

The World Economy Jitters – Impact on the Namibian Economy

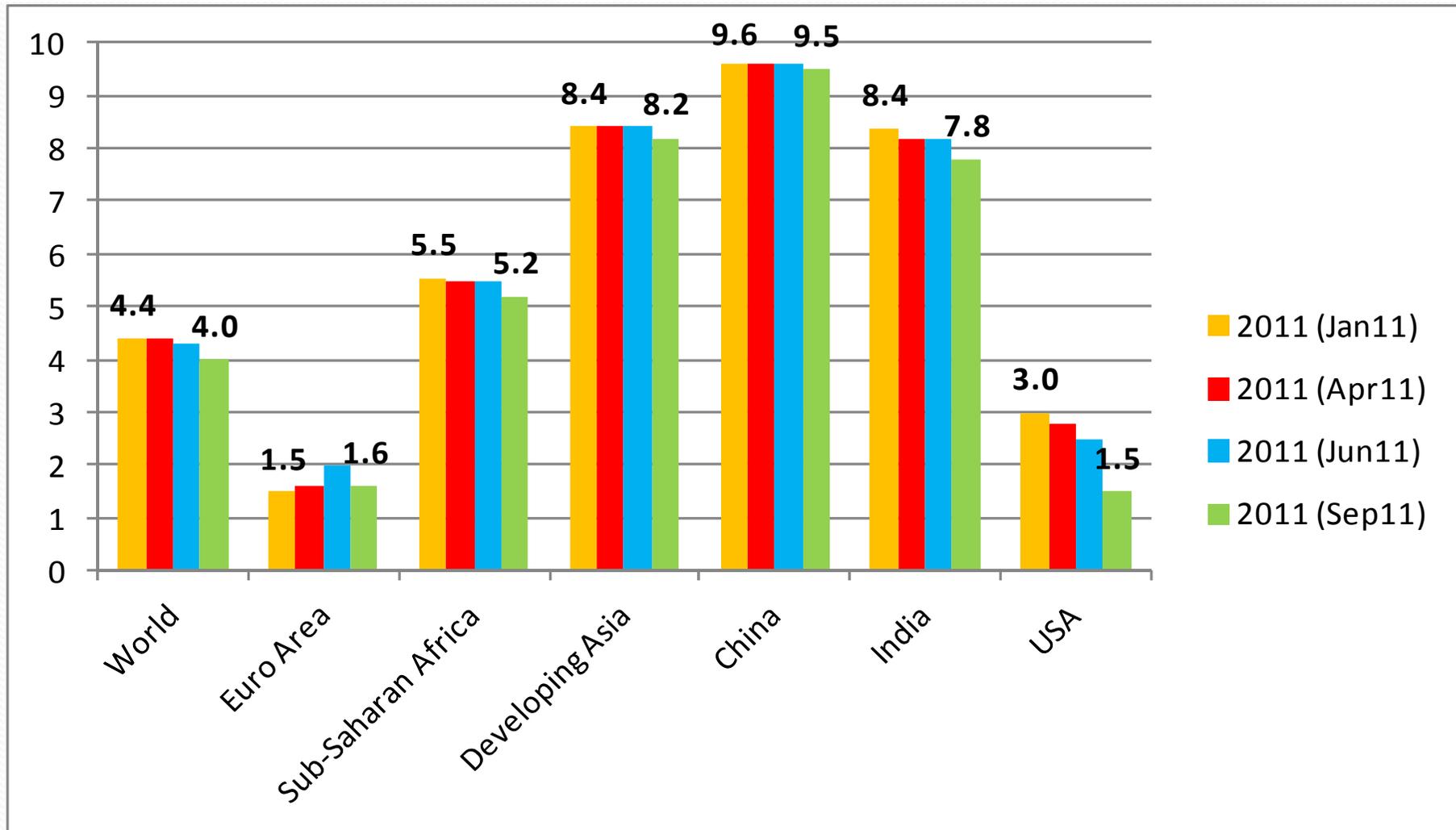
By Klaus Schade

29 September 2011
at Hanns Seidel Foundation

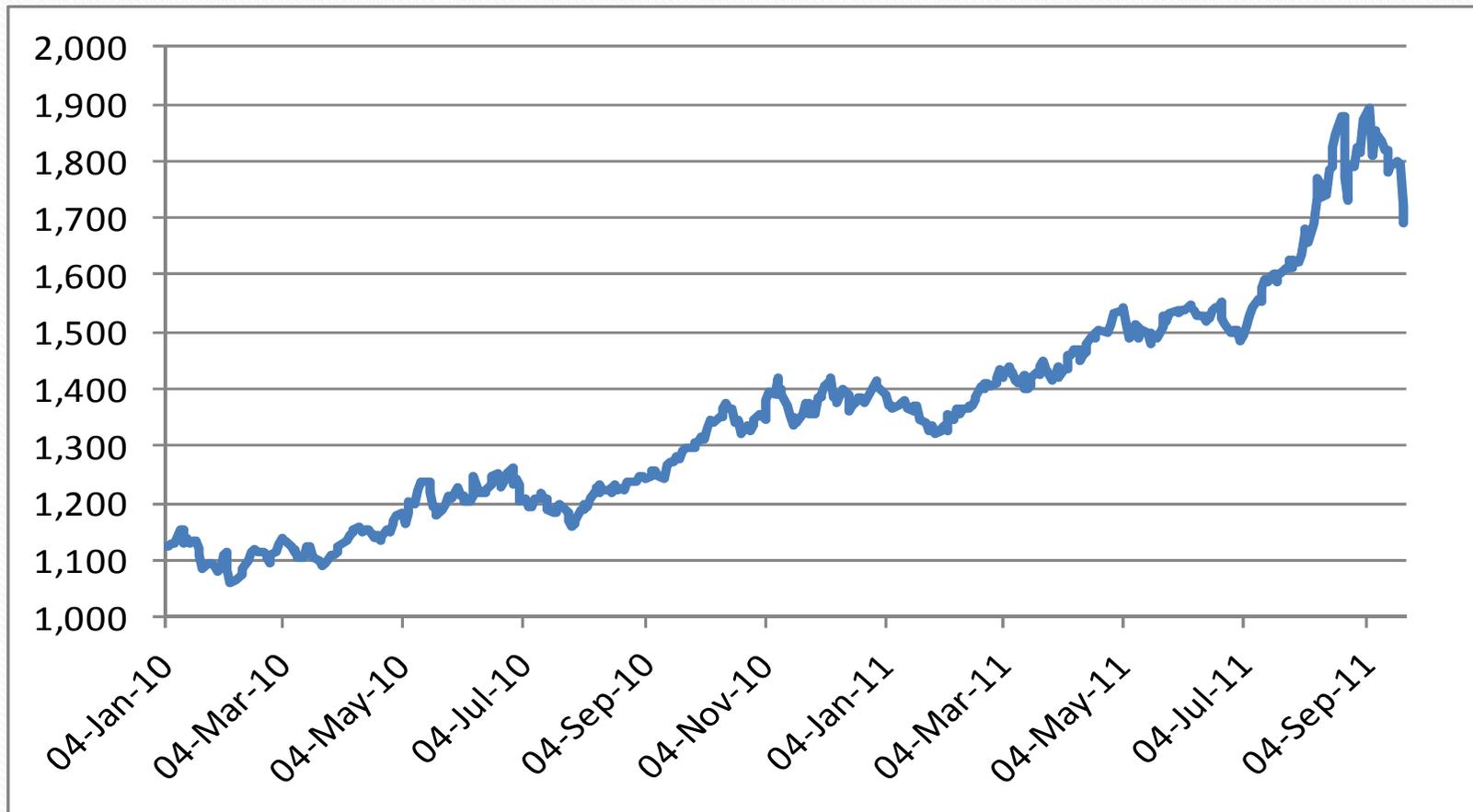


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GDP growth - global



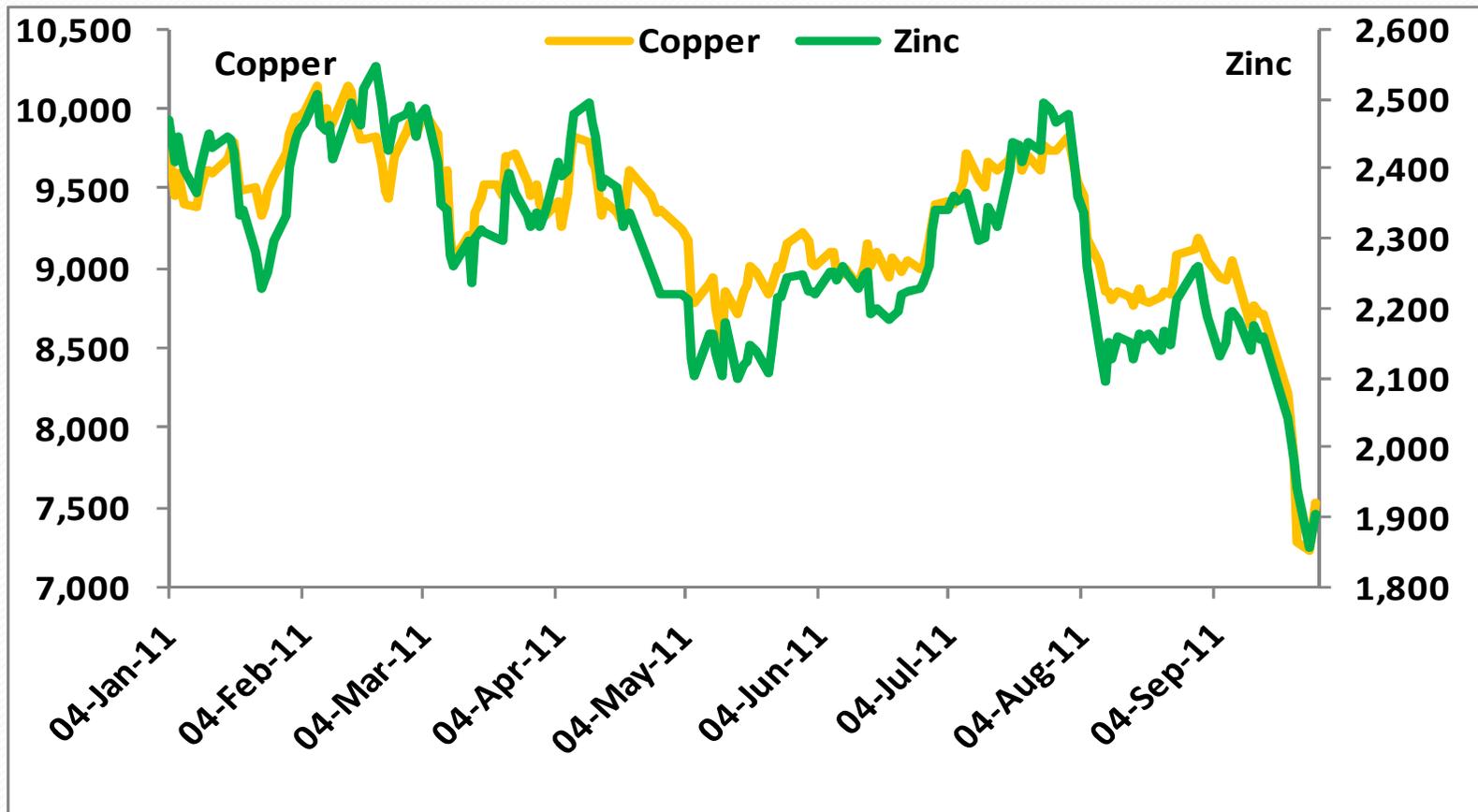
Commodity price trends - gold



Gold price trends

- Gold price increased by 29 per cent since January 2011
- Safe haven in times of economic uncertainties
- High demand growth in India and China (growing middle-class) – 38 and 25 per cent respectively
- Central banks increased their stock
- Continuation of strong performance expected
- Benefited South African economy, contributed to strong ZAR

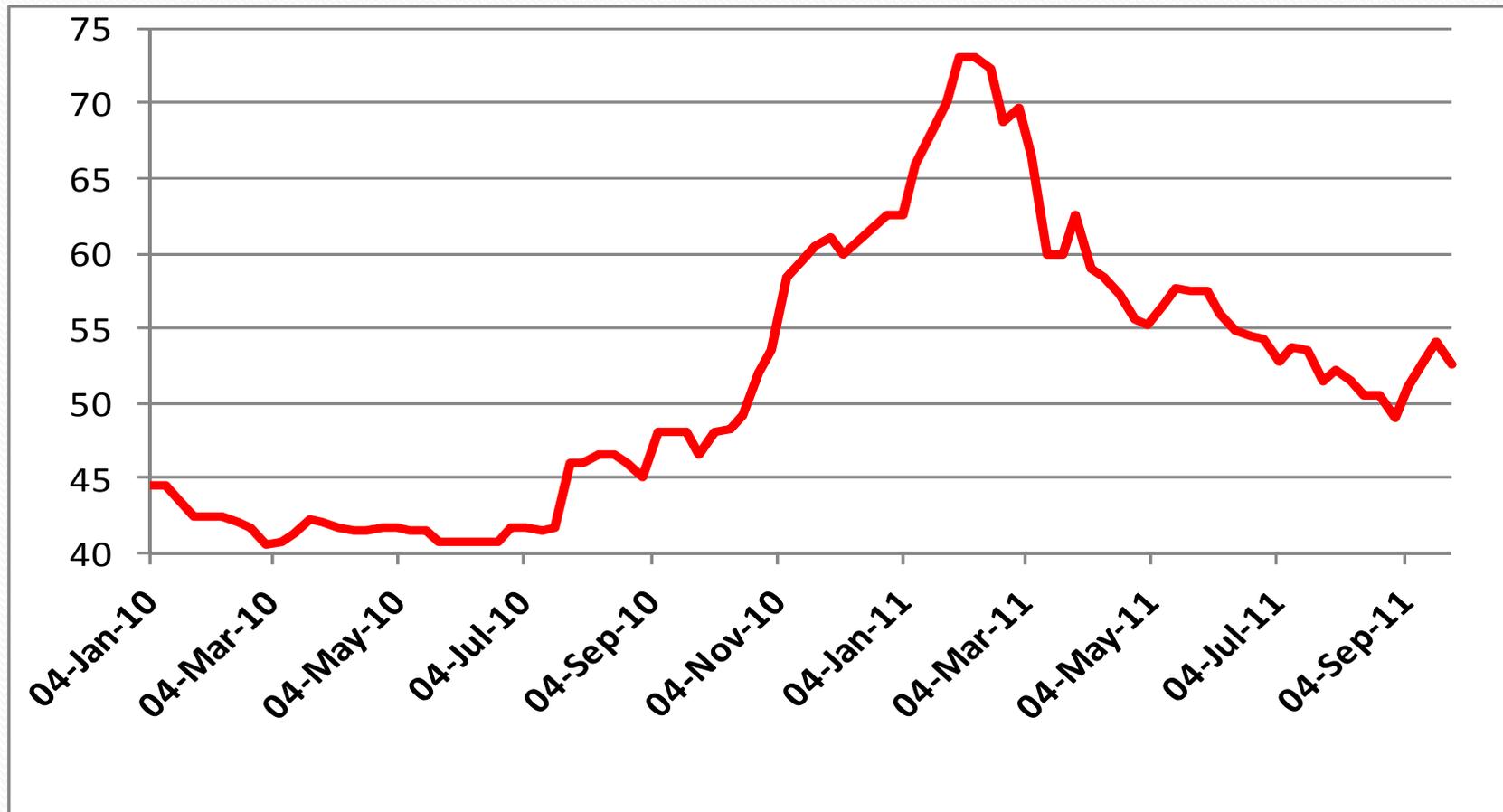
Commodity price trends – copper and zinc



Copper and zinc price trends

- Shed value by 22.9 and 22.8 per cent respectively since 1 Aug 2011
- Volatile price fluctuations influenced by investor sentiments rather than by demand – particularly in the case of copper
- Bleak economic prospects point at lower price levels for remainder of 2011

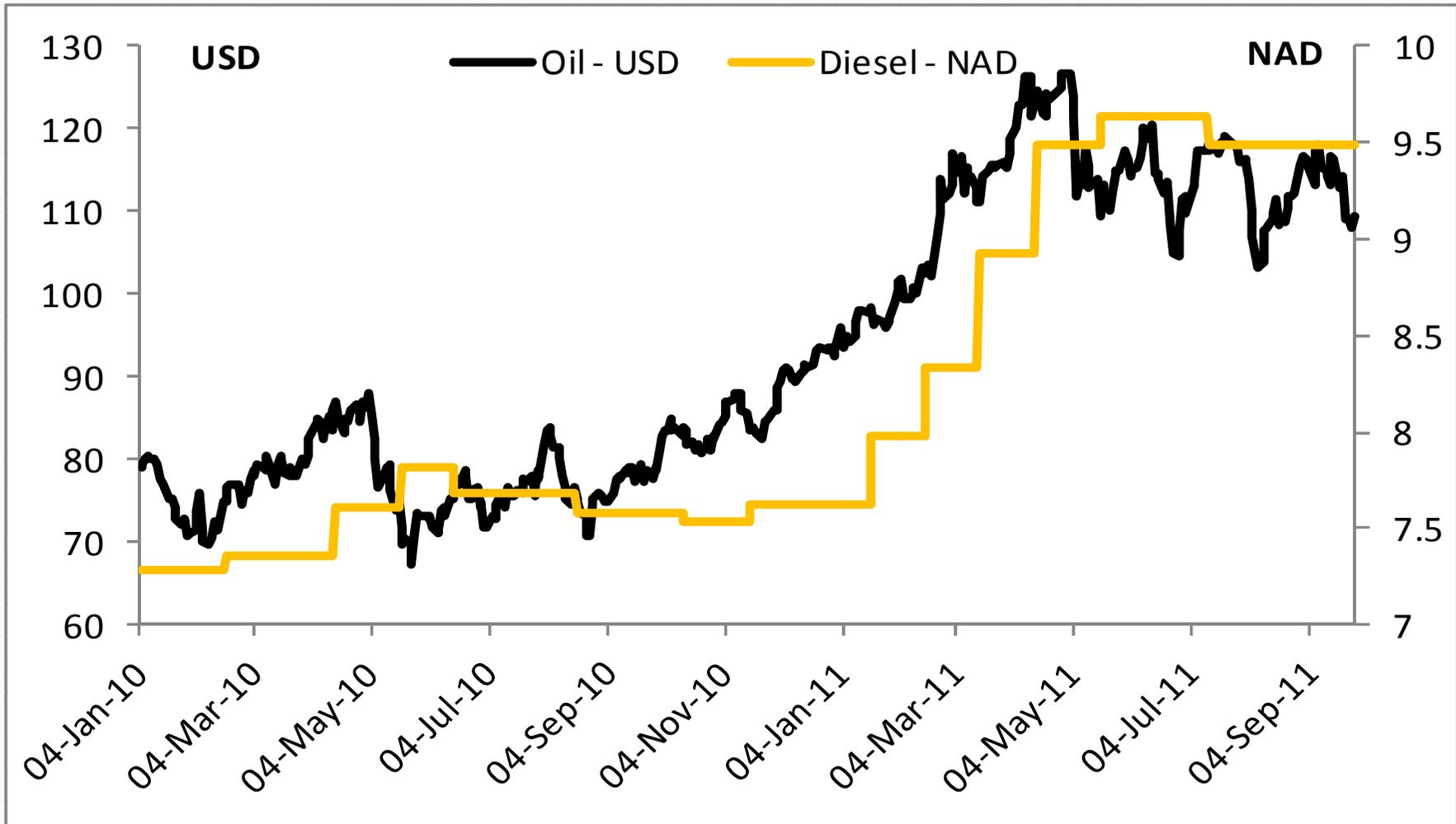
Commodity price trends - uranium



Uranium price trends

- Prices took a dive after the Fukushima accident – down by 16 per cent compared to Jan 2011
- Recently prices are recovering but not yet back to price levels seen at the beginning of 2011 of above USD70 per pound
- Despite Fukushima accident, nuclear power industry remains confident about future prospects owing to increasing pressure to curb carbon dioxide emissions

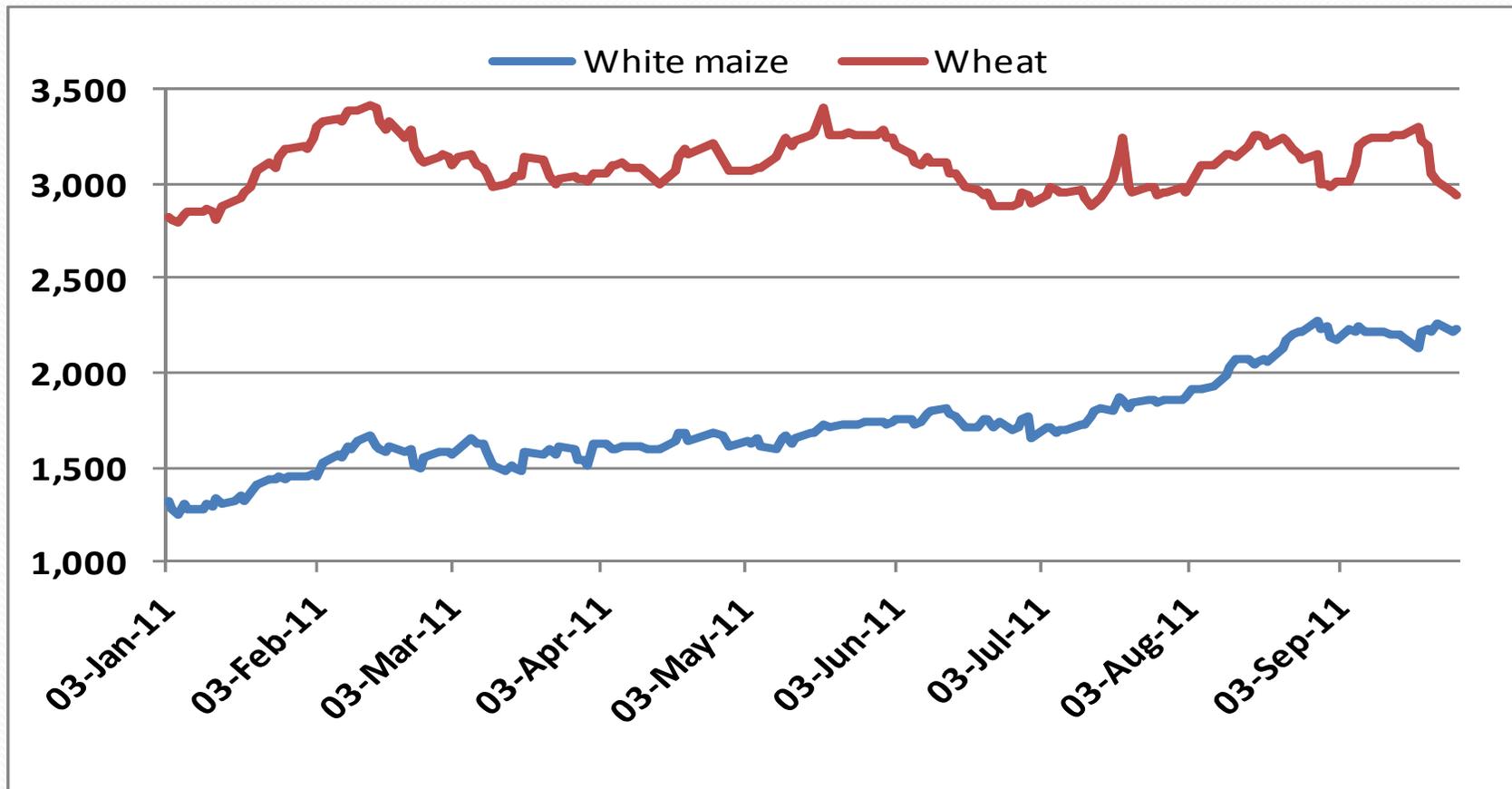
Commodity price trends - oil



Oil price trends

- Oil prices increased by 14 per cent since January 2011 and local diesel prices by 24 per cent
- Highly influenced by economic prospects and geopolitical events
- The spread of the Arab spring to oil-producing countries resulted in prices exceeding USD120 per barrel during the 2Q2011
- Unrest in Libya, accounting for 2 per cent of OPEC output, in particular contributed to price increases, although Saudi Arabia stepped in
- Expectations of resumption of oil production in Libya and expected lower global demand has resulted in lower prices
- Domestic prices for petrol and diesel expected to rise in October owing to currency depreciation.

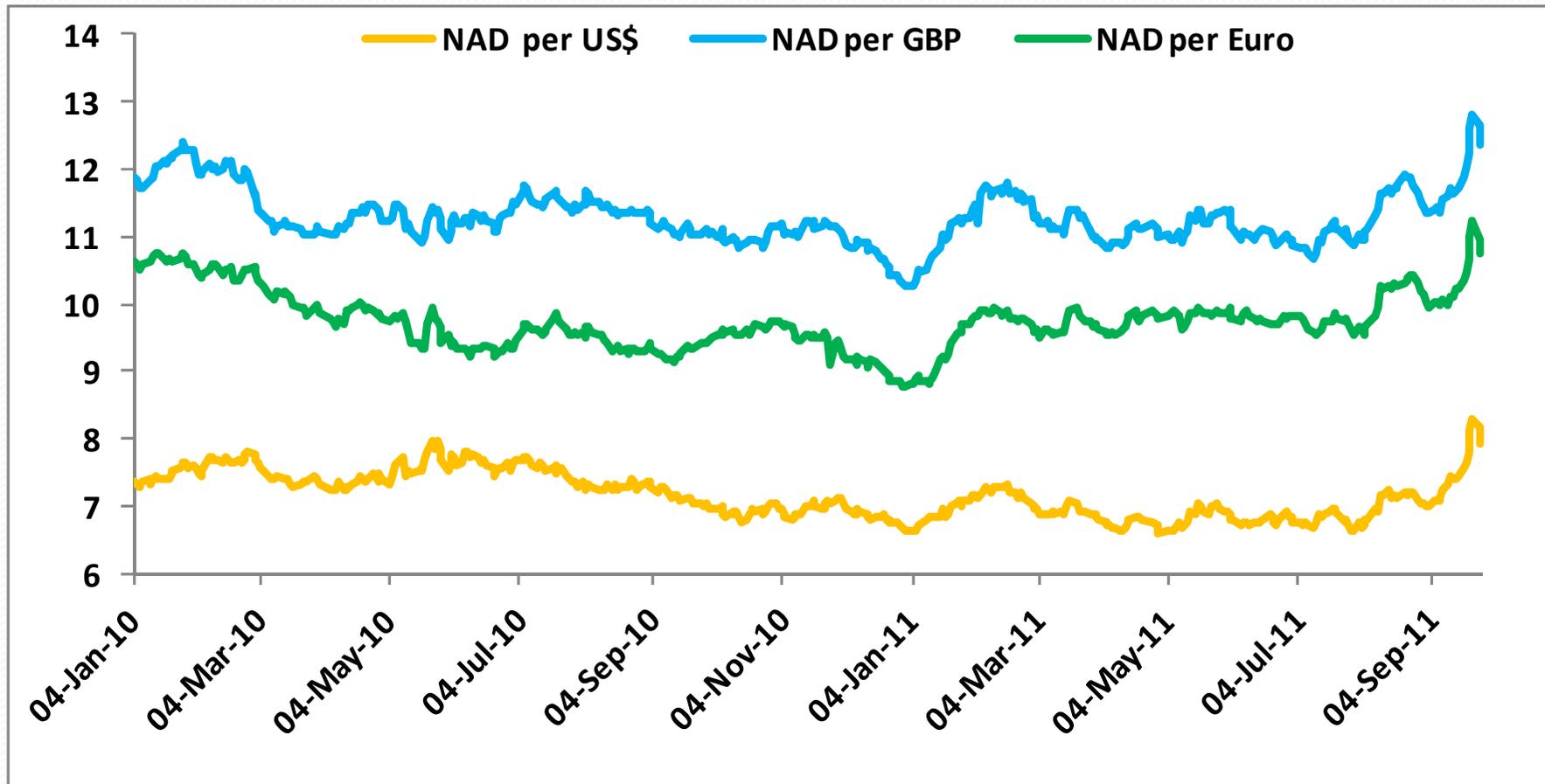
Crop price trends – wheat and maize



Wheat and maize prices

- Prices for white maize increased by a whopping 69 per cent since Jan. 2011 compared to 4 per cent increase in wheat prices
- Influenced by climatic conditions and demand
- Larger than expected area planted in USA for maize but drought put doubts about larger harvest. In Europe bigger harvest expected despite prolonged drought at beginning of planting season.
- Russia lifted ban on 1 July 2011 on wheat exports that was put in place last year after devastating drought and field fires. However, droughts in USA and Australia contributed to modest price rises. In addition, farmers use wheat as feed for livestock due to high corn prices.
- High international food prices trickling down to Namibia resulting in food price inflation exceeding average inflation rate.

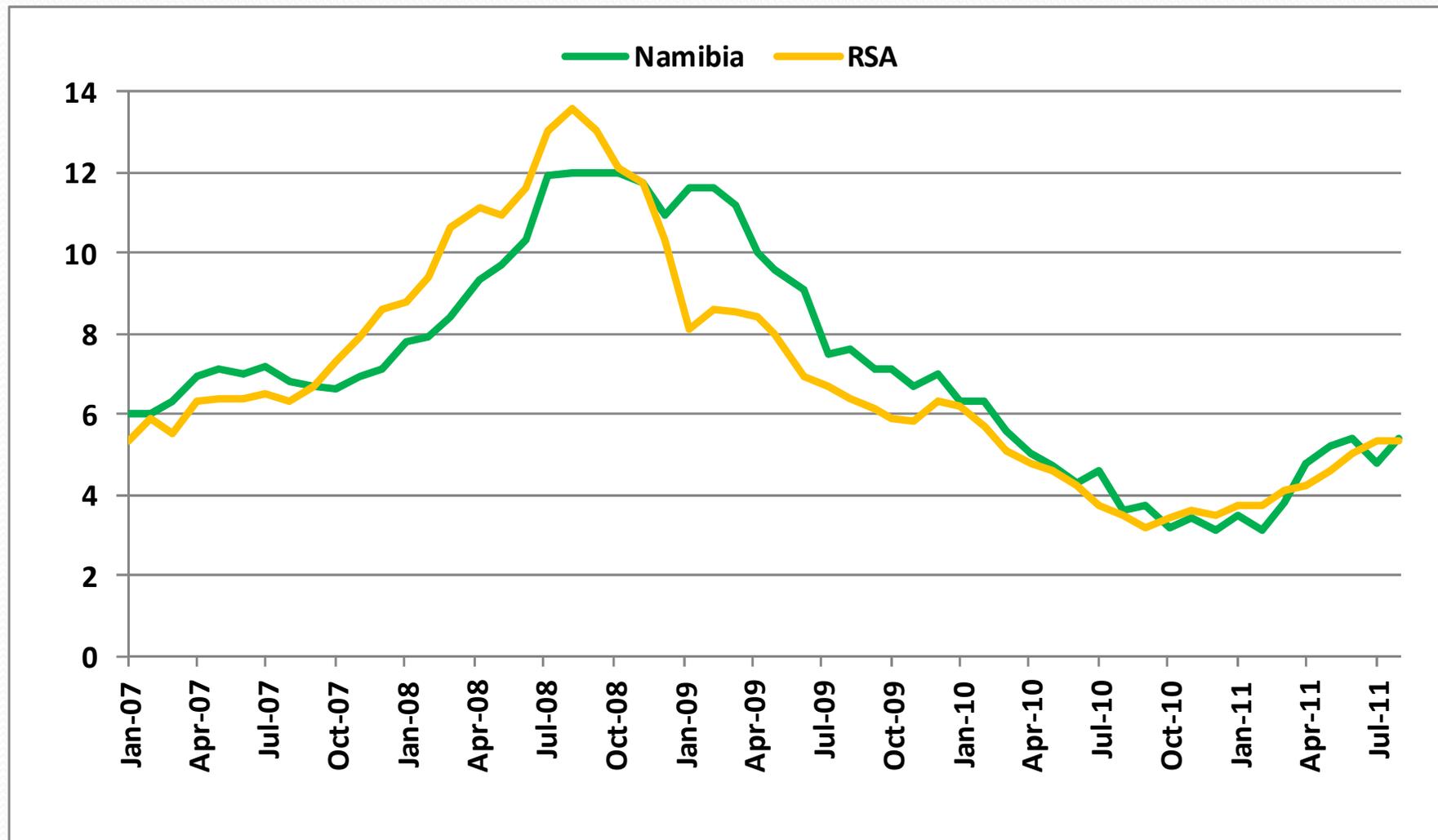
Exchange rate trends



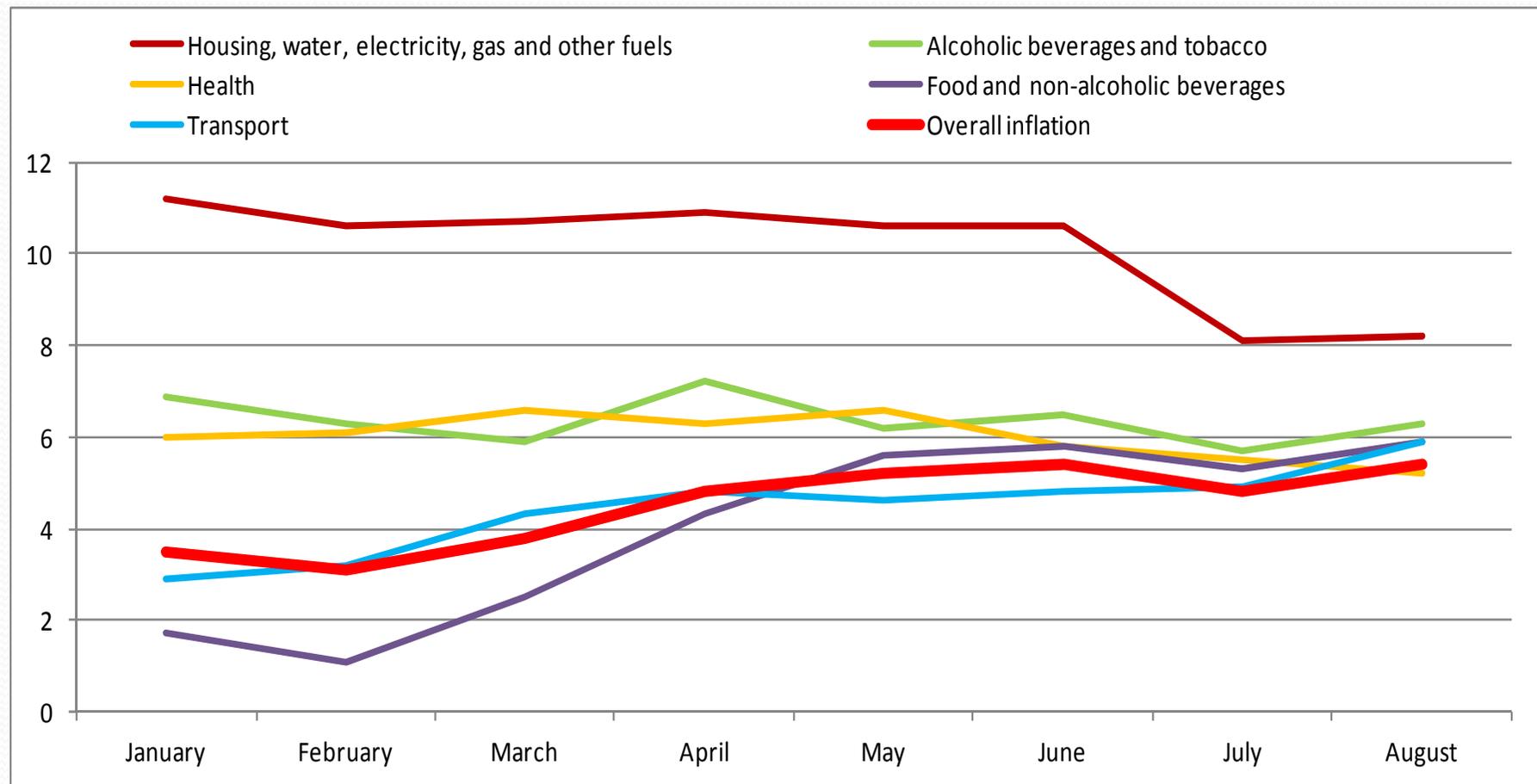
Exchange rate trends

- Namibia dollar lost 20.0, 20.5 and 21.5 per cent against the USD, GBP and Euro respectively since Jan. 2011, to a large extent during Sep. 2011
- Investor sentiments turned against emerging markets owing to global economic uncertainties
- Lower commodity prices reduces demand for local currency, in particular gold prices
- Weaker Namibia dollar will promote non-traditional exports and make the country more competitive as tourist destination
 - ...but will increase prices for imports in particular oil
 - ...which will benefit revenue from custom duties (SACU)

Inflation



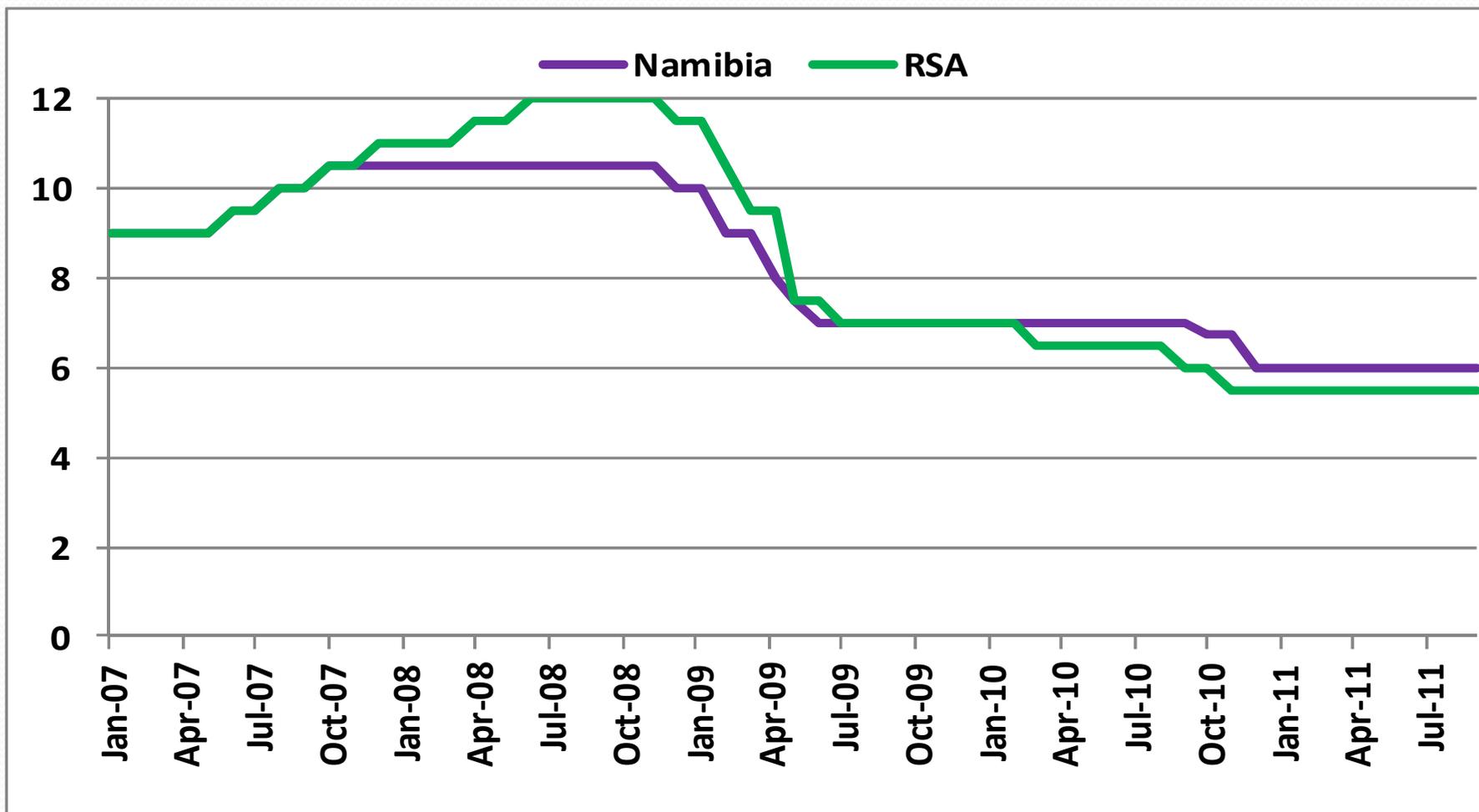
Inflation – selected categories



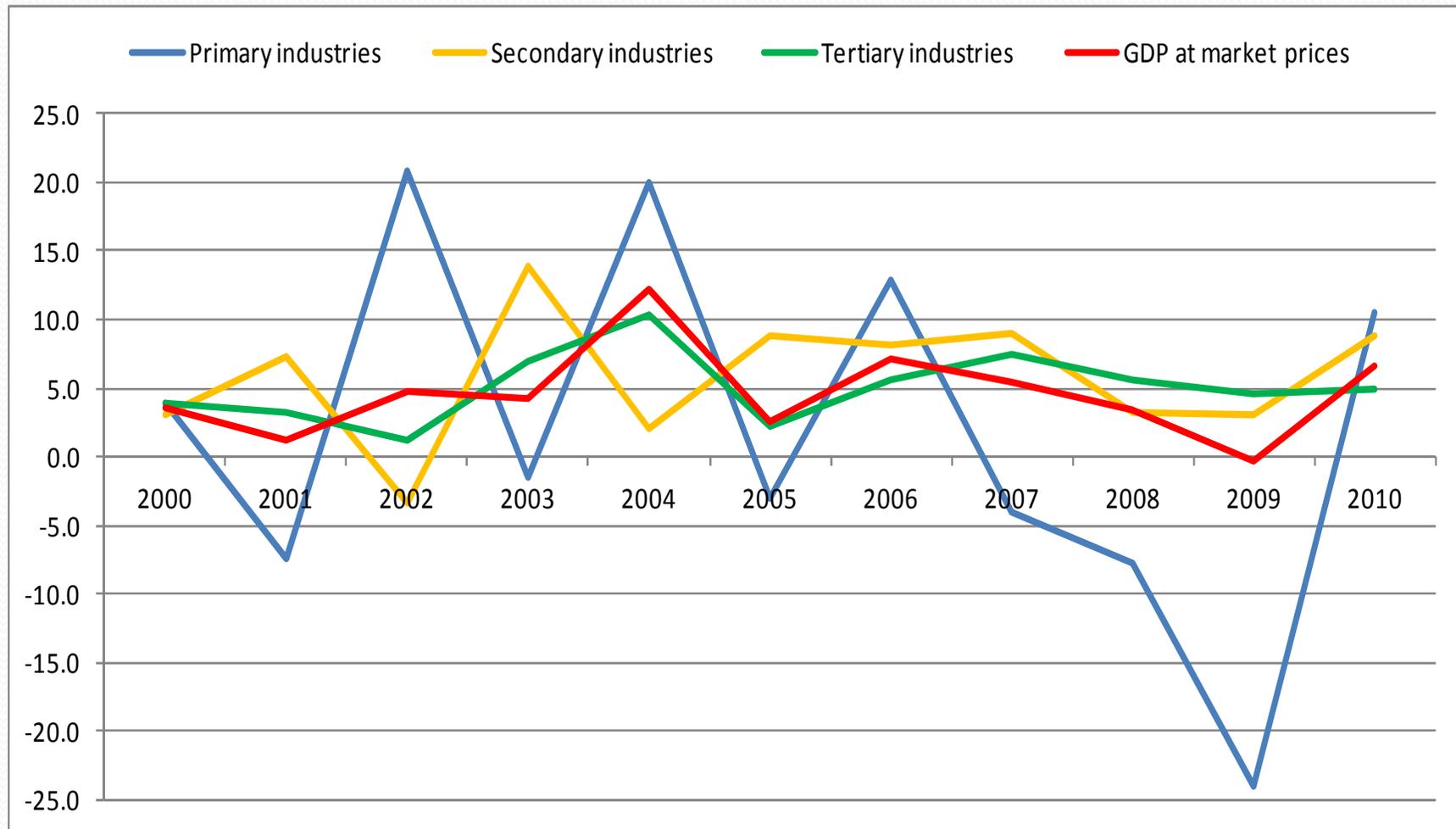
Inflation – some highlights

- Housing, water, electricity, gas and other fuels consistently high price increases, in particular sub-categories of ‘rent’ and ‘water, sewerage, waste removal’
 - Electricity prices adjusted with effect of 1 Sep by 13.1 per cent will result in inflation of housing etc. increasing by 2.7 percentage points to 10.8 per cent.
 - Rising global food prices showing impact on domestic food inflation
 - Despite stable fuel prices over past three months, transport inflation is on the increase. Expected to pick up owing to currency depreciation.
 - Inflation rate of on average 5 per cent expected for 2011, but moving beyond 6 per cent during last quarter of the year.

Interest rates



GDP growth - Namibia



GDP growth 2010 – some details

- Higher than expected growth in 2010 supported by strong recovery of the mining sector (+24.6 per cent)
 - Diamond mining grew by 34.9 per cent
 - Other mining activities grew by 0.9 per cent
- ...and the manufacturing sector (+9.1 per cent)
 - Other manufacturing 21.4 per cent (incl. mineral beneficiation)
- ...as well as construction (10.8 per cent) and wholesale and retail trade (7.9 per cent)
- Despite good rainy season crop production declined by 0.2 per cent, while output of the fisheries sector fell by 5.2 per cent

What to expect for 2011?

- Rather stagnant output of diamonds and uranium owing amongst others to production interruptions due to strong rainfall and recently strikes
- Slight improvement expected in tourism (arrivals at HKIA slightly up)
- Ohorongo cement and resumption of copper mining at Matchless and Otjihase mines will support economic growth
- Government's TIPEEG coming off slowly (as expected), hence not much impact on growth this year
- Prevailing global uncertainties expected to depress commodity demand
- GDP growth in the range of 4 per cent

Social impact

- A number of jobs created, but since economic growth driven by capital-intensive mining sector, new jobs are not sufficient to change unemployment situation – could change once TIPEEG has reached momentum
- Due to persisting unemployment and lack of access to productive assets and despite government's social grants, poverty remains high – as indicated by number of people in need for food assistance
- Consequently income distribution remains highly skewed

Opportunities

- Bold policy decisions needed to improve the infrastructure – power (Kudu Gas, renewable energy), water (desalination plant), railway (upgrading needed)
- Agriculture
 - Increase productivity in subsistence agricultural sector through improved land management (conservation agriculture)
 - Agro processing and develop new products from agricultural produce (such as Mahangu cookies etc.)
 - Investigate sustainable green scheme projects along the coast
 - Explore potential of indigenous agricultural products further (Hoodia, Devil's claw, Bambara nuts, Maroela, etc.)
- Develop capacity to undertake Research and Development and invest in R&D (private and public funds needed)



Thank you

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