Producer Inflation

ECONOMICS | SOUTH AFRICA

NEDBANK

Producer inflation returned after two months of deflation.

- Producer inflation was 0.7% in December from 0.1% deflation in November. The outcome was in line with our and the market's expectations. The main driver of the rise was food products, beverages and tobacco products, which added 1.2 percentage points to annual increase. The slower rate of contraction in the coke, petroleum, chemicals, rubber, and plastic products prices, also contributed.

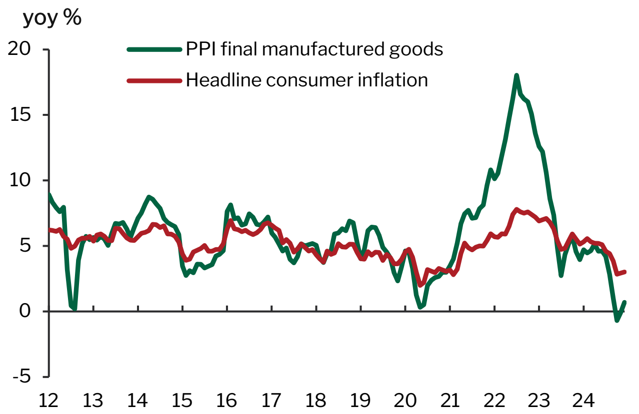
Table 1: Producer inflation

	Dec-24		Nov-24	Forecasts (yoy %)	
	yoy %	mom %	yoy %	Nedbank	Market
Headline PPI	0.7	0.2	-0.1	0.7	0.7

Source: Stats SA, Nedbank GEU, Refinitiv

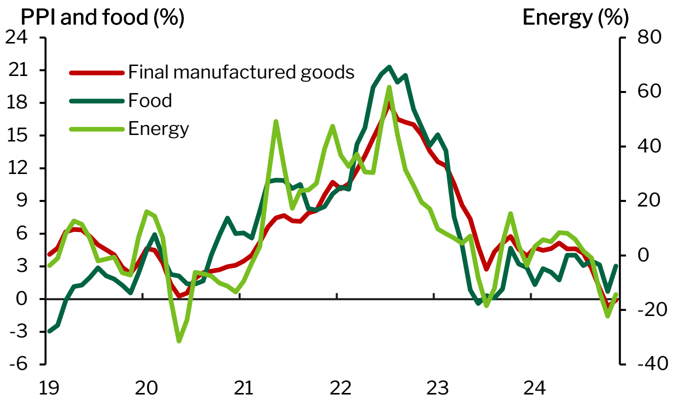
- Food, beverages, and tobacco inflation increased slightly to 4.2% from 4% due to higher food prices. Most of the upward pressure came from meat and meat products, which rose by 1.1% yoy after two months of contractions. In addition, starches, starch products and animal feeds jumped to 4.9% from 1.9%. Prices of dairy products rose at a slower pace, easing to 2.9% from 5.4%. Bakery and fish products also recorded slower price increases. Sugar prices contracted for the eighth consecutive month.
- Deflation in the coke, petroleum, chemicals, rubber, and plastic products category moderated to 4.7% yoy in December from 8.1% in November and 10.1% in October. The shallower contraction came from fuel prices. During the month, prices of coke and petroleum products increased by 0.7%, primarily reflecting the impact of a 4.4% depreciation of the rand against the US dollar, while the price of Brent crude oil was relatively steady. In yoy terms, the petrol price fell by 9.5%, less than the 14.4% drop in November, while the diesel prices declined by a less intense 12.4% from the 23.5% slide. Chemicals prices also increased in December, rising by 0.3% yoy, after recording their first decline in over a decade in November. However, rubber and plastics prices decelerated further.
- Metals, machinery, and equipment inflation slowed further to 2.4%, the lowest since November 2020. 'Structural and fabricated metal products' and 'general and special purpose machinery' exerted the downward pressure. Meanwhile, household appliances and office machinery prices rose at a faster rate.
- In 2024, producer inflation averaged 3%, down significantly from 6.9% in 2023.

Chart 1: Inflation remains contained



Source: Stats SA and Nedbank calculations

Chart 2: PPI contained by low energy prices.

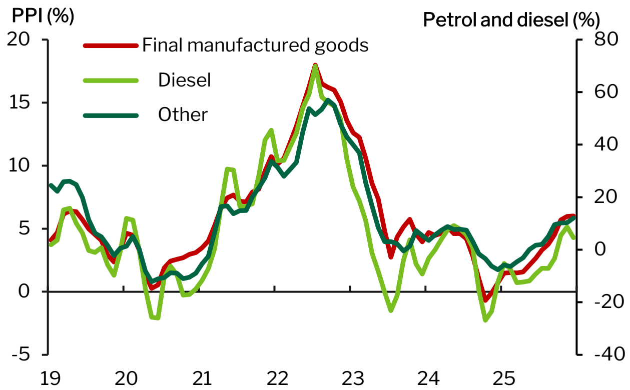


Source: Stats SA and Nedbank calculations

- PPI for intermediate manufactured goods edged up to 5.8% from 5.7%. The upward pressure came from chemicals, rubber and plastic products, which rose by 7.7% yoy, basic and fabricated metals (up 5.7%) and textiles and leather goods (4.8%). The impact of these increases was partly cushioned by declines in 'textiles and leather goods' and 'basic iron and steel'.

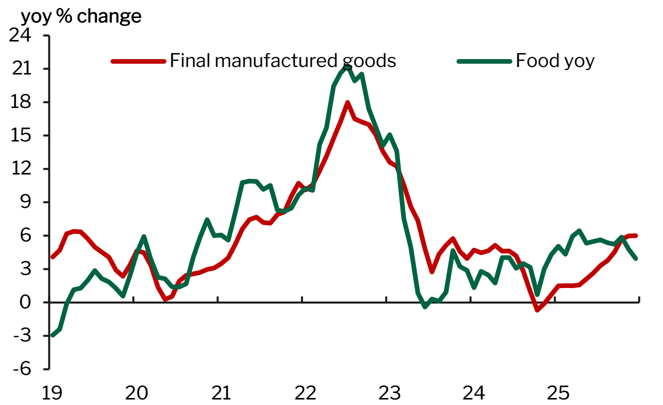
- PPI for electricity and water decreased to 10.3% from 11.2% due to a slower increase in electricity prices (11.2% from 12.2%), while water prices was steady at 5.6%.
- The rate of contraction in mining prices deepened to 1.5% from 0.2%, mainly due to a sharp drop in coal and gas (-11.3%). Prices of ‘non-ferrous metal ores’ and ‘stone quarrying, clay and diamond’ also contracted, while the rate of increase in gold and other metal ores moderated.
- PPI for agriculture, forestry, and fishing rose to 4.7% from 3.6%. The upward pressure came from 'fruit and vegetables', 'products of crops and horticulture' and 'cereals and other crops'. These outweighed the sharp declines in prices of 'live animals and animal products' and milk and eggs.

Chart 3: Rising fuel price and PPI



Source: Stats SA and Nedbank calculations

Chart 4: Slower increase in food will limit the rise in PPI



Source: Stats SA and Nedbank calculations

- We expect producer inflation to increase further in 2025 as food and fuel prices rise off a low base. We anticipate a moderate rise in food prices, partly driven by a softer rand, an upturn in global food prices, and higher domestic electricity tariffs. The upside could be contained by the cost savings from more reliable power supply and some improvements in logistics. Food prices could also benefit from higher domestic food production following heavy rainfall over the summer. On fuel, the upward pressure will be driven mainly by a weaker rand, which will likely offset a further easing in global oil prices. The rand and other emerging market currencies are expected to remain under pressure against a stronger US dollar, which will benefit from the likely changes in the US’s economic policies under the Trump administration, volatile global risk sentiment and a prolonged pause in US interest rates. The impact of the weaker rand will likely outweigh the effect of lower oil prices. The Brent crude oil prices will probably decline gradually as global demand remains steady and non-OPEC production increases, led by the US. We forecast PPI to average around 3.5% in 2025.

Table 2: Breakdown of producer inflation

		Dec-24				Nov-24		2024	2023
	New weights Dec 2023=100	mom%	yoy%	yoy contr	avg mom% for past 3 mnths	mom%	yoy%	AVE	AVE
Final manufactured goods	**100**	**0.2**	**0.7**	**0.7**	**-0.3**	**0.0**	**-0.1**	**3.0**	**6.9**
Food products, beverages and tobacco products	27.4	0.4	4.2	1.2	0.1	-0.1	4.0	3.9	6.6
Food products	16.9	0.7	4.5	0.8	0.2	-0.2	4.0	3.7	8.4
Beverages	8.4	0.0	4.2	0.4	0.0	0.1	4.2	4.3	3.6
Tobacco products	2.2	0.0	2.0	0.0	0.0	0.0	2.0	2.6	4.6
Textiles, clothing and footwear	6.0	0.0	5.8	0.3	0.7	0.0	5.8	6.7	7.7
Paper and printed products	8.8	-0.1	-1.4	-0.1	0.1	0.0	-1.9	2.0	11.8
Coke, petroleum, chemical, rubber and plastic products	22.7	0.4	-4.7	-1.1	-1.4	0.3	-8.1	0.9	4.3
Non-metallic mineral products	2.9	-0.3	2.9	0.1	0.0	2.2	3.4	3.8	8.1
Metals, machinery, equipment and computing equipment	14.9	-0.1	2.4	0.4	-0.1	-0.4	2.7	4.5	7.9
Electrical machinery and communication and metering equipment	3.4	-0.1	1.1	0.0	-0.7	-0.6	1.7	4.4	4.3
Transport equipment	9.9	-0.4	-3.3	-0.3	-0.1	-0.1	-0.1	1.0	9.7
Furniture and other manufacturing	4.1	0.2	5.3	0.2	0.3	0.2	5.7	3.9	7.0

Source: Stats SA and Nedbank calculations

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