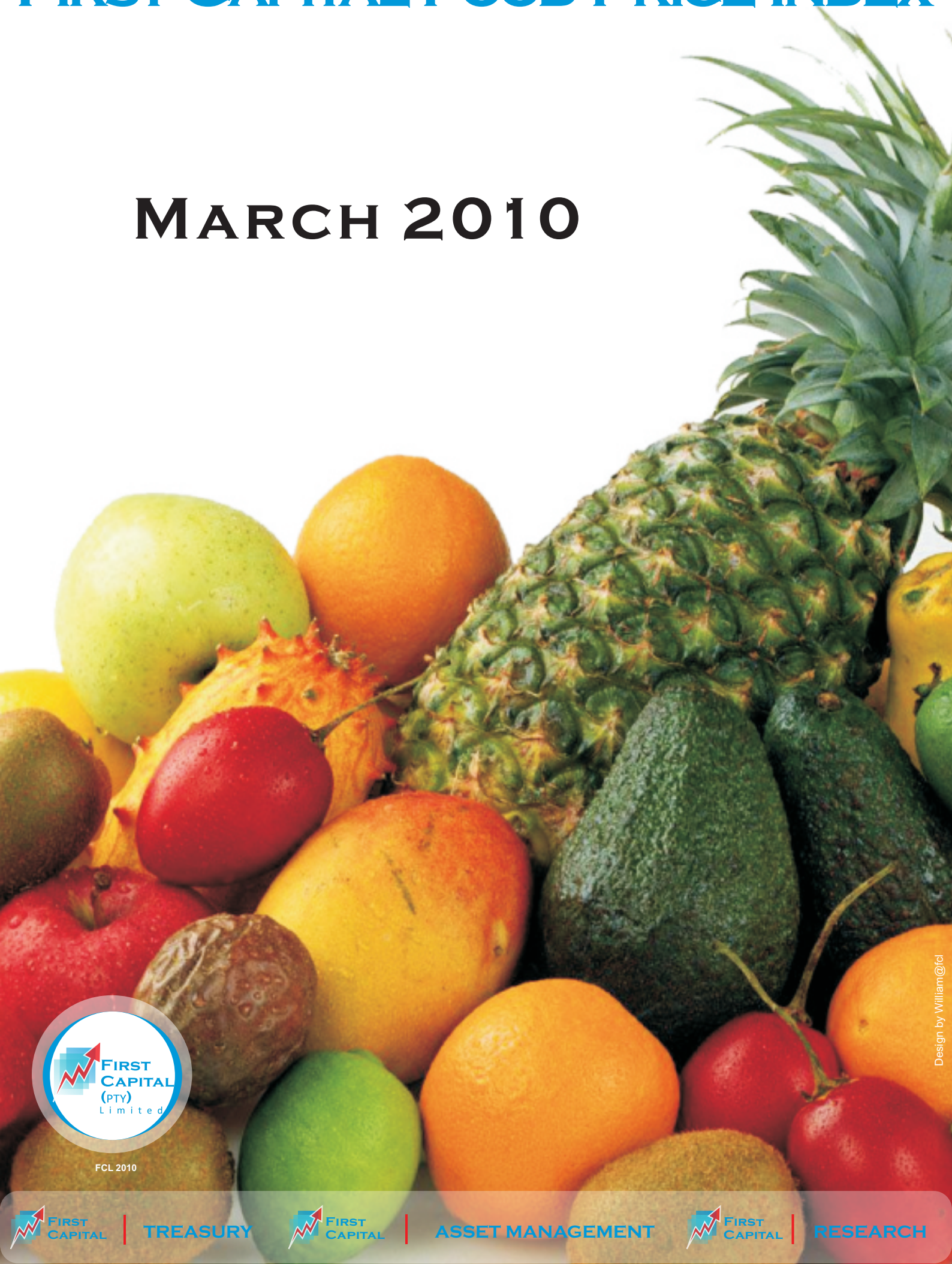


FIRST CAPITAL FOOD PRICE INDEX

MARCH 2010



FCL 2010

Design by William@fcl

First Capital (PTY) Limited

First Capital (PTY) Limited (First Capital), established in July 2009, offers treasury and portfolio management service to Namibian institutional, corporate and individual investors/clients. Through our research arm, First Capital aims to help leaders in the commercial, public, and social sectors develop a deeper understanding of the Namibian and the global economy and to provide a fact base that contributes to informed decision making. First Capital research is a unique combination of different disciplines, including investment, finance and economics. By integrating these different perspectives, First Capital is able to gain insights into the microeconomic underpinnings of the broad trends shaping the Namibian economy. Further information about First Capital and its services and to obtain copies of our published reports please see the address below:



FIRST CAPITAL
(P t y) L i m i t e d

Contact Us

Martin Mwinga, Analyst
Mwangala Nalisa Analyst

49 KINGFISHER ROAD
HOCHLAND PARK
WINDHOEK
NAMIBIA

P.O Box 4461
WINDHOEK
Tel: +264 (061) 257 802
Fax: +264 (061) 257 806



**FIRST
CAPITAL**

TREASURY



**FIRST
CAPITAL**

ASSET MANAGEMENT



**FIRST
CAPITAL**

RESEARCH

First Capital Food Price Index (FCFPI) March 2010

Summary

- First Capital (FC) Food Price Overall Index increased slightly from 127.9 in December 2009 to 128.1 in March 2010, an increase of 0.2%.
- Meat & Poultry sub-index increased by 15.1 percent from 90.5 in December 2009 to 105.6 in March 2010.
- Fruit & Vegetables sub-index pulled the index down declining from 105.7 in December 2009 to 100.6 in March 2010 (a quarterly decrease of 5.1%).
- Grocery Food sub-index was slightly down by 1.5 percent over the quarter ending March 2010.
- Non-alcoholic beverages were down by 7.3 percent over the quarter ending March 2010.
- Staple foods were down by 1.5 percent over the quarter ending March 2010.
- Checkers Supermarket the cheapest in March, taking a basket of 20 items.
- First Capital expects prices of most of the subgroups within the FC Overall Index to rise over the coming months, due to rise in fuel prices, expected increase in the price of electricity and due to the global economic recovery that will translate in increased demand for goods and services. In addition, the import ban on South African meat, and the outbreak of foot and mouth disease in Caprivi will exert an upward pressure on prices of beef, pork and chicken.

Commentary

Following our First Edition ([First Capital Food Price Index](#)) in February 2010, we received considerable feedback from retailers and wholesalers alike. This feedback helped us broaden our coverage, frequency of data collection and comparison of different supermarkets. The March 2010 FC Food Price Index price data was collected at three different times of the month and this was done to strip away all specials (discounts) on products so as to reflect the actual prices of all items with the exception of certain products, which were on promotion/special for the majority of the month. In addition our product coverage has increased from 34 items to 46 items with the inclusion of flour, oranges, bananas, pasta as well as other brands of rice, sugar and maize meal. This was done to get a fair representation of prices as some brands are seen to be more “high-end” products not consumed by consumers from a lower income demographic. Other changes to take note of are the increase in number of collection points from seven to nine and the addition of the [Sentra supermarkets](#) to our current list of supermarkets namely, Spar, Woermann Brock, Shoprite, Pick ‘n Pay and Checkers. Meaning that our coverage now comprises of 21 supermarkets (this includes different branches of

the six main supermarkets in Windhoek). In the previous edition we had mentioned that maize meal was zero-rated in 2008, it turned out that this product had been zero-rated before this period. The zero rating of tax on sugar and milk has yet to be put into effect following an amendment that was tabled in Parliament in March 2010. The zero-rating of July 2008 which came into effect in August 2008 was on fresh & dried beans, sunflower oil, bread and cake flour and processed fats.

FC Food Overall Price Index

Food prices continue to fall during the first quarter of 2010, handing household budgets a boost. Falling retail price inflation is particularly welcome relief for Namibian consumers as they face sharp rise in other living costs, such as rising fuel and electricity. The FC Overall Food Index declined by 3.5% from January to February and remained almost flat in March 2010 (see table 1 below). With the exception of meat and poultry sub-index that increased and had an upward pressure on the index, due to rise in beef and pork, all other sub-indexes declined substantially during the first quarter of 2010. The odds on supermarkets/retailers stepping up their current fierce promotional activities also increased as part of pre-Easter promotional activity, as they attempt to clear sales, maintain market share, and win more customers.

Table 1: First Capital Food Price Index

Food Index	Dec 2007	Mar 2008	Jun 2008	Jun 2009	Sep 2009	Dec 2009	Jan 2010	Feb 2010	Mar 2010
MEAT & POULTRY	100.0	95.2	94.9	99.3	101.4	90.5	87.5	102.7	105.6
Meat & Poultry ¹	100.0	95.2	94.9	99.3	101.4	90.5	87.5	102.7	105.6
FRUIT & VEGETABLES	100.0	97.1	88.3	91.4	109.8	105.7	115.0	102.8	100.6
Fruit & Vegetables	100.0	97.1	88.3	91.4	109.8	105.7	115.0	102.8	100.6
GROCERY FOODS	100.0	110.6	118.8	107.0	108.9	111.9	114.4	112.5	110.4
Bread	100.0	111.3	124.1	108.4	112.5	117.1	120.4	115.6	111.4
Cereals	100.0	105.1	110.2	109.4	112.4	117.9	123.3	117.2	117.3
Oils & Fats ²	100.0	118.8	132.7	88.3	87.1	80.9	83.7	86.0	82.9
Milk & Eggs ³	100.0	107.3	108.1	122.0	123.8	131.5	130.3	131.0	130.1
Non-ALCOHOLIC BEVERAGES	100.0	107.3	107.0	135.8	133.6	144.7	140.7	136.5	137.4
Coffee & Tea	100.0	107.3	107.0	135.8	133.6	144.7	140.7	136.5	137.4
STAPLE FOODS(Starch)	100.0	103.6	118.5	145.2	139.8	141.2	144.4	134.9	139.7
Maize meal	100.0	101.4	97.4	112.3	104.8	101.4	101.3	92.5	103.2
Rice	100.0	105.8	139.6	178.2	174.8	181.0	187.6	177.4	176.3
OTHER	100.0	98.2	95.9	115.4	119.0	120.1	127.8	126.2	126.4
Sugar	100.0	98.2	95.9	115.4	119.0	120.1	127.8	126.2	126.4
Overall Index	100.0	102.5	109.0	124.6	126.8	127.9	131.1	127.6	128.1
Overall Index(excluding rice)	100.0	102.0	103.9	115.7	118.8	119.0	121.6	119.3	120.0

When the Index is higher than 100 the prices are moving up, when it is less than 100, prices are moving down.

1. Include chicken (1.5kg, 2kg thighs & braaicut), Pork, beef stew.

2. Cooking oil & Margarine

3. 30 Large eggs, 2L & 1L fresh milk

Meat & Chicken: While inflation in other sub-categories declined, this is the only sub-index that registered an increase of more than 15% during the quarter ending March 2010 (see table 1). There was a notable increase in prices of pork, 2kg chicken thighs and 2kg Braai cuts. The 1.5kg mixed chicken portions saw a decrease in price, due to promotions/discounts for the whole month at virtually every supermarket in Windhoek. The main suppliers of meat to local retailers are the export abattoirs such as Meatco and Farmers' Meat market, Chicken (particularly the Country Fair brand that is used in the FCFPI) is supplied by National Cold Storage, and retailer prices are set in line with prices charged by these suppliers.

Outlook: After strong beef & pork producer prices in February & March, the coming months will not be an exception, following the ban on South African meat imports, which was imposed in early March due to the Rift Valley Fever outbreak in South Africa. Initially expectations were that the ban was to be lifted end of May 2010, but signs are that the disease will continue spreading to other parts of South African, and the ban may remain in place for much longer, and put an upward pressure on local meat prices. FC expect price of meat (beef, lamb and mutton) to continue rising due to the ban, increased demand as the economy recovers, and due to rise in fuel prices and the expected rise in prices of electricity which will have an impact on suppliers/producers input costs. The price of pork will be affected by the latter. With expected rising prices of meat, the substitution effect might translate into upward pressure being exerted on chicken prices.

Fruit and vegetables: The index for this subgroup was at 115.0 in January but decreased to 102.8 in February and continued its downward trend in March with a decrease of 2.2%.

Outlook: Most of Namibia's Fruits & vegetables are imported and as petrol and electricity prices continue to rise, resulting in higher transportation and other producers input cost, prices of fruits and vegetables are likely to increase over the coming months.

Maize Meal: The price of maize meal continued to fall from 104.8 in September 2009, to 101.4 in December 2009, before rising to 103.2 in March 2010. The sub-index for maize meal took a major downward turn in the month of February 2010 from 101.4 in December 2009 to 92.5 in February and this could be due to clearance of these products as the first quarter ends (12.5kg, 25kg and 50 Kg Top Score brand).

Outlook: Namibia imports about 50% of its maize requirement from South Africa, which is expecting a bumper harvest for the April/May harvest season. However, we do not expect the surplus of maize in South Africa to have an immediate impact on maize prices in Namibia, due to border closure for importation of maize into the Namibian market from May 2010, to be re-opened by end of September 2010. FC expect price

of maize meal to continue rising and remain high from May to August 2010, and decline once the border are re-opened end of September 2010.

Rice: The rice market is in much the same position as corn and wheat. All three markets hit all-time highs in 2008 (wheat first, then rice, then corn), and all three markets saw massive sell-offs that lasted into late 2009, with trailing weakness lasting well into 2010. In line with global trend, rice price within the FC Overall Index started to decline from 181.0 in December 2009, to 176.3 in March 2010.

Outlook: The rice market is likely to see major bottoms in 2010, due to projected increased production in India and Bangladesh, up by 2,5million tons and 1,6 million tons respectively. However, Vietnam announced within the past month (March) that it is increasing its domestic rice reserves by 500,000 tonnes to 1.5 million tonnes. There is also a severe drought occurring, that is, in west of China's biggest rice-producing areas. And while it is not believed to be directly affecting their rice output at this time, it is easy to see how the inventory-building mentality could start to affect rice prices. FC expects prices of rice to remain stable but rise during the course of the year due to lowered global rice stocks.

Sugar: The extreme volatility in the sugar price in 2009 highlighted the dependence of the global sugar market on Brazil and India's ability to expand sugar production. In 2009, the international sugar price reached a 28-year high as sugar crops were hit by poor weather conditions, which helped swing a world surplus to a deficit. The fall in sugar production during the 2009 season of 20 million metric tons raw value was the largest ever recorded. Poor growing conditions in Brazil and India, two of the world's largest producers of sugar cane, have led to a worldwide shortage. In line with these global events, FC sugar sub-index rose from 95 in June 2008 to 120 in December 2009 and 126 in March 2010.

Outlook: The fundamental factors behind the doubling of the sugar price in 2009 are projected to continue into 2010 as under-investment in production will continue to limit supply and put pressure on sugar prices. FC foresees tight fundamentals to support high and volatile sugar prices during the course of 2010. Brazilian sugar production could be limited by constraints on the capacity to produce sugar from the cane, the need to produce bio fuel and heavy rainfall in the autumn, which will likely cut sugar output. In addition some producers of sugar, namely, India, China, Egypt, Pakistan and Indonesia are all expected to need to import sugar in the near term, putting upward pressure on sugar prices in the short-term.

Bread: After increasing from 112.5 in September 2009 to 120.4 in January 2010, the bread price sub index declined to 111.4 in March 2010. The increase in prices of bread recorded in December 2009 and January

2010 is on account Christmas holiday spending. The prices of the main inputs in the production of bread have dropped substantially since 2008, and this has contributed to the recent decline in prices in bread.

Outlook: Bloomberg reported in April 2010 that the world will have so much wheat in 2010/11 that U.S. farmers could leave every acre unplanted and still have a surplus. A 34 percent jump in the combined harvests of Australia and Russia over two years is creating the biggest wheat glut since 2002. FC expects the price of wheat to continue falling and as a result bread prices may continue declining, if the cost of other inputs remain the same or declines. However, the expected higher sugar price will affect the production costs of bakeries, and this might prevent producers passing the benefit of lower wheat price to lower price of bread.

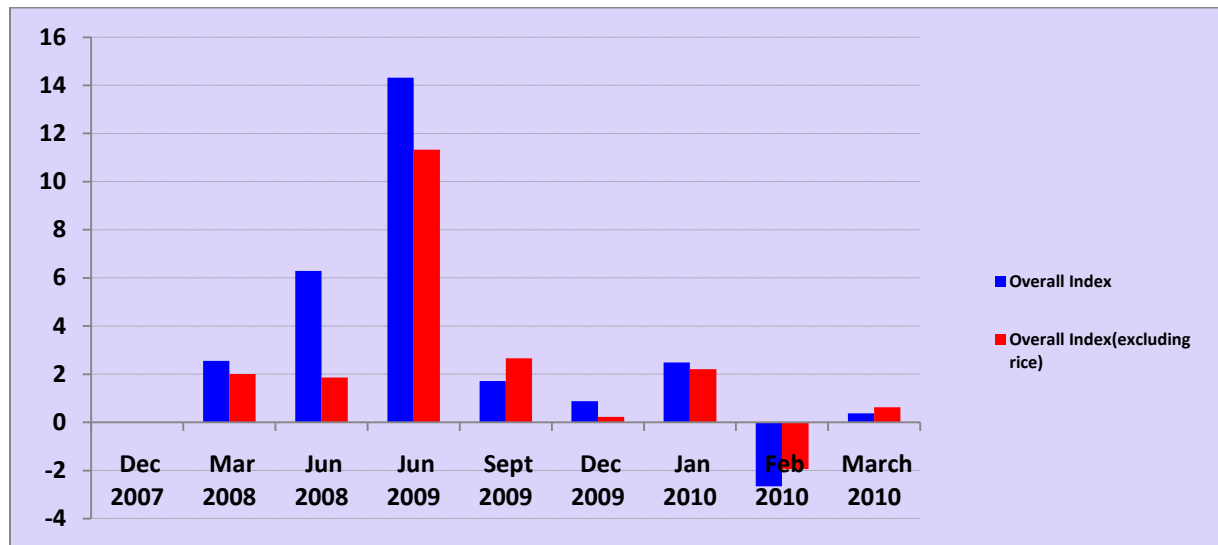
Milk: While global dairy product prices recovered strongly in 2009 as a result of significantly higher import demand for milk by China and for butter by India, dairy farmers in Namibia and South Africa struggled with low milk prices and high inputs costs. The FC milk index shows the price of milk to have remained relatively unchanged since December 2009. The levies on imported raw milk (1L UHT, Long Life) dropped from 33% to 26.8%, given this new development, Namibia Diaries is currently revising all their prices, while awaiting the definition of “Fresh milk” referred to in the VAT zero-rating Bill.

Outlook: In 2010/11, world prices for most dairy products are forecasted to rise, driven by increased demand for dairy products in developed and major dairy importing developing countries as world economic recovery strengthens. Although milk yields in 2010/11 are forecast to be higher, growth in milk production in the major producing countries is likely to be constrained, to some extent, by forecast of lower cow herds, particularly in the European Union, the United States and Australia. Prices are likely to go up as the rate of production will not be able to meet the demand.

Oil & Fats: Most cooking oils are made from sunflower oil, soya bean oil and soya meal. Oil & Fats prices increased in February to 86.0 but were down 3.1% in March 2010. The downward contribution was due to the decrease in price of margarine.

Outlook: Global stocks of oilseed are high. Namibia imports most of its Cooking oil from South Africa which will continue to experience pressure from lower global prices of oil seeds, and this may lead to prices of cooking oil remaining relatively low during 2010.

Figure 1: First Capital Food Price index percentage change from period to period



Source: First Capital Research

Prices in Rural areas

To analyse the rural prices (Oshakati, Rundu & Katima Mulilo), we take a basket of goods that includes items that are commonly found on the average consumer's shopping list. We observed that the most expensive period in the time in question is January 2010(see table 2 below). The total price of the basket in that period was N\$529, 77 while the cheapest was February 2010 with a total of N\$506, 28. The January price basket could be attributed to restocking of new items as the December 2009 festive season shopping came to an end. The increase in bread in February could be the result of the expansion of the index to include other supermarkets in the Oshakati area in order to improve accuracy in our research. The rural index will be compiled at the end of the second quarter.

Table 2: Prices in Rural areas from September 2009 to February 2010

Goods	Description	Sep-09	Dec-09	Jan-10	Feb-10
Bread	Brown	5.19	5.59	5.59	5.96
	White	5.60	5.78	5.77	6.26
Meat P/kg	Beef (stew)	48.49	48.49	47.99	39.99
	Pork	39.99	49.99	59.99	54.32
Chicken(1,5Kg)	Frozen	24.99	27.99	24.99	27.61
Chicken(2Kg)	Thighs	47.74	53.49	52.74	49.52
Mealie meal	Top Score (12.5kg)	79.99	81.99	83.99	81.06
Vegetables	Tomato	11.99	17.49	16.99	14.32
	Potato	8.49	11.99	11.99	10.99
	Onions	15.99	5.99	10.99	9.99
	Cabbage (each)	6.99	9.99	13.74	10.99
Margarine	Rama	15.99	15.99	12.94	14.31
Milk	Farm Fresh(1L)	10.89	12.74	14.49	13.74
	(2L)	19.99	21.99	21.99	21.99
Sugar	Marathon White 1kg	8.69	8.64	8.59	8.84
Cooking oil	(750ml)	10.19	9.99	12.49	10.11
	(2L)	26.49	31.74	30.99	26.62
Tea	Rooi bos(200g)	15.39	13.89	14.14	14.52
	Five Roses(250g)	23.89	23.89	23.89	20.49
Eggs	30 large eggs	42.59	43.89	32.49	41.29
Coffee	Ricoffy(250g)	19.99	22.99	22.99	23.37
Total Price of Basket		489.55	524.53	529.77	506.28

**All prices include Shoprite in Katima, Rundu & Oshakati, February Oshakati prices included Shoprite, Spar & Pick 'n Pay*

Source: First Capital Research

Who is the cheapest?

In our previous edition of the First Capital FPI we compared five supermarkets using a basket of 15 goods. This time we are comparing 20 items and have added Sentra stores in the Index. Table 3 below shows that the same basket will have cost you N\$406.88 in Checkers, N\$407.23 in Shoprite, N\$409.91 in Woermann Brock(WB), N\$430.22 in Pick 'n Pay(PnP), N\$434.02 in Spar and N\$437.57 in Sentra. The differential in the price of the basket between the highest price and lowest price is N\$31, and this differential could be explained by quality of goods, and the shopping environment. While Spar is the second most expensive supermarket in our analysis, on a total basket basis, some individual items such as cooking oil are substantially cheaper in Spar (cooking oil in Spar cost N\$7.99) than in other supermarkets where it costs on average is N\$9.49, so shopping decisions should not be based on total cost of the basket only. Additionally certain items such as the 1.5kg Chicken were on promotion at all three collection times at Shoprite and Checkers so we were unable to determine this item's actual price in March at those particular stores.

Table 3: Average prices in Windhoek Supermarkets of 20 selected goods for March 2010

Goods	Description	Shoprite	WB	Spar	Sentra	PnP	Checkers
Bread	Brown	5.99	6.38	6.45	6.18	6.32	5.99
	White	6.52	6.99	6.92	6.45	6.66	6.52
	Pork	59.99	48.99	60.88	55.99	60.49	61.99
	Chicken(1,5kg)	23.99	27.99	23.95	28.47	29.99	23.99
Mealie meal	Top Score 12.5kg	73.49	74.99	83.18	77.95	72.99	72.92
Rice	Tastic(1kg)	13.99	14.99	17.68	16.33	17.99	13.99
	Really Rice(1kg)	12.99	13.99	14.45	15.45	12.99	12.99
Vegetables	Tomato	10.99	10.69	14.10	11.95	11.24	10.99
	Potato	10.99	10.09	9.13	8.95	10.32	11.24
	Onions	6.99	8.39	7.51	7.95	8.69	6.99
	Cabbage (each)	10.99	12.37	16.55	13.90	15.95	11.99
Fruits	Banana(p/kg)	10.99	7.99	12.76	16.95	13.99	13.49
Margarine	Rama(500g)	15.49	14.99	16.65	16.95	15.49	14.66
Milk	Farm Fresh(1L)	13.49	13.28	14.23	14.45	13.46	13.66
Sugar	Marathon (White 5kg)	43.69	47.99	42.99	45.75	42.99	41.12
Cooking oil	(750ml)	9.99	9.69	7.99	10.45	10.09	9.49
Cereals	Weet-bix(450g)	16.29	14.69	14.08	16.12	14.99	16.29
Tea	Rooi bos(200g)	14.99	15.99	17.28	17.10	16.99	14.99
Coffee	Ricoffy(250g)	22.99	26.24	23.23	25.50	24.99	22.99
Flour(2.5kg)	Cake(Bakpro)	22.39	23.19	23.99	24.75	23.59	20.59
		407.23	409.91	434.02	437.57	430.22	406.88

**All prices are average prices compiled from supermarkets in different suburbs of Windhoek*

Source: First Capital Research

The **FC Food Price Index** aims to help consumers make informed decisions on their grocery shopping. First Capital will broaden this Index once enough data has been collected from the rural areas.

Liability: While care has been used in processing, analysing and extracting information, **First Capital Limited** gives no warranty that the information supplied is free from error. **First Capital Limited** shall not be liable for any loss suffered through the use, directly or indirectly, of any information, product, or service.