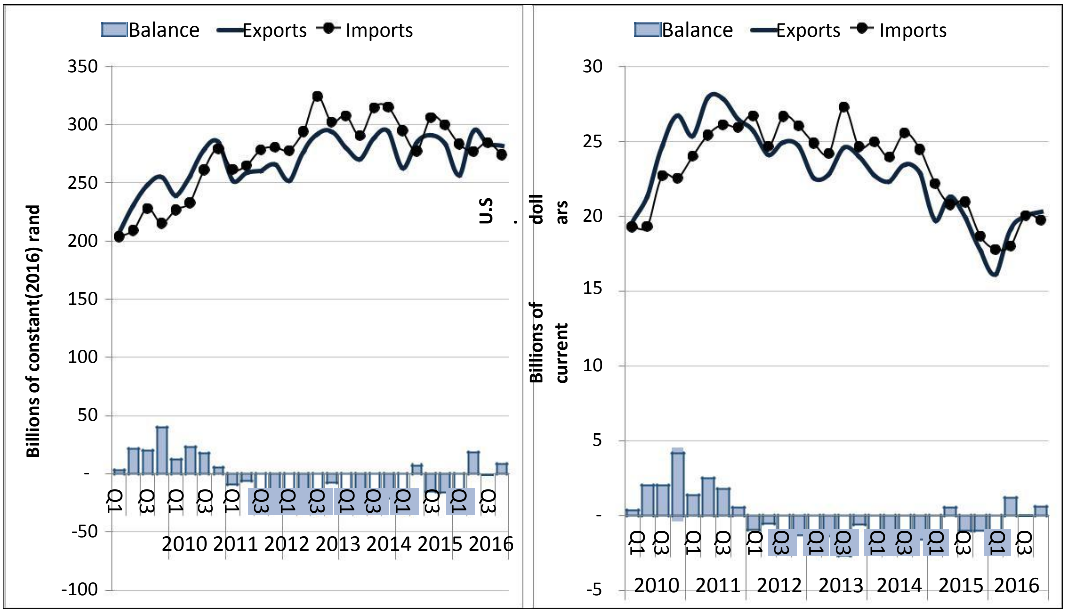
Trade

The strengthening of the rand over 2016 reduced export revenues and made imports more competitive with local producers. As a result, despite growing manufactured exports in dollar terms, in rand revenues from exports dropped. Still, overall South Africa ended the year with a surplus on the balance of payments, after running trade deficits from the end of the commodity boom through 2012.

As Graph 12 shows, the trade surplus picked up in the final quarter of the year. The appreciation of the rand meant that the trends diverged in dollar and constant rand terms. Both imports and exports increased in dollars, although more slowly than at the start of the year; in constant rand, imports dropped while exports flattened out.

Graph 12. Exports, imports and the balance of trade in constant (2016) rand (a) and current US dollars

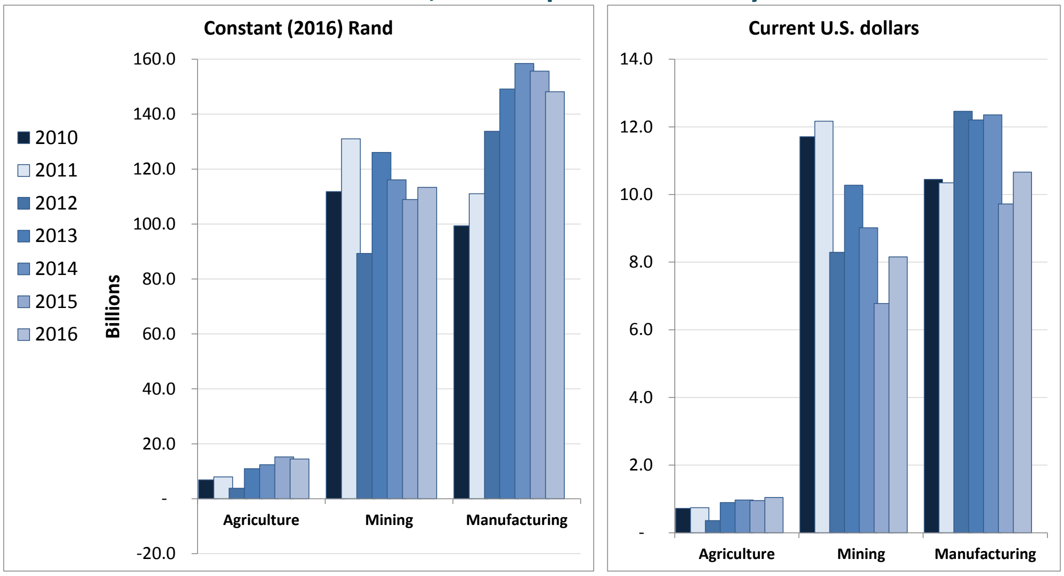


Note: (a) deflated with CPI rebased to June 2016. Source: Calculated from SARS. "Trade Balance Graph for 2010-2016 (including and excluding BLNS)". Excel spreadsheet. Downloaded from www.sars.gov.za in March 2017.

As Graph 13 shows, export revenues for manufacturing climbed by 10% in dollar terms in 2016, because the rand appreciated by almost 20% over the year. However, in rand terms, manufactured exports declined.

Agriculture showed a similar trend. In contrast, the partial recovery in metals and coal prices meant mining exports rose some 20% in dollar terms, and 4% in rand.

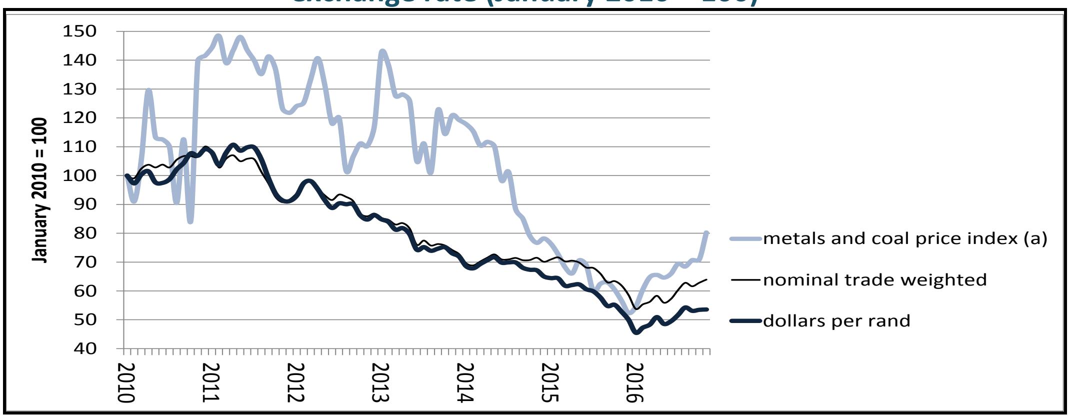
Graph 13. South African exports in constant (2016) rand and current US dollars, 2010 to 2016, fourth quarter of each year



Source: Calculated from SARS monthly trade data.

Graph 14 shows the appreciation in the rand against the US dollar and major trading partners from the start of 2016, compared to a trade-weighted average of major mining exports. The less competitive currency largely reflected somewhat stronger metals prices, which recovered from the very low levels of 2015. It seems unlikely, however, that they will return to the historically unprecedented levels seen in 2011. Indeed, despite a 40% average price increase in South Africa's main mining exports – platinum, iron ore, gold and coal – they remained almost 50% below their 2011 peaks. In any case, in the next few months the expected increase in interest rates in the US is likely to reverse the recent appreciation in the exchange rate.

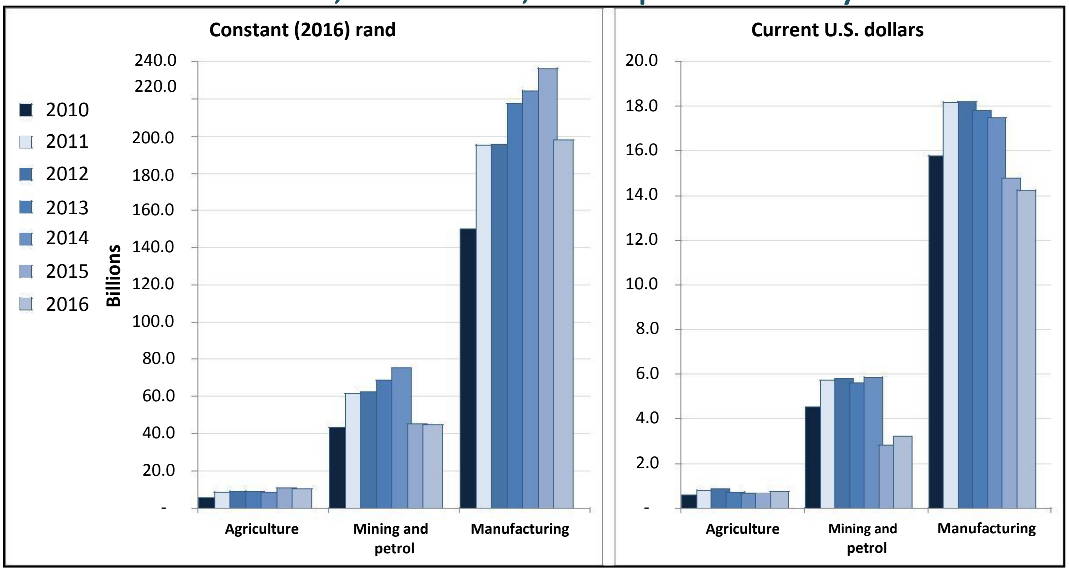
Graph 14. Indices of U.S. dollars to the rand and trade-weighted exchange rate (January 2010 = 100)



Source: Exchange rates: SARB. Interactive data. Downloaded in March 2017.Metals and coal prices: Kitco and IMF data, weighted by export shares.

Manufacturing imports declined in dollar terms in 2016, which the stronger currency translated into an even larger decline in rand terms (see Graph 15). Crude petroleum constitutes the bulk of mining-based imports. An uptick in the oil price in dollar terms was offset by appreciation of the rand.

Graph 15. South African imports in constant (2016) rand and current US dollars, 2010 to 2016, fourth quarter of each year



Source: Calculated from SARS monthly trade data.

The increase in manufacturing exports was mostly due to higher revenues from metals, mainly as a result of increased prices. Ferro-alloys showed a significant recovery in sales after several years of stagnation. In terms of manufactured imports, autos and capital machinery accounted for almost all the decline. That in turn mainly reflected the overall slowdown in the economy.

Table 1. Value of and change in trade in manufactures to fourth quarter 2016, nominal US dollars and constant rand (a)

Industry	Value (billions)		% change from Q4 2015		Change in millions	
	USD	Rand	USD	Rand	USD	Rand
Exports						
Food and beverages	0.92	12.8	3%	-5%	26.4	-720
Clothing and footwear	0.49	6.8	4%	-4%	19.2	-296
Wood products	0.14	1.9	14%	5%	16.9	90
Paper and publishing	0.39	5.4	-7%	-15%	-27.9	-911
Chemicals, rubber, plastic	1.72	23.9	2%	-6%	38.6	-1 500
Glass and non-metallic mineral products	0.11	1.5	1%	-7%	1.4	-108
Metals and metal products	2.38	33.0	11%	2%	230.7	606
Machinery and appliances	1.93	26.9	-6%	-13%	-118.6	-4 065
Transport equipment	2.52	35.0	6%	-2%	137.8	-859
Imports						
Food and beverages	0.73	10.1	13%	4%	85.3	432
Clothing and footwear	1.01	14.1	-9%	-16%	-100.6	-2 607
Wood products	0.09	1.2	-5%	-12%	-5.2	-173
Paper and publishing	0.31	4.3	-7%	-14%	-24.6	-718
Chemicals, rubber, plastic	2.95	41.0	-1%	-9%	-31.7	-3 819
Glass and non-metallic mineral products	0.22	3.0	-4%	-11%	-10.1	-391
Metals and metal products	0.99	13.7	-8%	-15%	-91.2	489
Machinery and appliances	5.39	75.0	-7%	-14%	-396.9	-12 094
Transport equipment	2.61	32.1	-20%	-35%	-667.7	-17 030

Notes: (a) Constant change in rand deflated with CPI. Source: SARS data on trade.