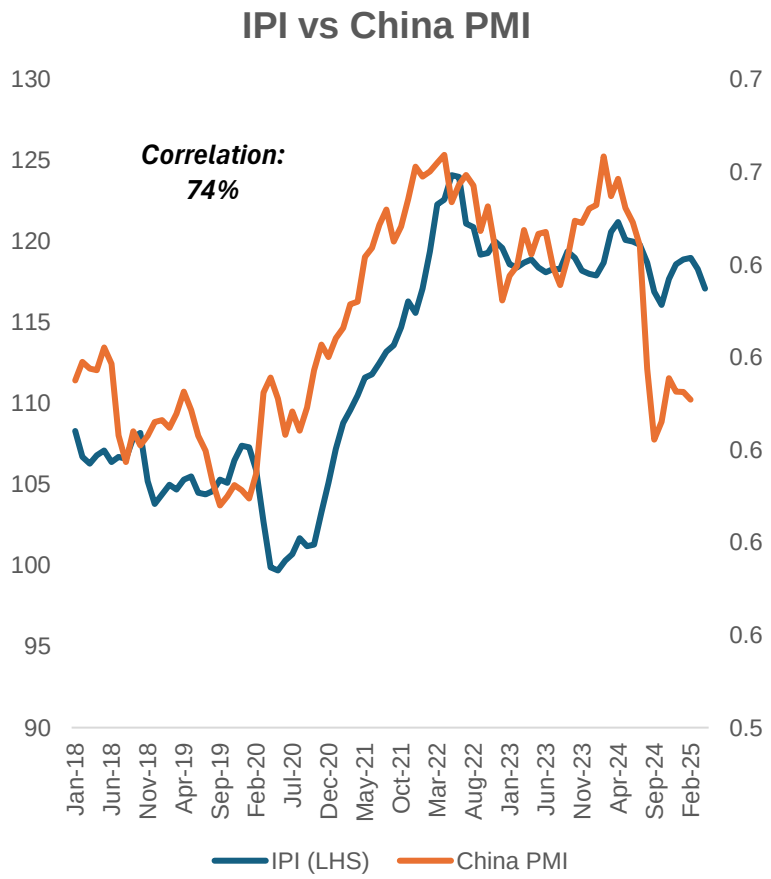
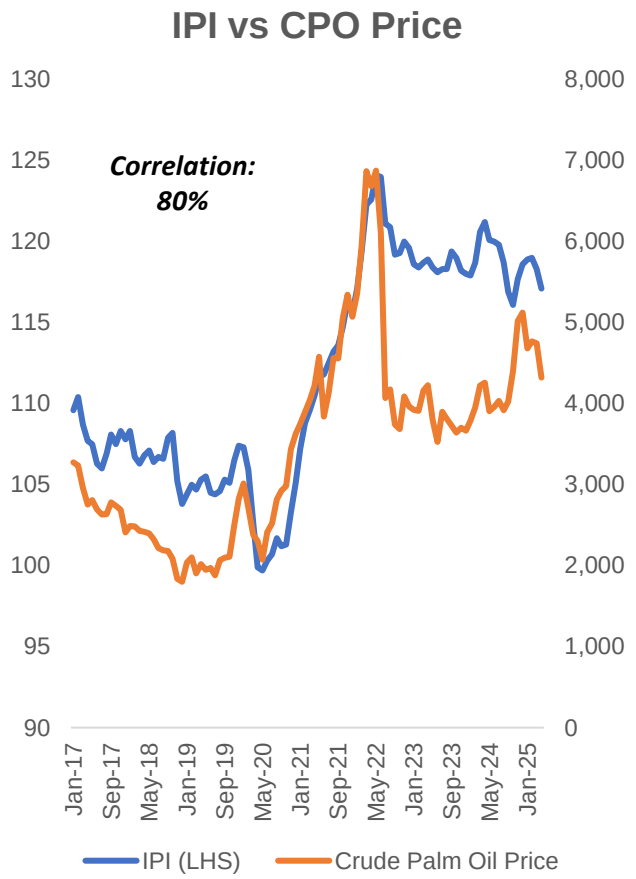
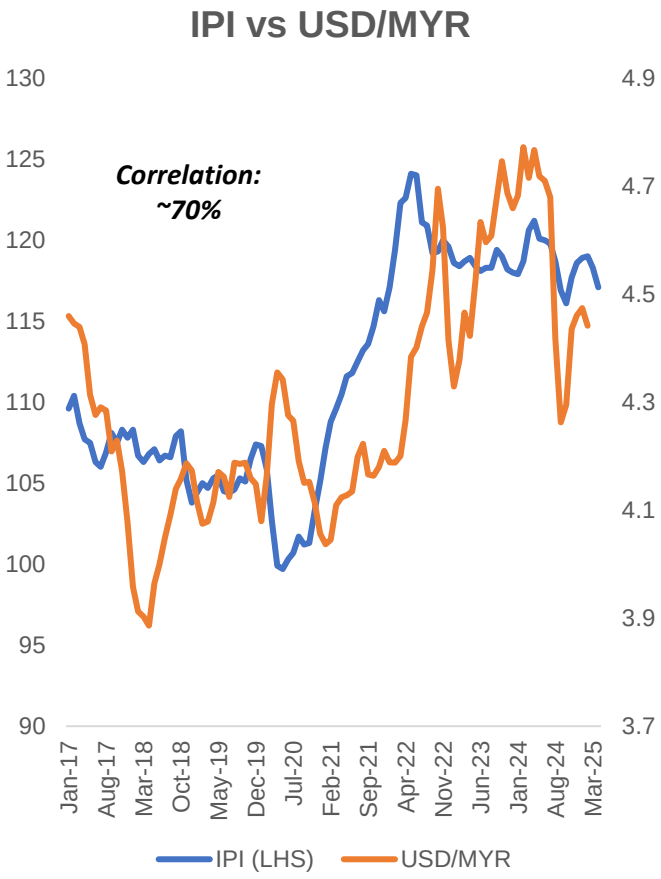
Appendix: Correlation Check - IPI's Sensitivity to External Forces







Source: DOSM, CEIC BMMB estimates