



First Capital Food Price Index Report

Global Food Prices

In the October 2010 First Capital Food Index Report we warned clients on global inflation risks and the cyclical decoupling of inflation and monetary policies across countries. World food prices reached a new historic peak in January 2011, exceeding prices reached during the food crisis of 2007-08. People around the world are starting to feel the impact and some countries like Tunisia, Egypt or Algeria are experiencing riots, caused in part by the increasing costs of food. Since July/August 2010, when Russia experienced its worst drought in decades, destroying about 25% of the wheat harvest and implemented an export ban, resulting in panic buying, price of wheat and of many crops have risen dramatically. Prices of maize increased 74%; wheat went up by 84%; sugar by 77% and oils and fats by 57%.

The main causes of recent global price increase are multiple and there is considerable debate about the relative importance of different factors, but key drivers are: 1. reduced production due to bad weather; 2. increased demand, both for biofuels, which takes land away from food production; 3. financial causes such as the depreciation of the dollar, low interest rates and speculation; 4. increased oil prices which drive up the cost of agricultural essentials like fertilizer and transport and 5. expansionary monetary and fiscal policies implemented by countries in both developed and emerging markets.

The floods in Australia, Brazil, South Africa in January 2011 dramatically damaged production of maize, wheat and sugar production. Weather scientists agree that the world will experience more unpredictable floods and extreme weather events as a result of climate change, and Southern Africa is already expected to suffer from major floods in 2011 and this is expected to reduce harvest of maize and other crops substantially.

Rising global commodities not a threat to Namibian Inflation

Although Namibia is dependent on imports of food, Namibian food inflation is likely to remain muted for the rest of 2011 despite a surge in global food prices, due to the strength of the local currency. The Namibia dollar is relatively strong at the moment and is projected to maintain this strength over most of 2011.

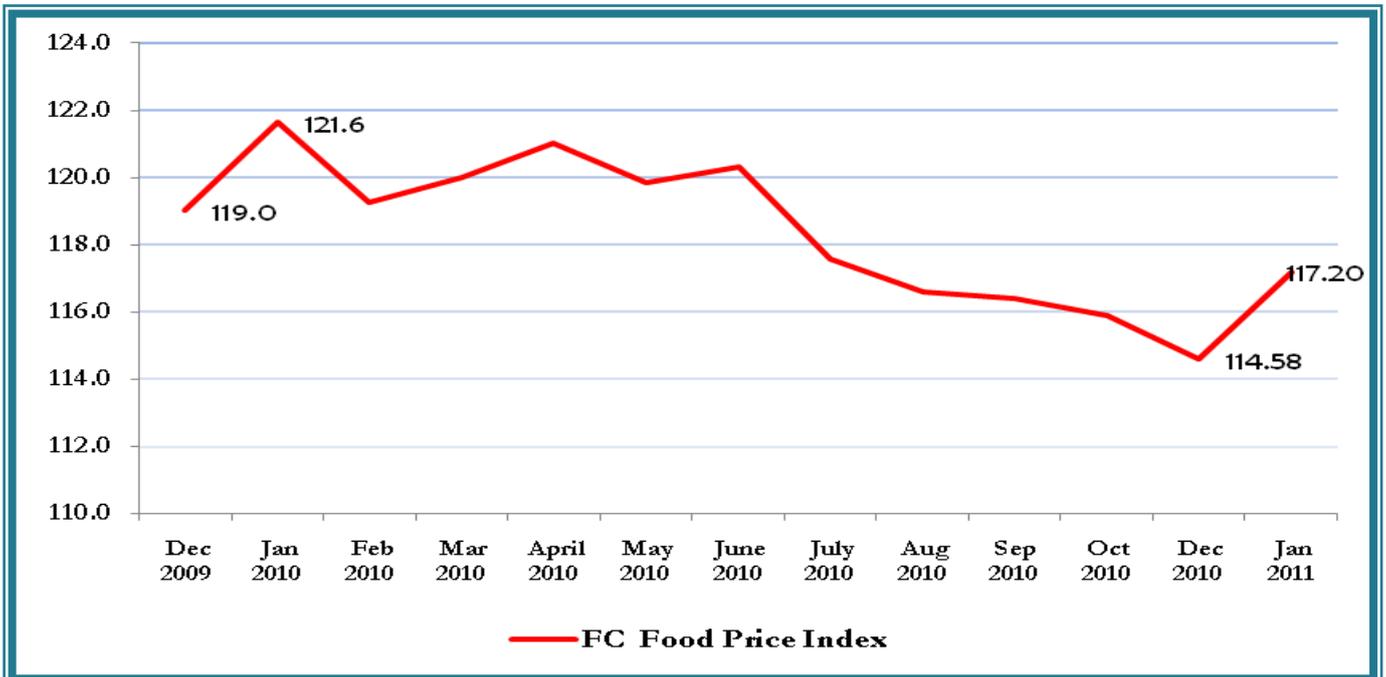
First Capital Food Price Index Dec' 2010– Jan' 2011

Although food prices have risen globally, in much of Africa, including Namibia food prices remain stable, partly because of good harvests, which has ensured that staple foods, particularly cereals, eaten by many of Africa's poorest people are at a lower price than the peak of the crisis in 2007-08. Namibia food inflation remained muted for the rest of 2010 partly due to a stronger and firmer currency and a bumper harvest recorded by farmers in both Namibia and Southern Africa in 2010. Even with astronomical increase in global price of wheat and sugar, many retailers in Namibia kept most groceries prices unchanged. On annual basis the FC Food Price Index fell by 4.4 points from December 2009 to December 2010 and 7.2 points from January 2010 to January 2011 following downward pressure from both rice and sugar in both periods. In line with global food price rising trend, the FC Food Index increased by 2.3% to close at 117.20 in January 2011 from 114.58 in December 2010.

Bread: FC Bread Index (bread prices) rose to a record in December 2010 on higher wheat, sugar costs, and the increased demand for bread due to Christmas shopping spree. With wheat futures soaring to their highest level in two years, consumers will soon find themselves paying more for a loaf of bread at local supermarkets.

Maize Meal: The maize meal Index increase by 6.0percent for both December 2009 to December 2010 as well as January 2010 to January 2011. All monitored products, 12.5kg, 25kg and 50kg Top score maize meal products increased at the same rate.

Figure 1: First Capital Food Index December 2010—January 2011



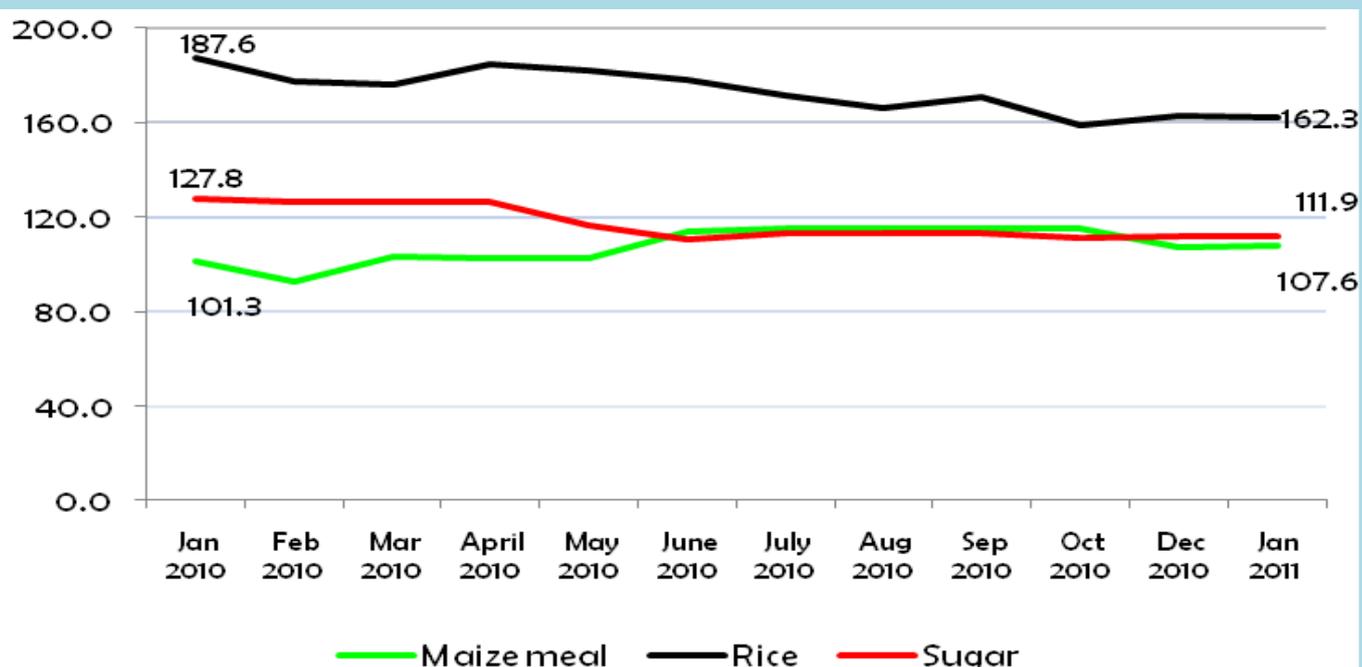
FC Food Price Index Sub-Index Analysis

Meat & Poultry: The meat & Poultry Index increased by an average of 18 percent for December 2009 to December 2010 and January 2010 to January 2011. Month on month figures show an increase of more than 5 percent from December 2010 to January 2011 owing to lower output of abattoirs in this season. The price of pork shows a significant increase of over 50 percent from January 2010 to January 2011, with beef stew, 2kg chicken thighs and 2kg braai cuts increasing by 19.6 percent, 21.6 percent and 18.9 percent respectively. The Meat & Poultry Index closed at 112.6 in January 2011.

Sugar: The price of sugar also saw a major decrease of 16.2 percent from December 2009 to December 2010 and another 8.5 percent from January 2010 to January 2011. The sugar index closed at 111.9 with a 0.4 percent increase month on month from December 2010 to January 2010.

2011 Food Price Outlook: Namibian food inflation is likely to remain muted for the rest of 2011 despite a surge in global food prices, on account of relatively strong Namibia dollar over 2011. However, the following factors may cause inflation to rise than our current projection, reduced production due to floods and bad weather, export restrictions and panic buying, usually caused by weather related shocks, financial causes such as the depreciation of the Nam dollar, low interest rates and speculation and high oil prices.

Figure 2: Year on Year figures for Maize meal, Rice and Sugar Indices



Supermarket Food Basket Cost Comparison

The supermarket comparison section compare the cost of each basket in a supermarket and enables the consumer to see at a glance at which supermarket you are going to save money at their current price point. No single supermarket will have the lowest grocery prices on every product you want to purchase, so before you spend your budget in a single store, shop around and compare price. While Shoprite dominated the number one position for most of 2010, **Figure 2** below shows that Pick and Pick is now ranked number one, slightly ahead of Woermann Brock in second place. Pick and Pay was ranked number two in our October 2010 edition and their strategies seem to work as they are now at the top as being the cheapest in terms of the food basket of 26 items covered in FC Food Index.

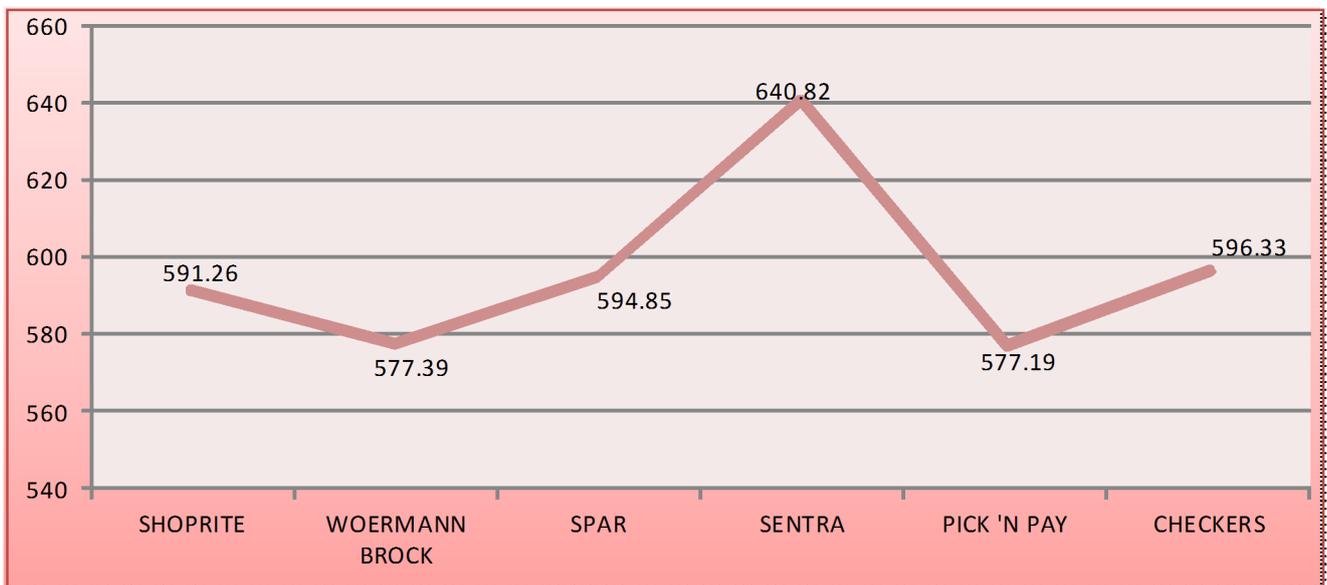
Table 1: Cost of Food Basket

Supermarket	May 2010	October' 10	Change
Shoprite	N\$ 521.74	N\$448.46	-14%
Woerman Brock	N\$557.83	N\$457.01	- 18%
Spar	N\$564.33	N\$478.54	- 15%
Sentra	N\$568.04	N\$495.96	- 13%
Pick & Pay	N\$547.51	N\$447.40	- 18%
Checkers	N\$543.35	N\$444.81	- 18%

Table 2: Cost of Food Basket

Supermarket	Oct' 2010	Jan' 2011	Change
Shoprite	N\$448.46	N\$591.26	+ 32%
Woermann Brock	N\$457.01	N\$577.39	+ 26%
Spar	N\$478.54	N\$594.85	+ 24%
Sentra	N\$495.96	N\$640.82	+ 29%
Pick & Pay	N\$447.40	N\$577.99	+ 29%
Checkers	N\$444.81	N\$596.33	+ 34%

Figure 3: Supermarket Basket Cost Comparison



Supermarket Food Basket Cost

Usually if four or fewer firms control at least 50 percent of a given market an oligopoly is said to exist. The Namibian large grocery supermarkets seems to be characterised by the existence of a collective dominant position (collusive oligopoly) that explains the price parallelism (e.g., raising prices by almost the same amount at the same time) and therefore restricting competition in the market. **Table 1** above shows that all supermarket reduced their groceries prices between May 2010 and October 2010, with highest price reduction recorded at WB, Pick and Pay and Checkers. Sentra recorded the lowest price reduction. Despite the continued decline in national inflation, supermarkets started increasing prices in the last quarter of 2010 to take advantage of the buying power associated with holiday season. **Table 2** shows that the basket cost increased by more than 20%, with the highest price increases recorded in both Checkers and Shoprite, while Spar had the smallest price increase over the covered period.

Parallel Rise in Food Prices Hint at Oligopoly

Contrary to popular belief that food prices are volatile and unpredictable due to weather shocks, there are signs of oligopolistic market structure for many goods sold in Namibian market. An Oligopolistic market structure (often called “Big business” market structure), is a market dominated by a small number of participants who are able to collectively exert control over supply and market prices. Both table 1 and 2 confirm the existence of enormous supermarkets price parallelism, not necessarily related to business costs but to the prices applied by other competitors. Price parallelism and similarity is more intense between Shoprite and Checkers .

Some characteristics of Namibian Supermarket behaviours that points to Oligopolistic market behaviour:

1. Concentration Ratios: Concentration has increased substantially since 1990 for the majority of the food products sold in Namibia, for example the three largest supermarkets (Shoprite, Checkers, and Pick and Pay) are estimated to control more than 70% of the market in terms of sales (Source: First Capital). The whole Windhoek city centre is dominated by these three big supermarkets, and small supermarkets are only concentrated in the city periphery. While the small independent supermarkets such as Woermann Brock, Spar and Sentra are in direct competition with the three big dominant supermarkets and provide some competitive recipe for consumers, as they encourage competitive pricing, it is clear that the three big super markets control the supermarket industry in Namibia in the formation of an oligopolistic market structure. The three large supermarket are estimated to control more than 70% of agricultural food in Namibia, and a market with such high concentration could be suspected as an oligopoly market, where supermarkets collude and in an uncoordinated fashion fix prices at the expense of consumers.

2. Mutual Interdependence & Collusive-Pricing: Supermarkets in Namibia behaves like an informal cartel where prices change almost simultaneously, with most supermarkets practising parallel pricing, and this could suggest the existence of some kind of collusion. The above statement is supported by table 1 & 2 above and the weekly promotions and advertisement by all supermarkets in Namibia. These supermarkets are mutually interdependent, which means that action of one supermarket will cause a reaction on the part of other supermarkets, which makes it easier to collude since the market is dominated by few supermarkets. Price transparency is an essential characteristic in an oligopolistic market structure and large grocery retail outlet distribution, where rivals can immediately find out about price variations at other stores. This circumstance does not exclude the appearance of sporadic price wars, for example when a supermarket enters a local market and needs to compete to acquire sufficient critical mass. However, these episodes immediately produce a generalised lowering of prices, which stabilises the market shares of the supermarkets and their prices, so that tacit collusion between competitors and the adoption of supra-competitive prices is once more imposed as the optimum strategy for all concerned. Likewise, promotion campaigns, associated with a reduced number of products and limited duration, which are carried out by almost all Namibian supermarkets, are fully compatible with an oligopolistic market structure.

3. Market Domination, Barrier to Entry & the size distribution of firms: As mentioned above Namibian food distribution is dominated by five supermarkets, but the three large supermarkets accounts for almost 70% market share. Oligopolies often attempts to limit competition to expand their market share. Price cutting is a well-attested strategy for raising/defending market shares in oligopoly. Oligopoly market structure always emerge because of the existence of barriers to entry such as large set up costs, high distribution and operational costs, as well as advertising and promotion costs, which small players cannot afford. In addition to this, barriers to entry exist in the form of controlling resources, where the big supermarkets have agreements with farmers to supply exclusively to them in exchange for the purchasing all of their quality produce. Oligopolies have developed a number of practices which serve to limit entry into the industry by new firms, to avoid price competition, and manipulate demand. It is very costly to enter an industry dominated by a few well known names such as the big three (Shoprite, Checkers and Pick and Pay). These large supermarkets achieved their dominant market position by eliminating competition through acquisition/purchase of the successful smaller firms via mergers and acquisitions. Most Namibians will recall OK Bazaars food department store as its flagship across the country, but this company has completely vanished on the Namibia food distribution market .

3. Market Domination, Barrier to Entry & the size distribution of firms (cont...)

Pick 'n Pay supermarket group, a family controlled business, originated in 1967 with the acquisition of four small supermarkets in the Western Cape. It has branches in a number of countries such as Australia and in Namibia. Shoprite-Checkers started in 1979 when 8 supermarkets were purchased in South Africa. They grew mainly through acquisition of smaller food distributors and their major growth came with acquisition of some of South Africa's existing domestic chains, like the 17-store chain of Grand Supermarkets in 1990 and the 170-store chain of Checkers Supermarkets in 1992/3. In 1996 the group acquired Sentra, and in 1998 they acquired OK Bazaars. SPAR originated in the Netherlands in 1932, but only came to Southern Africa by 1963 with its focus on wholesaling. In 1978, Tiger Brands acquired a 30% equity interest in SPAR. The company became a wholly-owned subsidiary of Tiger Brands in 1988. In October 2004, SPAR unbundled from its holding company and listed as an individual company. This brief analysis does show that these supermarkets will not tolerate competition that threaten their market share, as most small Namibian retailers will testify when these big supermarkets entered the Namibian market.

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	Jan 2010	Mar 2010	June 2010	Sep 2010	Oct 2010	Dec 2010	Jan 2011
Meat & Poultry ¹	87.5	105.6	109.7	113.3	107.6	107.0	112.6
Fruit & Vegetables	115.0	100.6	101.6	88.6	100.0	93.1	94.6
GROCERY FOODS	114.4	110.4	113.1	111.5	109.5	111.6	113.5
Bread	120.4	111.4	117.3	113.4	109.0	115.2	113.8
Cereals	123.3	117.3	121.4	117.4	117.6	118.8	120.3
Oils & Fats	83.7	82.9	89.9	88.1	85.5	90.7	97.5
Milk & Eggs	130.3	130.1	124.0	127.1	125.9	121.8	122.3
Non-ALCOHOLIC BEVER-	140.7	137.4	140.7	136.5	130.2	129.1	135.6
Coffee & Tea	140.7	137.4	140.7	136.5	130.2	129.1	135.6
STAPLE FOODS(Starch)	144.4	139.7	146.1	142.8	136.6	135.1	135.0
Maize meal	101.3	103.2	114.0	114.9	114.8	107.4	107.6
Rice	187.6	176.3	178.2	170.7	158.5	162.8	162.3
OTHER	127.8	126.4	110.8	112.9	112.9	111.6	111.9
Sugar	127.8	126.4	110.8	112.9	111.2	111.6	111.9
FC Food Price Index	121.6	120.0	120.3	116.4	115.9	114.6	117.2

Table 2: Average Prices in Windhoek Supermarkets for January 2011

		SUPERMARKET					
Goods	Supermarket	SHOPRITE	WOERMANN BROCK	SPAR	SENTRA	PICK 'N PAY	CHECKERS
Bread	Brown	5.49	6.49	6.37	6.70	6.24	5.49
	White	6.22	7.49	6.99	6.90	6.39	5.49
Meat P/kg	Beef (stew)	52.32	49.99	44.95	47.46	42.32	54.87
	Pork	66.99	59.99	56.74	66.30	52.95	72.99
	Chicken(1,5kg)	26.99	33.74	34.77	33.48	32.49	26.99
	Chicken(2kg)Braai cuts	41.99	45.99	45.34	41.95	40.14	41.99
Mealie meal	Top Score 12.5kg	75.99	62.99	87.10	104.95	74.99	75.99
Rice	Tastic(1kg)	14.99	12.99	16.45	14.95	12.79	14.99
Vegetables	Tomato	10.99	13.09	11.48	11.51	13.09	10.70
	Potato	8.99	8.68	8.59	7.95	9.49	9.24
	Onions	8.82	6.55	5.98	8.45	5.49	8.99
	Banana(p/kg)	14.99	12.05	10.03	15.26	15.33	14.99
Butter	Bonita Butter(500g)	29.89	28.49	30.70	33.26	31.99	29.89
	2L	20.89	18.99	21.99	21.87	20.07	20.89
Sugar	Marathon White 1kg	7.59	8.49	8.80	8.85	7.55	7.59
	Sugar King White 5kg	34.82	37.99	37.28	39.66	36.99	34.99
Cooking oil	(750ml)	12.37	13.10	12.67	14.36	14.24	11.99
Cereals	Weet-bix(450g)	15.99	14.99	15.42	16.65	18.99	15.99
	Oats (Jungle) 1kg	19.89	19.99	21.95	21.95	19.49	19.07
Tea	Rooi bos(200g)	14.99	15.99	15.75	17.39	17.99	14.99
	Five Roses(250g)	25.49	25.49	24.30	27.17	25.99	25.49
Coffee	Ricoffy(250g)	22.99	23.99	23.88	25.89	22.75	22.99
Macaroni (Elbow 500g)	Polana	10.39	10.49	9.93	9.95	9.49	10.30
	Perfecto	9.59	7.37	9.42	9.95	8.46	7.84
Cool drink(2L)	Coke	15.79	15.99	13.99	14.00	15.69	15.79
	Fanta	15.79	15.99	13.99	14.00	15.79	15.79
	Total(N\$)	591.26	577.39	594.85	640.82	577.19	596.33