

# Economy Watch Namibia – July 2017

**Global economic prospects unchanged amidst regional differences  
Gender wage gap closes**

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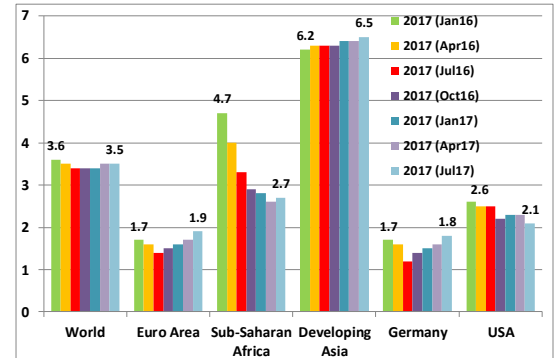
The International Monetary Fund released its **World Economic Outlook update** on 24 July 2017. While estimates of world economic growth for 2017 remained unchanged at 3.5%, prospects for some economies are brighter than at the beginning of the year. **India's** economy is expected to continue on an unchanged but **strong growth path of 7.2 percent**, followed by China with 6.7 percent. China's slightly better growth prospects have lifted the outlook for developing Asian countries from an estimated 6.4 percent in April to 6.5 percent. Economic growth in the **Euro Area** is expected to **increase by 0.2 percentage points** to 1.9 percent, spurred in particular by improved prospects for Italy and Spain (both forecasts up by 0.5 percentage points), Germany (up by 0.2 percentage points to 1.8 percent) and France (1.5 percent instead of 1.4 percent). The economic outlook for **Emerging and Developing Europe** improved the most of all economic regions. Growth is expected to reach 3.5 percent in 2017, up from estimates of 3.0 percent in April.

Both the **USA** and **UK** economies are expected to grow at a **slower pace** than assumed in April. The **USA economy** is anticipated to increase by 2.1 percent rather than 2.3 percent, while the **UK economy** is expected to grow by only 1.7 percent compared to estimates of 2.0 percent in April. The Trump administration in the **USA** got off to a slow and, not surprisingly, controversial start being **bogged down** in investigations about alleged Russian interference in the elections, in court cases regarding the banning of persons from six countries to enter the USA and in several U-turns regarding major policy issues. This combined with several failures of the new administration to repeal the Affordable Care Act (Obamacare) cast doubt on the promised infrastructure projects and other election promises. On the other side of the Atlantic Ocean, **Brexit** is starting to weigh on investor and consumer confidence in the UK resulting in the downward revision for the economy.

**Sub-Saharan Africa** is set to **perform slightly better** at 2.7 percent compared to 2.6 percent in the April outlook. Prospects for the **South African** economy have been **revised upwards** by 0.2 percentage points from 0.8 percent. However, the economy is no longer expected to grow much in 2018. Growth for 2018 was revised downwards by 0.4 percentage points to 1.2 percent.

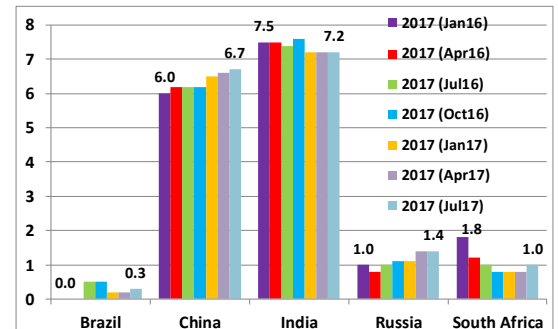
**At home**, the first quarter GDP estimates released by the Namibia Statistics Agency in June showed a **continuing contraction** of the economy since the second quarter of 2016. While quarterly GDP dropped by between 1.2 and 1.9 percent in the second, third and fourth quarter of 2016, the decline was even more pronounced in the first quarter 2017: 2.7 percent. The **construction sector**, not unexpectedly, was **hit hardest** with a contraction by 44.9 percent followed by the manufacturing and the tourism sectors that contracted by 10.7 and 9.3 percent respectively. The **wholesale and retail trade** sector was also not spared and shrank by 7.4 percent. The **mining sector** has **rebounded** and increased its value addition by 16.8 percent, although value addition for the uranium sector decreased by 14.6 percent. Good rainfall has revived the **agri-**

## Economic growth prospects for 2017 since Jan. 2016



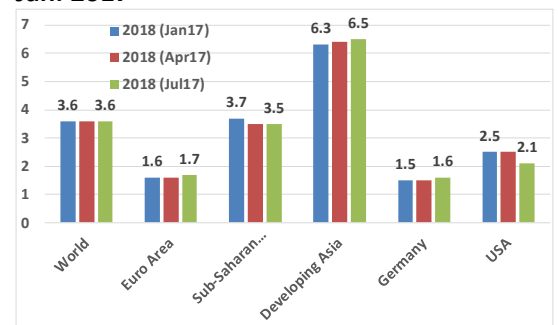
Source: IMF World Economic Outlook, various editions

## Economic growth prospects for BRICS countries for 2017 since Jan. 2016



Source: IMF World Economic Outlook, various editions

## Economic growth prospects for 2018 since Jan. 2017



Source: IMF World Economic Outlook, various editions

**cultural sector** that expanded by 10.5 percent.

The **overall decline** of the economy can be **attributed to the construction sector** that benefitted from major private and public-sector investments over the past years and experienced growth rates at the same level of the contraction in 2016 and the first quarter of 2017. The completion of the development of new mines and some other major development projects combined with the public budget cuts announced during the mid-term budget review in October 2016 have caused the adjustments in the construction sector. These adjustments had also an **impact on the manufacturing sector** resulting in a decrease in the output of fabricated metals by 12.6 percent. Better grazing conditions led to fewer livestock being sold, which caused a decline in the value addition of meat processing by 23.7 percent. Government’s spending cuts have also affected the wholesale and retail trade sector and the hotel and restaurant sector because of fewer than usual workshops and retreats.

However, **quarterly GDP data** should be **treated with caution** since the data is limited and based in part on proxy indicators and, therefore, could be revised later. Furthermore, care needs to be exercised when drawing conclusions from quarterly data for annual growth figures, since annual growth estimates are based on more accurate industry information for the past year. Despite a contraction during three out of four quarters in 2016, the Preliminary National Accounts estimate growth for 2016 at 0.2 percent.

It is expected that the economy will show a **slightly more positive** performance in the **second quarter of 2017** because of the base effect (contraction in the second quarter 2016) as well as the increasing outputs of the mining and agriculture sectors. Government’s intention to settle outstanding invoices over the next few months will inject cash into the economy and ease cash-flow challenges of in particular small companies. This will have positive impacts on the economy at large.

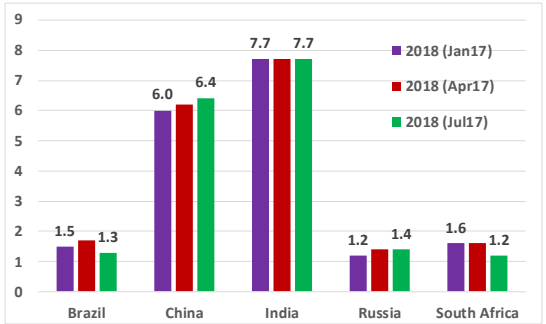
However, **in order to stimulate sustainable growth**, attract investment and create jobs, Namibia has to design forward-looking policies that balance the interests of domestic and foreign investors with the needs to address socio-economic challenges. There is therefore a need to revise current draft legislation such as NEEEF as well as the Namibia Investment Promotion Act (NIPA).

The Namibia Statistics Agency released the **2016 Labour Force Survey report** on 5 July 2017. **Total employment declined** for the first time since 2012 to 676,885 in 2016. 32,010 jobs were shed since 2014 and almost 6,000 jobs compared to 2013. **Unemployment increased** by 74,435 to 349,383 persons. The number of unemployed women increased by 39,724 compared to 34,711 men who became unemployed. 56 percent - or 41,434 persons - of the additional unemployed are youth between the ages of 15 to 34 years. The **unemployment rate** climbed from 27.9 percent to 34.0 percent, while youth unemployment rose from 39.0 to 43.4 percent.

The **largest number of job losses** since 2014 occurred in the agricultural sector – 70,890 – which can be explained by the severe droughts in 2015 and 2016. Consequently, **rural unemployment increased** by nine percentage points to 39.2 percent, while urban unemployment grew by 4.1 percentage points to 30.3 percent.

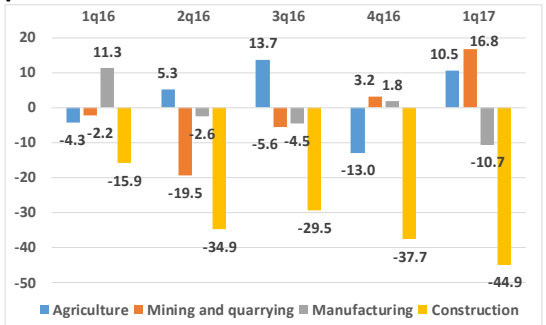
**Other sectors that shed labour** included wholesale and retail trade (31,607), public administration (11,629) and private households (7,944). On the other

**Economic growth prospects for BRICS for 2018 since Jan17.**



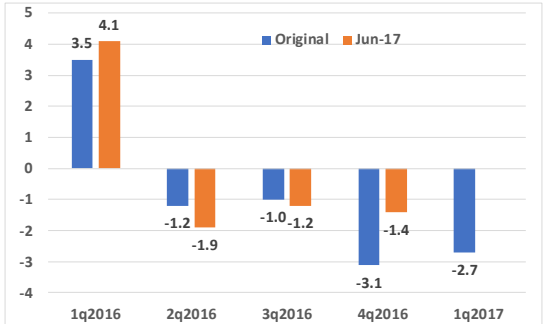
Source: IMF World Economic Outlook, various editions

**Quarterly GDP growth rates for Namibia, in percent**



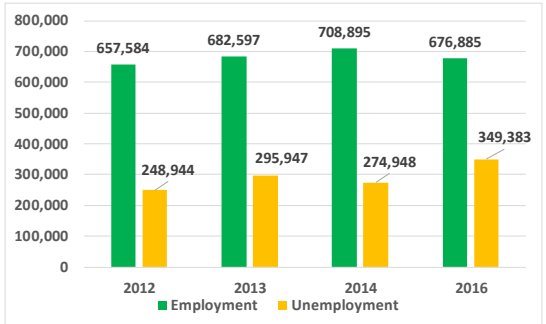
Source: NSA, Quarterly GDP

**Revisions of quarterly GDP data**



Source: NSA, Quarterly GDP

**Employment and Unemployment, 2012 to 2016**



Source: NSA, Labour Force Survey reports

hand, some sectors hired additional workers such as ‘other service activities’ (30,731), hotels and restaurants (18,661) and manufacturing (15,713). Although the construction sector entered already into a severe recession in 2016, employment was still up by 6,258 compared to 2014. Since the construction sector continued to expand in 2015, employment certainly increased as well. It can be assumed that the sector shed jobs in 2016 already compared to 2015.

**A contributing factor** to the rising unemployment rate is the increase in the Labour Force Participation Rate (LFPR) that was the second highest since 2012. The LFPR rose by 0.2 percentage points to 69.4 percent, which was only exceeded in 2013 (70.2 percent). The higher LFPR indicates that more persons in the working age population were available for work in 2016 than in 2014, but did not find jobs.

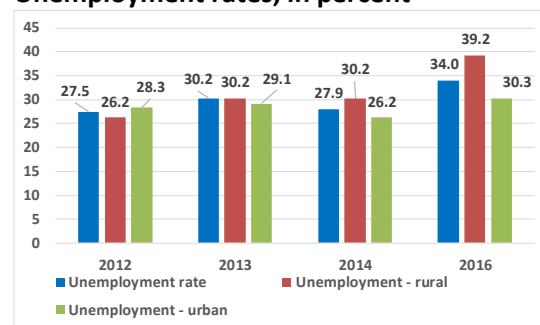
**Wage data** from the Labour Force Survey showed some encouraging trends. Despite the decline in employment, the **average wage** was **two percent higher** than in 2014. Wages averaged NAD6,759 per month. In addition, the **wage gap between men and women narrowed** further. While men earned 1.19 times the wage of women in 2013 the ratio decreased to 1.03 times in 2016. However, income data has to be treated with some caution. The report reveals that average wages in some sectors have fluctuated substantially since 2013, which finally had an impact on the average wage. The average wages based on the LFS were more or less in line with the compensation of employees as reported in the National Accounts between 2012 and 2014, but deviated in 2016. Since wages and salaries in the public and in the formal private sector increased in 2015 and 2016, it can be assumed that the average wage as per LFS is at the lower end.

The **good rainfall** this year bodes well for an **increase in agricultural employment**. In addition, the tourism sector is expected to perform well, which should have positive impacts on the labour market as well. **On the other hand**, the contraction in the construction sector, the freeze in public sector employment as well as an expected weaker performance of the wholesale and retail sector due to less disposable income will result in further job losses. However, additional employment in the sectors mentioned will most likely outweigh further job losses. Since the construction and wholesale and retail sectors pay on average higher wages than the agricultural and accommodation services sectors, **average wages could come under pressure**.

Commodity prices have shown signs of recovery. **Gold prices** increased in the immediate aftermath of the Brexit vote in the UK last year, when they exceeded USD1,350 for some days. Gold played its role as a safe haven. However, this did not happen after the election of Trump in the USA, since investors moved out of gold. Gold prices have recovered recently and are up by 35 percent compared to January 2017. Gold was trading at USD1,248.55 per ounce on 21 July.

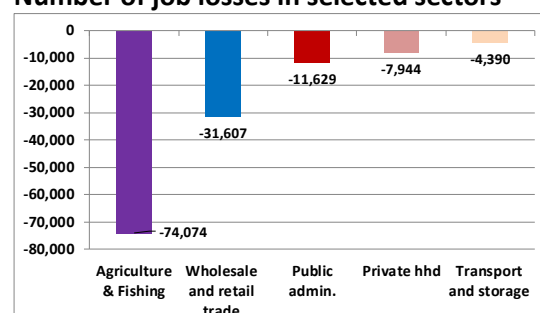
Both **copper and zinc prices** also showed a **strong performance**. Prices are up by 23 and 21 percent respectively compared to July 2016 and by eight and nine percent since the beginning of the year. Copper was trading at USD2,774 per tonne and zinc at USD5,999 per tonne on 24 July 2017. **Uranium prices** have remained **flat** compared to the beginning of the year despite some fluctuations. They are still almost 20 percent below last July’s prices. Uranium was trading at USD20.25 per pound after climbing to USD26.50 per pound in February. Although mining companies usually sign longer-term contracts and agree on prices that are different from the spot market prices, the spot market prices influence longer-term contract prices and reflect the demand and

### Unemployment rates, in percent



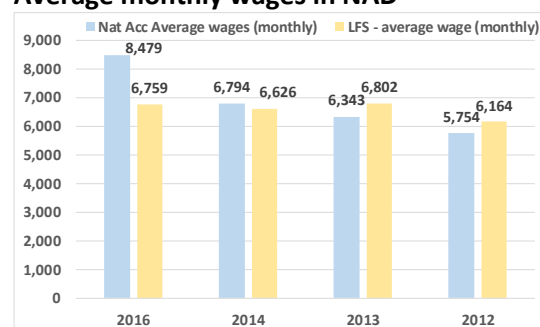
Source: NSA, Labour Force Survey reports

### Number of job losses in selected sectors



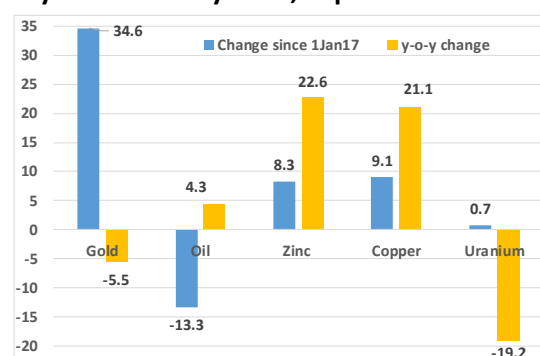
Source: NSA, Labour Force Survey reports

### Average monthly wages in NAD



Source: NSA, Labour Force Survey reports, Authors' calculation based on National Accounts and employment data

### Commodity price trends compared to January 2017 and July 2016, in percent.



Source: Authors' own calculation on daily data from various sources.

supply conditions on the market. Because of the low price levels, output of Namibia's uranium mines dropped during the first quarter 2017 by 14.6 percent.

Despite the agreement to cut output between OPEC member countries and some non-members, such as Russia, **oil prices** are currently **13 percent below price levels** at the beginning of the year, although slightly up compared to a year ago. African oil-producing exporting countries Libya and Nigeria are exempted from the output cut. Actually, Libya has increased its output and surpassed 1 million barrels per day. Furthermore, Ecuador has withdrawn from the agreement and intends to increase output. Saudi Arabia's recent confirmation that it will cut output by one million barrels per day (compared to Aug 2016) to 6.6 million barrels in August 2017 can be seen as an attempt to save the agreement even though it will result in a loss of market share.

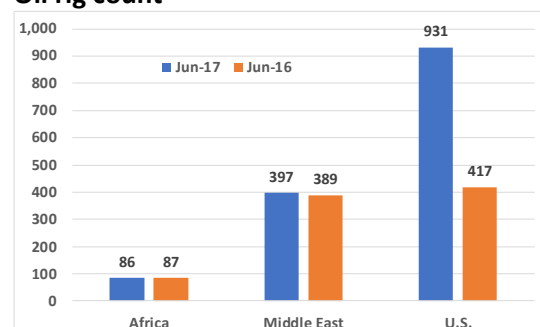
The intended effect of output cuts, namely a stabilisation of prices if not price increases, has resulted in **US oil producers adding oil rigs** and increasing output, which in turn puts again pressure on oil prices. According to the Baker Hughes oil rig count, the number of US rigs increased from 449 in July 2016 to 960 in July 2017 accounting for the overwhelming share of the global increase of oil rigs from 1,481 to 2,116 over the same period. Europe Brent Oil was trading at USD47.66 per barrel on 17 July 2017. Although oil prices increased by four percent compared to last July, fuel prices are slightly lower due to a more favourable exchange rate.

### Oil prices in USD per barrel



Source: EIA, daily data

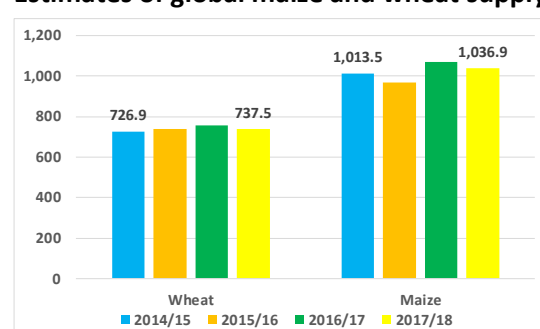
### Oil rig count



Source: Baker Hughes Rig Count, July 2017

The **World Agricultural Supply and Demand Estimates** compiled by the United States Department of Agriculture suggest another global bumper harvest for wheat and maize after last year's global record harvest. Global wheat production is expected to reach 737.5 million metric tonnes and maize production 1,036.9 million metric tonnes. **South Africa** is expecting a **bumper maize harvest** of 16.4 mln tonnes, which is double the production of 8.2 mln tonnes in 2016. However, wheat production is expected to drop by about six percent to 1.8 mln tonnes. Latest estimates for **Namibia** point in the same direction. Total coarse grain production is estimated to have increased by 84 percent compared to the previous season and to be 16 percent above average. White maize production is estimated at 68,100 tonnes and wheat production at 11,500 tonnes.

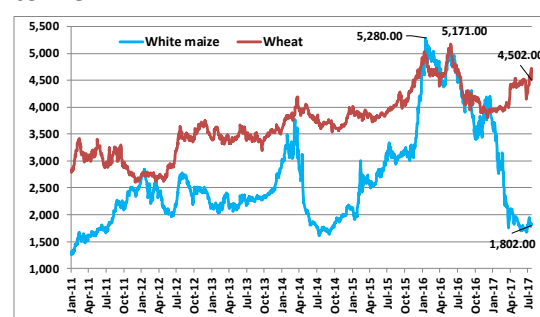
### Estimates of global maize and wheat supply



Source: USDA, World Agricultural Supply and Demand Estimates, 12 July 2017

The substantial increase in maize production in the region has resulted in a **drop in maize prices by 51 percent** since beginning of 2017 and by 58 percent compared to July 2016. Wheat prices are up by 15 percent since January 2017, although only slightly (two percent) higher than a year ago. While **wheat prices** are **expected to drop** from currently ZAR4,502 per tonne to below ZAR3,900 per tonne by the end of the year, **maize prices** are likely to **move in the opposite direction** and increase from the current ZAR1,802 per tonne for white maize to ZAR1,900 in December.

### White maize and wheat prices in ZAR per tonne



Source: Safex, daily prices

Consumers have felt the benefits from the improved supply situation. **Food price inflation dropped** from double-digit figures in February 2017 to 3.8 percent in June. Prices for bread and cereals as well as for potatoes are below prices a year ago: -2.8 and -2.1 percent respectively. On the other hand, **meat prices** increased by 8.5 percent in June 2017 compared to 4.5 percent in June 2016. The price trends are due to the impact of improved grazing conditions and consequently the re-stocking of livestock rather than selling livestock.



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](http://www.ippr.org.na) or [www.hsf.org.na](http://www.hsf.org.na) and printed copies are available from the IPPR or HSF.