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Economy Watch Namibia – December 2014

The year that (almost) was – a brief economic review of 2014

Global and domestic economic performance

The more positive sentiments since the second half 2013 until the first quarter 2014 regarding global growth prospects waned over time almost like our New Year resolutions. The International Monetary Fund revised its forecast in January for this year slightly upward from 3.6 to 3.7 per cent, but in the course of the year reversed its forecast to only 3.3 per cent. All major economies and economic groupings have been affected.

US economy recovered from harsh winter

Economic growth in the USA was badly affected by a harsh winter at the beginning of the year resulting in a 2.2 per cent growth forecast now down from 2.8 per cent. The Federal Reserve Bank, because of better data from the labour market and growth forecasts for 2015 in the range of 3 per cent, ended quantitative easing that pumped at its heights some USD85 billion every month into the market. The Euro-zone is not out of the doldrums, but avoided a recession this year with economic growth of just 0.1 per cent in the third quarter.

Deflationary and recession fears in the EU

Owing to inflation rates below the target of 2 per cent since almost two years and increased fears of a deflation that will hold Japan in its grip for years, the European Central Bank embarked on quantitative easing in order to stimulate economic growth. However, monetary policy has to be supported by an expansionary, anti-cyclical fiscal policy, which is in particular required from Germany that is set to achieve a budgetary surplus for the current financial year.

China transitions from exports to domestic demand

China amidst worries of a real estate bubble and concerns about the soundness of its financial system and amidst the transition from export and public investment led growth to domestic consumption and private investment driven growth is about to miss its 7.5 per cent growth target that is deemed necessary to maintain social and political stability. In order to stimulate the economy, China brought infrastructure projects forward and cut interest rates in November 2014.

Brazil and Russia show weak performance

India is the only major economy with improved growth prospects (5.6 per cent compared to 5.4 per cent), while prospects for the other BRICS countries have been slashed substantially. The Brazilian and Russian economies are expected to grow by just 0.3 and 0.2 per cent respectively.

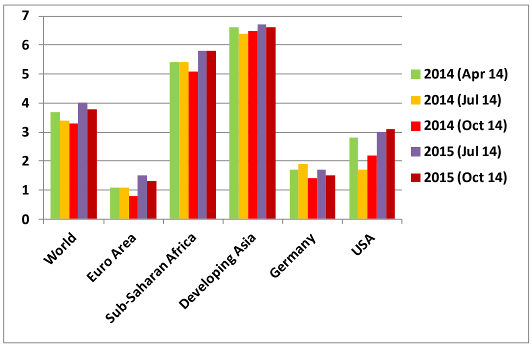
Japan moved out of deflation, but into recession

Japan, the third largest global economy behind the USA and China, has entered into recession after an increase in the sales tax at the end of the first quarter that squashed consumer demand and due to political confrontations with China over disputed islands and unresolved issues dating back to World War II that resulted in a drop of exports. The Japanese PM called for elections in December 2014 to seek a mandate to, among others, reverse the next sales tax rise.

Geopolitical

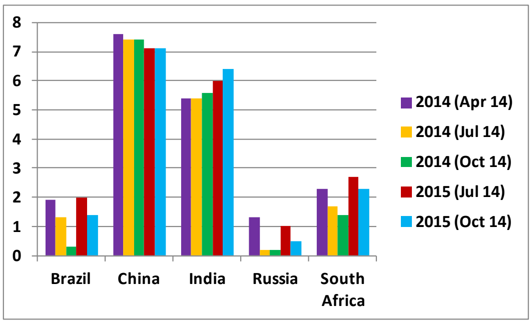
In addition to region and country-specific issues, investor confidence has taken a dip due to geopolitical risks such as the conflict in the east of the

IMF growth forecast for 2014 and 2015



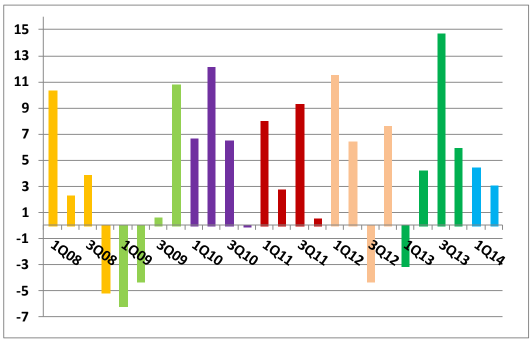
Source: IMF, World Economic Outlook
Note: The month in brackets refers to the release of the outlook.

IMF growth forecast for BRICS countries 2014 and 2015



Source: IMF, World Economic Outlook
Note: The month in brackets refers to the release of the outlook.

Namibia, Quarterly economic growth, 2008 to 2Q 2014



Source: Namibia Statistics Agency, Quarterly National Accounts

factors

Ukraine that resulted in economic sanctions against Russia as well as in the Near and Middle East and some countries in North Africa.

South Africa's growth halved

Closer to home, economic prospects for Sub-Saharan Africa have dropped from 6.1 to 5.1 per cent mainly on account of lower demand for commodities and in particular declining oil prices. South Africa's economy is expected to grow at only half of the projected rate, namely 1.4 per cent due to protracted industrial action mainly in the mining and manufacturing sectors, but also social unrest and political uncertainties that resulted in the downgrading by international rating agencies.

Namibia shows robust growth, but quarterly data have to be treated with caution

Namibia's economy grew by 5 per cent in 2013 and by 4.2 and 3.0 per cent during the first two quarters of 2014 respectively. The primary sector showed a rather weak performance affected by low uranium prices and subsequently a drop in output. The secondary sector benefitted from strong growth of the construction sector of above 30 per cent in both quarters, while growth in the tertiary sector was driven by the wholesale and retail trade sectors. However, some of these figures have to be taken with some caution: Agricultural output is based on livestock marketed that has dropped substantially since farmers are rebuilding their herds after last year's drought and due to the ban of livestock imports into South Africa. The annual national accounts measure agricultural production more accurately based on the change in herd sizes. We can therefore expect strong growth in the agricultural sector rather than a decline. The performance of the construction sector is based on building plans completed and approved, but does not take into account work in progress, which results in high growth rates once major projects stretching over several years are completed. A more accurate method would be to apportion the value added of large projects over the construction period.

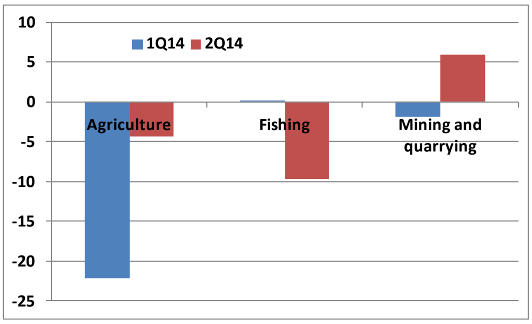
Growth prospects for 2015 elevated

Growth prospects for 2015 are even more elevated because new mines will commence operations and increase their output, such as the Husab uranium mine, Otjikoto gold mine and Tschudi copper mine. The construction sector will continue to show robust growth due to the ongoing expansion of the Walvis Bay harbour and other ongoing projects as well as the planned commencement of the new SADC Gateway harbour north of the town that was brought forward to 2015. On the other hand, the expected start of the Kudu Gas project is in limbo after the withdrawal of two partners and concerns about its economic viability.

Even higher growth rates possible with targeted policy interventions

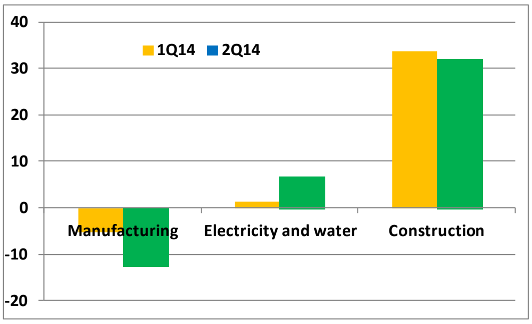
However, in order to achieve the envisaged 6 per cent annual growth rate over the NDP4 period among others the prioritisation of Government interventions needs to be strengthened in line with NDP4 priorities as well as policy coherence and coordination. Moreover, high economic growth needs to be economically, socially and environmentally sustainable, which requires tools to analyse the socio-economic and environmental impacts of various policy interventions. This in turn requires the establishment of natural resource accounts in addition to the national accounts as well as frequent household and labour market surveys.

Namibia, economic growth first and second quarter 2014 – Primary sector



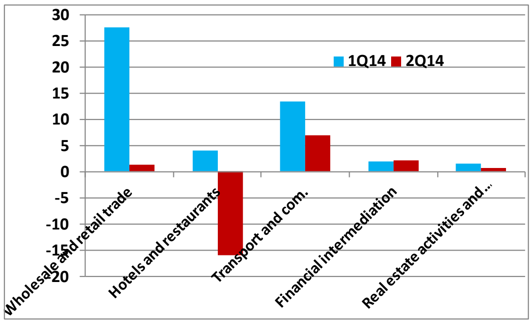
Source: Namibia Statistics Agency, Quarterly National Accounts

Namibia, economic growth first and second quarter 2014 – Secondary sector



Source: Namibia Statistics Agency, Quarterly National Accounts

Namibia, economic growth first and second quarter 2014 – Tertiary sector (selected)

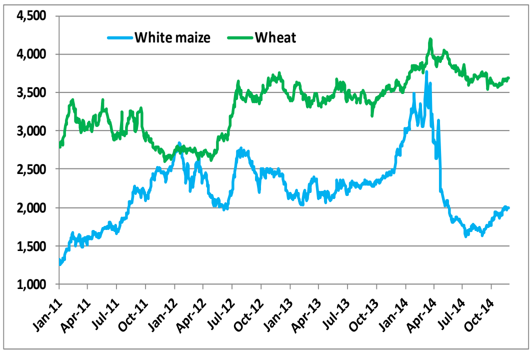


Source: Namibia Statistics Agency, Quarterly National Accounts

Crop prices

Maize and wheat prices went in opposite directions. White maize prices climbed by almost 30 per cent between January and the beginning of March 2014 amidst fears of low production due to the harsh and long winter in the USA. However the trend reversed drastically during the second quarter and maize prices reached a three-year low in September 2014. At the end of November, maize prices are 32 and 19 per cent below prices in January and a year ago respectively. While wheat prices experienced some upward pressure during the first quarter, they remained fairly stable during the year and are currently 3 and 5 per cent higher compared to January 2014 and November 2013 respectively. Maize was trading at NAD1,989 per tonne and wheat at 3,686 per tonne at the end of November. Future prices indicate slightly higher prices for the beginning of 2015.

White maize and wheat prices in NAD per tonne, Jan. 2011 to Nov. 2014



Source: SAFEX, daily prices

Commodity prices

Oil price under pressure, benefiting motorists

Barrel of oil – 158 litre

Uranium price recovers slightly

Two commodities are standing out this year, both are related to energy namely oil and uranium, but for different reasons. Uranium prices hit the lowest point in more than nine years in June 2014 when the price plummeted to USD28.00 per pound; a level last seen in May 2005. Persistent low prices over the past years resulted not only in the closure of the Trekkopje mine for care and maintenance and job losses at operating mines during this year, but also in the postponement of the development of new uranium mines with the exception of the Husab mine that is starting production in 2015. However, the price recovered towards the end of November climbing to USD44.00 per pound; the highest since January 2013, before dropping to USD40.00 per pound. The turnaround in the price trend was supported by Japan's decision beginning of September to re-start two nuclear reactors, but in particular by China's announcement at the recent APEC Summit to reduce coal and increase non-fossil fuels in electricity generation. Markets have interpreted this certainly as a sign that the country is going to invest more into nuclear energy. Prices are 16 per cent and 10 per cent above prices at the beginning of 2014 and a year ago respectively.

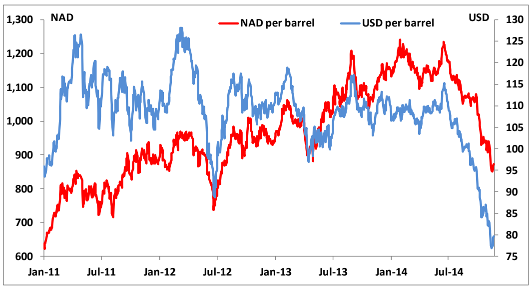
Uranium prices in USD per pound, Jan. 2005 to Nov. 2014

Source: Ux Company, weekly data

Oil prices dropped sharply and are expected to remain low

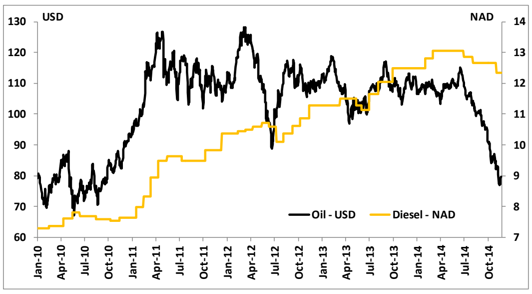
Oil prices on the other hand dropped significantly over the past few weeks to levels last seen at the beginning of September 2010. Europe Brent was trading 28 per cent lower than in January 2014 at USD79. 26 per barrel. The main factors contributing to the steep price decline include the shale oil boom in the USA, increasing stocks, and disagreement among OPEC members in general to cut output and of Saudi Arabia in particular that aims at maintaining market shares through competitive pricing. A mild winter expected for the Northern Hemisphere further supports lower prices. These factors exceeded fears about supply disruptions due to the ongoing conflicts in the Near and Middle East, North Africa and in Ukraine. Lower oil prices coupled with a more stable exchange rate brought relief to Namibian motorists. Fuel prices declined in the second half with diesel prices being now 1.2 per cent below prices in January, while petrol prices are still slightly up by 0.3 per cent.

Oil prices in USD and NAD, Jan. 2010 to Nov. 2014.



Source: EIA, daily data (Oil), South African Reserve Bank (exchange rate)

Oil (left scale) and diesel prices (right scale), Jan. 2010 to Nov. 2014.



Source: EIA, daily data (Oil), Ministry of Mines and Energy (Diesel)

Zinc prices improved while copper

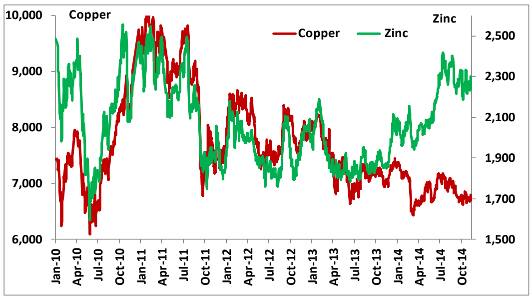
Zinc and copper prices moved in opposite directions. Copper prices dropped by 8 per cent, while zinc prices increased by 10 per cent compared to January 2014. The lower copper prices,

Zinc and copper prices in USD per ton, Jan.

prices declined

because of weaker demand, have lead to a re-structuring of mining operations resulting in the termination of sub-contractor and work contracts. Lower commodity prices also lead to the closure of the Okorusu fluorspar mine and the loss of some 400 jobs. Despite ongoing conflicts and uncertainties concerning the economic recovery path, gold prices remained subdued owing to expectations of sustained low interest rates in the USA and the end of quantitative easing there. Gold traded at USD1,204 per ounce and hence fairly at the same level as in January 2014.

2010 to Nov. 2014.

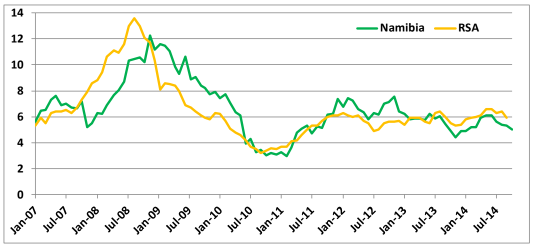


Source: LME, daily data

Inflation rates eased

The crop and oil price trends are reflected in the inflation rate that increased over the first half of the year to 6.1 per cent before descending to 5.0 per cent in October. Food and transport inflation dropped from double-digit figures in June 2014 to 7.5 and 5.3 per cent respectively in October. Annual price increases for bred and cereals almost halved from 12.3 per cent in June to 6.4 per cent in October and for the operation of transport equipment (fuel, etc.) from 11.3 per cent to just 3.3 per cent. Meat price increases remain, however, elevated owing to the lower number of marketed cattle. We expect an annual inflation rate for 2014 of slightly below 5.5 per cent. Because of the base effect, lower inflation rates are expected for the beginning of the year 2015.

Inflation rates in Namibia and South Africa, Jan. 2007 to Oct. 2014.

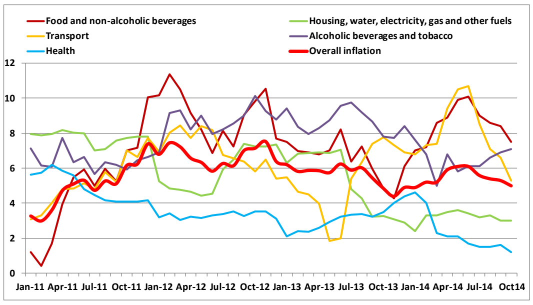


Source: Namibia Statistics Agency and South African Reserve Bank.

Interest rates on the increase in Namibia

Although the inflation rate is kept well within the South African Reserve Bank's targeted band of 3 to 6 per cent and is declining, interest rates in Namibia are on an upward trend. The Bank of Namibia has increased the repo rate twice by 25 basis points to 6.00 per cent this year. Since BoN's main concern is to maintain the currency peg with the South African rand and hence ensure sufficient foreign exchange reserves, we can expect more gradual strengthening of monetary policy, contrary to South Africa where monetary policy could rather be eased in order to stimulate economic growth. While foreign exchange reserves dropped to below the international benchmark of three-month import cover, the reserves covered the currency in circulation more than five times, which is a comfortable position for maintaining the currency peg. In addition, Namibia's net international investment position remains strong and mitigates the low import cover ratio. However, high consumption expenditures on imports require early and gradual monetary policy interventions in order to avoid steep interest rate increases that could result in households defaulting on their loans.

Inflation rates for selected items in Namibia, Jan. 2011 to Oct. 2014.

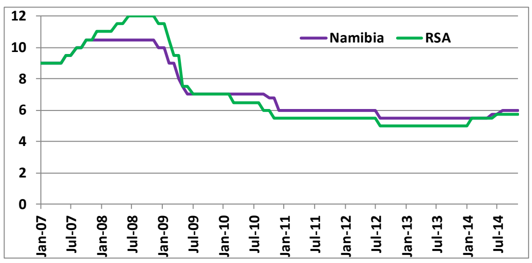


Source: Namibia Statistics Agency

Exchange rates relatively stable

Compared to 2013, when the Namibia dollar depreciated by about a quarter against major currencies, the NAD remained relatively stable this year, although on a low level. The currency appreciated by 2 and 6 per cent against the British Pound and Euro respectively trading at NAD17.24 per GBP and NAD13.68 per EUR at the end of November. The NAD depreciated, however, by 3.5 per cent against the USD to NAD10.96 per USD, which reflects the global strength of the USD rather than a weak NAD.

Interest rates in Namibia and South Africa, Jan 2010 to Nov. 2014.



Source: Bank of Namibia and South African Reserve Bank

Hanns Seidel Foundation

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