Nedbank
Economic commentary

26 February 2010

TRADE

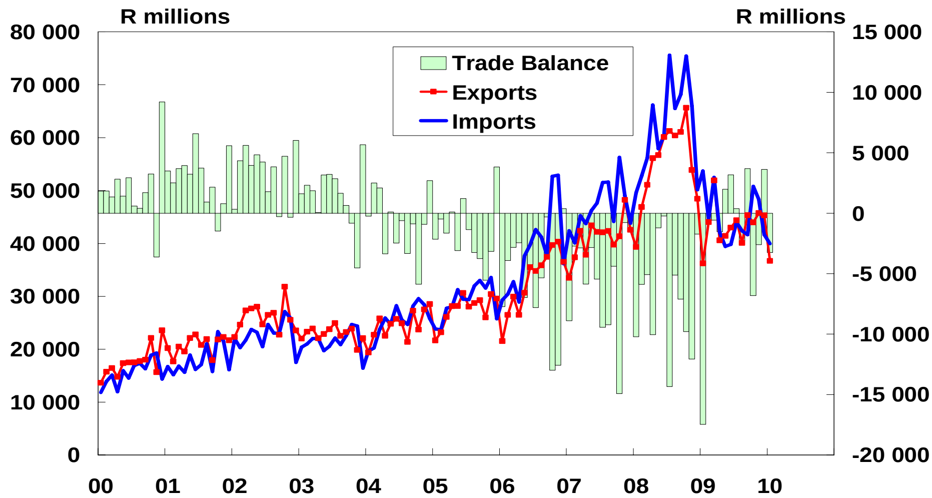
The trade account recorded a deficit in January following a large surplus in December

- Trade figure deteriorated for seasonal reasons in January in line with markets expectations.
- As is usual for January, exports fell sharply while imports rose over the month
- Annual changes show that exports continued to improve while exports remain subdue.
- The current account deficit is expected to widen slightly in 2010 after narrowing significantly in 2009.

Latest (January 2010)

Trade balance: -R3 244,0 million (R3 630,7 million in December 2009)
Exports: 1,3% y-o-y, -19,0% m-o-m (-6,5% y-o-y in December 2009)
Imports: -25,6% y-o-y, -4,2% m-o-m (-16,9% y-o-y in December 2009)

Graph 1: Trade Balance



Comment

After declining at a moderate pace in December, exports fell sharply in January, dropping by 19% over the month. Only three major categories, namely 'stones and glass' (up by 14,7% m-o-m and 43% y-o-y), 'articles of stone, ceramic and cement products' (up by 14,4% m-o-m and 134,3% y-o-y)' and 'miscellaneous' (up by 6,2% m-o-m but down by 0,2% y-o-y) rose during the month. All the other sectors showed declines, with significant drops in the 'textile sector' (down by 43,7% m-o-m and 14,1% y-o-y), footwear (down by 53,5% m-o-m and 26,3% y-o-y) as well as 'leather and skin products' (down by 22,5% m-o-m and 4,9% y-o-y), while 'animal products' fell by 22% m-o-m and 7,8% y-o-y. Exports of vehicles and equipment fell by 40,5% m-o-m and dropped by 7,9% over the year.

Research

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Imports were mainly dragged down by mineral products which fell by 44,4% m-o-m (down by 45,5% y-o-y) as well as vehicles and equipment (down by 21,5% m-o-m and 12,1% y-o-y). However, imports of base metals increased over the month, up by 27,4% (down by 24,7% y-o-y), while that of textile products rose by 22,1% (down by 29,5% y-o-y).

Outlook

The annual increase in total exports is encouraging as it indicates that demand conditions in the global market are improving compared with the same period last year. Exports should continue to improve in the months ahead, but could suffer setbacks if the global economic recovery looses momentum. Domestic demand, particularly for import-intensive durable consumer goods and fixed investment spending, is likely to stay subdued in the months ahead.

The overall effect on the trade balance will be neutral to positive in the first half of the year, while stronger domestic demand should lead to a mild deterioration in the second half of 2010. We anticipate that the current account deficit will expand to around 4,5% of gdp in 2010 after improving to under 4% in 2009.

Implications

The trade numbers have no major implications for interest rates. Recent releases such as retail sales, vehicle sales, industrial production and gdp have been encouraging and suggest that there is a reduced need for further monetary stimulus. Although the MPC may be tempted to cut interest rates once more, we believe that the MPC is more likely to keep rates flat in 2010 before starting to tighten in 2011.

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