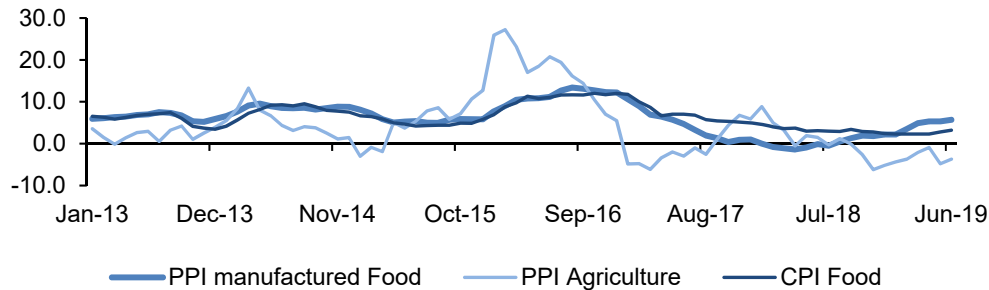




PPI update: Producer price inflation eased to 5.8% y/y in June, underpinned primarily by a moderation in fuel price inflation.

25th July 2019

Figure 1: Food price inflation at agricultural, manufactured and retail levels



Source: Stats SA

- PPI inflation decelerated in June to 5.8% y/y, from 6.4% y/y in May and 6.5% y/y in April. The reading was in line with market expectations and was underpinned chiefly by a moderation in inflationary pressure within the coke, petroleum, chemical, rubber and plastic products category.
- That is, inflation within this category, which occupies the second largest weighting in the PPI basket at 20.2%, slid to 8.3% y/y in June, from 10.7% y/y in May, in turn adding 1.9% to the topline reading as opposed to 2.3% in May.
- Fuel price pressure is expected to abate further in July, with a marked a 95c/litre cut in the petrol price and 75c/litre reduction in the diesel price, announced by the Central Energy Fund, which will put further downward pressure on inflation in this category.
- Manufactured food price inflation however, edged up in June to 5.7% y/y from 5.3% y/y in May, its highest reading since mid-2017. Consequently, the contribution from the food, beverages and tobacco products category, which holds the largest weighting in the PPI Index at 35.3% rose to 1.6% from 1.5% previously.
- Prices within the meat and meat products category picked up, after being in deflationary territory since late 2018, offsetting the slight moderation in grain mill and starch products prices experienced in June.
- We are anticipating a PPI inflation rate of around 5.3% for 2019.
- Monthly consumer price inflation readings have remained largely anchored around the mid-point of the inflation target range, with June's reading steady at 4.5%. The SARB, at its recent MPC meeting, assessed risks to the inflation outcome to be "largely balanced", however it did stress that upside risks could be material. Risks of a renewed tightening in global markets, rising administered prices, especially electricity, a key input for manufacturers and gradually rising domestic food prices continue to weigh on the inflation outlook.

Figure 2: PPI inflation (%)

	June y/y	June m/m
Final manufactured goods	5.8	0.4
Intermediate manufactured	4.5	0.4
Electricity and water	9.3	32.6
Mining	14.6	1.3
Agriculture, forestry and fishing	-1.9	0.7

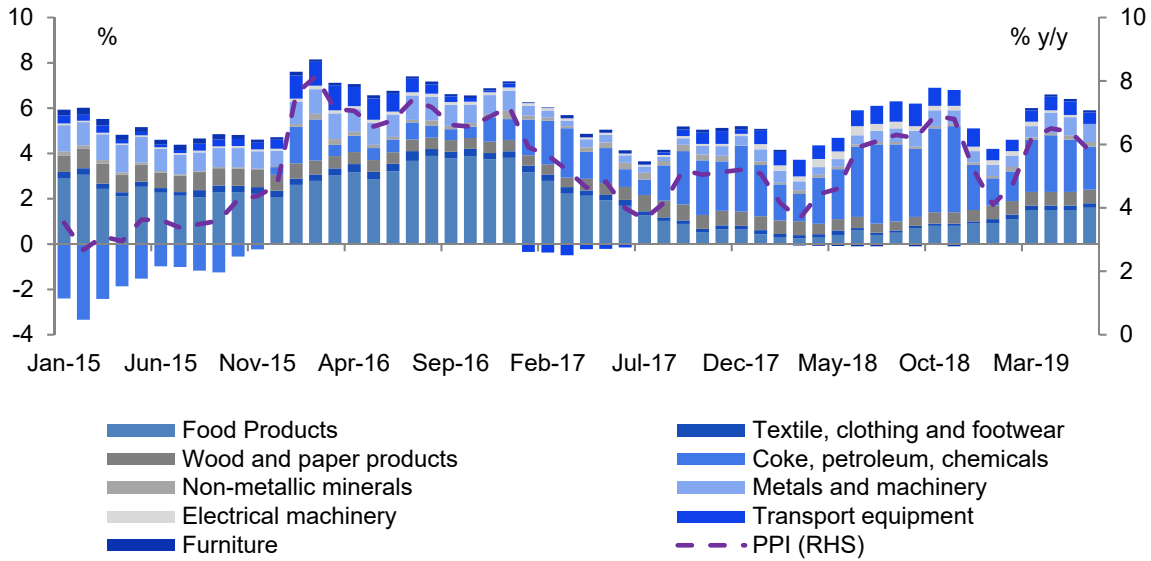
Source: Stats SA



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Figure 3: Contributions to PPI inflation



Source: Stats SA, Investec



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