Capricorn Asset Management
a member of Capricorn Group

Our Economic Outlook for 2023

With Black Friday behind us and Christmas ahead of us, it is time to gauge the outlook for 2023. In the current world of geopolitical uncertainty, bear markets, ongoing high inflation and a deteriorating growth outlook, it is important to accept that in many instances, it is likely to boil down to a question of degrees. Point-in-time forecasts are intended to convey our base case view.

Economic growth

All indications are that global activity is likely to slow, but to what degree? Will it be a **growth recession**, i.e. merely slower growth or an **outright recession**, i.e. a contraction in activity or a **crisis**, i.e. a collapse in confidence and activity? The outcome will determine to a large degree what the policy responses are and with it, what the reactions of financial markets will be.

We believe there will be pockets of relative weakness (UK and Europe contracting) and pockets of relative strength (USA and China slowing, but still ok). But overall, it will be a growth recession, not severe enough to elicit a significant policy response either way, but enough to stay the hand of the major central banks from hiking interest rates further.

Namibia will be another pocket of relative strength, growing by 4.5% in 2022, 2.5% in 2023 (from the higher base), before accelerating somewhat to 3%+ in 2024 and 2025. Most sectors are exhibiting a normalisation trend, and some are bouncing strongly.

Commodity prices

Huge swings in prices have been the order of the day ever since the Covid-19 crisis of 2020, at first a complete collapse and then an unprecedented surge driven by extremely stimulatory policy reactions and then exacerbated by the Ukraine war.

We believe these huge swings will, to large degree, taper off in 2023. Furthermore, a downswing in global growth that encapsulates a slowdown in China, will result in fading commodity prices, at least to some degree. China consumes 50% or more of most of the world's commodities.

Inflation

Inflation has firmly been in the driving seat in 2022, responsible for surging interest rates. Will it be dethroned in 2023? We think yes. Surging energy prices have cooled significantly in 2H22, but to what degree will it hold the lower levels in 2023? In our inflation forecasts we take the view that the oil price will plateau around current levels and most other commodities will drift lower.

We foresee that inflation in the USA will be 6.7% by year-end 2022 (average 8.0%), 2.8% by year-end 2023 (average 4.0%) and reach 2.3% by year-end 2024 (average 2.5%). In the RSA for these same periods, our outlook is for 7.1% (6.9%), 4.0% (5.4%) and 3.6% (3.8%). The comparable numbers for Namibia are 6.6% (6.0%), 4.7% (5.7%) and 3.9% (4.2%).

Fiscal policy

Globally there is little to no expectation that fiscal policy will be able to undergird a cooling economy. Therefore, fiscal consolidation (a reduction in deficit-driven spending) will constitute a drag on growth. Similarly, in SA, there is little room to manoeuvre. However, fortune is smiling on Namibia.

Large revenue overruns, compared to previous projections are indicative of a quick reduction in the deficit over the next three years to N$9bn, N$5bn and N$2bn. The degree to which relief on the revenue side materialises and is prudently managed remains to be seen. However, less austere consolidation will loosen the limits on spending, which constitutes less of a drag on economic growth.

Nevertheless, it is critical that fiscal policy remains cognisant of its effect on economy-wide funding costs. A stubbornly high funding need from government, resulting in high yields, will continue to crowd out other borrowers needing capital for economic expansion.

Monetary policy

We are at, or close to the peak in interest rates. Global financial conditions have tightened considerably, driven by the concerted efforts of most central banks to contain inflation, not least of which was an extremely aggressive Fed.

It lifted the Fed Funds rate from 0.25% to 4.0% in the span of nine months in conjunction with stepping back from buying interest bearing assets (quantitative tightening). Apart from engendering a severe bear market in DM bonds, these developments are now leading some EM sovereigns into debt distress, especially low income countries.

Our inflation forecasts lead us to believe that the Fed will likely hike its rate once more to 4.5% this year and pause there for the duration of 2023. This will require a degree of tolerance by the Fed for an inflation rate above 4% until mid-year. The SARB hiked its repo rate to 7.0% in its latest meeting and is, in our view, now likely to pause during 2023. The BoN should also pause once it has lifted the repo rate to 7% by year-end of 2022 from its current level of 6.25%. This means that the prime rate will peak at 10.75%.

Multilateral institutions and geopolitics

Global organisations such as the IMF, WTO, WEF, FATF, OECD, NATO, G20 and the UN will continue to make their presence felt in a world looking for direction to solve global geopolitical challenges. These comprise a host of issues such as Russia-Ukraine, China-Taiwan, Iran-Israel and climate change.

The latter threatens to override national agendas as people and institutions claim the right to interfere in the affairs of nations in the name of net-zero. Namibia is ideally positioned to capitalise on the drive to the green transition but should guard against the left hand taking away (blocking oil) while the right hand gives (green hydrogen).

Festive Season Operating Hours

Our office will close at 14:00 on 23 & 30 December 2022.

Should you wish to make deposits or withdrawals on your investment portfolio on the above mentioned dates, please submit your instruction by 11:00 in order to ensure timely processing of your instruction.

You may submit your instruction via Capricorn Online or Bank Windhoek Mobile App or Internet Banking platform.

If you have not yet registered for Capricorn Online please contact our sales team at 061 299 1950 or cam.service@capricorn.com.na