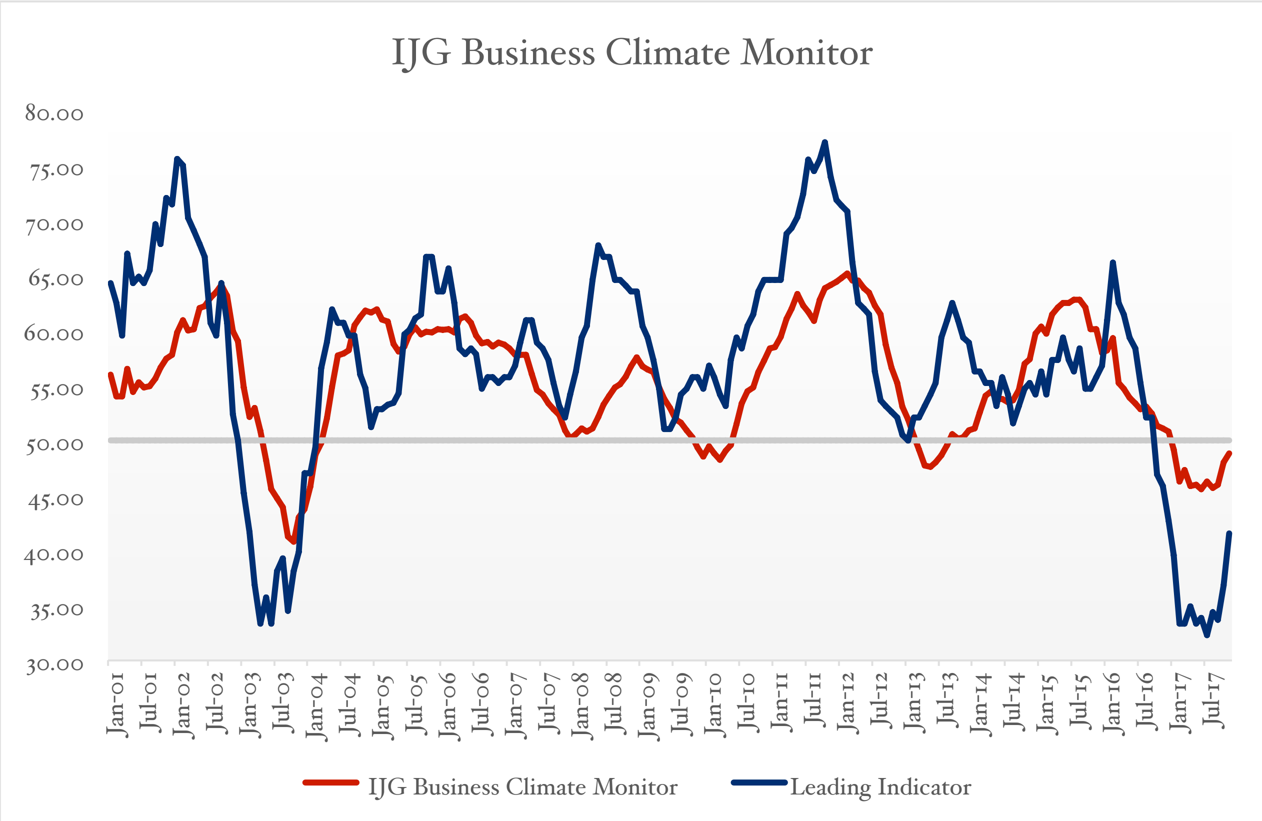
BUSINESS CLIMATE MONITOR DECEMBER-



The ***IJG Business Climate Monitor*** expanded in December 2017, ending the year off on a level of 49.37 points. This is the fourth consecutive improvement in the index, the longest upward trend since early 2015. The leading indicator increased by 2.6 points in December, closing off at 44.13 points.

Of the 31 indicators measured by the index, 16 saw improvements in December, while the remaining 13 deteriorated. 2017 proved to be another challenging year for the Namibian economy. Credit extension expanded at a much slower rate compared to 2016, with total credit extended throughout the year down 36.4% to about N$4.4 billion. The majority went to households, accounting for 76% of this, with the remaining N$957 million taken up by businesses. This shows continued depressed consumer and business confidence, with business not taking on credit for reinvestment and capital expenditure. This is reflected in vehicle sales, with sales down 20.1% in 2017 compared to 2016. This is due to lower government spending, the depressed consumer and business environment, as well as stricter credit conditions and high household indebtedness. On a positive note, commodity prices are stronger than they were in January, with the copper, gold and uranium spot prices increasing 30%, 14% and 17% respectively. Uranium and diamond production also fared better, up 23% and 15% respectively compared to 2016. With better rain and high prices seen in 2017, livestock marketed increased by 43% during the year, closing at 421,500 cattle – 126,283 more than in 2016.

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 30 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