

Factory gate prices see more upward pressure from food and fuel

Increases in fuel and certain food prices were the main drivers for the higher-than-expected rise in producer price inflation in March. Economists expect uncertainty about global oil prices will continue to pose a risk to SA's overall inflation outlook.

The producer price index (PPI) inflation data released by Stats SA on Thursday showed a month-on-month increase of 1.1% — slightly above analysts' expectations of 0.8%-0.9%. This translated into a year-on-year increase for March of 4.6% from 4.5% in February.

The main contributor was in the food, beverages and tobacco products category which added 1.3 percentage points to the overall headline PPI figure.

Nedbank economists Johannes Khosa and Nicky Weimar said inflation in this category accelerated to a three-month high of 4.4%, mostly due to higher prices for fruit and vegetables which increased by 13.5% year on year.

There was also an acceleration in prices for grain mill products which probably reflected adverse weather conditions over the past three months, they said.

"Food prices have been easing off a higher base with lower global prices. However, the excessive heat over February and March has damaged the summer crop harvest... Forecasts for other grain products, such as sunflower seeds, groundnuts, sorghum and dry beans were also revised lower. These will cause food inflation to bottom out earlier and rise faster than anticipated," Khosa and Weimar said.

They forecast PPI to average about 6% in 2024, with upside risks.

Producer inflation measures changes in the prices of goods bought and sold by manufacturers and is considered a key indicator of future consumer inflation which is expected to average about 5% this year — down from 6% in 2023. Producers can either absorb high input cost increases or pass them on to consumers. According to Khosa

and Weimar producers were likely to be forced to absorb most of the cost pressures as weak consumer spending would limit the pass-through.

Investec Bank economist Lara Hodes said the coke, petroleum, chemical, rubber and plastic products category contributed 0.6 percentage points to the monthly PPI reading and, when measured on a year-on-year basis, 1.1 percentage points to headline PPI.

“This was underpinned by petrol and diesel price increases which were above R1.00/litre (respectively) in March. A further, albeit smaller petrol price hike was implemented in April which will add upward pressure to the month’s reading,” Hodes said.

Oxford Economics Africa senior economist Jee-A van der Linde said a weaker rand exchange rate, together with higher international oil prices since the start of the year, had contributed to three successive domestic fuel price increases, placing upward pressure on transport inflation in general.

The SA purchasing managers’ index increased to 74.6 in March, higher than the long-term average of about 70.

“The latest increase was largely driven by higher fuel prices... Higher international oil prices together with a weaker currency pose a risk to SA’s overall inflation outlook. The rise in international oil prices since the start of the year has contributed to three successive domestic fuel price increases, which has started to place upward pressure on transport inflation,” Van der Linde said.

Continuing signs of rising oil demand and geopolitical events in the Middle East have led to Brent crude reaching multimonh highs recently of over \$90 a barrel.

KPMG lead economist Frank Blackmore noted the risk posed by uncertainty over oil prices, saying that apart from tensions in the Middle East, issues with the shipping routes in the Suez Canal and Red Sea had added costs that were reflected in some fossil fuel prices.

Van der Linde said Oxford Economics' forecast was for oil prices to gradually decline in the second half of the year as additional supply reached the market, with prices expected to close the year at about \$79 a barrel.

Source: <https://www.businesslive.co.za/bd/economy/2024-04-25-factory-gate-prices-see-more-upward-pressure-from-food-and-fuel/>

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