



Economic Commentary: Issue No. 9

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Directorate: Statistics & Economic Analysis

Sub-directorate: Economic Analysis

Purpose of the Economic commentary

This publication is meant to inform internal stakeholders of the department about the impact of the macro economic indicators and related issues on the overall performance of the Agriculture, Forestry and Fisheries (AFF) sector. National announcements are frequently pronounced on macro economic issues; therefore the intension of the economic commentary is to digest the implication of the indicators and recommend actions that could be taken into account to cushion the performance and image of the AFF sector.

PRODUCER PRICE INDEX (PPI)

The annual percentage change in the PPI for final manufactured goods was 6,9% in November 2016 (compared with 6,6% in October 2016). From October 2016 to November 2016 the PPI for final manufactured goods increased by 0,4%. The main contributors to the annual rate of 6,9 % were food products, beverages and tobacco products (3,9 percentage points), coke, petroleum, chemical, rubber and plastic products (0,9 of a percentage point) and metals, machinery, equipment and computing equipment (0,9 of a percentage point). The main contributor to the monthly increase of 0,4% was coke, petroleum, chemical, rubber and plastic products (0,4 of a percentage point).

The annual percentage change in the PPI for intermediate manufactured goods was 6,6% in November 2016 (compared with 6,2% in October 2016). From October 2016 to November 2016 the PPI for intermediate manufactured goods increased by 0,6%.

The main contributors to the annual rate of 6,6% were sawmilling and wood (1,8 percentage points), chemicals, rubber and plastic products (1,7 percentage points) and basic and fabricated metals (1,5 percentage points). The main contributor to the monthly increase of 0,6% was recycling and manufacturing (0,6 of a percentage point). The annual percentage change in the PPI for electricity and water was 8,3% in November 2016 (compared with 8,5% in October 2016). From October 2016 to November 2016 the PPI for electricity and water decreased by 0,3%. The contributors to the annual rate of 8,3% were electricity (6,6 percentage points) and water (1,7 percentage points). The contributor to the monthly decrease of 0,3% was electricity decrease of (0,3 of a percentage point).

The annual percentage change in the PPI for mining was 8,1% in November 2016 (compared with 11,7% in October 2016). From October 2016 to November 2016 the PPI for mining decreased by 2,7%. The main contributors to the annual rate of 8,1% were gold and other metal ores (4,5 percentage points), coal and gas (3,6 percentage points) and non-ferrous metal ores (3,3 percentage points). The main contributor to the monthly decrease of 2,7% was stone quarrying, clay and diamonds decreased by (4,0 percentage points). The annual percentage change in the PPI for agriculture, forestry and fishing was 8,1% in November 2016 (compared with 11,1% in October 2016). From October 2016 to November 2016 the PPI for agriculture, forestry and fishing increased by 1,7%. The contributors to the annual rate of 8,1% were agriculture (6,0 percentage points), forestry (1,2 percentage points) and fishing (0,9 of a percentage point). The contributor to the monthly increase of 1,7% was agriculture (1,6 percentage points).

CONSUMER PRICE INDEX (CPI)

Figure 2: South Africa CPI between 2014 and 2016

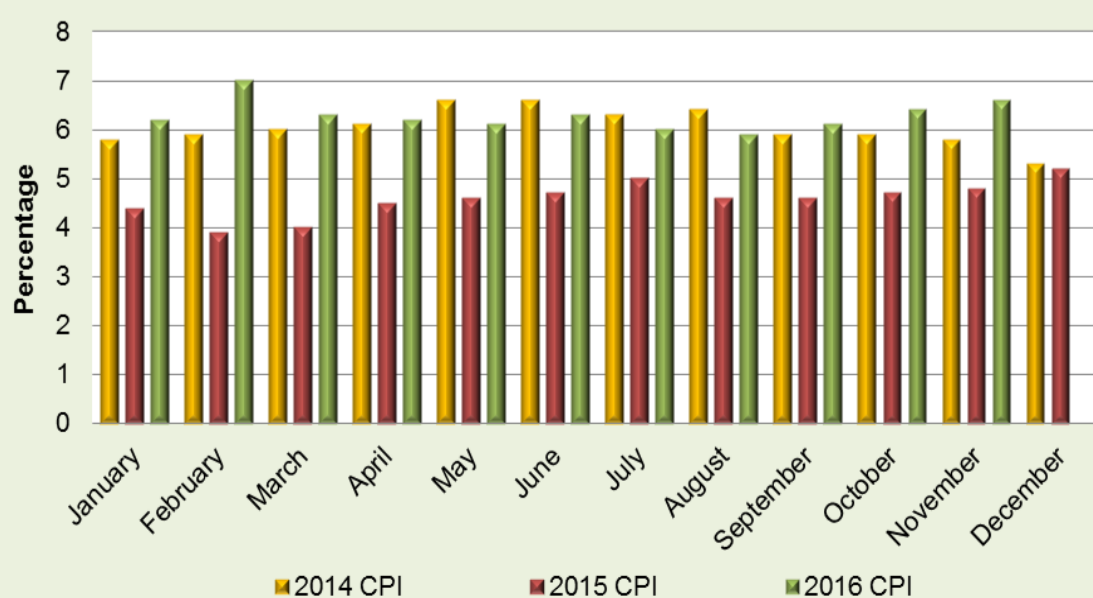


Figure 2: shows that CPI from 6.4% in October to 6.6% in November, the acceleration is in line with the market expectations. Fuel prices have been another factor, although the latest fuel price movement was a cut of 20c, which took effect on December 7, fuel prices rose 88c over October and November. Recent agreements to cut oil output both within Opec and between Opec and non-Opec producers are expected to start soaking up a longstanding glut pushing up crude prices and local fuel prices will start to rise again. The transport component of the CPI increased 6.4% in November from a year ago and its contribution to the 6.6% year-on-year rise grew from 0.7 percentage points to one percentage point. Compared with October, the CPI rose 0.3% in November.

Inflation

Inflation accelerated to the highest level in nine months in November, boosted by increases in food and transport prices. The inflation rate was 6.6% in November compared with 6.4% in the previous month. The acceleration is in line with the market expectations. Prices of food and non-alcoholic beverages which comprise 15.4% of the index, climbed 11.6% from a year earlier, while fuel costs rose by 5.6%. Price growth has been near or exceeded the upper end of the central bank's 3% to 6% target band since the start of the year as the worst drought in more than a century and a weaker currency put pressure on consumer prices. Inflation expectations have declined in the past month, leaving some room for the Reserve Bank to support an economy that will probably expand at 0.4% in 2016.

Announcing the decision to keep interest rates unchanged in November, Reserve Bank governor said the risk for inflation was slightly higher than in September, with food inflation again driving both producer and consumer inflation up in October. Food inflation was expected to peak only in early 2018. The Reserve Bank's outlook for CPI inflation is that it will average 6.4% in 2016, coming back within the 3%-6% target range in 2017 when it is seen slowing to 5.8% and easing further to 5.5% in 2018. Fast-rising food prices as a result of a long and severe drought have been one of the main drivers of consumer inflation and food inflation was barely changed at 11.6% year on year in November.

Fuel prices

In December the price of both grades of petrol dropped by 20c a litre, while diesel decreased by 32c a litre. The wholesale price of illuminating paraffin fell by 28c per litre, while the single maximum national retail price of illuminating paraffin (SMNRP) came down by 38c. However motorists have been advised to budget for possible fuel price increases in January 2017.

Fuel prices went up on Wednesday 4th of January 2017, January 2017 will see the first of what the Automobile Association (AA) expects to be a series of fuel price hikes in the New Year. According to the Automobile Association (AA), "It is too early to know at what price level oil supply will match demand in the wake of the OPEC decision to cut production". The AA also predicts a tough year ahead for motorists with a number of fuel price increases expected during the year

The decision by oil producers to cut output could push Brent crude up to \$60 a barrel and that only a marked improvement in the value of the rand will prevent a hike. Oil prices have firmed to \$55 a barrel with the local currency still trading at around R13.80 to the US dollar. Consumers will have to pay more to get to and from work while food prices are also expected to go up. Oil prices increased after OPEC and other producers reached their first deal since 2008 to jointly reduce output in order to rein in oversupply and prop up the market. Saudi Arabia has indicated that its crude oil production cuts may go beyond those proposed in November. There are also signals that non-Opec members may voluntarily decrease production, which has the potential to further bolster international petroleum prices. The first fortnight of December showed a strong appreciation in oil prices, while the rand remained volatile against the US dollar. If the oil-producing countries adhere to the proposed production cuts, oil prices are likely to strengthen until demand and production move back into equilibrium. Even a stronger rand could be overpowered by a sharp climb in the oil price, potentially meaning a succession of fuel price hikes which could impact the economy strongly over the next few months.

REFERENCES :

- Statistics South Africa (Stats SA), (2016): Consumer Price Index (CPI), November 2016: Available at <http://www.statssa.gov.za>
- Department of energy, (2016): Petrol Price, December 2016: Available at <http://www.energy.gov.za>
- Statistics South Africa (Stats SA), (2016): Producer Price Index (PPI), July 2016: Available at <http://www.statssa.gov.za>

FREQUENCY

The publication will be released on the 1st and the 15th of every month covering events taking place on the period concerned. The dissemination will take place through emails to all SMS and professionals in the Department including provinces.

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