

30 September 2010

Economic Commentary

Trade

A large trade deficit as exports fall faster than imports

- Both exports and imports fell during August, with the stronger decline in exports pushing the trade account to a R4 663,6 million deficit from large surpluses in the previous two months.
- Exports declined by 13,4% during the month, while imports fell by only 1,5%.
- The weakness in exports suggests that the faltering global recovery is having an impact on the domestic economy.
- On the import side, volumes of consumer goods seem to be gaining momentum on the back of the strong rand and improving household incomes.
- These figures have little implication for monetary policy and we still expect the Reserve Bank to keep interest rates unchanged for the remainder of this year. However, given the favourable inflation outlook, rand strength and the uncertain recovery the risks remain to the downside.

Table 1 : Trade performance

	August Rm	July Rm	M-o-m %	Y-o-y %	Nedbank forecast Rm	Market forecast Rm
Trade balance	-4 663,6	2 018,0			-1 000	-1 000
Exports	48 523,4	56 010,0	-13,4	21,1		
Imports	53 187,0	53 992,1	-1,5	25,6		

Source: SARS

Comment

The trade account turned to a deficit in August following two large monthly surpluses, as exports fell sharply while imports were down only marginally. The deficit of R4 663,6 million followed surpluses of R2 018,0 million and R5 628,8 million in July and June respectively. The significant fall in exports suggests that the faltering global economy is having some impact on the domestic economy.

Exports were dragged down by mineral products (down by 27,0% m-o-m), precious or semi-precious stones (-12,1% m-o-m), base metals (-14,1% m-o-m) as well as vehicles and equipment (-14,6% m-o-m). The decline in base metals, which include mineral exports, is discouraging taking into account strong metal prices in recent months. However, the figures are volatile and came off a relatively high base in June.

Imports fell only slightly as imported values of electrical equipment (up by 10,4% m-o-m) and vehicles and equipment (up by 16,4% m-o-m) rose, while mineral products were down by 26,9% m-o-m.

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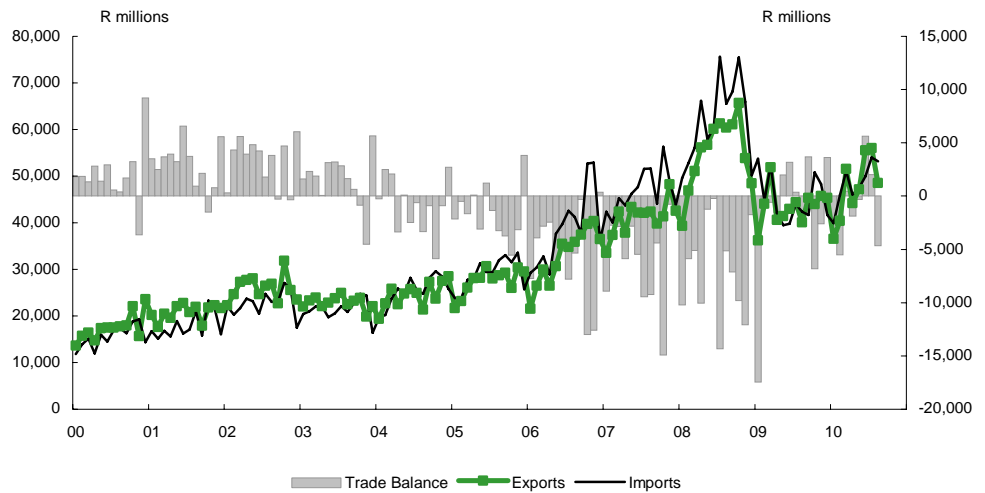
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Chart 1 : Trade performance



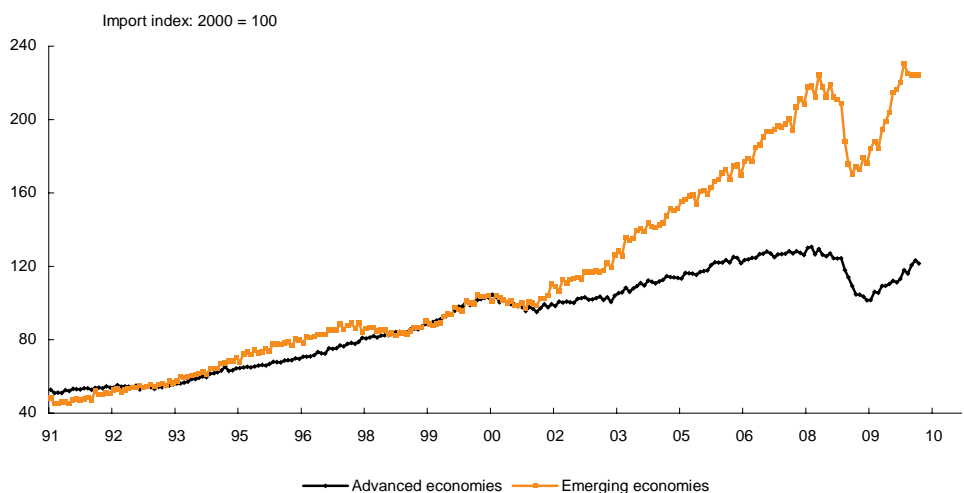
Source: SARS

Outlook

The loss of momentum in the global economic recovery remains a concern for export growth. In addition, exports are likely to be limited by the impact of the strong rand, which has gained 5% against the trade-weighted basket and 6% against the US\$ year to date. Strong precious metal prices will benefit exports but to a limited degree as mining production has faltered in recent months. Imports are likely to benefit from subdued global inflation, low domestic interest rates and the strong rand.

Although prospects for the global economy are less certain, trade volumes have continued to improve. The Netherland’s Bureau for Economic Policy Analysis’s *World Trade Monitor*, which covers 95% of global trade, indicates that trade volumes have improved further in recent months. Volumes were up by 6,2% in the year to July, boosted mainly by strong import growth from emerging economies. Emerging economies’ imports have risen by 8,4% since the beginning of the year, almost double the 4,5% increase recorded by developed economies.

Chart 2 : World import performance



Source: Netherlands Bureau for Economic Policy Analysis

The World Trade Organisation has revised its global trade forecast for 2010 upwards mainly on the back of the faster than expected recovery in global trade flows so far this year. The volume of global trade is now projected to increase by 13,5% for the year as a whole (previously 10%) after it declined by 12,2% in 2009, with volumes boosted mainly by strong growth in developing economies. This would be the fastest growth rate in global trade since the 1950s, but this is largely because of the very low base established in 2009.

Implications

The trade figures have little implication for monetary policy and we still expect the Reserve Bank to keep interest rates unchanged for the remainder of this year. However, the favourable inflation outlook, rand strength and the uncertain recovery could prompt one more cut in early 2011.

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