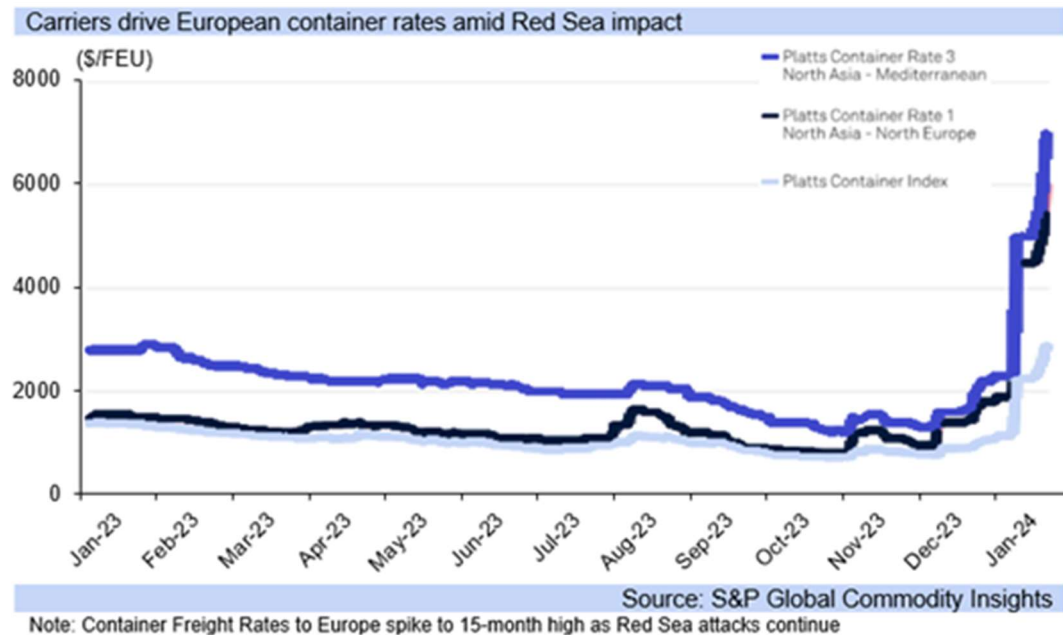


SA Economics



Trade note: January 2024 sees rising global trade costs, while SA awaits Agoa decision

Tuesday 16 January 2024



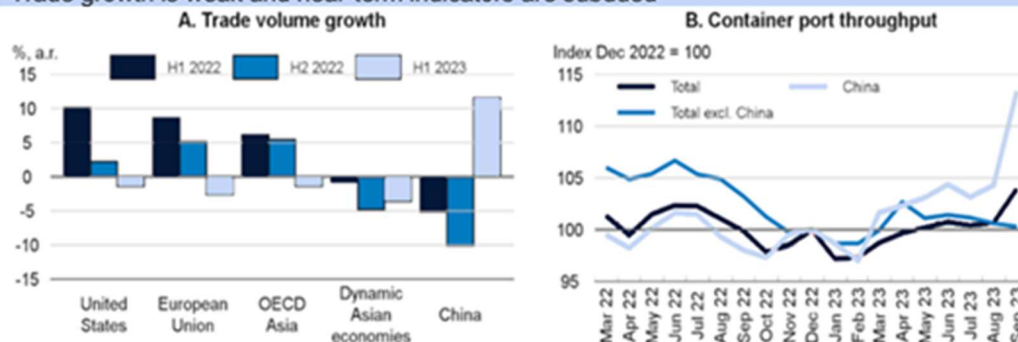
Growth on global goods trade and industrial production



Source: The World Bank, Global Economic Prospects January 2024

Note: Panel shows goods trade volumes and industrial production, based on the first 10 months of data in each year for comparability purposes. Last observation is October 2023.

Trade growth is weak and near-term indicators are subdued



Source: OECD Economic Outlook, November 2023

Note: Panel A: Trade based on the average of import and export volumes of goods and services, valued in USD at 2015 prices. Dynamic Asian Economies include Hong Kong (China), Malaysia, the Philippines, Singapore, Chinese Taipei, Thailand and Viet Nam. The European Union includes the 22 OECD countries who are members of the European Union, plus Bulgaria, Croatia and Romania.

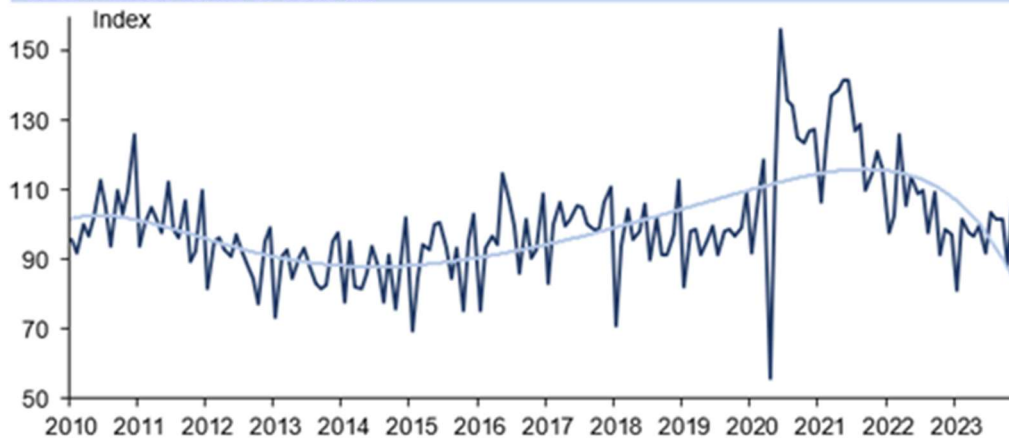
- Global trade growth is expected to be weak in 2024 after 2023's slowing, and supply chain capacity has already seen a high level of underutilisation, although some container freight rates recently rose substantially as geopolitical tensions escalate.
- A slowdown in global trade growth in 2024 would contribute to the weaker outcome for global growth this year, with the escalation in the red sea conflict (particularly Iranian backed groups and the US) a downside risks to an already weaker outlook.
- The latest data in the J.P. Morgan Global Manufacturing PMI survey saw a further fall in production in December (the seventh month in a row) as new business fell further (for the eighteenth month), and the pace of contraction overall quickened.

- “Job losses were registered for the fourth successive month, with cuts seen in China, the euro area, the US and the UK (among others), while staffing levels were unchanged in Japan.” (J.P. Morgan Global Manufacturing PMI survey).
- With the survey adding “price inflationary pressures continued to edge higher in December. Although rates of increase in both input costs and output charges remained relatively mild, they nonetheless accelerated slightly over the month.”
- Inflationary concerns have also risen over the jump up in container freight to Europe on the attacks in the Red Sea’s Bab al-Mandab Strait by Yemen’s Houthi faction, lifting global risk aversion, strengthening the US dollar, and so weakening the rand.
- The lengthened passage for ships to travel past the Cape of Good Hope instead of the Red Sea has pushed up container freight rates to reportedly fifteen-month highs and creating delays in deliveries as well as adding to port bottlenecks.
- The Israeli- Hamas War, and that of Russia and Ukraine, are adding to geopolitical stresses, and concerns over disruptions to trade relations with SA, which is seen to have very cordial relations with Russia, causing some Western concerns.
- With Agoa set to be renewed, South Africa is on the list of eligible countries for a ten year extension, but geopolitical tensions have raised concerns over the potential for SA to actually gain renewal, given its stance towards some of the US’s adversaries.

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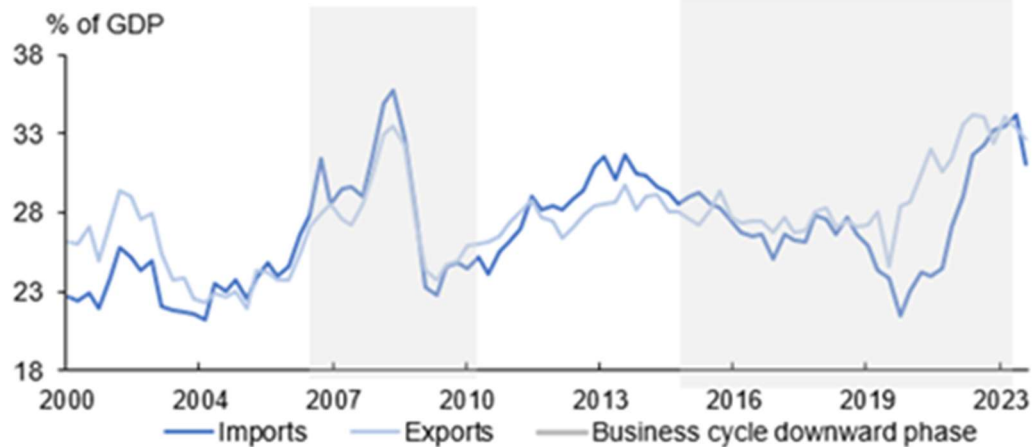
Summary, % real growth rates	2022	2023	2024	2025	2026	2027	2028
GDP (real, %)	1.9	0.5	1.0	1.4	1.7	2.0	2.1
HCE (real, %)	2.5	0.6	1.4	1.8	1.8	2.1	2.2
GCE (real, %)	1.0	1.8	-3.2	-0.5	0.6	1.1	1.2
GFCF (real, %)	4.8	4.5	4.6	4.8	4.9	5.2	5.2
GDE (real, %)	3.9	0.6	1.2	1.7	2.0	2.4	2.5
Export (goods & non-factor services) - (real, %)	7.4	3.6	3.3	3.1	3.0	3.2	3.4
Imports (goods & non-factor services) - (real, %)	14.9	3.8	3.4	3.8	3.9	4.4	4.6
Balance: Current Account - (% of GDP)	-0.4	-1.6	-2.4	-2.5	-2.9	-3.2	-3.2
Imports as % of GDP	29.3	30.3	31.0	31.7	32.4	33.2	34.0
Exports as % of GDP	27.3	28.2	28.8	29.3	29.7	30.0	30.4

South Africa's terms of trade fall



Note: base year 2011. Source: SARS

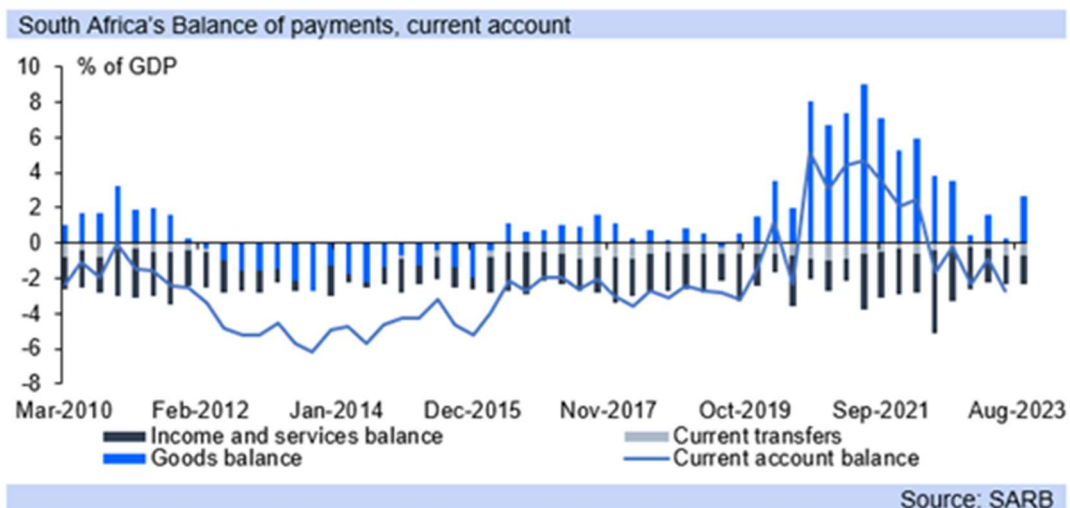
Trade as a percentage of GDP and the business cycle



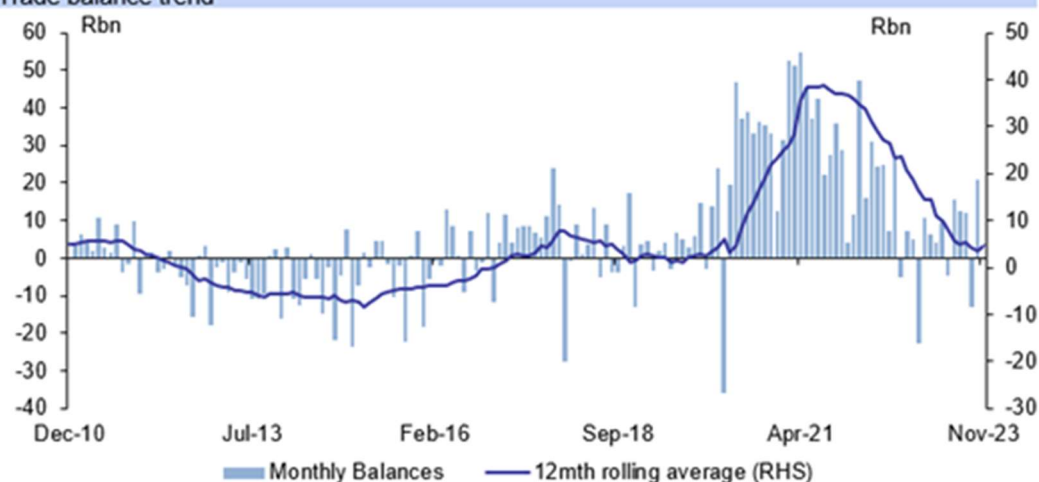
Source: SARB, Investec

- The US's African Growth & Opportunities Act, or Agoa, is a piece of US legislation which is set to expire in September 2025. SA particularly sees free trade benefits on motor vehicle and agricultural exports to the US under the Act.
- Loss of free trade benefits mean SA's exports would cost more in the US, which would reduce their competitiveness, in turn negatively impacting demand for these exported goods, weakening the trade balance and so the rand.
- Loss of the AGOA benefits would also cause a severe underpin of weakness to the domestic currency, as well as damaging economic growth further. Agoa is a piece of US legislature and not a treaty and as such is not seen as up for negotiation by the US.

- Agoa reads the US “president is authorised to designate a Sub-Saharan African country as an eligible Sub-Saharan African country”. SA’s inclusion is up for review in 2025 but its benefits can be cut sooner by the US.
- “(I)f the president determines that the country — (2) does not engage in activities that undermine US national security or foreign policy interests; and (3) does not engage in gross violations of internationally recognised human rights or provide support for acts of international terrorism”.
- And furthermore, must “co-operates in international efforts to eliminate human rights violations and terrorist activities” and work towards “a market-based economy that protects private property rights, incorporates an open rules-based trading system, and minimizes government interference in the economy”.
- The US can “terminate the designation of the country as a beneficiary sub-Saharan African country or withdraw, suspend or limit the application of duty-free treatment with respect to articles from the country”.
- South Africa’s close relationships with Russia and Hamas has raised concerns that its inclusion in AGOA may not be renewed, also given its recent court case against Israel. Last year, the rand lost value on concerns SA supplied arms to Russia.
- South Africa’s terms of trade saw some weakness in Q4.23 versus Q3.23, but only two months’ worth of data are available for Q4.23 with the quarter seeing volatility between months. 2024 risks higher global freight costs and further trade fragmentation.



Trade balance trend



Source: SARS, Investec

South Africa's Trade balance monthly (Rand billions)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
January	-24.2	-18.0	-11.2	-27.1	-13.1	-2.7	12.4	4.1	-22.7
February	-8.7	-1.3	4.8	-0.6	3.9	13.7	31.2	11.5	10.7
March	0.0	2.0	11.3	9.3	4.7	23.9	52.6	47.2	6.3
April	-1.4	-0.1	5.0	1.2	-3.5	-35.9	51.3	16.0	4.0
May	4.9	18.4	7.2	3.8	1.7	19.7	54.4	30.9	9.6
June	5.5	12.5	10.6	11.9	5.5	45.7	54.5	24.2	-4.7
July	-1.1	5.0	9.3	-5.3	-3.7	37.2	37.0	24.8	15.4
August	-10.1	-8.9	6.0	8.8	4.5	38.7	42.3	6.2	12.6
September	-1.3	6.9	4.5	-3.8	4.5	33.4	22.1	26.2	12.0
October	-21.6	-3.9	4.3	-4.3	2.8	34.9	27.7	-5.3	-12.9
November	0.7	-1.7	13.1	3.3	5.6	35.3	35.8	7.3	21.0
December	7.6	12.4	15.3	16.7	13.9	33.1	29.0	5.0	

Source: SARS