

Nedbank

Economic commentary

25 February 2010

PRODUCER INFLATION

Producer inflation beats expectations

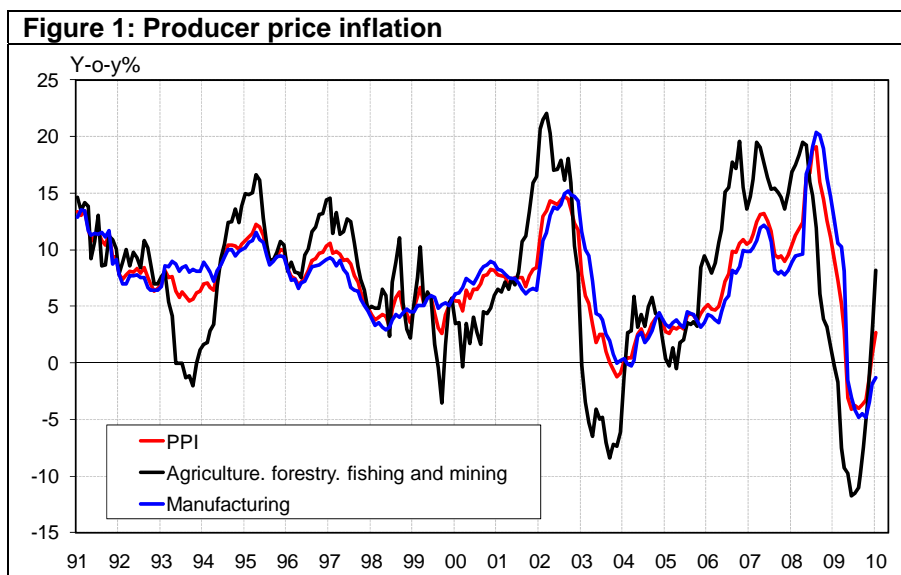
- The strong monthly increase was due to higher commodity prices.
- Producer inflation will rise strongly over the next few months, closing the gap with consumer inflation
- Higher producer price inflation is not likely to affect consumer inflation too significantly.
- We expect interest rates to remain unchanged until early 2011

Latest (January 2010)

Headline PPI: 2,7% y-o-y, 1,3% m-o-m (0,7% y-o-y in December 2009)

Market forecast: 1,9% y-o-y

Nedbank forecast: 2,2% y-o-y



Source: Stats SA

Comment

Sharply higher commodity prices were the main culprits behind today's higher-than-expected producer inflation figure.

The mining and quarrying category jumped 8,2% m-o-m, adding 1,5 percentage points to the monthly increase, due to a 16% increase in coal prices and a 4,5% gain in the cost of metal ores. Over the year, this category rose by 16,8%, up from an increase of just 3,6% in the previous month. In contrast, price increases for beneficiated metals remain muted on a monthly basis and continued to decline over the year.

Downward pressure came from food prices at the agricultural level, which fell by 1,4% m-o-m, mainly due to a 10,2% drop in grain prices. Over the year,

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prices were 18,7% lower, but this was mainly due to base effects, due to the sharp rise in food prices this time last year. At the manufacturing level, food prices also declined over the month, falling by 0,3%, taking the annual decline to 1,8%.

Chemicals and chemical products, which make up 6,7% of the basket, fell by 2,3% m-o-m and 6,3% y-o-y, mainly due to sharply lower paint prices.

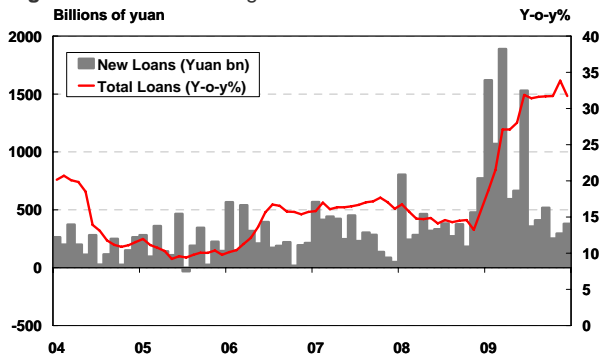
Outlook

Producer inflation will rise sharply in the next few months, closing the gap with consumer inflation. However, this will largely be the result of the low base established in the first half of 2009, rather than demand-pull inflationary pressures.

The short-term outlook for commodity prices is generally benign, following last year’s sharp rebound.

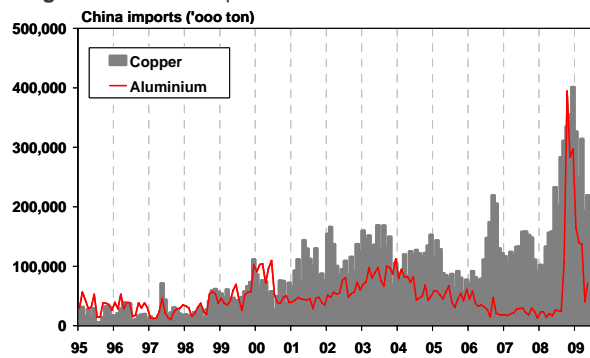
Chinese stockpiling of commodities during 2009 as well as a 30% rise in fixed asset investment were among the drivers of the rebound in commodity prices. Growth in Chinese investment spending is expected to moderate, as the Government begins to withdraw stimulus measures and tighten monetary policy, suggesting that China will play a more muted role in supporting commodity prices. In addition to this, inventories have continued to expand, suggesting that real demand has yet to recover fully.

Figure 2: Chinese credit growth



Source: DataStream

Figure 3: Chinese imports



Implications

Today’s higher than expected producer price inflation figure reflects higher commodity prices, rather than demand-side pressures. As a result, today’s producer inflation has no short-term negative implications for consumer inflation. There is still a clear absence of demand-led inflation, at either the producer or consumer level, given significant over capacity and weak overall demand.

The Reserve Bank’s Monetary Policy Committee (MPC) will probably be reluctant to hike rates too quickly as growth will remain below potential and demand-side pressure on inflation will be muted. We therefore expect that the MPC will keep interest rates on hold throughout 2010.

	Headline PPI							
	Weights Base 2000	January 2010					January 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	1.3	1.3	2.7	2.72	0.0	0.7	0.7
Agriculture, forestry, fishing and mining	29.4	5.3	1.56	8.2	2.41	0.0	1.8	2.4
Agriculture	8.2	-1.4	-0.12	-8.8	-0.06	0.0	2.3	1.2
Food	3.9	-1.1	-0.04	-18.7	-0.73	0.0	3.5	-2.3
Grain	0.9	-10.2	-0.09	-18.3	-0.16	0.0	2.4	-6.3
Vegetables	1.1	2.3	0.03	-17.6	-0.20	0.0	-0.4	-1.1
Fruits & nuts	1.4	3.2	0.05	-26.8	-0.38	0.0	7.5	-3.1
Oil seeds	0.1	-0.5	0.00	-6.7	-0.01	0.0	14.7	-11.7
Sugar cane	0.3	-0.6	0.00	15.7	0.05	0.0	-0.1	16.3
Other food	0.0	-3.3	0.00	18.0	0.01	0.0	2.9	18.2
Live animals & animal products	3.7	-2.3	-0.09	2.8	0.10	0.0	1.8	4.5
Nursery products & other agriculture	0.7	1.6	0.01	10.5	0.07	0.0	-3.4	7.6
Forestry	1.5	1.2	0.02	-1.2	-0.02	0.0	0.8	-5.1
Fishing	0.3	2.5	0.01	-8.5	-0.02	0.0	0.0	-11.3
Mining & quarrying	19.4	8.2	1.58	16.8	0.27	0.0	1.7	3.6
Coal & lignite	5.0	16.0	0.79	22.6	1.12	0.0	0.1	6.1
Crude petroleum & natural gas	0.6	0.1	0.00	9.6	0.06	0.0	-1.4	11.9
Metal ores	11.5	4.5	0.51	18.4	2.12	0.0	2.9	5.7
Other minerals	2.3	3.7	0.09	-11.0	-0.26	0.0	0.0	-17.9
Manufacturing	62.3	-0.3	-0.21	-1.3	-0.07	0.0	0.4	-1.9
Food at manufacturing	5.9	-0.3	-0.02	-1.8	-0.10	0.0	-0.5	-1.5
Beverages	3.0	0.1	0.00	3.8	0.11	0.0	0.0	5.5
Tobacco products	0.6	0.4	0.00	13.8	0.08	0.0	0.0	13.8
Textiles & made-up goods	1.1	0.0	0.00	3.2	0.03	0.0	0.2	3.5
Wearing apparel	1.5	0.0	0.00	1.1	0.02	0.0	0.0	1.1
Leather & leather products	0.3	1.1	0.00	1.1	0.00	0.0	0.0	1.1
Footwear	0.3	1.1	0.00	3.6	0.01	0.0	0.0	4.4
Wood & wood products	1.4	-0.1	0.00	-0.9	-0.01	0.0	0.0	1.4
Paper & paper products	5.0	-0.6	-0.03	1.2	0.06	0.0	0.1	4.9
Products of petroleum & coal	5.0	-0.8	-0.04	12.6	0.63	0.0	3.8	0.0
Chemicals & chemical products	6.7	-2.3	-0.16	-6.3	-0.42	0.0	0.0	-6.2
Rubber & plastic products	2.6	-0.5	-0.01	-2.5	-0.07	0.0	0.2	-3.3
Non-metallic mineral products	2.0	0.8	0.02	4.8	0.10	0.0	1.2	6.8
Basic metals	6.7	0.0	0.00	-12.2	-0.82	0.0	0.1	-12.3
Metal products	3.3	-0.4	-0.01	0.8	0.03	0.0	0.0	0.7
Non-electrical machinery & equipment	2.4	0.0	0.00	0.3	0.01	0.0	0.0	0.3
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	1.2	0.02	0.0	0.1	1.1
Radio, TV & communication equipment	0.5	0.0	0.00	-0.8	0.00	0.0	0.0	-0.6
Medical appliances, instruments & clocks	0.3	1.3	0.00	1.8	0.01	0.0	0.0	2.6
Transport	5.8	0.4	0.02	1.2	0.07	0.0	0.0	0.8
Furniture	1.0	-0.2	0.00	2.4	0.02	0.0	0.0	4.2
Other manufactures	5.0	-0.1	0.00	0.6	0.03	0.0	-0.1	-0.8
Electricity, gas and water	8.3	-0.9	-0.08	16.1	0.11	0.0	-0.4	16.3

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