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Second quarter 2018 trade statistics – some worrying trends

The Namibia Statistics Agency (NSA) has released the trade statistics for the second quarter 2018 on 13 September 2018. The trade statistics refer to trade in goods only and exclude the trade in services. Namibia usually achieves a surplus in the trade of services.

Herewith a few highlights:

- The **value of exports** increased by 19.6% from NAD19.1 billion in the first quarter of 2018 to NAD22.8 billion in the second quarter. However, the increase is caused by an **increase in re-exports** from NAD8.0 billion to NAD12.4 billion over the same period, most notable the **re-export of a vessel** to the UK valued at NAD5.4 billion. Re-exports are goods that were imported into the country and then exported again. Excluding re-exports, Namibia's **exports dropped** from NAD11.0 (Q1 2018) billion to NAD10.4 billion (Q2 2018).
- The **value of imports** dropped by 15.4% from NAD28.4 billion to NAD24.0 billion (Q1 2018) in the second quarter 2018. The import figure for the first quarter includes the importation of an **oil rig** valued at NAD3.7 billion for drilling purposes in the Walvis Bay basin, while a vessel worth NAD2.2 billion (most likely another oil rig) was imported in the second quarter. This equipment will be re-exported once the drilling is completed. Excluding these two items from the import data, the value of imports dropped by 11.5%.
- The **trade deficit declined** substantially by 86.6% from NAD9.3 billion to NAD1.2 billion in the second quarter 2018. As explained above, **excluding the vessels** from the import and export data, the trade deficit would be 20.5% lower.
- Except for the vessel that pushed up the value of exports, the **export of diamonds increased** by 8.0% to NAD4.6 billion and the **export of fish** by 1.2% to NAD2.5 billion. Furthermore, the exports of **beverages rose** by 13.8% to NAD280 million and of **meat by 71.6%** to NAD314 million. In contrast, the export value of copper ore declined by 11.9% from NAD2.2 billion to NAD2.0 billion, the value of copper cathodes from NAD5.3 billion to NAD4.1 billion and of zinc by 65.2% from NAD1.2 billion to NAD0.4 billion. While the value of meat exports increased, the **value of live animals dropped** by 8.1% to NAD671 million.
- **Diamonds accounted** for 20.3% of total exports followed by copper cathodes (17.8%), fish (11.0%) and copper ore (8.7%).
- **The value of re-exports** grew by 54.6% from NAD8.0 billion to NAD12.4 billion in the second quarter of 2018 owing to the re-export of the vessel. Otherwise, **copper cathodes** dominated the list of re-exports with 29.9% (NAD3.7 billion), followed by **diamonds** with 11.7% (NAD1.5 billion).
- The total value of imports declined due to a sharp reduction in the importation of **mineral fuel** that dropped by 48.1% to NAD1.7 billion and of **ores and concentrates** that dropped by 48.3% to

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NAD0.7 billion. The value of **imported boilers and machinery** declined by 28.0% to NAD1.7 billion. In contrast, the value of **imported electrical machinery rose** by 37.6% from NAD1.0 billion to NAD1.4 billion, while the value of **imported copper cathodes increased** by 6.2% from NAD3.6 billion to NAD3.8 billion.

- **Copper cathodes lead** the list of imports accounting for 15.9% of total imports followed by vessels (9.2%) ,vehicles with 8.0% (NAD1.9 billion), mineral fuels (7.0%), boilers (6.9%), electrical machinery (5.6%) and diamonds with 5.3% (NAD1.3 billion).
- The **EU claimed the top position of export destinations** due to the export of the vessel to the UK with 46.1% of total exports. **SACU** ranked second with 24.1% and **BRIC** countries (Brazil, Russia, India, China) third with 13.8%. **Non-SACU SADC** member states accounted for 6.9% of all exports and **Comesa** member states 5.9%. These two categories are to a large extent overlapping since most non-SACU SADC member states also belong to Comesa.
- **SACU** member states (mainly Botswana and South Africa) remained the main source for Namibia's imports accounting for 53.3% of total imports in the second quarter (up from 44.3% in the first quarter). **Comesa and Non-SACU SADC** member states accounted for 16.6% and 16.5% respectively (see our note above). 14.9% of imports were sourced from the **EU** and 7.3% from **BRIC** countries.

The quarterly trade deficit dropped to the lowest level over the past couple of years only second to the first quarter of 2016 when a deficit of NAD448 million was recorded. The increase in the value of exported fish and of imported fish that is further processed in Namibia is encouraging. The value of fish exports was the second highest over at least the past five years. Likewise, the increase in the export value of meat, while the value of live animal exports dropped suggests that more value was added to livestock in Namibia.

However, there are some worrying trends as well: Based on monthly data, exports are on a downward trend, which could be a reflection of declining commodity demand and prices, although the depreciation of the Namibia dollar should result in higher commodity prices in the local currency. Moreover, a large and increasing share of exports consists of re-exports, meaning these are goods that were imported and then exported either during the same or a later quarter. These are not goods produced in Namibia and exported. In fact, the share of goods produced in Namibia over total exports is declining. In the fourth quarter of 2017, re-exports accounted for 32.3% of total exports. This share increased to 42.1% in the first quarter 2018 and 54.5% in the second quarter 2018. It is not only the share that is declining, but also the value of domestically produced exports. In the fourth quarter of 2017, exports excluding re-exports amounted to NAD12.4 billion, in the first quarter 2018 to NAD11.0 billion and in the second quarter 2018 to NAD10.4 billion. Only these exports will increase Namibia's foreign exchange reserves.

The strong depreciation of the Namibia dollar in particular at the end of August and beginning of September will increase the value of imports, in particular of mineral fuels, but also the value of exports in the domestic currency. The overall impact on the trade deficit depends on the elasticity of demand, i.e. whether the demand for imports drops faster than the price of imports increases and whether the demand for Namibian exports increases. Rising oil prices supported by looming US sanctions against Iran's oil exports will put further pressure on the trade balance. The demand for commodity exports is relatively inelastic, since commodities are traded mainly in US dollar. It remains to be seen, whether Namibia could gain a competitive advantage for other export products (processed and manufactured goods) due to the more favourable exchange rate.