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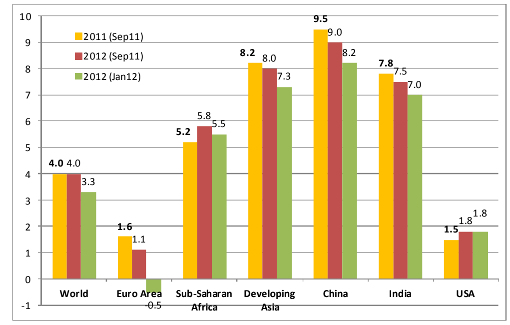
Economy Watch Namibia – March 2012

Global economic prospects

The global economy is again in limbo. While optimism about an economic recovery reigned in early 2011, these hopes were shattered as the year proceeded. The International Monetary Fund reduced its global growth forecast for 2011 from 4.4 per cent in January 2011 to 4.0 per cent in September 2011. The forecast for 2012 was also adjusted downward from 3.3 per cent (September 2011) to 2.5 per cent in January 2012. The less optimistic outlook is mainly fuelled by the continuing sovereign debt crisis in the eurozone area amid high unemployment there as well as in the USA. The eurozone countries are expected to enter again an era of recession with the exception of their strongest economy, Germany, which is likely to record a positive growth rate of 0.3 per cent. The lower than previously anticipated growth rates have an impact on the demand and consequently the price of commodities that is going to affect raw material exporting countries such as Namibia.

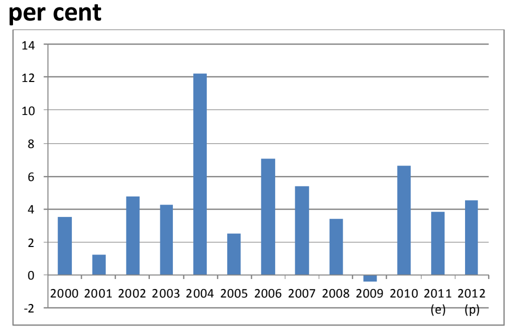
After showing a robust recovery in 2010 with a GDP growth rate of 6.6 per cent, the Namibian economy is likely to record 3.8 per cent for 2011 owing mainly to a drop in mining output following adverse weather conditions at the beginning of 2011 and industrial action in the second half of the year. 2012 could become a better year based on increased production in the non-diamond mining sector (copper and uranium), full production at the cement factory that started production a year ago, government's TIPEEG programme gaining some momentum and commencements of other new business activities, such as the poultry factory near Windhoek that could cover Namibia's demand for broilers. A growth rate of 4.5 per cent will be possible. However, the external environment remains volatile and can suppress a stronger economic performance with subsequent negative implications for the labour market.

IMF growth estimates for 2011 and forecasts for 2012 as adjusted between September 2011 and January 2012



Source: IMF, World Economic Outlook, various publications.

GDP growth for Namibia, 2000 to 2012 in per cent



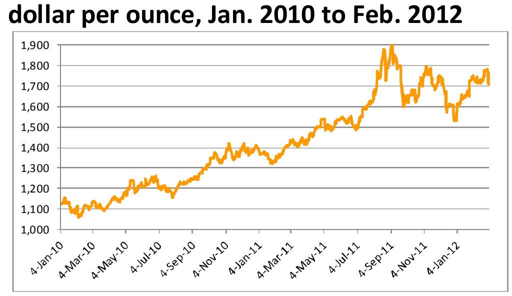
Sources: Central Bureau of Statistics for 2000 to 2010 data; authors' own estimates and projections for 2011 and 2012.

Gold price

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

Gold is regarded by many investors as a safe haven in times of economic and political uncertainties. The precious commodity proved this once again in the second half of 2011 at the heights of the European sovereign debt crisis and amidst concern that the US economy might slide into a recession. The gold price hit the USD1,900 per ounce mark in September 2011 before it retreated to lower levels owing to fears of a gold bubble, and since some investors wanted to rake in the gains. Gold closed the year 2011 10.3 per cent higher and has gained another 11.5 per cent since the beginning of 2012. Since the uncertainties concerning the sovereign debt crisis in Europe and the high debt levels in the USA are prevailing, it is expected that gold will display a strong performance during 2012. Markets expect gold to cross the USD1,900 mark in the second half of 2012 and exceed USD2,000 by the end of this year.

Gold price in South African rand and US dollar per ounce, Jan. 2010 to Feb. 2012



Source: World Gold Council, daily data

Oil and fuel

Oil prices increased by 12.8 per cent during 2011 ending the

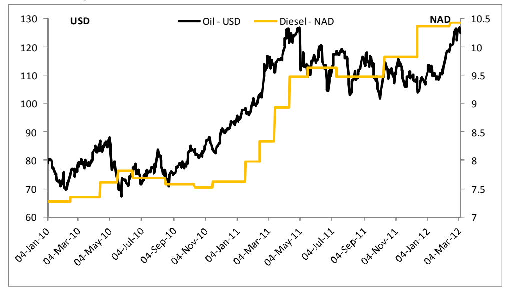
prices

NAD – Namibia dollar
USD – United States of America dollar
Barrel of oil – 158 litres

year slightly below USD110 per barrel for Europe Brent Oil. However, the Namibian consumer has to dig much deeper into the pockets, since the depreciation of the Namibia dollar against the US dollar during 2011 resulted in fuel prices increasing by 29.5 per cent (Petrol 93) and 35.9 per cent (diesel) reaching levels last seen in the middle of 2008. Since the beginning of 2012, oil prices increased by 12.5 per cent exceeding USD125 per barrel.. The future oil prices are strongly influenced by geopolitical events. The stand-off between western countries and Iran over the latter's nuclear power programme; the civil war in Syria; the production stop in South Sudan owing to a dispute over payments to Sudan for the use of oil pipelines and other infrastructure, and insecurities in Nigeria – to mention a few – result in uncertainties regarding the future supply of oil. On the other hand, global downward revisions of growth prospects and the approaching summer in the northern hemisphere will have a dampening effect on the demand for oil. The consumer can expect some respite from a stronger local currency vis-à-vis the US dollar that will cushion further oil price movements.

The economic sectors hardest hit by fuel price increases are the transport sector, mining, fishing and agriculture. Since oil is a finite resource, prices are expected to increase to USD150 per barrel over the next few years and reach USD225 per barrel by 2035. Therefore, investment in fuel-efficient technologies and in alternative sources of energy, for instance replacing engines and generators with batteries and using renewable energy sources where possible, will reduce the vulnerability to fossil fuel supply and price shocks.

Oil prices in USD per barrel for Europe Brent Oil and diesel prices in NAD per litre, January 2010 to March 2012



Source: Oil price - Energy Information Administration, daily data. Fuel price – Ministry of Mines and Energy.

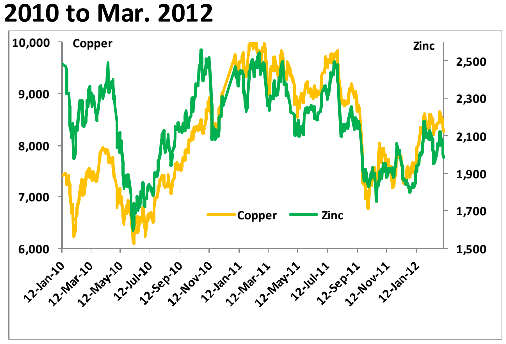
Mineral prices

Price for unprocessed minerals

Copper and zinc prices closed 2011 22.5 and 26.0 per cent lower, but gained some ground again since the beginning of 2012. Copper prices have increased by 12 per cent and zinc prices by 16 per cent. However, the future does not look too rosy, since the world economy does not really gather momentum and in particular, China just reduce economic growth target from 8.0 per cent to 7.5 per cent annually, which is going to reduce the demand for commodities. Furthermore, rising fuel costs have resulted in fewer vehicles being produced in China, which led to future prices for copper, zinc and other minerals falling.

The price of Uranium shed 17.2 per cent during 2011 owing mainly to the accident at the Fukushima nuclear power plant in Japan, and closed the year at USD51,75 per pound. The price has stayed at this level since then, which might lead to new uranium mining developments being stretched over a longer period of time in order to wait for improved market conditions.

Copper and zinc prices in USD per ton, Jan. 2010 to Mar. 2012



Source: London Metal Exchange, daily data

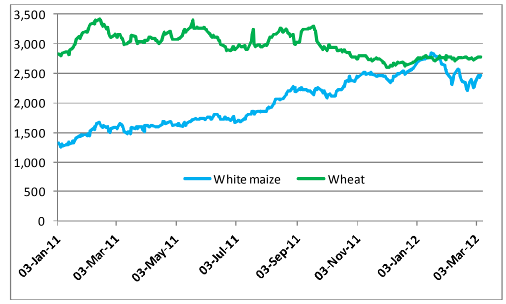
Crop prices

ZAR – South African rand
White maize and wheat are

After steep increases in maize prices during 2011 – white maize closed the year 98 per cent higher – price pressure has eased since the beginning of 2012. White maize prices declined by 16.6 per cent so far, while wheat prices dropped another 1.3 per cent after ending 2011 4.6 per cent lower. The divergent trends in wheat and maize prices major crops produced and consumed in Namibia, but prices are influenced by world market prices.

during 2011 were mainly caused by the following factors: Russia as one of the largest wheat exporters opened her borders again in July 2011, after closing them a year earlier owing to a devastating drought and field fires. In addition, other major producers reported good harvests resulting in stock levels reaching a ten-year high. On the other hand, changing consumer preferences in emerging markets have led to increased demand for pork and beef and consequently for maize as the preferred livestock fodder. In addition, maize is used increasingly to produce bio-diesel. Owing to high maize prices, it is expected that farmers are going to plant larger areas with maize, which will reduce price pressure if the yield increases at the same pace, while livestock farmers are switching to wheat as a substitute for maize, which can further ease price pressure for maize. Future prices for maize indicate lower prices during 2012, while wheat prices might recover from the downward trend experienced over the past year. The easing of high maize prices is good news for the consumer, since it is going to reduce inflationary pressure.

Wheat and white maize prices in ZAR per metric ton, Jan. 2011 to Mar. 2012



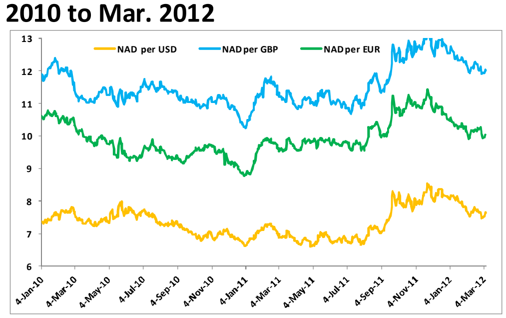
Source: SAFEX, daily data

Exchange rates

Price in Namibia dollar for one unit of a foreign currency

The Namibia dollar depreciated by 22.8, 22.2 and 18.9 per cent against the US dollar, British pound and Euro respectively during 2011. The depreciation was mainly caused by investor becoming more risk averse in the midst of the European sovereign debt crisis and hence, turning their back against emerging markets. Since the beginning of 2012, however, the local currency strengthened again by between 4 and 5 per cent respectively. Since real interest rates are higher in South Africa than in Europe and the USA, we expect currency inflows that can at least maintain the current exchange rate levels during this year. While the stronger currency can suppress imported inflation, in particular of oil and oil-based products, it reduces the competitiveness of Namibian exporters and, thereby, impacts negatively on economic growth and job creation.

Exchange rates for major currencies, Jan. 2010 to Mar. 2012



Source: South African Reserve Bank, daily data

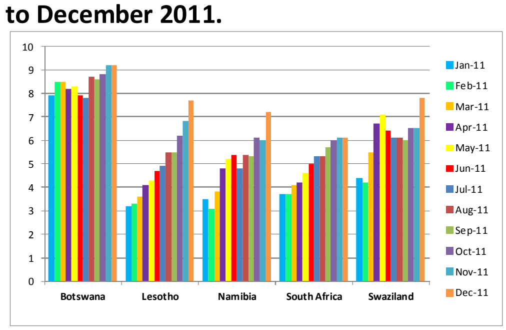
Inflation

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).

Namibia has experienced one of the lowest inflation rates within the Southern African Customs Union during 2011, ending the year with an annual inflation rate of 5.0 per cent – on par with Lesotho and South Africa. Inflation rates in these countries that are also part of the Common Monetary Area (CMA) and, thereby, follow South Africa's monetary policy closely, stayed within the inflation target of 3 to 6 per cent set by the South African Reserve Bank. The fourth country of the CMA, Swaziland, moved slightly above the upper band with an annual inflation rate of 6.1 per cent. Botswana – not a member of the CMA – ended 2011 with an annual inflation rate of 8.5 per cent.

The main drivers of inflation in Namibia have been the categories of 'Housing, water, electricity, etc.' with an annual inflation rate of 9.8 per cent, 'Alcoholic beverages & tobacco' with 6.3 per cent, 'Transport' and 'Food' with 5.2 per cent and 5.0 per cent respectively. Since 'Food', 'Housing' and 'Transport' account combined for 65 per cent of the items in the consumption basket, any price movements in these categories have a strong bearing on the overall infla-

Inflation rates for SACU countries, January to December 2011.



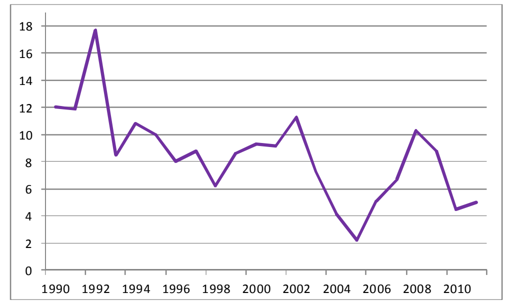
Source: Southern African Customs Union, 2012, SACU Inflation Report, February.

tion rate. These three categories, however, displayed divergent price trends. While price increases for 'Housing' eased substantially during 2011, price pressure grew for the other two categories. The recent increase in excise duties ('sin taxes') will result in higher inflation rates for the category of 'Alcoholic beverages', while the drop in maize prices on international markets is expected to filter through to food prices and ease the price pressure. We expect further electricity price increases in the middle of this year and continuous strong demand for houses that will result in upward price pressure for the category of 'Housing etc.' Uncertainties remain concerning oil prices (see above), while the stronger Namibia dollar could cushion somehow against the effects of higher oil prices. Overall, we expect inflation to move towards 7 per cent on average during 2012.

But what do these inflation figures really tell us? First, we need to keep in mind that the calculation of the Consumer Price Index and subsequently the inflation rate is based on a consumer basket. The basket contains all the items the average Namibian household spends money on. Since the average household does not spend the same amount every month on food and on – for instance –technical equipment such as a laptop all items carry a specific weight that is based on the household consumption as calculated from the Namibia Household Income and Expenditure Survey (NHIES). Obviously there are changes to the consumption basket over the years owing to shifts in consumer preferences and technological innovations - for instance in 1993/94 (the first NHIES) hardly any household spent money on laptops and there were no cell phones, which have become common households items now for almost all households. Hence, the weights have to be adjusted regularly in order to truly reflect the consumption patterns – and eventually the price increases. The release of the latest NHIES data of 2009/10 is a good opportunity to update the items of the consumption basket and the weights so that the inflation rate reflects the actual impact of price increases. Furthermore, Namibia is characterised by a huge discrepancy in income and hence, in consumption patterns. An average inflation rate for all households is therefore only an imperfect measure. Government should, therefore, consider calculating and publishing inflation rates for higher income and lower income households in addition to the average inflation rate. This would provide employers and trade unions with more accurate information for their wage negotiations that are usually based on the inflation rate. It will also provide government with the information necessary to adjust social grants regularly.

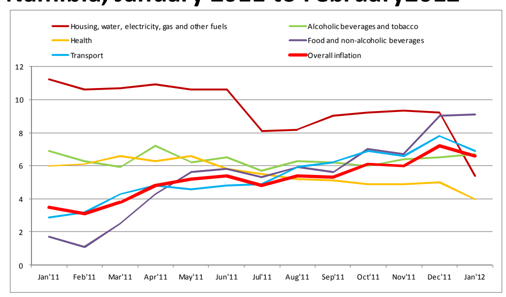
It is expected that the Bank of Namibia will keep the repo rate unchanged at 6.00 per cent at least during the first half of 2012 in order to support domestic demand, investment and, thereby, economic growth and employment creation.

Annual inflation rates for Namibia, 1990 to 2011



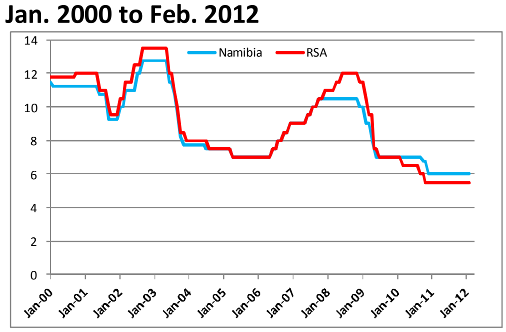
Source: Central Bureau of Statistics

Inflation rates for selected categories in Namibia, January 2011 to February2012



Source: Central Bureau of Statistics

Repo rates for Namibia and South Africa, Jan. 2000 to Feb. 2012



Sources: Bank of Namibia and South African Reserve Bank, monthly data.

Hanns Seidel Foundation

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