

# Nedbank

## Economic commentary

30 November 2009

### TRADE

#### *A huge trade deficit as imports rise sharply*

- The trade deficit reaches its highest level since January 2009
- Imports rise in line with recovering manufacturing activity
- Vehicle exports rose strongly off a low base in the past two months
- We still expect the current account deficit to narrow in 2009 as a whole

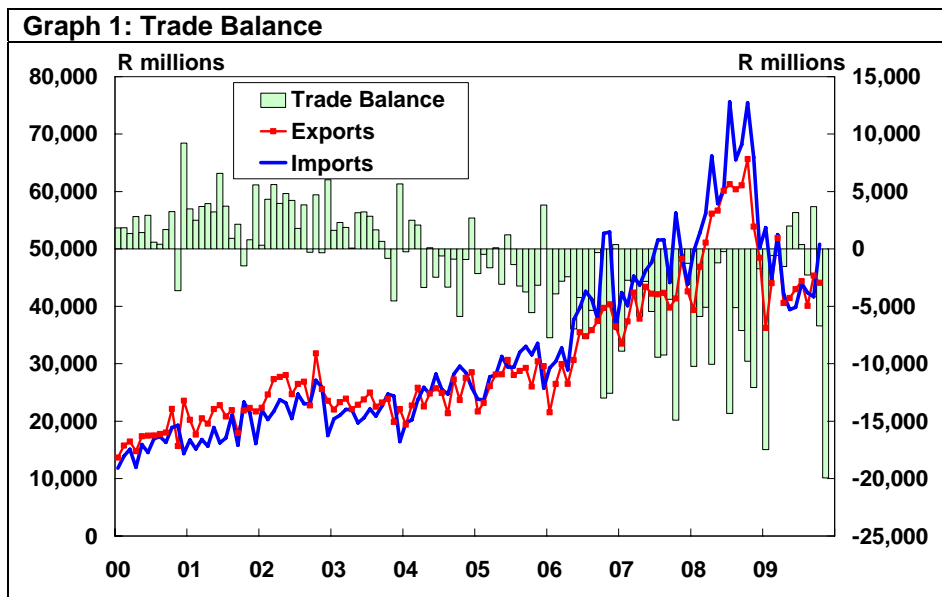
#### Latest (October 2009)

Trade balance: -R6 708,7 million (R3 679,7 million in September 2009)

(Nedbank forecast: R0,2 billion)

Exports: -32,8% y-o-y, -2,8% m-o-m (-25,7% y-o-y in September 2009)

Imports: -32,7% y-o-y, 21,9% m-o-m (-38,9% y-o-y in September 2009)



#### Comment

A strong rise in imports during October dragged the trade account to its largest deficit since January's R17,466 billion, with the cumulative deficit for the year widening to R19,942 billion.

Imports of mineral products (up 46,4% m-o-m), electrical equipment (up 18,3% m-o-m), chemical products (up 11,8% m-o-m), vehicles & equipment (up 20,1% m-o-m) as well as plastics & rubber (up 15,2% m-o-m) rose strongly during the month. This is consistent with the rebound in domestic manufacturing activity observed in the past few months.

Exports were dragged down by decreases in precious or semi-precious stones (down 20,5% m-o-m) and base metals (down 6,2% m-o-m). Exports of vehicles & equipment rose by 28,3% m-o-m after rising by 26,5% in September.

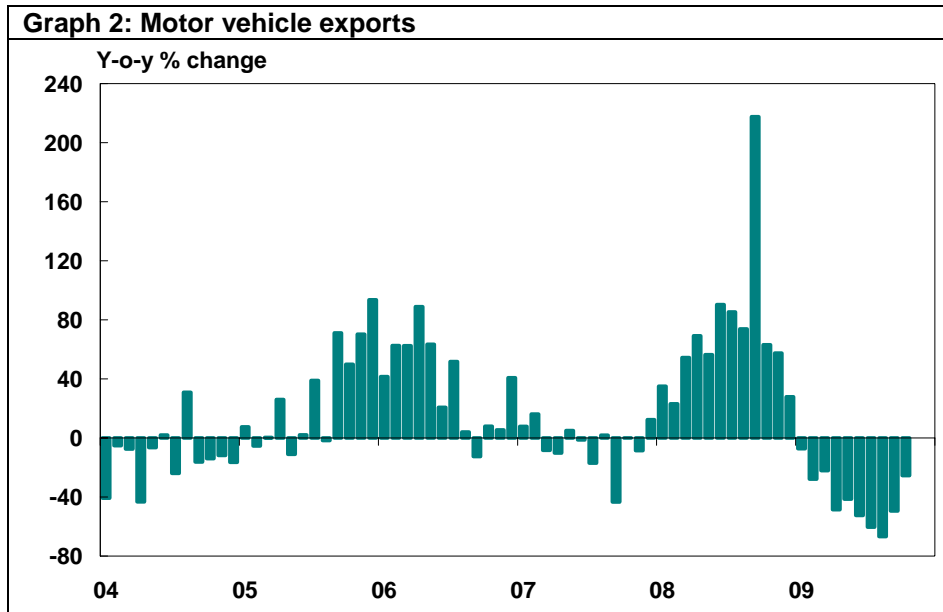
### Research

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Vehicle exports, however, still remain weak compared to a year ago. According to the National Association of Automobile Manufacturers of South Africa (NAAMSA), vehicle exports surged by 54,8% m-o-m and 49,9% m-o-m in September and October respectively, but were down by 25,4% y-o-y in October, contracting for the 10th consecutive month on an annual basis.



### Outlook

Data from The Netherlands Bureau for Economic Policy Analysis's *World Trade Monitor* indicate that world trade volumes rebounded by a strong 5,3% in September, pushing world trade up by 4,3% in the third quarter of 2009, the first quarterly rise since the first quarter of 2008. World trade volumes, however, remain 14% below their April 2008 peak, suggesting that world trade activity is still depressed.

We do not expect exports to rebound strongly in the foreseeable future, with the rand's relative strength posing a risk to export recovery against the backdrop of a still weak global economy.

Demand for imports from the two import-intensive areas - consumer spending on durable goods and fixed investment spending - is expected to stay 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. Consumer spending is also probably not going to revive soon, as consumers grapple with rising joblessness, falling wealth and the need to reduce debt. The overall effect on the trade balance should be positive. We still expect the current account deficit to improve to somewhere between 4,5% and 5% of gdp in 2009 as the underlying trend in exports remains comparatively better than imports.

### Implications

These trade figures confirm earlier indications that the economy is gradually recovering. We therefore do not expect Reserve Bank's Monetary Policy Committee to offer any further relief but rather to keep rates flat for an extended period of time.

The prime rate is therefore expected to remain unchanged at 10,5% throughout 2010, before moving higher in 2011.

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