



Economy Watch Namibia – October 2015

Actual GDP for 2014 lower than preliminary figures
Quarterly GDP data to be treated with caution
Competitiveness ranking improved slightly

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Actual GDP in NAD revised downward but growth upward for 2014...

...because of lower deflator

Per capita GDP lower than expected

Construction and retail trade performed well

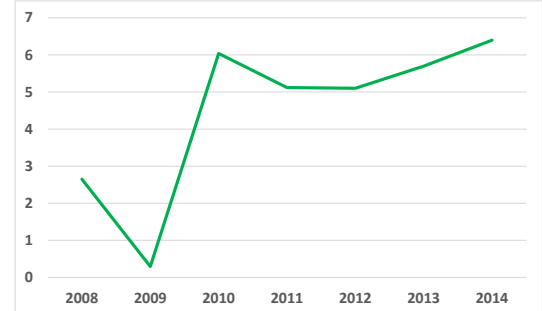
International trade patterns of con-

The Namibia Statistics Agency published the final National Accounts for 2014 and the Gross Domestic Product estimates for the second quarter 2015 in September 2015, while the IMF published its updated World Economic Outlook (WEO) at the beginning of October. Although total GDP in current prices was revised downward for 2014 from NAD145.7 bln to NAD141.0 bln, the growth rate was revised from 4.5 per cent in the Preliminary National Accounts to 6.4 per cent in the final. This is due to the lower GDP deflator used to convert the current prices into constant 2010 prices on which the calculation of the real growth rate is based. The final deflator used is 137.5 compared to the initial deflator of 145.4. While the stronger growth rate signals a positive development, the downward adjustment of total GDP implies that the per capita income for the average Namibian is lower than previously anticipated. GDP per capita and Gross National Income per capita stand now at NAD63,021 and NAD62,096 respectively compared to NAD66,157 and NAD65,600 in the Preliminary National Accounts. However, these average figures are less meaningful in the Namibian context because of the country's skewed income and wealth distribution.

While the agriculture sector showed robust growth due to the restocking of the livestock herd (13.0 per cent) and better crop production (5.3 per cent) compared to 2013 when the country was hit by a severe drought, the other two primary sectors contracted. The output of the fishing industry dropped by 2.5 per cent and that of the mining sector by 6.3 per cent mainly owing to a significant contraction of 'other mining and quarrying'. The manufacturing sector declined as well due to the expected decrease in meat processing (-17.4 per cent) since farmers were restocking their herds, but also due to declines in the output of the beverage and textile industries. Were it not for the construction sector, which grew by 40.5 per cent, the economy would have performed more weakly. Since the construction sector contributed almost five per cent to the economy, it accounted for about two percentage points of total growth. The wholesale and retail trade sector also showed strong growth (15.4 per cent); this was supported by the performance of the construction sector and consequently led to an increase in employment.

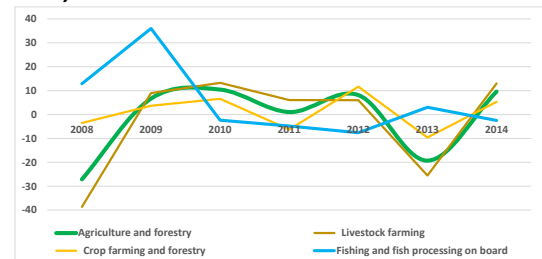
Our concerns regarding the patterns of international trade based on the latest Social Accounting Matrix 2013 that we raised in the September edition of Economy Watch are corroborated by the latest National Accounts. The share of exports over GDP declined by 22 per cent since 2007 from 50 per cent to 39 per cent. On the other hand, the share of imports over GDP rose by 18 per cent from 56 per cent to 66 per cent. This resulted in a ballooning trade deficit from NAD3.3 bln to NAD36.8 bln between 2007

GDP growth rates for Namibia, 2009-2014



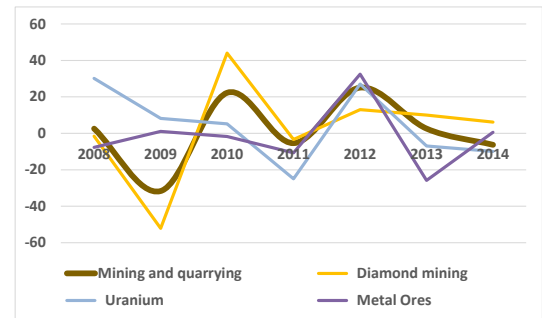
Source: Namibia Statistics Agency, Annual National Accounts 2014

Growth rates agricultural and fishing sectors, 2009-2014



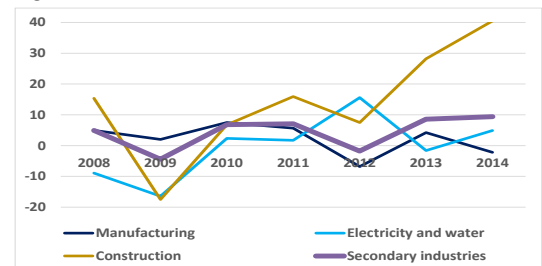
Source: Namibia Statistics Agency, Annual National Accounts 2014

Growth rates for the mining sectors, 2009-2014



Source: Namibia Statistics Agency, Annual National Accounts 2014

Growth rates for secondary sectors, 2009-2014



Source: Namibia Statistics Agency, Annual National Accounts 2014

cern...

and 2014. It is expected that the increase in the value of imports is easing since some major mining projects as well as the construction of the sulphuric acid plant have been completed, even though other infrastructure developments such as the Walvis Bay harbour expansion and Neckartal dam construction continue. However, lower global demand for commodities has hit Namibia already and led to the closure of two copper mines (Otjihase and Matchless), even though production at the new Tschudi mine is expected to increase, and to lower output at uranium mines. This will put pressure on the value of exports.

Consequently, pressure on our foreign exchange reserves has increased, which can be regarded as a contributing factor to Government's decision to issue another Eurobond that, if successfully launched, will boost our foreign exchange reserves for a while. However, the underlying causes of the deterioration of foreign exchange reserves need to be addressed in order to meet international benchmarks of three-month import cover or even the more ambitious SADC target of six-month import cover.

The GDP figures for the second quarter of 2015 already indicate a slowing down of the economy compared to the first quarter of 2015 and the second quarter of 2014. According to the estimates, the economy grew by 5.2 and 4.3 per cent in the first and second quarter of 2015 respectively. All sectors except for the mining (-10.2 per cent), fishing (-5.7 per cent) and manufacturing sectors (-2.8 per cent) recorded positive growth rates.

However, the figures have to be interpreted with some caution, because of the methodology used. The quarterly GDP data is based on incomplete information that results in adjustments in the following quarter. For instance, GDP estimates for the first quarter 2015 were revised upwards from 3.1 per cent to 5.3 per cent with some substantial adjustments for sectors such as construction (16.8 per cent), agriculture (7.7 per cent), fishing (5.1 per cent) and manufacturing (-4.8 per cent). Moreover, the estimates for livestock farming are based on the marketing of livestock, while the output of the agricultural sector in the annual National Accounts is based on the change in stock of livestock. Hence an increase in the marketing of livestock actually affects the stock of livestock negatively and results in a decline of the livestock sub-sector. Likewise, the growth of the construction sector appears to be overestimated. A growth rate of almost 50 per cent compared to the second quarter 2014 would imply that another three new mines, harbour and dam, to mention a few, half the size of the existing ones that were or are still under construction, were being built during the second quarter 2015, while actually the development of the mines and the sulphuric acid plant were almost complete. In addition, Government's mass housing scheme was put on hold. There is a need to change the methodology of estimating the performance of the construction sector. Using the value of buildings completed for instance, ignores the fact that construction work usually stretches over several quarters or years. Hence the value addition should be recorded as work in progress during these quarters and years and not accumulated during the quarter, when a development is completed. The impressive growth figures for the construction

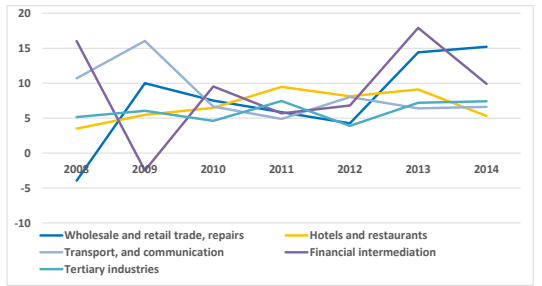
...affect foreign exchange reserves

Quarterly GDP data indicate slowdown...

... but need to be treated with caution

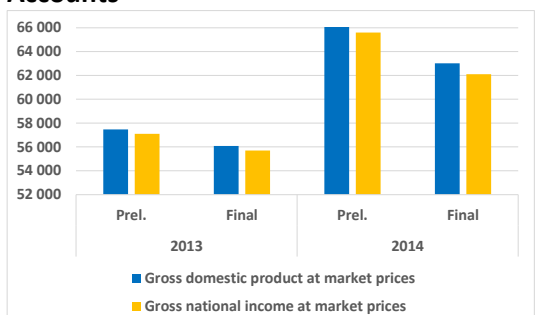
Growth of construction sector not backed by actual activities...

Growth rates for selected tertiary sectors, 2009-2014



Source: Namibia Statistics Agency, Annual National Accounts 2014

GDP and GNI per capita in NAD for 2013 and 2014, preliminary and final National Accounts



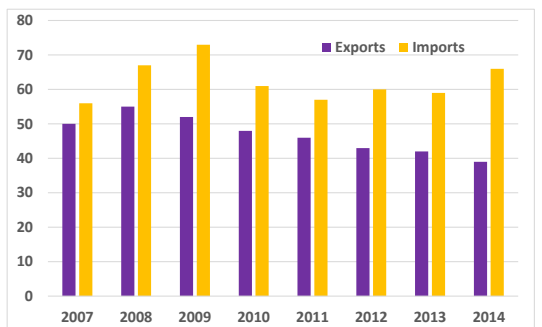
Source: Namibia Statistics Agency, Annual National Accounts 2014

Exports, imports, trade deficit in NAD million, 2007-2014



Source: Namibia Statistics Agency, Annual National Accounts 2014

Exports and imports as share of GDP in per cent, 2007-2014



Source: Namibia Statistics Agency, Annual National Accounts 2014

sector and resultant estimates for Gross Domestic Product could send a wrong signal to policy makers and consequently result in counter-productive policy interventions. Since the bulk of the work on the new mines and other projects was completed end of 2014 and beginning of 2015, it can be assumed that the actual growth in the construction is significantly lower than estimated. This is backed by the performance of other sectors, such as road freight transport (up by 0.6 per cent) and railway cargo transport (down by 13.4 per cent) that would have benefitted significantly from the estimated expansion of the construction sector.

As the latest World Economic Outlook update from the International Monetary Fund indicates, the global economic conditions remain challenging. The IMF consequently revised its growth forecast globally from 3.3 per cent to 3.1 per cent in 2015 with downward revisions for almost all regions. The US and British economies are expected to grow slightly stronger (2.6 instead of 2.5 per cent and 2.5 instead of 2.4 per cent respectively), while the outlook for the Eurozone (1.5 per cent) and China (6.8 per cent) remained unchanged. Growth in sub-Saharan Africa is lowered by 0.6 percentage points to 3.8 per cent because countries are being affected by the end of the commodity super cycle that benefited their economies for more than a decade. In particular, lower growth is expected in Nigeria (owing to low oil prices) and South Africa, the two largest economies on the continent. Growth projections for South Africa were lowered by 0.6 percentage points to 1.4 per cent in 2015 and by 0.8 percentage points to 1.3 per cent in 2016. The low growth will have a negative impact on the Namibian economy and eventually on our foreign exchange reserves due to lower demand for our products and depressed SACU transfers.

Downside risks remain. China is undergoing a transition from an export-led economy that demanded commodities to a more inward looking economy strengthening domestic demand in particular for services. Uncertainties remain in the US economy regarding an interest rate increase that may not materialise this year due to fewer than expected jobs created in September 2015 and lower growth of wages and salaries. US labour market data for September 2015 revealed the lowest Labour Force Participation Rate since 1977. It declined from above 66 in October 2001 to some 62.5 in September 2015 (Namibia's LFPR stood at 69.1 in 2014), while the unemployment rate remained at 5.1 per cent. We argued in the April 2015 edition of the Economy Watch that the Unemployment Rate is an imperfect indicator since it depends on the classification of working age population as economically active or inactive. Our view is again supported by what is happening on the US Labour Market. The Labour Force Participation Rate fell because some unemployed persons are no longer classified as economically active, which on the other hand stabilised the Unemployment Rate that is based on the economically active population.

Zinc prices remain at their lowest for more than five years. Zinc was trading at USD1,636 per tonne on 6 October – 24.5 per cent lower than beginning of January and 28.5 per cent below prices a

...neither by performance of related sectors

As usual, global growth forecast revised downward...

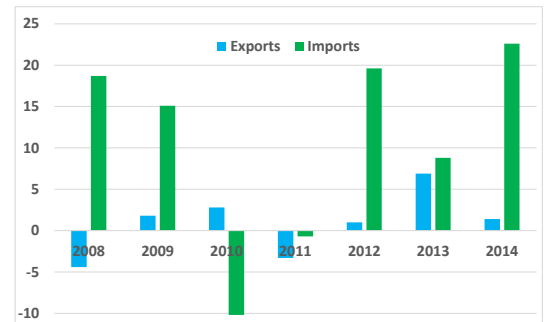
...even for African economies...

...because of China's transition from export-led growth to domestic demand

US labour market data weaker than expected

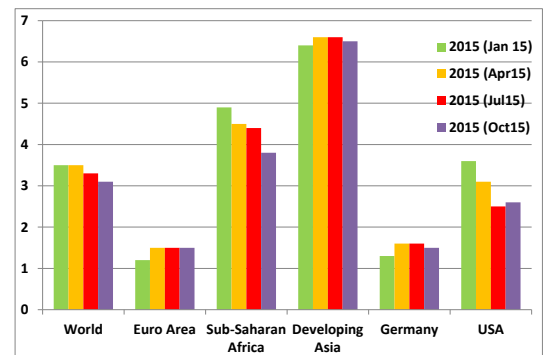
Commodity prices re-

Growth of exports and imports in per cent



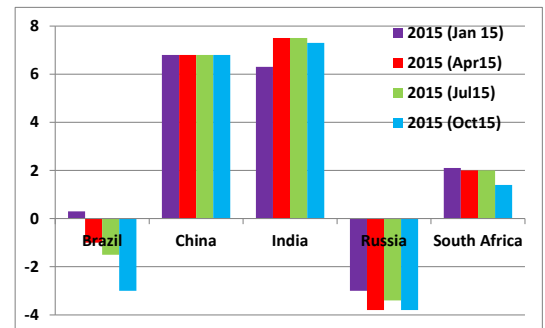
Source: Namibia Statistics Agency, Annual National Accounts 2014

Economic growth rates for selected regions and countries for 2015, month of forecast in brackets



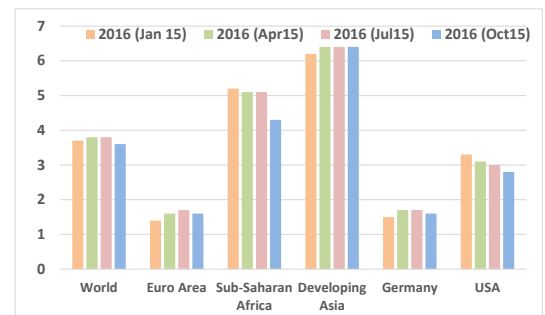
Source: IMF, various publications 2015, WEO

Economic growth rates for BRICS countries for 2015, month of forecast in brackets



Source: IMF, various publications 2015, WEO

Economic growth rates for selected regions and countries for 2016, month of forecast in brackets



Source: IMF, various publications 2015, WEO

Commodity price movements since Jan. 2015 and Oct. 2014

main under pressure

year ago. Copper prices recovered slightly, but remain at levels last seen in June 2009. At USD5,174 per tonne, the copper price was 18.6 per cent lower than in January 2015 and 22.9 per cent lower than in October 2014. Gold prices remain suppressed as well. At the beginning of October, bullion was trading at USD1,131.05 per ounce, six and five percent below January 2015 and October 2014 prices. Uranium prices continue to fluctuate and started October at USD37.00 per pound, up by almost five per cent compared to beginning of the year. Oil prices remained well below USD50 per barrel at the end of September 2015, but made some gains a few days later on lower stockpile data from the USA. Europe Brent was trading at USD49.45 per barrel on 5 October 2015. Despite forecasts of the strongest El Nino effect since 1997/98, wheat and maize prices remained relatively stable over the past month, but 4 and 52 per cent up against January.

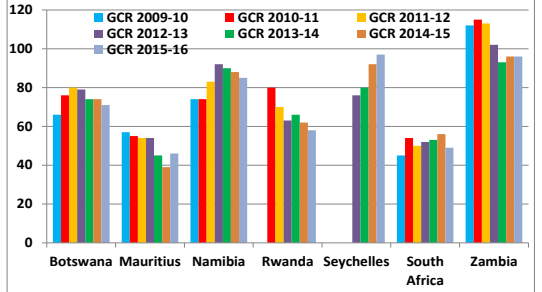


Source: Authors' calculation based on World Gold Council, EIA, LME and Ux Company daily data.

Namibia's competitive ranking

Namibia moved up by three places in the World Economic Forum's Global Competitiveness Index 2015-16 from 88th out of 144 to rank 85th out of 140. The actual improvement is two ranks, since Barbados and Puerto Rico, which were higher than Namibia in 2014, were not included this time, while Ecuador, which was not included last year, performed better than Namibia in the latest survey. Namibia's overall score remained almost unchanged – 3.99 compared to 3.96 in 2014. Namibia improved its score in the third pillar – Innovation and Sophistication – from 3.4 to 3.5 out of 7 and moved up 12 places to 79, the same place as in the first pillar – dealing with Basic Requirements. Namibia scored poorly in terms of Efficiency Enhancers being placed 97th with a score of 3.7.

Ranking of selected African countries in the GCR 2009-10 to 2015-16

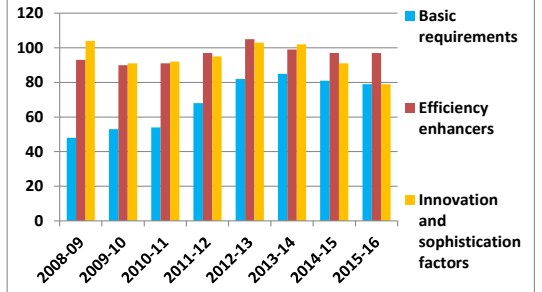


Source: World Economic Forum, various years, Global Competitiveness Report.

Slight improvement in ranking, almost same score

Namibia is ranked favourably in terms of Institutions (44), Infrastructure (66) and Macroeconomic Environment (71), but still poorly in Health and Primary Education (116) due to the number of tuberculosis cases (rank 137) and the business impact of HIV/AIDS (134). On the other hand, the country improved on Higher Education and Training climbing from 115 to 109, Goods Market Efficiency (up from 96 to 89) and Labour Market Efficiency (up from 55 to 49). It is encouraging to note that Namibia improved in Business Sophistication to rank 77th and in Innovation to rank 74th. These improvements are owed to a stronger Value Chain Breadth – rank 81 compared to 117 in 2014-15 and 130 in 2013-14 – as well as more scientists being available – rank 107 compared to 130 and 140 in the previous two surveys. The Business Cost of Crime is one of the few areas where Namibia lost ground – rank 99 compared to 94.

Namibia's ranking in the three main pillars, 2009-10 to 2015-16

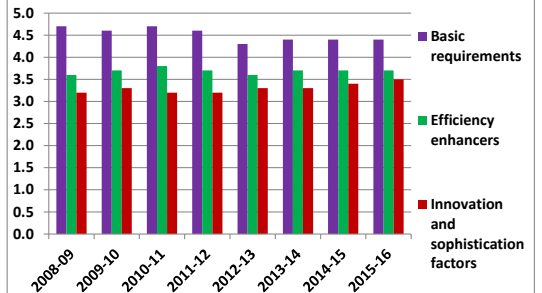


Source: World Economic Forum, various years, Global Competitiveness Report.

Performance in first and third pillar better than in second

Namibia remains the fourth most competitive economy in the SADC region after Mauritius (46), South Africa (49) and Botswana (71). While Mauritius dropped seven places, South Africa improved by seven places closing the previous gap to Mauritius considerably. Since Botswana improved by three ranks like Namibia, the gap between the two countries remains the same. Substantial improvements in the areas of education and health could go a long way in catching up with our neighbours.

Ranking of selected African countries in the GCR 2009-10 to 2015-16



Source: World Economic Forum, various years, Global Competitiveness Report.

Progress made in value chain breadth and number of scientists

Namibia remains rank 4 in SADC



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.