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Economy Watch Namibia – September 2013

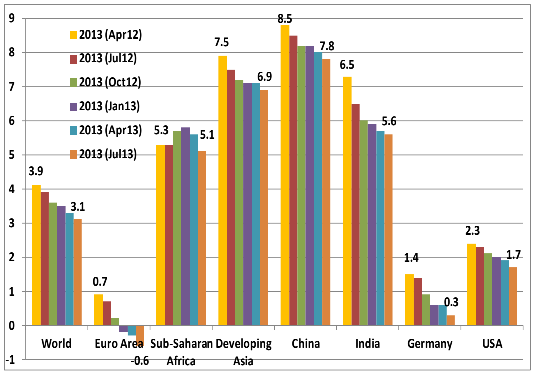
- **Namibia's GDP growth estimated at 2.5 per cent for second quarter (page 1)**
- **Oil price is picking up (page 1)**
- **Inflation rose to 6 per cent in August (page 2)**
- **Namibia's competitiveness ranking improved (page 3&4)**

Global and domestic economic prospects

There are **signs of a recovery** in the global economy. Forecasts for some countries and economic groupings have been revised upward, such as for the USA (although the trade deficit widened in July owing to weaker exports), Great Britain, Germany, the EU (although remaining in recession) and Japan. Latest export and industrial output data from China also showed a stronger than anticipated performance. Good news from the labour market in the USA, however, raised (once again) speculation about a phasing out of the US Federal Reserve Bank's qualitative easing ('cheap money') which could have a negative impact on demand, on capital flows to emerging markets in particular and on commodity prices.

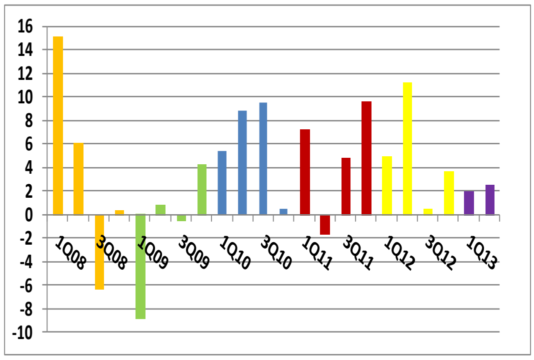
The Namibia Statistics Agency **revised the quarterly GDP** growth for the first quarter slightly upward from 1.7 per cent to 2.0 per cent on account of stronger growth in the agricultural sector and a better performance from the fishing sector. NSA estimates the **growth for the second quarter** to be at 2.5 per cent driven by the agricultural sector (growth of 42.3 per cent) and in particular the livestock sector (81.1 per cent) owing to the persistent drought that is forcing farmers to sell livestock. **Mining**, on the other hand, recorded a decline by 10.4 per cent caused by a contraction of the diamond mining and the metal ore sectors by 12.6 and 11.2 per cent respectively, while the output of the uranium mining sector improved by 7.6 per cent. The **manufacturing** sector showed only a slight increase in value added (2.1 per cent) owing to a contraction in diamond cutting and polishing activities by 16.1 per cent, among others. On the other hand, food production and meat processing showed a strong performance with growth rates of 56 per cent and 36 per cent respectively. While meat processing is currently benefiting from sales of livestock in order to adjust the herd size to the grazing conditions, the future might be bleak since it will take a while for farmers to re-stock their herds and produce marketable animals.

IMF growth forecasts for 2013



Source: IMF, World Economic Outlook, various publications.

Namibia Quarterly GDP Growth, 1Q08 to 2Q2013



Source: Namibia Statistics Agency.

Oil and fuel prices

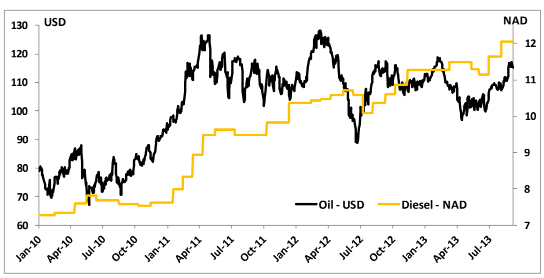
NAD – Namibia dollar

USD – United States of America dollar

Barrel of oil –

Oil prices have **increased** by some 7 per cent over the past month from around USD107 per barrel to some USD115 per barrel and have gained 4 per cent since the beginning of 2013. They are more or less on par with prices a year ago. In Namibia dollar prices have increased by 22 per cent compared to January 2013 and September 2012 owing to the depreciation of the Namibia dollar against the US dollar. The weaker currency has caused petrol prices to go up by 11 per cent and diesel prices by 7 per cent since January 2013. Temporary fears of an imminent US strike against Syria and

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



158 litres

better than expected economic data from a number of economies around the globe are the main factors behind the upward trend in oil prices. Not least, future price trends will depend on the political developments in the Middle East as well as the OPEC response to the increasing demand.

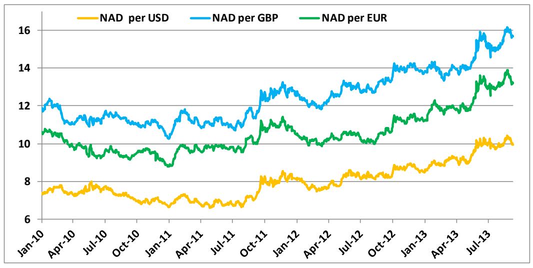
Source: Oil price - Energy Information Administration, daily data. Fuel prices – Namibia Ministry of Mines and Energy.

Exchange rates

Price in Namibia dollar for one unit of a foreign currency

The **Namibia dollar** has **weakened** further against major currencies losing 18 per cent of its value since the beginning of the year against both the USD and the Euro and 14 per cent against the British Pound. Compared to a year ago the losses are about five percentage points higher, ranging between 19 per cent (GBP) and 25 per cent (Euro). The currency is under pressure due to weak economic data from South Africa, continuing industrial action in various economic sectors there and an outflow of funds from emerging markets on expectations that the US Federal Reserve Bank will phase out its cheap money policy in the near future.

Selected exchange rates: NAD per foreign currency, Jan. 2010 to Sep. 2013



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).

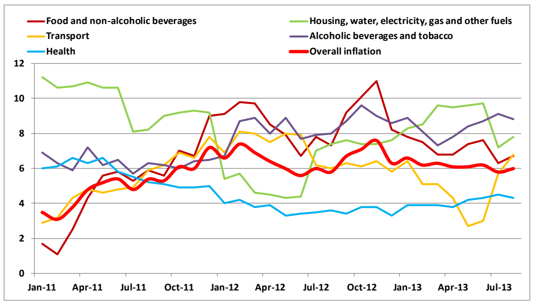
The **annual inflation rate increased** slightly from 5.8 per cent in July to 6.0 per cent in August 2013, hence continuing the zig-zag trend. The three categories with the highest weights in the consumption basket – food, housing and transport– that account for two thirds of consumption expenditure have caused this upward trend. **Food price** increases accelerated to 6.7 per cent (up from 6.3 per cent in July), **housing** prices increased by 7.8 per cent (7.2 per cent in July) and **transport** costs rose by 6.8 per cent (5.7 per cent in July). The latter price increases were caused by the operation of vehicles (13.2 per cent increase) and the costs for public transport (9.4 per cent). Inflation in the housing category was fuelled by price increases for electricity and gas by 7.0 per cent compared to 5.7 per cent in July.

Double digit price increases were recorded for some food products such as vegetable (12.1 per cent), fruit (18.7 per cent) and dairy products (10.8 per cent). Fruit and vegetable prices have displayed double digit increases since the beginning of the year. While fish price increases were still above the average they slowed down from 11.2 per cent in April to 7.5 per cent in August.

After briefly topping the list within the Southern African Customs Union in terms of price increases, Namibia fell back to a middle position in July. **SACU countries displayed divergent trends** with two countries experiencing easing and two countries growing price pressure. It is expected that the South African Reserve Bank and the Bank of Namibia will leave the interest rates unchanged for the remainder of the year in order to support economic growth, even though the currency depreciation will exert some price pressure.

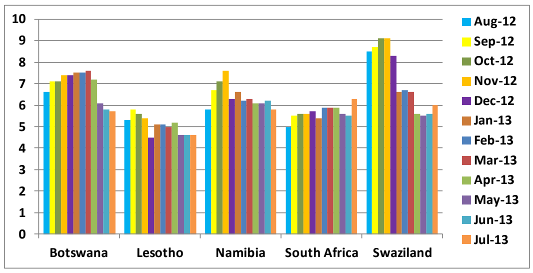
The Namibia Statistics Agency is currently **rebasing the Consumer Price Index** using the results of the 2009/10 Household Income and Expenditure Survey to update the consumption basket on which the calculation of the CPI and inflation rate is based. If the re-based CPI is applied to 2013, it will result in changes to the inflation rate for this year.

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



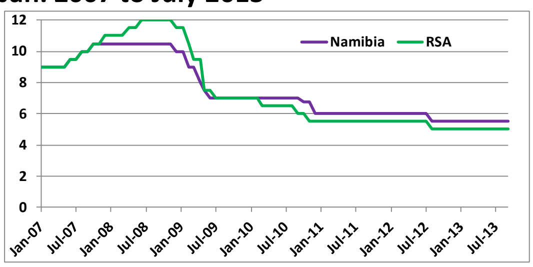
Source: Namibia Statistics Agency

Inflation rates for SACU countries, Apr. 2012 to July 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

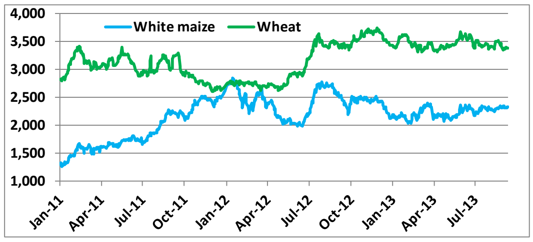
Futures con-

Wheat and maize prices have continued the path in opposite directions. White maize prices have gained 9.0 per cent

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

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

since the beginning of 2013, but are down by 5.5 per cent compared to a year ago. Wheat prices have displayed the opposite trend, since prices dropped by 1.1 per cent but are slightly up (0.3 per cent) over the same period. Maize is trading slightly above USD2,320 per tonne and wheat close to USD3,390 per tonne. Future prices for the end of the year suggest that prices will remain fairly stable at current levels.



Source: SAFEX, daily data

Mineral prices

Price for unprocessed minerals

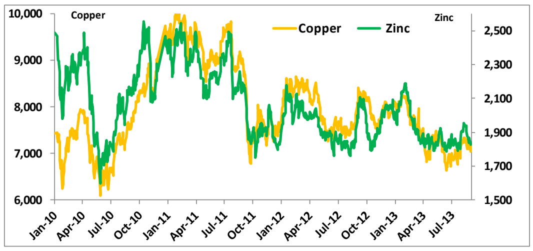
Commodity prices have been **mainly influenced** over the past weeks **by two events** – the prospects of a military response by the USA and some of her allies to the use of chemical weapons in Syria and better than expected economic data from a number of economies. Namibian mineral exporters are expected to gain from the currency depreciation that increases income in local currency denomination.

Copper and zinc traded 10 and 11 per cent lower than at the beginning of the year, and 9 and 13 per cent lower than a year ago. The copper price remained slightly above USD7,200 after some fluctuations following the Syrian crisis and better economic news, while the zinc price has dropped back to about USD1,820 per tonne in the middle of September.

The **uranium price** continued its downward trend losing 22 per cent compared to the beginning of the year and 29 per cent compared to a year ago. A pound of yellow cake traded at USD34 in the middle of September. The recently concluded negotiations between Areva and NamWater to supply water from the desalination plant to the state-owned utility indicates that Areva is not expecting prices to improve drastically in the near future – a pre-requisite for the re-opening of its uranium mine.

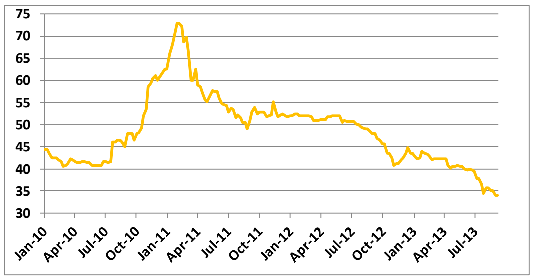
The **gold price** briefly benefited from the possibility of military action against Syria and climbed above USD1,410 per ounce at the end of August. However, it has retreated again to levels below USD1,390 per ounce since then, implying that the metal lost about 16 per cent and 18 percent of its value compared to the beginning of the year and a year ago respectively. Gold prices could come under pressure when the US Federal Reserve Bank starts winding down its bond-buying stimulus package that provides markets with substantial liquidity.

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



Source: London Metal Exchange, daily data

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



Source: The Ux Company, daily data

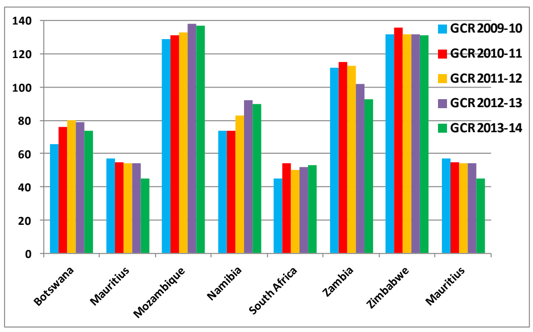
Gold price in USD per ounce, Jan. 2010 to Sep. 2013

Source: World Gold Council, daily data

Namibia's performance in international comparison

Namibia **maintained her score** of 3.9 out of 7 in the Global Competitiveness Report (GCR) 2013/14, **but improved her ranking** by two places to Rank 90 out of 148 countries. The improvement is owed to a better ranking in the second of the three pillars, namely the efficiency enhancers (Rank 99 instead of 105). The **decline in** the first pillar (**basic requirements**) from Rank 82 to 85 is caused by a drop in ranking from 120 to 125 in primary education and health – a trend that has continued since the GCR 2009-10. However, the country scores quite well in categories such as institutions (Rank 48) and infrastructure (Rank 60). Despite improvements compared to last year, the score is still below previous years' performances. Within these categories, auditing standards (Rank 30) and quality of ports (Rank 27) top

Ranking of selected Southern African countries in the GCR, 2009 -10 to 2013 -14

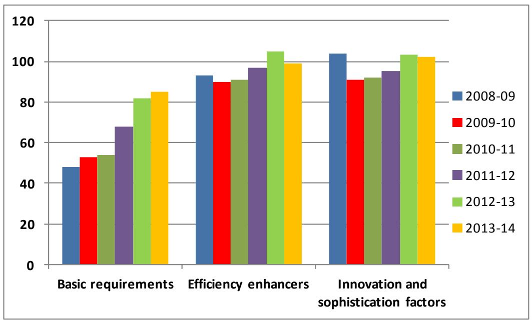


Source: World Economic Forum, various years the list. Namibia **performed quite well** regarding **efficiency enhancers** with all indicators except 'good markets efficiency' improving including higher education and training (from 119 to 115). Highlights in this category include: total tax rate (16), soundness of banks (23) and legal rights index (28), while the business impact of HIV/AIDS (145), tuberculosis cases (145) the degree of customer orientation (140) and number of days to start a business (136) clearly point at areas that need attention. The country **improved slightly** in the third pillar **(innovation and sophistication)** moving from Rank 103 to 102.

Some findings are rather surprising, such as the rating of **railroad infrastructure** (Rank 45), while others are not. Namibia features in the bottom part of the ranking for some indicators, such as the **market size** (121) since the indicator is based on total GDP and not GDP per capita and hence this naturally disadvantages smaller economies. Likewise, the country ranks low in terms of availability of airline seats which does not account for population size. However, despite the need to review the usefulness of some of the indicators, the report provides useful feedback how Namibia compares on a global level. There are a number of areas where **improvements are easier** to achieve than in others, such as the number of procedures and days to **start a business** (Rank 116 and 136 respectively). Initiatives by MTI of a one-stop shop or single window for investors, once implemented, will result in improved ease of doing business in Namibia.

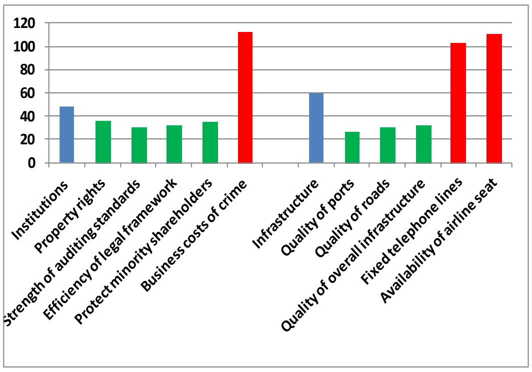
Other **areas that warrant attention** include 'hiring and firing practices' (Rank 135) and 'pay and productivity' (Rank 103) as well as 'customer orientation' (Rank 140). NDP4 priorities as well as the new government initiative of 'Growth at Home' should have a positive impact in the near future on some of the indicators, mainly on 'Value chain breadth' (Rank 130) and 'Local supplier quantity' (Rank 134). Value chain analyses for the country's primary sector output, support to SMEs in order to broaden the production base, concerted efforts by the private sector and government to identify inputs that are already available or could be produced in the country, as well as more investment in Innovation and R&D will go a long way towards addressing these deficiencies. **Improvements** of other indicators linked to education (enrolment rates), health (infant mortality rates, tuberculosis incidence) and innovation (quality of scientific research institutes, availability of scientists and engineers (unless Namibia opens her borders to foreign experts) **require more time**. **Other countries** in the region, however, **moved faster**: Mauritius (Rank 45) and Zambia (Rank 93) improved their ranking by nine places, Botswana by five (Rank 74). This highlights the challenge Namibia faces in achieving the NDP4 objective of becoming the most competitive economy in the region by 2017.

Namibia's ranking in the three main pillars, 2009 -10 to 2013 -14

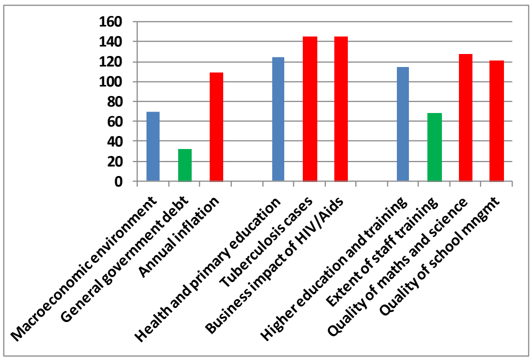


Source for all graphs: World Economic Forum, Global Competitiveness Report 2013-14.

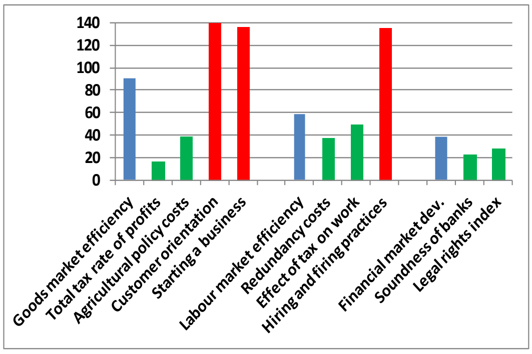
Highlights in the categories 'institutions' and 'infrastructure'



Highlights in the categories 'macro economy', 'Health and primary education' and 'Higher education and training'



Highlights in the categories 'Goods market' 'Labour market' and 'Financial market development'



Hanns Seidel Foundation

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.