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FIRST CAPITAL
TREASURY SOLUTIONS
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First Capital
Food Price Monitor
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Summary

- First Capital (FC) Food Price Index increased from 98.6 in September 2015 to 111 in September 2016 indicating that the price of food generally increased by 12.4 percent in September 2016 compared to the price 12 months ago.
 - Katima Mulilo is rated most expensive among 6 towns under consideration while Windhoek ranks the cheapest.
 - On average a basket of food in Windhoek will cost you N\$60 less than you could buy it in Katima Mulilo.
 - The effect of weak local currency and drought situation outweighed the benefit of global prices decline.
 - Namibia food inflation more than twice higher than in Botswana.
 - Namibia inflation mirrors that of South Africa. This is not surprise given the nearly two third goods consumed by Namibians which are imported from South Africa, meaning Namibia imports its inflation from South Africa.
 - Above average rainfalls projected for this season are likely going to rebalance both crop and animal production and as a result this will in the medium term trickle to food price where stability and price declines will become common.
 - Food prices being major contributors to Namibia's Inflation, the continuation of a somewhat observed declining trend of inflation which began in August 2016 could make case for relief on interest rates by the MPC.
 - NSA records show that Food inflation is nearly twice higher than overall inflation.
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Our contribution to information

We welcome you to our first Food Price Monitor, Our monthly publication that will hit your door step every month. First Capital published its first Food Price Index in 2010 (First Capital Food Price Index) that was unfortunately stopped. We are convinced this is an important index disseminating information to consumers. Food prices in Namibia are a concern not only to consumers but all stakeholders involved in the whole process. In Namibia, like many other countries, food prices increases more than any other consumer good and it accounts a significant share of our monthly budget, meaning that food price information is vital to our welfare. For example, the Namibian Statistics Agency (NSA) indicates that overall inflation and food inflation were 6.8 % and 11.9 %, respectively in August 2016 (y/y) indicating that food prices increased by double the increase of a basket of items used by consumers. Through this publication we believe consumers and all stakeholders will be informed.

Our Methodology

The First Capital Food Price Monitor uses a list of identical food items that was derived from a study conducted to determine the common food items being bought and consumed by average Namibians in all parts of the country. The findings were used to construct a food basket, containing a list of food items that features most on consumer food shopping list. Six towns (Windhoek, Keetmanshoop, Swakopmund, Ondangwa, Rundu and Katima Mulilo) are considered for this exercise with need to expand its geographic coverage to other regions or towns over time. However we remain convinced that given the geographic location of these six towns, it more or less represents a picture of the whole country. A total of six retail shops in each town are considered for collection of prices every month. The prices of food item from all super markets in a given area

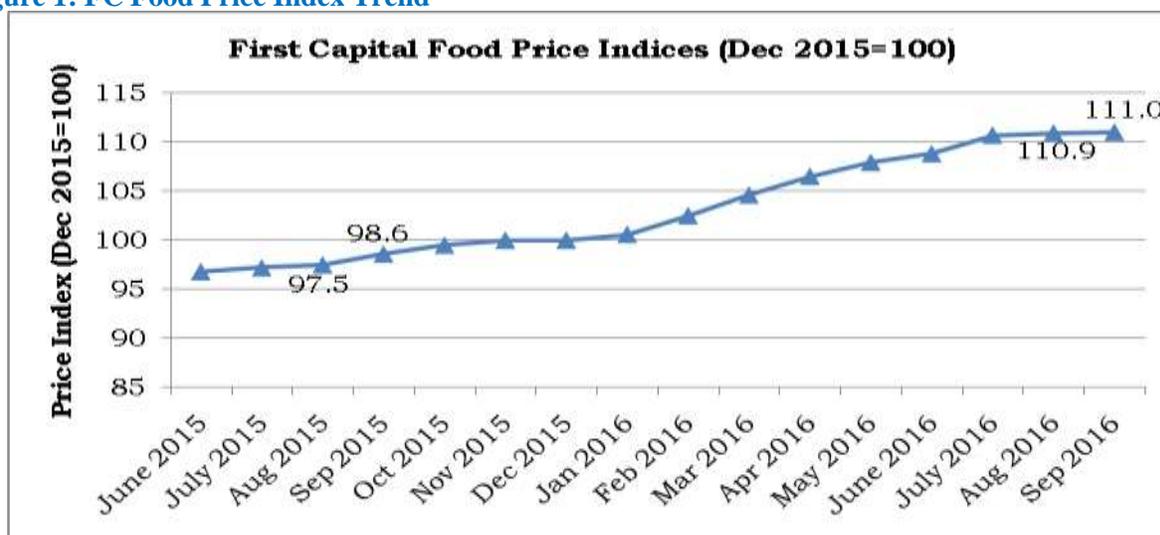
are averaged to give an average price of each item by area (e.g. the price of bread in Windhoek reflects the average of all prices of bread from all the six supermarkets in Windhoek). These item specific prices are then used to derive an index figure which, if compared with an index of the previous period, will give you the average price increase/decrease (Inflation) for the current period (e.g. An Index of 111 in September 2016 and 98.6 of September 2015 gives a difference of 12.4 points which means that a basket of food now costs you 12.4 percent more than it could cost you in September 2015. To derive an index during a specific period, we follow the following formula:

$$\text{Price Index (September 2016)} = \frac{\text{Price of food basket in September 2016}}{\text{Price of food basket in December 2015}} \times 100.$$

1. First Capital Food Price Monitor

First Capital food price index for September 2016 increased slightly to 111 from 110.9 in August 2016 indicating a unit percent increase in the general price of a food basket (m/m) used to measure food prices (See figure 1). On an annual basis, the price index increased by 12.4 from the 98.6 price index recorded for September 2015 to 111 in September 2016. This implies that food prices surged by 12.4 percent in September 2016 compared to the prices in September 2015. However, the annual inflation of 12.4 percent for September 2016 is slightly lower than 13.4 percent recorded in August 2016. Similarly the m/m inflation of 0.1 percent recorded in September is lower than 0.2 percent in August. The 12.4 percent annual increase in the FC food basket impacted negatively on the disposable income of consumers and reflects continued rise in cost of living in Namibia.

Figure 1: FC Food Price Index Trend



Source: First Capital Research

When the Index is higher than 100 the prices are moving up, when the its less than a 100 prices are moving down

2. FC Food Price Index Sub-Index Analysis

Meat & Poultry

The prices of meat and poultry products increased by nearly 6.6 percent in September 2016 compared to the same period last year. The price increase was mainly due to beef prices which increased on account of short supply while demand remained strong. Poultry prices also increased notably by 5.3 percent in September(y/y) though lower than 7.6 percent price hike for livestock food products (Beef, Pork and mutton). Rising feed prices explains most of the increase in the rise of meat and poultry.

Outlook: The current persistent drought that has negatively impacted livestock production is likely to continue weigh on the supply of meat and this will manifest into inflation risks since demand remains strong.

Maize Meal: The prices of maize meal rose by above 0.11 percent between August and September 2016. Annual figures show an increase of 12.1 percent in September 2016 compared to maize meal prices in September 2015. Mealie meal, being a product made from maize grains, was similarly under short supply during the year due to low harvest that came after low rainfalls were recorded, and as a result, prices of grains increased and letter prices of maize meals followed suit.

Outlook: Maize meal stands out as one of the food items which recorded the highest price increase between September 2016 and September 2015. In line with predictions for above average rainfall forecasted by the National Meteorological Services, we equally expect prices to decrease based on wide spread rainfall forecast which we predict can deliver satisfactory harvest for the new crop season.

Milk: The Price Index for milk products recorded an increase of 10.9 points from September 2015 to September 2016. On a monthly basis we observed an average price decline of 0.2 percent for milk products in September 2016.

Outlook: Should the much anticipated rainfall materialize, natural grazing areas will likely improve from dry to fresh green as a result feed livestock to good conditions that can improve the supply of milk production. The expected harvest which will increase supply of grain harvests will also have a positive effect since supplementary feeds for dairy cows will be available for feeding.

Rice: The price of rice recorded a drop of 0.6 percent between August and September 2016 while an annual average price hike of 8.9 percent was recorded in September 2016. Just like many other crop products, rice production was equality affected by drought conditions that came at the expense of limited rainfalls as a result price of rice surged as demand outpace supply.

Outlook: Unlike other cereal products, rice is almost entirely imported with little of it produced locally. Namibia being a net importer of rice, domestic prices are mainly influenced by international prices which in

turn are influenced by global supply situation of rice. The global supply of rice which is projected to increase by more than a percent this year by FAO amid good harvests from Asian countries indicates that prices will still remain low. Though Namibia have since last year benefited less from global price declines due to its weak currency which meant paying more Namibian dollar for imports, the continuing declining international prices of rice and the recent strengthening of the local currency could translate to lower prices of rice.

Bread: Bread prices similarly surged as wheat prices increased. The price of bread increased by 0.3 percent September 2016 relative to the price a month ago while on an annual basis we noted an increase of 12 percent of prices for bread in September 2016 in line with price increase in wheat, an input for producing bread.

Outlook: Prospects of rainfall for 2016/17 season are good and we expect the harvest of wheat to increase and wheat price to fall. This will have a pass through effect on the price of bread.

Sugar: Sugar prices increased by more than 17 percent between September 2015 and September 2016. However, between August 2016 and September 2016, sugar prices increased by 0.8 percent. El Nino related weather effects in the 2015/16 harvest year reduced global sugar production which also resulted in a significant decline of the stocks of sugar to supplement low output. 2015/16 harvest year saw sugar production lower than consumption for the first time in five years due to drought effects that continued to affect production among major sugar producing countries.

Outlook: Due to the prolonged effects of drought in the major sugar producing countries like Thailand, weak supply of sugar is expected in near future although Brazil's is showing improvement on accounts of favourable weather and the shift from converting sugar cane to ethanol. As such, prices will still remain volatile in the near future on account of weak supply from major sugar producing countries.

Table 1: First Capital (FC) Food Price Indices by categories

	December 2015=100								
	2015					2016			
	June 2015	July 2015	Aug 2015	Sep 2015	Dec 2015=100	June 2016	July 2016	Aug 2016	Sep 2016
Meat & Poultry ¹	99.8	98.8	99.9	98	100	104.1	104.7	104.6	104.6
Fruits	92.7	92.5	91.5	94.1	100	108.2	109.1	107.8	107.3
Vegetables	97	93.7	93.8	95.3	100	113.5	111.4	108.7	106.6
Bread	96.7	97.7	97.8	100	100	111.4	111.9	111.9	112.1
Milk ²	97.3	98.6	99.2	99.2	100	109.8	110.7	110.3	110.1
Non-Alcoholic Beverages	98.3	99.1	99.1	99.2	100	105.1	109.5	108.8	108.6
Staple Foods	96.7	97.8	97.8	99.9	100	112.3	112.9	112.8	112.9
Sugar	97.1	97.6	98.7	98.6	100	111.2	112.3	115.5	116.3
FC Food Price Index	96.8	97.2	97.5	98.6	100	108.8	110.7	110.9	111

When the Index is higher than 100 the prices are moving up, when its less than a 100 prices are moving down

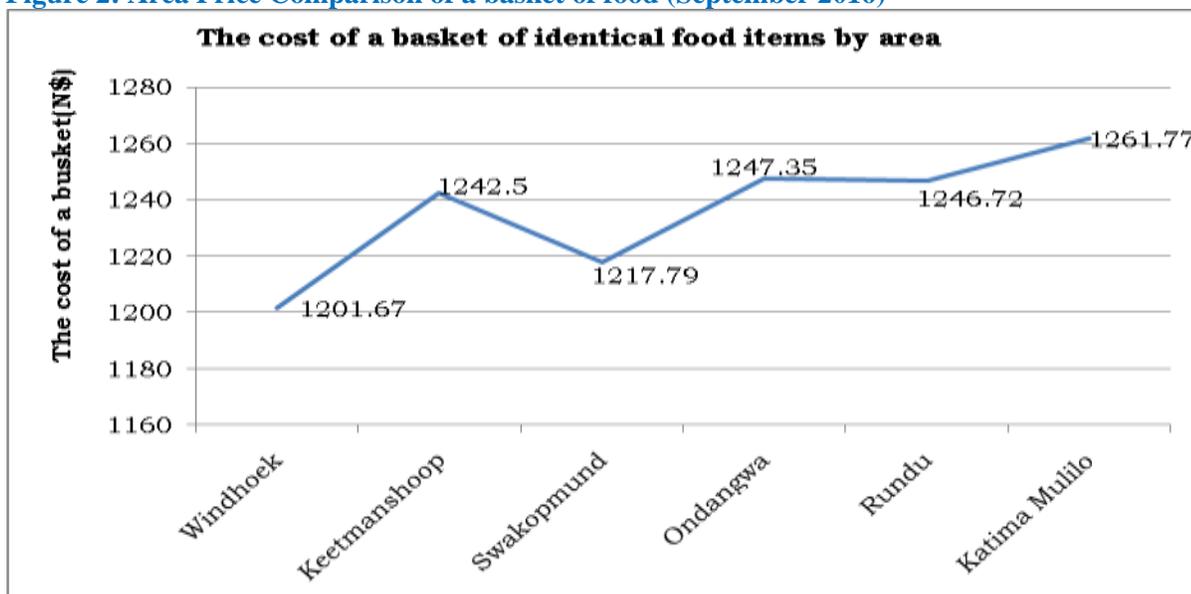
1. Include chicken (1.5kg, 2kg thighs & braaicut), Pork, beef stew. 2 Includes 2L Pasteurized homogenized & 1L fresh milk

Source: First Capital Research

3. Cost of Living by Town

FC Food Price Index compiles Data from different branches of six supermarkets around six towns in the country in order to compile the proxy for the cost of living using food prices for each of these towns. Certain items cannot be compared at certain times because they are not available at other supermarkets in other towns at the time of collection. The prices represented below are average prices, for example, the price of bread represented under a particular town is the average of price of the cheapest non branded 700g bread in the supermarkets of that town at that particular time. According to our findings, Windhoek is cheapest with a cost of 1201.67 for a basket of food items which can cost you 1261.77 in Katima Mulilo. On average a basket of food in Windhoek will cost you more than N\$60 less than you could buy it in Katima Mulilo.

Figure 2: Area Price Comparison of a basket of food (September 2016)



Source: First Capital Research

How much do you pay per food item by town

Table 2 below summarises the average prices of food items in each town. Prices vary by town depending on the competitive advantages some towns has over other town in relation to the prices of food items which are locally produced in such towns.

Table 2: Average Prices for selected towns for September 2016

Goods	Description	Windhoek	Keetmanshoop	Swakopmund	Ondangwa	Rundu	Katima Mulilo
Bread	White	9.16	9.19	9.15	9.07	9.05	9.05
	Brown	8.56	8.99	8.72	8.69	8.75	8.79
Meat & Poultry	Beef (p/kg)	66.50	69.05	67.50	68.44	69.15	69.45
	Mutton (p/kg)	66.95	65.05	67.05	66.50	67.15	67.20
	Full Chicken Frozen (p/kg)	49.20	50.01	49.95	50.05	50.10	50.15
	Full Chicken Frozen (1.8kg)	91.85	92.15	92.10	92.13	92.15	92.17
	Chicken (1,5kg)	54.99	57.20	56.69	57.37	57.45	60.19
	Chicken (2kg) Braai Cuts	78.24	80.00	79.25	82.99	79.99	80.05
Fish & Sea Food	Lucky Star Pilchard (400g)	22.39	22.15	21.99	22.55	22.99	23.05
	Mamas Pilchard (400g)	20.32	20.05	19.65	19.68	20.42	20.45
	Horse Mackerel (p/kg)	17.49	17.49	17.15	18.20	18.39	18.49
	Maasbanker (p/kg)	13.99	13.95	13.89	14.45	14.99	15.20
Mealie Meal	Top Score 5kg	63.32	64.49	63.98	64.49	63.59	63.58
	Top Score 10kg	107.99	108.49	108.06	108.99	108.01	108.05
Rice	Tastic (2kg)	31.32	31.05	31.35	30.99	35.40	35.42
	Local Store Brand(2kg)	26.16	26.55	26.30	26.70	28.99	28.17
Macaroni	Polana (2kg)	32.20	32.75	32.28	33.10	33.12	34.15
	Elbows (2kg)	32.25	32.80	32.90	33.19	33.15	34.20
Vegetables	Tomato (p/kg)	15.49	16.09	16.20	15.99	15.20	15.20
	Potato (p/kg)	16.99	18.80	18.95	17.22	17.01	17.05
	Onion (p/kg)	16.94	16.99	17.33	17.01	15.10	17.10
Fruits	Banana (p/kg)	19.99	20.70	20.15	20.05	19.95	20.01
	Oranges (p/kg)	19.45	19.99	19.50	19.35	19.89	20.05
	Apples (p/kg)	17.99	18.59	18.50	18.65	18.75	19.10
Butter	Rama (500g)	24.99	25.15	24.68	23.24	25.75	24.89
	Sunshine (500g)	21.66	21.99	21.88	22.01	22.12	22.30
Eggs	30 Large Eggs						
Milk	Farm Fresh (1L)	16.32	17.49	17.05	17.62	17.65	17.99
Sugar	Marathon White 2kg	29.32	35.99	30.20	36.49	36.59	36.65
	Sugar King White 2kg	29.56	34.75	30.05	34.99	35.01	35.22
	Marathon Brown 2kg	28.32	34.99	32.69	36.34	36.45	35.99
	Sugar King Brown 2kg	27.99	28.10	28.05	28.99	29.05	29.99
Cooking Oil	(750ml)	16.62	16.99	16.55	15.32	14.59	14.99
	(2L)	42.66	43.05	42.99	45.98	43.07	45.45
Cereal	Oats (Jungle) 1kg	28.66	28.95	28.95	28.20	29.23	29.55
Tea	Five Roses (250g)	30.99	31.68	31.25	31.45	31.75	32.05
	Fresh Park (200g)	38.66	38.68	38.69	38.70	38.75	38.96
Coffee	Ricoffy (250g)	38.86	36.45	35.97	35.70	35.99	36.08
Flour(2.5kg)	Cake (Bakpro)	35.66	42.49	37.99	42.95	42.92	43.01
Cool drink(2L)	Coke	16.46	17.10	17.01	17.59	18.01	18.35
	Fanta	16.52	17.19	17.15	17.63	18.20	18.45

Source: First Capital Research

4. The price we pay today relative to prices back then in 2010

Table 3 below compares the prices of food items in September 2016 relative to the prices back then in December 2010. Prices in 2016 on average nearly doubled. We note a 46 percent average increase in prices of identical food basket between December 2010 and September 2016. Our findings compares favourably with NSA figures which shows that food prices increased by 47 percent between September 2015 and September 2016.

Table 3: 2010 Prices vs. 2016 Prices

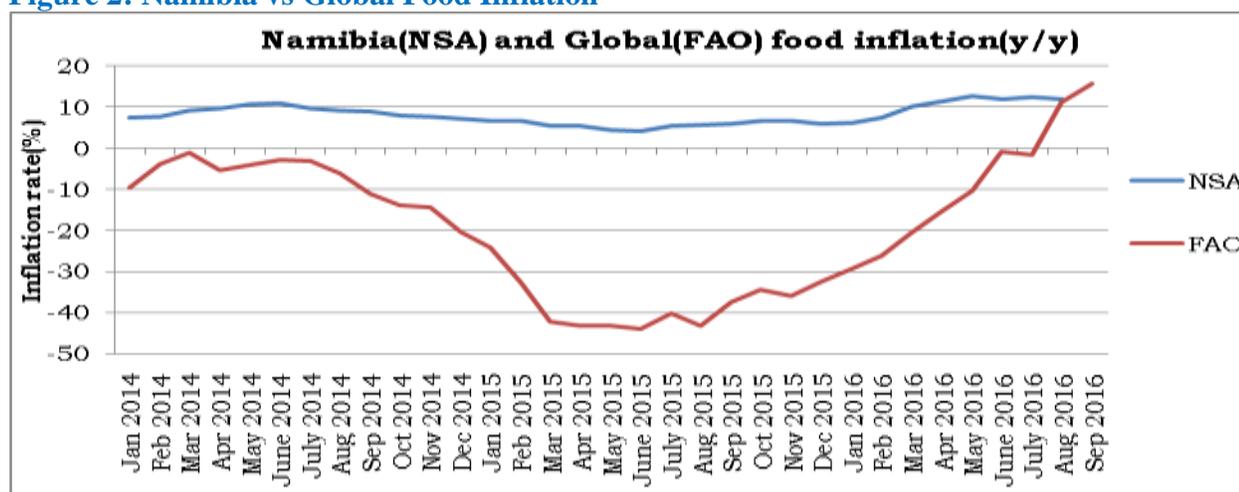
Goods	Description	December 2010 Prices(N\$)	September 2016 Prices(N\$)
Bread	White	6.11	9.11
	Brown	6.26	8.75
Meat & Poultry	Beef Stew (p/kg)	48.22	68.13
	Mutton (p/kg)	46.08	65.92
	Chicken (1,5kg)	30.99	57.32
	Chicken (2kg) Braai Cuts	41.36	80.09
Fish & Sea Food	Lucky Star Pilchard (400g)	14.02	22.52
Mealie Meal	Top Score 5kg	32.8	63.91
	Top Score 10kg	61.02	108.27
Rice	Tastic (2kg)	14.24	32.59
	Local Store Brand(2kg)	12.99	27.15
Macaroni	Polana (2kg)	21.45	32.93
Vegetables	Tomato (p/kg)	9.77	15.695
	Potato (p/kg)	8.89	17.67
	Onion (p/kg)	7.64	16.745
Fruits	Banana (p/kg)	13.19	20.14
	Oranges (p/kg)	11.99	19.71
	Apples (p/kg)	12.02	18.60
Butter	Rama (500g)	16.85	24.78
Milk	Farm Fresh (1L)	10.98	17.35
Sugar	Marathon White 2kg	16.01	34.21
	Sugar King White 2kg	15.99	33.26
Cooking Oil	(750ml)	7.99	15.84
	(2L)	27.22	43.87
Cereal	Oats (Jungle) 1kg	20.34	28.92
Tea	Five Roses (250g)	26.22	31.53
	Fresh Park (200g)	16.79	38.74
Coffee	Ricoffy (250g)	23.91	36.51
Cool drink(2L)	Coke	15.19	17.42
	Fanta	15.19	17.52

Source: First Capital Research

5. Namibia Inflation

Contrary to the global picture where prices of commodities including food had reduced significantly since 2015, Namibia has had a different picture, that of domestic prices increasing while global prices declined. According to our research, the benefit of low global food prices Namibia could have benefited were outweighed by the effects of drought, the hikes in electricity prices as well as the sustained weak local currency. To qualify these effects, Namibia experienced one of the worst droughts in history that affected the supply of food despite high demand for food. While supply remained weak, accessing cheap international goods to make up for the shortfall in supply came at high cost to Namibians due to weak local currency. At the same time, electricity tariff hikes also weighed much on the food prices. As such prices continued to surge despite an opposite global picture.

Figure 2: Namibia vs Global Food Inflation



Source: NSA, FAO and First Capital Research

6. How does food price stability in Namibia compares with other countries

In the region, Namibia's inflation mirrors that of South Africa, a case not surprising given that Namibia imports its inflation from South Africa through the more than 50 percent of goods that are imported into Namibia for consumption. However, though inflation differs across the region with Zambia having high levels and Botswana being lowest, the trend looks almost similar. Though figures differ marginally, times when inflation was highest in South Africa, both Botswana, Zambia and Namibia was at highest levels and vice versa. This however shows how South African prices affects its regional trading partners, hence the effects in South Africa, are worth for policy consideration in the SADC regional countries. While it remain common for prices to increase over a year period of time, in USA average food prices never changed while in UK prices of food even reduced by 2.2 percent in August compared to prices in the same period last year.

Table 4: Annual inflation for Namibia & other Selected Countries

		June 2016		July 2016		August 2016	
		Overall inflation	Food & Non-alcoholic beverages inflation	Overall inflation	Food & Non-alcoholic beverages inflation	Overall inflation	Food & Non-alcoholic beverages inflation
Region	Namibia	6.7	11.3	7	12.2	6.8	11.5
	Botswana	2.7	5	2.7	5.3	2.6	5.7
	South Africa	6.3	10.8	6	11.3	5.9	11.3
	Zambia	21	25.3	20.2	24.8	19.6	24.1
Emerging economies	China	1.9	4.6	1.8	3.3	1.3	1.3
	India	5.77	7.79	6.07	8.35	5.05	5.91
	Russia	7.5	6.1	7.2	6.4	6.9	6.5
	Brazil	8.84	12.81	8.74	13.56	8.97	13.92
Advanced economies	UK	0.5	-2.9	0.6	-2.6	0.6	-2.2
	USA	1	0.3	0.8	0.2	1.1	0

Source: Various central banks and Government Departments of Statistics

About The Author

Milner Siboleka is an Economist and Assistant Portfolio Manager at First Capital Treasury Solutions. He holds two Masters Degrees in Economic Policy Management & Business Administration from University of Zambia and University of Namibia respectively. Prior to joining First Capital, he worked for Namibian Economic Policy Research Institute as an Assistant Researcher before he joined FNB Namibia as an information officer. He also worked as a Statistician in the Government of Namibia. He is also certified in various professions including banking, monitoring and evaluation among others. Key research interests are applied econometrics, policy analysis, portfolio analysis and mathematical modelling.

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