



Economy Watch Namibia – May 2012

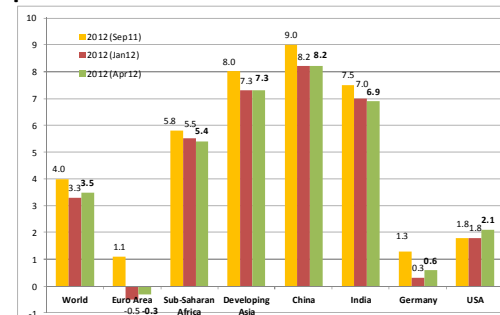
- Global growth prospects slightly more positive, but mixed signals from the domestic economy (Page 1)
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Global and domestic economic prospects

Global economic growth expectations are once again on a roller-coaster ride. After Greece reached an agreement with the EU and IMF earlier this year on the next bail-out package, investor sentiments became upbeat. In addition, fiscal and structural policy adjustments in major European economies such as Spain and Italy contributed further to a rise in investor confidence. This is also reflected in the International Monetary Fund's World Economic Outlook of April 2012, which paints a slightly rosier picture concerning global economic growth in 2012 and 2013. Global growth projections were adjusted upward from 3.3 percent to 3.5 percent for 2012. In particular, the IMF expects a milder recession in the eurozone (-0.3 percent) and stronger growth in Germany (0.6 percent) and the USA (2.1 percent). Growth for sub-Saharan Africa, on the other hand, was slightly reduced from 5.5 percent in January 2012 to 5.4 percent in its April publication. However, the good mood gave way to market jitters after the electorates in France and Greece voted in favour of parties that campaigned against strong austerity policies and conditionality for bail-out packages. No party won an outright majority in Greece and since parties failed to form a coalition government so far, there is a strong likelihood that new elections will be held in June. Stock markets reacted nervously and the Euro weakened against the US dollar, which is not necessarily bad news for European producers. A weaker Euro strengthens the competitiveness of European producers vis-à-vis their competitors and could contribute to stronger economic recovery and subsequently government revenue. Moreover, the shifts in political power provide an opportunity to balance fiscal discipline with growth-supporting policies that stimulate domestic demand and production. So far, the economic recovery has benefited mainly capital rather than labour with subsequent negative impacts on household demand. Risks remain, however, in particular owing to high rates of unemployment in Europe and the USA, continuous high public debt not only in Europe, but more so in the USA and Japan, and political instabilities in various areas that can have negative impacts, for instance, on the supply of oil.

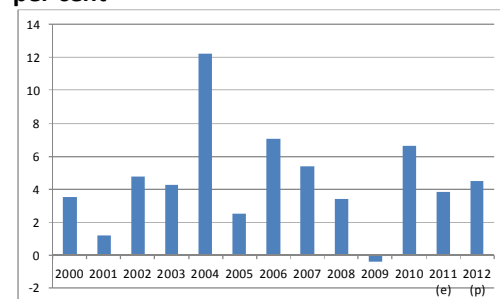
Namibia's economy stands to benefit from continuous strong demand for commodities such as copper and zinc, as well as government's expansionary budget. The increased consumer confidence is reflected in an all time high of the IJG Business Climate Monitor for March 2012. These senti-

IMF growth forecasts for 2012 in various publications



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.

ments are, however, somewhat qualified by Simonis Storm Securities' Manufacturing Survey for the first quarter 2012 that paints a less rosy picture based on a rather strong currency and increasing fuel prices. The recent drop in oil prices and the value of the local currency could result in improved business conditions for the manufacturing sector.

Mineral prices

Price for un-processed minerals

The gold price gained some 7.4 percent since the beginning of 2012; down from more than 10 percent during the first two months of the year. The price dropped from a high of USD1,750 per ounce in February and to about USD1,670 per ounce since the beginning of March. Since down-side risks for the global economic recovery remain, it is expected that gold prices will again recover during 2012.

Zinc and copper prices followed similar trends as gold prices during the first four months of 2012. They recovered by more than 10 per cent during the first two months after losses of 26 percent and 23 percent during 2011 respectively, but lost some ground recently, in particular after the elections in France and Greece. Prices remain, however, 6 percent and 5.6 percent higher than at the beginning of the year. Uranium prices remain flat since the beginning of the year at USD52 per pound with fluctuations not exceeding USD0.75 per pound.

Oil and fuel prices

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

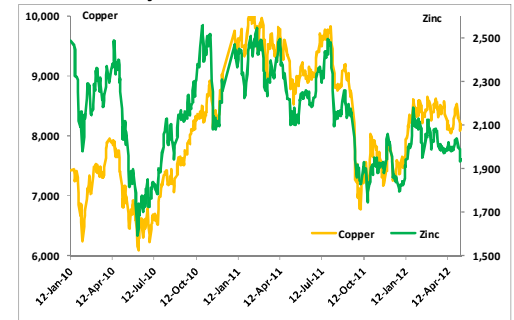
After strong increases during February and beginning of March 2012 mainly fuelled by increasing tensions between Iran and Western countries over Iran's nuclear power programme, oil prices have declined in recent days to levels seen last at the beginning of January. Oil prices dropped to USD110 per barrel on 8 May 2012 representing a slight decline of 0.58 percent compared to the beginning of January. The appreciation of the Namibia dollar vis-à-vis the USD resulted in a decline in oil prices in the local currency by 3.1 percent. The recent oil price trends are caused by lower oil imports by China due to the economic slowdown, a rise in oil stocks in the USA as well as a stronger US dollar, and worries about the pace of economic recovery in the euro-zone after the elections. Furthermore, tensions between Iran and Western countries have apparently eased after talks concerning Iran's nuclear power programme were praised as being constructive. However, geopolitical instabilities remain. The embargo by the EU for oil imports from Iran will become effective on 1 July and could trigger another round of price hikes. There appears also no end in sight to the conflict between Sudan and South Sudan and a resumption of oil exports from the disputed oil fields.

The fuel price hike becoming effective on Wednesday, 16 May 2012, indicates that lower oil prices on the spot market have not yet filtered through the supply chain and that the National Energy Fund has incurred an under-recovery. The announced increase of the dealers' margin by another 3 cents per litre in the near future and in general upward pressure on oil prices will make any longer-term easing of fuel prices unlikely. Consumers and producers need to adjust and use the scarce resource more efficiently.

Crop prices

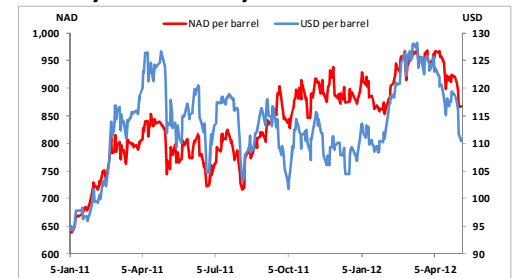
Both maize and wheat prices lost some ground during the

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



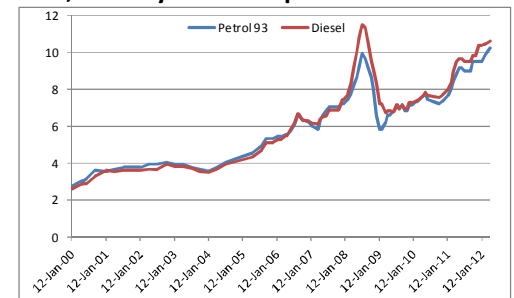
Source: London Metal Exchange, daily data

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



Source: Oil price - Energy Information Administration, daily data.

Petrol 93 and Diesel prices for Windhoek in NAD, January 2000 to April 2012



Source: Ministry of Mines and Energy.

ZAR – South African rand
 White maize and wheat are major crops produced and consumed in Namibia, but prices are influenced by world market prices.

first four months of 2012. After having almost doubled in 2011 white maize prices have declined by 24 per cent since beginning of 2012, while wheat prices continued their downward trend that started in the second half of 2011 and are 2 percent lower so far this year. Several factors are contributing to these trends. High price levels for maize provide incentives to plant larger areas with the crop and subsequently increase the supply. US farmers, for instance, are expected to plant the largest acreages in decades with maize. Furthermore, weather conditions for the USA, which is the largest maize producer, are regarded as favourable and have already resulted in an early planting season. Demand, on the other hand, remains subdued owing to the expected economic recession in the eurozone and a slow-down in economic growth in other major economies. Namibian consumers will, however, not immediately reap the full benefits from lower crop prices on the international market, since Namibian producers and millers have agreed on prices based on a five-year moving average. Namibia produces about 50 percent of the local consumption of maize of 120,000 tons and about a quarter of the consumption of wheat of 60,000 tons.

Exchange rates

Price in Namibia dollar for one unit of a foreign currency

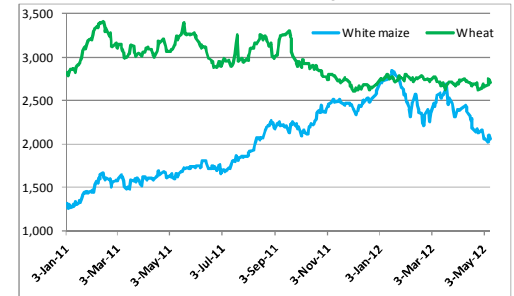
The Namibia dollar has depreciated against the US dollar, British Pound and Euro over the past two months by 7.2, 8.4 and 4.1 per cent respectively, but remains slightly stronger vis-à-vis the USD and Euro (0.3 and 0.7 percent respectively) compared to the beginning of 2012. The currency has lost 3 percent in value against the British Pound since the beginning of 2012. Investor sentiments recently turned once again against emerging markets amidst uncertainties in Europe after the electorate voted anti-austerity governments in power. The persistent uncertainties are clouding the path to economic recovery. These developments might result in a decline in commodity prices and hence weaken the currencies of commodity-exporting countries such as South Africa, and thereby through the currency peg Namibia.

The slightly weaker currency brings some relief to the manufacturing sector which has been concerned about the strong Namibia dollar since it affects their competitiveness on the domestic and global markets negatively. But the weaker currency also implies that products imported from outside the Common Monetary Area (using the South African rand) become more expensive, most notably imported oil products. Hence, the Namibian consumer will be denied the full benefit of the currently low international oil prices as the consumer was also spared the full brunt of high oil prices during the period of a stronger currency.

The Namibian Stock Exchange (NSX)

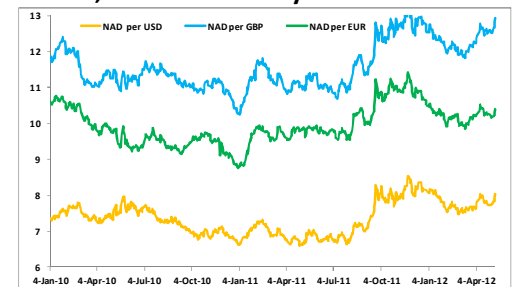
The NSX lists local companies and companies listed on other stock exchanges, mainly the Johannesburg Stock Exchange. The Local Index showed a strong performance in 2011 (up by 28 percent), while the Overall Index, in line with international trends, lost some ground (4 percent). The Local Index has continued its good performance and has gained 6 percent since January leaving the Overall Index trailing behind

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



Source: SAFEX, daily data

Exchange rates of the NAD for major currencies, Jan. 2010 to May 2012



Source: South African Reserve Bank, daily data

with a growth of 3 percent.

The NSX Local Index consists of seven Namibian companies in the consumer goods (two) and financial (five) sectors. The two sub-sectors (banks, real estate) within the financial sector performed well with increases of 8.7 and 15.1 percent respectively, while the sub-sector of general financial services displayed divergent trends. The two companies in the consumer goods sector gained 0.5 and 3.3 percent respectively. The NSX Overall Index includes 24 companies consisting of the seven local companies as well as dual listed companies.

Inflation

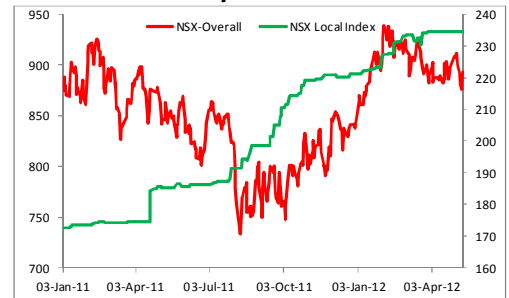
Inflation – price increases in percent for goods and services compared to the previous month (monthly inflation rate) or the same month in the previous year (annual inflation rate).

The newly-formed Namibia Statistics Agency released its first Consumer Price Index report for April 2012. While displaying a zigzagging trend previously, Namibia's inflation rate eased for the second consecutive month in April 2012. After peaking at 7.4 percent in February, the highest inflation rate since September 2009, price increases smoothed out to 6.9 percent (March) and now 6.4 percent. Food price inflation, carrying the heaviest weight of 29.6 percent in the consumption basket, eased considerably to 8.5 percent in March after rising from 1.7 percent in January 2011 to 9.8 percent in February 2012. While some food items, such as meat (14.4 percent), coffee, tea (11.7 percent) and sugar, jam, chocolate (11.4 percent) displayed rising and double-digit price increases, price increases for bread and cereals slowed down from 12.9 percent (March) to 7.6 percent in April. Prices for fish (-6.0) and fruit (-0.3) continued to decline further.

Price increases for the category of 'Housing, water, electricity etc.', which carries the second highest weight in the consumption basket (20.6 percent), continued to slow down from a high of 11.2 percent in January 2011 to 4.5 percent in April 2012. This can be attributed to modest price increases for renting accommodation (up by 2.7 percent). Since rent carries the highest weight of any single item in the consumption basket (15.3 percent), it determines the overall inflation rate for the category of housing. Costs for water, sewerage and refuse removal increased above the average inflation rate (10.8 percent), while costs for electricity and gas rose by 5.8 percent as in the previous month.

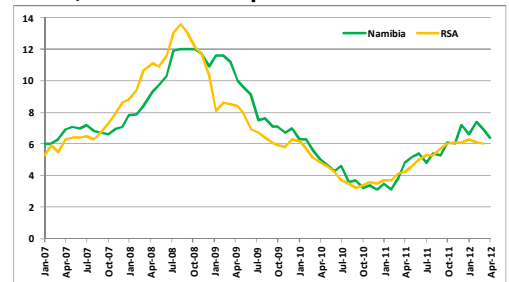
Transport inflation dropped further to 7.5 percent after continuous increases between January 2011 when prices went up by 2.9 percent, and February (8.1 percent). Although operational costs for vehicles increased by 13.5 percent, this is lower than February (17.8 percent) and March (14.4 percent). Purchasing prices for vehicles rose by 5.5 percent as in February, but down from 6.3 percent in March. These trends contributed to the lower inflation rate for the transport category. Price rises for alcoholic beverages also slowed down going up by 8.0 percent only compared to 8.9 percent (March) and 8.7 percent in February.

Trends in the NSX Local Index and Overall Index since January 2011



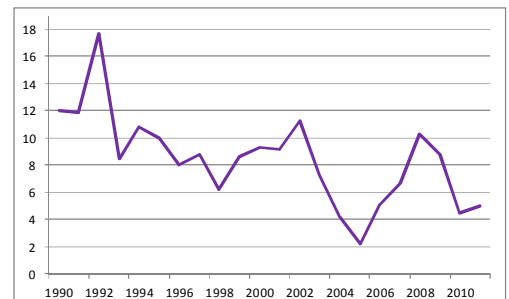
Source: NSX daily data

Inflation rates for Namibia and South Africa, Jan. 2007 to April 2012.



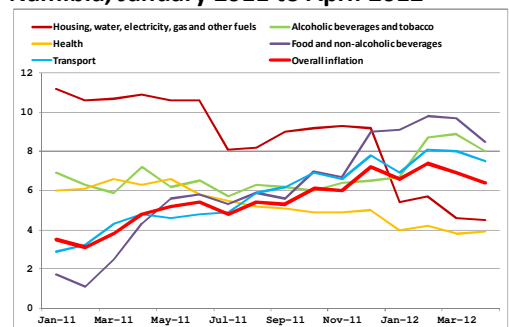
Sources: Namibia Statistics Agency (previously Central Bureau of Statistics), South African Reserve Bank.

Annual inflation rates for Namibia, 1990 to 2011



Source: Central Bureau of Statistics

Inflation rates for selected categories in Namibia, January 2011 to April 2012



Source: Namibia Statistics Agency (previously Central Bureau of Statistics)