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Quarterly Economic Update

This Issue…

GLOBAL ECONOMIC DEVELOPMENTS

Global output for 2018 is estimated at a growth of 3.7 percent, despite weaker performance in some economies, notably **Europe** and **Asia**. The global economy is projected to grow slower at 3.5 percent in 2019 and 3.6 percent in **2020**, which represents a 0.2 and 0.1 percentage points lower than the projections of October 2018. The growth was based on the backdrop of the negative effects of trade tensions between **United States** and **China** as tariff increased earlier that year. The downward revisions are in part a because of the slower momentum in the second half of **2018** based on developments in the advanced economies, as well as the slowdown in the Chinese economy.

Growth for **2019** is expected to be marginally slower at 3.5 percent due expected slower output in **advanced economies and emerging markets and development economies** which are expected to grow by 2.0 percent and 4.5 percent respectively. The weaker growth in advanced economies is attributed to slower growth in the major economies with the exception of **Japan** which is expected to expand by 1.1 percent – marginally higher than the 0.9 percent growth in 2018 – based on fiscal support in light of the anticipated consumption tax for later in 2019. Growth in the **Euro area** and the US are expected to slow to 0.6 percent and 2.5 percent respectively. The **US-China** tariff increases and the weakening in domestic demand due to regulations and uncertainty are the cause of slower growth prospects.

SUB-SAHARAN AFRICA

The **Sub-Saharan region** recorded growth of 2.9 percent during **2018**, and expected to expand further by 3.5 percent in **2019** and increase marginally to 3.6 percent in 2020. Growth in **2018** was driven mostly by the increase in oil prices in the first three quarters of **2018**. The growth recovery in **2019** and **2020** is marginally lower than the October 2018 forecast by 0.3 percentage points due to the volatility of oil prices which has impact government revenue. Growth in **Nigeria** is expected to expand further albeit marginally to 2.0 percent and 2.2 percent in 2019 and 2020 respectively. The slow recovery is backed by oil prices – even though lower than 2018 is significantly stronger than 2016 and 2017 – and stabilizing public debt. While, growth in S**outh Africa** is expected to rebound to 1.4 percent in 2019 and 1.8 percent in 2020, on the back of currency recoveries as well as improved investor and consumer confidence.

Risks to global growth

- A further escalation of trade tensions in response to the current trade disagreements;
- Tightening financial conditions that started during late 2018;
- The high levels of public and private debt;
- A “no-deal” withdrawal of the United Kingdom from the European Union
- A greater-than-envisaged slowdown in China;

NAMIBIAN ECONOMY

During the **third quarter, the Namibian economy** remained under recessionary pressure that started during the second quarter of 2016, recording a contraction of 0.8 percent in real value added when compared to the corresponding quarter of 2017 that recorded a contraction of 1.9 percent.

The marginally improved performance in the economy was mainly driven by *mining and quarrying*, *electricity and water* and *transport and communication* sectors recorded growth of 7.8 percent, 13.5 percent, and 2.5 percent in real value added. Overall mining production rose, as indicated by strong increases in the production of *diamonds*, *uranium* and *zinc*, which offset the decline in the production of gold. The *uranium* subsector is estimated to have registered a strong growth of 55.3 percent in real value compared to 34.5 percent recorded in the corresponding quarter of 2017. The activity in the *transport and communication* sector also rose, explained by the increased cargo volumes in the *transport* sub-sector and real value added in the *communication* subsector.

Furthermore, slow growths were observed in the a*griculture and forestry* and *financial intermediation* sectors 0.8 percent and 1.0 percent compared to 9.4 percent and 3.8 percent recorded in the same quarter of 2017. The slow growth registered in the *agriculture and forestry* was mainly attributed to the decline in cattle marketing activity, as reflected in the number of cattle marketed over the period under review.

Overall, the average contraction for the three quarters was 0.4 percent, which is marginally lower than the projected contraction of 0.2 percent by the Macro Economic Working Group (MEWG) as published in the Mid-year Budget Review 2018.

BALANCE OF PAYMENTS

For the third quarter of 2018, the current account (CA) recorded a deficit of N$757 mill, representing a 72.7percent y-o-y decline from N$ 2,7bn in 2017 during the same period. However, on a quarterly basis the N$757 mill was a 29.1percent increase, from N$ 586mill in the previous quarter of 2018. The annual decline in the CA deficit can be attributed to *exports of goods and services* growing faster at 13percent compared to *imports goods and services* that grew by 7percent. Another contributing factor is the improvements in the primary income that improved by 73percent.

The *exports of goods and services* grew by 13percent y-o-y compared to a 6.3percent increase in 2017: the expansion is backed by increases in the *exports of goods* by 13.2percent and exports of services by 12.3percent. The increase in exports of goods is attributable to increases in 26.3percent in *diamonds*, 13.2percent *in other minerals*, and 12.5percent in *processed fish*. While the *export of services* was boosted by 34.4percent in *travel and 21.5 percent in manufacturing services rendered in namibia*. The *primary income* improved by 73percent from a deficit of N$2.5bn in 2017 down to N$689mill in 2018 during the period under review, the improvements stems from reduced *net outflow of investment income* from an outflow of N$2.4bn down to N$667mill outflow. However the negative impact of the decline in *secondary income* dragged the current account to remain in a deficit as *SACU receipts* declined from N$4.9bn in 2017 down to N$4.3bn in 2018 during the same period.

During the period under review the **financial account** (FA) recorded a deficit of N$882mill which is an improvement compared to a deficit of N$3.5bn in 2017, however on a quarterly basis the **FA deficit** worsened from N$744mill in the second quarter of 2018. The 75percent improvement in the FA deficit came about as declines in *net direct investment inflow* (improved from inflow of N$4.2bn down to N$1.6bn) and *net portfolio investment* outflow (improved from outflow of N$1.8bn down to N$1bn) were recorded, while the increase in *reserves* (from N$1.8bn in 2017 up to N$2.3bn-4.4months import cover) has a positive effect on reducing the deficit.

CONSUMER PRICES

Inflation for January 2019 recorded at 4.7 percent compared to 3.6 percent registered in the same month for the year 2018, marking a significant increase of 1.1 percent point, while on a monthly basis it stood at 1.2 percent.

The increase in the inflation rate was mainly driven by higher inflation for all the subcategories except *housing water, electricity, gas and other fuels* which declined from 2.9 percent to 3.6 percent. The decrease in this category was due to the decline in the price growth of *all housing water, electricity, gas and other fuels* sub-components.

The main drivers of inflation for January 2019 were; *food and non-alcoholic beverages, alcoholic beverages and tobacco, transport and education*. *Food and non-alcoholic beverages* recorded inflation of 5.7 percent up from 2.0 percent registered during the same period in 2018. *Alcohol beverages and tobacco* recorded 6.4 percent in January 2019 compared to 4.2 percent in 2018. The rising movement was due to the increase in the price levels of both sub-components of alcohol beverages and tobacco.

Transport recorded 7.3 percent compared to a 6.3 percent rate recorded in 2018. The increase was a result of massive increases in the price levels of *public transportation services*, which increased from 1.5 percent to 18.6 percent, as result of fuel prices and domestic public transport price increases during 2018.

COMMODITY PRICES

Crude oil prices have been increasing significantly during 2018 with the exception of the last two months of the year. The increase in oil prices were propelled by reduced production by OPEC countries until the Iranian sanctions were imposed by the US and increased production in the US later in the year.

According to the diamond price index[1] and the Zimnisky index[1], **diamond prices** had reached their peak in July 2018 and have since dropped significantly till mid-December 2018, the drop in diamond prices can be attributed to a decline in demand in the second half of 2018 in line with a slowdown in global. January 2019 recorded stable **diamond prices** and are expected to rise marginally throughout 2019.

Uranium prices have remained subdue below the U$40/pound throughout 2018, but slightly better than prices in 2017. According to market predictions uranium prices are only expected to breach the US$40/pound mark from 2020-2023, when the oversupply is expected to reduce enough to cause a price shift.

Copper prices also reached their peak at the beginning of 2018, before declining marginally throughout the year. The decline in copper prices can be attributed to slowdown in demand from the Chinese market, which is the largest consumer of copper.

Zinc prices reached their 5-year peak of US$3532/pound during February 2018 before dropping by 22 percent during the second half of 2018, the fall in zinc price was also exacerbated the declining demand from the Chinese economy as it's expected to slow down significantly during the next two year. According to the IMF WEO January 2019 update, commodity prices are expected to remain subdued if not declining during 2019 due to slower growth in *China* coupled with the risk of trade tensions/ wars with major trading partners.

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