NEDBANK

Economics | South Africa

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Economic Commentary

Producer inflation

Producer inflation eases slightly

- Producer inflation slowed to 6,2% from 6,4%, but still came out ahead of market expectations of a decline to 5,9%. Low manufacturing inflation continues to contain the headline figure.
- The 0,7% monthly increase was due to higher agricultural and commodity prices.
- International soft and industrial commodity prices have risen sharply in recent months on the back of strong investment demand. However, the impact domestically has been muted so far due to the strength of the rand.
- Weak demand, both locally and globally, low input costs as well as the strong rand will help to contain price increases of manufactured goods.
- Producer inflation is expected to ease slightly over the coming months, before picking up again in the later half of 2011.
- Interest rates are expected to remain unchanged throughout next year as domestic growth remains subdued and inflation, despite ticking up slightly, stays well contained. However, further monetary easing is still possible if the rand remains strong, economic growth disappoints again and inflation remains tame.

Table 1 : Producer inflation

	November Y-o-y%	November M-o-m%	September Y-o-y%	Nedbank Forecast Y-o-y%	Market Forecast Y-o-y%
Total	6,2	0,7	6,4	6,5	6,9

Source: StatsSA

Comment

Producer inflation eased to 6,2% y-o-y in November, down from 6,4% y-o-y in the previous month, but was above market expectations of 5,9% y-o-y.

Food prices at the agricultural level rose strongly over the month, increasing by 1,8% due to a sharp 12,7% seasonal rise in fruit prices as well as a 2,4% increase in the price of grain. These gains were partly offset by a 10% decline in vegetable prices. On an annual bases, agricultural prices continued to decline, falling by 0,3%. The mining and quarrying category rose by 1,8% m-o-m, due to higher prices for coal, petroleum as well as metal ores. Over the year, prices increased at a more modest pace compared with the previous month, slowing to 12,6% from 14% in October.

Over the month, the cost of manufactured goods rose by 0,1%, mainly due to a 0,9% increase in food prices, which makes up 5,9% of the total basket, while chemicals and chemical products rose by 0,8% over the month. The price of basic metals fell by 0,9% m-o-m. Producer inflation at the manufacturing level remains subdued at 2,9%, down slightly from 3% in the previous month.

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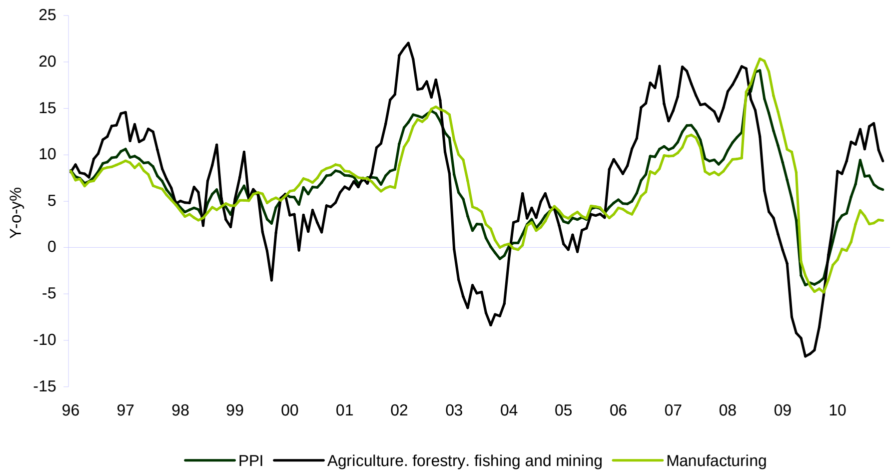
The main drivers of inflation within this category are basic metals, non-metallic mineral products as well as products of petroleum and coal.

Chart 1 : Producer inflation



Source: StatsSA

Outlook

PPI is expected to edge lower during the early part of next year, before beginning to pick up again.

International soft and industrial commodity prices have risen sharply in recent months on the back of strong investment demand. However, the impact domestically has been muted so far due to the strength of the rand. However, following the second round of quantitative easing in the US and continued growth in key commodity-consuming countries like China, there is a risk of further price increases in the new year, which could begin to filter through into higher domestic prices.

Weak demand, both locally and globally, low input costs as well as the strong rand will help to contain price increases of manufactured goods.

Implications

Interest rates are expected to remain unchanged throughout next year as domestic growth remains subdued and inflation, despite ticking up slightly, stays well contained. However, further monetary easing is still possible if the rand remains strong, economic growth disappoints again and inflation remains tame.

Table 2 : Producer inflation

	Headline PPI					
		Nov-10			Oct-10	
	Weights Base 2000	Month-on-month %	% contrib	Ave m-o-m past 3 yrs	M-o-m %	Y-o-y %
All groups	100.0	0.7	0.68	0.1	-0.4	6.4
Agriculture, forestry, fishing & mining	29.4	1.6	0.46	0.8	0.6	10.5
Agriculture	8.2	1.8	0.15	1.5	1.4	0.1
Food	3.9	2.4	0.09	3.0	2.9	-3.1
Grain	0.9	0.9	0.01	-2.3	0.3	0.7
Vegetables	1.1	-10.0	-0.11	-0.3	-11.4	-30.0
Fruits & nuts	1.4	12.7	0.18	11.3	16.7	3.6
Oil seeds	0.1	-1.0	0.00	5.4	9.8	76.6
Sugar cane	0.3	0.7	0.00	0.4	1.2	16.4
Other food	0.0	2.2	0.00	1.0	2.1	-9.8
Live animals and animal products	3.7	1.5	0.05	1.2	0.1	1.9
Nursery products and other agriculture	0.7	0.2	0.00	-5.4	-0.4	10.3
Forestry	1.5	-2.6	-0.04	-1.6	-0.1	23.1
Fishing	0.3	0.0	0.00	0.3	0.0	5.0
Mining and quarrying	19.4	1.8	0.35	0.8	0.4	14.0
Coal & lignite	5.0	1.6	0.08	0.9	-0.3	28.2
Crude petroleum & natural gas	0.6	1.5	0.01	-2.3	0.3	3.6
Metal ores	11.5	1.9	0.22	0.6	1.4	7.9
Other minerals	2.3	1.4	0.03	1.7	-3.2	1.0
Manufacturing	62.3	0.1	0.03	-0.4	-0.1	3.0
Food at manufacturing level	5.9	0.9	0.05	0.3	0.2	-0.1
Beverages	3.0	-0.3	-0.01	0.0	0.5	3.6
Textiles & made-up goods	1.1	0.3	0.00	0.1	-0.5	1.4
Wearing apparel	1.5	1.0	0.01	0.3	0.0	-0.3
Wood & wood products	1.4	0.3	0.00	0.1	0.2	-1.0
Paper & paper products	1.8	0.2	0.00	0.2	0.2	0.8
Products of petroleum & coal	5.0	1.2	0.06	-3.9	0.1	4.1
Chemicals & chemical products	6.7	0.8	0.05	0.2	0.4	1.5
Rubber & plastic products	2.6	0.1	0.00	0.1	0.2	2.0
Non-metallic mineral products	2.0	-0.5	-0.01	0.6	0.0	6.5
Basic Metals	6.7	-0.9	-0.06	-0.2	-1.2	7.8
Metal products	3.3	-1.0	-0.04	0.5	-1.8	8.7
Non-electrical machinery & equipment	2.4	0.0	0.00	0.1	0.1	1.8
Office, accounting & computing machinery	0.2	0.0	0.00	0.0	0.0	0.0
Electrical machinery & apparatus	1.9	0.0	0.00	0.2	0.1	-0.2
Radio, TV & communication equipment	0.5	0.0	0.00	0.1	-0.5	-0.5
Medical appliances, instruments & clocks	0.3	0.0	0.00	0.1	-1.7	-0.7
Transport	5.8	-0.1	-0.01	0.2	0.1	0.6
Furniture	1.0	1.4	0.01	0.6	0.0	3.7
Other manufactures	5.0	-1.2	-0.06	0.0	0.2	9.0
Electricity. gas and water	8.3	0.4	0.03	0.2	-4.6	19.0

Source: StatsSA

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