Producer inflation dip 'almost rules out rate hike'

Issue is when rates will start dropping

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PRODUCER inflation slowed last month, surprising on the downside as oil prices moved lower.

The producer price index (PPI) slowed to 9,3% last month, from 10% in November, Statistics SA said yesterday.

"I think that an interest rate hike can now be justified only on a longer-term view based on the need to reduce economic imbalances, because the inflation outlook has improved considerably," said Adenaan Hardien, economist at Cadiz African Harvest Asset Management.

Month on month, PPI was up 0,6%. The PPI data, which tend to lead consumer inflation by a few months, bode well for the inflation outlook, say analysts. CPIX (consumer price index excluding mortgage costs) numbers released this week show this inflation measure rose 5% year on year, unchanged from the previous two months.

Argon Asset Management portfolio manager Ntsekhe Moiloa said: "We certainly appear to be at or very near a peak in the tightening cycle.

"Fewer forecasts predict a breach of the inflation ceiling, but the Bank will probably also want be careful of the risks to the financial system of debt defaults arising from a combination of both rising rates and additional debt taken on board as we see from credit extension figures."

A breakdown of the data shows that the local component of PPI rose 7,6% year on year, while that for imported commodities was up 7,7%.

The Reserve Bank's monetary policy committee hiked rates 200 basis points since June last year on the back of strong consumer spending, a widening current account deficit and expectations that CPIX will breach the upper limit of the inflation target range in the second quarter of this year.

Analysts said yesterday the Bank was likely to announce a moderation in the inflation outlook, with CPIX unlikely to rise above 6%.

"I think that by their February meeting their projections may show a peak well below the 6% target and a trend towards the middle of the target range at the end of their forecast horizon," said Hardien.

The most recent inflation data suggested moderation in price rises.

Moiloa said: "The strong price increases at the factory gate appear to be moderating and consumer inflation is steady.

"Whereas investors were feeling assured that next month would bring a rate hike, a number are increasingly unsure of whether there will be one," said Moiloa.

He said monetary policy would probably move sideways this year. The issue was now whether and when rates would starting dropping.

"We do not see rates easing before early next year as the Bank wishes to establish policy stability.

"The Bank will also be interested in seeing whether the trade imbalance – that has seen exports struggle and import demand stay firm – will improve in the absence of monetary stimulation," Moiloa said.

Hardien said economic imbalances would remain a concern.

Recent data and anecdotal evidence had confirmed that domestic demand remained robust, with continued strong growth in interest rate-insensitive household consumption expenditure, strong credit growth and a sticky current account deficit.