

# Nedbank

## Economic commentary

29 October 2009

### PRODUCER INFLATION

#### *PPI falls more than expected*

- The pace of decline in PPI moderated slightly
- Over the year, the major source of decline remains commodity prices
- The month-on-month decline was due to electricity and commodities
- Expected to remain in negative territory until the end of the year
- We still anticipate one further rate cut in this cycle

#### Latest (September 2009)

Headline PPI: -3,8% y-o-y, -3,2% m-o-m (-4% y-o-y in August 2009)

Market forecast: -2,7% y-o-y

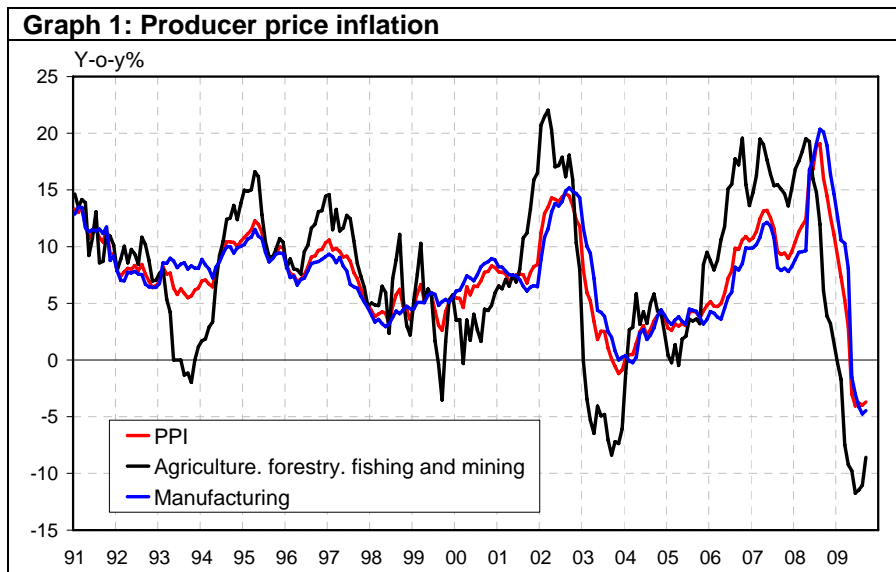
Nedbank forecast: -1,9% y-o-y

#### Research

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Source: Stats SA

#### Comment

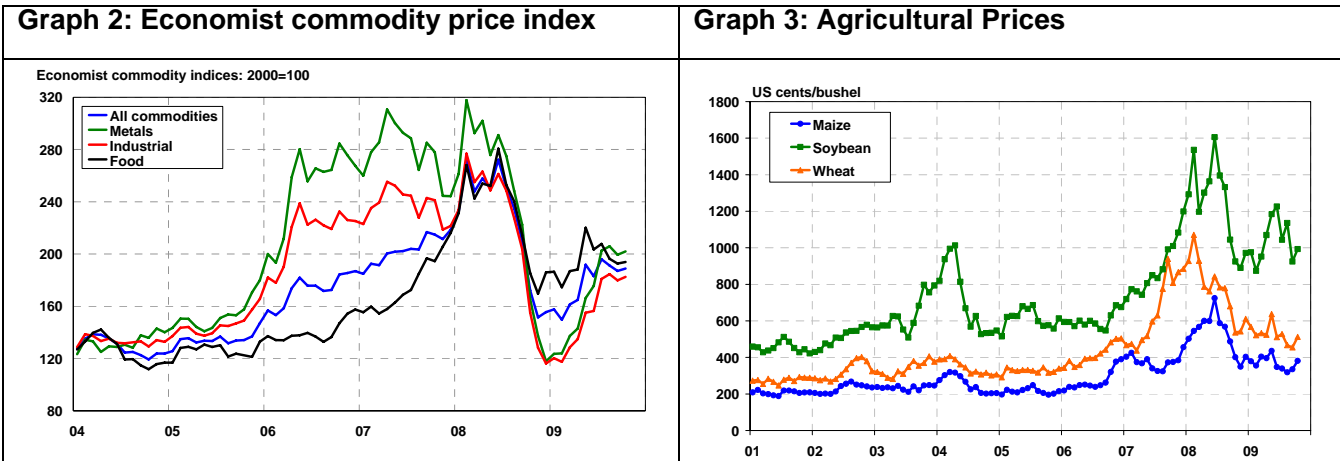
Producer prices fell more than expected in September, declining by 3,7% y-o-y, following a 4% drop last month. Over the month, prices fell by 3,2%, due to lower commodity and food prices at the manufacturing level as well as the switch to lower summer tariffs.

Prices of primary sector goods continued to fall on an annual basis, albeit at a more moderate pace, dropping by 8,6% y-o-y in contrast to the 11% decline recorded last month. This category contributed 2,5 percentage points to the annual decline. Agricultural prices fell at a faster pace on an annual basis compared with a year ago, due mainly to a sharp decline in prices in the forestry sector as well as lower agricultural food prices. Despite the fact that international commodity prices have been edging higher over the past few months, the mining and quarrying category continued to record a monthly

decline. This probably reflects a combination of rand strength which has muted the impact of higher commodity prices as well as the contractual nature of some of the arrangements between producers and end users of commodities.

Prices of goods in the manufacturing sector fell by 4,5% y-o-y, following a 4,8% y-o-y decline in August. Food at the manufacturing fell by 1% m-o-m, following a 0,3% increase in the previous month. This was partially offset by higher petrol prices, which rose by 1,8% m-o-m. On a year-on-year basis the main downward pressure continued to come from base metals as well as products of petroleum and coal.

**Outlook**



Inflation at the producer level is expected to remain in negative territory over the coming months, but should turn positive at the beginning of next year.

Commodity prices, including oil, agriculture and other metals have continued to rise at a moderate pace since the start of the year. More recently, commodity prices, including agricultural prices, have leveled off as a result of a combination of more muted investment demand as well as China’s decision to cut back its imports of commodities following a rapid build up in inventories earlier this year. Commodity prices are likely to continue to rise, albeit at a modest pace, due to the gradual nature of the recovery. However, increasingly cash-heavy global investors are looking to the commodity markets for sound returns, a hedge against uncertainty and exposure to emerging markets which may result in steeper rallies, but increased volatility in commodity prices in the years ahead. The rand’s strength combined with the high base established last year will keep these categories in negative territory for the remainder of the year.

Weak international and domestic demand is expected to put further downward pressure on the prices of goods used in the construction industry, as investment spending is expected to remain weak as companies face uncertain demand conditions as well as excess capacity.

**Implications**

Today’s producer price figures suggest that short-term inflationary pressures in the economy continued to abate. The Reserve Bank’s latest monetary policy statement was dovish in tone suggesting that concerns that growth will disappoint remain. We believe that should the recovery lose momentum over the coming months the Bank may cut rates by 50 basis points one last time this cycle.

	Headline PPI							
	Weights Base 2000	September 2009				August 2008		
		Month-on-month		Year-on-year		Ave m-o-m past 3 yrs	M-o-m %	Y-o-y %
		%	% contrib	%	% contrib			
<b>Total</b>	<b>100.0</b>	<b>-3.2</b>	<b>-3.2</b>	<b>-3.7</b>	<b>-3.70</b>	<b>-2.6</b>	<b>0.3</b>	<b>-4.0</b>
<b>Agriculture, forestry, fishing and mining</b>	<b>29.4</b>	<b>-1.3</b>	<b>-0.37</b>	<b>-8.6</b>	<b>-2.52</b>	<b>-1.3</b>	<b>-0.3</b>	<b>-11.0</b>
<b>Agriculture</b>	<b>8.2</b>	<b>0.1</b>	<b>0.01</b>	<b>-2.4</b>	<b>-0.20</b>	<b>0.9</b>	<b>0.1</b>	<b>-2.0</b>
<b>Food</b>	<b>3.9</b>	<b>1.5</b>	<b>0.06</b>	<b>-5.8</b>	<b>-0.23</b>	<b>0.9</b>	<b>0.1</b>	<b>-7.6</b>
Grain	0.9	-3.9	-0.03	-22.5	-0.20	-2.4	-0.5	-22.3
Vegetables	1.1	11.3	0.13	15.7	0.18	9.6	-6.4	20.1
Fruits & nuts	1.4	-3.1	-0.04	-11.7	-0.17	-2.2	7.2	-15.3
Oil seeds	0.1	5.1	0.01	-25.6	-0.03	3.2	-7.4	-35.1
Sugar cane	0.3	0.0	0.00	25.6	0.08	1.5	5.3	26.3
Other food	0.0	0.0	0.00	12.0	0.00	0.9	-1.5	15.2
Live animals & animal products	3.7	-0.9	-0.03	3.2	0.12	-0.1	0.1	4.2
Nursery products & other agriculture	0.7	-2.7	-0.02	-9.0	-0.06	5.0	0.0	2.2
Forestry	1.5	0.1	0.00	-10.2	-0.15	1.7	1.2	-5.6
Fishing	0.3	-2.3	-0.01	-6.4	-0.02	-1.0	-0.2	-1.8
<b>Mining &amp; quarrying</b>	<b>19.4</b>	<b>-1.8</b>	<b>-0.35</b>	<b>-10.8</b>	<b>-2.10</b>	<b>-2.3</b>	<b>-0.6</b>	<b>-14.6</b>
Coal & lignite	5.0	-4.9	-0.24	-2.3	-0.11	-2.0	-1.0	0.0
Crude petroleum & natural gas	0.6	-2.8	-0.02	-15.1	-0.09	-2.8	4.7	-16.6
Metal ores	11.5	0.2	0.02	-14.0	-1.61	-2.8	-0.5	-21.4
Other minerals	2.3	-3.6	-0.08	-16.9	-0.39	-0.4	-0.4	-13.4
<b>Manufacturing</b>	<b>62.3</b>	<b>0.1</b>	<b>0.03</b>	<b>-4.5</b>	<b>-2.78</b>	<b>-0.1</b>	<b>0.4</b>	<b>-4.8</b>
Food at manufacturing	5.9	-1.0	-0.06	-1.8	-0.11	0.5	0.3	0.1
Beverages	3.0	0.0	0.00	6.2	0.19	-0.1	-0.7	5.8
Tobacco products	0.6	0.0	0.00	21.6	0.13	0.0	0.0	21.6
Textiles & made-up goods	1.1	0.0	0.00	4.4	0.05	0.6	0.0	5.4
Wearing apparel	1.5	0.0	0.00	1.1	0.02	0.5	0.0	0.9
Leather & leather products	0.3	0.0	0.00	1.1	0.00	0.1	0.0	1.3
Footwear	0.3	0.7	0.00	3.7	0.01	0.7	0.1	4.6
Wood & wood products	1.4	0.0	0.00	3.4	0.05	0.0	-0.4	3.4
Paper & paper products	5.0	-0.1	0.00	6.7	0.33	0.0	0.1	6.7
Products of petroleum & coal	5.0	1.8	0.09	-26.6	-1.32	-0.5	-1.2	-30.2
Chemicals & chemical products	6.7	0.2	0.01	-4.8	-0.33	0.0	-0.2	-5.2
Rubber & plastic products	2.6	0.4	0.01	1.2	0.03	0.3	-0.1	1.2
Non-metallic mineral products	2.0	0.1	0.00	7.0	0.14	0.1	0.3	7.1
Basic metals	6.7	-0.1	-0.01	-13.1	-0.88	-0.9	3.2	-13.2
Metal products	3.3	0.3	0.01	0.4	0.01	0.1	0.1	0.0
Non-electrical machinery & equipment	2.4	0.0	0.00	0.6	0.01	0.0	0.1	0.6
Office, accounting & computing machinery	0.2	0.0	0.00	0.0	0.00	0.0	0.0	0.0
Electrical machinery & apparatus	1.9	0.1	0.00	0.7	0.01	-0.2	1.7	0.0
Radio, TV & communication equipment	0.5	-0.4	0.00	0.2	0.00	0.4	0.0	2.2
Medical appliances, instruments & clocks	0.3	0.0	0.00	4.3	0.01	0.4	0.0	5.6
Transport	5.8	-0.1	0.00	1.5	0.08	0.0	-0.3	1.5
Furniture	1.0	-0.5	0.00	5.0	0.05	0.0	1.0	6.0
Other manufactures	5.0	0.0	0.00	-0.7	-0.03	0.1	-0.1	-0.4
<b>Electricity, gas and water</b>	<b>8.3</b>	<b>-25.0</b>	<b>-2.08</b>	<b>23.4</b>	<b>1.95</b>	<b>-24.6</b>	<b>1.6</b>	<b>24.9</b>

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