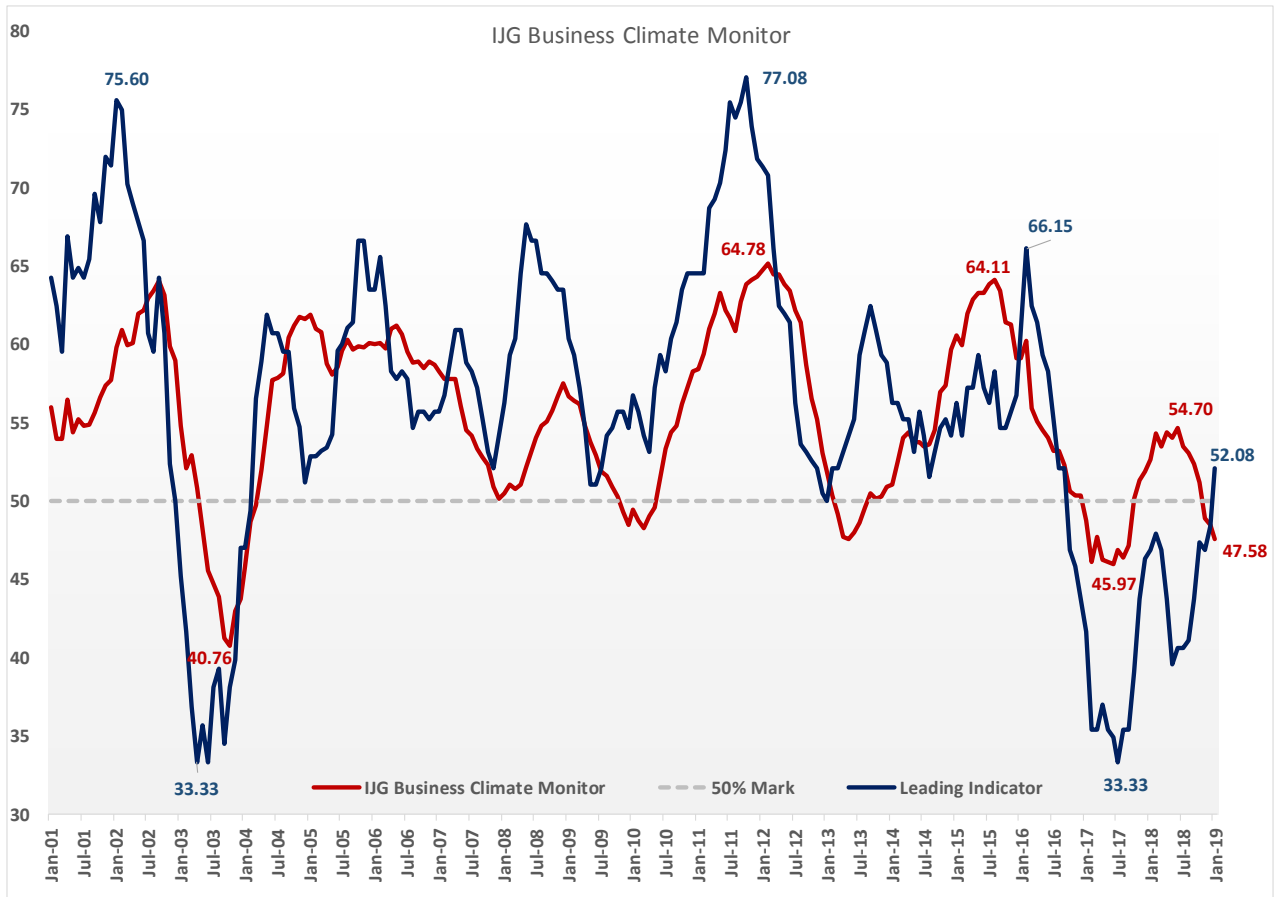




BUSINESS CLIMATE MONITOR JANUARY-19

Produced by Institute for Public Policy Research



The **IJG Business Climate Monitor** started 2019 with mixed signals. On a positive note, the Leading Indicator, which is based on future prospects, climbed over the 50-point mark for the first time since September 2016. This suggests there is a silver lining on the economic horizon. The IJG BCM, in contrast, continued its downward trend. The Leading Indicator, after some recovery between August 2017 and February 2018 declined again until May 2018, before slowly moving towards the 50-point mark. It improved from 48.44 in December 2018 to 52.08 in January 2019. The IJG BCM started its decline in May 2018 and dropped further from 48.52 in December 2018 to 47.58 in January 2019.

17 out of the 31 indicators used to compile the IJG BCM declined in January while 13 improved with one remaining stagnant. Livestock marketed slowed down markedly from 26,094 (Dec. 18) to 16,186 in January 2019, with prices for beef improving slightly and prices for lamb dropping. Mineral production, on the other hand, rose for all four commodities, with prices also on an upward trend. Tourist arrivals at HKIA showed a marginal decline from 16,469 to 16,251. Car dealers had to face a lower demand for new vehicles, although credit extension to individuals and businesses increased slightly in January. Fuel prices treated motorists well at the beginning of the year, with both prices for petrol and diesel decreasing significantly. While the value of imports dropped, exports increased resulting in an improvement in the

trade balance. Entrepreneurial activity improved in January with more CCs and companies being registered.

Overall, although the Leading Indicator returned to positive territory after almost two-and-a-half years, the continuous decline of the I/JG BCM and a decline in the majority of indicators illustrates that headwinds continue in the economy. The next months will show, whether hopes of a silver lining can be sustained.

Note on methodology

The index encompasses 31 indicators, selected from available high-frequency data. These are split into five broad categories, namely: policy environment, primary sector output, secondary and tertiary output, external account, and pricing. Given the available high-frequency data, these categories provide the best available high-frequency insight into developments in the local economy and business cycle.

The raw data are adjusted and transformed for seasonality, inflation and exchange rate as appropriate. In addition, the data are adjusted to factor in whether higher or lower values are desirable (for example higher government spending is positive for the business climate, while higher interest rates are negative).

In order to develop a stationary indicator (i.e. not trending up or down) and to show dispersion from a mean value, the common PMI (Purchasing Managers' Index) approach has been slightly adjusted and utilised. This approach sees transformed indicators that are contracting over a 12-month period given a value of 0, while unchanged indicators are valued at 50 and expanding indicators valued at 100. The average value across the 31 indicators is then taken, with an overall value of over 50 implying expansion in the majority of indicators, while a value below 50 shows contraction in the majority of indicators. In addition to the level, the trend of the BCM line illustrates whether indicators are generally improving or deteriorating. A 12-period moving average is then used to smooth the indicator and ensure that short-term volatility or base effects do not provide a misleading view of the local business climate.

When compared to the historic business cycles, this approach gives a satisfactory high-frequency view of the state of the local business climate.

Indicators

Indicator	Higher Value Better	Transformation	Leading
Policy Environment			
Prime Rate	No	None	Yes
Monthly Government Spending (N\$)	Yes	Deflated	Yes
Primary Sector Output			
Livestock marketed (#)	Yes	Seasonal Adjustment	No
Copper Production (tons)	Yes	None	No
Gold Production (kg)	Yes	None	No
Diamond Production (000' carats)	Yes	None	No
Uranium Production (short tons)	Yes	None	No
Secondary and Tertiary Output			

Building Plans Completed (N\$)	Yes	Deflated, Seasonal Adjustment	No
Building Plans Approved (N\$)	Yes	Deflated, Seasonal Adjustment	Yes
Tourism Arrivals (#)	Yes	Seasonal Adjustment	No
Passenger Vehicle Sales (#)	Yes	Seasonal Adjustment	No
Commercial Vehicle Sales (#)	Yes	Seasonal Adjustment	No
Credit Extended to Individuals (N\$)	Yes	Deflated, Seasonal Adjustment	No
Credit Extended to Businesses (N\$)	Yes	Deflated, Seasonal Adjustment	Yes
CC Registrations (#)	Yes	Seasonal Adjustment	Yes
Company Registrations (#)	Yes	Seasonal Adjustment	Yes
Defensive Name Registrations (#)	Yes	Seasonal Adjustment	Yes
External Account			
Imports (N\$)	No	Deflated, Seasonal Adjustment	Yes
Exports (N\$)	Yes	Deflated, Seasonal Adjustment	No
EURZAR Exchange rate	Yes	None	Yes
USDZAR Currency Exchange rate	Yes	None	Yes
Prices			
Beef Price (N\$)	Yes	Deflated, Seasonal Adjustment	No
Lamb Price (N\$)	Yes	Deflated, Seasonal Adjustment	No
Copper Spot (N\$)	Yes	Converted to ZAR, Deflated	Yes
Gold Spot (N\$)	Yes	Converted to ZAR, Deflated	Yes
Diamond Rough Price (Index)	Yes	Converted to ZAR, Deflated	Yes
Uranium Spot (N\$)	Yes	Converted to ZAR, Deflated	Yes
Brent Crude Oil (N\$)	No	Converted to ZAR, Deflated	Yes
Petrol (95 Octane) (N\$)	No	Deflated	No
Diesel (500 ppm) (N\$)	No	Deflated	No
NCPI (Index)	No	Seasonal Adjustment	Yes

The IPPR is an Incorporated Association Not for Gain Registration Number 21/2000/468
Board: M M C Koep (Chairperson), D Motinga, J Ellis, N Nghipondoka-Robiati, G Hopwood