

Nedbank

Economic commentary

23 September 2009

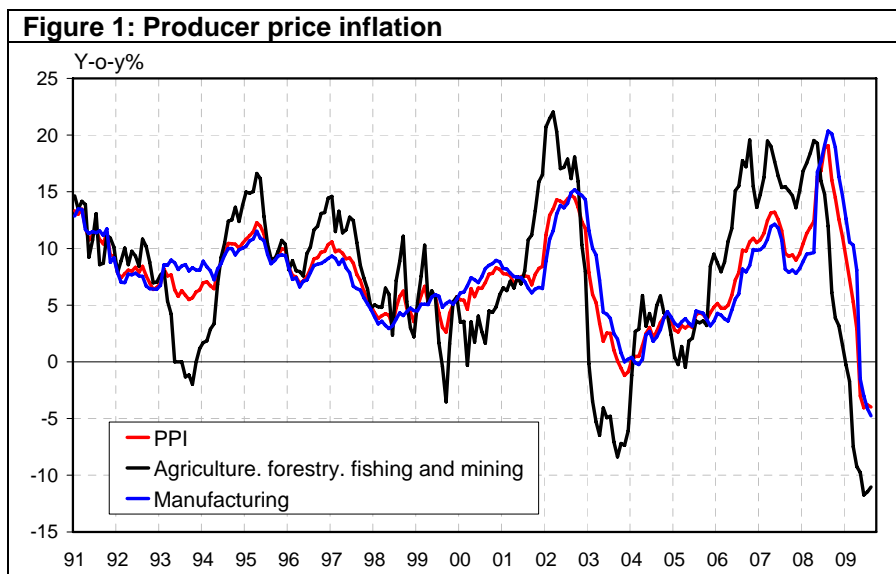
PRODUCER INFLATION

PPI falls more than expected

- Pace of decline in PPI picked up
- Over the year, the major source of decline remains commodity prices
- Month-on-Month increase was due to electricity and base metals
- Expected to remain in negative territory until the end of the year
- We still anticipate one further rate cut in this cycle

Latest (August 2009)

Headline PPI: -4,0% y-o-y, 0,3% m-o-m (-3,8% y-o-y in July 2009)
Market forecast: -3,5% y-o-y
Nedbank forecast: -3,5% y-o-y



Source: Stats SA

Comment

Producer prices fell by 4% y-o-y in August, a sharper decline than markets were expecting, and larger than July's 3,8% y-o-y fall. A year ago, producer inflation peaked at 19,1%.

Over the month, prices rose by 0,3% m-o-m, compared with a 2,9% increase in July. The main drivers of the monthly increase were higher base metal prices, which rose by 3,2% m-o-m, contributing 0,2 percentage points to the monthly increase, while a 1,9% m-o-m rise in electricity prices contributed 0,1 percentage points. This was partially offset by a 0,6% m-o-m decline in the mining and quarrying category.

On an annual basis, commodities continued to be the main source of downward pressure. The mining and quarrying category fell by 14,6% y-o-y, contributing

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2,8% to the annual fall. Within this category, metal ores recorded the largest drop, falling by 21,4% y-o-y. Base metals as well as petrol prices also remain a significant source of downward pressure.

Inflation in the transport category also moderated sharply, due to the impact of a stronger rand, slowing to 1,5% y-o-y from 8,3% y-o-y last month. While inflation in the non-electric equipment and machinery category also eased sharply, reflecting a combination of base effects, rand strength and weak demand for new machinery.

Outlook

Inflation at the producer level is expected to remain in negative territory over the coming months, but could turn positive towards the end of the year.

Commodity prices, including oil, agriculture and other metals have continued to rise at a moderate pace since the start of the year, but the rand's strength combined with the high base established last year will keep these categories in negative territory for the remainder of the year. Commodity prices are likely to continue to rise, albeit at a modest pace, due to the gradual nature of the recovery. Excess liquidity in the financial system poses a modest risk, as it could put further upward pressure on asset prices.

The latest fixed investment figures showed that the construction industry remains under pressure, in particular the private sector which contracted further in the second quarter. With investment spending expected to remain weak over the next year, price pressures on goods used in the construction industry are forecast to moderate further.

Implications

Data released this week showed that price pressures in the economy abated further, a trend which will continue over the coming months. Most analysts believe that we have now reached the bottom of the interest rate cycle. However, it may be too premature to call an end to the cycle quite yet. Two factors might just tip the balance in favour of one last cut. First, given the unusual nature of the economic downswing any recovery is likely to be patchy, with setbacks over the coming months. Second, inflation may still surprise on the downside. However, the timing of any moves at this stage of the cycle is always uncertain as the MPC will have to deal with conflicting evidence on growth and inflation prospects from meeting to meeting.

	Headline PPI							
	Weights Base 2000	August 2009				Ave m-o-m past 3 yrs	July 2008	
		Month-on-month		Year-on-year			M-o-m %	Y-o-y %
		%	% contrib	%	% contrib			
Total	100.0	0.3	0.3	-4.0	-3.98	0.4	2.9	-3.8
Agriculture, forestry, fishing and mining	29.4	-0.3	-0.10	-11.0	-3.24	0.2	0.6	-11.5
Agriculture	8.2	0.1	0.00	-2.0	-0.16	1.5	2.1	-1.7
Food	3.9	0.1	0.00	-7.6	-0.29	2.2	2.3	-6.7
Grain	0.9	-0.5	0.00	-22.3	-0.19	0.1	-6.4	-26.2
Vegetables	1.1	-6.4	-0.07	20.1	0.23	6.8	13.6	34.5
Fruits & nuts	1.4	7.2	0.10	-15.3	-0.22	7.5	1.0	-13.7
Oil seeds	0.1	-7.4	-0.01	-35.1	-0.05	-4.0	-1.0	-39.1
Sugar cane	0.3	5.3	0.02	26.3	0.08	2.2	2.0	20.7
Other food	0.0	-1.5	0.00	15.2	0.01	-0.5	0.0	16.9
Live animals & animal products	3.7	0.1	0.01	4.2	0.16	0.5	1.2	3.7
Nursery products & other agriculture	0.7	0.0	0.00	2.2	0.01	-3.5	5.7	2.2
Forestry	1.5	1.2	0.02	-5.6	-0.08	0.4	-0.5	-6.7
Fishing	0.3	-0.2	0.00	-1.8	0.00	1.1	-0.8	-0.2
Mining & quarrying	19.4	-0.6	-0.11	-14.6	-2.83	-0.7	0.0	-15.2
Coal & lignite	5.0	-1.0	-0.05	0.0	0.00	-0.4	-3.0	-0.4
Crude petroleum & natural gas	0.6	4.7	0.03	-16.6	-0.10		-2.7	-26.6
Metal ores	11.5	-0.5	-0.05	-21.4	-2.45	-1.5	1.7	-22.7
Other minerals	2.3	-0.4	-0.01	-13.4	-0.31	2.3	1.3	-6.8
Manufacturing	62.3	0.4	0.28	-4.8	-2.97	0.5	0.4	-4.1
Food at manufacturing	5.9	0.3	0.02	0.1	0.01	0.9	-0.1	0.8
Beverages	3.0	-0.7	-0.02	5.8	0.18	0.2	0.5	7.9
Tobacco products	0.6	0.0	0.00	21.6	0.13	0.0	8.2	21.6
Textiles & made-up goods	1.1	0.0	0.00	5.4	0.06	0.1	0.1	5.6
Wearing apparel	1.5	0.0	0.00	0.9	0.01	0.0	0.0	0.9
Leather & leather products	0.3	0.0	0.00	1.3	0.00	0.0	0.0	1.3
Footwear	0.3	0.1	0.00	4.6	0.01	0.6	1.2	6.3
Wood & wood products	1.4	-0.4	-0.01	3.4	0.05	-0.1	-0.2	3.8
Paper & paper products	5.0	0.1	0.00	6.7	0.33	0.1	0.0	7.0
Products of petroleum & coal	5.0	-1.2	-0.06	-30.2	-1.50	-2.4	4.9	-32.6
Chemicals & chemical products	6.7	-0.2	-0.01	-5.2	-0.35	0.4	-1.3	-3.7
Rubber & plastic products	2.6	-0.1	0.00	1.2	0.03	0.3	-0.7	2.1
Non-metallic mineral products	2.0	0.3	0.01	7.1	0.14	2.6	0.4	13.6
Basic metals	6.7	3.2	0.21	-13.2	-0.88	0.4	0.0	-15.5
Metal products	3.3	0.1	0.00	0.0	0.00	1.8	0.5	3.4
Non-electrical machinery & equipment	2.4	0.1	0.00	0.6	0.01	3.7	0.0	9.5
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	1.7	0.03	0.0	0.00	0.8	0.0	-1.0
Radio, TV & communication equipment	0.5	0.0	0.00	2.2	0.01	0.2	0.3	2.4
Medical appliances, instruments & clocks	0.3	0.0	0.00	5.6	0.02	0.0	0.0	5.6
Transport	5.8	-0.3	-0.02	1.5	0.09	2.2	0.1	8.3
Furniture	1.0	1.0	0.01	6.0	0.06	0.9	0.4	6.7
Other manufactures	5.0	-0.1	-0.01	-0.4	-0.02	0.8	0.1	1.7
Electricity, gas and water	8.3	1.6	0.13	24.9	2.08	0.7	26.2	23.9

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