

Nedbank

Economic commentary

26 February 2009

PRODUCER INFLATION

Producer inflation eased sharply in January

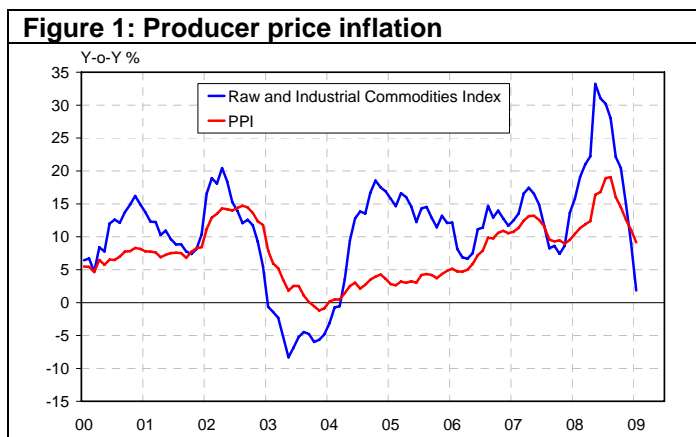
Latest (January 2009)

Headline PPI: 9,2% y-o-y, -0,7% m-o-m (11% y-o-y in December 2008)

(Nedbank forecast: 9,4% y-o-y: Market forecast: 9,6% y-o-y)

Export prices: 2,6% y-o-y, -0,7% m-o-m (4,8% y-o-y in December 2008)

Import prices: -5% y-o-y, -6,2% m-o-m (3,4% y-o-y in December 2008)



Source: Stats SA

Comment

Producer price inflation moved back into single digits for the first time since December 2007, as weakening demand both locally and globally puts downward pressure on commodity prices. Producer price inflation eased further to 9,2% y-o-y in January from 11% in December, after peaking at 18,9% y-o-y in July.

The monthly decline was mainly due to lower prices of imported commodities, which remained depressed by weak global demand. As a result metal ores and other minerals fell by 6,8% m-o-m and 4,3% m-o-m respectively. This was partially offset by a surprising increase in prices at the agricultural level, which rose by 9,4% m-o-m, mainly due to unusually sharp increases in fruit and vegetable prices. In January fruit and vegetable prices usually fall. However, high rainfall recently may have delayed harvesting, putting upward pressure on prices.

Inflation at the manufacturing level continues to ease at a moderate pace, slowing to 12,6% from 14,6%. Food at the manufacturing level only shows modest signs of slowing, mainly due to rising meat, fish as well as tea and coffee prices. Prices of chemical products also fell over the year, reflecting lower oil prices, which makes up a significant proportion of the cost of producing chemical products. Basic metal and metal product inflation

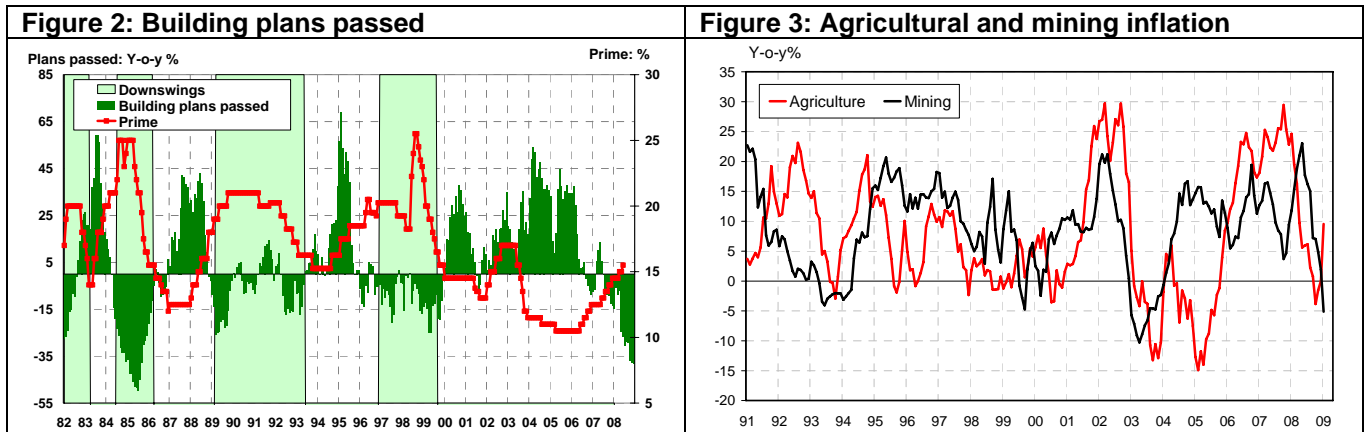
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remained at elevated levels, despite lower commodity prices. This is probably due to the contractual nature of the supply chain between mines and producers, as a result there may be a significant lag.



Outlook

During the course of 2009 producer price inflation will continue to ease. The latest building industry figures suggested that the construction industry is under pressure, as the prospect of significantly weaker growth forces companies to put expansion plans on hold. As a result, prices of goods such as metals, metal products as well as non-metallic minerals are expected to fall further as demand subsides. Commodity prices have fallen steeply since peaking in the middle of the year and seem unlikely to recover, as both local and global demand remains suppressed. Lower commodity prices should eventually feed through into lower prices of metals and metal products at the manufacturing level.

With commodities priced in dollars and some locally produced goods charged at import parity prices, a further weakening of the rand might delay the expected sharp slowdown in PPI.

Implications

Today's PPI figure is good news for the consumer inflation outlook, as it provides further evidence that both local and global inflationary pressures are abating fast. Key to any decision on an emergency rate cut will be further bad economic news. Governor Mboweni, in a speech earlier today, highlighted that no one factor would make the Monetary Policy Committee (MPC) meeting convene an extraordinary meeting, but rather it would be due to a combination of factors. The market may therefore need to wait until the middle of next month when manufacturing and retail sales are released, before the MPC makes any decision. Over the course of the remainder of the year we expect a 350 to 400 basis point decline in rates.

Table 1: Headline PPI

	Headline PPI							
	Weights Base 2000	January 2000				Last 3 mths annualised	January 2008	
		Month-on-month		Year-on-year			M-o-m %	Y-o-y %
		%	% contrib	%	% contrib			
All groups	100.0	-0.7	-0.7	9.2	9.2	-11.9	1.0	10.4
Agriculture, forestry, fishing & mining	29.4	-0.4	-0.1	-0.3	-0.1	-13.1	1.3	16.8
Agriculture	8.2	9.4	0.8	9.5	0.8	57.7	-0.2	24.6
Food	3.9	18.9	0.7	13.2	0.5	156.2	-1.0	25.6
Grain	0.9	3.1	0.0	-7.8	-0.1	-18.4	1.3	34.2
Vegetables	1.1	22.7	0.3	37.8	0.4	338.8	-3.7	41.4
Fruits & nuts	1.4	36.6	0.5	18.5	0.3	498.4	-7.8	29.7
Oil seeds	0.1	-5.9	0.0	-18.2	0.0	-25.5	2.4	84.7
Sugar cane	0.3	-0.1	0.0	18.9	0.1	7.3	0.8	4.2
Other food	0.0	-3.1	0.0	6.8	0.0	-8.8	0.0	1.3
Live animals and animal products	3.7	-0.7	0.0	8.5	0.3	9.6	-0.3	
Live animals	2.9	-1.0	0.0	8.5	0.2	2.6	-0.1	14.9
Milk	0.3	-0.8	0.0	-5.7	0.0	-25.5	-0.1	
Eggs	0.4	0.9	0.0	24.4	0.1	103.9	-1.6	
Other raw animal products	0.2	-0.6	0.0			-7.9		
Nursery products and other agriculture	0.7	-1.1	0.0	-10.9	-0.1	-64.5	18.2	17.3
Forestry	1.5	-2.8	0.0	10.9	0.2	-33.4	0.0	5.4
Fishing	0.3	-0.7	0.0	24.0	0.1	4.8	0.0	11.0
Mining and quarrying	19.4	-4.1	-0.8	-5.1	-1.0	-31.1	3.0	11.8
Coal & lignite	5.0	0.3	0.0	26.5	1.3	21.7	4.5	21.8
Crude petroleum & natural gas	0.6	2.2	0.0			-52.5		
Metal ores	11.5	-6.8	-0.8	-18.7	-2.1	-49.3	3.0	6.8
Other minerals	2.3	-4.3	-0.1	7.8	0.2	-31.4	-0.7	1.6
Manufacturing	62.3	-0.9	-0.6	12.6	7.9	-13.0	0.9	8.9
Food at manufacturing	5.9	0.0	0.0	12.0	0.7	-0.6	0.7	18.7
Beverages	3.0	0.1	0.0	11.1	0.3	11.4	-4.7	7.7
Tobacco products	0.6	0.5	0.0	14.9	0.1	12.0	0.3	4.0
Textiles & made-up goods	1.1	0.6	0.0	6.6	0.1	3.8	0.1	4.4
Wearing apparel	1.5	-5.0	-0.1	15.3	0.2	-22.1	12.3	56.6
Leather & leather products	0.3	0.4	0.0	5.5	0.0	0.8	0.6	22.4
Footwear	0.3	-1.4	0.0	11.8	0.0	-14.7	0.7	35.2
Wood & wood products	1.4	3.8	0.1	6.0	0.1	18.9	-0.5	3.0
Paper & paper products	5.0	7.4	0.4	23.7	1.2	32.2	0.5	8.2
Products of petroleum & coal	5.0	0.5	0.0	16.8	0.8	1.5	1.9	16.4
Chemicals & chemical products	6.7	1.8	0.1	5.8	0.4	8.6	0.5	6.6
Rubber & plastic products	2.6	1.6	0.0	5.0	0.1	7.1	0.6	7.4
Non-metallic mineral products	2.0	2.3	0.0	7.3	0.1	12.3	0.0	4.0
Basic Metals	6.7	0.4	0.0	12.4	0.8	1.5	0.0	6.6
Metal products	3.3	0.2	0.0	6.0	0.2	3.5	0.0	4.2
Non-electrical machinery & equipment	2.4	0.5	0.0	12.4	0.3	7.1	0.0	5.6
Office, accounting & computing machinery	0.2	0.1	0.0	3.4	0.0	1.8	0.0	2.2
Electrical machinery & apparatus	1.9	0.0	0.0	1.8	0.0	0.0	0.0	2.2
Radio, TV & communication equipment	0.5	0.0	0.0	0.0	0.0	0.0	0.0	2.6
Medical appliances, instruments & clocks	0.3	0.0	0.0	2.4	0.0	0.0	0.0	2.2
Transport	5.8	1.1	0.1	1.4	0.1	4.4	-0.1	-1.4
Furniture	1.0	1.8	0.0	8.5	0.1	7.4	0.5	4.7
Other manufactures	5.0	2.2	0.1	8.0	0.4	9.4	1.2	12.5
Electricity, gas and water	8.3	2.2	0.2	14.0	1.2	10.6	2.2	5.2
Electricity	6.9	4.5	0.3	12.4	0.9	21.0	3.4	9.4
Gas & water	1.5	-11.9	-0.2	-24.1	-0.4	-79.5	1.1	33.6

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