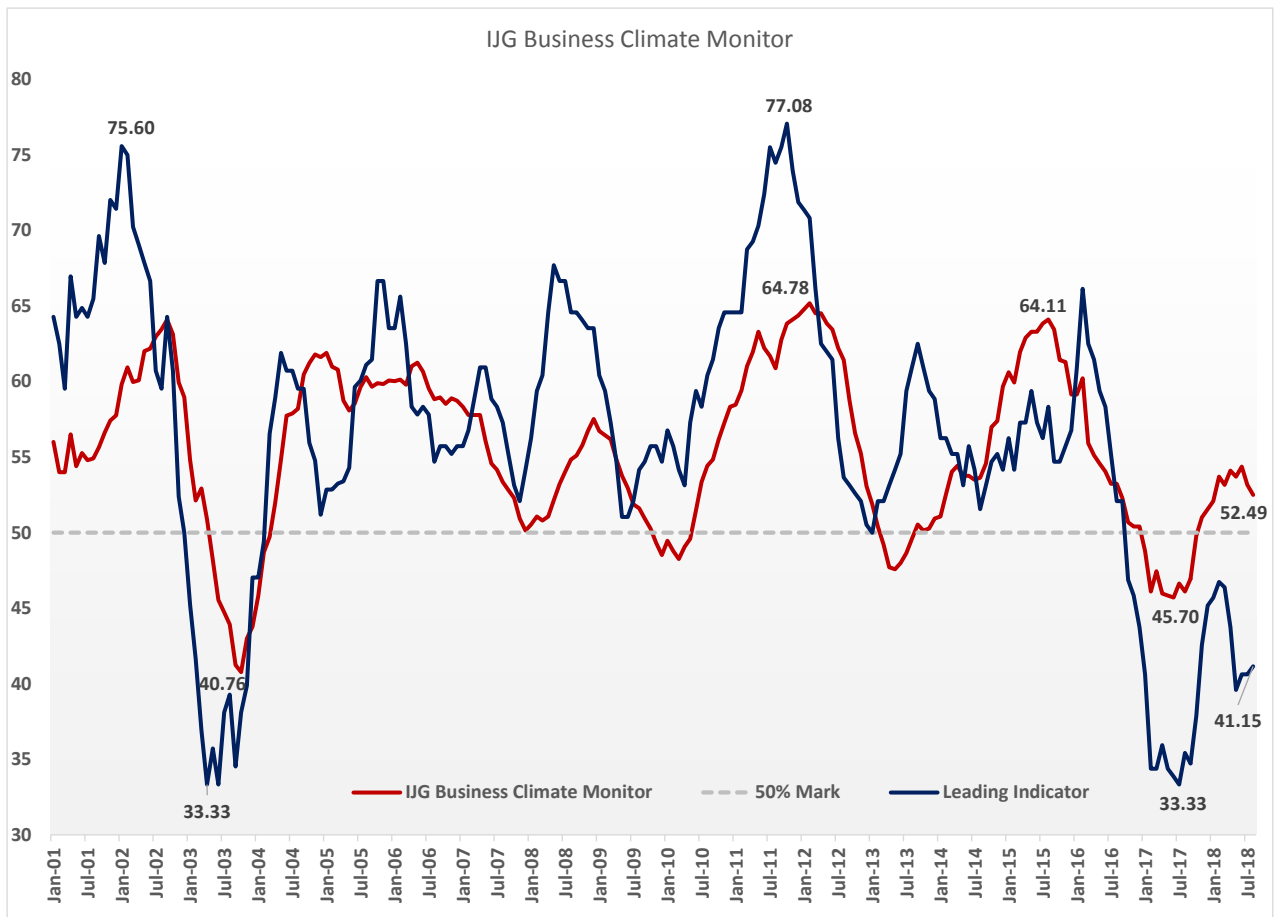




BUSINESS CLIMATE MONITOR **AUGUST-18**

Produced by Institute for Public Policy Research



The **IJG Business Climate Monitor** stood at 52.5 points in August - continuing the downward trend that started in July 2018. However, the decline of the IJG BCM slowed down to 0.7 points compared to July when it lost 1.2 points. In contrast, the Leading Indicator (which predicts future trends) increased by 0.5 points to 41.2 points by the end of August. Although remaining under the 50 point mark and therefore still indicating an economic contraction, the slight upward trend, if continued, indicates that the economy is gaining some momentum again.

However, the 31 indicators sent mixed signals. 14 indicators improved including the number of livestock marketed and cattle prices, the value of building plans completed and approved, new commercial vehicle sales, and credit extended to businesses, as well as the value of exports and imports. In contrast, lamb prices dropped slightly, diamond production continued its downward trend (and remains below the production level a year ago); copper and gold prices slowed down, while diamond and uranium prices recovered slightly; arrivals at the international airport were also fewer than in the previous month but remained higher than in August 2017; passenger vehicle sales dropped as did credit extended to individuals. The number of companies registered rose sharply, but this has to be treated with some caution since it can be almost exclusively attributed to the deadline for applications for fishing rights.

Overall, the trend of some indicators such as the drop in commodity prices and output, rising fuel costs, inflation and the depreciation of the Namibia dollar remain of concern since they squeeze profit margins.

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

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