

# Nedbank

## Economic commentary

30 June 2009

### TRADE

#### *A rare trade surplus as imports continue to implode*

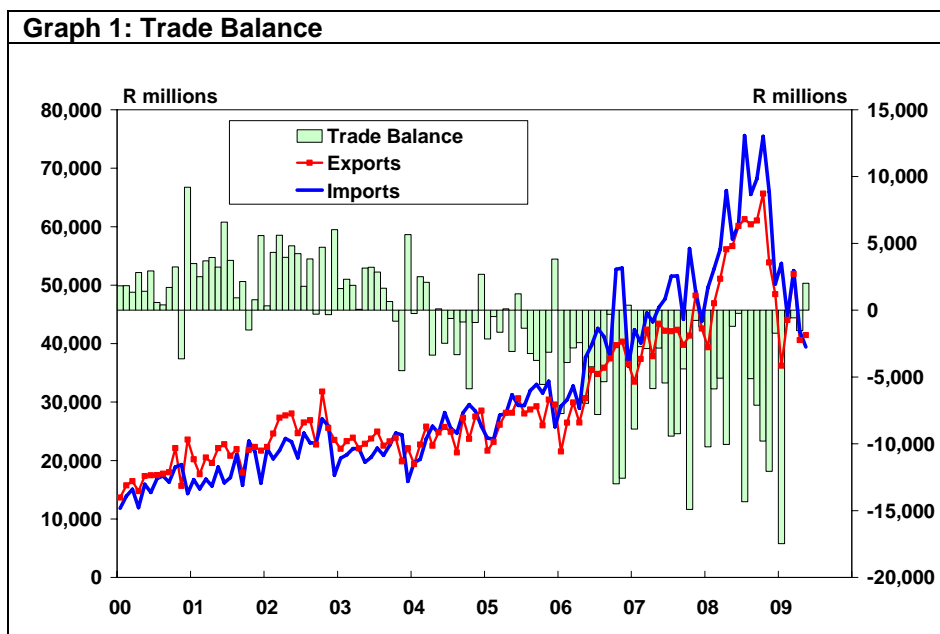
##### Latest (May 2009)

Trade balance: R2,02 billion (-R1,46 billion in April 2009)

(Nedbank forecast: -R1,0 billion)

Exports: -26,9% y-o-y, 2,2% m-o-m (-27,6% y-o-y in April 2009)

Imports: -31,9% y-o-y, -6,4% m-o-m (-36,4% y-o-y in April 2009)



##### Comment

SA has recorded its first trade surplus since January 2007 as imports continued to fall at a faster pace than exports on the back of the implosion in demand for a wide range of goods.

Exports increased during the month despite key export categories falling during the month. Precious or semi precious stones were down by 0,9% m-o-m and 25,5% y-o-y, mineral products contracted by 8,3% m-o-m and 6,6% y-o-y, while base metals fell by 10,4% m-o-m and 59,7% y-o-y. Exports of vehicles and parts rebounded in May, increasing by 32,7% m-o-m (down 13,7% y-o-y), while exports of vegetable products rose by 41,6% m-o-m (2,1% y-o-y) on the back of seasonal factors.

Imports declined further as imports of electrical equipment and chemical products, which together account for half of total imports, continued to fall. Electrical equipment declined by 10,6% m-o-m and by 27,1% y-o-y, while mineral products rose by 24,3% m-o-m but were down by 28,2% y-o-y.

### Research

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## **Outlook**

This trade surplus is encouraging, but with the trade environment likely to remain weak as long as the global economy remains depressed, the surplus is not likely to prove sustainable. 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. Tentative signs of a slowdown in the rate of decline in the major industrialised economies suggest that export should improve only towards the end of this year. However, we still expect weak domestic spending to contain import volumes, while the global recession should limit increases in key import prices.

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% from 7,4% in 2008 despite the deficit widening to 7,6% in the first quarter of this year.

## **Implications**

The trade data, coupled with other recent domestic economic releases, continue to point towards a bleak economic climate, both globally and locally. Today's anaemic credit figures showed the extent of the financial strain facing households and corporates.

The Reserve Bank's Monetary Policy Committee will meet again in August after leaving the repo rate unchanged at 7,5% last week. Further cuts will require evidence of some easing in inflation and inflation expectations as well as signs of deterioration in global and domestic prospects. We expect a relapse in economic activity in the third quarter and therefore some easing can be expected later in the year, probably in September and October (50 basis points each) or possibly in the form of one last 100 basis point cut in October. We still expect prime to end the year at 10%.

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