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Economy Watch Namibia – September 2012

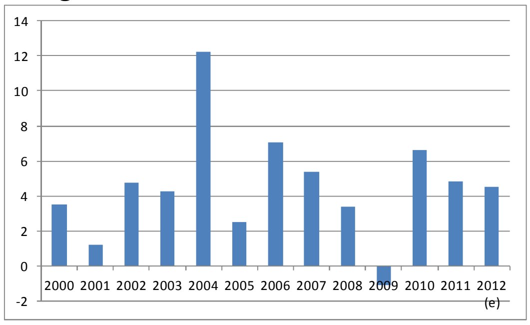
- **National accounts reveal 4.8% growth in 2011; global growth prospects uncertain (Page 1)**
- **Uranium drops back to 2010 prices; gold prospers on uncertainty (Page 2)**
- **South African rand expected to weaken further following Marikana (Page 3)**
- **Consumers should prepare for higher maize prices (Page 3)**

Global and domestic economic prospects

According to the final National Accounts for 2011, the **Namibian economy grew by 4.8 per cent in 2011**, down from 6.6 per cent in 2010. Primary industries recorded a decline of 0.9 per cent owing to a substantial contraction in mining (-8.5 per cent), while agriculture and fisheries showed strong growth of 8.6 per cent and 6.2 per cent respectively. Secondary industries expanded by 4.1 per cent supported by the strong performance of the construction sector (+15.2 per cent) on the back of government's TIPEEG programme. The tertiary sector grew by 4.3 per cent mainly due to improved performance from the public services, such as education (+8.6 per cent) and public administration (+5.4). The wholesale and retail trade sector showed surprisingly meagre growth of 3.3 per cent despite strong growth in credit extended by commercial banks to private households. While GDP at basic prices increased by 3.5 per cent, reflecting the growth of actual demand for Namibian goods and services, which is close to the IPPR forecast of 3.8 per cent, GDP at market prices rose by 4.8 per cent caused by a substantial (and surprising) rise in income from taxes by 18.5 per cent.

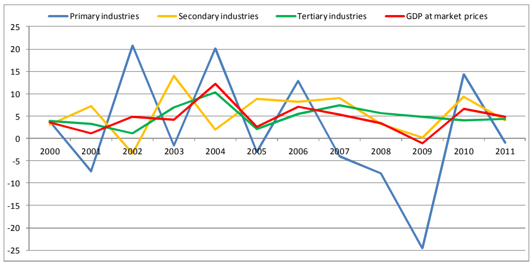
Global economic prospects remain uncertain. The IMF lowered its global economic growth forecast for 2012 in July slightly by 0.1 percentage points to 3.5 per cent. With the exception of Germany, the Fund reduced its outlook for all major economies, most notably Asian economies that are hardest hit by the decline in consumer spending in Europe and the USA. Governments and central banks in various countries are considering stimulus packages. Another round of quantitative easing (QE) in the US is set to inject more liquidity into the market and could increase the demand for goods and services. Since QE is expected to weaken the US dollar and thereby increase the competitiveness of US producers it could have a negative impact on the recovery path of exporting economies such as Germany that have benefitted from a relatively weak Euro. The European debt crisis continues, but financial markets reacted positively to the news that the European Central Bank will get involved in the buy-out of government bonds from countries such as Spain and Italy. This showed immediate results in lower bond yields and reduced pressure on government finances in those countries. The decision by Germany's Constitutional Court to back the European bail-out fund with certain conditions and the election win of pro-European parties in the Netherlands gave a further boost to financial markets, but it might be short-lived.

GDP growth for Namibia, 2000 to 2011



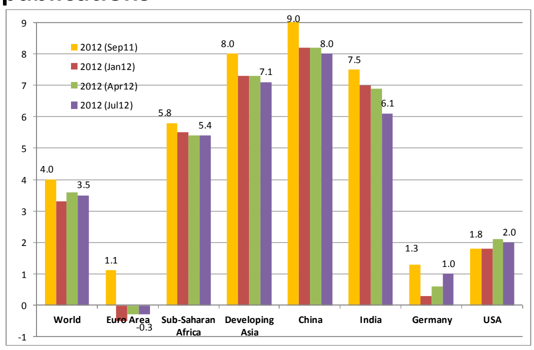
Source: NSA, National Accounts 2000-2011. 2012: Authors' own estimates

GDP growth for Namibia by sector, 2000 to 2011



Source: NSA, National Accounts 2000-2011.

IMF growth forecasts for 2012 in various publications



Source: IMF, World Economic Outlook, various publications.

Mineral prices

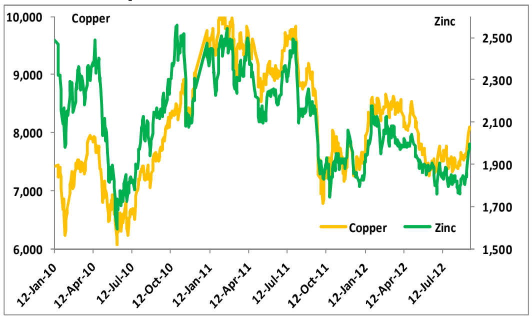
Price for unprocessed minerals

Copper and zinc prices recovered during the first half of 2012, but took a dip at the beginning of the second half owing to poor global economic prospects. However, news of new stimulus packages (see above) has resulted in expectations of improved economic conditions and subsequently in price increases for commodities on an expectation of growing demand. **Copper and zinc prices have increased by 11 and 15 per cent respectively** during the first two weeks in September compared to the end of August.

Gold has gained some 7.7 per cent since the beginning of the year, but has not yet fulfilled market expectations of reaching the level of USD1,900 per ounce. Continuing global uncertainties concerning the economic recovery path have usually benefitted the bullion regarded as a safe haven.

Uranium prices dropped back to price levels last seen two years ago, starting the month of September at 48.00 USD per pound. Compared to the start of 2012 uranium lost 7.7 per cent of its value on the spot market casting further doubt over significant investment in uranium mining in the near future. The further price decline for uranium on the spot market casts doubts over the development of new uranium mines in the near future.

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



Source: London Metal Exchange, daily data

Uranium price in USD per pound, January 201 to September 2012

Source: The Ux Consulting Company, weekly data

Oil and fuel prices

NAD – Namibia dollar

USD – United States of America dollar

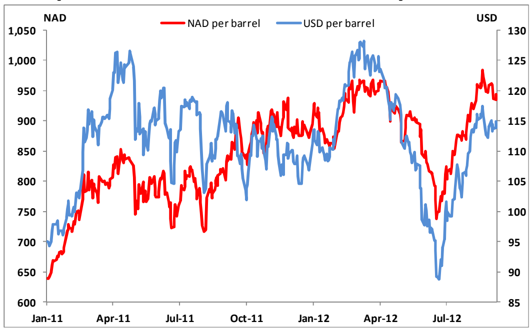
Barrel of oil – 158 litres

After some relief for motorists in June and July **petrol prices are once again – and not unexpectedly – on the increase**. With effect from 12 September 2012 Lead Replacement Petrol will cost 33 Namibian cents more, while diesel will cost 25 Namibian cents more. These adjustments are substantially lower than the price hikes of nearly one South African rand that South African motorists faced last month.

The increase in international oil prices was the main factor behind the upward adjustment, since oil prices rose on average by 8.6 per cent between the last adjustment in August and the adjustment in September. Over the same period, the NAD depreciated only slightly by 0.4 per cent against the USD. Hence, the currency was not a major factor for the price adjustment.

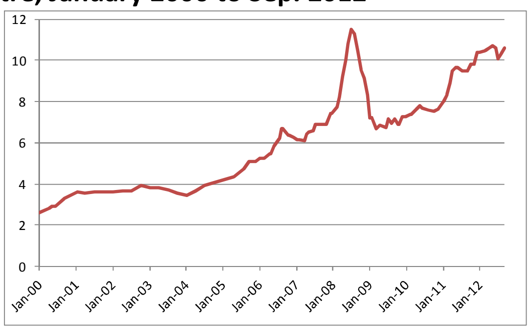
Since global economic growth is rather subdued and so is the demand for commodities – despite a more upbeat mood in recent days - the main factor behind higher international oil prices has been sanctions against Iran, which produces about 5 per cent of global output, but accounts for some 25 per cent of oil imports to South Africa. On the other hand, the resumption of oil production in Libya (accounting for some 2.5 per cent of global production) and increasing prospects of oil exports from South Sudan could ease further upward price pressure. In general, the weak global economy would support lower oil prices over the next months. However, we can expect some strong price fluctuations owing to short-term market sentiments.

Oil prices in USD and NAD per barrel for Europe Brent Oil, Jan. 2010 to Sep. 2012



Source: Oil price - Energy Information Administration, daily data. Converted into NAD based on SARB daily exchange rates by the authors.

Diesel prices for Windhoek in NAD per litre, January 2000 to Sep. 2012



Source: Ministry of Mines and Energy, monthly data

Crop prices

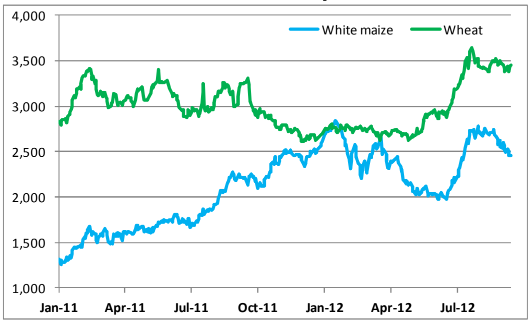
ZAR – South African rand

As reported in the last edition, crop prices are reaching levels last seen in 2008 owing to the drought in the USA, strong demand from China and shrinking stock levels. The revised estimates by the US Department for Agriculture on

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

12 September, however, resulted in prices easing slightly. While **maize prices** are still 10 per cent lower than at the beginning of the year, they **have surged by 20 per cent since the beginning of June**. The higher prices have not yet filtered through to Namibia. The main drivers for higher prices in the category of food were milk & cheese, vegetables and oil & fat, but not cereals or bread. The reason for this is that the millers are still buying Namibian maize and the price is calculated on a five-year average SAFEX price thereby smoothing out any short-term price fluctuations. However, as soon as the domestic harvest is exhausted and millers need to source maize on the regional or international market, the **Namibian consumer will feel the impact** of higher international price levels.

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



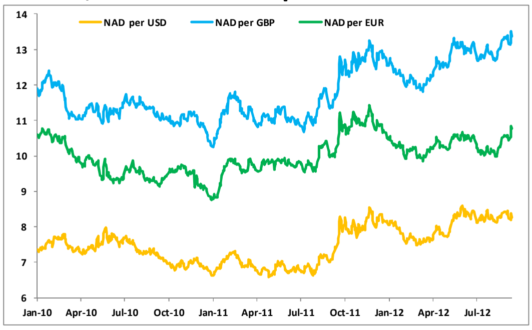
Source: SAFEX, daily data

Exchange rates

Price in Namibia dollar for one unit of a foreign currency

Financial markets reacted positively to the announcement by the European Central Bank that it will buy government bonds without any set limits in order to bring down borrowing costs in particular for Italy and Spain. In addition, the decision by Germany's Constitutional Court to approve the eurozone bail-out fund – the European Stability Mechanism – even with some conditions, resulted in a strong appreciation of the Euro against the USD. While the court ruling cleared remaining doubts about the ESM, the appreciation of the Euro is not necessarily good news for the Eurozone economy. The strong performance of the German economy during the first half of 2012 compared to other Eurozone countries was based the export sector that benefited from a weak Euro. The events in Europe – and other parts of the world – have had an impact on the local **currency** that **has weakened by 3 per cent (USD, Euro) and 6 per cent since (GBP) the beginning of 2012**. However, the current strikes at Marikana and other South African mines and the closure of some mines will mean a drop in export earnings, a decline in investor confidence and consequently a weakening of the South African rand.

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



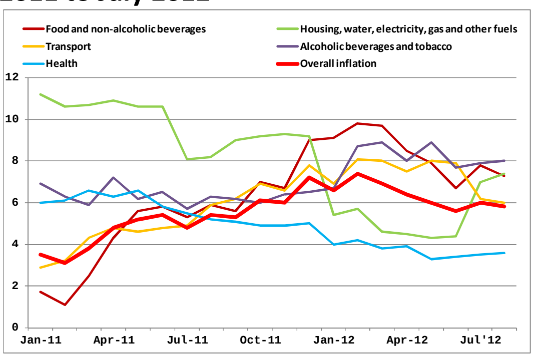
Source: South African Reserve Bank, daily data

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).

The **Namibian inflation rate continued the downward trend** that started in February 2012 in August after an increase in July 2012. Overall inflation stood at 5.8 per cent in August, down from 7.4 per cent in February and 6.6 per cent in July. The trend is in line with subsiding inflationary pressure in other SACU countries. The main drivers for inflation in August were the two categories that account also for the highest share in the consumption basket: Prices for food and non-alcoholic beverages accounting for 29.63 per cent of the basket dropped from 7.8 per cent (July) to 7.3 per cent but remained above average, while prices for housing, water and electricity (weight of 20.59 per cent) increased from 7.0 per cent to 7.4 per cent. On the other hand, inflation for the category 'transport' that carries the third highest weight of 14.79 per cent slowed down further to 6.0 per cent from 6.2 per cent. The increase in petrol prices is reflected in the double-digit inflation (10.7 per cent) for the sub-category 'Operation of personal transport equipment'. However, this strong increase was cancelled out by a modest increase in vehicle prices (3.4 per cent).

Inflation rates for selected categories, Jan. 2011 to July 2012

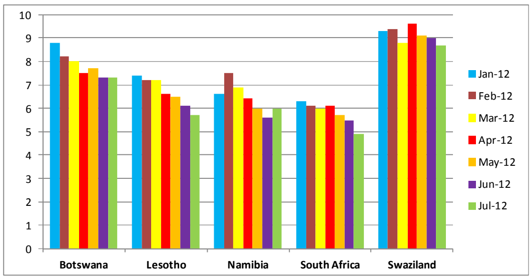


Source: Namibia Statistics Agency

Namibia's performance in international comparison

Rising petrol prices as well as the upward pressure on food prices are expected to result in higher inflation rates in the coming months. We expect an annual inflation rate for 2012 of around 6.5 per cent based on the current price trends compared to the annual inflation rate for 2011 of 5.0 per cent. On a general note, it is good news that NSA intends to re-calculate the weights for each category since they are still based on the 1993/94 Household Income and Expenditure Survey. These weights no longer reflect the actual consumption patterns and hence the average price increases that households experience. Furthermore, there is a need to publish inflation rates for lower and upper income households since their consumption patterns deviate widely from the average household.

Annual inflation rates for SACU countries, Jan. to July 2012



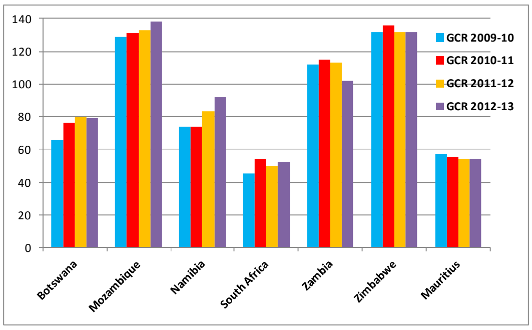
Source: SACU Secretariat

Namibia outlined her ambition to become the most competitive country in the Southern African Development Community by 2017 the Fourth National Development Plan released on 19 July 2012. The latest Global Competitiveness Report 2012-13 (GCR) released by the World Economic Forum at the beginning of September reminds us that more than expected work needs to be done to achieve this goal.

The **country dropped nine places in her international ranking** (to place 92 out of 144 countries) and one place in her ranking within SADC to place 5 trailing behind South Africa (52), Mauritius (54), Seychelles (76), and Botswana (79). Contrary to Namibia most of these countries improved their ranking. Zambia even managed to close the gap on Namibia from 30 to ten places since it jumped 11 places to place 102. It is particularly worrisome that the country dropped 14 places within a year in one of the three pillars, namely 'Basic requirements', to rank 82. This pillar used to be the country's strength over the past years. Within this pillar the country slid a massive 57 places in the category 'macroeconomic environment' over the past four years to rank 84 mainly on account of the high budget deficit. It is expected that Namibia will improve her ranking on this score once the end of the expansionary budget period is reached. Since the 2008-09 GCR Namibia also shed 26 places in the category 'infrastructure', which does not bode well for one of the other priority sectors identified under NDP4, namely logistics.

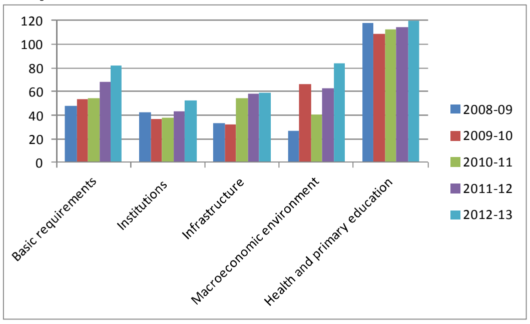
In order to improve our competitiveness it is not only vital to implement the strategies designed in policy documents such as NDP4 and the Industrial Policy, but also **avoid creating new bureaucratic hurdles and imposing further restrictions**. Current legislation such as the Employment Service Act, other labour market regulations or the regulations governing research, science and technology, as gazetted recently, will result in a bloating bureaucracy and over-regulation, but are unlikely to contribute to an attractive business environment and increased competitiveness, and ultimately to more employment and less poverty.

Namibia's GCR ranking compared to selected African countries



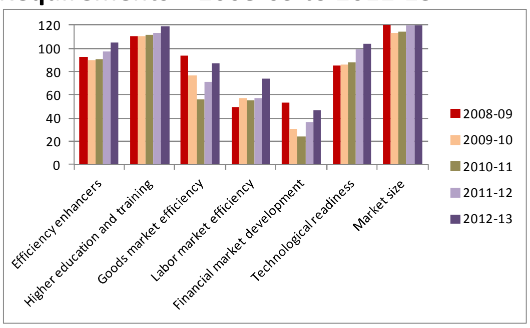
Source: World Economic Forum, Global Competitiveness Report 2012-13

Namibia's GCR ranking concerning Basic Requirements – 2008-09 to 2012-13



Source: World Economic Forum, Global Competitiveness Report 2012-13

Namibia's GCR ranking concerning Basic Requirements – 2008-09 to 2012-13



Source: World Economic Forum, Global Competitiveness Report 2012-13

Hanns Seidel Foundation

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