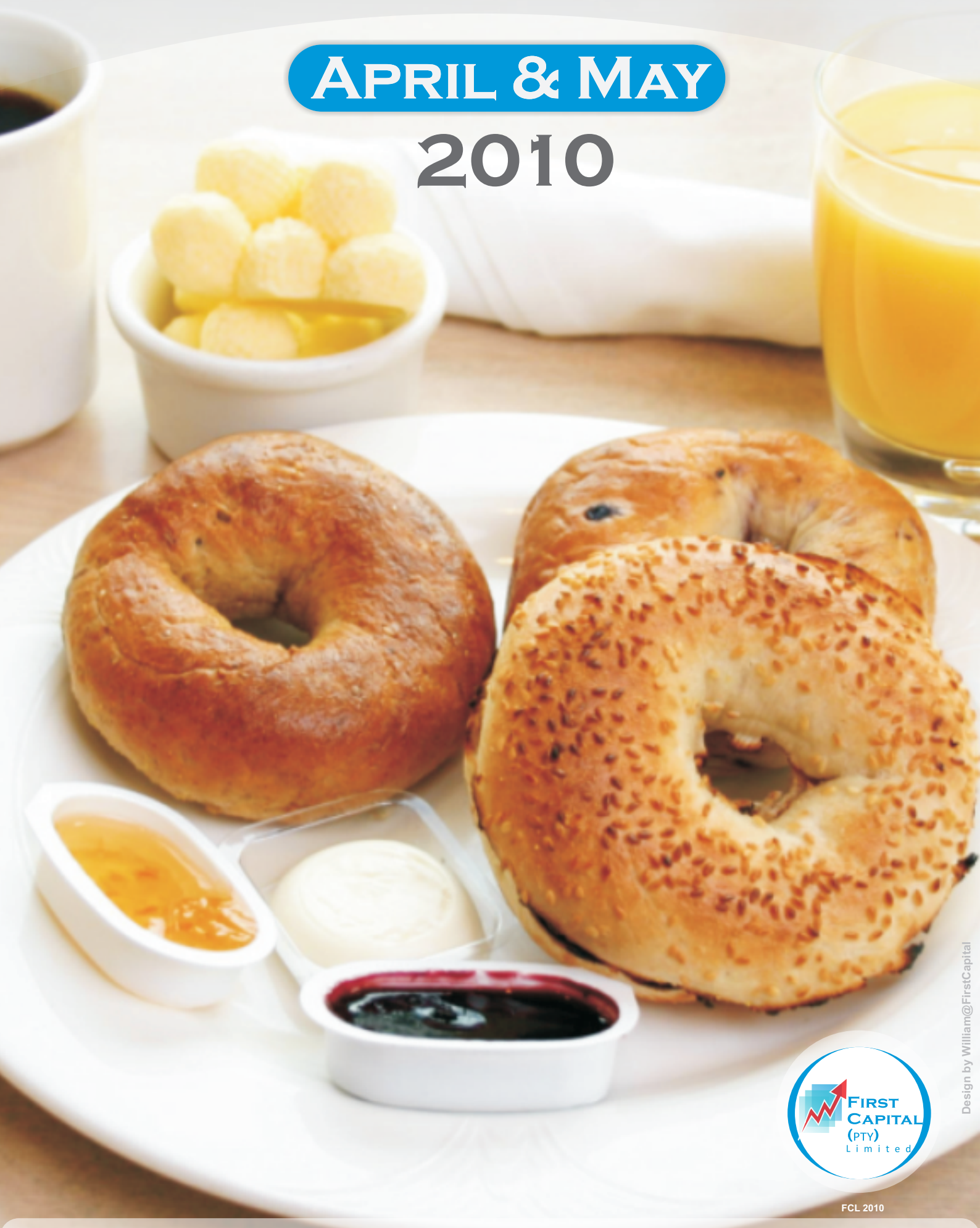


# FIRST CAPITAL FOOD PRICE INDEX

APRIL & MAY

2010



Design by William@FirstCapital

FCL 2010

# First Capital (PTY) Limited

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# First Capital Food Price Index for April & May 2010

## Summary

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- After increasing for the past three months, First Capital Overall Food Price Index declined by 1.2 percent from April 2010 to May 2010, reflecting the impact of zero-rating of sugar & milk;
- VAT zero-rating implemented 01<sup>st</sup> May 2010 pulls the FC Food Index into negative territory in May 2010;
- Sugar prices declined by 9.7 percent in May 2010, mainly due to the impact of the VAT zero-rating on sugar and milk effective from 01 May 2010;
- Maize meal index set to rise following an announcement by Namib Mills & Bokomo to increase the price of Maize meal by at least 10 percent as from the end of May;
- Meat and Poultry prices rose by 2.6 percent m/m in April and remained slightly unchanged in May 2010;
- Meat prices forecast to remain high, while the decline in feed costs likely to lead to low poultry meat prices;
- Rundu relatively cheaper than other rural Areas such as Oshakati, and Katima Mulilo;
- Sentra Supermarkets “Most expensive” Supermarket in a basket of 27 items and Shoprite the cheapest in May 2010;
- Petrol increased by 10c per litre for both types of petrol and 20c for diesel;
- ECB approves a 18% electricity price increases to be implemented by NAMPOWER in June 2010;
- Harvest Prospects in Southern Africa - South Africa, Malawi, Mozambique, Tanzania, and Zambia are anticipating average to above-average national harvests in 2010;
- The latest production forecast (as of May 2010) estimates a South African maize crop of 13.71 million MT, 9 percent above last season, and 33 percent above the five-year average of 10.29 million MT;
- The BLNS countries (Botswana, Lesotho, Namibia and Swaziland), current projections also suggest that harvests will improve compared to last year;

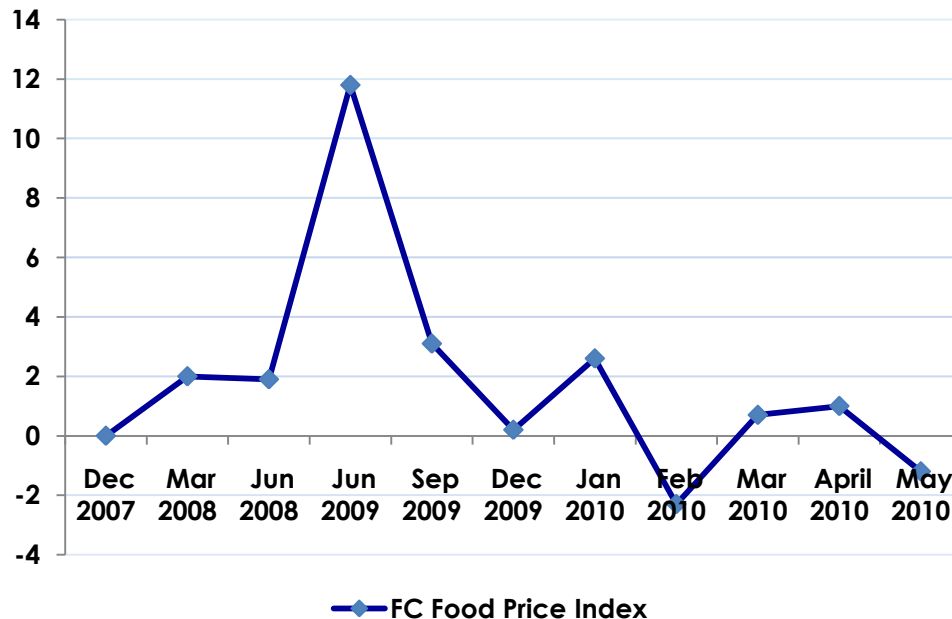
## Commentary

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International prices for all major cereals have fallen considerably since the start of the year, stemming from ample supplies and prospects for large crop harvests in 2010. In line with global food price movements, the FC Overall Food Price Index closed at 119.8 points in May down from 121.0 in April 2010, representing a month on month decrease of 1.2 %. Figure 1 below shows that over a two year period from 2008, the FC Overall Food Price continue to decline significantly partly due to zero-rating of some food items such as sugar and milk and the general price decrease in the economy, as reflected in the official price inflation produced by the Central Bureau of Statistics (CBS, NPC). Although most price sub – indexes showed an upward trend in May, the most significant downward contribution to the FC Food Overall Index came from sugar and milk, following the implementation of the zero-rating policy measures on the 1<sup>st</sup> of May 2010. The downward trend in FC Food Price Index is supported by the [FAO Cereal Price Index](#) which averaged 155

points in April 2010, down 9 percent, or 15 points, from December 2009 and as much as 44 percent from its April 2008 all time high of 274 points.

**Figure 1: FC Food Price Index % change**



#### FC Food Price Index Sub-Index Analysis

**Meat & Chicken:** The FC Meat & Chicken Sub-Index averaged 108.2 points in April and slightly increasing to 108.4 in May 2010, and was up 20.9 percent from January to April 2010, in line international price trends. According to FAO world meat prices were on average, 12 percent higher in the first three months of 2010 than in the corresponding period of 2009. The upward contribution was mainly due to the 1.5kg Chicken & 2.0kg Braai Cuts.

**Outlook:** Despite the improved global economic situation, the outlook for beef production in 2010 remains subdued because of still relatively high feed prices, drought and outbreak of diseases in certain parts of the world, especially Africa. Output expansions in Brazil and India are expected to be offset by declines in most other large producing countries where cattle numbers are low. Preliminary estimates point to a stagnation of global production, with major decline in beef output in the United States, and other major producers anticipated, as farmers start building their breeding herds. After struggling in recent years to solve the financial difficulties arising from expensive feed and depressed meat product prices, farmers are now withholding young female cattle from feedlots, which will likely reduce slaughter in 2010/11. The recent outbreak of foot and mouth disease in the North-eastern Namibia, and the Rift Valley Fever in the South (Hardap and Karas regions), will put upward pressure on meat prices over the coming months. Poultry

production in 2010 is expected to rebound significantly as feed prices are anticipated to fall later this year because of a global and regional bumper maize crop. The reduction in feed costs and high meat prices is likely to put downward pressure on poultry meat

**Maize Meal:** The price of maize meal remained relatively unchanged since the end of quarter one of 2010, with sub-index closing at 102.7 in May from 102.8 in April 2010. This trend is likely to change from June as new price increases are factored in and borders closes for imports of maize into Namibia. The **FAO Cereal Price Index** averaged at 156 points in May 2010, down nearly 9 percent, or 15 points, from December 2009 and as much as 43 percent below its April 2008 peak of 274 points. International prices for all major cereals have fallen considerably since the beginning of 2010 in view of ample export supplies and prospects for large crop harvests in 2010.

**Outlook:** With the closure of border posts for import of maize, and the announcement by NAMIB Mills and Bokomo Namibia of maize meal price increase of 10 to 15 % and 13 % respectively, maize prices will start rising significantly over the coming months. However, the projected bumper maize harvest in South Africa and other SADC countries is expected to depress maize prices in SADC and this may benefit cereal deficit countries like Namibia, especially from September 2010 after re-opening of borders.

**Table 1: First Capital (FC) Overall Food Price**

	Dec 2007	Mar 2008	Jun 2008	Jun 2009	Sep 2009	Dec 2009	Jan 2010	Feb 2010	Mar 2010	April 2010	May 2010
<b>MEAT &amp; POULTRY</b>	<b>100.0</b>	<b>95.2</b>	<b>94.9</b>	<b>99.3</b>	<b>101.4</b>	<b>90.5</b>	<b>87.5</b>	<b>102.7</b>	<b>105.6</b>	<b>108.2</b>	<b>108.4</b>
Meat & Poultry <sup>1</sup>	100.0	95.2	94.9	99.3	101.4	90.5	87.5	102.7	105.6	108.2	108.4
<b>FRUIT &amp; VEGETABLES</b>	<b>100.0</b>	<b>97.1</b>	<b>88.3</b>	<b>91.4</b>	<b>109.8</b>	<b>105.7</b>	<b>115.0</b>	<b>102.8</b>	<b>100.6</b>	<b>94.5</b>	<b>99.4</b>
Fruit & Vegetables	100.0	97.1	88.3	91.4	109.8	105.7	115.0	102.8	100.6	94.5	99.4
<b>GROCERY FOODS</b>	<b>100.0</b>	<b>110.6</b>	<b>118.8</b>	<b>107.0</b>	<b>108.9</b>	<b>111.9</b>	<b>114.4</b>	<b>112.5</b>	<b>110.4</b>	<b>113.8</b>	<b>111.9</b>
Bread	100.0	111.3	124.1	108.4	112.5	117.1	120.4	115.6	111.4	116.4	114.2
Cereals	100.0	105.1	110.2	109.4	112.4	117.9	123.3	117.2	117.3	121.9	121.7
Oils & Fats <sup>2</sup>	100.0	118.8	132.7	88.3	87.1	80.9	83.7	86.0	82.9	86.9	87.4
Milk & Eggs <sup>3</sup>	100.0	107.3	108.1	122.0	123.8	131.5	130.3	131.0	130.1	130.0	124.3
<b>Non-ALCOHOLIC BEVERAGES</b>	<b>100.0</b>	<b>107.3</b>	<b>107.0</b>	<b>135.8</b>	<b>133.6</b>	<b>144.7</b>	<b>140.7</b>	<b>136.5</b>	<b>137.4</b>	<b>139.6</b>	<b>140.5</b>
Coffee & Tea	100.0	107.3	107.0	135.8	133.6	144.7	140.7	136.5	137.4	139.6	140.5
<b>STAPLE FOODS(Starch)</b>	<b>100.0</b>	<b>103.6</b>	<b>118.5</b>	<b>145.2</b>	<b>139.8</b>	<b>141.2</b>	<b>144.4</b>	<b>134.9</b>	<b>139.7</b>	<b>143.7</b>	<b>142.3</b>
Maize meal	100.0	101.4	97.4	112.3	104.8	101.4	101.3	92.5	103.2	102.8	102.7
Rice	100.0	105.8	139.6	178.2	174.8	181.0	187.6	177.4	176.3	184.6	181.9
<b>OTHER</b>	<b>100.0</b>	<b>98.2</b>	<b>95.9</b>	<b>115.4</b>	<b>119.0</b>	<b>120.1</b>	<b>127.8</b>	<b>126.2</b>	<b>126.4</b>	<b>126.2</b>	<b>116.5</b>
Sugar	100.0	98.2	95.9	115.4	119.0	120.1	127.8	126.2	126.4	126.2	116.5
<b>Overall Index*</b>	<b>100.0</b>	<b>102.0</b>	<b>103.9</b>	<b>115.7</b>	<b>118.8</b>	<b>119.0</b>	<b>121.6</b>	<b>119.3</b>	<b>120.0</b>	<b>121.0</b>	<b>119.8</b>

Note\* the FC Overall Index now contains revised figures, which might affected figures published previously.

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

1. Includes chicken (1.5kg, 2kg thighs & braicuts), Pork, beef stew.

2. Cooking oil & Margarine

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



**Fruit and vegetables:** The downward trend in fruit & vegetables that started in February 2010 continued with the sub-index closing at 94.5 in April from 115.0 in January 2010, before rising to 99.4 in May 2010.

**Outlook:** The Fruit & Vegetable index is expected to increase over the coming months partly due to increased demand during the World Cup and increases in prices of fuel and electricity.

**Rice:** The price of rice continued to rise since the beginning of the year, registering a month on month increase of 8.3% in April 2010, and the FC rice sub-index closing at 181.9 in May 2010 from 184.6 in April. This is contrary to international prices which resumed a downward trend in the first five months of 2010, reflecting sluggish import demand and ample supplies in exporting countries.

**Outlook:** World Rice prices in 2010 remain under downward pressure amid sluggish import demand. Global rice price is depressed by low purchasing interest from major importers and generally ample availabilities in exporting countries. Estimates of global rice inventories at the close of marketing seasons ending in 2010 has risen by 4 million tonnes, to 125 million tonnes since December 2009. At this level, world stocks are marginally higher than in 2009, largely reflecting production surpluses in countries which harvested excellent crops, such as Bangladesh, China mainland, Indonesia and the Republic of Korea.

**Sugar:** April 2010 was the last month before the zero-rating of sugar came into effect, the period saw many retailers place this product on promotion as wholesale prices began to ease. The sugar sub-index declined by 9.7 percent in May 2010, mainly due to the impact of the VAT zero-rating on sugar and milk effective from 01 May 2010. In May, international sugar prices averaged US\$15.10 cents per pound, down 42.93 percent from their highs of US\$26.46 cents per pound in January 2010.

**Outlook:** In South Africa, the largest sugar producer in Africa, sugar production is projected to decline by 1.3 percent to 2.3 million tonnes in 2010, because of dry weather in Zululand and heavy storms in Midlands that damaged sugarcane. The declining trend in price of sugar prices in May 2010 may continue due to global domestic consumption which has been lowered due to the rising use of corn based sweeteners and higher ending stocks and exports by major producers, India, China, Brazil, Indonesia, Egypt and Pakistan. World sugar production is now expected to recover by 3.5 percent to 156.3 million tonnes in 2009/10, largely due to relatively favourable growing conditions and high returns. The global sugar surplus is projected at 5.17 million metric tons in 2010, higher than a February estimate, on bigger harvests from Brazil and India, the largest producers.

**Bread:** The bread sub index had the most significant upward contribution to the Grocery Foods sub index in April 2010, rising by 5.0 percent month on month (116.4) after falling from 115.6 to 111.4 in March 2010. The sub index began to fall once again to 114.2 in May 2010.

**Outlook:** World wheat production in 2010 is expected to be above average and a slightly below the record set in 2008. As a result, total wheat supply in 2010/11 will again be adequate to meet anticipated demand, with only a minor reduction in ending stocks by the close of seasons in 2011. Against the backdrop of an economic slowdown in many countries, this generally favourable wheat supply outlook is likely to maintain downward pressure on international wheat prices.

**Milk:** Like sugar, in the last month before being zero-rated, Milk saw a slight decrease of 0.1 percent. The subgroup had continued to hover around the 130 mark since December 2009, but the zero-rating brought the index down to its current 124.3 in May 2010. The UHT 1L milk which is included in the FC Food Price Index was not zero-rated, and this might explain why the sub-index did not decrease significantly.

**Outlook:** In Africa, a stagnation of milk production is envisaged for 2010, while in other parts of Africa, livestock continues to be affected by the persistent dry conditions, affecting pastures and water supplies in, and constraining milk output. Milk prices are not expected to rise significantly in this year. In spite of the fact that dairy herd numbers are slowly decreasing worldwide, milk production per cow is expected to slowly increase as main producers like the EU, US and Australia are positively responding to improving returns.

**Oil & Fats:** The **FC Oils/Fats Price Index** stood at 87.4 points in May 2010, above the two preceding months. Overall, the index has been declining since March 2008. The upward contribution was due to the 750mL of cooking oil with a move of almost 11 percent since the end of the first quarter of 2010.

**Outlook:** With the confirmation of bumper harvests in South America, 2010 global oilseed output is expected to reach a new record, primarily due to above-average area and yield levels in soybean. The forecasts for total production point towards a more balanced supply and demand situation, significantly, with oil/fat prices likely to remain firm.

## Prices in Rural areas

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The FC Food Price Index rural statistics coverage will now include Pick N Pay in both Rundu and Katima Mulilo in addition to Shoprite in these areas. In Oshakati, the coverage includes Spar, Woermann Brock & Pick N Pay supermarkets as from April 2010, in addition to Shoprite supermarket. To analyse the rural prices (Oshakati, Rundu & Katima Mulilo), we take the average prices of a basket of goods that includes items that are commonly found on the average consumer's shopping list and we compare the cheapest rural area as we are still building a Rural price Index.

There is wide price variation between rural and urban area prices, with some products such as bread more expensive in urban areas than rural areas. Much of this variation is a function of remoteness, although there can also be significant variations between retailers in the same area. In order to determine the “cheapest” rural area, FC took a basket of 28 items. The cheapest area was found to be Rundu (N\$802.02), followed by Katima Mulilo (N\$833.19) and Oshakati (N\$857.67 was the more expensive area. The difference between the most expensive area and the cheapest area was N\$24.48; this difference was brought about by the price of items such as Maize meal, rice and several vegetables. Furthermore the difference can also be attributed to the fact that the Oshakati Average prices include five supermarkets and Rundu & Katima Mulilo average prices each include two supermarkets.

**Table 3: Prices in Rural areas of April 2010**

Goods	Description	Oshakati Average	Rundu Average	Katima Average
Bread	Brown	5.71	5.09	6.29
	White	6.17	5.27	6.59
Meat P/kg	Beef (stew)	38.61	38.49	38.49
	Pork	56.55	53.99	64.49
Chicken	Chicken(1.5kg)	33.46	26.99	30.44
	Chicken(2kg)Braai cuts	42.27	35.67	35.69
	Chicken(2kg) thighs	53.52	53.24	53.24
Mealie meal	Top Score 12.5kg	90.99	80.49	82.99
	25kg	169.85	143.99	156.99
Rice	Tastic(1kg)	16.78	15.79	14.49
	Really Rice(1kg)	12.83	12.64	12.99
Vegetables	Tomato	14.66	11.39	12.56
	Potato	8.66	10.99	10.49
	Onions	8.99	9.49	9.64
	Cabbage (each)	10.99	8.99	8.58
Fruits	Apples(1.5kg)	24.09	24.99	20.98
	Banana(p/kg)	14.99	13.49	13.49
	Oranges	9.11	13.99	10.99
Milk	Farm Fresh(1L)	13.86	12.73	13.47
Sugar	Marathon White 5kg	44.61	43.34	42.98
	Sugar King Brown 1kg	8.26	8.79	8.84
Cooking oil	(750ml)	9.27	9.29	11.04
	(2L)	29.11	32.99	26.98
Cereal	Oats (Jungle) 1kg	18.93	17.29	17.29
Tea	Five Roses(250g)	25.49	25.24	26.14
Eggs	30 large eggs	43.85	41.89	41.89
Coffee	Ricoffy(250g)	24.74	22.49	32.64
Flour(2.5kg)	Cake(Bakpro)	21.38	22.99	22.48
	<b>Total of basket</b>	<b>857.67</b>	<b>802.02</b>	<b>833.19</b>

*All prices are calculated Average of prices at different supermarkets within the town*

*Source: First Capital Research*



## Who is the cheapest in May 2010?

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This section is intended to help consumers make a comparison between supermarkets, as to which is the cheapest. Before making a shopping decision on price alone, consumers must be aware of product quality differences, shopping convenience and transport costs. In order to have a significant comparison, First Capital attempts on regular basis to increase the number of items being compared every month. (At the same time we would like the readers to know that certain products may not be found at particular times, because the items will not be available in another Supermarket, therefore it is not possible at all times to compare the same products month on month.)

In May 2010 Shoprite claimed the number one spot as the cheapest supermarket in the country, followed by Checkers, Pick 'N Pay, Woermann Brock, Spar and Sentra the “most expensive” supermarket this time using a basket of 27 items. The difference between the cheapest and “most expensive” was N\$46.30. Fruits and vegetable prices were observed to be quite volatile items in the index.

**Table 4: Average prices of Supermarkets in Windhoek of 27 selected goods for May 2010.**

Goods	Description	Shoprite	Woermann Brock	Spar	Sentra	Pick 'N Pay	Checkers
Bread	Brown	5.71	6.42	6.45	6.35	6.49	5.90
	White	6.52	6.74	6.89	6.60	6.99	6.38
Meat P/kg	Beef (stew)	37.49	45.99	45.00	51.93	36.24	50.15
	Chicken(1,5kg)	24.66	34.49	30.15	31.95	30.16	24.66
Mealie meal	Top Score 12.5kg	72.86	74.32	76.90	80.28	74.95	72.79
Rice	Tastic(1kg)	16.59	15.44	15.35	16.33	17.39	16.59
	Really Rice(1kg)	12.59	12.99	16.70	14.95	12.99	12.99
Vegetables	Tomato	11.32	13.69	22.30	12.20	13.79	11.16
	Potato	9.99	9.54	10.98	9.95	10.99	11.99
	Onions	9.66	10.55	9.42	7.95	8.82	9.56
Fruits	Banana(p/kg)	13.32	10.16	13.21	14.95	11.11	13.28
	Oranges	11.74	9.66	12.33	8.45	15.27	13.85
Margarine	Rama(500g)	15.49	14.99	18.42	16.95	15.66	15.49
Butter	Bonita Butter(500g)	31.99	31.13	30.88	28.66	29.99	31.99
Milk	2L	19.80	20.43	20.00	21.27	18.99	18.99
Sugar	Marathon White 1kg	7.59	8.16	15.19	9.16	7.79	7.67
	Sugar king White 5kg	37.99	41.73	33.49	43.34	37.79	37.99
Cooking oil	(750ml)	11.41	11.74	8.99	11.05	10.83	10.79
	(2L)	27.39	32.00	23.00	28.47	35.49	31.99
Cereals	Oats (Jungle) 1kg	17.63	19.24	20.35	21.45	18.49	18.59
Tea	Rooi bos(200g)	14.99	15.99	17.65	17.10	17.66	14.99
Coffee	Ricoffy(250g)	22.99	25.59	24.20	25.50	24.99	22.99
Flour(2.5kg)	Bread(Bakpro)	20.39	21.93	22.20	20.95	21.59	20.39
	Cake(Bokomo purity)	21.49	21.74	26.70	23.65	22.49	21.85
Macaroni(Elbow 500g)	Polana	8.56	9.99	9.60	10.65	8.99	8.76
Cool drink(2L)	Coke	15.79	16.59	13.99	13.98	15.79	15.79
	Fanta	15.79	16.59	13.99	13.98	15.79	15.79
		521.74	557.83	564.33	568.04	547.51	543.35

*All prices are calculated Average of prices at different supermarkets in 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.

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