

Economic Commentary

Trade

Large trade surplus as imports dip and exports rise strongly in November

- The trade account unexpectedly moved back into surplus in November. The R8,4 billion surplus followed a R3,2 billion deficit in October. Analysts had expected a R2 billion deficit. However, the trade data are notoriously volatile and this set was distorted by delayed reporting of iron ore exports.
- Exports rose by a strong 20,8% over the month, helped by large swings in mineral products, precious and semi-precious stones and base metals.
- In contrast, imports fell by 2,1% after rising strongly in the previous month. The main contributors to the decline were chemical products, electrical equipment and motor vehicle components.
- In the year-to-date exports have risen 14,1% and imports 8,4%. The cumulative deficit in 2010 so far is R5,0 billion compared with R29,5 billion in 2009.
- Over the coming year exports will be helped by good demand for commodity and commodity-related products, but hurt by manufactured goods because of the strong rand and poor prospects in many traditional trading destinations.
- Imports will rise in line with firmer consumer demand, but capital goods imports are likely to remain modest. A slight deterioration in the trade deficit is likely.
- These figures have little implications for monetary policy and we still expect interest rates to remain unchanged until the middle of 2012.

Table 1 : Trade performance

	November Rm	October Rm	M-o-m %	Y-o-y %	Nedbank forecast Rm	Market forecast Rm
Trade balance	8 400,5	-3 209,6			-1 500	-2 000
Exports	60 184,3	49 824,6	20,8	31,6		
Imports	51 783,8	53 034,2	-2,4	7,1		

Source: SARS

Comment

The trade account swung back into surplus in November after disappointing in October. A massive turnaround in exports (up 20,8% mom) was largely responsible, although a 2,4% contraction in imports also contributed. The South African Revenue Service reported that iron ore transactions of R3,2 billion, which occurred in October but were only reported in November, distorted the figures. This would have reduced October's deficit to R0,02 billion and reduced November's surplus to R5,2 billion.

The main contributors to the rise in exports were mineral products (up 61,5% and contributing 10,9 percentage points of the 20,8% increase in total exports), precious and semi-precious stones (16,4% mom and 4,5 percentage points) and base metals (15,3% mom and 2,4 percentage points).

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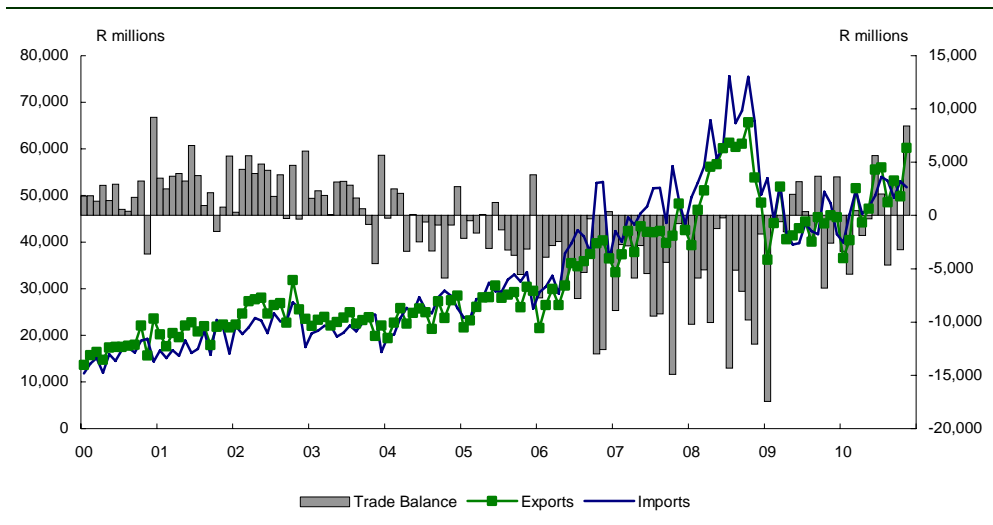
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Important disclosures can be found in the Disclosures Appendix.

Imports were contained by decreases in chemical products (down 7% and contributing -0,7 percentage points of the overall 2,4% decrease), electrical equipment (down 3,9% and -1 percentage point) and motor vehicle components (down 10,5% and -0,7 percentage points).

Chart 1 : Trade performance



Source: SARS

Outlook

Over the coming year exports will be helped by good demand for commodity and commodity-related products, but hurt by manufactured goods because of the strong rand and poor prospects in many traditional trading destinations. Imports will rise in line with firmer consumer demand, but capital goods imports are likely to remain modest. A slight deterioration in the trade deficit is likely.

Implications

Better trade figures could help the rand and therefore put downward pressure on interest rates. However, these figures are very volatile and probably have little immediate implication for monetary policy. Recent releases have pointed towards some improvement on the expenditure side of the economy but little improvement in manufacturing activity. The inflation outlook is relatively benign but there will be some deterioration in the coming months. On balance, the Reserve Bank's Monetary Policy Committee (MPC) will probably keep interest rates unchanged until the middle of 2012 unless further rand strength and/or a faltering economy prompt some further easing.

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