

# Nedbank

## Economic commentary

29 January 2009

### PRODUCER INFLATION

#### *Producer inflation moderated further in December*

##### Latest (December 2008)

Headline PPI: 11% y-o-y, -1,1% m-o-m (12,6% y-o-y in November 2008)

(Nedbank forecast: 11,4% y-o-y; Market forecast: 11,4% y-o-y)

Export prices: 4,8% y-o-y, -5,7% m-o-m (11,2% y-o-y in November 2008)

Import prices: 3,4% y-o-y, -1,4% m-o-m (6,3% y-o-y in November 2008)

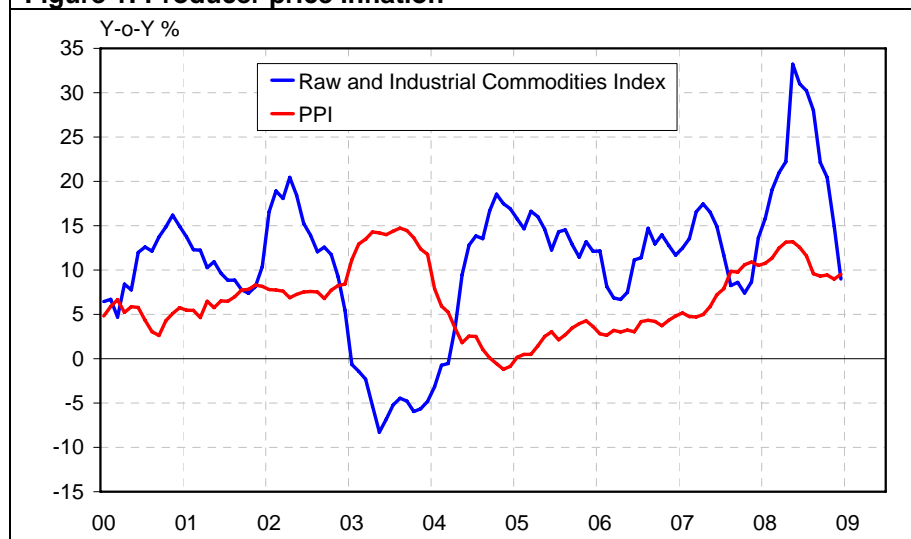
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**Figure 1: Producer price inflation**



Source: Stats SA

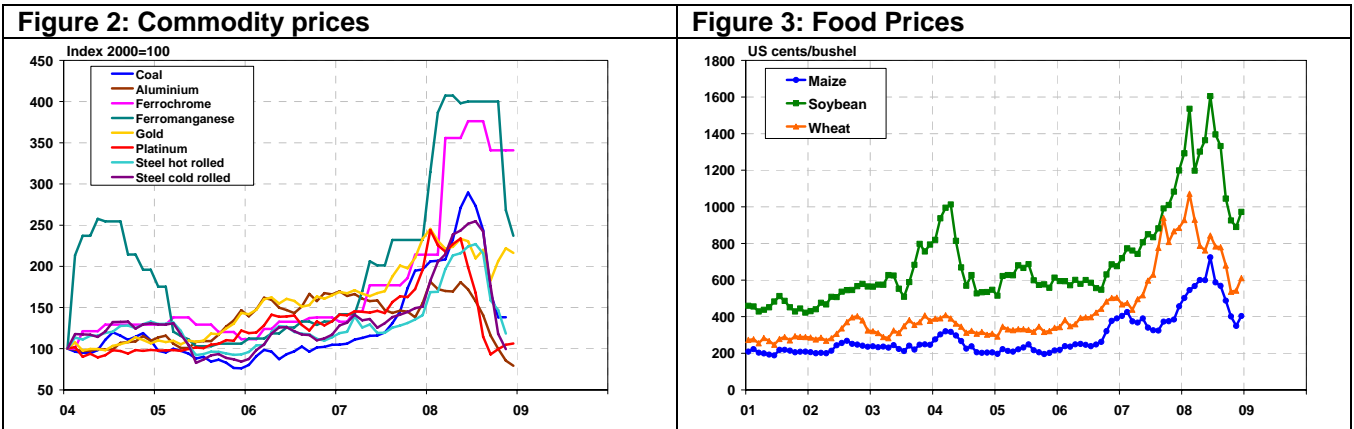
#### Comment

The slowdown in producer price inflation reflects a combination of lower metal, agricultural and oil prices. Producer price inflation slowed to 11% in December from 12,6% in the previous month.

Primary sector inflation, which includes agriculture, mining and forestry, eased to 1,4% y-o-y from 3,2% in the previous month. Inflation at the manufacturing level fell to 14,6% from 16,3% in November, reflecting generally slower food, basic metal and non-metallic mineral inflation. The price of petroleum products fell by 12,9% over the year.

The monthly decline was mainly due to sharply lower prices of imported commodities, which were pulled down by the steep decline in international commodity prices, especially crude oil prices. As a result, prices of crude petroleum dropped by 12,6% m-o-m, while prices of coal and metal ores fell by 2,6% m-o-m and 6,7% m-o-m respectively. Agricultural goods continue to show modest month-on-month increases, mainly due to higher prices of fruit and

vegetables, which often increase for seasonal reasons at this time of year. However, this was partly countered by lower milk and oil seeds price.



**Outlook**

This year should see producer price inflation easing sharply. Commodity prices have fallen steeply since peaking in the middle of last year and seem unlikely to recover in the short term, as both local and global demand will remain depressed. Food prices at the manufacturing level will also ease further, as much of the decline in international food prices still needs to be passed on to local manufacturers and consumers. Any further weakening in the rand might reduce the expected sharp slowdown in PPI, as commodities are often priced at import parity. The latest building industry figures continue to show 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 bricks as well as iron and steel are expected to fall further as demand subsides.

**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. The inflation and the economy are expected to slow sharply, due to the combined effect of a cyclical slowdown in the domestic economy and the sharp deterioration in the global environment. As a result, we expect that the Bank may opt to front-load interest rate cuts, opting for more aggressive loosening earlier on in the year followed by more modest easing in the second half.

**Table 1: Headline PPI**

	Headline PPI							
	Weights Base 2000	November 2008					November 2007	
		Month-on-month		Year-on-year		Last 3 mths annualised	M-o-m %	Y-o-y %
		%	% contrib	%	% contrib			
<b>All groups</b>	<b>100.0</b>	-1.3	-1.3	12.6	12.6	-19.3	0.4	9.0
<b>Agriculture, forestry, fishing &amp; mining</b>	<b>29.4</b>	-1.8	-0.5	3.2	0.9	-22.3	-1.1	13.6
Agriculture	8.2	0.5	0.0	-1.5	-0.1	2.2	-1.8	25.4
Food	3.9	4.1	0.2	-6.4	-0.2	4.9	-0.4	25.3
Grain	0.9	-9.7	-0.1	-11.4	-0.1	-45.3	0.8	35.0
Vegetables	1.1	11.8	0.1	7.2	0.1	73.1	-23.7	45.4
Fruits & nuts	1.4	13.3	0.2	-15.7	-0.2	37.0	10.4	30.6
Oil seeds	0.1	3.8	0.0	-10.1	0.0	-28.3	-5.2	92.4
Sugar cane	0.3	0.8	0.0	18.8	0.1	15.8	-0.5	2.8
Other food	0.0	0.8	0.0	10.2	0.0	15.7	0.0	1.3
Live animals and animal products	3.7	0.4	0.0	7.3	0.3	3.7	2.9	
Live animals	2.9	-1.5	0.0	6.3	0.2	0.0	3.9	13.4
Milk	0.3	-2.9	0.0	2.6	0.0	-26.7	0.9	
Eggs	0.4	13.7	0.0	28.0	0.1	61.0	-0.7	
Other raw animal products	0.2	-0.2	0.0			-15.7		
Nursery products and other agriculture	0.7	-18.7	-0.1	-5.1	0.0	-22.0	-18.1	26.9
Forestry	1.5	-3.9	-0.1	18.0	0.3	36.2	0.0	6.6
Fishing	0.3	0.6	0.0	27.5	0.1	31.2	1.3	7.6
Mining and quarrying	19.4	-2.5	-0.5	4.8	0.9	-32.3	-0.5	4.7
Coal & lignite	5.0	-3.1	-0.2	24.4	1.2	-23.6	0.9	7.6
Crude petroleum & natural gas	0.6	-10.7	-0.1			-57.0		
Metal ores	11.5	-3.0	-0.3	-5.9	-0.7	-42.8	-1.9	2.6
Other minerals	2.3	2.9	0.1	23.9	0.6	46.1	-0.8	2.7
<b>Manufacturing</b>	<b>62.3</b>	-1.3	-0.8	16.3	10.2	-6.3	0.9	7.8
Food at manufacturing	5.9	-0.1	0.0	13.4	0.8	2.6	1.8	17.7
Beverages	3.0	1.1	0.0	5.4	0.2	15.7	4.5	9.2
Tobacco products	0.6	2.0	0.0	14.5	0.1	32.3	-1.1	9.6
Textiles & made-up goods	1.1	0.3	0.0	6.5	0.1	7.9	0.4	4.5
Wearing apparel	1.5	-0.1	0.0	38.8	0.6	17.0	2.9	38.1
Leather & leather products	0.3	-0.1	0.0	6.1	0.0	-4.1	0.7	21.5
Footwear	0.3	-1.8	0.0	15.8	0.0	-12.7	3.0	33.4
Wood & wood products	1.4	-0.1	0.0	0.9	0.0	0.3	0.7	3.7
Paper & paper products	5.0	0.1	0.0	16.0	0.8	2.6	1.5	8.7
Products of petroleum & coal	5.0	0.1	0.0	18.8	0.9	2.9	0.5	16.5
Chemicals & chemical products	6.7	0.3	0.0	4.4	0.3	1.8	0.0	6.2
Rubber & plastic products	2.6	0.2	0.0	4.1	0.1	-1.1	0.0	6.9
Non-metallic mineral products	2.0	0.6	0.0	4.8	0.1	7.9	0.0	4.2
Basic Metals	6.7	0.0	0.0	12.0	0.8	30.5	0.0	6.6
Metal products	3.3	0.0	0.0	5.6	0.2	7.9	0.0	5.1
Non-electrical machinery & equipment	2.4	0.1	0.0	11.2	0.3	7.5	0.0	7.0
Office, accounting & computing machinery	0.2	0.0	0.0	3.1	0.0	8.0	0.0	2.5
Electrical machinery & apparatus	1.9	0.0	0.0	1.7	0.0	-0.6	0.0	2.7
Radio, TV & communication equipment	0.5	0.0	0.0	0.0	0.0	0.0	0.0	4.2
Medical appliances, instruments & clocks	0.3	0.0	0.0	2.5	0.0	-0.3	0.0	2.2
Transport	5.8	0.0	0.0	0.2	0.0	0.7	0.0	-1.1
Furniture	1.0	0.0	0.0	7.1	0.1	12.6	0.0	4.7
Other manufactures	5.0	0.0	0.0	6.9	0.3	4.3	0.0	12.5
<b>Electricity, gas and water</b>	<b>8.3</b>	0.2	0.0	13.7	1.1	12.4	0.0	5.4
Electricity	6.9	0.4	0.0	11.3	0.8	4.5	-0.1	8.6
Gas & water	1.5	-12.6	-0.2	4.8	0.1	-59.1	3.4	20.7

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