Institute for Public Policy Research
14 Nachtigal Street PO Box 6566 Ausspannplatz Windhoek Namibia Tel: +264 61 240514 Fax: +264 61 240516 economist@ippr.org.na www.ippr.org.na

Economy Watch Namibia – July 2013

- **IMF lowers global economic growth forecast for 2013 once more (page 1)**
- **Fuel prices up due to currency depreciation (page 2)**
- **Inflation hovers slightly above 6 per cent (page 3)**
- **End of the 'commodity super cycle'? (page 4)**

Global and domestic economic prospects

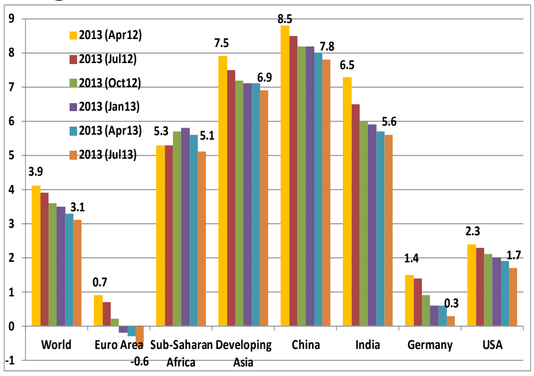
The IMF's forecasts of economic growth have once again been adjusted downwars. The IMF expects global economic growth of 3.1 per cent in its July 2013 publication, down from initially 3.9 per cent predicted in April 2012. China's growth for 2013 is anticipated now at 7.8 per cent (down from 8.8 per cent), but after growth rates of 7.7 per cent and 7.5 per cent in the first two quarters of 2013 respectively the forecast remains on the upper side. While the sub-Saharan region saw upward revisions to its growth prospects until January 2013, they were now lowered from 5.8 per cent in January to 5.1 per cent in July owing mainly to a drop in demand for commodities. Europe's recession is deeper than expected at the beginning of the year (now at -0.6 per cent). However, there are indications that economic activities will pick up in Europe towards the end of the year and during 2014. Investments flowing into the property markets in Italy and Spain are seen as a reflection of returning investor confidence.

Financial market jitters increased temporarily among expectations that the Federal Reserve Bank in the USA might re-consider its quantitative easing policy that flushes the markets with USD85 bn every month. However, assurance of a continuation of the bond buying policy calmed down markets once again.

South Africa's preliminary growth rate of 2.5 per cent for 2012 was below expectations and contributed to the currency's depreciation. The economic performance was influenced by the drop in output in the mining sector because of continuous industrial action. The year 2013 did not start on a good note either with a meagre growth rate of 0.9 per cent for the first quarter 2013 compared to 2.1 per cent for the fourth quarter 2012.

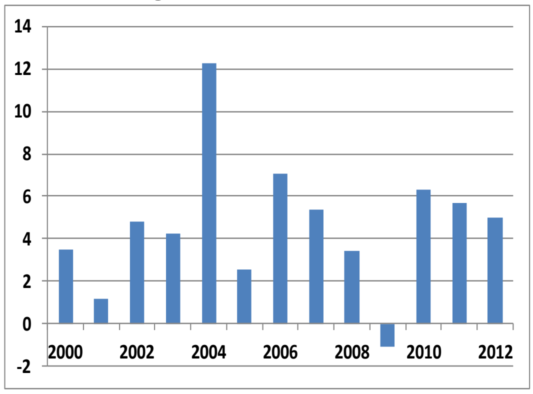
The final National Accounts for 2012 confirmed the preliminary growth rate of 5.0 per cent for Namibia. However, some adjustments were made most notably in the primary sector, where value added was adjusted upward from 6.5 per cent to 12.8 per cent. This is to a large extent attributed to the fishing sector. A preliminary decline by 4.7 per cent turned into a robust growth of 16.9 per cent. Similarly, economic growth in the livestock sector was revised from 3.6 per cent to a healthy 21.1 per cent. On the other hand, value added due to fish processing plummeted from a preliminary decline of 4.9 per cent to a decline of 27.2 per cent. The divergent performance of the sub-sectors resulted in an overall growth of manufacture by 1.2 per cent; the same as in 2011.

IMF growth forecasts for 2013



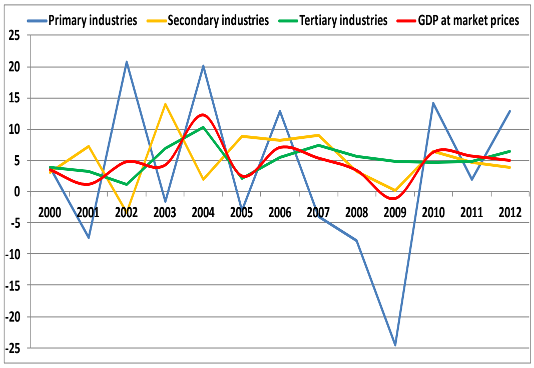
Source: IMF, World Economic Outlook, various publications.

Annual GDP growth for Namibia,



Source: Namibia Statistics Agency.

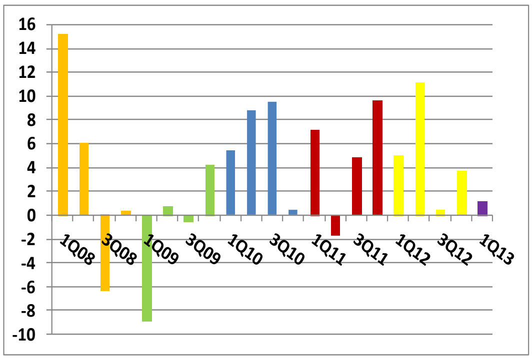
GDP growth by main industries for Namibia, 2000 to 2012



Source: Namibia Statistics Agency.

Since Government's policies aim at encouraging fish processing on land, the significant decline in fish processing on land (-27.2 per cent), while fishing and on-board fish processing showed robust growth (16.0 per cent) is a matter of concern and warrants more analysis of the underlying causes. Substantial adjustments in the value addition of fish processing on land in previous years – an initial decline of 1.6 per cent in 2011 turned eventually into a strong performance of 16.5 per cent – suggests that data submitted by fishing companies or the ministry might not yet be complete. However, there might be other reasons too. Other revisions made for 2011 included the livestock sector that showed substantially stronger growth in 2011 than previously anticipated. Value addition by livestock farming almost doubled from an initial 13.2 per cent to 25.1 per cent. These adjustments in the fishing, agriculture and fish processing sectors were mainly responsible for the higher overall growth rate for 2011 that was revised upward from 4.9 per cent to 5.7 per cent.

Namibia Quarterly GDP growth, 1Q2008 to 1Q2013



Source: Namibia Statistics Agency.

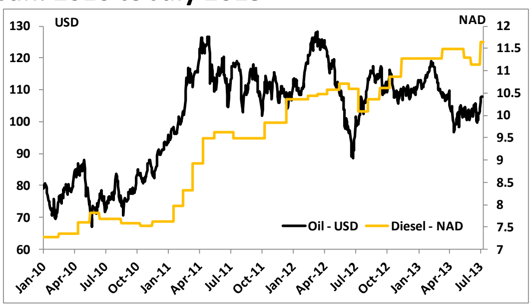
The first quarter 2013 recorded a growth of 1.2 per cent compared to 3.7 per cent in the previous quarter. The agriculture sector performed exceptionally well with a growth rate of 35.0 per cent, spurred by livestock marketing owing to the prevailing drought. This, in turn, led to an increase in value addition of the meat processing sector by 52.1 per cent. Of course, these figures do not bode well for livestock farming and consequently meat processing, since the reduction in herd sizes will negatively impact on the production capacity of the sectors in the near future. Mining showed also a strong rebound (20.9 per cent), while other sectors, in particular fishing (-19.5 per cent) and manufacturing (-10.9 per cent) performed rather poorly. The strong growth in meat processing was offset by a decline of 51.4 per cent in other manufacturing (including diamond cutting), dairy production (33.4 per cent) and fish processing (25.6 per cent).

Oil and fuel prices

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

Oil prices have eased slightly compared to the beginning of 2013 in line with the global economic outlook. The recent events in Egypt, however, have exerted some temporary upward pressure, since one of the main supply routes to Europe passes through the Suez Canal. Europe Brent oil is trading at USD107,90 per barrel, which is 2.6 per cent lower than at the beginning of the year, but 8.0 per cent up compared to July 2012. The main driver for fuel price increases, however, has been the depreciation of the Namibia dollar vis-à-vis the USD. Diesel prices have increased by 3.4 per cent and 15.5 per cent compared to the beginning of the year and July 2012 respectively.

Oil prices in USD and diesel prices in NAD, Jan. 2010 to July 2013



Source: Oil price - Energy Information Administration, daily data. Fuel prices – Namibia MME.

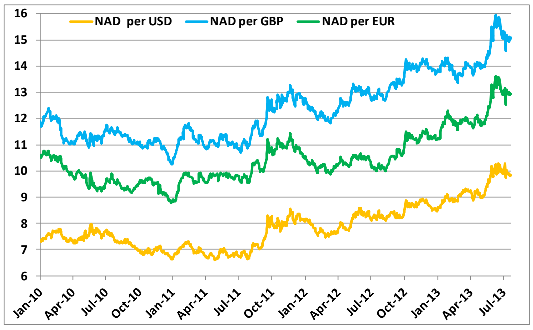
Exchange rates

Price in Namibia dollar for one unit of a foreign currency

The Namibia dollar has gained some ground over the past two weeks in particular against the US dollar. It is, however, trading much weaker against the major currencies compared to the beginning of the year and has lost value by 15.7 per cent, 10.0 per cent and 15.7 per cent against the US dollar, British pound and Euro. The depreciation is even more pronounced when compared to exchange rates a year

Exchange rates of the NAD for major currencies, Jan. 2010 to July 2013

ago and amounts to 16.2 per cent, 15.2 per cent and 26.5 per cent respectively. A variety of factors have contributed to the depreciation: The ongoing industrial action in particular in the mining sector in South Africa has dent investor confidence. In addition, lower than expected economic growth in 2012 and rather bleak prospects for 2013 coupled with a widening trade deficit in April 2013 have raised further concerns by investors. Short-lived expectations that the US Federal Reserve bank might reduce its quantitative easing resulted in a withdrawal of funds from emerging markets.



Source: South African Reserve Bank, daily data

Inflation

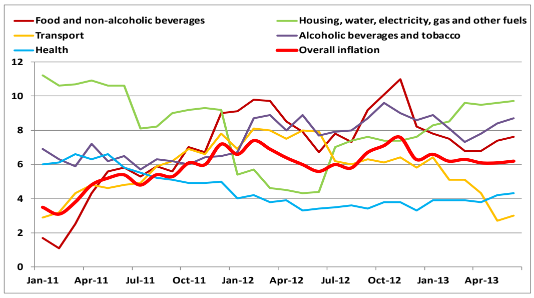
Inflation – price increases in per cent for goods and services compared to the previous month (monthly inflation rate) or the same month in the previous year (annual inflation rate).

Inflation remained fairly stable over the past five months varying between 6.1 per cent and 6.3 per cent year-on-year. Prices increased in June 2013 by 6.2 per cent compared to 6.1 per cent in May. The three main categories accounting for two thirds of the consumption basket, all experienced slightly stronger price increases compared to May. Food price inflation rose to 7.6 per cent from 7.4 per cent in May, prices for housing, water and electricity increased by 0.1 percentage points to 9.7 per cent and transport inflation accelerated from 2.7 per cent to 3.0 per cent. The increase in food price inflation can be attributed to double-digit price rises in the categories: fruits (17.6 per cent), vegetables (13.7 per cent), fish (10.8 per cent) and milk and cheese (11.2 per cent). These four categories account for some 27 per cent of the food consumption basket. The two items with a combined share in the food category of 55 per cent recorded below average price increases: bread and cereals (4.1 per cent) and meat (5.5 per cent). The slight rise of prices in the category of housing etc. is solely caused by price increases of 12.4 per cent for electricity, while all other sub-categories recorded below average price increases. Costs for transport rose mainly on account of higher costs for public transport (up by 9.0 per cent) and for the operation of vehicles (4.3 per cent), which comprises mainly of petrol and diesel.

Inflation rates in SACU member countries are converging. The spread between the lowest and the highest inflation ratse narrowed from 2.4 percentage points in January 2013 to 1.5 percentage points in May. In particular, Swaziland managed to contain inflation and brought it down from around 9 per cent in 2012 to 5.5 per cent in May. This is the second lowest inflation rate in SACU, only undercut by Lesotho with 4.6 per cent. Namibia topped the list together with Botswana at 6.1 per cent.

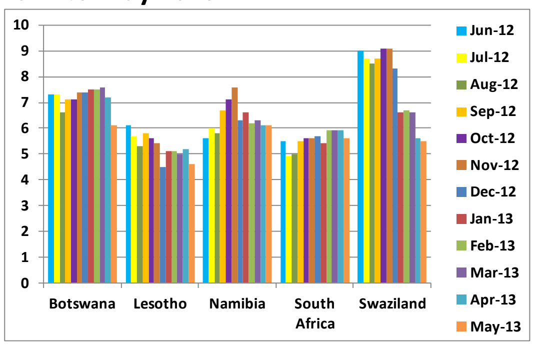
Since the inflation rate has remained within the band of 3 to 6 per cent in South Africa and in order to support investment and economic growth further, the South African Reserve Bank left the repo rate unchanged at 5.00 per cent. The Bank of Namibia's monetary policy stance is to a large extent guided by the foreign exchange reserves required to maintain the currency peg with the South African rand. Since the reserves remained adequate, the inflation rate is at tolerable levels and also to support economic growth, the Bank maintained the repo rate at 5.50 per cent.

Inflation rates for selected categories, Jan. 2011 to June 2013



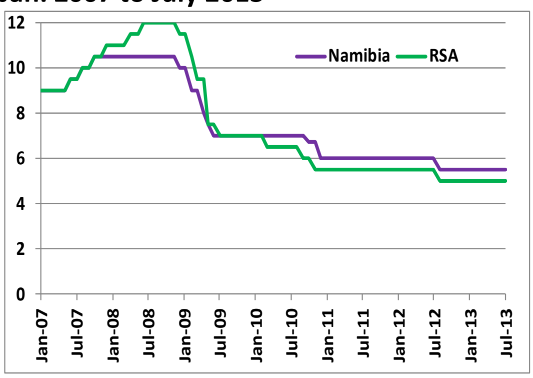
Source: Namibia Statistics Agency

Inflation rates for SACU countries, Apr. 2012 to May 2013



Source: SACU Secretariat

Repo rates for Namibia and South Africa, Jan. 2007 to July 2013



Source: Bank of Namibia, South African Reserve Bank.

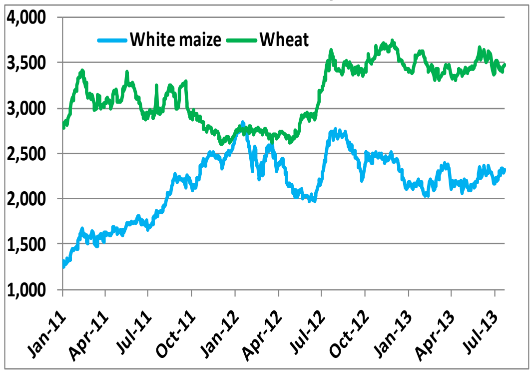
Crop prices

ZAR – South African rand

Futures contracts are contracts between parties to buy or sell commodities at a specified price and future date, e.g. December.

White maize prices have increased by 8.5 per cent since the beginning of 2013, but are 15.5 per cent lower than a year ago. Farmers in the USA, the largest growers and exporters of maize, planted a record area with maize this season and prevailing climatic conditions suggest a good harvest that put prices under pressure. Prices for later on this year suggest slight price increases since maize for December 2013 is traded at NAD2,360 per ton compared to currently NAD2,312 per ton. **Wheat prices** on the other hand continue to fluctuate around the price at the beginning of the year (NAD3,475 per ton) but are almost 5 per cent lower than in July 2012. Prices for wheat in December 2013 are slightly lower at NAD3,350 per ton. Overall, current prices do not suggest major upward or downward trends, but rather fluctuations around existing price levels.

Wheat and white maize prices in NAD per metric ton, Jan. 2011 to July 2013



Source: SAFEX, daily data

Mineral prices

Price for unprocessed minerals

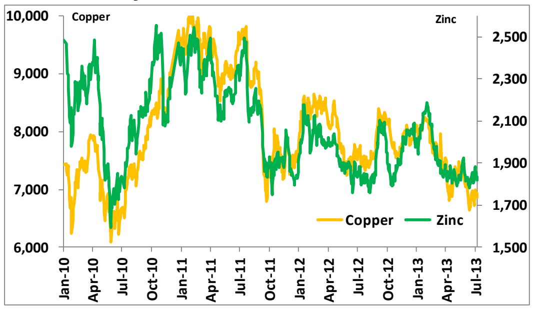
Commodity prices have benefitted over the past decade from the strong demand particularly in China. This reversed the trend of declining real prices (prices adjusted for inflation) during the last century. However, some experts expect the so-called commodity super cycle to come to an end, because of a slow-down in the industrial output in China that grew by on average more than 20 per cent in the past decade but decelerated to below 10 per cent. In addition, technological progress and more efficient use of natural resources in the production process impacts on demand. Current price trends are, however, more likely attributable to the global economic performance than to the expected end of the commodity cycle.

Copper and zinc prices have dropped by 12.1 per cent and 9.7 per cent respectively since the beginning of 2013. While zinc prices are 2 per cent higher than a year ago, copper prices have declined by about 6 per cent. Zinc was selling at USD1,837 per ton and copper at USD6,960 per ton on 23 July.

Uranium prices have fallen below USD40 per pound resulting in a drop of 16 per cent and 27 per cent compared to January 2013 and July 2012 respectively. Towards the end of July, the uranium price plummeted to USD36.50 per pound; a level last seen in January 2006. Reportedly, the price is below production costs of the operating Namibian uranium mines and can affect developments of new mines.

Gold prices have followed the same trend as other commodity prices and have weakened by 21.8 per cent and 18.2 per cent compared to the beginning of 2013 and the same period last year. The gold price dropped below USD1,200 per ounce at the end of June caused by speculation that the US Federal Reserve Bank could cease its quantitative easing policy. It has recovered slightly after assurance that the policy will not change in the immediate future and was trading at USD1,296 per ounce on 19 July 2012.

Copper and zinc prices in USD per ton, Jan. 2010 to July 2013



Source: London Metal Exchange, daily data

Uranium price in USD per pound, Jan. 2010 to July 2013

Source: The Ux Company, daily data

Gold price in USD per ounce, Jan. 2010 to July 2013

Source: World Gold Council, daily data

Hanns Seidel Foundation

Economy Watch 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.