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Economy Watch Namibia – September 2017

The Namibia Statistics Agency (NSA) released the trade statistics for the second quarter 2017 on 21 September 2017. The total value of imports decreased slightly by NAD379 million to NAD20,113 million compared to the first quarter 2017, while the value of exports took a stronger hit and dropped by NAD1,687 million to NAD13,920 million. Consequently, the trade deficit increased to NAD6,193 million – up by NAD1,308 million compared to the first quarter.

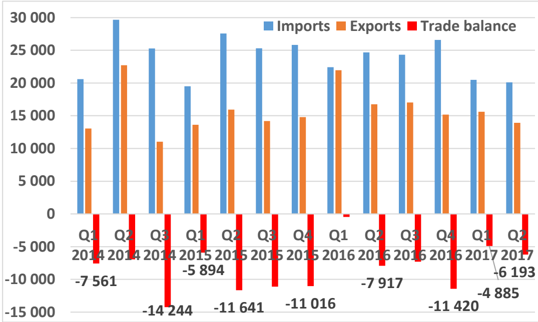
The export value of Namibia's main, traditional exports moved in different directions. The export value of diamonds rose by 13.7 percent to NAD4,726 million. Diamonds remained Namibia's most important export product accounting for 34.0 percent of total exports of goods. The export value of copper ore increased by 29.8 percent to NAD2,178 million making it the second most important export article with a share of 15.6 percent. The value of fish exports declined by 29.8 percent to NAD2,178 million ranking it third with a share of 15.5 percent of total exports. The value of exported copper cathodes dropped by more than a quarter (26.4 percent) to NAD867 million, while the value of zinc exports declined by 18.4 percent to NAD580 million. Surprisingly, the value of livestock exports rose substantially by 74.7 percent to NAD683 million. It is the highest quarterly value over the past three and a half years. Since grazing conditions have improved since the beginning of the year and since livestock farmers reduced their herd sizes due to the drought last year, this strong increase in exports was unexpected.

Overall, the **total value of Namibia's main exports increased** from NAD10,599 million in the first quarter to NAD11,195 million in the second. This is a reflection of increased domestic production and value addition as well as higher prices for copper in particular. The drop in the total value of exports between the two quarters was caused by the value of a vessel (NAD2,087 million) that was imported in the fourth quarter of 2016 and re-exported in the first quarter 2017 pushing up total exports during that quarter.

The **value of imports declined** by 1.8 percent, because of a decline in the value of imported diamonds by 35.2 percent to NAD1,348 million, vehicles (down by 9.3 percent to NAD2,017 million) and the value of copper cathodes that was 12.3 percent lower at NAD859 million. In contrast, the value of imported mineral fuels and oil increased by 12.1 percent to NAD2,325 million making it the top import product with a share of 11.6 percent of total imports of goods. The increase in the value can most likely be explained with larger volumes since the average oil price was slightly lower in the second than in the first quarter (USD49.55 compared to USD53.59 per barrel) and the Namibia dollar had appreciated slightly against the USD (NAD13.1977 compared to NAD13.2315 per USD on average). The value of imported boilers & machinery and of electrical machinery increased by 6.7 percent and 6.5 percent respectively to NAD1,953 million and NAD1,231 million.

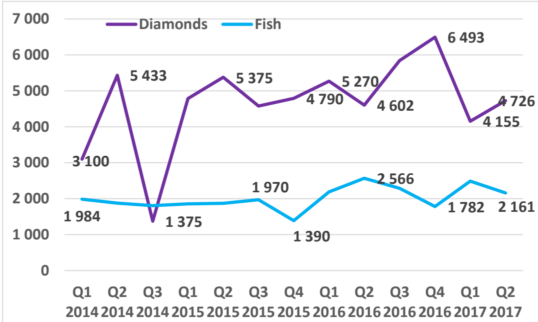
The trends in the export value of copper ore and of copper cathodes is reflected in the trends in imports of both products. The value of imported copper ore

Namibia's trade performance in NAD million (NAD m), 1Q 2014 to 2Q 2017.



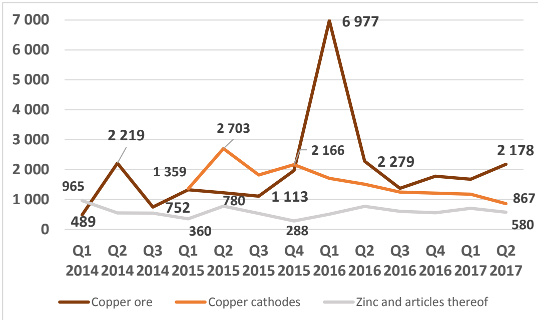
Source: NSA, Quarterly GDP reports.

Export value for diamonds and fish, NAD m



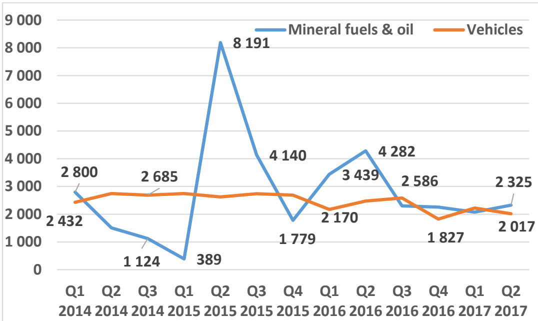
Source: NSA, Quarterly GDP reports.

Export value for selected minerals, NAD m



Source: NSA, Quarterly GDP reports.

Import value for fuel and vehicles, NAD m



Source: NSA, Quarterly GDP reports.

increased by 21.5 percent to NAD894 million, while the value of imported copper cathodes declined by 12.3% to NAD859 million. This equals almost the value of copper cathodes exported (NAD867 million).

There is a **need to review** the way **import sources** and **export destinations** are recorded by Customs and Excise, which provides NSA with the data for the trade statistics. According to the Annual Trade Statistics for 2016, **Switzerland was Namibia's main export destination**, because of the export of copper ore and copper cathodes. Total trade with Switzerland amounted to NAD13.3 billion, while the value of copper ore and copper cathodes was recorded at NAD12.4 billion. Swiss trade statistics in contrast recorded total imports from Namibia at NAD12.1 million (Swiss Franc 816,932) and the value of imported copper ores and concentrates at NAD35,783 (CHF2,417). The possible explanation for this huge difference is that the headquarters of Glencore, one of the largest commodity traders, is based in Switzerland. While Glencore buys and sells commodities such as copper and copper cathodes, the products are not destined for Switzerland, but most likely for east Asia.

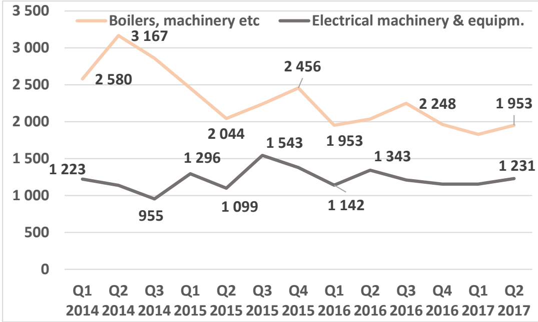
This is not just an academic exercise, but will have **ramifications for trade missions and trade negotiations**. Switzerland is part of the European Free Trade Association (EFTA) that has signed a Free Trade Agreement with the Southern African Customs Union. EFTA ranked as the third most important economic region for exports for most quarters. Total exports to EFTA amounted to NAD2,024 million, of which 99.6 percent was destined for Switzerland. Furthermore, 81.5 percent (NAD1,649 million) of total exports to EFTA consisted of copper ore and copper cathodes. Since these products are actually not exported to Switzerland, in reality EFTA plays a less important role as an export destination for Namibian products than the current records suggest. Accurate trade data is vital to inform our trade negotiations and trade delegations.

Finally, it should be noted that the quarterly trade statistics only include the trade of goods, but not the trade in services. Namibia usually records a positive trade balance in services and hence the overall trade deficit for the second quarter should be lower than NAD6.1 billion.

However, the magnitude of the **trade deficit remains of concern** since it drags on the foreign exchange reserves. The foreign exchange reserves are currently at comfortable levels due to the inflow of repatriated investment abroad and loans in foreign currency that Namibia recently received. This should not lead to complacency since the loans have to be repaid and investment abroad can only be repatriated once. Usually, Namibia levels out the trade deficit with the transfers from the Southern African Customs Union Common Revenue Pool as well as foreign investment. It is therefore important to design policies that have the potential to attract foreign investment. The currently ongoing review of the Namibia Investment Promotion Act as well as the draft Namibia Equitable Economic Empowerment Framework are steps in the right direction in order to establish Namibia as a destination for foreign (and domestic) investment.

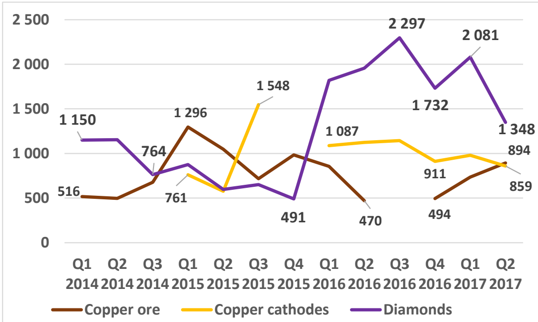
Together with the trade statistics, NSA released the **second quarter Gross Domestic Product** (GDP) data on 21 September 2017. NSA revised its data for the first quarter from a contraction of 2.7 percent to a contraction of 1.7 percent. The second quarter 2017 did not break the contraction that has held Namibia in its grip since the second quarter 2016. The economy continued to contract at 1.7 percent. While the construction sector was the driver of economic growth in previous years, it is now driving the contraction of the economy, shrinking by 51.9 percent after a drop by 45.0 percent in the first quarter. The decline is caused by Government's budget cuts that resulted in Government's

Import value for boilers and electrical machinery, NAD m



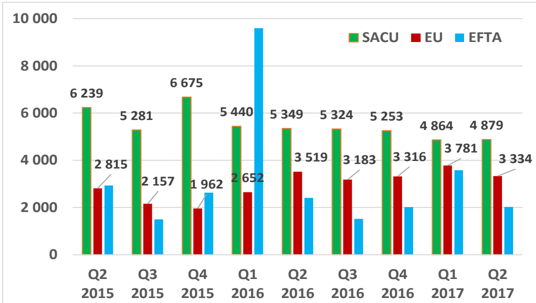
Source: NSA, Quarterly GDP reports.

Import value for selected minerals, NAD m



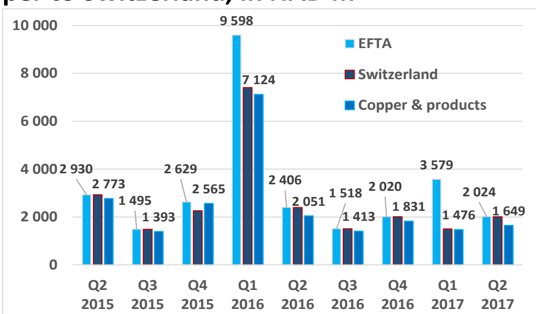
Source: NSA, Quarterly GDP reports.

Export value to SACU, EU and EFTA, NAD m



Source: NSA, Quarterly GDP reports.

Export value for EFTA, Switzerland and copper to Switzerland, in NAD m



Source: NSA, Quarterly GDP reports.

quarterly expenditure on construction being one of the lowest since 2010 (NAD200m). Only the second quarter 2010 and the second quarter 2011 saw lower expenditure. Since the construction sector is a labour-intensive industry, its current state is resulting in retrenchments that not only have negative impacts on affected households, but also on the purchasing power of consumers and hence on the performance of the **wholesale and retail trade sector**. The sector **contracted** by 8.2 percent as a result of lower vehicle sales (-24.6 percent) and declining sales of furniture shops (-11.6 percent) and supermarkets (-0.7 percent).

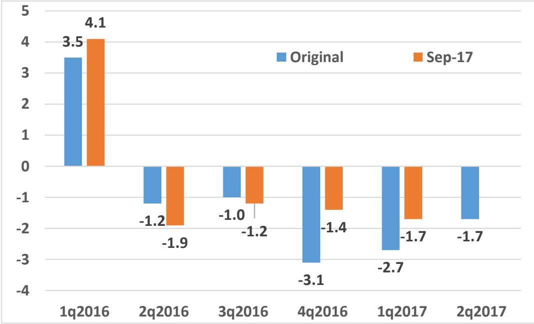
In contrast, some other sectors performed better than in previous quarters, most notably the **agricultural sector** (17.0 percent) and the **mining sector** (25.8 percent). Zinc production recorded the strongest growth (38.1 percent) followed by diamond production (33.2 percent), metal ores (20.8 percent) and uranium (14.2 percent). The growth in uranium production indicates that the new Husab uranium mine is starting production. We shall see the full impact of the new mine during 2018. The **manufacturing sector** also grew despite the negative impact of the construction sector's decline on related manufacturing activities. The growth was driven by the beverage sector (10.8 percent) that faced challenges last year owing to water restrictions. Although improved grazing conditions after devastating droughts would suggest that farmers restock their herds, it is apparently the strong increase in livestock exports that caused the decline of meat processing by 0.2 percent.

The **transport sector** showed stronger growth during the second quarter (3.5 percent) than in the first quarter (1.2 percent). The output of the railway subsector improved by 3.4 percent, which can be linked to the increased output of the mining sector. Although still contracting by 7.6 percent, the decline of port services was not as severe as in the second quarter 2016 when value added dropped by 18.0 percent. The expansion of the mining sector could be one of the factors contributing to the better performance of port services.

The **drop in value added by hotels and restaurants** by 3.0 percent in the second quarter 2017 after a contraction by 7.3 percent in the first quarter came as a surprise amidst reports of a booming tourism industry. The decline could be caused by the indicators used – room and bed nights sold – that are based on information provided by tourism facilities. A low number of returns could result in estimates that are not representative for the sector at large. We expect adjustments to the growth figures as more complete information is collected. The initial growth figure for the first quarter (-9.3 percent) was also revised upward by two percentage points to -7.3 percent.

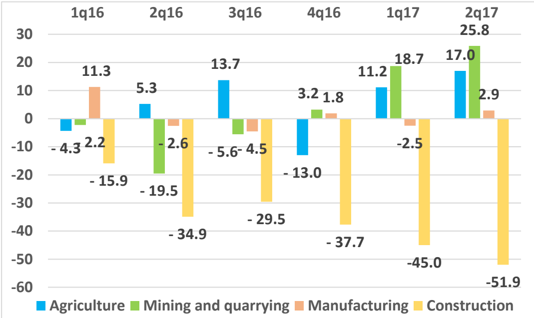
Overall, quarterly GDP data are based on initial information. Therefore, the GDP figures provide a first glimpse of what is happening in the economy, but the data is being revised as more information becomes available. We expect a stronger performance of the economy during the second half of the year, not least because we are starting from a low base a year ago.

Original and revised GDP estimates, in percent



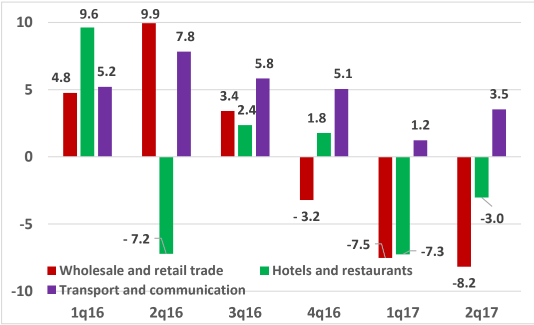
Source: Authors' own compilation based on NSA quarterly GDP data.

Growth in agriculture, mining, manufacturing and construction, in percent



Source: Authors' own compilation based on NSA quarterly GDP data.

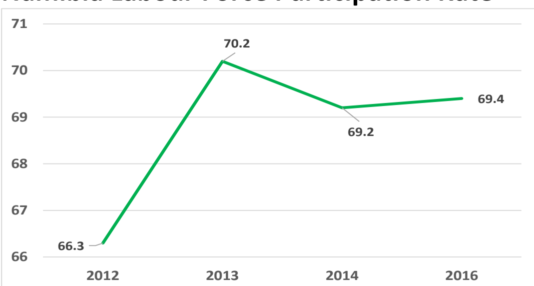
Growth rates for selected service sectors, in percent



Source: Authors' own compilation based on NSA quarterly GDP data.

We reported in our July edition on some results of the **Labour Force Survey 2016**. While the rising unemployment rate paints a gloomy picture, a further analysis reveals that there is **some good news** from the labour market. The working age population is defined as the total population aged 15 years and older. The Labour Force Survey distinguishes between the economically inactive population within the working age population and the economically active population. The economically active population consists of the unemployed and the employed. The share of the economically active population over the total working age population determines the labour force participation. **The Labour Force Participation Ratio (LFPR) has increased** from 66.3 percent in 2012

Namibia Labour Force Participation Rate



Source: NSA, Namibia Labour Force Survey reports to 69.4 percent in 2016, which is slightly up from 69.2 percent in 2014. This is an indication that the situation in the labour market was attractive enough to encourage some people who otherwise were economically inactive to join the economically active population, which is most likely due to the booming construction sector during the years 2012 to 2015. Often, an increase in the LFPR results initially in an increase in the number of unemployed, since they are not immediately successful in finding work. Based on calculations by the OECD that are based on the working age population between 15 and 64 years of age, Namibia's LFPR stood at 70.7 percent in 2015, which is close to the OECD average of 71.3 percent and higher than South Africa's (58.5 percent).

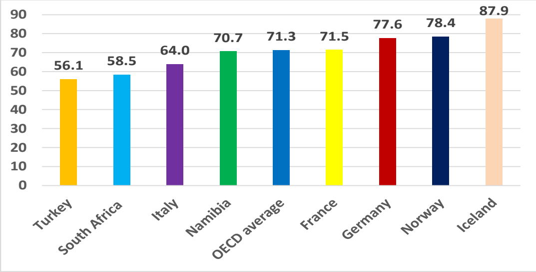
Secondly, the rise in unemployment can to a large extent be explained by **subsistence farmers and unpaid family workers** no longer being considered employed, since they are no longer working for gain for one hour over the past seven days. This is not surprising, given the consecutive droughts in the country. However, excluding the number of subsistence farmers and unpaid family members from the number of employed persons reveals that the number of **persons employed** in other sectors of the economy **has constantly risen**. The number of employed persons increased by 4.7 percent or 26,196 to a total of 583,223 between 2014 and 2016. However, this trend might be reversed in 2017 because of job losses in construction and related sectors even though it may be assumed that most subsistence farmers have re-joined the group of employed persons after good rainfall.

The **Namibia dollar** maintained its value against the US dollar, but **depreciated** against the Euro and the British pound. Despite South Africa's downgrading to below investment rating in March 2017, the currency has appreciated by 3.9 percent since the beginning of the year and by 1.8 percent compared to 22 September 2016 against the USD. However it lost 10.5 percent of its value against the **Euro** compared to January 2017 and 4.8 percent since September 2016. Over the same period of time it depreciated by 6.2 percent and 2.0 percent respectively against the **British Pound** (GBP). On 22 September the USD was worth NAD13.1908, the GBP NAD17.9012 and the Euro was worth NAD15.8210. These trends are to a lesser degree a reflection of domestic or regional events than a reflection of the strengthening of the Euro against the USD and GBP. Furthermore, the GBP has recently reversed its trend of depreciating against other currencies because of indications that the Bank of England could increase interest rates this year due to rising inflationary pressure.

The NAD weakened slightly comparted to the **BRIC currencies** (Brazil, Russia, India and China) by between 2.0 percent (Brazil Real) and 2.6 percent (Chinese Yuan). On a year-on-year basis, however, the picture was less homogenous. Our domestic currency appreciated 0.6 percent against the Yuan, but lost the same percentage against the Real. It also depreciated against the Indian Rupee by 1.2 percent and against the Russian Rouble by 9.0 percent. The latter is due to a general appreciation of the Russian currency against other currencies.

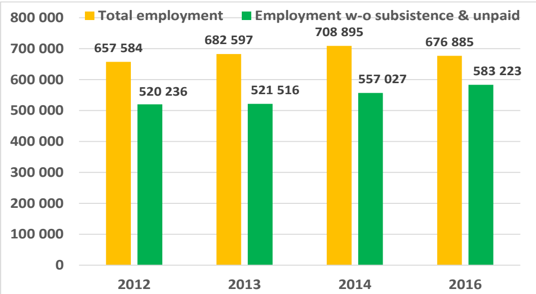
The currency remains relatively resilient against expectations of interest rate hikes in the US and UK and against the investment downgrading of South Africa (and the prevailing political uncertainties there). This can be explained by the South African economy's better export performance. South Africa recorded strong trade surpluses of ZAR11.3 billion (March 2017), ZAR5.0 billion (April) and ZAR9.5 billion (May) with positive impacts on the currency's value.

Labour Force Participation Rates for selected countries in percent, 2015.



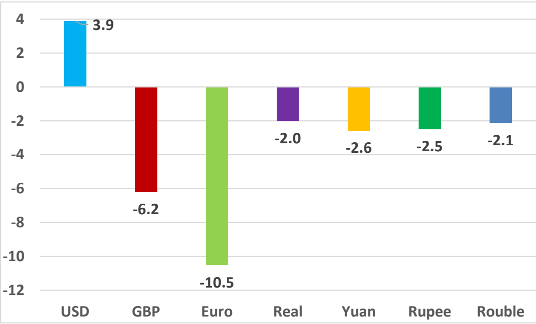
Source: OECD database

Total employment and employment excluding subsistence farmers and unpaid family workers.



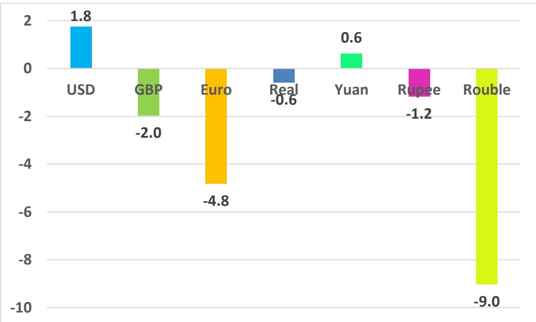
Source: : NSA, Namibia Labour Force Survey reports

NAD compared to selected currencies between Jan. and 22 Sept. 2017, in percent.



Source: Authors' calculation based on South African Reserve Bank, daily data

NAD compared to selected currencies year-on-year



Source: Authors' calculation based on South African Reserve Bank, daily data

Hanns Seidel Foundation

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