Economic Insights | 31 October 2024

Producer Inflation

ECONOMICS | SOUTH AFRICA

NEDBANK

Producer inflation dipped further due to lower fuel prices.

- Headline producer inflation (PPI) moderated to 1% in September from 2.8% in August. The lowest outcome since June 2020 came out better than our and the market's forecast of 1.6% and 1.3%, respectively. The main driver of the slowdown was the 'coke, petroleum, chemicals, rubber, and plastic products' category.

Table 1: Producer inflation

	Sept-24		Aug-24	Forecasts (yoy %)	
	yoy %	mom %	yoy %	Nedbank	Market
Headline PPI	1.0	0.3	2.8	1.6	1.3

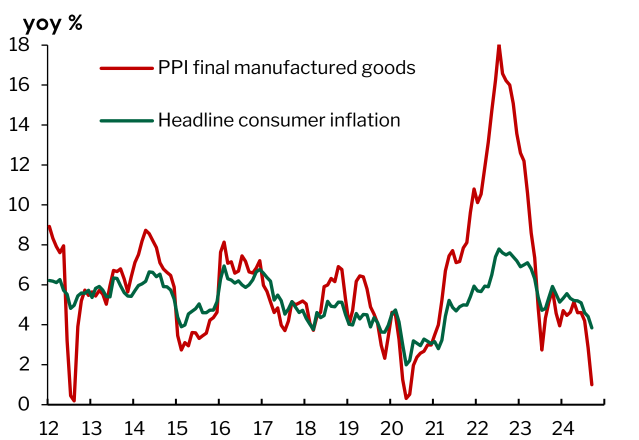
Source: Stats SA, Nedbank GEU, Refinitiv

- The disinflation in coke, petroleum, chemicals, rubber, and plastic products intensified in September, with prices falling sharply by 5% due to a drop in fuel prices. Prices of petrol and diesel plummeted by 13.2% yoy and 15.7%, respectively, due to subdued global oil prices and a firmer rand. During the month, the price of Brent crude oil fell by 8.9%, while the rand appreciated by 3.3% against the US dollar. Prices of chemical products also moderated further. However, rubber and plastic products accelerated by 5.6% yoy from 2%.

- Inflation for metals, machinery, and equipment, including computers was almost unchanged at 3.4% (from 3.5%), as the slower increase in structural and fabricated metal products was counterbalanced by an acceleration 'general and special purpose machinery' and 'household appliances and office machinery'.

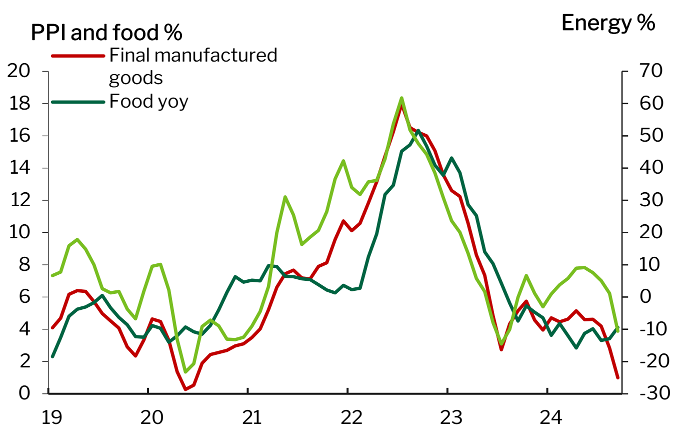
- In contrast, inflation for food, beverages, and tobacco products continued to trend higher, accelerating to 3.8% from 3.6% as the base normalised and the impact of drier weather conditions earlier in the year filtered through. Most of the food categories experienced some upward pressure, with the largest increases recorded in 'fruit and vegetables' (12.9% from 10.1%), 'dairy products' (up 3.1% from 1.9%) and 'grain mill products, starches and starch products and animal feeds' (2.4% from 2.1%). Disinflation in 'oils and fats' and 'sugar' continued, with prices falling by 10.6% yoy and 6.1%, respectively, but the rate of contraction moderated.

Chart 1: PPI and CPI eased further in September.



Source: Stats SA, Refinitiv and Nedbank calculations

Chart 2: PPI is mainly contained by low energy prices.



Source: Stats SA, Refinitiv and Nedbank calculations

- PPI for intermediate manufactured goods quickened to 4.8% yoy in September, its highest fastest pace since March 2023, after remaining at 4.2% in July and August. The upward pressure came from accelerating prices of basic- and other chemicals, and plastic products. Inflation for 'textiles and leather goods', 'basic and fabricated metals' and 'basic precious and non-ferrous metals' moderated.

- PPI for electricity and water rose to 9.8% after easing to 7.1% from 10.2% in the past two months. The increase resulted from electricity prices, which rose by 10.6%, while water tariffs were steady at 5.6%.

- The disinflation in mining intensified, with prices dropping for the 13th straight month in September, down by a sharp 4.8% yoy after falling by 1.7% in August due to lower 'coal and gas', 'non-ferrous metal ores' as well as 'stone quarrying, clay and diamonds' prices.

- PPI for agriculture, forestry, and fishing moderated to 3.6% from 6.1%, with prices in most of the subcomponents either contracting or slowing down.

- We expect producer inflation to remain subdued in the coming months, contained by continued global disinflation, low global oil prices, a relatively steady rand, and more favourable weather conditions. However, there are some upside risks. Food inflation will likely edge higher on the lagged impact of the drought earlier this year and fading base effects. The upside here will be partially offset by subdued global food prices and largely favourable climatic conditions. The outlook for fuel inflation is encouraging, with global oil prices expected to remain subdued on the back of ample supply and muted demand. However, the risks to our forecast are tilted to the upside as the oil price remains vulnerable to tensions in the Middle East. The biggest concern is that the conflict between Israel and Iran could escalate into a broader regional war, which could potentially disrupt oil supply channels and result in another surge in the oil price. The rand will probably remain stable in the short term, supported by positive global risk sentiment as US monetary policy eases further. However, the uncertainty surrounding the outcome of upcoming US elections could weigh on the rand in the near term. Although the pressures exerted by limited electricity supply and logistic inefficiencies on domestic cost structures have eased somewhat, they remain elevated and pose an upside risk to producer inflation. We forecast PPI to average 3.3% in 2024, down from 6.9% in 2023.

Table 2: Breakdown of producer inflation

	Sep-24					Oct-24		2024	2023
	New weights Dec 2023=100	mom%	yoy%	yoy contribution	avg mom% for past 3 mnths	mom%	yoy%	YTD	AVE
Final manufactured goods	100	-0.3	1.0	1.0	-0.3	-0.3	2.8	4.0	6.9
Food products, beverages, and tobacco products	27.4	0.5	3.8	1.0	0.1	0.0	3.6	3.9	6.6
Food products	16.9	0.9	4.1	0.7	0.1	-0.1	3.4	3.7	8.4
Beverages	8.4	-0.1	3.8	0.3	0.0	0.1	4.4	4.4	3.6
Tobacco products	2.2	0.0	2.0	0.0	0.0	0.0	2.0	2.8	4.6
Textiles, clothing, and footwear	6.0	0.0	6.0	0.4	0.7	1.6	6.2	6.8	7.7
Paper and printed products	8.8	-0.4	2.3	0.2	0.2	-0.6	2.3	3.2	11.8
Coke, petroleum, chemical, rubber and plastic products	22.7	-2.1	-5.0	-1.1	-1.4	-0.5	2.1	3.8	4.3
Non-metallic mineral products	2.9	0.4	2.7	0.1	-0.2	-0.5	1.7	4.2	8.1
Metals, machinery, equipment, and computing equipment	14.9	0.0	3.4	0.5	0.0	-0.5	3.5	5.1	7.9
Electrical machinery, communications, and metering equipment	3.4	-0.5	0.5	0.0	0.3	0.4	4.9	5.2	4.3
Transport equipment	9.9	0.2	-1.2	-0.1	-0.2	-0.2	-1.7	1.8	9.7
Furniture and other manufacturing	4.1	0.5	4.1	0.2	0.4	-0.1	3.7	3.4	7.0

Source: Stats SA and Nedbank calculations

GROUP ECONOMIC UNIT

Johannes (Matimba) Khosa	+27 10 234 8359	johanneskh@nedbank.co.za
Nicky Weimar	+27 10 234 8357	nickywe@nedbank.co.za