

Nedbank

Economic commentary

27 May 2010

PRODUCER INFLATION

Producer inflation rises sharply

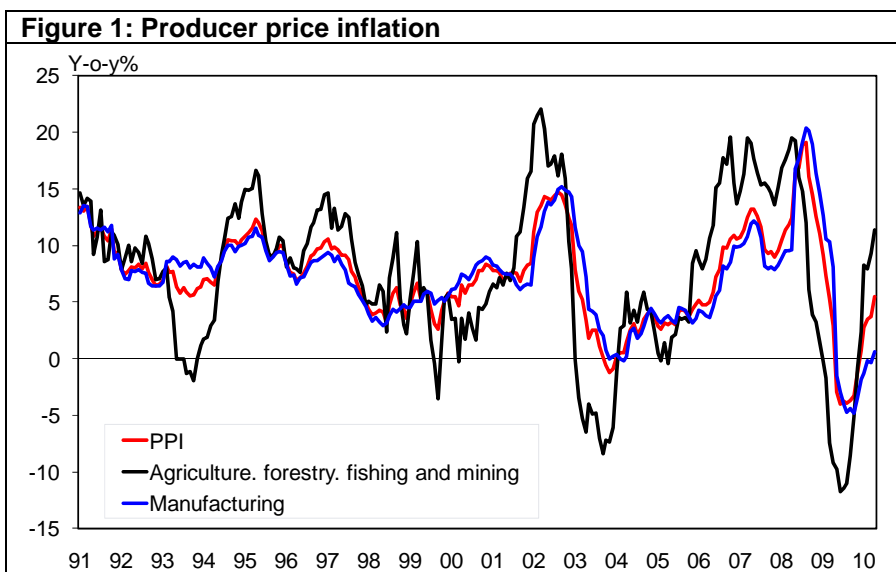
- Producer price inflation rose sharply in April, increasing to 5,5% from 3,7% in March. This was above market expectations of a 5% rise.
- Producer inflation will rise further in the next few months, but it has no immediate implications for inflation as it is being driven by higher commodity prices rather than by the increased cost of inputs at the manufacturing level.
- Price increases of building materials and capital goods are likely to be contained by a further slowdown in the construction industry after the World Cup, as infrastructure spending by the public sector is likely to moderate while spare capacity continues to dampen the need for new capital expenditure in the private sector.
- Commodity prices will probably settle in the second half of the year as global growth begins to slow.
- 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 a favourable inflation outlook could still prompt the Reserve Bank to loosen monetary policy further.

Latest (April 2010)

Headline PPI: 5,5% y-o-y, 1,5% m-o-m (3,7% y-o-y in March 2010)

Market forecast: 4,5% y-o-y

Nedbank forecast: 4,6% y-o-y



Source: Stats SA

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Comment

Sharply higher commodity prices and a larger-than-expected seasonal increase in electricity prices were the main reason behind April's jump in producer inflation, which increased to 5,5% from 3,7% in the previous month.

The mining category rose by 2% m-o-m, contributing 0,4% to the overall monthly increase of 1,5%. Metal ore prices jumped by 6,2%, while crude oil and other minerals rose by 2,6% and 1,2% respectively. However, beneficiated metal products declined by 2,6% m-o-m and 4,3% over the year.

Electricity prices rose by 7,7% m-o-m, taking the annual increase to 28,5% from 17,4% in the previous month.

Food prices at the agricultural level continued to decline, falling by 0,2% m-o-m and 3,2% y-o-y. The monthly decline was mainly due to a 10,6% drop in the price of fruit and nuts. At the manufacturing level, food prices recorded a modest 0,2% m-o-m increase, but continued to decline on an annual basis, falling by 1,7%.

Outlook

Figure 2: Building and construction PPI

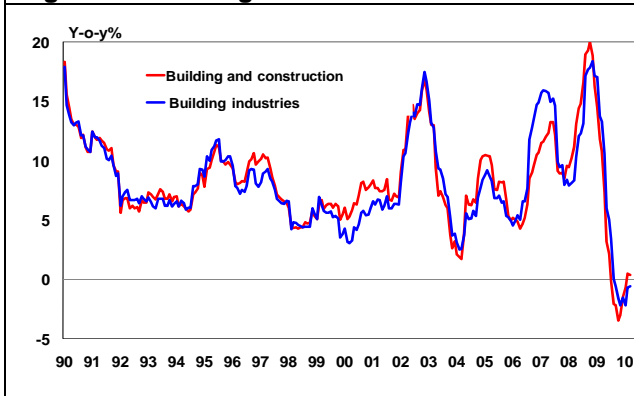
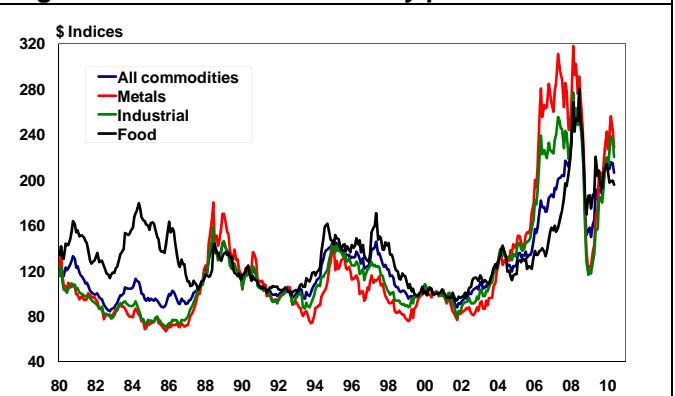


Figure 3: Economist commodity price index



Producer inflation will rise sharply in the next few months. However, this will largely be due to base effects, rather than demand-pull inflation.

Price increases of building materials and capital goods are likely to be contained by a further slowdown in the construction industry after the World Cup, as infrastructure spending by the public sector is likely to moderate while spare capacity continues to dampen the need for new capital expenditure in the private sector.

Commodity prices have fallen over the past month on concerns that fiscal troubles in Europe, which has prompted a number of countries to announce fiscal austerity measures, may hamper the global recovery. The slower pace of inventory accumulation in China as well as recent efforts by Chinese authorities to moderate growth has put a damper on certain industrial metal prices, although new pricing arrangements for iron ore could push global steel prices up over the medium term. Commodity prices will probably settle in the second half of the year as global growth begins to slow.

Implications

Producer inflation surprised sharply on the upside today, but it has no immediate implications for inflation as it is largely being driven by higher commodity prices rather than by the increased cost of inputs at the manufacturing level. As a result, 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 a favourable consumer inflation outlook could still prompt the Reserve Bank to loosen monetary policy further.

	Headline PPI							
	Weights Base 2000	April 2010					April 2009	
		Month-on-month		Year-on-year		Ave m-o-m past 3 yrs	M-o-m %	Y-o-y %
		%	% contrib	%	% contrib			
Total	100.0	1.5	1.5	5.5	5.47	1.1	0.3	3.7
Agriculture, forestry, fishing and mining	29.4	1.5	0.45	11.4	3.34	0.9	0.3	9.3
Agriculture	8.2	-0.1	-0.01	-0.5	-0.04	-3.2	-0.4	-3.2
Food	3.9	-0.2	-0.01	-3.2	-0.13	-5.6	-1.3	-8.2
Grain	0.9	3.1	0.03	-12.7	-0.11	-1.9	-1.8	-19.1
Vegetables	1.1	9.3	0.11	0.7	0.01	-3.1	-3.1	-9.6
Fruits & nuts	1.4	-10.6	-0.15	-6.7	-0.10	-12.5	-0.2	-6.1
Oil seeds	0.1	-0.5	0.00	21.9	0.03	-7.5	-1.1	4.5
Sugar cane	0.3	7.5	0.02	16.3	0.05	6.8	0.0	15.6
Other food	0.0	-0.1	0.00	6.3	0.00	0.4	2.4	8.0
Live animals & animal products	3.7	-0.1	0.00	2.4	0.09	0.0	0.7	2.8
Nursery products & other agriculture	0.7	0.3	0.00	0.8	0.01	-3.2	-0.2	-1.7
Forestry	1.5	2.0	0.03	14.6	0.22	2.4	0.5	8.7
Fishing	0.3	2.0	0.00	-0.3	0.00	0.7	0.5	-2.0
Mining & quarrying	19.4	2.0	0.38	16.0	3.11	2.4	0.6	14.6
Coal & lignite	5.0	-4.5	-0.22	6.6	0.33	6.7	0.1	15.5
Crude petroleum & natural gas	0.6	2.6	0.02	11.5	0.07		1.3	11.0
Metal ores	11.5	6.2	0.71	25.4	2.91	1.5	0.9	17.7
Other minerals	2.3	1.2	0.03	-2.2	-0.05	-0.9	-0.1	-6.9
Manufacturing	62.3	0.9	0.55	0.6	0.37	0.9	0.4	-0.3
Food at manufacturing level	5.9	0.2	0.01	-1.7	-0.10	0.6	0.2	-1.5
Beverages	3.0	1.5	0.04	3.5	0.11	1.6	1.6	3.6
Tobacco products	0.6	0.5	0.00	9.2	0.05	3.3	0.0	13.8
Textiles & made-up goods	1.1	0.0	0.00	2.0	0.02	-0.2	0.7	2.0
Wearing apparel	1.5	0.0	0.00	0.5	0.01	0.0	-0.5	0.5
Leather & leather products	0.3	0.0	0.00	1.1	0.00	0.0	0.0	1.1
Footwear	0.3	1.1	0.00	3.4	0.01	0.6	0.7	3.0
Wood & wood products	1.4	0.2	0.00	-1.9	-0.03	1.0	0.0	-2.1
Paper & paper products	5.0	0.6	0.03	1.3	0.07	1.2	0.1	1.5
Products of petroleum & coal	5.0	4.1	0.20	14.8	0.74	2.6	0.8	9.0
Chemicals & chemical products	6.7	1.8	0.12	-2.8	-0.19	1.5	0.1	-5.6
Rubber & plastic products	2.6	1.7	0.04	0.5	0.01	1.0	0.3	-2.6
Non-metallic mineral products	2.0	-0.2	0.00	5.0	0.10	0.1	0.2	5.5
Basic metals	6.7	0.1	0.01	-6.6	-0.44	0.4	0.2	-7.2
Metal products	3.3	-2.6	-0.09	-4.3	-0.15	2.7	-0.3	3.9
Non-electrical machinery & equipment	2.4	0.0	0.00	1.9	0.04	0.0	0.1	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	2.3	0.04	0.2	0.0	2.2
Radio, TV & communication equipment	0.5	0.0	0.00	-0.3	0.00	-0.9	0.0	-0.3
Medical appliances, instruments & clocks	0.3	0.4	0.00	1.6	0.00	0.3	0.0	1.8
Transport	5.8	0.2	0.01	0.4	0.02	0.0	0.0	0.7
Furniture	1.0	0.3	0.00	2.1	0.02	0.9	0.2	3.1
Other manufactures	5.0	4.0	0.20	9.0	0.44	-0.6	4.9	-1.3
Electricity, gas and water	8.3	6.1	0.51	23.5	1.96	3.4	-0.9	15.1

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