

Nedbank

Economic commentary

30 April 2009

TRADE

The trade deficit remains low as global conditions worsen

Latest (March 2009)

Trade balance: -R511,9 million (-R594,9 million in February 2009)
(Nedbank forecast: -R5,0 billion)

Exports: 1,7% y-o-y, 18,0% m-o-m (-6,0% y-o-y in February 2009)
-3,5% q-o-q (2,4% q-o-q in fourth quarter 2008)

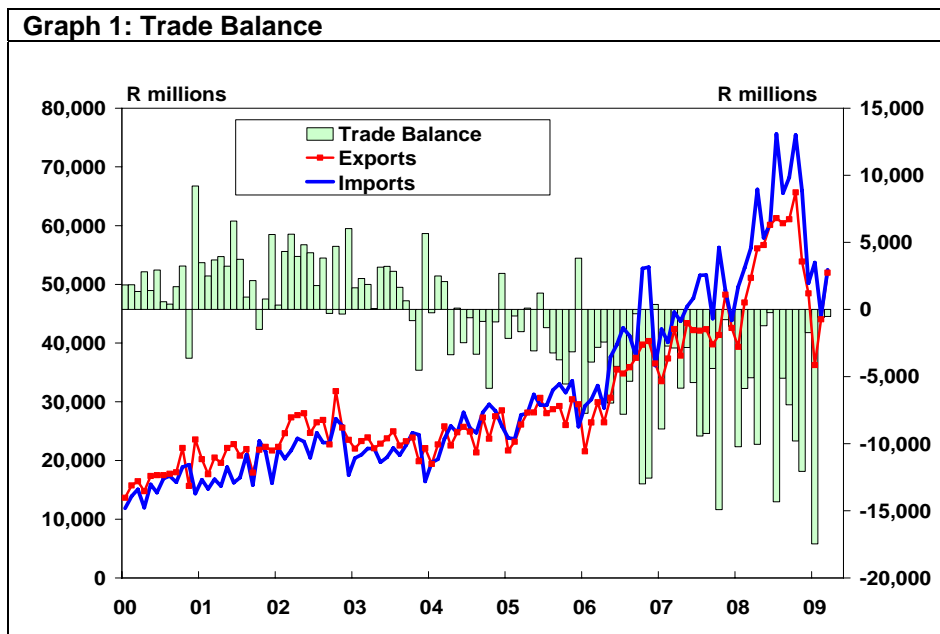
Imports: -6,6% y-o-y, 17,6% m-o-m (8,2% y-o-y in February 2009)
-21,3% q-o-q (-8,5% q-o-q in fourth quarter 2008)

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Comment

The trade deficit remained below the R1 billion level for the second month in succession, with low exports and imports evidence of the sharp slowdown in South Africa's trade with the rest of the world. This is in line with the global trend, with the International Monetary Fund forecasting a 9,5% contraction in global trade in 2009.

Export volumes picked up for the second consecutive month following their slump between November and January, but remained down on a quarterly basis. Mineral products increased by 9,7% m-o-m in March but were down by 15,4% in the first quarter, precious or semi-precious stones rose by 29,9% m-o-m but dropped by 16,2% q-o-q, while base metals increased by 21,3% m-o-m but declined by 25,4% q-o-q. Exports of vehicles and equipment plunged by 46,5% in the first quarter and were down by 11,9% compared with the first quarter of 2008.

Imports rose in March after dropping by almost the same margin in February, but continued to reflect the generally weak demand conditions. Imports shrunk by 21,3% q-o-q and were down by 4,9% compared with the first quarter of 2008. Imports of electrical equipment rose by 19,3% m-o-m in March after plunging by 24,2% m-o-m in February and were down by 18% q-o-q, while mineral products rose by 11,1% m-o-m (-17% in February) and were down 18,6% q-o-q. Vehicles and equipment dropped by 24,2% q-o-q and were down 23,6% compared with the first quarter of 2008.

Outlook

The trade environment is likely to remain weak as long as the global economy remains depressed. The sudden and sharp global economic slowdown has had a negative impact on trade, with trade volumes plunging across the globe.

Developments in the global economy will remain crucial to the direction of the local economy. A deeper global recession would suggest that exports will contract further in the remainder of this year. However, we still expect weak domestic spending to contain import volumes, while the global recession should keep key import prices – particularly those of oil, food and capital goods – under control.

Two import-intensive areas - consumer spending on durable goods and fixed investment spending - are now expected to be relatively 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. The overall effect on the trade balance should still be positive. We still expect the services balance to improve this year as well, resulting in a current account deficit of around 6,0% following 2008's 7,4%.

Implications

The trade data, coupled with other recent domestic economic releases, continues to point towards a bleak economic climate, both globally and locally.

The Reserve Bank reduced interest rates by 1% today and we forecast more cuts in the coming months, with the prime rate falling to around 10% by September. The MPC will continue to look beyond the next few months of inflation figures and to focus on the medium-term inflation outlook as well as the rapidly deteriorating prognosis for the domestic economy. The MPC is therefore likely to continue easing in the short term to try and offset some of the effects of the global recession on the domestic economy.

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