

The Economic Outlook 2015

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Global Growth



- Growth in world output is expected to accelerate slightly in 2015, driven by stronger growth in advanced economies

	2014	2015
World Output	3,3	3,5
Advanced Economies	1,8	2,4
Emerging Market and Developing Economies	4,4	4,3

Advanced Economies



- Growth in advanced economies is expected to accelerate in 2015, driven by growth in the US

	2014	2015
US	2,4	3,6
Euro zone	0,8	1,2
Japan	0,1	0,6

Advanced Economies



US

- Growth is expected to accelerate, driven by strengthening in domestic demand, which will be supported by:
 - Lower oil prices
 - A more moderate fiscal adjustment
 - Accommodative monetary policy
- However, dollar appreciation is expected to weigh on net exports

Euro area

- Domestic demand across the Euro area is expected to be supported by;
 - Lower oil prices
 - Further monetary easing
 - More neutral fiscal policy stance
- Meanwhile, net exports are expected to be supported by Euro weakness
- However, these positive factors will likely be offset by weaker investment as a result of weaker medium-term growth prospects
- Deflation continues to pose a risk

Japan

- Growth in Japan is expected to accelerate in 2015, but nonetheless remain insipid
- Policy action – namely additional monetary easing and a delay in the second consumption tax rate increase – are expected to lend support to domestic demand
- Economic activity in Japan will also be buoyed by lower oil prices and yen depreciation

Emerging Markets and Developing Economies



- Growth in emerging market and developing economies is expected to slow slightly in 2015

	2014	2015
China	7,4	6,8
Brazil	0,1	0,3
Russia	0,6	-0,3
India	5,8	6,3

Emerging Markets and Developing Economies



Brazil

- Growth in Brazil is forecast to remain subdued as a result of tighter financial conditions and continued weakness in business and consumer confidence

Russia

- Russia is expected to contract on the back of lower oil prices and ongoing geopolitical tensions which continue to affect investment

India

- India is the outlier among the BRICs, with growth expected to accelerate
- Although India will face weaker external demand, this will be offset by lower oil prices and a pickup in industrial and investment activity in the wake of recent policy reforms

China

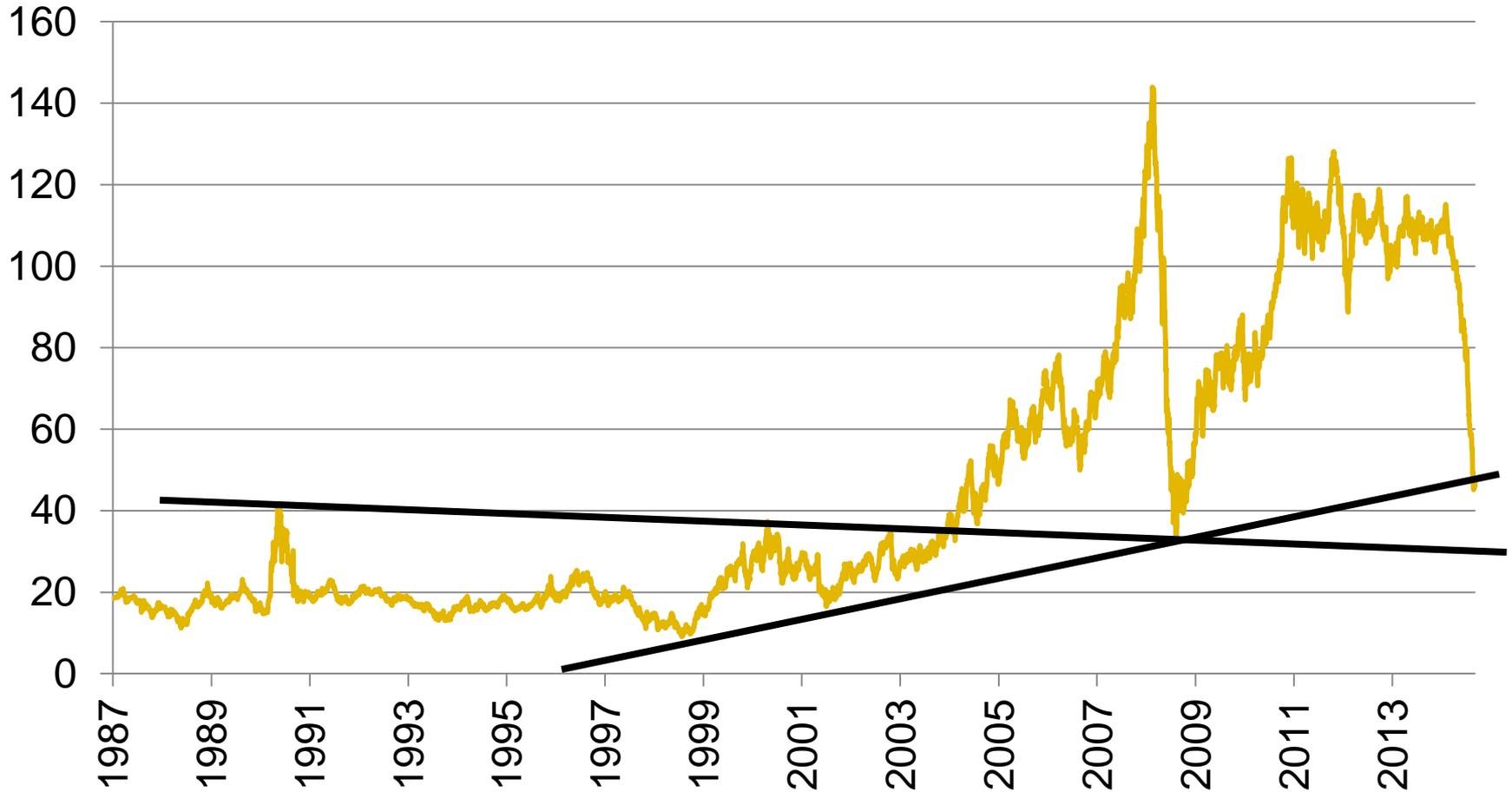
- Growth in China is expected to continue to moderate as authorities reposition the economy away from its previous reliance on investment and exports and towards a more sustainable growth path
- This will have important repercussions for commodity exporters which have been supported by rapid growth in China in recent years

Oil Prices



- Oil prices have collapsed since the beginning of September on the back of excess supply, as OPEC members have failed to adjust their output in response to a rise in non-OPEC production
- Brent crude has recently broken through key support, and therefore looks to be continuing to head lower over the near term, towards the next major support level of around US\$30/bbl
- However, this level is expected to hold, and for Brent crude to begin heading north again in Q2
- Futures contracts suggest that Brent crude will end the year around US\$57-58/bbl mark, while the IMF is forecasting it to close at US\$60/bbl
- This would still be the lowest level since July 2009, and would signal a return to pre-financial crisis boom years levels

Brent Crude Oil Prices

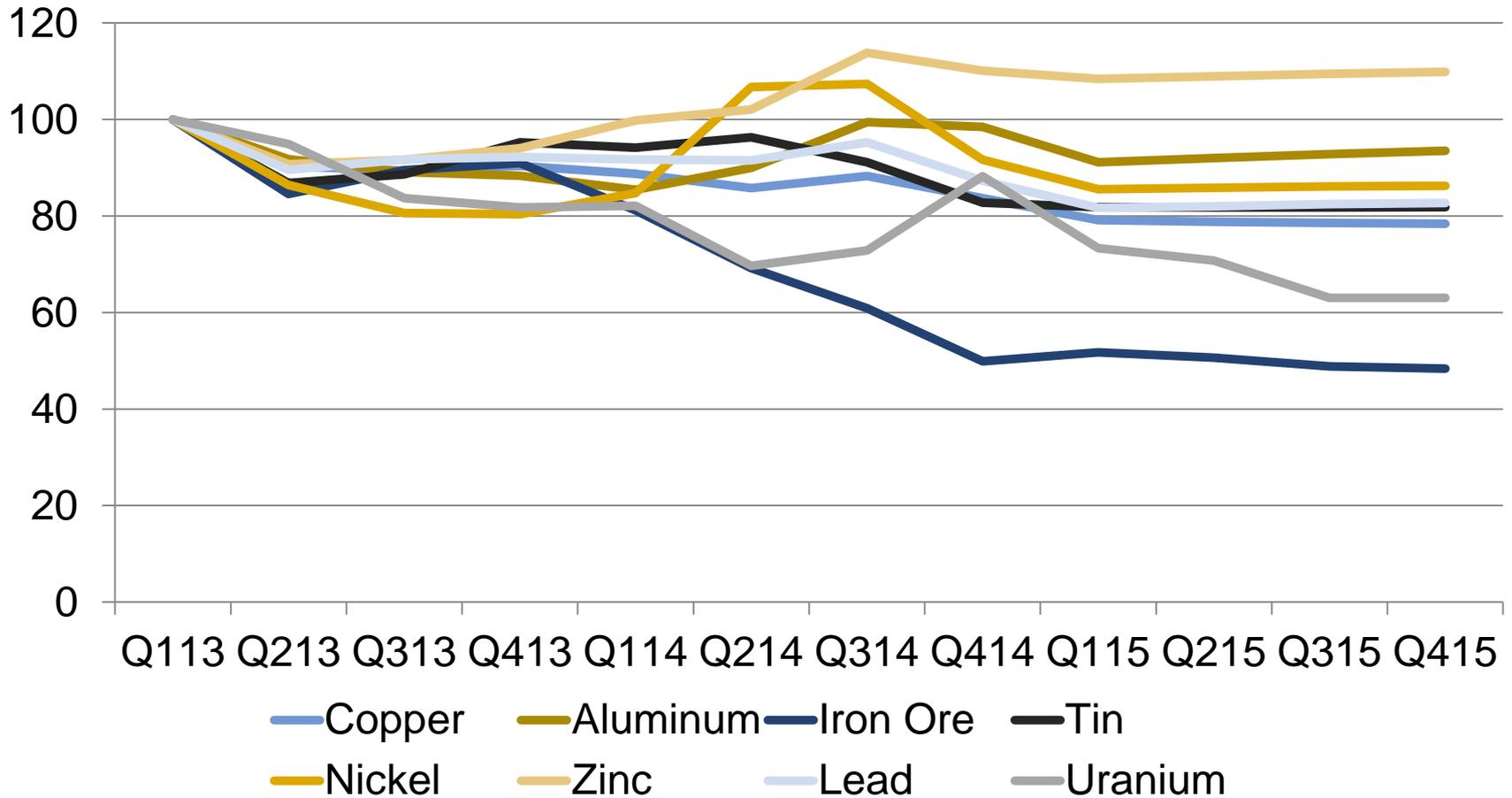


Metals Prices



- Metals prices, in general, are expected to weaken throughout Q1, after which they are projected to plateau
- The notable exceptions, according to the IMF, are:
 - Uranium; and
 - Iron ore
- Obviously, this forecast for uranium is worrying for Namibia; however, the outlook for uranium is perhaps not quite as bearish as the IMF might portray

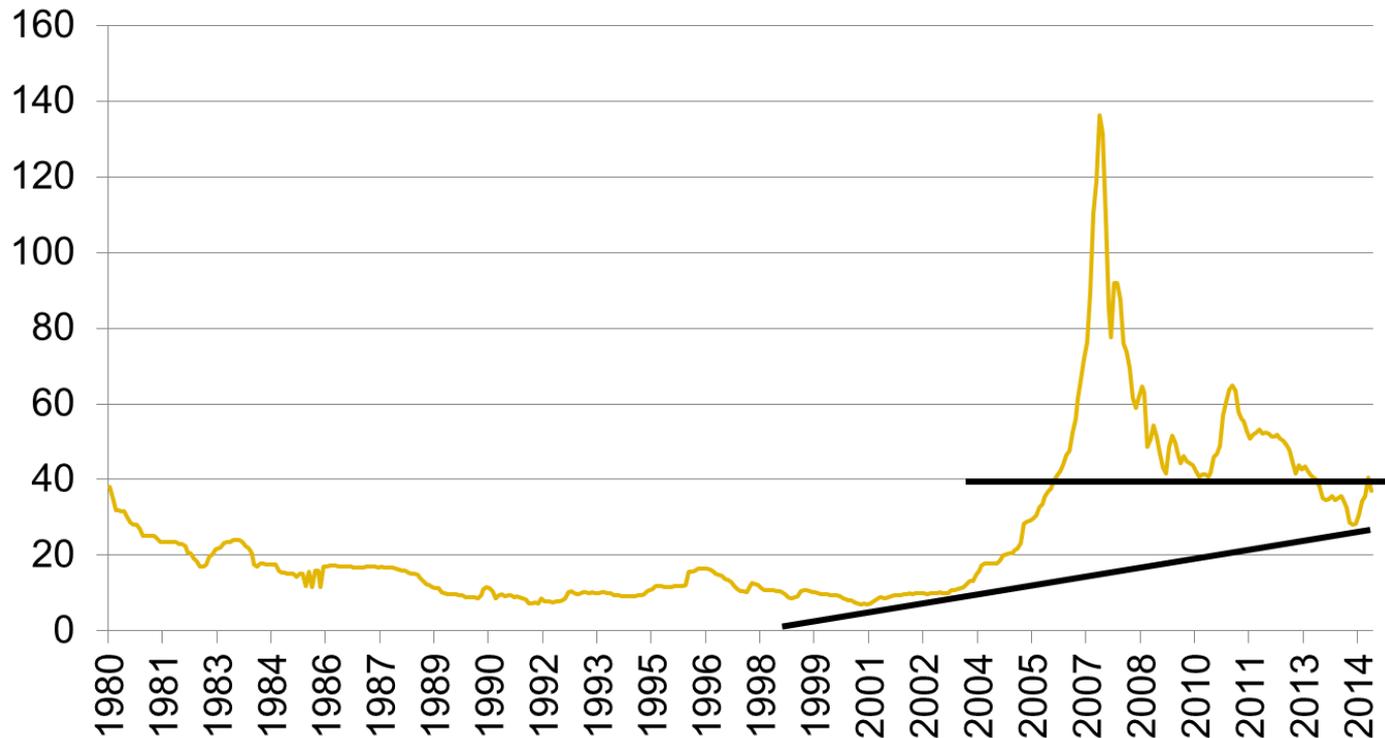
Metal Prices



Uranium Prices



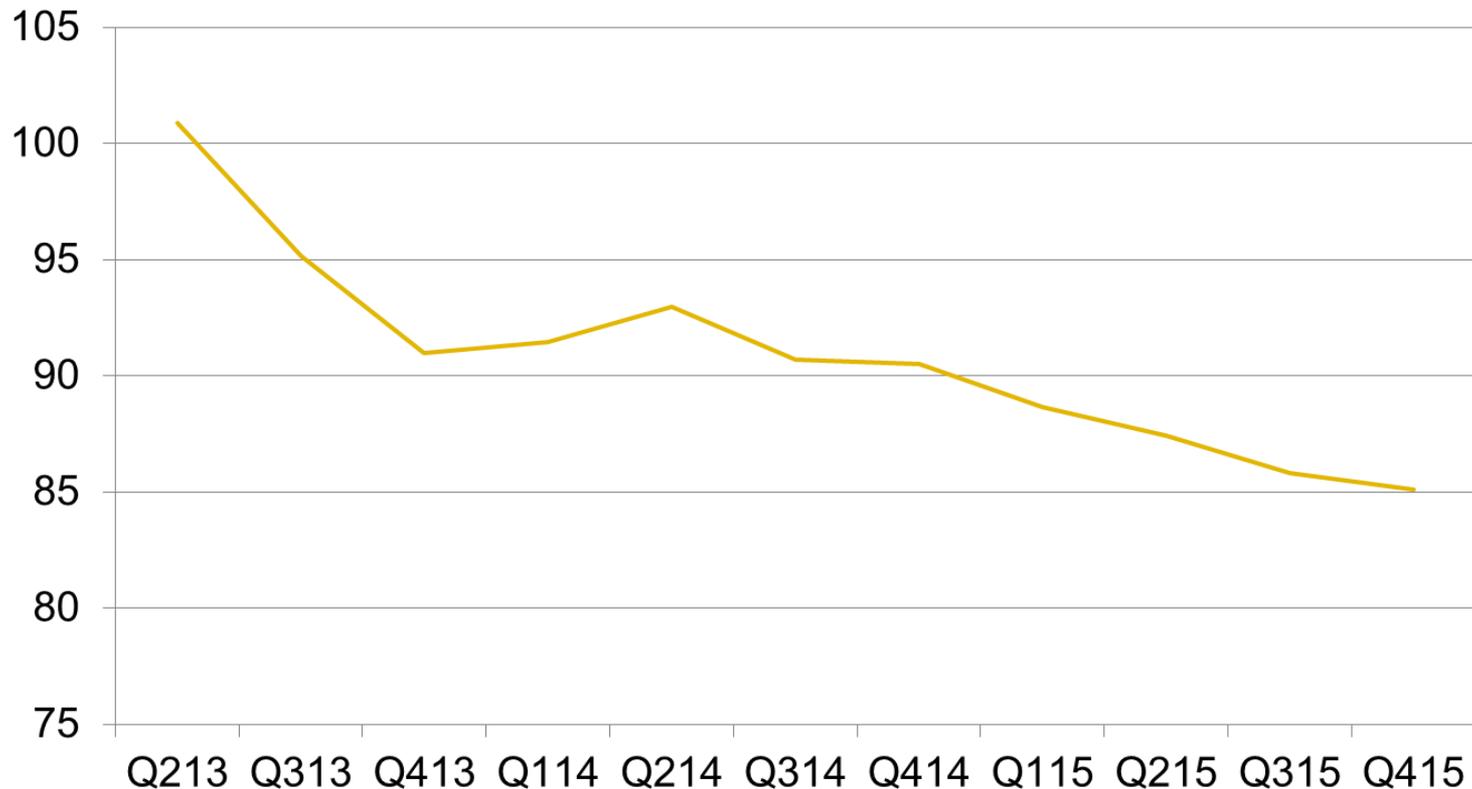
- Uranium tested important support at US\$28 per lb in May last year, and failed to break beyond it ; uranium prices are expected to head higher towards the US\$40 per lb mark by then end of 2015



Food Prices



- Food prices are expected to maintain their gradual downward trend throughout 2015; this is a positive development for inflation



Regional Outlook



Sub Saharan-Africa

- The IMF expects growth in SSA to accelerate slightly in 2015, from 4.8% in 2014 to 4.9%
- However, given the weak outlook for oil, which will weigh on the Nigerian and Angolan economies, and the ongoing difficulties being witnessed in South Africa, this forecast might prove to be rather optimistic

South Africa

- South Africa continues to struggle with structural problems, such as infrastructure constraints – most notably power supply constraints – and strained industrial relations
- In addition to this, the country will have to contend with lower commodity prices and weak growth in some of its major trading partners such as the Euro area and China
- The country will, however, benefit from lower oil and food prices, which gives the SARB a little more room to manoeuvre

Angola

- Angola is heavily dependent on oil, with oil revenues accounting for approximately 80% of Government revenue; with the oil sector set to suffer sharply in the wake of the steep fall in oil prices, structural problems will likely be exposed, leading to a significant slowdown in growth

Domestic Growth: Primary Industries



- **Primary industries** are projected to continue to suffer from poor rainfall, with drought once again on the cards. This will weigh on *Agriculture and forestry* as both *Crop farming and forestry* and *Livestock farming* continue to suffer
- Despite somewhat depressed metals prices, however, growth in mining is expected to accelerate as new mines come on line

Domestic Growth: Secondary Industries



- *Manufacturing* activity is projected to receive a significant boost in 2015 as Tchudi Copper and the Dundee sulphuric acid plant come on line, boosting growth in *Basic non-ferrous metals* and *Chemical and related products*. This, along with a further acceleration in growth in *Beverages* driven by the SAB Miller brewery, is expected to see Manufacturing growth accelerate notably
- This will help to offset the impact of a slowdown in *Construction* growth as the construction boom comes to an end, but will not be sufficient to prevent growth in **secondary industries** decelerating in 2015

Domestic Growth: Tertiary Industries



- Growth in **Tertiary industries** is expected to slow as growth in *Wholesale and retail trade* and in *Financial intermediation* slow. Growth in *Wholesale and retail trade* is expected to slow as the boost the sub-sector received from income tax cuts in 2013 dissipates, while *Financial intermediation* growth is projected to decelerate in line with higher interest rates.
- That said, growth in *Transport and communication* is projected to remain strong in line with Namibia's efforts to make itself a logistics hub, while growth in *Real estate and business services* is also expected to remain buoyant, in line with a continued strength in the housing sector

Domestic Growth



	2014	2015
Primary	2.4	3.6
Agriculture	3.0	2.0
Mining	2.0	4.0
Secondary	10.6	8.0
Manufacturing	3.5	7.0
Construction	30.0	12.0
Tertiary	6.6	5.4
Wholesale and retail trade	8.0	5.5
Transport and Communication	9.5	10.0
Financial Intermediation	5.5	5.0
Real estate and business services	5.5	6.0
GDP	6.4	5.5

Key Themes for 2015



- **Global**

- Growth in a number of major economies disappointed in 2014; this has prompted a reassessment of growth projections, and boosted expectations for a continuation of accommodative monetary and fiscal policies
- The main story in 2015 is oil prices

- **Domestic**

- Fiscal Policy
 - Expansionary budget
 - SACU revenues vs improvements in collection
 - Debt
- Decoupling from SA? What about Angola?
- Monetary Policy
 - Inflation
 - Reserves

Risks



- **Oil?**

Oil may have overshot on the downside, which could see prices rebound more rapidly than expected; this would consequently weigh on both growth and external balances of oil importers

- **US?**

Much of the positive news regarding global growth is being generated by the US. Should, however, the anticipated strong growth fail to materialise in the US, global growth would likely slow in 2015

- **China?**

Although it remains only a remote possibility, the prospect of a hard landing in China does remain a possibility; this would be bad for both global growth and commodity prices

Risks



- **Deflation**

Some areas of the Euro zone have already experienced deflation, and if this should become both a widespread and protracted phenomenon, investment levels could suffer across the economic bloc, putting already precarious growth under further pressure

- **Greece?**

With the election of SYRIZA in Greece, concerns have once again been raised about the future of the Euro zone, which could weigh heavily on growth and financial markets should these fears persist