

Nedbank

Economic commentary

30 January 2009

TRADE

Trade deficit widened further in 2008

Latest (December 2008)

Trade balance: -R9,1 billion (-R12,1 billion in November 2008)
(Nedbank forecast: -R4,5 billion)

Exports: 14,0% y-o-y, -9,9% m-o-m (11,7% y-o-y in November 2008)

Imports: 31,4% y-o-y, -12,7% m-o-m (34,6% y-o-y in November 2008)

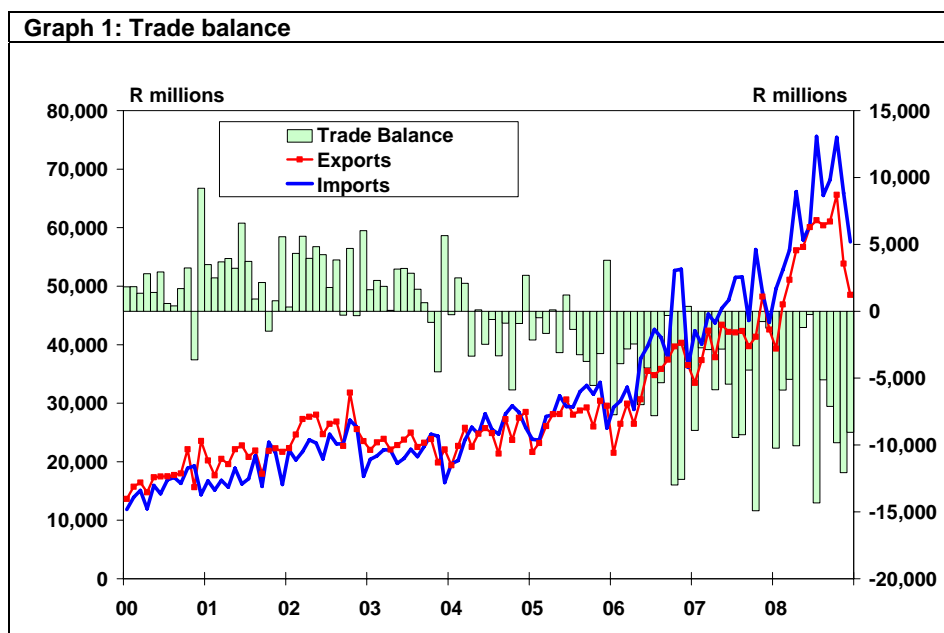
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Graph 1: Trade balance



Comment

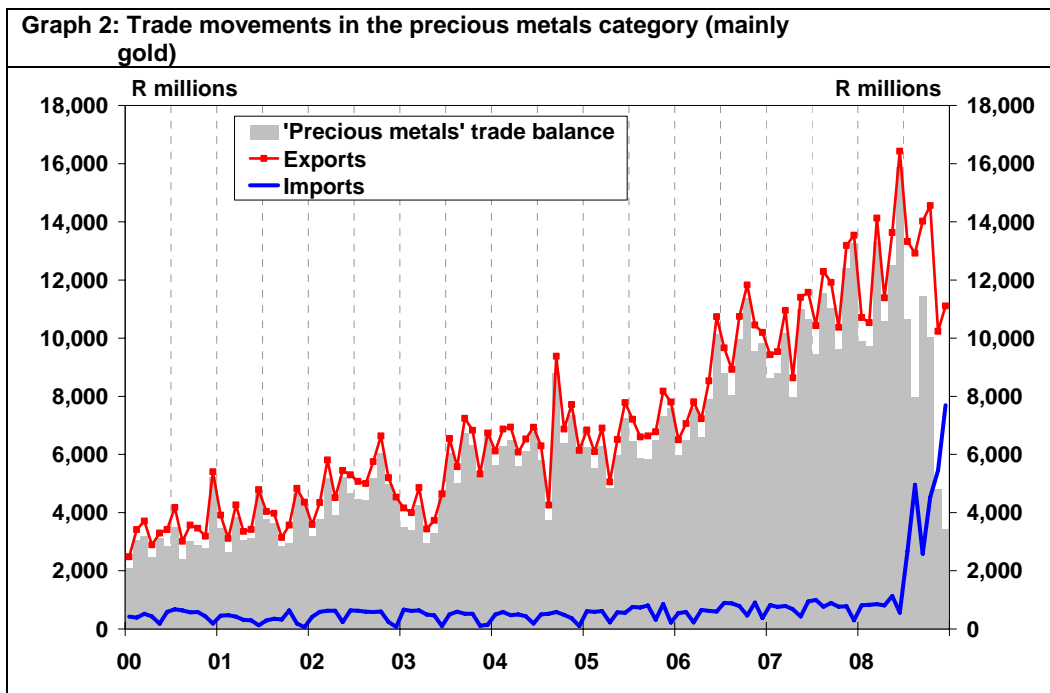
The trade deficit remained large in December despite imports contracting at a faster pace than exports during the month. Exports rose by 35,0% while imports expanded by 33,9% in 2008. The cumulative trade deficit for the year amounted to R88 billion, 25,9% higher than the R69,9 billion recorded in 2007. South Africa has now recorded trade deficits for five years in succession.

The latest figures are, however, heavily distorted by a change in the SA Revenue Services' treatment of South African gold companies' imports of gold. Previously these were neither included in imports nor in exports. However, since July they have been recorded in the overall import figure, but mystically not in the export total. Even more surprisingly, these imports are growing at an exponential rate, implying that soon South Africa will be a net importer of gold. This is clearly extremely unlikely and needs to be addressed. Gold is included in the precious metals category and Graph 2 illustrates the unusual patterns since July. The distortion to the December trade balance is probably over R5 billion, suggesting that the actual trade deficit is closer to R4 billion.

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Exports contracted mainly on the back of further declines in base metals (down 20,7% m-o-m), electrical equipment (down 17,3% m-o-m) and vehicles & other transport equipment (down 32,8% m-o-m) in December.

Sharp declines in electrical equipment, mineral products and vehicles & other transport equipment dragged down imports in December despite a 41% m-o-m rise in imports of precious metals. Vehicles & other transport equipment dropped by R2,75 billion after being pushed up by R1,4 billion worth of aircraft in November.



Outlook

The trade account is likely to narrow in 2009 as weak domestic spending contains import volumes and global recession keeps key import prices – particularly those of oil and food – under control. Two import-intensive areas - consumer spending on durable goods and fixed investment spending are now expected to be relatively subdued in the months ahead. While public sector capital formation will remain strong, the private sector has pared back plans, particularly in the resources sector. Export prices and volumes will also be impacted by the global downturn, but the overall effect on the trade balance should still be positive. We expect the services balance to improve this year as well, resulting in a current account deficit of around 6,4% following 2008's likely outcome of 7,9%.

Implications

The latest figures have severe distortions in them and should not be interpreted as a general deterioration in the underlying trade conditions. Despite this, the market will remain concerned over the large shortfall that needs to be financed in the prevailing unfavourable circumstances. However, the authorities have clearly turned their attentions to the more immediate danger of averting a downturn, and this goal is likely to remain the priority over the next few months.

This week's data releases have boosted the case for a more aggressive interest rate cut at next week's Monetary Policy Committee meeting. Recent releases seem to confirm that the manufacturing, mining and retail sectors are all in recession, while inflationary pressures at both the producer and consumer level are receding fast. Added to this, the global economy's woes have intensified, which will add to deflationary pressures and the possibility of a more protracted slowdown in South Africa. Given the lag between loosening monetary policy and the impact on the real economy, the Reserve Bank will probably opt to act more

aggressively in the early part of the year, cutting rates by 100 basis points in both February and April before reverting to 50 basis-point cuts in later meetings. The prime lending rate is now expected to end 2009 at 11%.

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