

29 October 2010

# Economic Commentary

## Trade

### Exports up strongly despite sharp fall in vehicles and equipment

- The trade account turned to a surplus in September as exports rose strongly, while imports fell.
- The rise in exports is encouraging, but the strong trend is unlikely to be maintained against the backdrop of a faltering global economy.
- Imports, on the other hand, are likely to benefit from improving consumer incomes, low interest rates and a strong rand in the coming months.
- These figures have little implications for monetary policy and we still expect the Reserve Bank to leave interest rates unchanged at its meeting in November before easing in the new year.

**Table 1 : Trade performance**

	September Rm	August Rm	M-o-m %	Y-o-y %	Nedbank forecast Rm	Market forecast Rm
Trade balance	3 617,5	-4 663,6			-2 000	-2 100
Exports	53 160,5	48 523,4	9,6	17,2		
Imports	49 543,0	53 187,0	-6,9	18,9		

Source: SARS

### Comment

A large surplus was recorded in September as exports rose sharply while imports fell during the month. The jump in exports partly reflected a recovery from the sharp drop in the previous month. There was a surplus of R971,8 million during the third quarter.

Exports were boosted by strong increases in mineral products (up by 27,5% m-o-m), precious or semi-precious stones (21,3% m-o-m) as well as base metals (25,3% m-o-m). Exports of vehicles and equipment fell sharply, down by 34,4% m-o-m, reflecting the negative impact of the auto industry during August and September. Production of motor vehicles was down by 39% m-o-m in August, while that of components was down by 7% m-o-m.

Over the quarter, exports increased by 1,1% q-o-q as mineral products (up by 14,3% q-o-q), precious or semi precious stones (9,2% q-o-q), and electrical equipment (11,4% q-o-q) rose, while base metals as well as vehicles and equipment were down by 5,9% q-o-q and 6,2% q-o-q, respectively.

Imports were dragged down mainly by declines in electrical equipment (down 11,2% m-o-m), vehicles and equipment (-34,7% m-o-m) as well as base metals (-10,4% m-o-m). Imports of mineral products increased by 17,8% m-o-m.

Over the quarter, imports increased by 1,0% q-o-q as imports of mineral products (up by 8,3% q-o-q), chemical products (8,4% q-o-q) and electrical equipment (3,2% q-o-q) rose, while those of vehicles and equipment fell by 1,4% q-o-q.

#### Group Economic Unit

##### Isaac Matshego

+27 11 295 6451  
IsaacMat@nedbank.co.za

##### Dennis Dykes

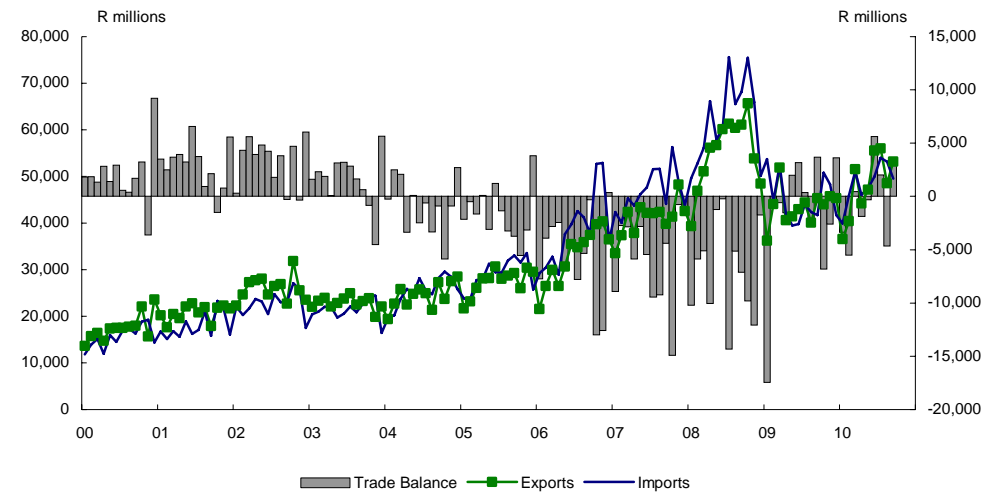
+27 11 295 6435  
DennisD@nedbank.co.za

Corporate Place, 135 Rivonia Road,  
Sandown, 2196, South Africa

<http://nedbankgroup.co.za>

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**Chart 1 : Trade performance**



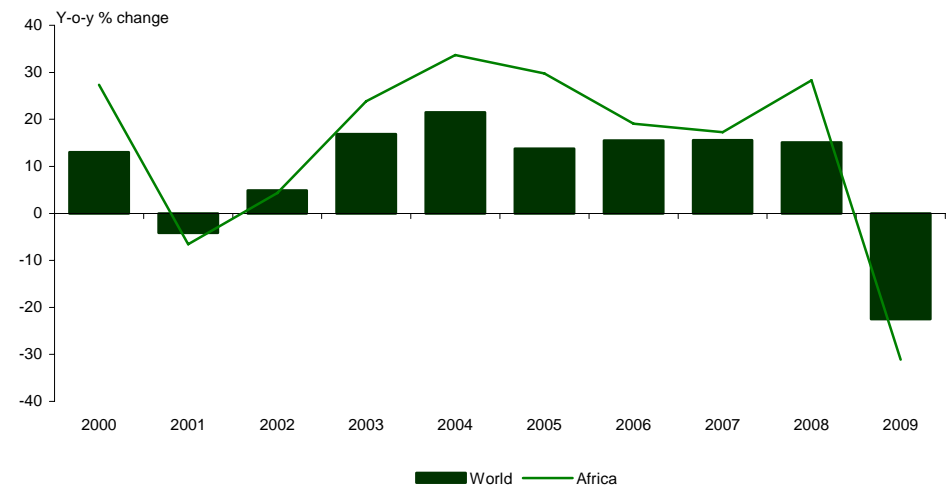
Source: SARS

**Outlook**

The uncertain global economic recovery, coupled with the strong rand, suggests that exports are likely to be weak in the coming months. On the import side, improving household incomes, subdued global inflation, low interest rates and the strong rand point towards an improvement in the coming months, particularly ahead of the Christmas shopping period.

Globally, trade conditions have improved further, although the rate of growth of merchandise trade remains low. According to the Netherlands Bureau for Economic Policy Analysis's *World Trade Monitor*, which covers 95% of global trade, world trade volumes rose by 1,5% m-o-m and 19,7% y-o-y in August. The World Trade Organisation expects the volume of global trade to rise by 13,5% during 2010 following a 12,2% drop in 2009. Developing economies will be the key driver of this recovery, with Africa's exports benefitting from strong demand for commodities after contracting by 31,1% in 2009.

**Chart 2 : Value of merchandise exports in US\$**



Source: World Trade Organisation

## Implications

These figures have little implications for monetary policy. Recent releases have pointed towards a weak economic recovery, while inflation has eased further. This, against the backdrop of a strong rand, has increased chances of another interest rate cut in this cycle. However, the Reserve Bank has historically been reluctant to cut rates at consecutive meetings towards the end of the cycle, opting rather to adopt a wait-and-see approach before deciding whether further easing is required. As a result, we expect the Reserve Bank's Monetary Policy Committee to pause in November, with a possible 50 basis point cut in the first quarter of next year.

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

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