

# Nedbank

## Economic commentary

27 February 2009

### TRADE

#### *A record trade deficit as exports fall sharply in January*

##### Latest (January 2009)

Trade balance: -R17,4 billion (-R1,7 billion in December 2008)  
(Nedbank forecast: -R6,5 billion)

Exports: -7,9% y-o-y, -25,2% m-o-m (13,8% y-o-y in December 2008)

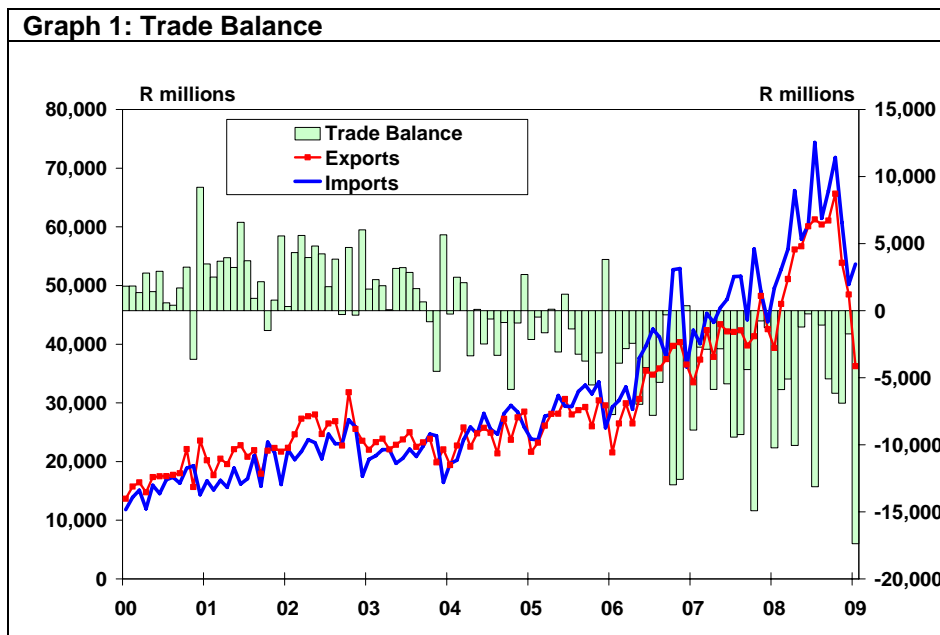
Imports: 8,2% y-o-y, 6,9% m-o-m (14,5% y-o-y in December 2008)

### Research

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### Comment

A further plunge in exports coupled with a marginal pick up in imports pushed the monthly trade deficit to its highest level on record in January. In addition to seasonal factors, when the trade deficit increases notably in the first month of the year, weak global demand conditions contributed to the historically high figure. January's trade deficit has increased by an average of 15% y-o-y in the previous two years.

The sharp fall in exports reflected mainly the sharp drop in vehicles (-52,9% m-o-m), minerals (-24% m-o-m), precious metals (-31,6% m-o-m), base metals (-13,9% m-o-m) as well as electrical equipment (-35,5% m-o-m).

Imports, on the other hand, were supported by mineral products (17,8% m-o-m), textiles (48,9% m-o-m), footwear (54,4% m-o-m) and base metals (18,9% m-o-m).

## **Outlook**

The sharp fall in exports is worrying and could be pointing towards the increasingly negative impact of weak global demand conditions on the domestic 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 6,4% following 2008's likely outcome of 7,9%.

## **Implications**

Today's trade data, coupled with slower credit growth and the poor gdp figures released this week reflect a picture of an economy that is suffering both from a cyclical slowdown as well the negative effects of a global recession. We now expect gdp growth to be only 0,2% in 2009. Inflation is also projected to fall below 6% towards the middle of this year and stay there, due to a combination of lower oil prices as well as weak domestic demand and deflationary pressures from abroad. As a result, there is a strong case to be made for cutting rates aggressively in the short term.

However, the Reserve Bank will probably wait to assess early first quarter data before calling any extraordinary meeting of the MPC. In this regard manufacturing and retail sales data towards the middle of next month could prove important. Over the course of the remainder of the year we expect a 350 to 400 basis point decline in rates.

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