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Quarterly Economic Update

This Issue…

Regular Updates

- **Global Developments**
- **CPI November 2021**
- **Trade Statistics**

Special Feature

- **Summary of analysis FNB Housing and rental price index Q3**

GLOBAL ECONOMY

Recovery in the global economy has continued in 2021 but with momentum weakened by further outbreaks of the corona virus. The overall global economy was projected to grow at 6.0 percent in 2021; however, the figure has been revised downward to 5.9 percent. The adjustment reflects the multidimensional challenges that economies have been confronted with since the pandemic started– such as subdued employment growth, rising inflation, food insecurity and the setback to human capital accumulation. Growth in **advanced economies was** marginally revised downwards from 5.2 percent to 5.0 percent. Despite the downward adjustment, recovery in **advanced economies is expected to continue at a higher pace than emerging markets and developing economies.** This is based on strong fiscal stimulus and higher vaccine rollout rates, amid continued outbreak of new variants. While growth in **emerging markets and developing economies was marginally revised up** from an initial 6.4 percent to 6.5 percent in 2021.

The emergence of new COVID-19 variants; sustained supply chain disruptions; geopolitical tensions; energy price volatility and domestic wage pressures all pose a threat to growth in the global economy going forward. In addition, a broader slowdown of the Chinese economy also affects global prospects, principally via spillovers to commodity exporters. Aside from the aforementioned factors, rising inflation is a central theme in most economies around the globe as monetary authorities try prescribing policy actions that tames inflation all while preventing their economies from slipping into a recession.

2021 has been a strong year for commodities, with various classes hitting record highs. For instance, tin prices reached an all-time high, supported by continued strong demand from the electronics sector, electrical cars and supply disruptions. Uranium spot prices grew by 5.5 percent on an annual basis but recorded a monthly contraction of 3.4 percent in November 2021. Gold prices saw a contraction of 2.5 percent y-o-y and a 2.4 percent increase m-o-m, during the month under review. Copper prices increased by 37.6 percent y-o-y however with a reduction of 6.4 percent as compared to August 2021; affected by reduced demand from China as trouble in the country’s real estate sector continued to unravel. Zinc prices also recorded an increase of close to 23.9 percent y-o-y and 1.4 percent contraction m-o-m for November 2021.

The IDEX[1] rose by 21.4 percent on an annual basis and by 5.9 percent on a monthly basis. The annual increase is in line with higher diamond prices as demand for luxury goods backed by gradual recovery at global level. The development of vaccines and the continuous fiscal support in the advanced economies, the commodity markets are expected to recover and post strong growth as economies adjust to a new normal

Inflation to the moon

Inflation in major economies has continued to climb to significant levels while monetary authorities maintain the stance that price pressures are not persistent. In the USA price level data for November 2021, came in higher at 6.8% y-o-y, well above the FED’s 2% target. Similarly, the inflation rate in the EU rose to its thirteenth year high at 4.9% in November 2021 and expected to remain above the 2% target for most of 2022 (ECB, 2021) mainly attributed to sharp rises in energy prices.

Despite widely shared consensus suggesting inflation is transitory, wage-push pressure has started to emerge in many of the advanced economies casting doubt on notion inflation will quickly dissipate. In the USA for instance, this coincides with a declining labour force participation ratio - giving rise to a tricky situation for policymakers.

Additionally, a shortage of truck drivers threatens to further strain the already struggling supply lines of goods to retailers and manufacturers further making the task of taming spiking inflation altogether difficult. As a result, transport costs in the USA have seen sharp rises and, in an attempt, to resolve this, faster-more expensive alternatives have been sought- air freight. China’s Zero-COVID policy has significantly slowed the recovery of the shipping industry; increasing the backlog of cargo ships, which worsens supply constraints and further feeding the inflation pressure. This not only raises the price of shipping containers and causes delays but affects production; evident in lower industrial production despite the ever-rising demand reflected in increasing factory orders amongst Asian and advanced economies.

SUB-SAHARAN AFRICA

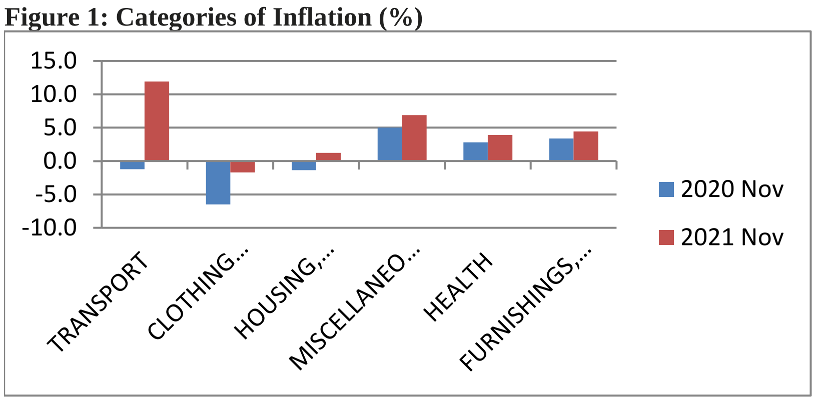
Overall CPI in the region stood at 9% at the end of October, up from the 6% recorded in the corresponding period in 2020. Fast rising energy, consumer durable goods and food prices have been propelling the CPI in SSA. The latter constitutes 40% of the consumer basket (IMF, 2021) making consumers in the region more vulnerable to shocks. Pushing up the price of food are sharp increases is the cost of transport and fertilizers to which currency depreciation against the US$ worsens the situation as most African countries are net importers of the inputs. According to the IMF, Average food price inflation in the region had already been on an upward trajectory pre-COVID-19 pandemic (from 2% y-o-y in 2019 to about 11% in 2021) owing mainly to weather-related shocks (droughts and floods), and fuel price increases.

South Africa: The SARB maintains the stance that inflation is transitory, as inflation hovered around 4.5% for November 2021, which is within its CPI target range of 3% - 6%. However, moved to hike the policy rate by 25 basis points, to 3.75% for the first time since 2020; and further revising South Africa’s expected economic growth forecast for 2021 downwards from 5.3% to 5.2%. Food and non-alcoholic beverages which make up 17% of the consumer basket increased by 5.5% y-o-y (StatsSA). While fuel prices rose by 7.1% m-o-m and 34.5% y-o-y. The cost of transport also followed suit, with prices rising by 14.3% y-o-y.

DOMESTIC INFLATION

The annual inflation for Nov 2021 increased to 4.1% from 2.2% recorded in the corresponding period in 2020. On a monthly basis, prices rose to 0.6% in contrast to the 0.2% uptick a month earlier at the end of October 2021, with goods inflation rising faster than that of services at 5.4% and 2.4% respectively. The acceleration of annual inflation for November 2021 mainly emanated from the increase in the price for *transportation* (11.9%), *Food and non-alcoholic beverages* (5.2%).

Figure 1: Categories of Inflation (%)



Source: NSA Nov, 2021

Improved demand due to softer travel restrictions and an accommodative credit environment saw the *transportation* component experience higher price levels across the board at the end of November 2021 compared to a 1.2% deflation in 2020. "*Operation of personal transport equipment*" was the main proponent of the rising inflation under the group at 16.2%. The *purchase of vehicles* rose by 8% compared to the 5.2% recorded in the corresponding period in November 2020. Spending on big-ticket items like vehicles and housing has continued to rise as a result of low-interest rates.

Food and non-alcoholic Beverages recorded an increase of 5.2% although 1.7% lower than the 6.9% recorded in the same period last year. The increase was mainly reflected in the price levels of *fruit*, which increased by 16.6% (16.1% in 2020). *Oils and fats, and Meat* also recorded double-digit increases of 13.5% and 11.1% respectively. The price of *vegetables* experienced disinflation in price amid improved supply.
Households continued to make improvements to their homes, evident in the increased demand for products like furniture, textiles, and various household appliances. Overall prices for the group rose by 4.4% in contrast to the 3.4% last year. The price for household textiles led to the charge under this group with a rise of 10.9%; followed by houseware (glassware, tableware and utensils) at 5.2%. Clothing and Footwear recorded a decline of 1.7% compared to a decline of 6.5% recorded during the same period of 2020.

In the short term, inflation is expected to average 3.9 percent for the remainder of 2021; while the annual inflation prints for 2021 and 2022 are estimated to hover around 3.6 percent and 4.3 percent respectively (BoN; December 2021). Forward guidance by the Bank of Namibia (BoN) on inflation suggests price pressures are to remain anchored for the short-term outlook, although exchange rate volatility; global energy inflation pose a threat to this view.

TRADE STATISTICS

Namibia's trade deficit widened to N$7 billion in October 2021, worsening by 59% when compared to the N$4.4 billion deficit recorded at the end of October in 2020. The period between October and September this year saw the trade balance widened by 129 percent. This was a result of total imports of mainly extracted commodities growing faster than total exports-propped up by an appreciating US$ against the Namibia dollar and stronger commodity prices. As such, imports were up 25% y-o-y from a balance of N$12.3 billion in October 2020 to N$15.3 billion, while exports rose by 6% only under the same period.

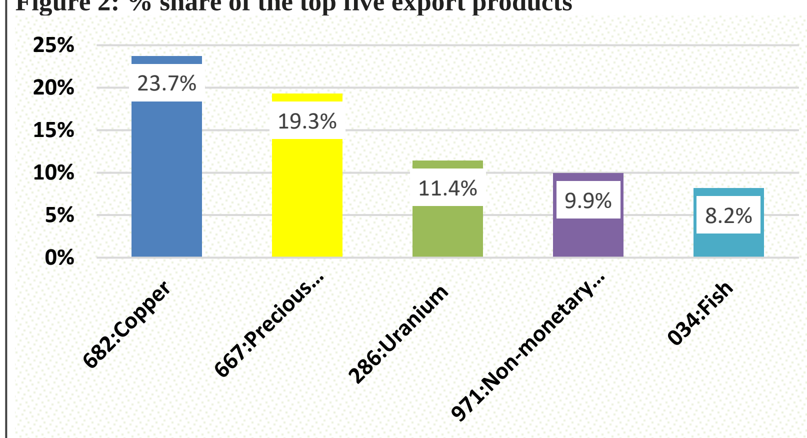
Furthermore, on a month-to-month basis, imports grew by 32% to N$ 15.3 billion from N$11.6 billion, while exports shrunk by 2.7% from N$8.5 billion to N$8.3 billion. The 12-month period between October 2020 and October 2021 has consistently seen imports outpace exports, with an average deficit of N$2.7 billion over the period. However, available data for 3Q21, shows that imports this year edged 3Q20's import bill only by 3.7%, while exports declined by 7.5%.

TRADE STATISTICS cont….

The sharp decline in demand for copper (34.7%) dragged down the value of exports in October on a m-o-m basis having made up more than 23 percent of all goods exported. Revenue scooped from the export of non-monetary gold; petroleum oils and oils from bituminous minerals; and alcoholic beverages also dropped pulling down the export balance with them. Meanwhile, providing support for exports were diamond and uranium.

Imports on the other hand were buoyed by strong demand for petroleum oils whose bill rose by N$803 million (65%); copper ores and concentrates up by 427% ($1.3 billion); ores and concentrates of precious metals which went up by more than 10k percent (N$553 million); while motor vehicles for transport of goods increased by 157% (N$305 million). The import value of petroleum oils over a year period recorded an increase of 84% reflective of market conditions for fuel.

Figure 2: % share of the top five export products



Source: Namibia Statistics Agency 2021

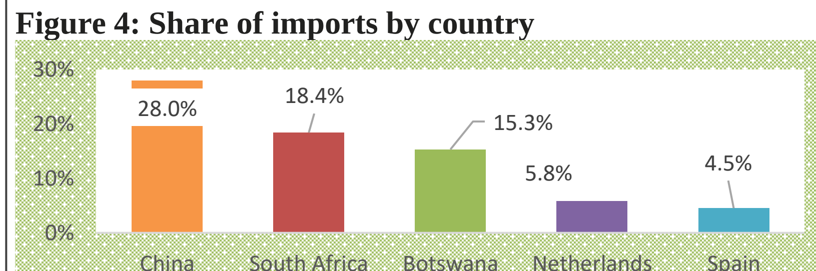
Namibia's top five export destinations for October were China (28 percent of exports); South Africa (18.4 percent); Botswana (15.3 percent); the Netherlands (5.8 percent); while Spain took up 4.5 percent. Cumulatively, the aforementioned destinations absorbed close to three quarters (72 percent) of Namibia's total exports. China maintained its position as the largest export market for Namibia's goods, while South Africa affirmed as the number one supplier of goods for Namibia, accounting for 29.9 percent of all imports. The top five import markets for October 2021 were South Africa; Zambia; Peru; China; and DRC, who collectively supplied Namibia with 68.7 percent of all its required goods.

Figure 2: % Share of exports by country

Source: Namibia Statistics Agency 2021

Trade by region saw the Southern Africa Customs Union (SACU) take up the lion's share of Namibia's total exported goods at 33.8 percent of N$8.2 billion in October 2021. This was mainly for pearls and precious stones, non-monetary gold, petroleum oils, live animals, and alcoholic beverages. The BRIC region absorbed 28.1 percent of total exports mainly for copper and uranium. The OECD absorbed 21.2 percent mainly importing copper and fish, while the pair EU and SADC (excluding SACU) only imported 16.9 percent, and 8.5 percent of Namibia's goods respectively, which was mainly fish as well. While import sources by region saw Namibia source most of its needs from Africa (SACU, COMESA, and non-SACU members in SADC). Together, they contributed about 76 percent to the import basket, which was mainly copper.

Figure 4: Share of imports by country

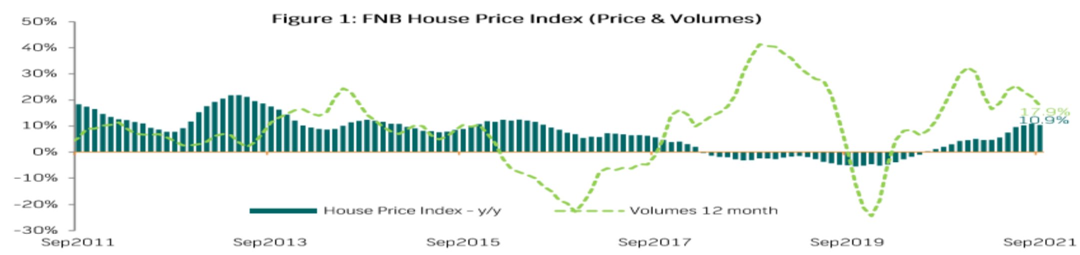


Source: Namibia Statistics Agency 2021

SPECIAL FEATURE: SUMMARY OF ANALYSIS FNB HOUSING AND RENTAL PRICE INDEX

HOUSING MARKET

Prices in the housing sector posted double-digit growth of 10.9%; amid widely shared sentiments of a "buyers' market." The strong growth was supported by constrained supply of affordable housing; record-low mortgage rates; and strong demand from young professionals in the lower-end market (central region). The stellar growth follows a modest 2% growth recorded in the corresponding period in September 2020. To this end, residential mortgage Loans have seen a 4.6% Year-To-Date (YTD) rise compared to the 3.5% recorded over the corresponding period in 2020. In addition, building plans to the tune of N$124.6 million (compared to N$116.9 million; September 2020) were approved according to the National Statistics Agency (NSA) Building Plans Completed Index at the end of September 2021. Thus, the gains in the sector translate to a stronger national weighted average house price level of N$1 224 083 compared to the N$1 204 691 average recorded in the prior year. The central and coastal averages are however above the national house price average at N$1 502 000 (5.8% y-o-y) and N$1 321 000 (15% y-o-y) respectively. While the Northern and Southern markets trailed the market at N$867 000 and N$786 000 respectively.



Source: FNB 2021

Buoying the gains in the overall housing sector was the high housing segment market that recorded the highest quarterly growth at 8.3% (y-o-y prices) on the back of a 9.2% contraction in the corresponding quarter in 2020. Supporting activity is the pent-up demand from consumers with greater access to "cheap funding" in a low-interest-rate environment as the Bank of Namibia (BoN) kept the policy rate accommodative (maintained at 3.75%). This was meant to further support the domestic economy's recovery amid devastating effects of the COVID-19 pandemic and temper the uncertainties that lay ahead (question on the potency of the new Covid-19 strain Omicron) may prolong supply-side constraints. The average price of high housing is now estimated to cost N$4 392 000 whereas small and medium housing segments also posted positive gains of 5.3% and 4.5% respectively for the quarter (y-o-y prices). While demand for luxury properties contracted.

Inventory sales: The central and coastal area drove aggregate demand in terms of sales for the twelve months, with the average volume index recording a 35.6% growth in sales for the central region in September 2021- ascribed to improvements in supply constraints such as the delivery of affordable housing and lower land servicing costs. The first-time buyers have also been credited as contributing to this growth, especially in the small housing segment. The coastal area followed a similar trend, with housing value gaining, although lower than the central region market at 5.8% y-o-y in September 2021 (3.2% September 2020). The coastal market has historically been an attractive housing market due to its location (scenic beauty) and the host of tourism activities available in the area. Housing sales in the area however also took a -0.7 percent knock at the peak of the covid-19 crisis in 2020 but have since recovered to 13.7% in September 2021.

Low supply of housing units (including residential plots); high land servicing costs; and structural economic dynamics (income levels, cyclical unemployment) constrained performance of the Northern and Southern housing price markets. These declined by 15.7% and 30.4% respectively. Land price per square meter costs rose to N$2 142 (312.3% y-o-y) in the South; in contrast to N$823 (53.6%) for the central region; N$466 (25.1%) at the coast and N$731 (-4.9%) for the Northern area- Indicative of the supply and demand imbalances. Considering this, land delivery in Namibia's housing market has been minimal, returning to a retreating trend which began in the later parts of 2018, before turning negative in 2019. Although slightly recovering in the early parts of 2020, challenges of the COVID-19 pandemic coupled with existing structural challenges have returned it to negative territory.

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