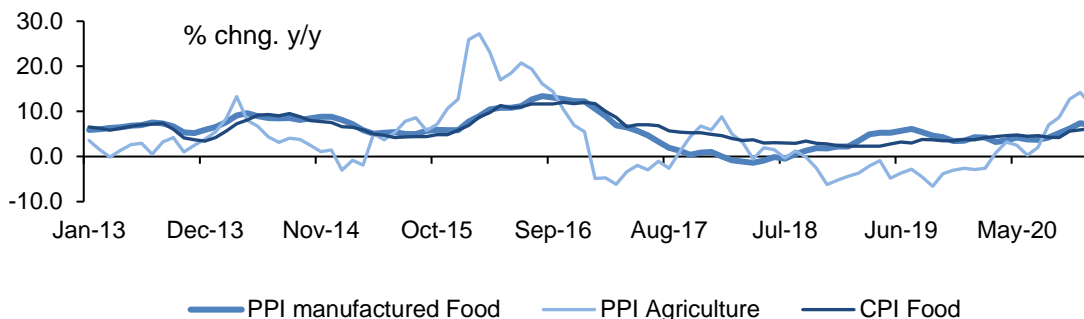


## PPI update: Headline producer price inflation remained unchanged at 3.0% y/y in December

28 January 2021



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



Source: Stats SA

- Headline producer price inflation remained unchanged at 3.0% y/y in December, largely in line with Bloomberg's consensus estimate of 3.1% y/y. Food price inflation eased to 6.9% y/y from 7.4% y/y recorded in November, predominantly underpinned by a notable drop in meat price inflation from 9.7% y/y to 7.2% y/y. The contribution from the food products, beverages and tobacco products category, which holds the largest weighting in the PPI basket at 36.28%, accordingly, eased to 1.9% from 2.0% previously.
- Grain mill product prices however continued to rise, lifting to 16.5%/y/y in December, from 16.1% and 13.2% in November and October respectively. South African grain prices have been driven higher by strong export demand and the effects of a previously weaker rand, despite a robust 2019/20 maize harvest, the second highest in South Africa's history.
- However, according to Agbiz, the upward swing we have seen in food prices may not necessarily persist. Higher than usual rainfall, has enhanced crop conditions and increased the prospects of a good harvest in the Southern African region. This in turn, would take "(s)ome pressure off domestic crop prices." Indeed, Agbiz's "(b)aseline forecast is for food price inflation to average around 5,0% y/y in 2021," although they stressed that they will review this projection as additional "information about the impact of tropical cyclone Eloise on Southern Africa's agriculture becomes available."
- The coke, petroleum, chemical, rubber and plastic products grouping, in which fuel price dynamics are captured, detracted -0.8% from the annual topline PPI reading, versus -0.9% previously.
- Furthermore, inflation within the metals, machinery, equipment and computing equipment segment of the PPI basket increased in December on a year-on-year basis, adding an additional 0.1% to the headline outcome.
- Both PPI and CPI are expected to rise moderately but remain mostly contained in 2021, supported by a subdued demand environment. Indeed, consumer finances and sentiment have been severely impacted by the effects of the pandemic weighing on their willingness and ability to spend.

Figure 2: PPI inflation (%)

	December y/y	December m/m
Final manufactured goods	3.0	0.2
Intermediate manufactured goods	6.8	0.9
Electricity and water	8.2	-0.4
Mining	25.3	1.8
Agriculture, forestry and fishing	9.1	-0.1

Source: Stats SA

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