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Economy Watch Namibia – September 2015

Trends in Namibia's external trade of concern

Trade deficit rises in Q2 2015 because of high oil bill

After Namibia's trade balance showed a slight improvement during the first quarter of 2015, when it declined from Namibia dollar (NAD) 7.6 billion in the fourth quarter of 2014 to NAD5.9 bln, the trend reversed considerably in the second quarter. Despite a slight increase in the value of exports from NAD13.6 in the first quarter to NAD13.9, the trade deficit widened to NAD9.9 bln because of ballooning imports. The value of imports rose by 22 per cent to NAD23.8 bln – exceeding exports by almost NAD10 bln or 71 per cent. Although oil prices decreased from USD109.7 per barrel during the second quarter of 2014 to USD61.7 per barrel on average during Q2 2015, the value of oil imports shot up substantially from NAD1.5 bln to almost NAD4.8 bln between the two quarters. The difference is even starker compared to Q1 2015 when imports stood at roughly NAD0.4 bln. The figures suggest that oil companies stocked up reserves in the second quarter. The value of copper ore imports dropped slightly during Q2 2015 to NAD1.0 bln from NAD1.3 bln in the first quarter, but was significantly higher than during Q2 2014, when it stood at NAD0.5 bln. The figures suggest that the processing of copper ore at the Tsumeb smelter has increased in 2015.

Import dependency of most industries increased between 2004 and 2013…

Work on the just completed Supply and Use Table and Social Accounting Matrix for 2013 points to some rather worrying trends over the past decade concerning Namibia's imports and exports. The import dependency, the ratio of imports over total supply, of the Namibian economy increased from 22.4 per cent in 2004 to 25.9 per cent in 2013. Even excluding agricultural products from the analysis because of the drought, the figures do not change much (22.3 and 25.8 per cent respectively), since agricultural imports account for only roughly 2 per cent of total imports. Despite new economic activities and a more diversified economy, the import dependency of almost all sectors increased indicating that domestic supply could not keep pace with total domestic demand.

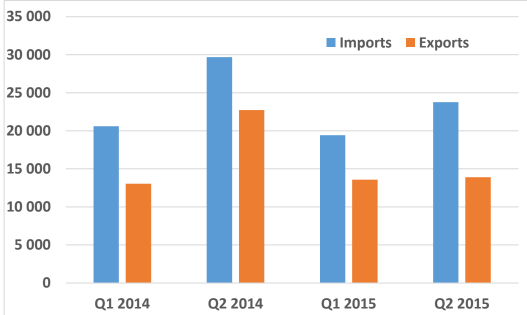
…while exports as share of total production decrease

What makes the situation worse is the fact that exports as a share of total output dropped over the same period from 19.1 per cent to 18.2 per cent, while final demand by households increased from 25.3 per cent to 29.4 per cent. The figures suggest that Namibia increasingly imports goods and services for final domestic consumption rather than for the production of goods and services that are being exported. Consequently, foreign exchange reserves have declined substantially and reached levels significantly below international benchmarks and below the SADC macro-economic convergence criteria.

Encourage saving culture of households…

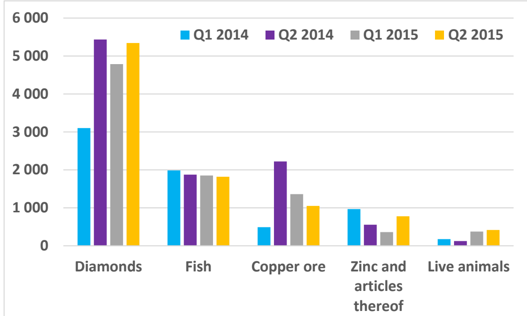
In order to reverse the trends, concerted efforts by all stakeholders are needed: Households should be encouraged to save more, which is easier in an environment of increasing interest rates. In addition, Government could consider supporting a saving culture

Value of imports and exports in NAD million, Q1 & Q2 2014 and 2015



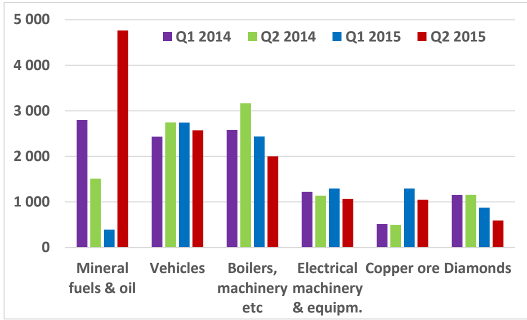
Source: Namibia Statistics Agency (NSA)

Main exports in NAD million, Q1 & Q2 2014 and 2015



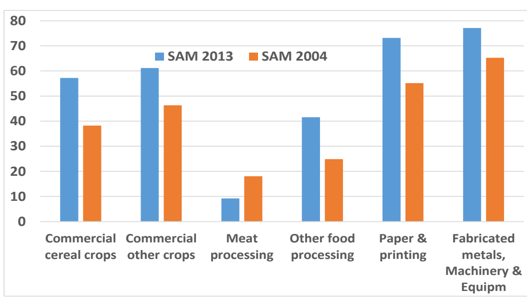
Source: NSA

Main imports in NAD million, Q1 & Q2 2014 and 2015



Source: NSA

Import dependency of selected industries, 2004 and 2013



Source: Authors' calculation based on NSA data.

…review purchases of vehicles by Government…

of in particular low-income households through a waiver of withdrawal taxes on interest earned and or through direct contributions to each dollar saved by households below a certain income threshold. Government could review expenditures on imported items such as vehicles and operational equipment. It allocated close to NAD1 bln for new vehicles in the 2014/15 budget and about NAD1.3 bln during the current three-year Medium-term Expenditure Framework (MTEF). In addition, NAD2.6 billion is budgeted for Operational Equipment, Machinery and Plants in the current MTEF. Postponing or stretching the purchase of for instance new vehicles would reduce the import bill and the pressure on scarce foreign exchange reserves. The private sector could increase efforts to identify domestic suppliers rather than relying on imports and to assist domestic producers, in particular new SMEs, in meeting their quantity and quality expectations. The Ministry of Industrialisation, Trade and SME Development could play a supportive role by creating a database of domestic producers and products.

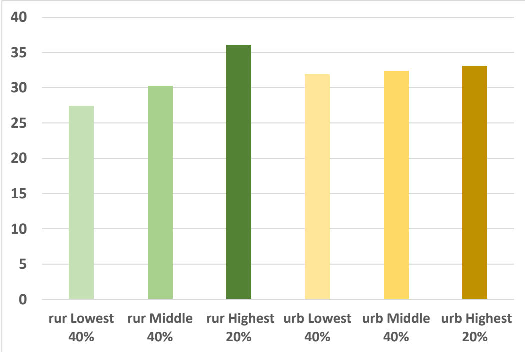
…forge stronger links with domestic suppliers.

Support investment that create value chains

Moreover, the approval and/or support of new foreign and domestic investment need to prioritise the creation or extension of value chains in the economy, in particular when investments compete for the same scarce resources. For instance, instead of embarking on investment in the agricultural sector that will cement Namibia's role as a commodity exporter and price taker, the same land could be used to grow crops (be it barley for the beer brewing industry, horticultural produce for final consumption or other crops) that substitute imports and have the potential to create further investment into processing activities. Value chain analyses as proposed in NDP4 and the Growth at Home strategy should be conducted as a matter of urgency in order to guide investments.

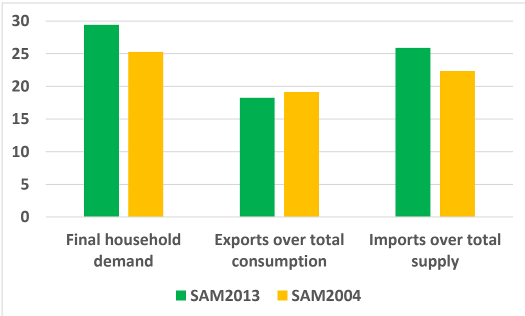
What is needed is a coherent strategy involving all stakeholders in order to reverse the current trend of increasing import dependency, declining share of exports over total production and declining foreign exchange reserves as a result.

Import dependency of rural and urban household categories based on consumption quintiles



Source: Authors' calculation based on NSA data.

Final household demand and exports as share of total use; imports as share of total supply, 2004 and 2013



Source: Authors' calculation based on NSA data.

Commodity prices weakening

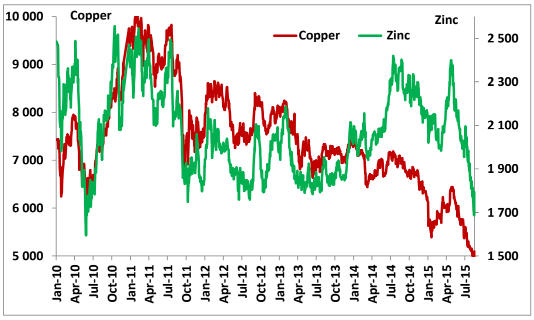
Zinc and copper prices at lowest levels for more than five years …

Commodity prices remain under pressure. Zinc prices were expected to perform better than copper, since the closure of some major zinc mines is imminent resulting in a drop of supply. However zinc prices were down by 17.2 per cent on 31 August compared to the beginning of 2015 and by 24.0 per cent compared to a year ago. They hit their lowest level for more than five years on 26 August 2015 at USD1 687.00 per tonne. Zinc was trading at USD1 685.00 on 10 June 2010. Still, zinc performed better than copper. Copper fall below USD5 000 per tonne at the end of August, but recovered to USD5 094.00 on 28 August 2015. Copper dropped to its lowest level since more than six years on 24 August 2015 at USD4 886.00. It was selling at USD4 882.00 on 13 July 2009. Copper lost 19.9 per cent of its value since beginning of January 2015 and 27.2 per cent compared to end of August 2014.

…caused by strong USD and lower demand

The main reasons for the depressed prices are the low global demand and the strength of the USD that increases the purchasing power of foreign exchange earned by commodity exporters. Although China's economy is expected to grow by a strong 6.8 per cent this year and 6.3 per cent in 2016, this is below growth rates

Zinc and copper prices in USD per tonne, Jan. 2010 to Aug. 2015



Source: London Metal Exchange, daily data

Gold price in USD per ounce, Jan. 2010 to Aug. 2015

in previous years and hence reduces the demand for commodities. Except for China and India, the BRICS countries are not doing particularly well. South Africa is expected to grow by 2 per cent this year and 2.1 per cent next year. Growth in the Euro zone, although improving slowly, remains sluggish – 0.3 and 0.4 per cent during the first two quarters. However, unemployment in the Eurozone fell to 10.9 per cent - its lowest level since 2012, which supports expectations of a further strengthening of the European economy.

Currencies safe haven rather than gold

Currencies, such as the USD and the Euro (see below) have taken over the status of a safe haven for investors from gold. The bullion was trading 5.9 per cent lower than at the start of the year and 11.8 per cent lower than end of August 2014 and dropped to its lowest level since the end of January 2010, when it traded at USD1,080.80 per ounce on 24 July 2015. On 31st of August it had recovered to USD1 135.00 per ounce. The price of uranium has increased by 19 per cent to USD36.75 per pound from USD35.25 at the beginning of January. Japan's decision in August 2015 to switch on the first nuclear reactor since the Fukushima accident in 2011 could help stabilise uranium prices.

Oil prices recovered end of August…

Brent oil prices dropped to the lowest level since 20 January 2009 on 24 August 2015 when the black gold was traded at USD41.59 per barrel. However, prices recovered by more than 15 per cent in the following week ending the month at USD47.97 per barrel. There are reports that Saudi Arabia is willing to hold talks with non-OPEC producers concerning the current price levels. After consecutive price increases since February 2015, motorists will benefit from a reduction in petrol and diesel prices by NAD0.30 and NAD0.40 per litre respectively effective on 2 September 2015.

…but fuel prices dropped

Maize prices surged…

Crop prices have moved in the opposite direction of commodity prices. The price for white maize rose by 46.1 per cent since the beginning of the year and even 83.3 per cent compared to August 2014 to ZAR3 099.00 per metric tonne, but are slightly lower than at the end of July when they climbed to ZAR3 182 per tonne. Wheat prices have shown rather modest increases of 5.6 and 11.2 per cent respectively over the same period to ZAR4 133 per tonne. The rising maize prices are a reflection of the drought this year that affected parts of Southern Africa. However, consumers are so far spared the impacts of these price increases. Food price inflation has actually dropped from 6.5 per cent in January 2015 to 4.1 per cent in June. The inflation rate for the sub-category of 'bread and cereals' dropped sharply between February (4.9 per cent) and March (0.7 per cent) and fall back to 1.0 per cent in June after an increase to 1.7 per cent. Wheat futures prices suggest a stabilisation around current price levels, with futures prices of NAD4 091 and NAD4 155 for October and December respectively.

…while wheat prices increased modestly

Exchange rate trends

Strong economic data boosts USD

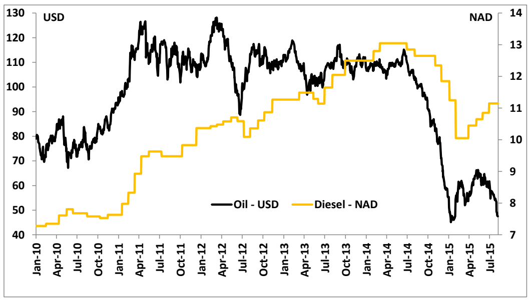
The US dollar has become an attractive destination for investors resulting in its appreciation against other major currencies. The International Monetary Fund anticipates economic growth of 2.5 per cent for the USA this year, down from 3.6 per cent estimated in January, because of a weak start into the year. Initially data of a contraction during the first quarter were however revised to a growth of 0.6 per cent followed by a more robust expansion of 3.7

Source: World Gold Council, daily data

Uranium prices in USD per pound, Jan. 2005 to Aug. 2015

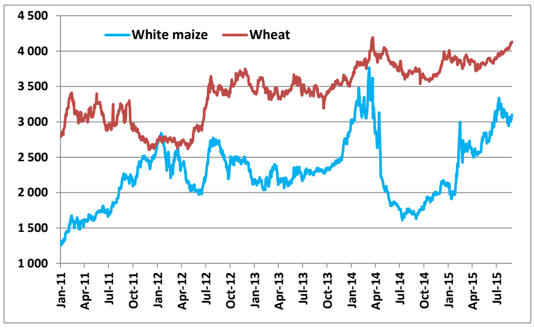
Source: Ux Company, weekly data

Oil prices in USD per barrel and diesel (500ppm) in NAD per litre, Jan. 2010 to Aug. 2015



Source: Oil: EIA, daily data. Diesel: MME, monthly data.

White maize and wheat prices in ZAR per tonne, Jan. 2011 to Aug. 2015



Source: Safex, daily data

US interest rate increase less likely in September

per cent in the second quarter. According to latest US labour market data, 215,000 jobs were created in July keeping the unemployed rate at the lowest level since mid-2008 at 5.3 per cent. While the positive labour market data could have increased the probability of an interest rate hike in September, which would have attracted financial investments into the US dollar and strengthened it further, the devaluation of the yuan in the middle of August makes it less likely. Coupled with the drop of share prices in China during the second half of August investors have moved to the Euro and Japanese yen as safe havens.

Chinese central bank devalues yuan

The Chinese central bank devalued the Chinese yuan (CNY) by 1.9 per cent against the USD on 11 August and further the next day in the wake of a drop in exports by 8.3 per cent in July, a weakening economy and, moreover, China's ambition to have its currency included in the IMF's Special Drawing Rights reserve currencies. This resulted not only in stock markets closing lower in countries exporting to China, since their exports are becoming less competitive, but it raises fear of another currency war.

Currency adjustments in emerging economies

The devaluation of the CNY triggered currency adjustments in other emerging markets, most prominently in Turkey, Vietnam and Kazakhstan. According to reports, the Kazakh tenge declined by 23 per cent in the middle of August after the peg to the USD was terminated. These responses indicate that countries try to gain competitive advantages through devaluing their currencies.

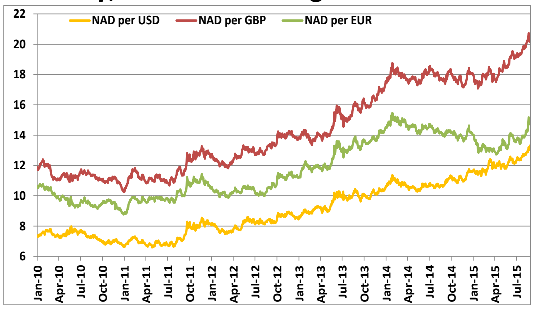
NAD depreciates against major currencies…

The South African rand and hence the Namibia dollar were not spared the fallout from the turbulences on the currency markets. The US dollar appreciated the most of major currencies gaining 14.8 per cent against the Namibia dollar (NAD) since the start of the year and 25.3 per cent since a year ago. The British Pound is up by 13.8 per cent this year and by 16.3 per cent compared to August 2014. The Euro showed a strong performance during the second half of August and turned a depreciation against the NAD at the beginning of August into an appreciation at the end. It has strengthened by 6.7 per cent since January 2015 and by 6.4 per cent since a year ago; a clear sign that investors' sentiments favour the common European currency. The Namibian dollar was trading at 13.34, 20.56 and 14.96 against the USD, GBP and Euro on 31 August 2015 respectively.

…and most BRIC currencies

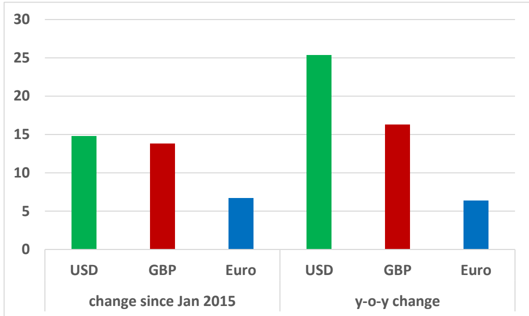
The Namibia dollar also lost ground against most of the BRIC currencies since the beginning of 2015. Despite the devaluation of the yuan, the NAD depreciated further in the second half of August accumulating a loss of 11.7 per cent since January 2015 and of 21.2 per cent compared to August 2014. The Namibian currency also lost value against the Indian rupee – 9.4 per cent and 14.8 per cent respectively. It performed better, however, against the Brazilian real and the Russian rouble. Although losing 4.2 per cent against the rouble this year the NAD is 31.0 per cent stronger than a year ago. The weakness of the real is reflected in an appreciation of the NAD by 14.9 per cent and 21.5 per cent compared to January 2015 and August 2014 respectively.

Selected exchange rates: NAD per foreign currency, Jan. 2010 to Aug. 2015



Source: South African Reserve Bank, daily data.

Appreciation and depreciation of the NAD versus USD, GBP and Euro

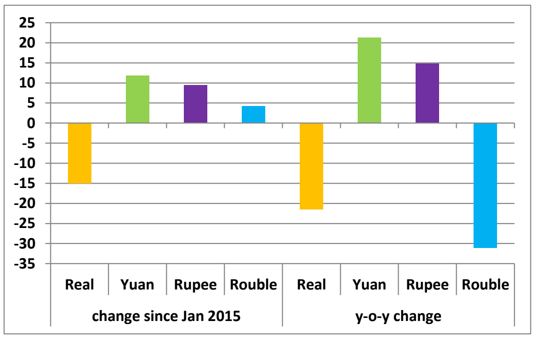


Source: South African Reserve Bank

NAD per Chinese yuan, Jan. 2013 to Aug. 2015

Source: South African Reserve Bank, daily data.

Appreciation and depreciation of the NAD versus BRIC currencies.



Source: South African Reserve Bank

Hanns Seidel Foundation

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