Publication: Finweek (English)
Date: Friday, August 20, 2021
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ECONOMY

SA's trade surpluses hide an inconvenient truth

Analysing the reasons for the surplus show that the economy remains in a precarious position and is very vulnerable to the commodity cycle.

In June, the country again recorded a trade surplus of R57.7bn, larger than the anticipated R54bn. In fact, we've been recording trade surpluses for 14 consecutive months, and for 21 out of the past 24 months. This year alone, the country recorded a trade surplus of R54bn in May, R51bn in April and R52bn in March. The cumulative trade surplus for the year-to-date is R255bn.

There are two material factors that have contributed to these extraordinary numbers. Firstly, exports have risen more than 50% year-to-date. There are base effects in play given the fall-off in global trade in 2020 as Covid-19 hit the world. Both global manufacturing and global trade – in other words, the volume of goods being traded – are currently at all-time highs. China has had its recovery led by this and it impacted demand for resources. This resulted in buoyant industrial commodity prices and growing demand as global supply chains kick back into gear as inventories are replenished and infrastructure-led recovery programmes are rolled out.

SA's precious metals trade surplus for the year-to-date is currently R240bn. The impact resources are having is apparent if one considers that the cumulative trade surplus is R255bn for the same period. Interestingly, SA is seeing the benefit of buoyant commodity prices as opposed to volume increases. The country's supply side capacity constraints, including railways and ports, have likely impeded the volume of exports. This means the commodities windfall could have been significantly higher without these constraints.

The second factor contributing to the trade surplus figures is the anaemic state of import activity. One of the reasons for this is a historical lack of beneficiation development, which means SA exports commodities in the same form as it is extracted. Had the country developed the ability to convert commodities into something higher up the value chain, it is likely that the country would be importing more products to support the beneficiation process, which would mean the large surplus would be off a higher import base.

Notwithstanding a low base in 2020 because of the pandemic, there has only been a 20% increase in imports year-to-date. This means imports have significantly lagged improvements in exports and remains lower than pre-pandemic levels. This is indicative of a weak local economy and is concerning, but perhaps not surprising considering the sub-par levels of economic growth and confidence that we have experienced for many years.

Many companies have run down their inventories to manage costs – a trend which first became apparent in 2019 and was exacerbated by the lockdowns – and have not had the confidence, or ability, to replenish them. Those that suffered losses because of looting may now have to replace what was written off. The fact that SA businesses are not importing is indicative of a lack in confidence. The economy would be investing in itself at much higher levels if it was growing.

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This infers two risks: firstly, that if we continue to see a lack of rebound in imports, it is likely that economic growth will taper after the first Covid-19 rebound seen earlier this year; and secondly, if confidence comes back and imports increase, it will put significant pressure on the currency as the trade surplus narrows.

Commodity prices have driven tax collections which, in the short term, has been beneficial as it has allowed government to reduce bond issuance and provided some short-term relief to the country's debt challenges. Of concern, however, is that it appears that the bulk of the excess revenue – estimated at around R60bn – will be spent on several unbudgeted items including public sector wages (R18bn); social grants (R27bn); and unrest-related expenditure such as Sasria and business relief measures.

The concern is that these unexpected expenditure items become recurring expenses, particularly considering the challenge of rolling back social grants and the expectations of public sector employees. Early signals suggest that there is a permanent shift towards a more welfare-driven state. This means the budget will come under significant pressure if the commodity cycle doesn't continue to support revenue collections at this level.

A concerning trend also appears to be taking place in the private sector with all indications being that mining companies, for example, are distributing profits in the form of dividends rather than focusing their windfall on increasing supply-side capacity.

There is no question that the trade surplus has protected the rand and helped contain inflation and consequently allowed the Reserve Bank to maintain low interest rates. Despite this protection, the local currency has come under pressure recently, having weakened by around 8% from R13.50 to the US dollar about a month ago to its current levels around R14.40. How it would have performed without this unprecedented surplus is anybody's guess. Should these surpluses moderate, either because the commodity cycle cools or if imports pick up, the rand will come under pressure.

While the trade surplus situation has been a welcome tailwind during a very difficult time for the economy, the reality is that the economy remains vulnerable to the commodity cycle. The key issue is whether SA can convert some of the positive momentum we currently have into high-trend economic growth. ■

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