

**OMIGSA Comment – Johann Els, OMIGSA Senior Economist**

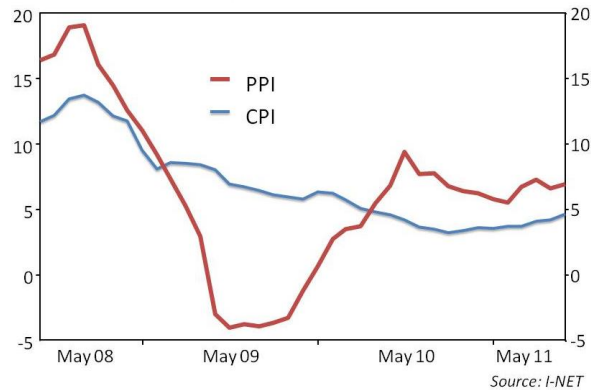
**PPI increases, but at a lower rate than anticipated**



The latest inflation data released by Statistics SA showed a 6.9% y/y increase in the Producer Price Index (PPI) in May, 0.3% higher than the corresponding rate of 6.6% in April, but lower than the 7.1% we had anticipated. Market expectations had ranged between 7.1% and 7.6%.

PPI for imported commodities increased to 8.9%, from 9% in April, reflecting the higher oil price and somewhat weaker rand, while the PPI for exported commodities was at 4.9%, 2.2% below April's rate. The PPI figure was largely influenced by: the annual rate of increase for electricity, which increased from 25.7% in April to 26.1% in May; petroleum and coal products, which rose from 18.6% in April to 20.8% in May; and Agriculture, which increased from 2.1% in April to 6.8% in May.

**Movement of Producer Price Index and Consumer Price Index**  
May 2008 to May 2011



The latter data was bad news, translating into a 2.1% month-on-month jump in food prices, which lifted the PPI food inflation rate from 1.2% in April to 6.2% in May. However, the good news is that there is very little linkage between PPI and consumer price inflation (due to the way PPI is now calculated).

Also, it is important to note that core CPI inflation for May came in at only 3.2%, still relatively subdued. This highlights that current inflation is being driven by the supply side, rather than demand. As a result, we are still expecting the first hike in interest rates to take place only much later this year or early in 2012.

**24 – 30 June 2011 in a nutshell**

**Global:** Global markets soared as Greek austerity measures were approved, boosting investor confidence worldwide. The S&P 500 rose 2.9%, while its European counterpart was up 4.3% and emerging market stocks increased by 3.2%.

**South Africa:** In response to encouraging news out of the Eurozone, the FTSE/JSE All Share Index ended much higher, reflecting a 5.07% increase and ending a four-week downward trend. The biggest winner was resources, which jumped 6.3%.

**Markets and Economics – Highlights**

**Global**

- U.S. manufacturing expanded at a slower pace in June as shortages of parts and components from Japan, tied to the March earthquake and tsunami, prompted factories to limit production. According to the Institute for Supply Management, the country's manufacturing index, which fell from 53.5 in May to 52 in June, is at its lowest level since August 2009. Economists in the U.S. predict a rebound in manufacturing activity and employment during the latter half of 2011. Meanwhile U.S. consumer spending fell 0.1% in May, breaking 10 straight months of gains, as households struggled with rising prices and automakers could not deliver some popular models.
- A key austerity bill, another step towards the next batch of bailout loans, was passed by Greek officials. The bill includes an obligation by Greece to cut spending and raise taxes by €28bn over five years. A second austerity bill, which relates to a €50 billion privatisation plan to pull the country back from default, has also been approved. Prior to the release of the €12bn in bailout funds, the European Union and the International Monetary Fund had demanded that both bills be passed. World markets have soared, in response to the easing of the Greece crisis.
- China's manufacturing PMI data reflected a fall to 50.9 in June from 52.0 in May, the third consecutive month of slowing in the manufacturing sector. The HSBC China Manufacturing PMI, similarly, fell for the second consecutive month to an 11-month low of 50.1 in June from 51.6 in May. Despite the decline, China's shares and government bonds rose due to expectations policymakers would relax monetary tightening in the coming months. In response, the US dollar softened, Australian markets were hard hit and commodities were mostly down.



### South Africa

- According to the South African Revenue Service, South Africa's trade deficit narrowed to R1.0bn in May from a R2.4 billion shortfall, largely underpinned by higher commodity exports. This was in line with economists' expectations. Exports rose by 9% month-on-month in May while imports were up 6%.
- The South African Reserve Bank has reported that credit extension to the private sector (PSCE) was lower than expected, growing at a rate of 5.18% year-on-year (y/y) in May from 6.17% in April. Economists' expectations were between 5.7% and 6.7%. The rate of growth of South Africa's broad M3 money supply measure rose by 6.14% y/y in May from 6.0% y/y in April. Stats SA reported that the total turnover of all SA industries was 2.2% lower, at about R1.35 trillion, in the first quarter of 2011 versus the fourth quarter of last year. The largest decrease in turnover was recorded for trade, construction, manufacturing, electricity, gas, water supply, transport, storage and communication. Increases were recorded for community, social and personal services, followed by real estate and other business services, as well as mining and quarrying.

### Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 30.06.2011	% Performance Return
United States	S & P 500 (US\$)	2.88%	1,321	5.01%
Europe	Euro Stoxx 50 (Euro)	4.32%	2,849	2.01%
Emerging Mkts	MSCI Emerg Mkts (US\$)	3.17%	1,146	-0.43%
South Africa	FTSE/JSE All Share (ZAR)	5.07%	31,865	-0.79%
Global	MSCI (US\$)	3.82%	1,331	3.98%
ZAR/Dollar	Rand/US \$ (ZAR)	-1.02%	6.76	2.27%
ZAR/Pound	Rand/£ (ZAR)	-0.91%	10.83	5.04%
ZAR/Euro	Rand/Euro (ZAR)	0.62%	9.80	10.86%
JSE	Industrials	3.58%	28,045	-7.78%
JSE	Financials	3.42%	21,566	-0.37%
JSE	Resources 20	6.33%	53,933	-4.21%
JSE	Small Companies	1.03%	32,152	-4.65%
JSE	Listed Property	0.53%	382	-1.29%
JSE	RAFI® 40	5.32%	6,647	-0.12%
JSE	RAFI® ALSI	5.32%	6,418	-0.76%
JSE	SWIX	4.46%	6,680	-0.95%

 Contact: [njacobs@omigsa.com](mailto:njacobs@omigsa.com)

OMIGSA: Tel. 021 509 6984

[www.omigsa.com](http://www.omigsa.com)

The information in this document is obtained from OMIGSA, Morningstar, Business Day, Business Report, Fin24, Wall Street Journal, I-Net and Reuters as at 01 July 2011. While every effort has been made to ensure the accuracy of information contained on this document, the Old Mutual, the Old Mutual Investment Group, its associated companies, its Directors or employees provide no representation or warranty, express or implied, regarding the accuracy, completeness or correctness of information contained in this website. Any opinion expressed is intended for general information, and is subject to change at any time without notice. Old Mutual Investment Group (South Africa) (Pty) Limited is a licensed financial services provider, FSP 604, approved by the Registrar of Financial Services Providers ([www.fsb.co.za](http://www.fsb.co.za)) to provide intermediary services and advice in terms of the Financial Advisory and Intermediary Services Act 37 of 2002. Old Mutual Investment Group is a member of Old Mutual South Africa Limited. Reg No 1993/003023/07.