Nedbank
Economic commentary

25 June 2009

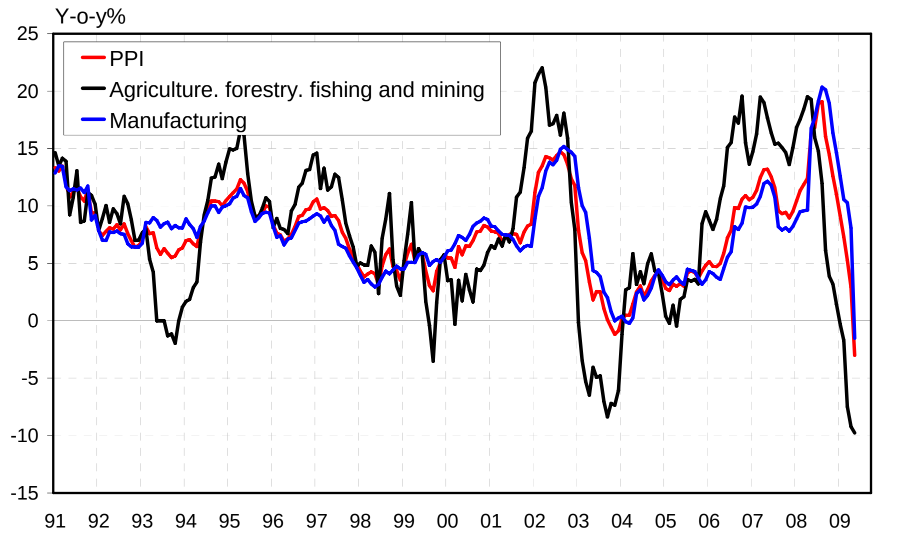
PRODUCER INFLATION

Lower food and basic metal prices push PPI into negative territory

Latest (May 2009)

Headline PPI: -3% y-o-y, -1,1% m-o-m (2,9% y-o-y in April 2009)
(Nedbank forecast: -2% y-o-y: Market forecast: -1,8% y-o-y)

Figure 1: Producer price inflation



Source: Stats SA

Comment

Producer price inflation came out much lower than market expectations, recording the first annual decline since November 2003. Today's better-than-expected figure was mainly due to a sharp decline in food prices at the agricultural level as well as a steep fall in basic metal prices.

Lower food inflation at the agricultural level once again proved to be one of the main drivers of lower overall producer inflation. Food production costs at the agricultural level decreased by 5,9% m-o-m and were down by 1,5% y-o-y. Food prices at the manufacturing level, which in the past have tracked agricultural prices quite closely (see graph 2), fell only modestly by 0,3% m-o-m, taking the annual increase to 6,2% from 8,2% in April.

Higher international commodity prices resulted in a modest 0,9% m-o-m increase in mining and quarrying costs, which was contained by a stronger rand. However, compared with a year ago prices continued to fall, declining by 13,9%.

Basic metal and metal products prices fell sharply over the month, by 9,1% and 1,1% respectively, as lower commodity prices filtered through to the manufacturing level (graph 3).

Research

Group Economic Unit

Carmen Altenkirch
011 295 9878
Carmenal@nedbank.co.za

Dennis Dykes
011 295 6435
Dennisd@nedbank.co.za

Outlook

Figure 2: Agriculture and food

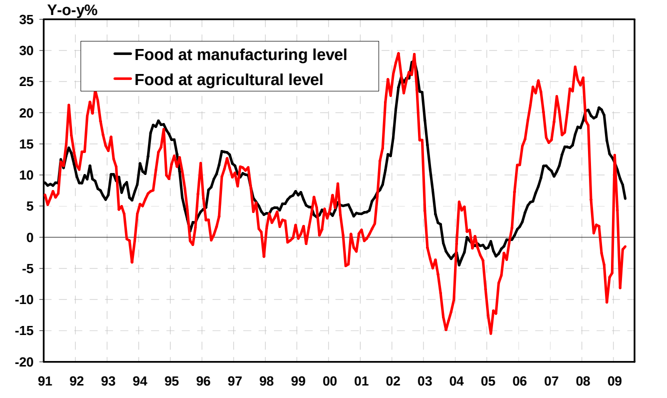
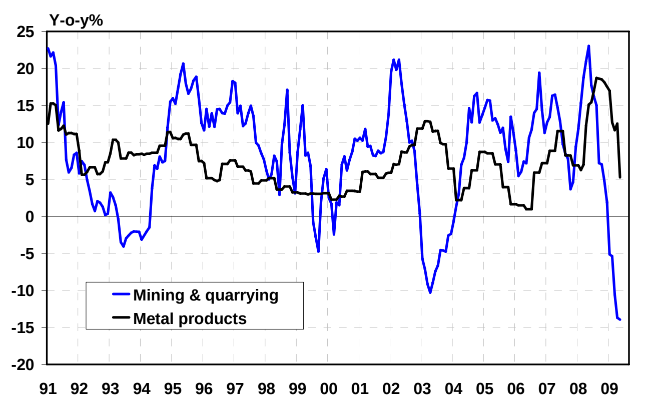


Figure 3: Mining and metal products



The high base established in 2008 combined with weak domestic and international demand should keep producer inflation in negative territory for much of the remainder of this year.

Commodity prices have increased over the past three months, mainly due to dollar weakness and some - probably misplaced - optimism about global growth prospects. China's decision to add to commodity stockpiles as well as increased financial trading in commodities also added to upward pressure on metal prices. However, the global economy remains in recession and early indications are that any recovery is likely to be weak, as a result, commodity prices may come under some selling pressure. On an annual basis the mining and quarrying category should continue to ease significantly, as a result of the high base established last year.

There is usually a lag between changes in inflation at the primary sector (mining and farming) level and the manufacturing level. In the case of commodities and their beneficiated products, this is probably due to the contractual nature of the supply chain between mines and producers. As a result, prices of manufactured metal and non-metal as well as food products should continue to moderate over the coming months.

In addition the latest gdp figures show that growth in investment spending is slowing sharply and will remain depressed as domestic demand contracts, making companies reluctant to invest in additional capacity. As a result there should be further downward pressure on prices of goods used in construction.

Implications

Today's producer inflation data is extremely encouraging. Lower input prices as well as contracting domestic demand, should continue to put downward pressure on consumer inflation. This is good news for the medium-term inflation outlook, which the Reserve Bank will be focusing on at today's meeting. This, combined with an extremely weak outlook for the domestic economy, will probably tip the balance in favour of a 50 basis point cut in interest rates at today's meeting.

	Headline PPI							
	2009/05\/01						May 2008	
	Weights Base 2000	Month-on-month %	Month-on-month % contrib	Year-on-year %	Year-on-year % contrib	Last 3 mths annualised	M-o-m %	Y-o-y %
All groups	***100.0***	-1.1	-1.12	-3.0	-3.01	-4.8	4.9	16.4
Agriculture, forestry, fishing & mining	***29.4***	-0.4	-0.13	-9.8	-2.87	-6.8	0.2	19.3
Agriculture	8.2	-3.6	-0.30	1.5	0.12	-33.7	-3.0	5.6
Food	*3.9*	-5.9	-0.23	-1.5	-0.06	-52.8	-6.3	0.7
Grain	0.9	1.2	0.01	-14.1	-0.12	-8.2	-0.7	15.8
Vegetables	1.1	-10.4	-0.12	14.6	0.17	-52.8	-9.8	-6.3
Fruits & nuts	1.4	-12.0	-0.17	-0.5	-0.01	-79.5	-11.0	-1.5
Oil seeds	0.1	7.9	0.01	-29.9	-0.04	-38.2	-2.8	41.5
Sugar cane	0.3	3.1	0.01	27.6	0.08	58.4	-2.0	13.4
Other food	0.0	-0.7	0.00	16.9	0.01	14.0	0.0	6.2
Live animals and animal products	*3.7*	-1.6	-0.06	4.4	0.16	-4.6	1.8	18.6
Live animals	2.9	-2.6	-0.07	3.9	0.11	-8.5	2.6	
Milk	0.3	3.5	0.01	-4.9	-0.01	44.9	0.8	38.1
Eggs	0.4	0.1	0.00	17.8	0.06	0.3	0.7	
Other raw animal products	0.2	2.5	0.00	-9.1	-0.02	0.7	-6.9	
Nursery products and other agriculture	*0.7*	0.0	0.00		0.00	-13.5		
Forestry	1.5	-1.6	-0.02	-4.1	-0.06	-20.4	-0.9	9.5
Fishing	0.3	-3.3	-0.01	10.0	0.02	-5.9	0.0	13.2
Mining and quarrying	19.4	0.9	0.17	-13.9	-2.70	7.5	1.2	23.0
Coal & lignite	*5.0*	1.7	0.08	11.3	0.56	22.8	0.0	50.6
Crude petroleum & natural gas	*0.6*	1.4	0.01	-29.0	-0.18	16.4	0.0	
Metal ores	*11.5*	0.9	0.10		0.00	4.3		
Other minerals	*2.3*	-2.3	-0.05	-5.9	-0.14	-24.7	0.4	5.7
Manufacturing	***62.3***				0.00			
Food at manufacturing	5.9	-0.3	-0.02	6.2	0.36	2.0	1.7	19.1
Beverages	3.0	0.4	0.01	12.4	0.38	5.4	2.2	11.1
Tobacco products	0.6	0.0	0.00	12.4	0.07	-14.3	0.9	1.7
Textiles & made-up goods	1.1	0.0	0.00	6.7	0.07	7.5	-0.1	4.1
Wearing apparel	1.5	0.0	0.00	1.7	0.02	24.9	7.7	66.8
Leather & leather products	0.3	0.0	0.00	1.7	0.01	5.3	-0.1	20.2
Footwear	0.3	0.5	0.00	10.2	0.03	-4.2	3.5	27.9
Wood & wood products	1.4	0.0	0.00	5.2	0.07	12.4	-3.7	-1.0
Paper & paper products	5.0	-0.2	-0.01	11.0	0.55	11.1	0.1	7.9
Products of petroleum & coal	5.0	2.0	0.10	-30.9	-1.54	-5.1	1.9	18.5
Chemicals & chemical products	6.7	0.4	0.03	3.5	0.23	11.2	0.0	6.0
Rubber & plastic products	2.6	0.1	0.00	9.5	0.25	9.5	0.0	6.6
Non-metallic mineral products	2.0	0.1	0.00	15.2	0.30	14.7	0.0	4.2
Basic Metals	6.7	-9.1	-0.61	-14.1	-0.94	20.3	0.0	10.1
Metal products	3.3	-1.1	-0.04	5.3	0.18	7.7	0.5	4.1
Non-electrical machinery & equipment	2.4	0.1	0.00	9.5	0.22	7.3	2.4	9.1
Office, accounting & computing machinery	0.2	0.0	0.00	0.0	0.00	7.8	-0.2	1.0
Electrical machinery & apparatus	1.9	0.0	0.00	-0.7	-0.01	0.0	0.0	1.8
Radio, TV & communication equipment	0.5	0.0	0.00	3.0	0.01	0.0	0.0	1.4
Medical appliances, instruments & clocks	0.3	-0.2	0.00	5.9	0.02	0.0	0.0	2.0
Transport	5.8	0.1	0.01	8.7	0.51	0.0	-0.4	-1.7
Furniture	1.0	0.3	0.00	7.0	0.07	7.0	0.0	2.0
Other manufactures	5.0	-0.7	-0.03	2.0	0.10	2.3	0.2	13.6
Electricity, gas and water	***8.3***	-0.5	-0.04	23.8	1.98	-1.3	1.7	6.7
Electricity	6.9	-0.7	-0.05	5.0	0.35	9.2	-0.2	11.5
Gas & water	1.5	0.0	0.00	-2.4	-0.03	22.1	5.7	33.9

Nedbank Head Office
NEDBANK GROUP ECONOMIC UNIT
135 Rivonia Road Sandown 2196
PO Box 1144 Johannesburg 2000
Tel +27 (0)11 295 6363
Email EstelleO@nedbank.co.za

Regular economic analysis is available on the Nedbank Group's internet site, http://www.nedbankgroup.co.za