

Nedbank

Economic commentary

29 January 2010

TRADE

Trade deficit narrowed significantly in 2009 as imports fell faster than exports

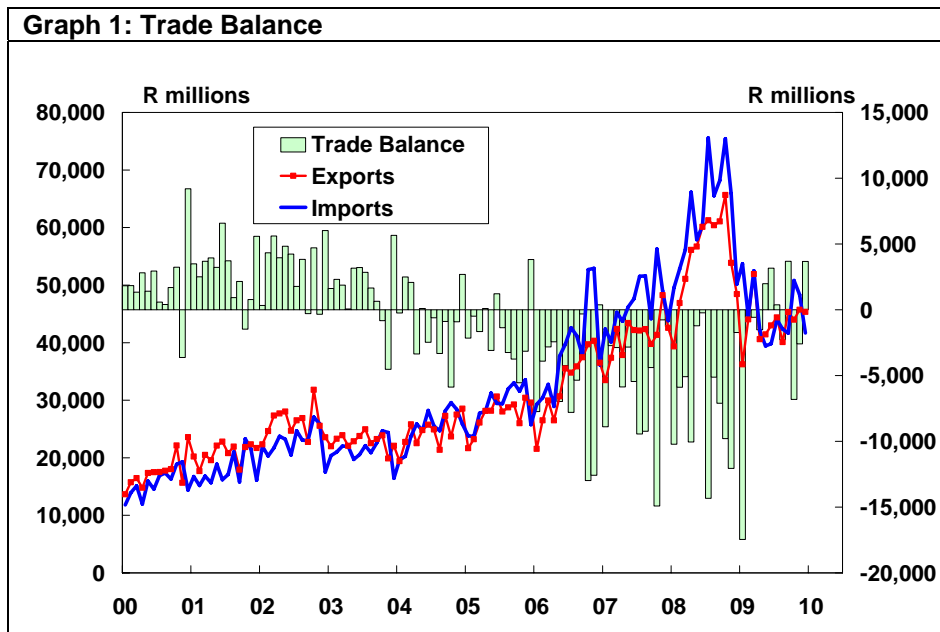
- Imports and exports improved during the second half of 2009, albeit marginally
- The trade deficit narrowed significantly in 2009 as imports fell faster than exports
- World trade volumes have risen gradually in recent months, suggesting an improvement in global trade conditions
- The current account deficit is expected to widen slightly in 2010 after narrowing significantly in 2009

Latest (December 2009)

Trade balance: R3 668,8 million (-R2 595,6 million November 2009)
(Nedbank forecast: -R1 billion)

Exports: -6,4% y-o-y, -0,8% m-o-m (-15,1% y-o-y in November 2009)
4,1% q-o-q (3,9% q-o-q in third quarter 2009)

Imports: -16,9 y-o-y, -13,7% m-o-m (-26,7% y-o-y in November 2009)
10,0% q-o-q (5,5% q-o-q in third quarter 2009)



Comment

The trade deficit narrowed significantly during 2009, dropping to R18 975,4 million from R82 852,0 million. Both exports and imports improved during the second half of 2009, after falling sharply in the first half, rising by average monthly rates of 1,1% and 1,4% respectively. The trend in the first half of the

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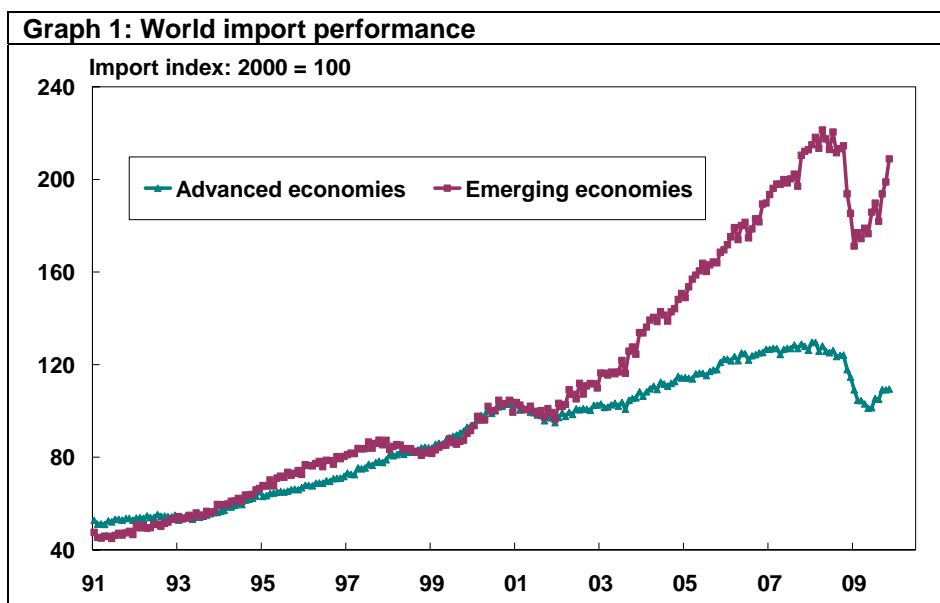
year, when imports fell at a faster pace than exports, ensured that the trade deficit narrowed significantly for the year as a whole.

Improvements in exports of mineral products, precious or semi-precious stones, electrical equipment as well as vehicles and equipment were the main drivers of the rise in exports during the quarter.

Imports were boosted by mineral products as well as vehicles and equipment, while imports of electrical equipment were down during the quarter.

Outlook

Latest data suggest that world trade volumes are improving gradually. The Netherlands Bureau for Economic Policy Analysis's *World Trade Monitor*, which analyses trade activity covering over 95% of world trade indicates that world trade rose by 1,1% m-o-m in November. World trade volumes have risen by 10% since bottoming in May 2009, with imports by emerging economies expanding by 18,3% while imports by industrialised economies rose by 8,3% over the period.



Domestic trade volumes will also expand gradually during 2010. Exports are likely to improve at a faster pace as demand from China and India gathers momentum. The rand's relative strength, however, poses a risk to export recovery against the backdrop of a still weak global economy. Demand for imports from the two import-intensive areas - consumer spending on durable goods and fixed investment spending - is expected to stay 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. Consumer spending is also probably not going to revive soon, as consumers grapple with rising joblessness, falling wealth and the need to reduce debt.

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

These trade numbers have no major implications for interest rates. The economy is gradually recovering and the risks to inflation are perceived to be rising. Consequently, the Reserve Bank's Monetary Policy Committee is not expected to offer any further relief but rather to keep rates flat for an extended period of time. The prime rate is therefore expected to remain unchanged at 10,5% throughout 2010, before moving higher in 2011.

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