Nedbank
Economic commentary

24 June 2010

PRODUCER INFLATION

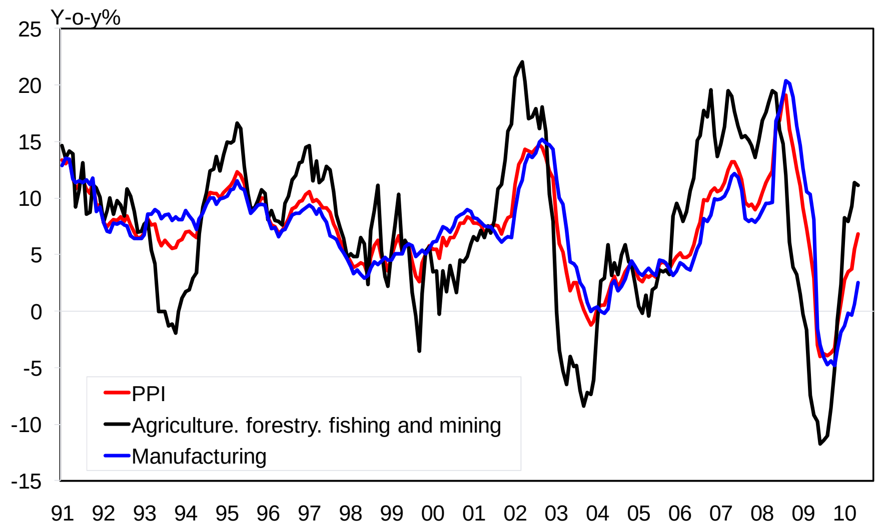
Producer inflation picks up further

- Producer price inflation rose further in May, increasing to 6,8% from 5,5% in April. This was below market expectations of a 7,1% rise.
- Higher commodity prices, which contribute roughly 20% to the PPI basket, are the main driver of producer inflation.
- Price increases for manufactured goods will remain subdued.
- Today's PPI figure does not alter our view that rates will remain unchanged until the third quarter of 2011.

Latest (May 2010)

Headline PPI: 6,8% y-o-y, 0,2% m-o-m (5,5% y-o-y in April 2010
Market forecast: 7,2% y-o-y
Nedbank forecast: 7,1% y-o-y

Figure 1: Producer price inflation



Source: Stats SA

Comment

Producer inflation continued to gain momentum, rising to 6,8%, its highest level since February 2009. May's figure was below market expectations of 7,1%.

Food prices at the agricultural level fell by 7,5% over the month, mainly due to a seasonal decline in fruit and vegetable prices, which fell by 15,5% m-o-m and 8,6% m-o-m respectively. Over the year, agricultural food prices fell by 0,3%. Food price increases at the manufacturing level also remained subdued, with prices rising by 0,1% over the month. On an annual basis, prices continued to fall, declining by 1,3%,.

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The mining and quarrying category recorded no increases over the month, as global commodity prices declined on concerns about global growth prospects. On an annual basis, this category remains the main source of upward pressure on producer inflation, increasing by 15% y-o-y and contributing 2,9 percentage points to the annual increase.

Over the month, additional upward pressure came from higher electricity prices, which rose by 2,1%, taking the annual increase to 32,1%, which added 2,2 percentage points to the y-o-y figure. Basic metal prices increased by 1% m-o-m, due to a 4,4% increase in products of iron and steel. However, the annual increase in this category remains modest at 3,8%.

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.

Higher commodity prices, which contribute roughly 20% to the PPI basket, continue to be the main driver of producer inflation. Slower global growth and weaker demand from China should contain commodity price increases during the remainder of the year.

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 makes companies reluctant to invest in new capacity.

Implications

Today’s PPI figure does not alter our view that rates will remain unchanged until the third quarter of 2011. However, a negative growth surprise combined with the current favarouble inflation outlook could still prompt the Reserve Bank to loosen monetary policy further.

	Headline PPI							
		May 2010					May 2009	
	Weights Base 2000	Month-on-month		Year-on-year		Ave m-o-m past 3 yrs	M-o-m %	Y-o-y %
		%	% contrib	%	% contrib			
Total	**100.0**	**0.2**	**0.1**	**6.8**	**6.83**	**1.3**	**1.5**	**5.5**
Agriculture. forestry. fishing and mining	29.4	-0.7	-0.20	11.1	3.26	-0.3	1.5	11.4
Agriculture	8.2	-2.8	-0.23	0.3	0.03	-3.1	-0.1	-0.5
Food	3.9	-7.5	-0.29	-4.9	-0.19	-6.6	-0.2	-3.2
Grain	0.9	-0.9	-0.01	-14.6	-0.13	-0.1	3.1	-12.7
Vegetables	1.1	-8.6	-0.10	2.8	0.03	-9.6	9.3	0.7
Fruits & nuts	1.4	-15.5	-0.22	-10.3	-0.15	-12.8	-10.6	-6.7
Oil seeds	0.1	2.9	0.00	16.3	0.02	2.7	-0.5	21.9
Sugar cane	0.3	-0.1	0.00	12.7	0.04	0.3	7.5	16.3
Other food	0.0	0.0	0.00	7.0	0.00	-0.2	-0.1	6.3
Live animals & animal products	3.7	0.6	0.02	4.7	0.17	0.2	-0.1	2.4
Nursery products & other agriculture	0.7	8.1	0.05	9.0	0.06	0.7	0.3	0.8
Forestry	1.5	0.0	0.00	16.5	0.24	-0.8	2.0	14.6
Fishing	0.3	0.0	0.00	3.1	0.01	-1.1	2.0	-0.3
Mining & quarrying	19.4	0.0	0.00	15.0	2.92	0.7	2.0	16.0
Coal & lignite	5.0	1.5	0.08	6.5	0.32	1.1	-4.5	6.6
Crude petroleum & natural gas	0.6	-2.3	-0.01	7.5	0.05		2.6	11.5
Metal ores	11.5	-1.1	-0.12	23.0	2.64	0.5	6.2	25.4
Other minerals	2.3	2.0	0.05	2.0	0.05	0.0	1.2	-2.2
Manufacturing	62.3	0.4	0.27	2.5	1.59	2.4	0.9	0.6
Food at manufacturing level	5.9	0.1	0.00	-1.3	-0.08	0.5	0.2	-1.7
Beverages	3.0	0.1	0.00	3.1	0.10	0.2	1.5	3.5
Tobacco products	0.6	6.1	0.04	15.9	0.09	2.0	0.5	9.2
Textiles & made-up goods	1.1	0.0	0.00	2.0	0.02	0.2	0.0	2.0
Wearing apparel	1.5	0.0	0.00	0.5	0.01	0.0	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	0.0	0.00	3.3	0.01	0.0	1.1	3.4
Wood & wood products	1.4	0.0	0.00	-2.5	-0.03	0.3	0.2	-1.9
Paper & paper products	5.0	1.3	0.06	2.6	0.13	0.8	0.6	1.3
Products of petroleum & coal	5.0	0.1	0.00	12.7	0.63	2.6	4.1	14.8
Chemicals & chemical products	6.7	0.5	0.03	-2.3	-0.16	0.6	1.8	-2.8
Rubber & plastic products	2.6	-0.2	0.00	0.2	0.01	0.3	1.7	0.5
Non-metallic mineral products	2.0	0.1	0.00	5.0	0.10	-0.1	-0.2	5.0
Basic metals	6.7	1.0	0.07	3.8	0.26	12.4	0.1	-6.6
Metal products	3.3	0.3	0.01	-2.9	-0.10	1.6	-2.6	-4.3
Non-electrical machinery & equipment	2.4	-0.1	0.00	1.7	0.04	1.9	0.0	1.9
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	0.0	0.00	2.4	0.05	1.2	0.0	2.3
Radio. TV & communication equipment	0.5	-0.2	0.00	-0.5	0.00	0.0	0.0	-0.3
Medical appliances. instruments & clocks	0.3	0.0	0.00	1.8	0.01	-0.1	0.4	1.6
Transport	5.8	-0.1	0.00	0.2	0.01	0.3	0.2	0.4
Furniture	1.0	0.0	0.00	1.9	0.02	0.4	0.3	2.1
Other manufactures	5.0	0.5	0.03	10.3	0.51	0.8	4.0	9.0
Electricity, gas and water	8.3	1.7	0.14	26.2	2.18	0.5	6.1	23.5

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