

### Box 1 What drives South African exports?<sup>1</sup>

South Africa's *merchandise and net gold exports* are influenced by, among other factors, global demand, international commodity prices, and the exchange rate. Developments in both prices and volumes affect the value of net gold and goods exports, as reflected in the trade balance and the balance on the current account of the balance of payments. From the first quarter of 2010 to the second quarter of 2018, the value of such exports increased by 92%, but the volume, measured in constant 2010 prices, increased by only 23%.

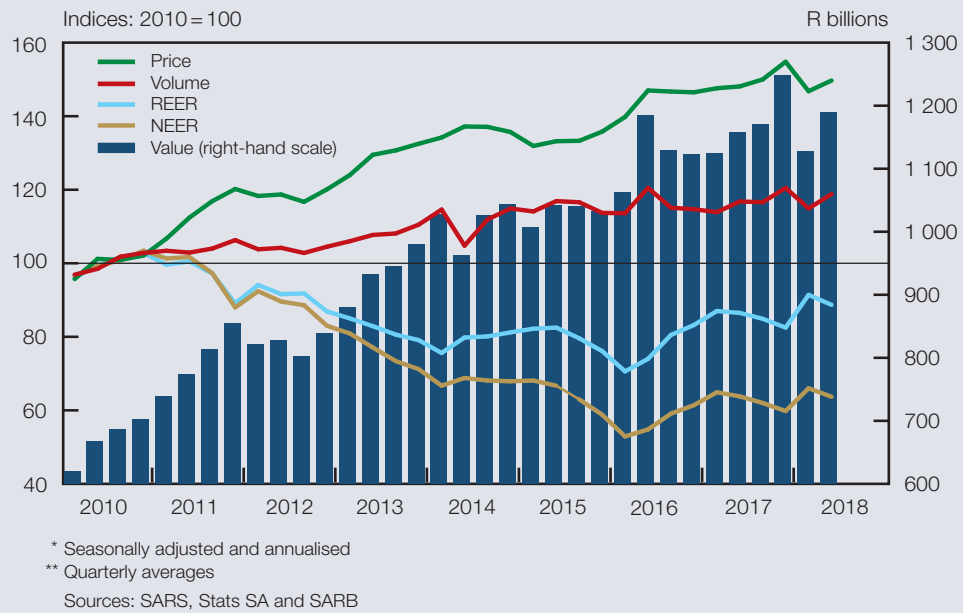
Price increases accounted for the difference and, among other factors, reflect the impact of the exchange value of the rand and, in the case of mining products, of international commodity prices. The nominal effective exchange rate (NEER) of the rand decreased by 33.9% between the first quarter of 2010 and the second quarter of 2018, as the rand depreciated against the currencies of trading-partner countries on a trade-weighted basis, increasing the rand prices of exports.

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1 Exports include merchandise and net gold, but exclude services. Unless stated to the contrary, all export data referred to in this analysis are seasonally adjusted and annualised. The primary source of trade in goods data is the South African Revenue Service (SARS), while the South African Reserve Bank (SARB) is responsible for net gold exports. The SARB adjusts the SARS trade data for balance of payments purposes and Statistics South Africa (Stats SA) publishes the data on trade in goods and services at nominal and constant 2010 prices. The analysis is based on these data sources, some of which are reflected in the statistical tables section of the *Quarterly Bulletin* on pages S-82 to S-85 and S-109.

The real effective exchange rate (REER) of the rand also decreased, but by only 7.7%, reflecting only a slight overall improvement in the competitiveness of domestic producers and manufacturers in international markets.

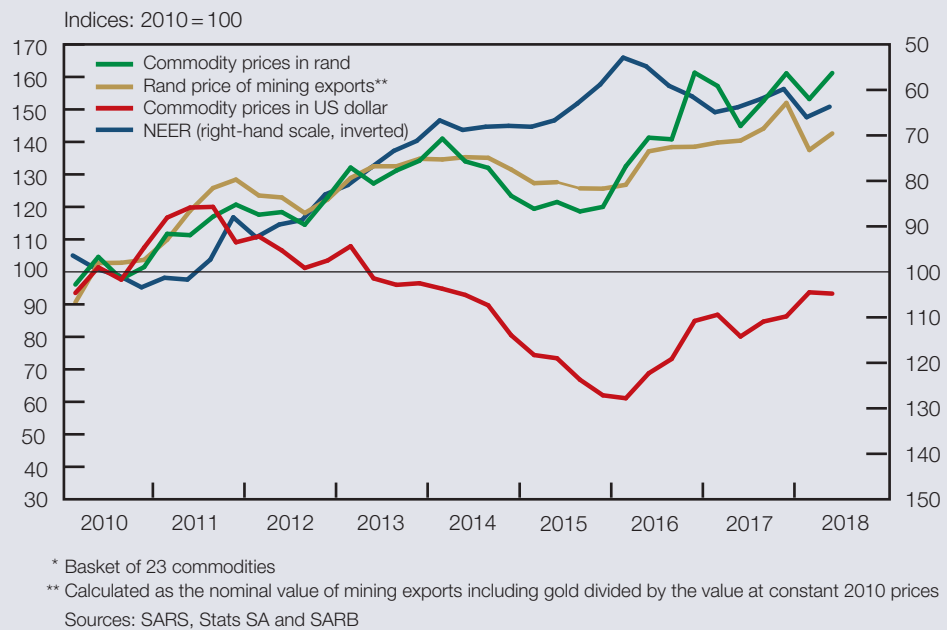
### Merchandise and net gold exports\*, and effective exchange rates of the rand\*\*



More recently, the seasonally adjusted and annualised value of net gold and merchandise exports increased by a marked 6.6% to R1 247 billion in the fourth quarter of 2017. The value then receded significantly by 9.6% in the first quarter of 2018 to R1 128 billion, before increasing by 5.7% to R1 192 billion in the second quarter. Both prices and volumes contributed to the recent volatility in exports.

The price of mining exports, in particular, is influenced by international commodity prices in US dollar terms which, together with the exchange value of the rand, determine the value of these exports in rand terms.

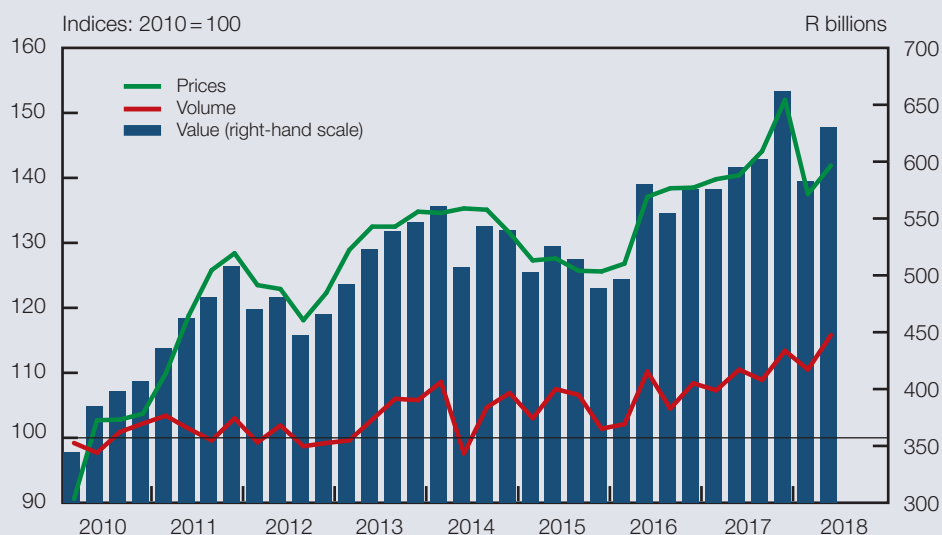
### South African export commodity prices including gold\* and the nominal effective exchange rate



A decline in the US dollar price of a basket of South Africa's export commodities<sup>2</sup> from the first quarter of 2010 to the first quarter of 2016 was followed by an increase which left the price virtually unchanged, on balance, over the period as a whole. However, along with the decline in the NEER, the rand price of the basket of commodities and the implied price of mining exports including gold increased by 67.7% and 56.6% respectively.

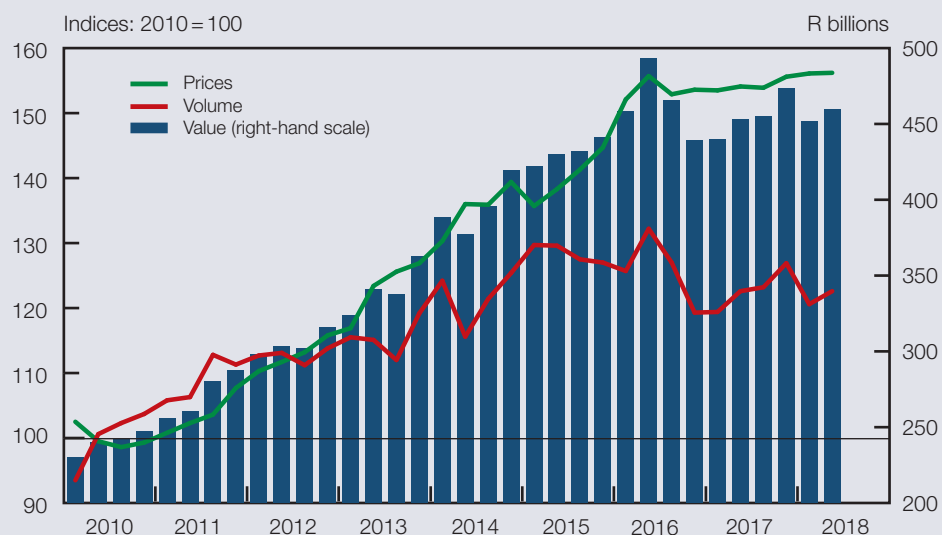
The response of the volume of mining exports to improved prices or profitability in the short to medium term is somewhat limited. Manufactured export volumes are, however, more responsive to a price effect, although this has not been the case in the South African economy in the past two to three years, for idiosyncratic reasons.

### Mining and net gold exports\*



\* Seasonally adjusted and annualised  
Sources: SARS, Stats SA and SARB

### Manufactured exports\*



\* Seasonally adjusted and annualised  
Sources: SARS, Stats SA and SARB

Focusing more on recent quarterly export volumes, a significant decline in total merchandise export volumes in the first quarter of 2018 detracted notably from growth in real gross domestic product in the quarter.

2 The basket consists of 23 commodities with the biggest six, namely thermal coal, platinum, gold, iron ore, petroleum products and ferrochrome making up 63.7% of the weight. The commodities are weighted according to their nominal export values on an annual basis.



## Volume of merchandise and net gold exports

Quarter-to-quarter percentage change\*

	Contribution** in per cent	2017				2018	
		Q1	Q2	Q3	Q4	Q1	Q2
<b>Total</b> .....	100	-0.6	2.5	-0.2	3.4	-4.6	4.0
<b>Mining</b> .....	54	-1.0	3.0	-1.5	4.1	-2.6	4.8
Of which:							
Mineral products.....	23	-5.8	5.8	-3.5	1.4	-3.1	3.4
Precious metals including gold, platinum group metals and stones .....	17	6.0	-2.5	4.5	3.7	1.0	10.2
Base metals and articles .....	13	-0.9	5.3	-5.2	9.6	-6.3	-0.0
<b>Manufacturing</b> .....	38	0.1	2.6	0.5	3.0	-4.9	1.7
Of which:							
Vehicles and transport equipment .....	12	-0.8	8.2	-3.1	-2.8	-3.4	0.8
Machinery and electrical equipment ....	8	1.9	-2.7	0.8	6.1	-4.0	0.0
Chemical products .....	6	-1.8	3.5	3.4	6.7	-6.5	2.1
Prepared foodstuffs, beverages and tobacco.....	4	5.0	5.4	4.4	3.5	2.9	-0.6
<b>Agriculture</b> .....	6	-3.9	0.9	8.9	-3.5	-9.5	13.6
Of which:							
Vegetable products .....	5	-2.0	2.8	18.4	-6.5	-13.3	18.4

\* Based on seasonally adjusted and annualised data

\*\* Average contribution to total merchandise and net gold exports in 2017

Source: SARS, Stats SA and SARB

The increase in the rand price of commodity exports supported the higher value of mining exports in the fourth quarter of 2017. In the first quarter of 2018, the rand price of exported mining commodities was adversely affected by the strengthening in the external value of the rand that more than neutralised the further rise in US dollar commodity prices. In the second quarter of 2018, the rand price of mining commodity exports clawed back some of its losses as the external value of the rand depreciated. At times, changes in volumes contribute materially to variations in the value of such exports.

In the fourth quarter of 2017, the increase in the volume of merchandise and net gold exports came from both mining and manufactured products. However, in the first quarter of 2018 the volume of both mining and manufactured exports declined. This was more significant in manufacturing, as the export volumes in the majority of the manufacturing subcategories declined. In the second quarter, the volumes of both mining and manufactured exports increased once again, with the former increasing much more than the latter.

Mining export volumes were supported by all three subcategories in the fourth quarter of 2017. Base metals registered the largest quarter-to-quarter increase on account of exports of iron ore and steel to Indonesia, the Netherlands and Thailand. Coal exports, which form part of mineral products, also increased notably. This changed in the first quarter of 2018 when the volume of mining exports declined noticeably following sharp declines in both iron ore and coal exports, with iron ore exports partially affected by derailments on the line to the Saldanha Bay harbour. The increase in the volume of exported mining commodities in the second quarter of 2018 resulted in its highest level recorded since the first quarter of 2010, as exports of platinum group metals and mineral products recovered notably.

The export volumes of manufactured goods contributed significantly to the increase in total export volumes in the fourth quarter of 2017, as higher exports of machinery and electrical equipment to Europe, together with increases in other manufacturing subcategories, more than countered the decline in vehicle and transport equipment exports. In the first quarter of 2018, a third consecutive quarter-to-quarter decline in the exports of vehicles and transport equipment, together with lower exports in most of the other subcategories of manufactured goods, contributed significantly to the decline in the total volume of merchandise and net gold exports. However, increases in the export volumes of vehicles and transport equipment as well as chemical products contributed primarily to the rise in the volume of manufactured exports in the second quarter of 2018.