Economic Update

Global economic activity is slowing. The latest PMI's (purchasing manager indices) have been weakening, chief amongst which is China which registered 49 – it has now been a year that the PMI is around 50 or below, verging on contractionary territory. In fact, actual industrial production had been contracting over this period and consumer confidence has collapsed to hitherto unseen levels. Over in the UK, the PMI has fallen to 46 and in Germany the IFO Business climate survey indicates that conditions have deteriorated sharply – it was lower only during Covid-19 in 2020 and the Great Credit Crisis of 2008 – while new car sales is still down by a third from pre-Covid-19 levels.

The USA PMI is still in expansionary territory at 52.8 but is down sharply from the 63.7 highs in the immediate aftermath of the Covid-19 crisis. Capacity utilisation is high at 80.3% and unemployment is virtually non-existent at 3.5%. Economy-wide corporate profit is up 8.1% in the second quarter. The demand side is still strong with Retail sales +10% and Wholesale sales +20% year-on-year (yoy) in June.

However, several forward looking indicators are showing an expected slowdown – the Empire State manufacturing survey for August was deeply negative at -31.3, the composite leading indicator was 0% yoy in July, consumer confidence is at record lows, comparable to the Great Credit Crisis of 2008, and then there is the so-called recession predictor. The latter comprises the yield curve inversion where the two-year yield is above the ten-year yield, an indicator that short-term interest rates are rising too fast and that it will bring about a recession in about twelve months' time.

Inflation remains problematic, especially on the production side. The G7 PPI is running at 18% yoy, driven up by energy costs – the oil price is up about 43% yoy. Producer inflation in the USA (+9.8%), the UK (+17.1%) and Germany (+37.2%) are further evidence of the effect of energy prices – natural gas prices are up 422% yoy. Over the past two and a half decades it averaged $50 but is now trading at $640.

Thus far the inflation shock that the world had to endure was largely a cost-push phenomenon. However, there now exists a risk that wage demands in the wake of the surge in cost-of-living expenses, ignites a demand side driven wage-price spiral. The SARB has already warned of such a possibility and remains on guard. In the USA, the percentage of firms that intend to raise compensation rose to a record 25%, the highest since 1990, as the low unemployment rate gives leverage to workers for whom real wage growth is negative at -3% yoy.

Central Banks (CB's) will continue to tighten policy. We suspect that the collapse in consumer confidence in the USA has a lot to do with developments in the residential property market, which in turn, is reacting to the sharp increases in interest rates. The number of new family homes sold has contracted by 23% over the past year, although average prices have held up reasonably well. Regardless of these types of effects on the real economy, the Fed is determined to stamp down inflation, even if it means engineering a recession.

The upshot is that Namibia is facing a very difficult external environment, characterised by rising inflation and interest rates in the face of slowing economic activity. Domestically, interest rates has had to be lifted in line with global and SARB hikes, and rising inflation. Fuel prices are up 50% year-to-date (37% in SA), lifting transport inflation to 21% yoy (25% in SA) and overall consumer inflation to 6.8% (7.8% in SA).

Thus far Bank of Namibia hiked rates by 175bp, compared to the SARB's 200bp. We expect another 100bp worth of increases by the end of 2022. This will lift the prime rate to 10.25%. This means that, financing at prime, a N$3m, 20 year mortgage bond payment, by the end of this year would have risen by 22%, or about N$5,300 per month, to N$29,500, compared to the start of the year when the prime rate was 7.50% and the monthly payment would have been N$24,200. This will slow the fragile recovery in the domestic residential real estate market an put a dampener on consumer spending.

The importance of ongoing Enhanced Due Diligence

The Financial Intelligence Act (FIA) 13 of 2012 of the Republic of Namibia, subsections 24(1) & (2) deals with on-going and enhanced due diligence. Capricorn Asset Management is an accountable institution and as such we need to comply with the Act.

In order to comply, we need to continuously review and re-verify previously submitted FIA documentation. We therefore humbly request your co-operation with regards to client information requests. This will aid in keeping your accounts with us in compliance with the Act and thus making transacting more efficient.

The Financial Intelligence Act (FIA) 13 of 2012 of the Republic of Namibia, subsections 24(1) & (2):

(1) An accountable institution must exercise on-going due diligence in respect of all its business relationships which must, at a minimum, include –

(a) maintaining adequate current and up-to-date information and records relating to the client and beneficial owner.

(b) monitoring the transactions carried out by the client in order to ensure that such transactions are consistent with the accountable or reporting institution's knowledge of the client, the client's commercial or personal activities and risk profile; and

(c) ensuring the obligations relating to high-risk clients, as prescribed in section 23, and correspondent banking relationships are fulfilled.

(2) An accountable institution must –

(a) pay special attention to all complex, unusual large transactions and all unusual patterns of transactions which have no apparent economic or visible lawful purpose.

(b) at the direction of the Minister, pay special attention to business relations and transactions with persons, including legal persons and trusts, from or in countries that do not or insufficiently apply the relevant international standards to combat money laundering and the financing of terrorism or proliferation;

(c) examine as far as possible the background and purpose of transactions under paragraphs (a) and (b) and set forth in writing their findings;

(d) keep the findings made in terms of paragraph (c) available for competent authorities and company auditors for at least five years, or longer if specifically so requested by a competent authority before the expiration of the 5 year period;

(e) take such specific measures as may be prescribed from time to time by the Minister to counter the risks with respect to business relations and transactions specified under paragraph (b); and

(f) conduct enhanced monitoring and due diligence when –

(i) any doubts arise about the veracity or adequacy of previously obtained customer identification data; or

(ii) there is a suspicion of money laundering or financing of terrorism or proliferation; to prevent money laundering, financing of terrorism or proliferation or the commission of any other offence.