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Second quarter 2018 Gross Domestic Product growth – strong headwinds prevail

The Namibia Statistics Agency has released the Gross Domestic Product (GDP) figures for the second quarter 2018 on 20 September 2018. **GDP in real terms dropped by 0.2%** during the second quarter 2018 compared with the second quarter 2017. It is **the ninth consecutive quarter of economic contraction**. The last positive economic growth was recorded in the first quarter 2016 at 4.4%.

Herewith a brief summary of the second quarter data:

- The **revisions for the first quarter 2018** resulted in a slightly stronger contraction than initially estimated. Economic growth was revised downward from -0.1% to -0.2%, which is mainly due to a stronger contraction in the wholesale and retail trade sector (-1.6% instead of -1.3%) and lower growth in the real estate sector (0.5% instead of 1.1%). In contrast, the tourism sector performed slightly better and contracted by 4.8% instead of 5.3%.
- The **agricultural sector** contracted by 1.1% in the second quarter 2018 after positive growth of 1.4% in the first quarter. The contraction is caused by the base effect – agricultural production increased by 21.2% in the second quarter 2017. Compared to the first quarter 2018, agricultural output in constant 2010 prices rose by 20.7%. The poor performance of the agricultural sector in the second quarter was caused by a **decline in livestock marketed**, since farmers decided to restock their herds due to better rainfall than in the first quarter. This decline was also **reflected in the second quarter trade statistics** as the value of cattle exported to South Africa on-the-hoof dropped.
- The **fisheries sector contracted by 8.0%** in the second quarter compared to a decline by 13.6% in the first quarter 2018 and a contraction by 4.0% in the second quarter 2017. The decline was caused by two factors: lower landings and rising fuel costs.
- The **mining sector**, on the other hand, **showed strong growth** of 22.4% compared to growth of 4.7% in the first quarter 2018. It is the strongest quarterly growth since the fourth quarter 2012 (31.4%). **Diamond** mining (30.5%) and **uranium** mining (62.3%) were the driving forces behind the strong performance of the mining sector. However, uranium mining benefited from a strong increase in output during June that could not be maintained in July.
- The **manufacturing sector suffered from the strongest contraction** (-12.5%) of all economic sectors in the second quarter. Despite the increase in output of diamond mining, value added by diamond processing declined by 7.8%. **Meat processing** (due to re-stocking of herds) and **fish processing** (due to lower landings) declined by 12.2% and 8.1% respectively. Value addition in other processing activities of commodities, such as basic non-ferrous metals (-33.3%) and non-metallic minerals (-26.0%) also dropped strongly as did value addition of the beverage industry (-12.9%).
- The **construction sector maintained the momentum** in the second quarter that it gained during the first quarter 2018 and expanded by the same growth rate of 23.8%. It is the strongest growth in the

sector since three years. During the second quarter 2015, the construction sector expanded by 29.6%. However, real value added of NAD973 million in the second quarter 2018 remains one of the lowest since the end of 2012.

- The sector ‘**Hotels and restaurants**’ experienced the worst first half year since 2013. The sector – usually used as a proxy for the tourism sector – **contracted by 4.8% and 2.6%** in the first and second quarter 2018 respectively compared to contractions of 6.2% and 1.6% during the corresponding quarters of 2013. The sector contracted **despite the increase in tourist arrivals** at Namibian airports by 14% in the first half of 2018 compared to the first half of 2017 and **despite a depreciation** of the Namibia dollar against the Euro by 4.3% and 3.6% in the first and second quarter 2018, which should usually support tourist spending.
- Value added of the **transport sector grew by 1.9%** in the second quarter 2018 after an expansion by 2.5% in the first quarter. However, the transport sector recorded the **slowest second quarter growth** in the past decade. The sector faced **declines in the railway and air transport** sub-sectors, while cargo handled at Namibia’s **sea ports increased**. Increased outputs of the uranium mining sector as well as the construction sector were apparently not strong enough to offset a drop in demand from other sectors, such as the transportation of livestock.
- **Fiscal consolidation is reflected in a decline** in value addition in the education (-6.2%) and health (-4.9%) sectors, while the output of public administration grew by 1.2%.
- **Revenue from taxes on products** showed a **strong decline of 5.5%** after a contraction in the first quarter 2018 by 0.4%. Revenue amounted to NAD1,979 million, the **lowest amount** since the second quarter of 2014, when it stood at NAD1,845 million. Unless revenue from other tax sources and non-tax sources has increased, the figures suggests that it might be challenging to achieve the fiscal targets.

Quarterly data is preliminary and always up for revision, when more data is collected. However, it provides a first glimpse of the performance of the economy. GDP growth for the first quarter 2018 as well as all quarters for 2017 was revised downward, which indicates that the contraction was stronger than initially estimated. Despite the low base, value added in the first half of 2018 of NAD53.4 billion has remained below value added in the first half of 2017 (NAD53.5 billion) and the first half of 2016 (NAD53.7 billion). Although we were slightly optimistic after the release of the first quarter data, the second quarter data suggests that the economy continues to face strong challenges.

Global events, such as the imposition of tariffs by the US administration on ever more products imported from China – and China’s retaliation –, the threat by the US to impose tariffs on imports from Canada if the country does not agree on the proposed revised NAFTA agreement as well as threats to impose tariffs on imports from the EU are not at all supportive of a speedy recovery of Namibia’s economy, since these ‘trade wars’ dampen the demand for and prices of commodities. In addition, financial investors moved assets to safe havens, such as the US dollar, which resulted in currencies of emerging markets coming under pressure. Furthermore, US sanctions against Iran have resulted in rising oil prices, even before direct US sanctions against Iranian oil exports are put in place. The rising oil prices have resulted in increasing fuel prices and inflation, which will impact negatively on consumer demand and will increase production costs.

Namibia, therefore, needs to continue to improve the business and investment climate in order to attract domestic and foreign direct investment into manufacturing activities and into the service sector, since Government’s fiscal space is limited to stimulate the economy. Investment in these sectors is also needed to reap the benefits from the ongoing investment in Namibia’s infrastructure.