

FIRST CAPITAL FOOD PRICE INDEX

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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 two 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 Food Price Index

First Capital (Pty) Limited started collecting food prices over the past six months and enough data is now available to produce and publish a basic food price index, to be known as the **First Capital Food Price Index (FC Food Price Index)**, which covers 34 basic food items. Unlike the National Consumer Price Index (NCPI) produced by the Central Bureau of Statistics (CBS) in the National Planning Commission (NPC), **FC Food Price Index** is not an official measure of inflation but provides an indication of the direction of price changes in retail outlets in the Windhoek area. The FC Food Price Index is an un-weighted (each product carries the same weight in the index), simple aggregated price index which measures the price movements of selected food items such as maize meal, fruits, vegetables, cereals, dairy, meat, oils, fats and sugar with a base period of December 2007. The **Index** is administered by First Capital, who collects, collates and analyzes the data. Data used in the construction of the index comes from the big five supermarkets, namely, Checkers, Shoprite, Woermann Brock, Spar and Pick 'n Pay. As the Index is designed to reflect changes in shop prices, the sampling points chosen are different points in Windhoek. There are around seven (7) price points collected each period in the bigger suburbs of Windhoek. We hope the **FC Food Price Index** will help consumers make informed decision before deciding where and when to buy the monthly food basket.

FC Food Price Index Vs the NCPI

Table 1 below shows the **FC Food Price Index** for the Windhoek area over the period of December 2007 to January 2010. The FC Food Price Index increased by more than 30% from December 2007 to January 2010. If rice (whose price almost tripled in global market) is excluded, the index only rises by 21.6% over the same period. Increases in global food and fuel prices in 2008 pushed Namibia inflation (average inflation of 10.3% in 2008) into double digits for the first time since 2002. Annual inflation decreased to 8.8 percent in 2009 and is expected to average 6% in 2010. Food price inflation as calculated by CBS, which accounts for 30 percent of the CPI basket, peaked to 18 percent in the twelve months through October 2008, before declining to 16.5 percent in December 2008, and increased by 5.3% in January 2010. Although the NCPI shows higher inflation during the first half of 2008, most FC Food Index subcategories shows steady price decline in the first half of 2008, with both the sub-indices for fruit and vegetables, meat and poultry, sugar and maize meal falling. The sub-indices of milk and eggs, bread, oil and fats, cereals and rice however,

follow a similar pattern with the rise in NCPI over 2008, with the rise in FC Food Price Index being somewhat higher than the rise in the NCPI (see Table 1 below) in the first two quarters of 2008.

Fruit and vegetables: The fruit and vegetables index declined from the base period of December 2007 to 88.3 in June 2008 (price decline of 9%), before rising to 105.7 in December 2009 (price increase of 15.7%) and 115.0 in January 2010. The most significant upward contributions came from higher prices for tomatoes (index rose from 91.0 in June 2008 to 124.9 in December 2009), potatoes (index rose from 72.5 in June 2008 to 106.1 in December 2009 before declining to 96.4 in January 2010) and apples (index up from 100 in December 2007 to 187.2 in January 2010).

Meat & Chicken: Prices for the meat and chicken subgroup recorded an annual increase of 4.6 percent in June 2009, following a decrease of -4.8 percent and -0.2 percent in March and June 2008, respectively. Although December being always a month of strong consumer spending, prices for meat and chicken shows a decline of -8.9% and -4.3% in December 2009 and January 2009 respectively. Within these subgroups, the most significant downward contribution in December 2009 and January 2010 came from lower prices for meat, pork and the 1.5 and 2 kg chicken Braai cuts. The most significant upwards contributions came from higher prices for chicken thighs (2 kg) where the index increased from 100 in December 2007, to 111 in December 2009, before declining to 91.1 in January 2010.

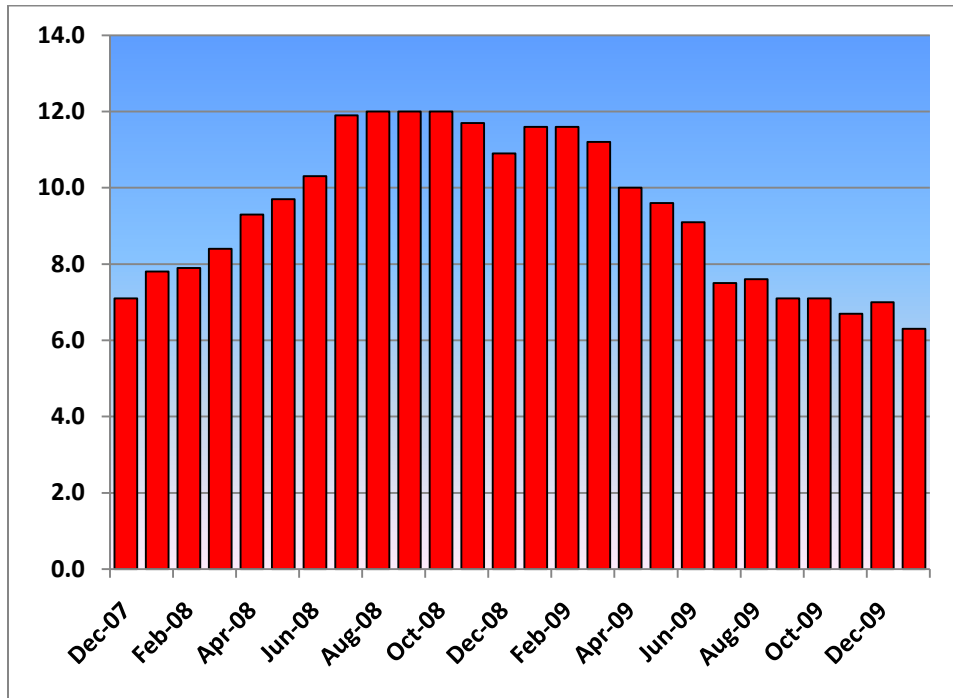
Table 1: First Capital Food Price Index

ITEMS	Dec 2007	Mar 2008	Jun 2008	Jun 2009	Sep-09	Dec 2009	Jan 2010
MEAT & POULTRY	100.0	95.2	94.9	99.3	101.4	90.5	87.5
Meat & Poultry ¹	100.0	95.2	94.9	99.3	101.4	90.5	87.5
FRUIT & VEGETABLES	100.0	97.1	88.3	91.4	109.8	105.7	115.0
Fruit & Vegetables	100.0	97.1	88.3	91.4	109.8	105.7	115.0
GROCERY FOODS	100.0	110.6	118.8	107.0	108.9	111.9	114.4
Bread	100.0	111.3	124.1	108.4	112.5	117.1	120.4
Cereals	100.0	105.1	110.2	109.4	112.4	117.9	123.3
Oils & Fats ²	100.0	118.8	132.7	88.3	87.1	80.9	83.7
Milk & Eggs ³	100.0	107.3	108.1	122.0	123.8	131.5	130.3
Non-ALCOHOLIC BEVERAGES	100.0	107.3	107.0	135.8	133.6	144.7	140.7
Coffee & Tea	100.0	107.3	107.0	135.8	133.6	144.7	140.7
STAPLE FOODS(Starch)	100.0	103.6	118.5	145.2	139.8	141.2	144.4
Maize meal	100.0	101.4	97.4	112.3	104.8	101.4	101.3
Rice	100.0	105.8	139.6	178.2	174.8	181.0	187.6
OTHER	100.0	98.2	95.9	115.4	119.0	120.1	127.8
Sugar	100.0	98.2	95.9	115.4	119.0	120.1	127.8
FC Food Price Index	100.0	102.5	109.0	124.6	126.8	127.9	131.1
FC Food Price Index(excluding rice)	100.0	102.0	103.9	115.7	118.8	119.0	121.6

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

1. Includes chicken (1.5kg mixed portions, 2kg thighs & braaicuts), Pork, beef stew
2. Cooking oil & Margarine.
3. 30 Large eggs, 2L & 1L fresh milk.

Figure 1: Namibia CPI Annual Percentage Changes (Inflation)



Source: Central Bureau of Statistics

Maize Meal: Prices for maize meal remained relatively high over the period covered. Maize meal index fell to 97.4 in June 2008 from 100 in December 2007, but rose to 112.3 in June 2009, before falling to 101.3 in January 2010. The buying power seem to be strong in the 50 kg category (low and middle income group), and the 12.5 kg (middle & up-income groups), and it is these two categories that exerted upward pressure of the maize meal index. The most significant downward contributions came from lower prices for the 25 kg maize meal (possibly due to lower demand of this category).

Bread: Prices for bread subgroup index increased to 124.1 in June 2008 from 100 in December 2007, but declined to 108.4 in June 2009, before rising to 117.1 and 120.4 in December 2009 (decrease in bread price of 12.6%) and January 2010 respectively.

Milk: Prices for milk remained high through the sample period with the milk index remaining above 100, increasing from 100 in December 2007 to 123.9 in June 2009, before rising to 129.9 in January 2010 representing a price increase of 29.9% since December 2007. Both the one and two liters farm fresh milk contributed significantly to the increase in milk prices since 2007.

Cooking Oil: The oils and fats subgroup index increased from 100 in December 2007 to 132.7 in June 2008, representing an increase of 32.7%. In June 2009 the index declined to 88.3, and the downward trend continued to 83.7 in January 2010. Within these subgroups, the most significant downward contribution came from lower prices for cooking oil, the most significant upwards contributions came from higher prices for margarine (Rama) where the index remained above 100 in line with the higher milk prices.

VAT Zero-rating of basic food stuff

The price of nearly every agricultural commodity sharply increased in 2007 and 2008, creating a global food price bubble. At their peaks in the second quarter of 2008, world prices of wheat and maize were three times higher than at the beginning of 2003, and the price of rice was five times higher. The global prices of butter and milk, for example, tripled between 2003 and 2008, and the prices of beef and poultry doubled. In Namibia, the rising global food price was not fully transmitted to the Namibian economy. Although most food prices rose as per the **FC Food Price Index**, food price increase in Namibia was much smaller than global increase in food prices. In addition to a strong currency that protected the full transmission of global prices into the Namibian economy, government introduced counteractive measure to contain and reduce the impact of rising global food prices. In response to the global food crisis in 2008, the Namibian government implemented measures such as the VAT zero-rating of bread, cooking oil, sugar milk and maize meal.

The zero-rating of commodities in the June 2008 period showed a significant impact on the price of Bread and cooking oil but not on maize meal which was also zero rated during the same period. A survey conducted since December 2007 shows that the consumer paid 28.3% more for brown bread by June of 2008 and 19.8% more for white bread. By June 2009, a loaf of brown bread was costing is 10.9% less and white bread was 14.3% less compared to June 2008. This was a direct result of 2008 VAT zero rating measures taken by the government. Although by September 2009, the price of brown bread had relatively stayed the same, while that of white had increased to N\$6.51. The January 2010 prices show an upward trend for both brown & white bread. It appears the effect of VAT lasted for a short while as prices started rising again. Although maize meal declined slightly external factors such as petrol and input prices make the prices of bread and maize meal slightly, more unstable. According to Namib Mills Ltd, a maize meal distributor, this increase is due to the

rise in input costs such as fertilizer which increased by 100% and Diesel by 60% in this period. Food stuff that was zero-rated in March 2009 such as sugar and milk also show a consistent increase from June 2008 through to January 2010.

Cooking oil price, on the other hand, shows a 45.2% average price decrease for a 750mL bottle and 37.5% decrease for a 2L bottle from June 2008 to June 2009. The price of cooking oil has since remained far below the peak prices of June 2008. Cooking oil was the only product that showed significant decline as a result of Vat-zero rating measures.

Table 2: Average Prices of goods in Supermarkets in Windhoek (N\$)

Goods	Description	Dec-07	Mar-08	Jun-08	Jun-09	Sep-09	Dec-09	Jan-10
Bread	Brown	5.20	6.03	6.67	5.94	6.06	6.41	6.51
	White	6.00	6.40	7.19	6.16	6.51	6.66	6.93
Meat P/kg	Beef (stew)	49.99	47.78	49.32	44.90	44.24	40.41	39.10
Chicken	Chicken(1,5kg mixed portions)	29.99	25.53	25.53	28.96	34.68	24.49	28.08
	Chicken(2kg)Braai cuts	40.59	33.95	34.29	39.54	37.58	35.66	35.22
Mealie meal	12.5kg(Top Score)	70.35	72.33	62.79	85.01	74.77	71.16	76.28
Rice	Tastic	8.95	9.47	12.49	15.95	15.64	16.20	16.79
Vegetables(p/kg)	Tomato	12.40	11.84	11.28	13.69	19.91	15.49	14.93
	Potato	11.30	9.41	8.19	12.49	12.84	11.99	10.89
	Onions	13.90	10.63	9.09	8.61	9.36	9.49	10.98
	Cabbage (each)	11.10	10.52	11.89	8.06	8.82	9.32	10.24
Fruits	Apples(1.5kg)	17.20	23.27	18.19	17.48	21.99	24.99	32.20
Margarine	Rama(500g)	14.54	15.87	18.99	16.04	16.38	15.82	15.48
Milk	Farm Fresh(1L)	10.53	11.56	11.04	13.04	13.69	13.39	13.68
Sugar	White 1kg	7.13	7.10	7.09	8.78	8.92	8.82	8.51
	Brown 1kg	7.31	7.24	7.21	8.29	8.29	8.21	9.89
Cooking oil	(750ml)	15.70	18.76	19.99	10.49	11.59	9.74	10.54
	(2L)	36.15	46.15	50.69	31.69	27.00	25.99	27.99
Cereals	Weet-bix(450g)	12.00	13.75	15.31	15.42	16.15	16.89	18.36
	Oats (Jungle) 1kg	19.55	20.09	17.19	19.55	19.05	18.80	18.54
Tea	Rooibos(200g)	15.49	16.61	16.39	16.44	16.21	15.99	17.24
	Five Roses(250g)	17.99	19.56	19.49	25.75	25.63	31.37	26.54
Eggs	30 large eggs	33.20	35.27	36.67	42.34	38.15	46.56	46.47
Coffee	Ricoffy(250g)	14.79	15.69	15.82	23.36	22.74	23.16	24.13
	Hand Wash(Omo) 1kg	23.40	25.99	24.19	24.34	24.49	28.32	25.89

Source: First Capital Research

Comparison in prices for Urban Vs Rural areas

In comparison to Windhoek, the price of bread was relatively cheaper in the rural areas. For example, in December 2009 bread was approximately 80 cents more in Windhoek (on average) than in the rural areas (see table 3 below). This can be attributed to the fact that the rural areas have a higher percentage of low-income individuals who are more likely to spend their wages on basic foodstuff. This population is also known to buy Mealie meal with mass ranges of 25 to 50 kg because of distances between supermarket and homesteads and the higher numbers of family members within a household or settlement, resulting in fewer people buying the smaller 12.5kg maize meal which was cheaper in Windhoek were most of the population is less likely to buy bulk amounts of this product.

In contrast, Beef stew; pork and cooking oil were relatively cheaper in Windhoek than in the rural areas, this could be attributed to transportation costs from one branch of the supermarket to the other. With respect to vegetables, apart from cabbage which was more expensive in the rural areas, vegetables were relatively unpredictable in terms of who was cheaper. Supermarkets in rural areas are able to buy vegetables from local producers depending on availability of the vegetables, which translates into unstable prices as pricing depends on the origin of the vegetables.

Table 3: Windhoek average Vs Rural Average

Goods	Description	WINDHOEK AVERAGE		*RURAL AVERAGE	
		Dec-09	Jan-10	Dec-09	Jan-10
Bread	Brown	6.41	6.51	5.59	5.59
	White	6.66	6.93	5.78	5.77
Meat P/kg	Beef (stew)	40.41	39.10	48.49	47.99
	Pork	39.99	38.65	49.99	59.99
Chicken	Chicken(1,5kg mixed portions)	24.49	28.08	27.99	24.99
	Chicken(2kg) thighs	52.66	43.18	53.49	52.74
Mealie meal	12.5kg(Top Score)	71.16	76.28	81.99	83.99
Vegetables(p/kg)	Tomato	15.49	14.93	17.49	16.99
	Potato	11.99	10.89	11.99	11.99
	Onions	9.49	10.98	5.99	10.99
	Cabbage (each)	9.32	10.24	9.99	13.74
Margarine	Rama(500g)	15.82	15.48	15.99	12.94
Milk	Farm Fresh(1L)	13.39	13.68	12.74	14.49
	2L	22.48	21.39	21.99	21.99
Sugar	White 1kg	8.82	8.51	8.64	8.59
	Brown 1kg	8.21	9.89	8.19	8.24
Cooking oil	(750ml)	9.74	10.54	9.99	12.49
	(2L)	25.99	27.99	31.74	30.99
Tea	Rooibos(200g)	15.99	17.24	13.89	14.14
	Five Roses(250g)	31.37	26.54	23.89	33.89
Eggs	30 large eggs	46.56	46.47	43.89	32.49
Coffee	Ricoffy(250g)	23.16	24.13	22.99	22.99

Source: First Capital Research

*Rural only includes Shoprite branches in Oshakati, Rundu & Katima Mulilo

Who is the cheapest?

Taking a basket of goods shown in table 4 below and comparing five sampled supermarkets in Windhoek for January 2010 reveals that the cheapest brown bread and 12.5kg of maize meal could be bought at Pick ‘n Pay, while the cheapest white bread was found at Spar supermarket.

The total average price showed that the “cheapest” supermarket was Pick ‘n Pay followed by Shoprite, then Woermann Brock (WB) and Checkers. The most expensive of the sampled supermarkets was Spar. However, the price differential was quite small, and transport cost to and from one Supermarket to another must be taken into account.

Table 4: Prices of sampled goods at particular supermarkets

Goods	Description	Shoprite	WB	Pick n Pay	Checkers	Spar
Bread	Brown	6.79	6.49	6.24	6.79	6.25
	White	7.49	6.74	6.49	7.49	6.45
Meat P/kg	Beef (stew)	43.1	29.99	33.24	40.31	48.85
Chicken(1,5Kg)	Frozen	23.99	29.49	29.99	23.99	32.95
Mealie meal	12.5kg	73.49	74.99	72.99	73.49	83.65
Rice	Tastic	16.59	15.49	17.99	16.59	17.28
Vegetables	Tomato	12.99	15.74	12.99	15.99	16.95
	Potato	10.99	6.99	10.99	10.99	14.5
	Onions	7.99	9.49	7.49	9.99	19.95
Margarine	Rama(500g)	15.99	12.99	15.49	15.99	16.95
Milk	Farm Fresh(1L)	13.49	13.99	13.49	13.49	13.95
Sugar	White 2kg	15.99	17.99	15.99	15.99	16.49
Cooking oil	(750ml)	9.99	11.49	9.24	12.49	9.49
Tea	Five Roses(250g)	19.99	28.99	21.47	39.79	22.45
Coffee	Ricoffy(250g)	22.99	26.49	23.99	22.99	24.2
	Total	301.86	307.35	298.08	326.37	350.36

Conclusion

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 and the sampled number of supermarkets has been extended.