Economic review

Sustainable global recovery depends on consumers

The global economic recovery that is underway depends on a recovery in consumer spending. It will differ from region to region, depending on different experiences by consumers and financial sectors.

Indications are that the stimulus-driven recovery in the USA is progressing well. However, consumers and financial institutions remain cautious as weak housing markets, high unemployment and risk in Euro-area economies remain threats. European economies are experiencing uneven recovery, according to the International Monetary Fund (IMF). Asian economies, on the other hand, are proving more balanced and robust. Overall consensus is that the key risk to recovery is that job creation - which will bring consumers back to the spending fold - is largely absent or subdued. So the world economy is characterised by a wait-and-see attitude in terms of labour market absorption. The good news is that the rate of job destruction is slowing down in most economies.

Recovery depends on fiscal stimulation

In its annual review of the world economy, the IMF projected in April 2010 that the global economy would grow by 4.2% this year, having shrunk by 0.6% the previous year. The nascent recovery is a direct result of continued accommodative fiscal and monetary policies. Therefore governments will have to focus increasingly on sustained expenditure cuts without compromising the recovery that is taking place.

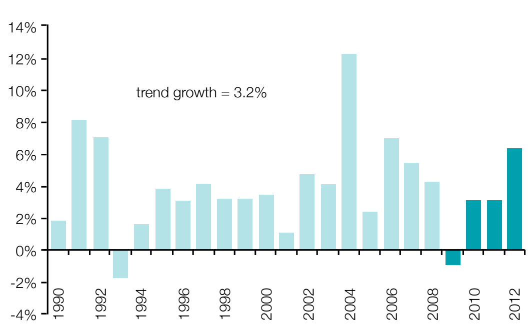
Specifically, the IMF predicts that the US economy will grow by 2.3% in 2010 after contracting 2.4% in 2009. The Euro area is expected to recover at a much slower rate of 1%, and countries like Spain will continue to contract. Against that, emerging and developing economies are expected to experience robust growth of 6.3% in 2010 after a mild slow-down during the height of the recession. For South Africa, the IMF forecast is that the economy will expand by only 2.6% after contracting by 1.8% in 2009. Most South African based analysts are forecasting a mild recovery in the region of 3% over the next two years.

Namibia's recovery on course but risk remains

Preliminary figures from the Central Bureau of Statistics, released in May 2010, show that Namibia's economy contracted by 0.8% in 2009 after growing by 3.3% in 2008, according to revised figures. This indicated that it had been

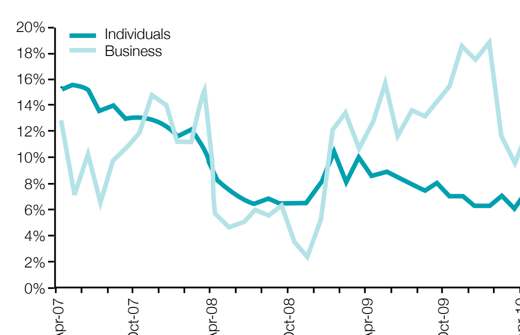
Namibia GDP growth forecast y/y (%)

Source: NPCS, FNB Namibia



Namibia private sector credit extension y/y (%)

Source: BON, FNB Namibia



more resilient than some other regional economies in the face of the global slow-down, in part because government had expanded its spending programme.

The IMF expects real GDP for Namibia to expand by 1.7% in 2010, which is certainly much slower than the consensus forecast. Our core view is that the economy will experience a statistical recovery in which growth for 2010 will be in line with trend growth of about 3.2%. Overall, a more robust recovery is expected after 2011 as more uranium exploration projects enter production. This should have a positive knock-on effect on exports. The economy is currently operating at an estimated output gap of 2%. This suggests that it still has some way to go before the advent of a fully-fledged, demand led recovery. Investment demand remains relatively weak for 2010, judging by insignificant movement in the levels of corporate credit.

Downward inflation continues to surprise

Headline inflation remained lower than expected for most of the first half of 2010. The outlook seemed benign with growth in average annualised inflation easing to below 5% in June 2010. The main driver was the deceleration in food and transport prices. Between December 2009 and June 2010 food prices increased by only 1.1%, giving an annualised food inflation average of 2.5% by June. Similarly, transport inflation slowed to 3.0% over the same period. Together these two categories account for more than 40% of the CPI basket. Slower inflation growth is a global phenomenon. Indeed the lower than expected inflationary pressure and the relatively stable exchange rate kept a lid on inflationary pressures. We forecast inflation to average 5.3% for 2010, down from 8.8% the year before.

Subdued credit demand despite low inflation and rates

Private sector credit extension, which entered a prolonged lacklustre phase in 2006, did not show a robust recovery during the period under review despite the benign interest and inflation environment. The prime rate was reduced by 375 basis points between July 2008 and July 2009. Over the same period, the repo-rate came down by only 350 basis points as commercial banks were forced to reduce the prime repo spread.

Notwithstanding these reductions, private sector credit extension grew by only about 9.8% until July 2009. The annualised growth rate in credit slowed to 9.1% in April 2010, according to the Bank of Namibia. Significantly, household credit demand was under pressure. It grew at only about 7.5% year on year over the same period compared to non-financial corporate sector borrowing, which grew at 12%. The slow growth in household credit demand highlights the continued challenges faced by this sector in terms of both balance sheet and income statement constraints. Household credit accounts for two-thirds of total private sector borrowing, so slow growth translates into subdued growth in the whole sector. Business credit extension also slowed markedly in the second half of the current year. In January 2010 it grew at 18% year on year but has slowed significantly since, suggesting corporate reluctance to borrow as economic recovery unfolds.

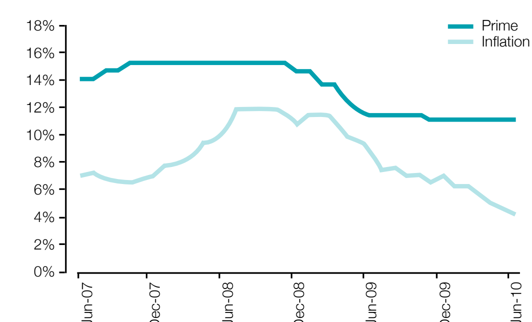
Economic outlook

The world economy is certainly on course for recovery, albeit gradual. It follows that the Namibian economy will do the same. Encouraging trends are emerging on new vehicles sales as consumer confidence returns. According to the FNB housing index, house sale volumes are also edging higher, pointing to some recovery. We are forecasting a 3.2% increase in demand for the 2010 calendar year. We do not foresee major downward risk and expect interest rates to remain benign for longer, supporting sustainable recovery in 2011.

Daniel Motinga
Group economist

Namibia Prime Interest rates and inflation y/y (%)

Source: NPCS, FNB Namibia



Annualised changes in asset backed (ABC) and non-ABC credit y/y (%)

Source: BON, FNB Namibia