

# Nedbank

## Economic commentary

26 August 2010

### PRODUCER INFLATION

#### *Producer inflation eased more than expected*

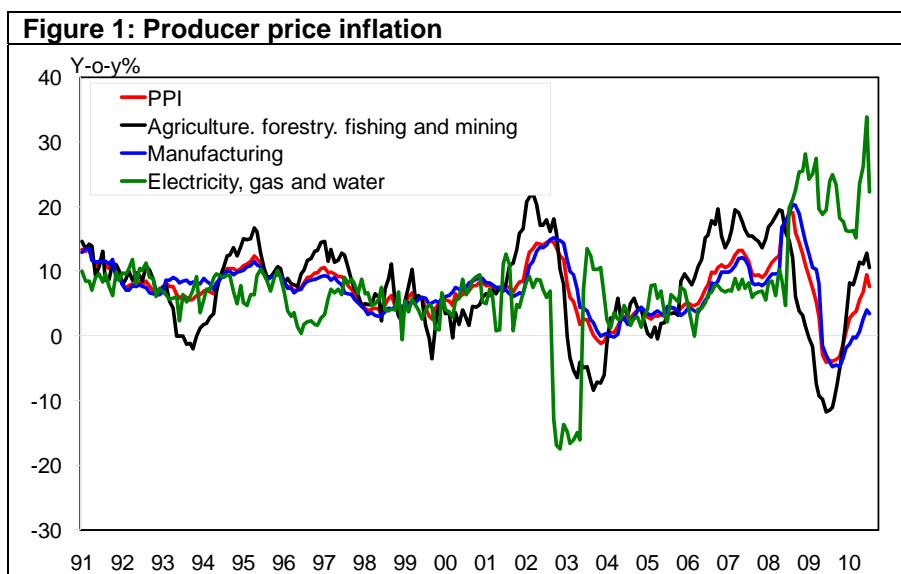
- Producer inflation came out sharply lower than market expectations, easing to 7,7% y-o-y from 9,4% y-o-y in June.
- Higher electricity prices were the main reason behind the 1,3% monthly increase, but this was lower than had been expected.
- Producer inflation will continue to be driven by commodity-price base effects.
- Weak global growth and the strength of rand will contain imported-commodity price inflation going forward.
- Price increases for manufactured goods will remain subdued, due to weak domestic and foreign price pressures.
- We currently anticipate that the Reserve Bank will cut rates in September, due to slowing growth, a strong rand and subdued inflation.

#### Latest (July 2010)

Headline PPI: 7,7% y-o-y, 1,3% m-o-m (9,4% y-o-y in June 2010)

Market forecast: 8,6% y-o-y

Nedbank forecast: 8,7% y-o-y



Source: Stats SA

#### Comment

Producer inflation came in below market expectations in July, easing to 7,7% from 9,4% in June. The lower-than-expected increase was mainly due to the increase in the electricity price being less than that granted by NERSA as well as a decline in commodity prices.

#### Research

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The price of food at the agricultural level rose by a 0,3% m-o-m, but still continued to decline on an annual basis, falling by 4,4%. Higher prices for oil seeds (up 8,1% m-o-m) and sugar cane (up 1,9% m-o-m), were the two main contributors to the monthly increase. Food at the manufacturing level fell over the month, mainly due to lower grain as well as tea and coffee prices. On an annual basis, this category fell by 1%.

The mining and quarrying category fell by 2,3% over the month, due to falling prices for metal ores as well as mineral products. As a result, the annual rate of increase moderated from 16,8% to 14,1%.

Electricity prices rose by 17,4% m-o-m, contributing 1,2 percentage points to the monthly increase. However, this was substantially smaller than that expected by the market following the 25% price increase granted by NERSA. The price of water and gas also rose over the month, increasing by 3%.

### **Outlook**

Producer price inflation is expected to remain elevated over the next few months, mainly due to commodity price base effects.

While global growth moderates in the second half of the year and the threat of a double-dip recession persists, further gains in commodity prices are likely to be limited. The strength of the rand, which has appreciated by 6% on a trade-weighted basis and 3% against the dollar since the beginning of the year, will also mute the impact of any commodity price increases on the domestic inflationary pressures.

Price increases for manufactured goods, which make up around 60% of the basket, will remain subdued, constrained by weaker capital spending, both locally and globally, as still uncertain economic prospects make companies reluctant to invest in new capacity.

### **Implications**

Today's producer inflation figure, while good news, has little implication for the consumer price inflation outlook given the high weight of commodities in the basket. The recent decline in consumer inflation data, which has fallen to well below the SARB's most recent forecasts, combined with the strong rand and weak growth prospects will be the main factors weighing in favour of an interest rate cut in September.

	Headline PPI							
	Weights Base 2000	July 2010				Ave m-o-m past 3 yrs	July 2009	
		Month-on-month		Year-on-year			M-o-m %	Y-o-y %
		%	% contrib	%	% contrib			
<b>Total</b>	<b>100.0</b>	<b>1.3</b>	<b>1.3</b>	<b>7.7</b>	<b>7.67</b>	<b>2.3</b>	<b>4.0</b>	<b>9.4</b>
<b>Agriculture, forestry, fishing and mining</b>	<b>29.4</b>	<b>-1.3</b>	<b>-0.39</b>	<b>10.6</b>	<b>3.11</b>	<b>-0.2</b>	<b>-1.3</b>	<b>12.7</b>
<b>Agriculture</b>	<b>8.2</b>	<b>0.8</b>	<b>0.07</b>	<b>0.2</b>	<b>0.02</b>	<b>1.7</b>	<b>0.3</b>	<b>1.5</b>
Food	3.9	0.3	0.01	-4.4	-0.17	1.7	1.0	-2.4
Grain	0.9	0.2	0.00	-10.8	-0.09	-3.3	-2.3	-16.6
Vegetables	1.1	-0.5	-0.01	-8.8	-0.10	4.9	13.8	4.1
Fruits & nuts	1.4	-0.7	-0.01	-4.0	-0.06	3.1	-6.9	-2.3
Oil seeds	0.1	8.1	0.01	22.7	0.03	4.4	-2.3	12.4
Sugar cane	0.3	1.9	0.01	14.4	0.04	3.9	1.7	14.6
Other food	0.0	-5.1	0.00	1.5	0.00	-1.7	0.0	7.0
Live animals & animal products	3.7	-0.3	-0.01	3.7	0.13	0.4	0.3	5.2
Nursery products & other agriculture	0.7	10.8	0.07	9.3	0.06	8.1	-3.9	4.3
Forestry	1.5	2.8	0.04	25.8	0.38	0.8	4.0	21.8
Fishing	0.3	-1.8	0.00	2.3	0.01	2.2	0.3	3.3
<b>Mining &amp; quarrying</b>	<b>19.4</b>	<b>-2.3</b>	<b>-0.45</b>	<b>14.1</b>	<b>2.73</b>	<b>-0.9</b>	<b>-2.1</b>	<b>16.8</b>
Coal & lignite	5.0	-0.7	-0.04	19.6	0.97	-1.3	0.0	16.9
Crude petroleum & natural gas	0.6	2.1	0.01	7.8	0.05		0.1	2.7
Metal ores	11.5	-3.5	-0.40	12.7	1.45	-0.7	-3.7	18.8
Other minerals	2.3	-1.0	-0.02	2.9	0.07	-0.6	-0.1	5.3
<b>Manufacturing</b>	<b>62.3</b>	<b>-0.1</b>	<b>-0.07</b>	<b>3.4</b>	<b>2.13</b>	<b>0.7</b>	<b>1.3</b>	<b>4.0</b>
Food at manufacturing level	5.9	-0.3	-0.02	-1.0	-0.06	0.8	-0.2	-0.7
Beverages	3.0	0.0	0.00	2.6	0.08	0.2	0.0	3.1
Tobacco products	0.6	0.0	0.00	7.0	0.04	2.7	0.0	15.9
Textiles & made-up goods	1.1	0.0	0.00	1.9	0.02	0.0	0.5	2.0
Wearing apparel	1.5	0.0	0.00	-0.3	0.00	0.0	0.2	-0.3
Leather & leather products	0.3	0.1	0.00	1.2	0.00	0.1	0.0	1.1
Footwear	0.3	0.1	0.00	6.6	0.02	1.0	1.2	7.8
Wood & wood products	1.4	-0.2	0.00	-2.4	-0.03	0.3	0.0	-2.5
Paper & paper products	5.0	-0.2	-0.01	2.4	0.12	1.3	0.1	2.5
Products of petroleum & coal	5.0	-0.5	-0.02	3.3	0.16	1.8	-1.3	8.9
Chemicals & chemical products	6.7	-0.2	-0.01	-1.5	-0.10	1.3	-0.2	-2.6
Rubber & plastic products	2.6	-0.1	0.00	2.4	0.06	1.4	0.5	1.7
Non-metallic mineral products	2.0	0.3	0.01	5.3	0.10	0.5	0.4	5.4
Basic metals	6.7	-0.3	-0.02	13.6	0.91	0.1	9.0	14.0
Metal products	3.3	0.7	0.02	-1.8	-0.06	0.8	0.3	-2.0
Non-electrical machinery & equipment	2.4	0.0	0.00	1.7	0.04	0.0	0.0	1.7
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	-0.2	0.00	1.7	0.03	0.0	-0.8	1.9
Radio, TV & communication equipment	0.5	0.6	0.00	-0.5	0.00	0.5	-0.2	-0.8
Medical appliances, instruments & clocks	0.3	0.0	0.00	1.2	0.00	0.1	-0.6	1.2
Transport	5.8	0.0	0.00	0.1	0.00	0.0	0.0	0.2
Furniture	1.0	0.1	0.00	1.6	0.02	0.4	0.1	1.9
Other manufactures	5.0	0.0	0.00	10.3	0.51	0.1	-0.2	10.4
<b>Electricity, gas and water</b>	<b>8.3</b>	<b>15.3</b>	<b>1.27</b>	<b>22.3</b>	<b>1.85</b>	<b>21.0</b>	<b>41.2</b>	<b>33.8</b>

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