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August 2011

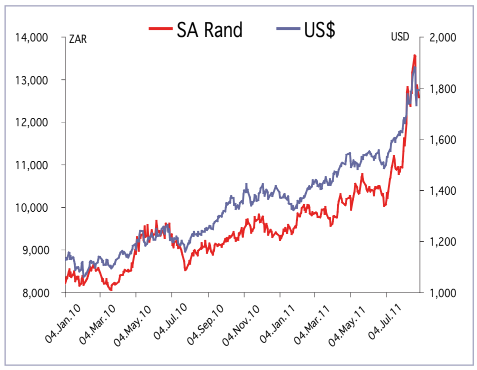
Economy Watch Namibia

Gold prices

Price for an ounce (24.35 grams) of gold in US dollar

Gold has again proven its status as a safe haven in times of uncertainties. The gold price increased by 29 per cent in US Dollar terms and 35 per cent in South African Rand (ZAR) terms respectively since the beginning of 2011 and almost exceeded USD1,900 per ounce, before it dropped to below USD1,800 towards the end of August. Various factors have contributed to the record-high price levels including the weak US dollar and expectations of a further quantitative easing by the Federal Reserve Bank of the USA, which eventually did not materialise, and concerns about the performance of the global economy in general. In particular China and India experienced strong demand for gold owing to a growing middle class. Demand rose by 25 per cent and 38 per cent respectively during the second quarter of 2011. In addition, central banks increased their stocks of gold. Since economic uncertainties will remain for quite a while and because we are approaching the festive season which usually supports higher demand for luxury items, we expect gold prices to remain at high levels although with the usual fluctuations due to day-to-day events.

Gold price in South African rand and US dollar per ounce, Jan. 2010 to Aug. 2011



Source: World Gold Council, daily data

Oil prices

NAD – Namibia dollar

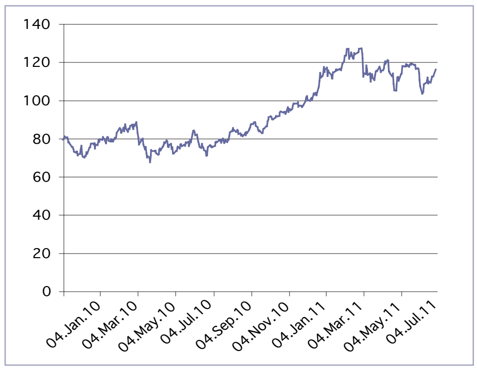
USD – United States of America dollar

Barrel of oil – 158 litres

After a steady upward trend between the third quarter of 2010 and May 2011 oil prices have fluctuated within a band of USD110 to USD120 per barrel Europe Brent oil ending the month of August 20.6 per cent higher than the beginning of the year. Various factors contributed to the drop in oil prices such as the poorer than expected economic performance of the USA and a slow-down in economic growth in Europe that reduces the demand for oil in these regions. Recently, the advance of the Libyan rebels on the remaining Gaddafi strongholds raised expectations of a resumption of oil production in Libya. Libya produced 1.6 million barrel of oil daily before the uprising started accounting for about 2 per cent of total world output. These expectations appear to be overly optimistic since it may take more than a year to repair damage done to the oil infrastructure and reach pre-crisis output levels. On the other hand, market reacted with higher oil prices to news of declining oil stockpiles in the USA. In addition, the northern hemisphere is approaching the colder winter months and hence the heating period that increases the demand for oil and could result in upward pressure on oil prices.

Given the prevailing uncertainties concerning the security situation in mainly, but not exclusively North Africa and the Near and Middle East, as well as regarding the global economic growth path and currency alignments, we are in for further price volatilities, but in an upward direction.

Oil prices in USD per barrel for Europe Brent Oil, January 2010 to August 2011



Source: Energy Information Administration, daily data

Crop prices

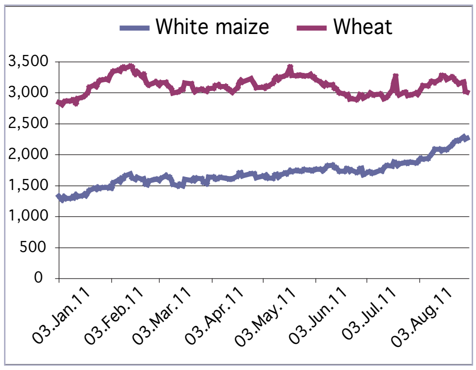
White maize and wheat are major crops produced and consumed in Namibia but prices are influenced by world market prices.

Wheat prices have fluctuated during this year, but on an upward path rising by 6.0 per cent compared to the beginning of 2011. Maize prices, on the other hand, have increased steadily with only short interruptions, and are now up by 70.8 per cent and 59.3 per cent for white and yellow maize respectively compared to beginning of January 2011. Wheat and maize futures show in different directions and point at rather lower wheat prices but steadily increasing maize prices until the end of 2011. Market expectations that Russia – a major wheat producer - will soon open her borders again for wheat exports after they have been closed for a year

Wheat is grown under irrigation only, while 50 per cent of commercially produced maize is irrigated.

support lower price expectations. Maize markets on the other hand are apparently more influenced by signs of lower corn yields in the USA because of droughts and in spite of larger areas being cultivated than by signs of a bumper harvest in some EU countries after these countries experienced droughts during the planting season. These reversals in yield forecasts indicate that agricultural output forecasts in the early season have to be treated with quite a bit of caution. The Namibian Consumer Price Index shows that Namibian consumers are somehow cushioned against international maize price volatilities since maize price (and mahangu price) inflation has been rather modest so far this year. This can in part be attributed to the pricing agreement between producers and processors (millers) in Namibia that are based on the five-year moving average price for maize at the South African Futures Exchanges (SAFEX). While this arrangement protects Namibian producers and consumers against international markets' price volatilities, it implies that consumers will feel the pinch of currently high prices in the following years.

Wheat and white maize prices in ZAR per metric tonne, Jan. 2011 to Aug. 2011



Source: SAFEX, daily data

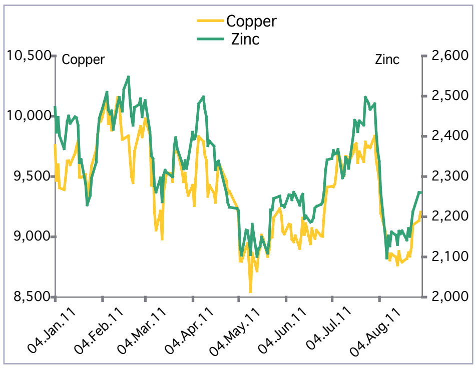
Mineral prices

Price for unprocessed minerals

Copper and zinc prices started the year on a high level that they could not sustain. Prices have closed the month of August about 5.7 per cent and 8.6 per cent lower respectively. However, both prices are characterised by strong fluctuations indicating that they are driven by investor sentiments rather than by medium-term demand prospects. Copper prices varied within a band of USD8,500 to USD10,500 per ton over the year, while the zinc price band has been narrower ranging from USD2,100 to USD2,500 per ton. Since the slower economic recovery will depress demand for the minerals, it is expected that investor sentiments will continue to strongly influence the price movements.

In addition, uranium prices are under pressure since the accident at the Fukushima Daiichi nuclear power plant in Japan. Uranium dropped by some 21.6 per cent ending the month of August at USD49.00 per pound. This is the lowest level since the middle of October 2010.

Copper and zinc prices in USD per ton Jan. 2010 to Aug. 2011

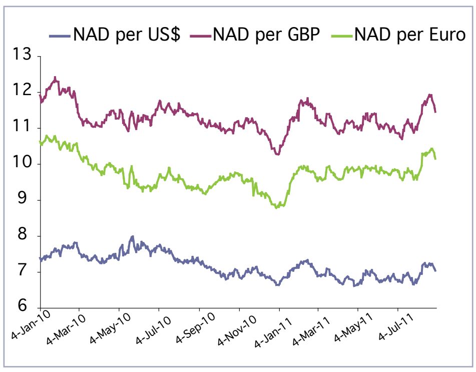


Source: London Metal Exchange, daily data

Exchange rates

The Namibia dollar (NAD) depreciated against major currencies in recent weeks, mainly because of investor sentiments turning against emerging markets in the wake of signs of a slow-down in global economic growth across the world. Although the Namibia dollar gained ground again during the last week of August it lost 6.0 per cent, 11.4 per cent and 15.2 per cent vis-à-vis the US dollar, British pound and Euro respectively compared to the beginning of 2011. Most experts agree that the South African rand and hence the Namibia dollar is overvalued and hence the depreciation does not really come as a surprise. The depreciation is good news for exporters since export earnings in local currency will increase. However, since the prices of imported goods and services, most notably of oil, will also rise, the depreciation can result in imported inflation that will ripple through the whole economy.

Exchange rates for major currencies Jan. 2010 to Aug. 2011



Source: South African Reserve Bank, daily data

Hanns Seidel Foundation Namibia

Economy Watch Namibia is compiled by IPPR Research Associate Klaus Schade (economist@ippr.org.na) and is financially supported by the Hanns Seidel Foundation (HSF). Economy Watch can be downloaded from www.ippr.org.na or www.hsf.org.na and printed copies are available from the IPPR or HSF

Inflation

Inflation – price increases in per cent for goods and services compared to the previous month (monthly inflation rate) or the same month in the previous year (annual inflation rate).

The calculation of the inflation rate is based on a consumption basket that contains all items an average household spends money on.

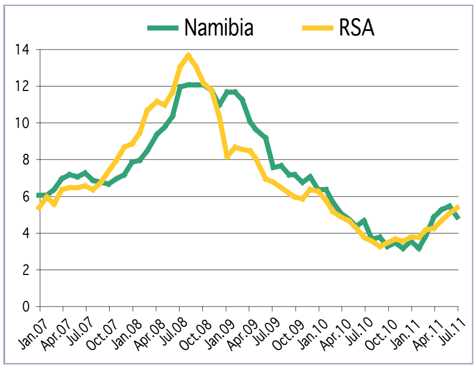
After the annual inflation rate increased from 3.1 per cent in February 2011 to 5.4 per cent in June 2011 it dropped to 4.8 per cent in July 2011. The main driver of price increases has been the category of 'Housing, Water, Electricity, Gas and Other Fuels'. This category carries the second highest weight in the consumption basket, 20.59 per cent, and hence strongly influences the overall inflation rate. Food and non-alcoholic beverages account for 29.63 per cent of average household expenditure while transport ranks third place with 14.79 per cent.

Since the beginning of 2011 prices for housing etc. increased by more than 10 per cent compared to the same month last year. Over the past couple of years, the months of January and July witnessed higher price increases in this category than other months. One explanation is that the rent for accommodation accounting for 15.26 per cent of total household expenditure, and hence the item with the largest weight in this category, is often increased at the beginning of the year, while the Municipality of Windhoek implements its annual increases for water, electricity and other housing related services usually in July. However, the municipality has not yet increased the prices for electricity this year since it is awaiting approval from the Electricity Control Board. Electricity accounts for 2.07 per cent of total household expenditure and carries the second highest weight in the category of housing etc. following the item 'rent'. Stable electricity prices in July 2011 explain therefore to a large extent the drop in the annual inflation rate for the category of housing from 10.6 per cent in June 2011 to 8.1 per cent in July 2011. Subsequently, almost half of the drop of the overall inflation rate from 5.4 per cent to 4.8 per cent in July can be attributed to the postponement of electricity price hikes. The 13.1 per cent electricity price increase taking effect from 1 September 2011 will translate into an inflation rate increase by 0.27 percentage points.

Other categories that showed above average price increases have been alcoholic beverages and tobacco and health. On the other hand, despite substantial price increases for crops such as wheat and maize (see above) food prices like transport prices have only modestly increased this year. While transport inflation fluctuated during this year and remained for most of the time below the overall inflation rate, food and non-alcoholic beverages have exceeded over the past three months the average inflation rate. It appears that the high international crop prices are trickling through to the consumer. Maize and millet flour and grain carry a weight of 6.23 per cent of total household expenditure and account for 21 per cent of the weight of the item 'food and non-alcoholic beverages'. Since crop prices are increasing further, we expect that prices for maize, millet and bread will rise of the next couple of months and contribute to the increasing inflation rate. On the other hand, stable or downward adjusted fuel prices have helped to contain transport inflation over the past three months.

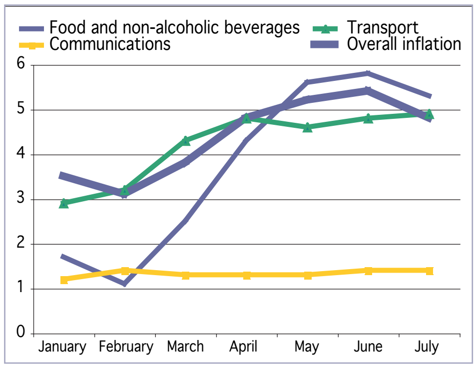
The weakening of the Namibia dollar, the implementation of the electricity price increase and the trickling through of higher international food prices are expected to result in further inflationary pressure.

Annual inflation rates for Namibia and South Africa, January to July 2011



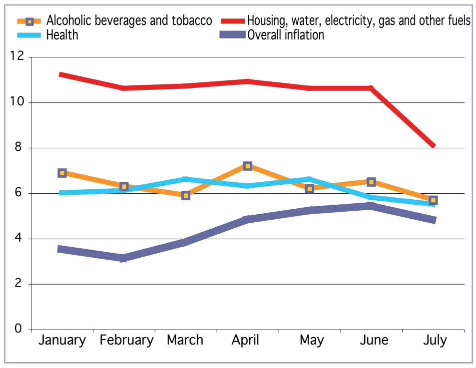
Sources: Central Bureau of Statistics (Namibia), South African Reserve Bank

Items with modest inflation rates, January to July 2011



Source: Central Bureau of Statistics (Namibia)

Items with above average inflation rates, January to July 2011



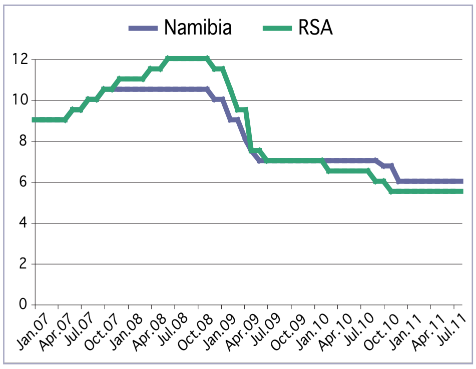
Source: Central Bureau of Statistics (Namibia)

Interest rate

Repo rate: The interest rate the Bank of Namibia charges for lending money to commercial banks

We assumed previously that the Bank of Namibia might increase the repo rate towards the end of 2011 owing to increased inflationary pressure. However, global economic prospects have changed slightly for the worse, which could have a negative impact on the demand for Namibia's commodities. Hence, in the absence of strong stimulus from international markets, monetary policy needs to support the growth of the domestic market. Consequently, the Executive Committee of the Bank of Namibia decided on the 24 August 2011 to keep the repo rate unchanged at 6.00 per cent. This stance is also supported by healthy foreign reserves that are sufficient to maintain the currency peg with the South African rand. There is even speculation in the market that the South African Reserve Bank could cut the interest rate towards the end of the year, in order to stimulate domestic demand and hence economic growth. While this remains uncertain, we believe now that interest rates remain at the current level until well into 2012.

Interest rates – South Africa and Namibia, January 2007 to July 2011



Source: Bank of Namibia and South African Reserve Bank

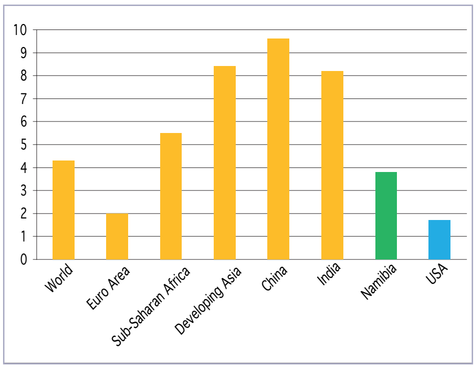
Economic growth

Economic growth is measured using the Gross Domestic Product (GDP), which is the value of goods and services produced within a country less the costs of inputs

Our conservative growth estimates for 2011 have been supported by recent economic indicators. Uranium production figures for the first half 2011 indicate substantially lower output than during the first half of 2010. This is mainly attributed to adverse weather conditions hampering extraction and lower grades. Although output increased towards the end of the first half it has to increase substantially in the second half of 2011 to reach last year's total output. Likewise, diamond mining output is expected to remain on the same level as in 2010. Furthermore, the slow pace of TIPEEG implementation does not act as a stimulus for domestic demand and hence economic growth.

In addition, signs from across the globe point at a slow-down of the economic recovery, even in buoyant economies such as India, where higher interest rates owing to increasing inflation have resulted in slightly lower GDP growth in the second quarter (7.7 per cent) compared to the first quarter (7.8 per cent). Austerity measures in the USA and Europe in order to cut budget deficits combined with high unemployment rates will dampen domestic demand and eventually production. Consequently, growth estimates for the USA were revised downward from 2.7 per cent to 1.7 per cent for 2011. Hence, we cannot expect much support from the global economy for the domestic output.

Economic growth prospects for selected regions and countries



Source: International Monetary Fund: World Economic Outlook, June 2011; Namibia; own estimate, USA: Office of Management and Budget (Sep 2011)

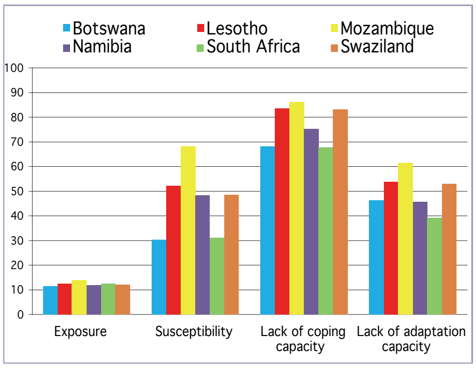
World Risk Index

Consists of four components:
Exposure
Susceptibility
Coping capacity
Adaptation capacity concerning climate change

All indicators are aggregates of sub-indices

The Institute of Environment and Human Security of the United Nations University released the first World Risk Index report in June 2011. 173 countries are included in the report. The index consists of four main indices that are divided into various sub-indices. While the exposure component refers to the risk of natural catastrophes, the other three indices refer to the vulnerability of the society resulting from such a catastrophe in terms of proneness (probability of damage), coping capacity (capability to cope with the catastrophe) and the capacity to adapt to and to prepare for a changing environment. The higher the scores the more vulnerable a country is. Countries in Southern Africa are not severely exposed to natural catastrophes. However, the vulnerability of a society can be relatively high owing due to the lack of administrative capacity to cope with and adapt to such calamities. Namibia fares better than Lesotho, Mozambique and Swaziland, but trails behind Botswana and South Africa in all indicators. The floods in recent years in the north of Namibia have indicated that there is room to improve the capacity to respond to such adverse climatic conditions. Moreover, more research is needed into the possible impacts of climate change on Namibia in order to adapt to and to be prepared for the new challenges.

World Risk Indicators for Southern African countries in comparison



Source: World Risk Report

Further reading: United Nations University – Institute for Environment and Human Security, 2011, Welt Risiko Bericht (published in German) and Concept for a World Risk Index (English).
Accessed: www.weltrisikobericht.de
In addition: IPPR Democracy Report May 2011: Climate Change in Namibia – Impacts, decisions, opportunities