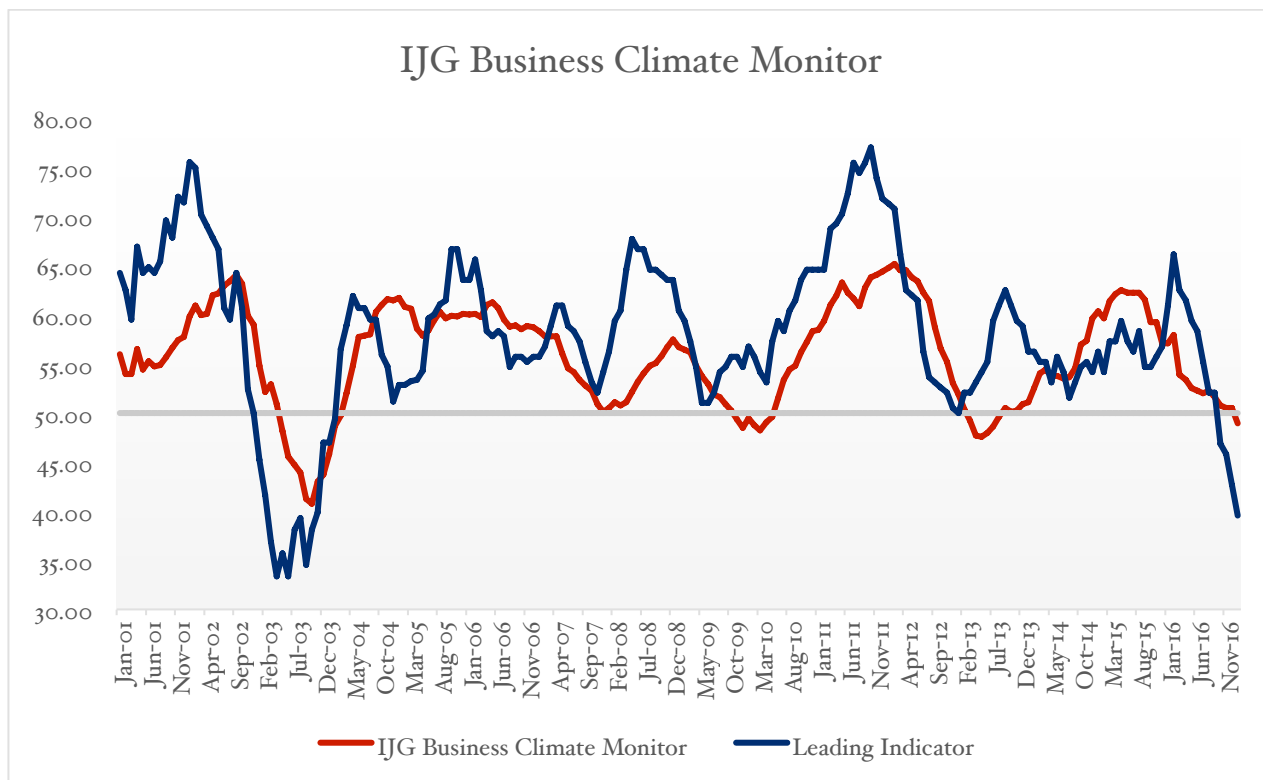




BUSINESS CLIMATE MONITOR JAN 17

Produced by Institute for Public Policy Research



The **IJG Business Climate Monitor** fell by 1.61 points to 48.92 in January 2017, the largest monthly fall since March 2016. Data revisions for December 2016 mean that this fall is now the 6th consecutive month in which the index has fallen or remained flat. During the month, 18 of the 31 indicators showed a deterioration while 13 showed improvement.

The decline in the index was driven by retail purchases, primary sector production, construction activity, and commodity prices, among others. With regards to retail sales, a number of indicators have come under pressure over the past year, with the year-on-year sales of vehicles declining by some 34.5% in January, while the 12-month cumulative sales for the period to January 2017 fell 23.4% when compared to the previous 12 months. Commercial and passenger sales declined in fairly similar proportions. A similar decline was seen in livestock marketed with a 19.2% contraction in sales on a year-on-year basis in January. The 12 months to January 2017 saw a 30% decline in livestock sales when compared to the same period of the preceding year. On the policy front, the business climate has come under pressure as a result of both lower fiscal expenditure and higher interest rates over the last year.

To a large extent, the weak data seen in January 2017 constitutes an overhang from the rapid economic adjustment witnessed in the Namibian economy through the second half of 2015 and 2016, when a host of internal and external factors drove the local economy into recession. Going forward, the expectation is for the economy to remain weak for the first half of 2017, with some stabilisation and recovery by the 4th quarter.

Note on methodology

The index encompasses 30 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 very a very 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