

31 August 2010

Economic Commentary

Trade

Trade account remains in surplus, but export growth slows

- The trade surplus narrowed to R2 018,0 million in July from R5 628,8 million in June as imports rose faster than exports.
- Exports improved further, although by a slower 0,8% m-o-m, while imports increased by 8,1% m-o-m. Over the year, exports increased by 26,2% and imports were up by 22,7%.
- The continued rise in exports is encouraging. The sharp fall in the growth rate comes after two very large increases in the preceding months.
- These figures have no implications for monetary policy and we still expect the Reserve Bank to reduce interest rates next week.

Table 1 : Trade performance

	July Rm	June Rm	M-o-m %	Y-o-y %	Nedbank forecast Rm	Market forecast Rm
Trade balance	2 018,0	5 628,8			-1 000	300
Exports	56 010,0	55 561,9	0,8	8,1		
Imports	53 992,1	49 933,1	26,2	22,7		

Source: SARS

Comment

The trade account remained in surplus for the second month in succession despite imports rising at a much faster pace than exports.

Exports were supported mainly by mineral products, which increased by 23,4% m-o-m, while exports of vehicles and equipment (6,4% m-o-m) and electrical equipment (6,4% m-o-m) also rose. Exports to Asia remained strong, increasing by 9,4% during the month. Imports were boosted by mineral products (up by 23,3% m-o-m), chemical products (9,9% m-o-m) as well as vehicles and equipment (8,8% m-o-m).

The cumulative trade deficit for the year to July narrowed to R6 635,8 million from the R18 435,2 million deficit recorded in the same period in 2009

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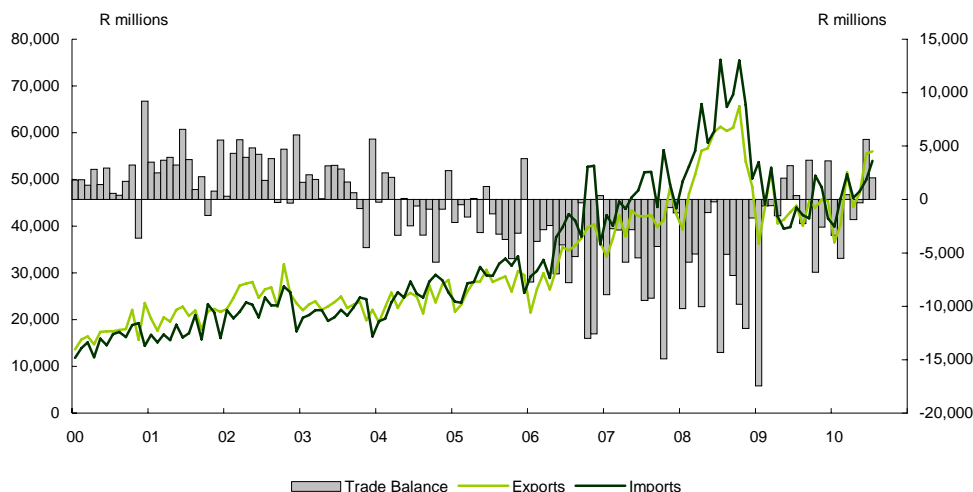
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Important disclosures can be found in the Disclosures Appendix.

Chart 1 : Trade performance

Source: SARS

Outlook

The continued improvement in both exports and imports paints a brighter picture of the outlook for the local economy. However, it remains to be seen whether recent trends, particularly the strong increases in exports will be sustained in the coming months against the backdrop of a more uncertain global economic outlook. The growth in global trade volumes has slowed in recent months, pointing towards a likely slowdown domestically too.

Implications

Recent economic releases have indicated that the local recovery remains fragile and inflation is subdued. Trade data are typically very volatile, but today's release suggests continuing improvement in the local and international economy. However, the recovery remains fragile.

We expect the MPC to reduce the repo rate by 0,5% at its meeting next week.

Regular economic analysis is available on the Nedbank Group's internet site, <http://www.nedbankgroup.co.za>

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