

# Nedbank

## Economic commentary

29 July 2010

### PRODUCER INFLATION

#### *Producer inflation picks up sharply*

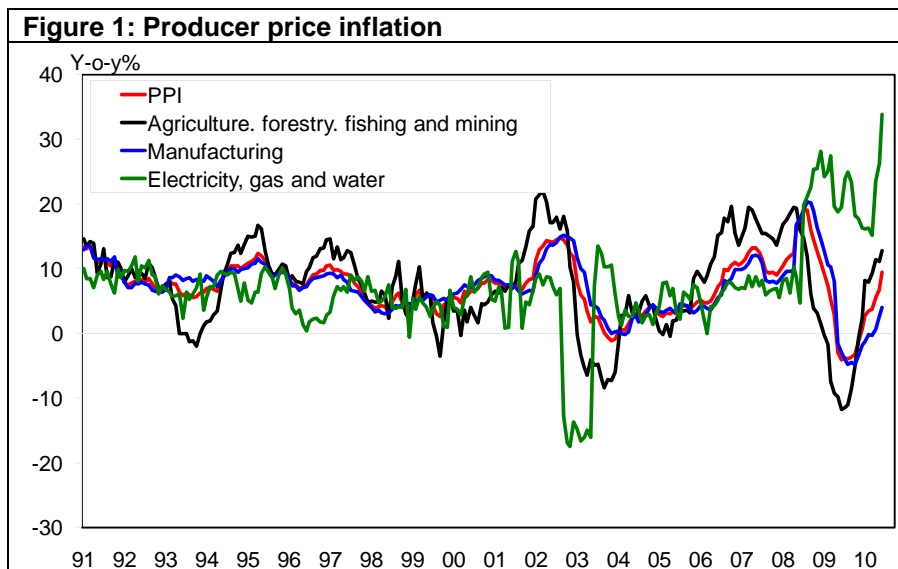
- Producer inflation rose sharply above market expectations, increasing to 9,4% y-o-y, up from 6,8% y-o-y in the previous month.
- The sharp increase in PPI was mainly due to a seasonal increase in the price of electricity.
- Although PPI is expected to continue to rise over the coming months, it is mainly being driven by international commodity prices, and therefore has no implications for our positive consumer inflation outlook.
- Price increases for manufactured goods will remain subdued.
- The better-than-expected consumer inflation figure increased the chance that the SARB may decide to cut interest rates at the next meeting, particularly if the rand continues to strengthen

#### Latest (June 2010)

Headline PPI: 9,4% y-o-y, 4% m-o-m (6,8% y-o-y in April 2010)

Market forecast: 7,4% y-o-y

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



Source: Stats SA

#### Comment

Producer inflation rose sharply in June, increasing to 9,4% from 6,8% in the previous month. The sharper-than-expected increase was due to a seasonal rise in electricity prices (up 51,6% m-o-m), which contributed 3,5 percentage points to the monthly gain of 4%

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Food at the agricultural level rose by 1% over the month, mainly due to a 13,8% increase in vegetable prices. Over the year, food inflation at the agricultural level continued to decline. Food at the manufacturing level fell by 0,2% over the month and 0,7% over the year.

Metal prices fell further in June, declining by 3,7% m-o-m, following a 1,1% fall in the previous month. The annual rate of increase also moderated, increasing by 18,8% from 23% in the previous month. In contrast, the price of beneficiated metal products rose sharply over the month, increasing by 9%, adding 0,6 percentage points to the monthly increase.

### **Outlook**

Producer inflation will rise further over the next few months. However, this will mainly be due to commodity price base effects, rather than demand-pull inflation.

Commodity prices have declined steadily over the quarter, with the Economist commodity price index down by 5%, mainly due to a 10% fall in metal prices. Metal prices retreated as investors exited riskier asset classes on concerns about global growth and a possible slowdown in Chinese metal demand. While global growth muddles along 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.

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

### **Implications**

Although PPI is expected to continue to rise over the coming months, it has no immediate implications for our positive consumer inflation outlook, as it is being driven by commodity inflation. The better-than-expected consumer inflation figure released yesterday increased the chance that the SARB may decide to cut interest rates at the next meeting, particularly if the rand continues to strengthen. Much now depends on whether the next set of economic data shows that the recovery remains strong, or whether it is beginning to lose some steam.

	Headline PPI							
	Weights Base 2000	June 2010					June 2009	
		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>4.0</b>	<b>4.0</b>	<b>9.4</b>	<b>9.39</b>	<b>2.7</b>	<b>0.2</b>	<b>6.8</b>
<b>Agriculture, forestry, fishing and mining</b>	<b>29.4</b>	<b>-1.3</b>	<b>-0.38</b>	<b>12.7</b>	<b>3.74</b>	<b>-1.5</b>	<b>-0.7</b>	<b>11.1</b>
<b>Agriculture</b>	<b>8.2</b>	<b>0.3</b>	<b>0.03</b>	<b>1.5</b>	<b>0.12</b>	<b>0.7</b>	<b>-2.8</b>	<b>0.3</b>
Food	3.9	1.0	0.04	-2.4	-0.09	1.0	-7.5	-4.9
Grain	0.9	-2.3	-0.02	-16.6	-0.14	3.7	-0.9	-14.6
Vegetables	1.1	13.8	0.16	4.1	0.05	11.0	-8.6	2.8
Fruits & nuts	1.4	-6.9	-0.10	-2.3	-0.03	-10.1	-15.5	-10.3
Oil seeds	0.1	-2.3	0.00	12.4	0.02	2.5	2.9	16.3
Sugar cane	0.3	1.7	0.01	14.6	0.04	0.6	-0.1	12.7
Other food	0.0	0.0	0.00	7.0	0.00	0.0	0.0	7.0
Live animals & animal products	3.7	0.3	0.01	5.2	0.19	0.5	0.6	4.7
Nursery products & other agriculture	0.7	-3.9	-0.03	4.3	0.03	-0.7	8.1	9.0
Forestry	1.5	4.0	0.06	21.8	0.32	1.7	0.0	16.5
Fishing	0.3	0.3	0.00	3.3	0.01	0.1	0.0	3.1
<b>Mining &amp; quarrying</b>	<b>19.4</b>	<b>-2.1</b>	<b>-0.41</b>	<b>16.8</b>	<b>3.26</b>	<b>-2.4</b>	<b>0.0</b>	<b>15.0</b>
Coal & lignite	5.0	0.0	0.00	16.9	0.84	-3.3	1.5	6.5
Crude petroleum & natural gas	0.6	0.1	0.00	2.7	0.02		-2.3	7.5
Metal ores	11.5	-3.7	-0.42	18.8	2.15	-2.1	-1.1	23.0
Other minerals	2.3	-0.1	0.00	5.3	0.12	-0.7	2.0	2.0
<b>Manufacturing</b>	<b>62.3</b>	<b>1.3</b>	<b>0.81</b>	<b>4.0</b>	<b>2.49</b>	<b>0.9</b>	<b>0.4</b>	<b>2.5</b>
Food at manufacturing level	5.9	-0.2	-0.01	-0.7	-0.04	0.2	0.1	-1.3
Beverages	3.0	0.0	0.00	3.1	0.10	-0.2	0.1	3.1
Tobacco products	0.6	0.0	0.00	15.9	0.09	0.0	6.1	15.9
Textiles & made-up goods	1.1	0.5	0.01	2.0	0.02	0.9	0.0	2.0
Wearing apparel	1.5	0.2	0.00	-0.3	0.00	1.1	0.0	0.5
Leather & leather products	0.3	0.0	0.00	1.1	0.00	0.1	0.0	1.1
Footwear	0.3	1.2	0.00	7.8	0.02	-0.6	0.0	3.3
Wood & wood products	1.4	0.0	0.00	-2.5	-0.03	0.0	0.0	-2.5
Paper & paper products	5.0	0.1	0.01	2.5	0.13	0.1	1.3	2.6
Products of petroleum & coal	5.0	-1.3	-0.06	8.9	0.44	3.2	0.1	12.7
Chemicals & chemical products	6.7	-0.2	-0.01	-2.6	-0.17	0.2	0.5	-2.3
Rubber & plastic products	2.6	0.5	0.01	1.7	0.05	0.0	-0.2	0.2
Non-metallic mineral products	2.0	0.4	0.01	5.4	0.11	0.5	0.1	5.0
Basic metals	6.7	9.0	0.60	14.0	0.93	2.9	1.0	3.8
Metal products	3.3	0.3	0.01	-2.0	-0.07	0.0	0.3	-2.9
Non-electrical machinery & equipment	2.4	0.0	0.00	1.7	0.04	0.0	-0.1	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	-0.8	-0.01	1.9	0.04	-0.3	0.0	2.4
Radio, TV & communication equipment	0.5	-0.2	0.00	-0.8	0.00	0.0	-0.2	-0.5
Medical appliances, instruments & clocks	0.3	-0.6	0.00	1.2	0.00	-0.2	0.0	1.8
Transport	5.8	0.0	0.00	0.2	0.01	0.2	-0.1	0.2
Furniture	1.0	0.1	0.00	1.9	0.02	0.1	0.0	1.9
Other manufactures	5.0	-0.2	-0.01	10.4	0.51	-0.2	0.5	10.3
<b>Electricity, gas and water</b>	<b>8.3</b>	<b>41.2</b>	<b>3.43</b>	<b>33.8</b>	<b>2.82</b>	<b>35.6</b>	<b>1.7</b>	<b>26.2</b>

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