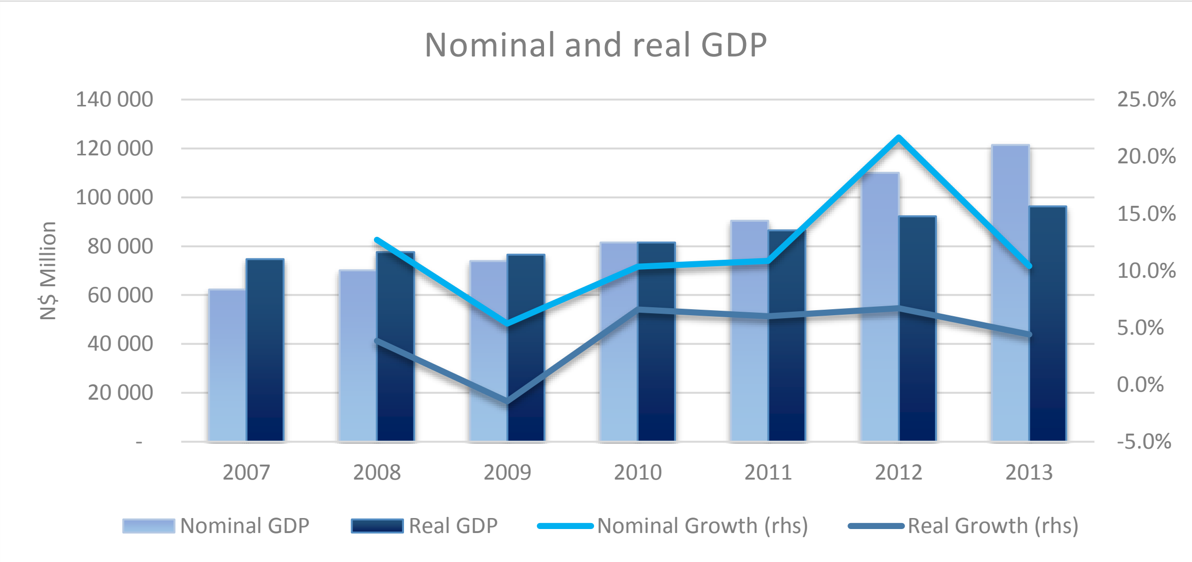
Quarterly Economic Review:

National Accounts – Background

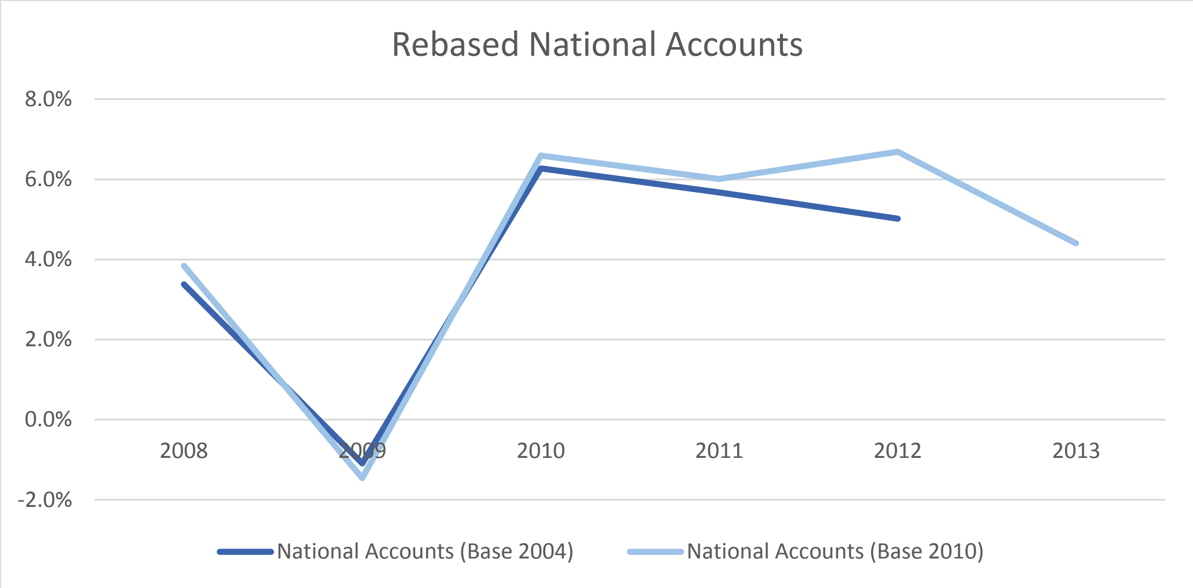
In early April, the Namibia Statistics Agency released the 2013 National Accounts, giving an indication of the performance of the economy over the past year. Additionally, the current year accounts were rebased, in-line with best practices, following the previous rebasing in 2004. While the rebasing was carried out in 2013, the constant price base is now set to 2010, when the last income and expenditure survey for the country was carried out. Following the rebasing, nominal GDP now stands at just below N$121.5bn, while real GDP stands at N$96.3bn. In 2013, nominal GDP expanded by 10.4%, and real GDP expanded by 4.4%.



Source: Namibia Statistics Agency, IJG Research

Rebasing

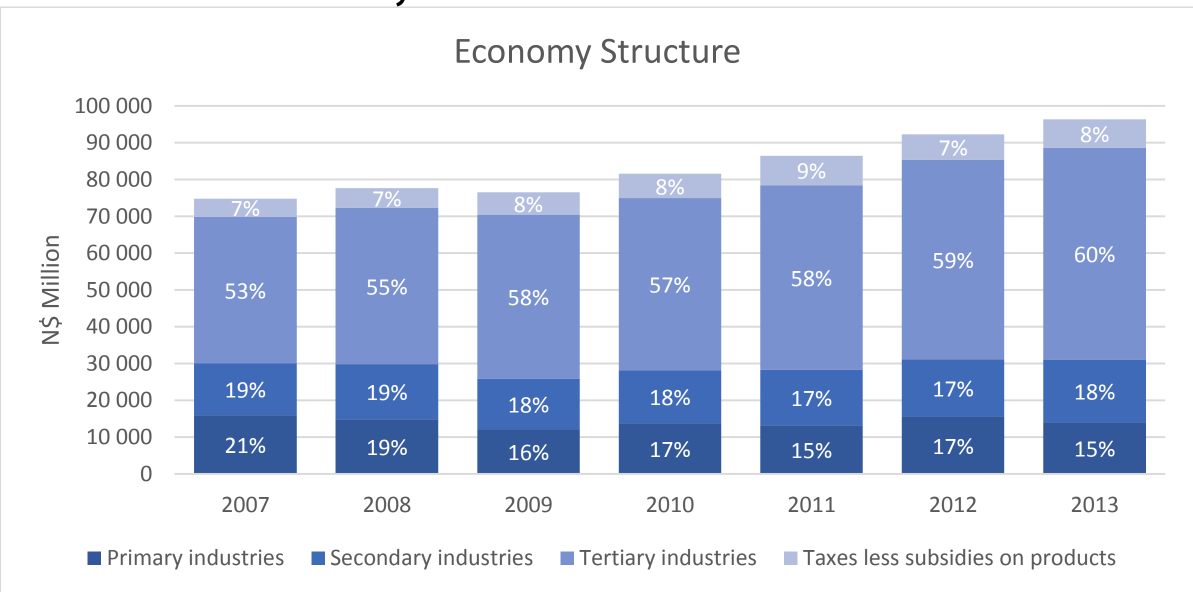
The recently rebased national accounts show a much improved growth picture for the three years leading up to 2012, with slight increases in 2010 and 2011, before a major increase in 2012. As such, these three years all registered 6 percent growth or more, before the fairly meek 4.4 percent expansion in 2013. Rather than showing weakness in the economy, however, the 2013 figure illustrates a level of resilience, as the sizable agriculture sector experienced a major contraction (26.9 percent) on account of a drought (should agriculture have experienced no growth, rather than such a contraction, overall growth could have been expected to register as high as 5.8 percent). The fact that the economy continued to grow at or around the long term mean, despite this contraction, illustrates an increasing level of diversification and resilience.



Source: Namibia Statistics Agency, IJG Research

It should be noted that the rebasing of the national accounts does not change the economy per se, and ultimately does not affect the man on the street. From a policy maker's point of view however, it allows for a more informed view of the changes in the economy, and where policy actions are working, failing, or required.

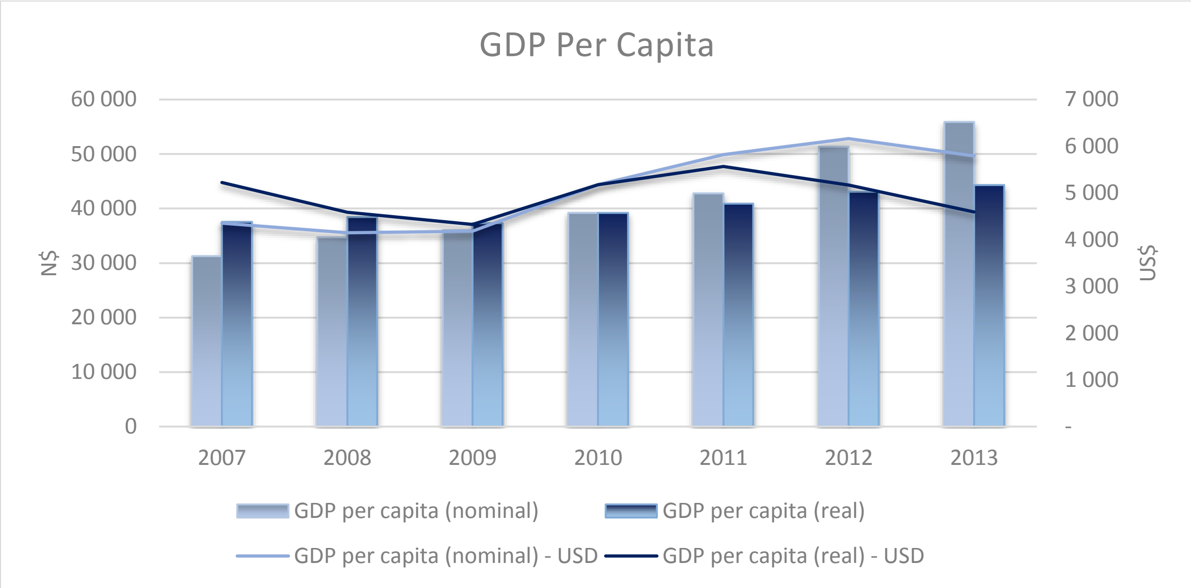
The Structure of the Economy



Source: Namibia Statistics Agency, IJG Research

Over recent years, much policy focus has been directed at a transformation of the structure of the local economy from a resource based, to a manufacturing and service based economy. While some of the change in structure witnessed in the chart above is statistical in nature (a reclassification of mineral manufacturing from mining – primary sector, to manufacturing – secondary sector), there has also been a notable structural shift towards a tertiary sector dominated economy, with a falling primary sector component, and a fairly stagnant relative contribution from the secondary industries.

GDP Per Capita



Source: Namibia Statistics Agency, IJG Research

While real GDP per capita has increased every year for the past seven years in Namibia Dollar terms, as GDP growth has outstripped population growth more than threefold, in US dollar terms, GDP per capita has been declining for the past two years. This is simply as a result of the major depreciation of the Rand versus the US dollar, with the former currency losing 73 percent over the past 32 months.

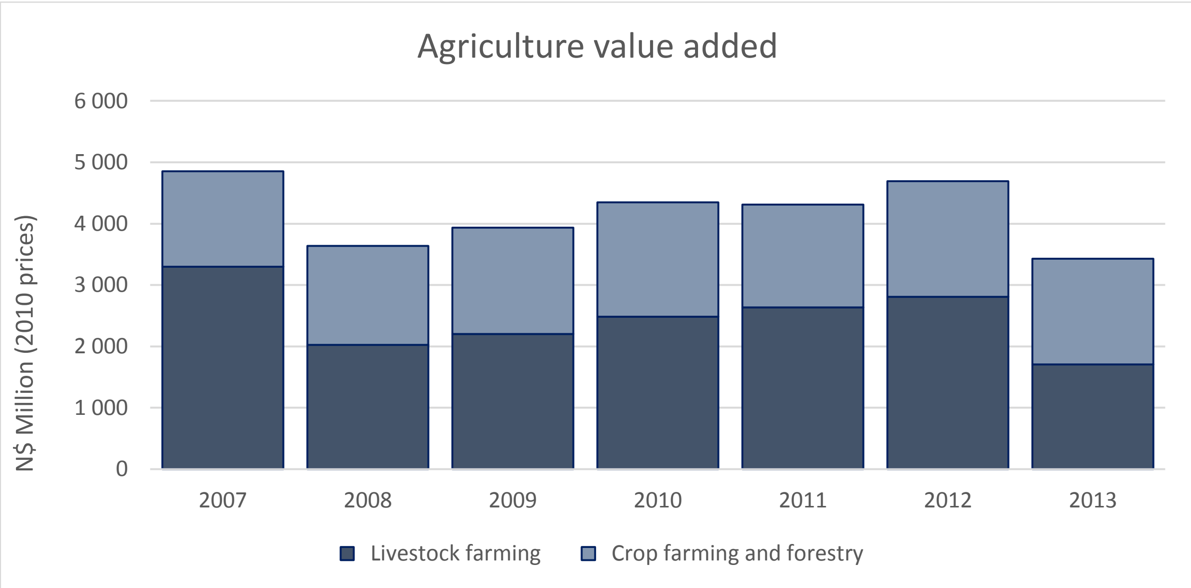
Supply Side

Growth for 2013, measuring a reasonable 4.4 percent, albeit down from the 6.7 percent outturn for 2012, was underpinned by the construction sector, which expanded by a whopping 35.2 percent. The primary sectors performed poorly on the back of a major contraction in agriculture (-26.9 percent) and minor contractions in fishing (-2.6 percent) and mining (-1.2 percent). The tertiary sector grew in-line with trend, at 6.4 percent, driven by financial intermediation (14.1 percent), and public administration and defence (8.9 percent).

Sectoral highlights

Agriculture Sector

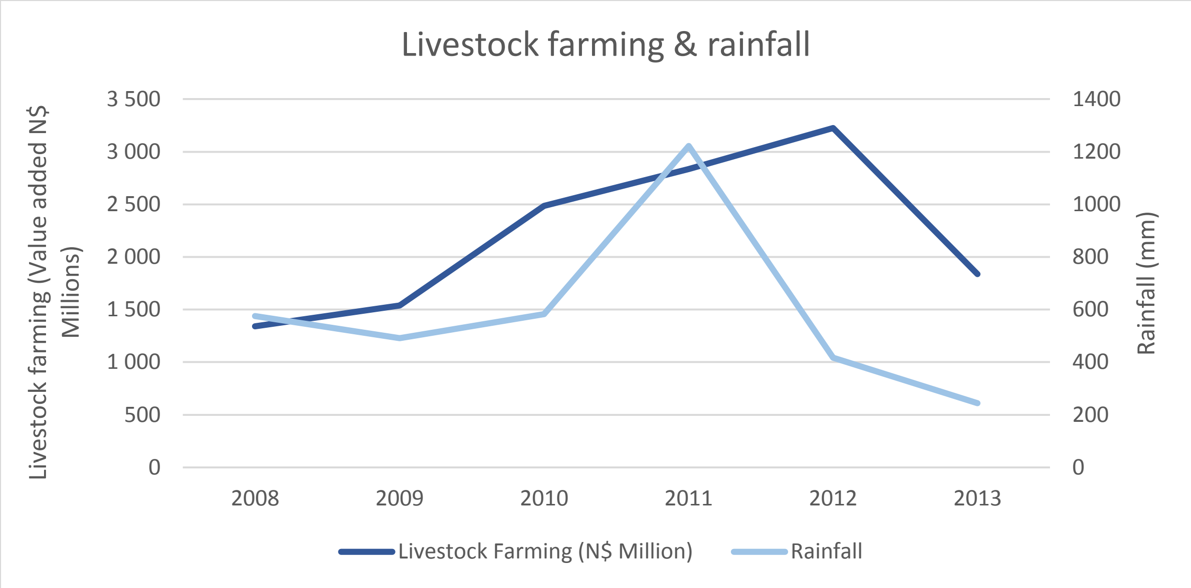
As expected, the agriculture sector saw a major contraction in 2013, on account of drought conditions in the country, and a major drawdown of cattle inventories (particularly) as measured by the sale of livestock outstripping the natural growth in livestock populations. Following confusion through much of 2013, with quarterly figures showing strong growth on the back of livestock sales, the NSA has now revised its method of computing agriculture figures, with calculations coming in-line with global best practices[1]. Thus, the sector as a whole contracted by 26.9 percent, livestock farming contracted by 39.2 percent and crop farming and forestry contracted by 8.6 percent. The relatively small contraction in crop farming was due to the fact that only a small percent of Namibia's crop production is dry land (i.e. rain dependent), with the majority being carried out under irrigation.



Source: Namibia Statistics Agency, IJG Research

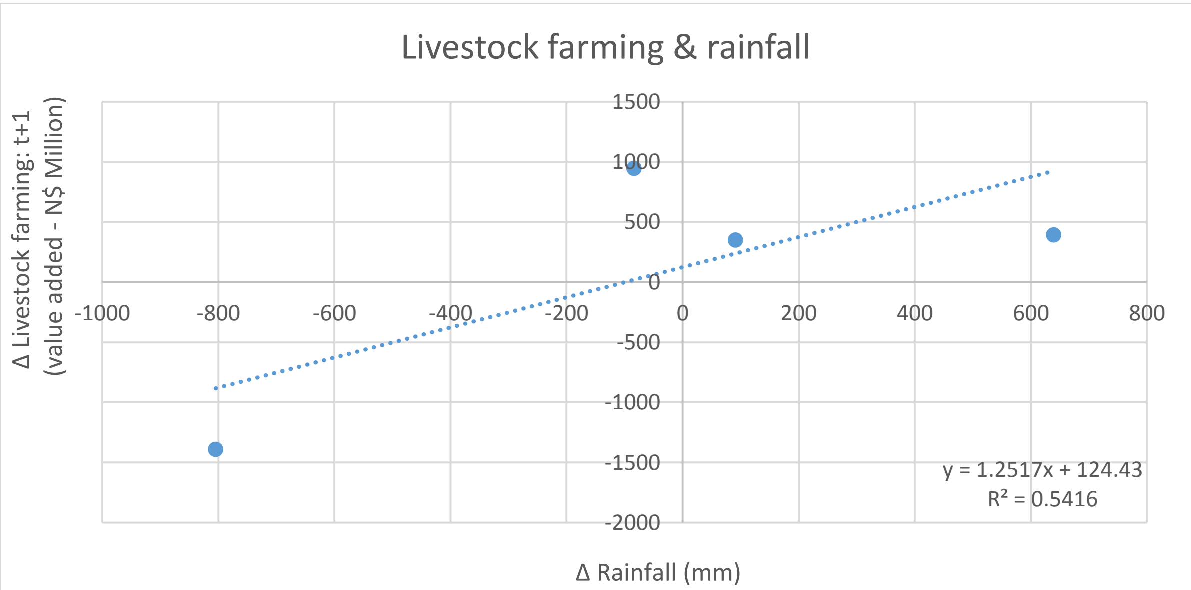
Following the methodological correction in the national accounts and the rebasing of such, there now exists a short time series in which the correct method of calculating agricultural GDP exists, and it appears that this series is relatively correlated to rainfall, particularly when it comes to livestock farming.

[1] Whereas the Central Bureau of Statistics (the predecessor of the Namibia Statistics Agency) used to measure agriculture growth at the point of sales of livestock or crops (thus implying that value was created at the point of sale only), the NSA now captures value as changes in inventories, adjusted for work in progress (i.e livestock being born and fattened or crops grown), and reflects sales as a reduction of work (thus a negative, rather than the positive previously shown). This correction sees the previously experienced, and counter-intuitive phenomenon, of drought years seeing abnormally strong growth in agriculture (due to inventory sell offs), reversed.



Source: Namibia Statistics Agency, IJG Research

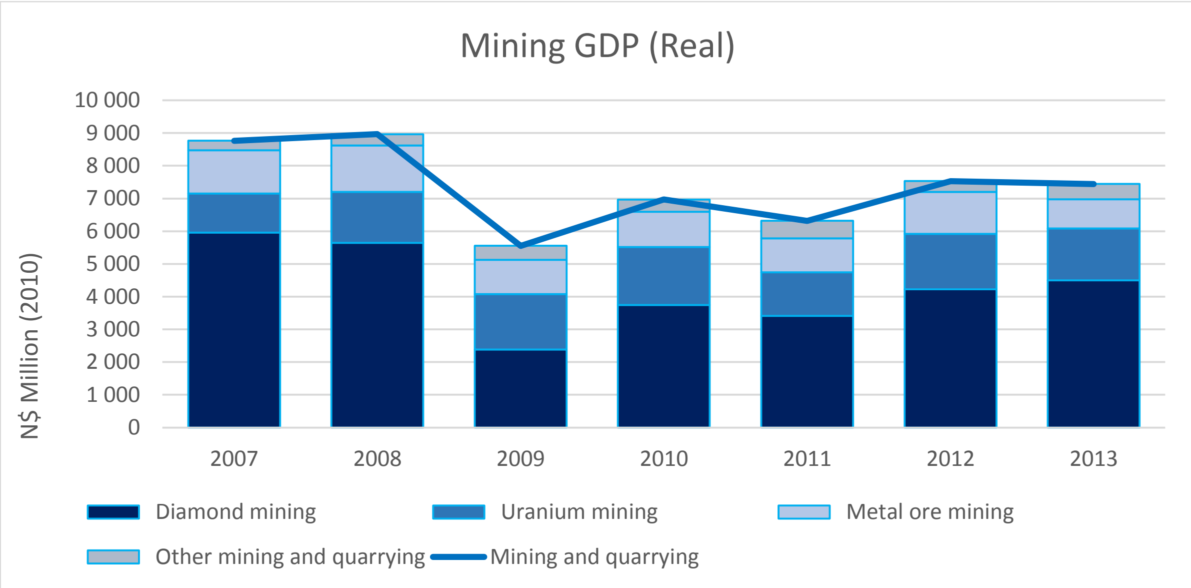
From the above graph, it appears that there is a relatively strong relationship between livestock farming value added, and rainfall, with a one year lag. A simple linear relationship, plotted on the graph below, suggests that a 10mm change in rainfall will have a N$12.5m impact on livestock farming value added the following year. However, while fairly intuitive, this estimate should be interpreted with care, due to the sparse number of data points from which it is derived.



Source: Namibia Statistics Agency, IJG Research

Mining Sector

The mining sector contracted by 1.2 percent in 2013, despite growth of 6.6 percent in diamond mining value added, and an increase of 42.5 percent in the relatively small residual component of "other mining and quarrying". The overall contraction was driven by a 6.9 percent decline in uranium output, as well as a 30.4 percent decline in metal ore output. Following the growth in diamond output, Namdeb is now operating at approximately full capacity, and further growth is unlikely in 2014. Uranium output in 2013 declined on account of a leach tank blowout at Rössing Mine in December, which effectively stopped production in the final month of 2013, however notable recovery is expected in 2014.



Source: Namibia Statistics Agency, IJG Research

Mining GDP remains dominated by diamond mining which make up approximately 60% of the value added in the sector in 2013. The remaining 40 percent is split between uranium mining (21%), metal ore mining (12%) and other mining and quarrying (7%). Over recent years, uranium mining has been capturing an ever increasing percent of total value added in the mining sector, a phenomenon that can be expected to continue as Namdeb's activities approach their "life of mine", and as the new Husab mine comes on-stream. In the same vein, metal ore mining should see strong growth in 2014 and 2015, as the new Otjikoto gold mine, and Tschudi copper mine, start production.

The mining sector often drives much of the differential between nominal and real GDP, as the sector not only represents a significant percent of the country's total GDP, but is also one of the most susceptible sectors to global commodity price changes.

Construction

Construction growth lead overall growth in 2013, as a result of what can only be described as a construction boom in the local economy. Following below trend growth of 7.2 percent in 2012, real growth in 2013 registered at 35.2 percent. This major increase was on account of extensive construction activity from both the public and the private sector. Notable for 2013 was the on-going construction of three mines, a first for the country. Between the Husab uranium mine, the Otjikoto gold mine and the Tschudi copper mine, a vast injection of capital was seen into the construction sector. When complete, construction growth will in all likelihood see a contraction or slowdown, while mining growth should take over, with these three mines more than doubling the country's output capacity of gold, copper and uranium when at full production.

Additionally, Government continues to run an expansive fiscal budget, with a reasonable percentage of such allocated to various construction activities, through the development budget and transfers to state owned enterprises. In this regard, the development budget covers the upgrading of large tracts of logistics infrastructure, notably roads, railways and airstrips, while transfers to state owned enterprises see funds allocated to the Kudu-Gas-to-Power project, NamPort Expansion and the Mass Housing Scheme, amongst others.

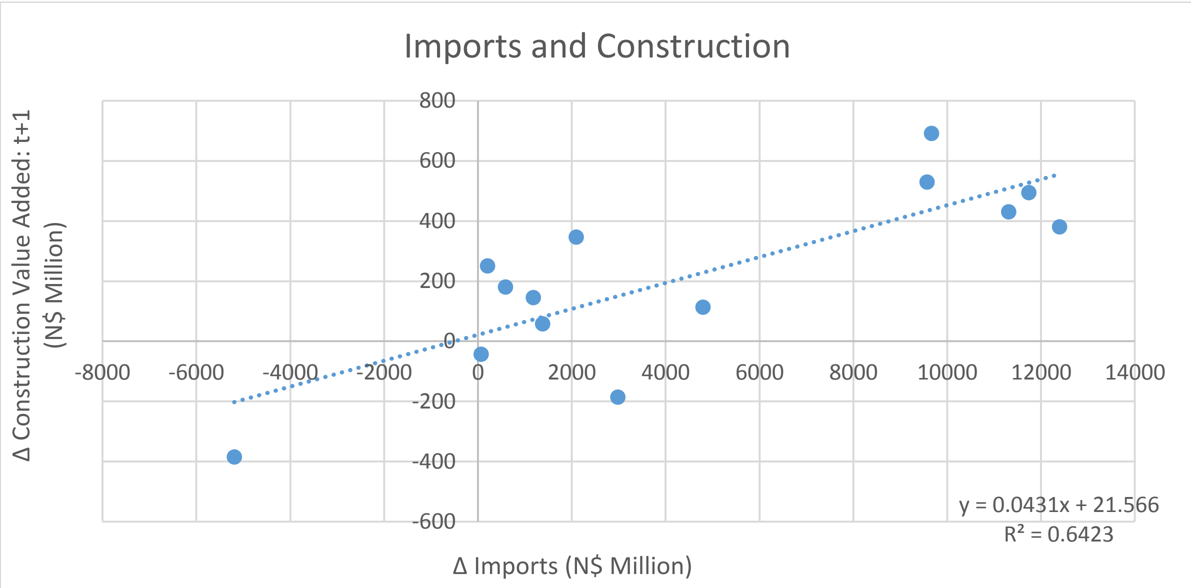
Going forward, a number of sizable projects remain in the pipeline, as can be seen below.

Project Name	Region/Area	Estimated Cost (N$m)	Commencement	Completion
Mass Housing development program	Nation wide	45 000	2013	2030
Husab Mine	Swakopmund	20 000	2013	2014
Luderits LPG Gas Plant	Luderitz	5 000	2013	?
New container terminal at Walvis Bay	Walvisbaai	3 380	2014	2016
Liquefied Petroleum Gas (LPG) plant	Luderitz	3 000	2014	?
Neckartal Dam	Karas Region	2 720	2014?	?
Dundee Precious Metals	Tsumeb	2 400	2012	2014
Tschudi Mine	Tsumeb	2 300	2013	2017
Otjikoto Mine	Near Otavi	1 340	2013	2014
Kudu Gas	Offshore Namib-coast	1 100	2014?	2016
The Grove Mall	Windhoek	922	2012	2014
Luderitz Water Front Development	Luderitz	700	2013	2016
Maerua shopping centre-expansion	Windhoek	430	2013	2014
FNB Plaza	Windhoek	425	2013	2014
SAB Miller Okahandja Brewery	Okahandja	420	2013	2014
Lady Pohamba private hospital	Windhoek	380	2013	2015
Walvis Bay private marina development	Walvisbaai	350	2013	?
Strand Hotel	Swakopmund	342	2013	?
Etosha Galton Gate	Kamanjab	300	2013	2014

Source: Various, IJG Research

It should be noted that this boom in construction activity has put substantial pressure on the country's trade balance and thus balance of payments as a whole, as the import component of construction is relatively large due to the nascent nature of the Namibian manufacturing industry, and thus its inability to provide the bulk of the inputs required for large scale construction.

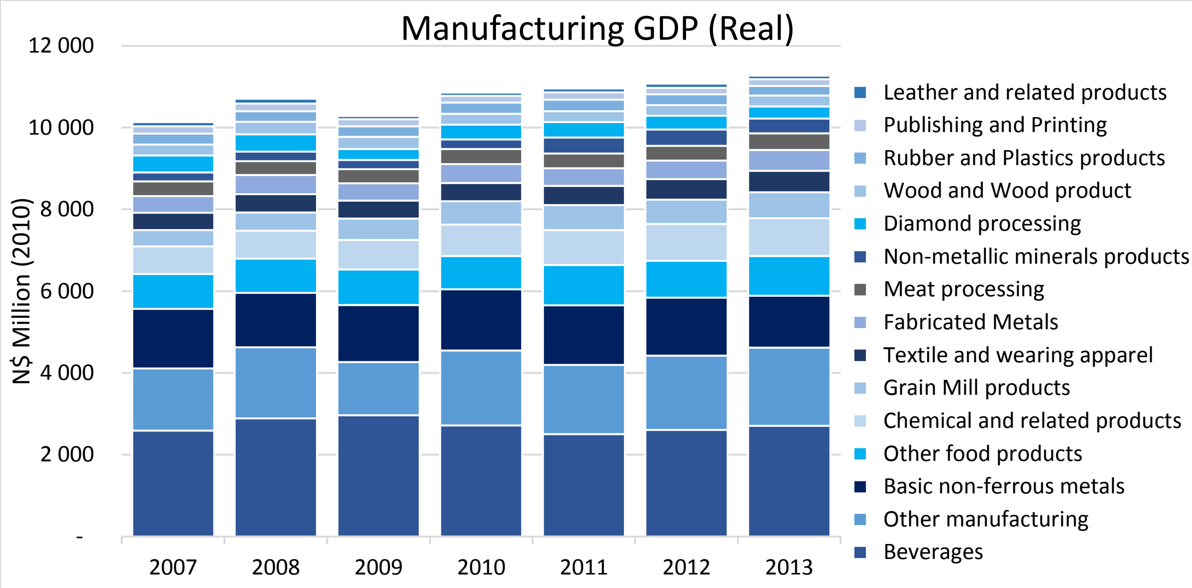
Nevertheless, as with construction activities, these imports are transitory in nature, and should result in increased exports, or import substitution, going forward. As can be seen below, there is a strong positive relationship between the change in imports, and the change in construction value added a year later. This relationship serves as a leading indicator for construction activities, and based on strong growth in imports through 2013, the construction outlook for 2014 is highly positive, in excess of 30 percent in real terms.



Source: Namibia Statistics Agency, IJG Research

Manufacturing sector

Overall, manufacturing expanded by 2.2 percent in 2013, in real terms, driven by growth in beverage production, food production and meat processing. The former two are likely to be on account of the depreciated exchange rate, improving the revenue derived for exported products, while the latter was on account of a vast increase in cattle sales on the back of a drought in the country.



Source: Namibia Statistics Agency, IJG Research

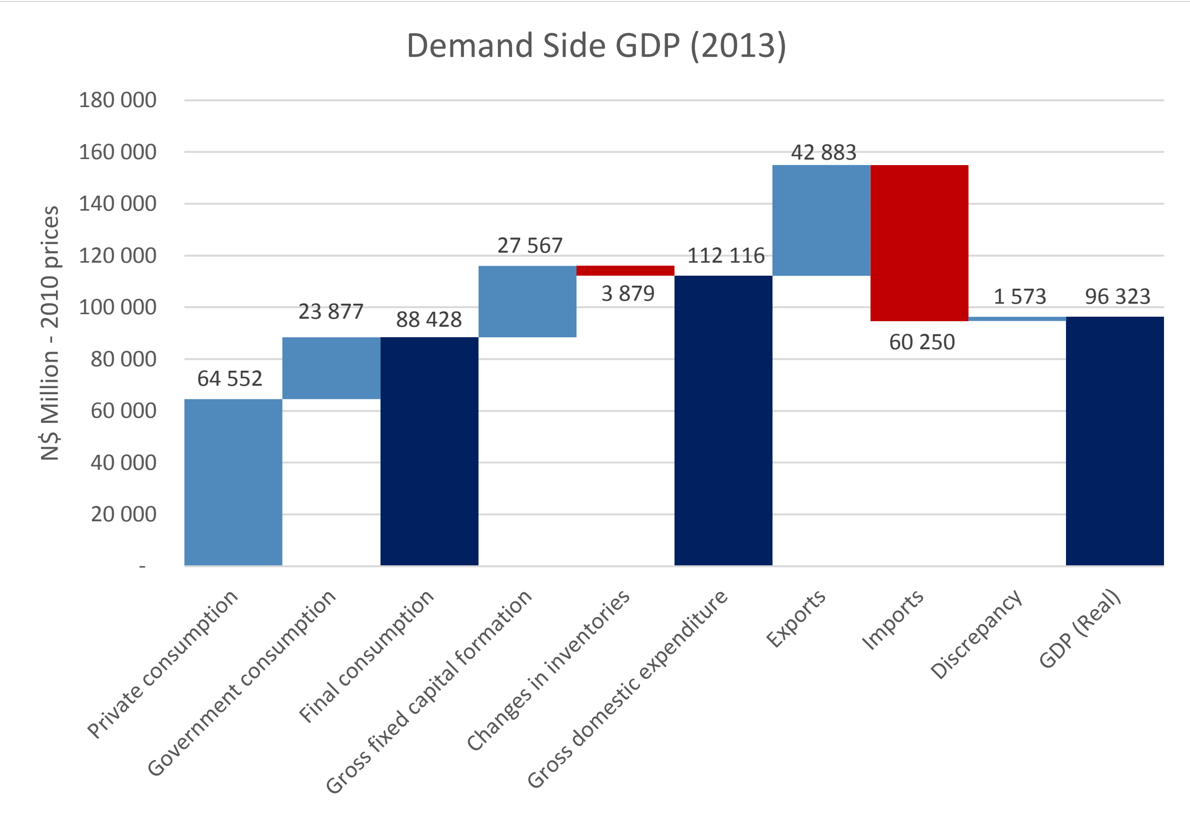
In the rebased national accounts released this year, manufacturing has, for the first time, been disaggregated into a number of sub-components, giving a more comprehensive view of the sector.

Demand Side

On the demand side, the breakdown of final consumption expenditure, between government and private sector, has changed little over the past seven years, despite Government's ever increasing expenditure relative to GDP. On the gross fixed capital formation (GFCF) front, a large expansion of 20 percent was seen in 2013, following a 9.5 percent contraction the previous year. Additionally, the current account deficit widened from a N$13.9bn deficit in 2012, to a deficit of N$17.4bn in 2013, on account of ballooning import volumes.

Expenditure category	2009	2010	2011	2012	2013
Final consumption expenditure	76 547	74 783	78 630	82 681	88 428
Private	56 953	54 809	57 219	60 764	64 552
General government	19 593	19 974	21 412	21 917	23 877
Gross fixed capital formation	16 985	18 968	25 362	22 953	27 567
Changes in inventories	-2 066	-2 550	-2 523	-1 458	-3 879
Gross domestic expenditure	**91 466**	**91 201**	**101 470**	**104 176**	**112 116**
Exports of goods and services	36 455	34 786	34 696	38 303	42 883
Imports of goods and services	52 143	46 296	45 121	52 186	60 250
Net Exports	**-15 689**	**-11 510**	**-10 426**	**-13 884**	**-17 367**
Discrepancy	744	1 878	-4 571	1 966	1 573
Gross domestic product at market prices	**76 522**	**81 569**	**86 473**	**92 258**	**96 323**

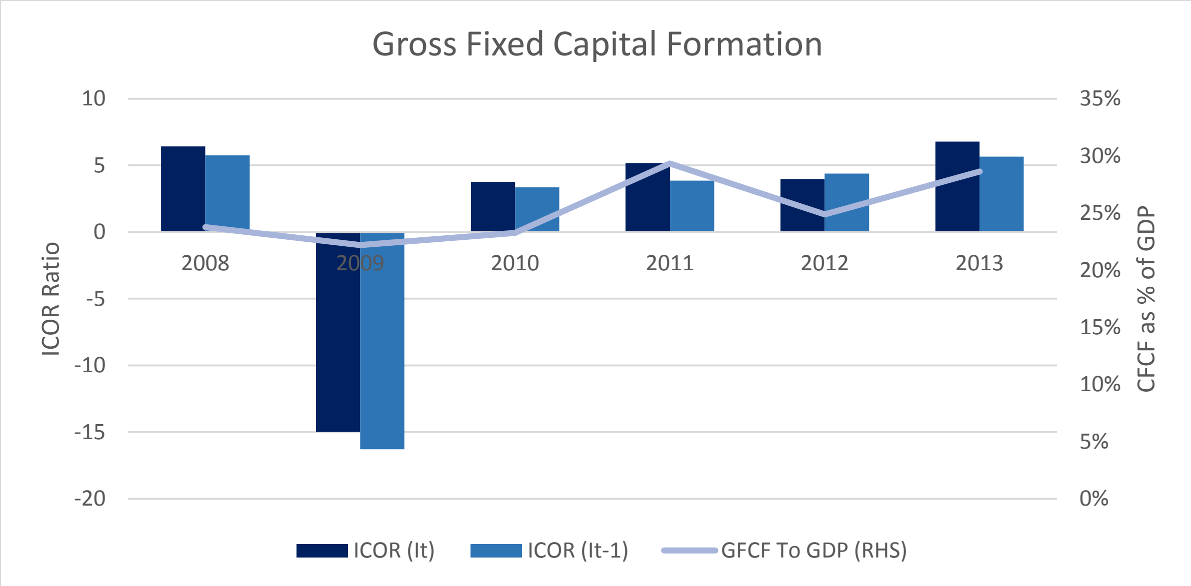
Source: Namibia Statistics Agency



Source: Namibia Statistics Agency, IJG Research

Gross fixed capital formation

The major increase in gross fixed capital formation is on account of the strong growth seen in construction activities, and the resultant major growth seen in imports of machinery and equipment.



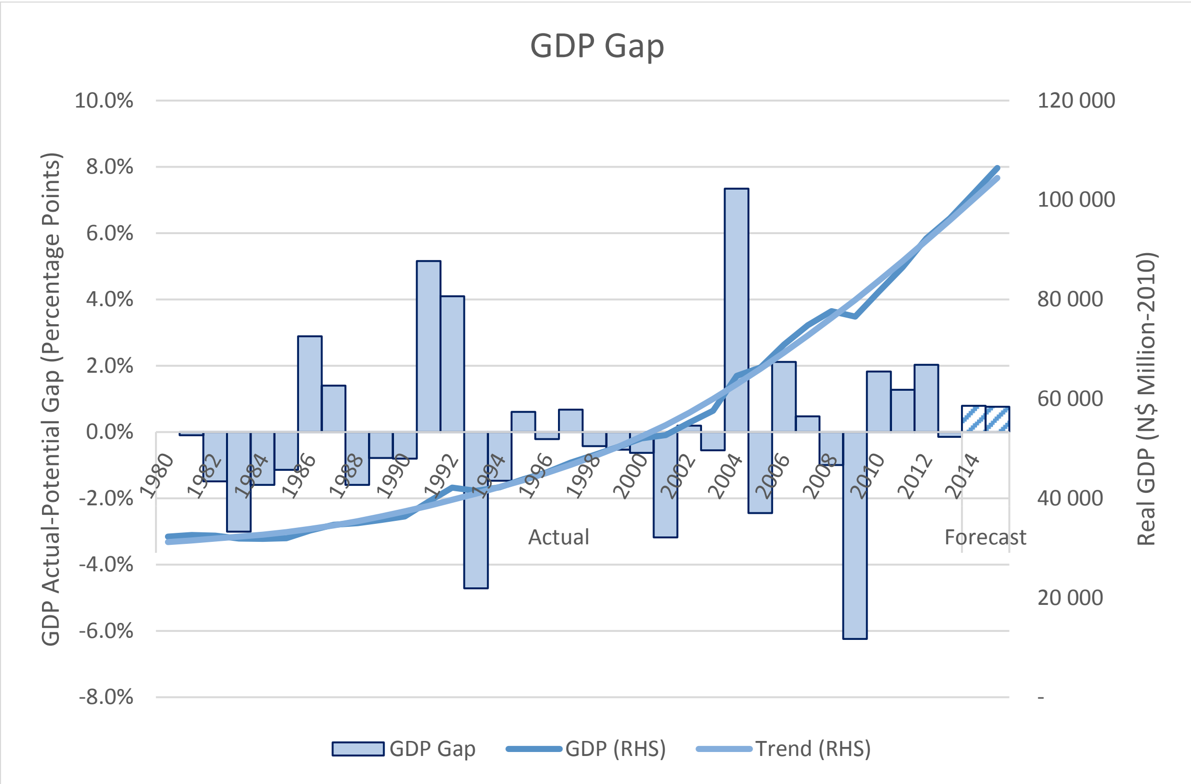
Source: Namibia Statistics Agency, IJG Research

The current level of gross fixed capital formation bodes well for growth in 2014 and beyond, as current day capital investment can be expected to deliver growth returns in the future. An adapted Incremental Capital Output Ratio (ICOR) calculation (substituting gross fixed capital formation for investment), illustrates a marked increase in ICOR, suggesting a notably lower level of productive efficiency in 2014, than in previous years. This increase is on account of strong investment in 2013, and relatively low growth, and is likely to reverse in 2014, as growth strengthens (with strong investment remaining intact).

Actual and potential growth

By dissecting growth into its trend and cyclical components, one can estimate the difference between actual GDP and the long run potential level of GDP, and in so doing, the level of output gap in the country.

The GDP gap or the output gap is the difference between actual GDP and potential GDP. If this calculation yields a positive number it is called an inflationary gap and indicates the growth of aggregate demand is outpacing the growth of aggregate supply—possibly creating inflation; if the calculation yields a negative number it is called a recessionary gap—possibly signifying deflation. In 2013, the gap was negative in Namibia on account of the contraction in agriculture, however going forward, based on IJG projections, the negative gap is expected to turn positive, as the economy's growth accelerates in 2014 and 2015. In 2014, we are expecting a positive output gap of 0.8%, which if left unabated could result in demand side inflation, as aggregate demand increases beyond aggregate supply. In some ways this is already visible in the local economy, as demand for the likes of power, water and housing, are opening ever increasing gaps over the supply thereof. The expected overheating economy should result in a macroeconomic policy response from the Bank of Namibia and Ministry of Finance, who should increase interest rates, and decrease spending, to put the brakes on the economy.



Source: Namibia Statistics Agency, IJG Research

Outlook

Going forward, the growth outlook for 2014 remains extremely positive as a rebound in agriculture is expected -coming off a low base-, coupled with strong growth in mining, moderate growth in manufacturing and extremely strong growth in construction -despite coming off a high base from 2013- all multiplied by the ongoing fiscal injection from Government. In our economic outlook (January 2014), we forecast growth of 5.2 percent in 2014, which forecasts we will reassess mid-year, however, given subsequent developments, it is highly likely that this figure will see upward revision.

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