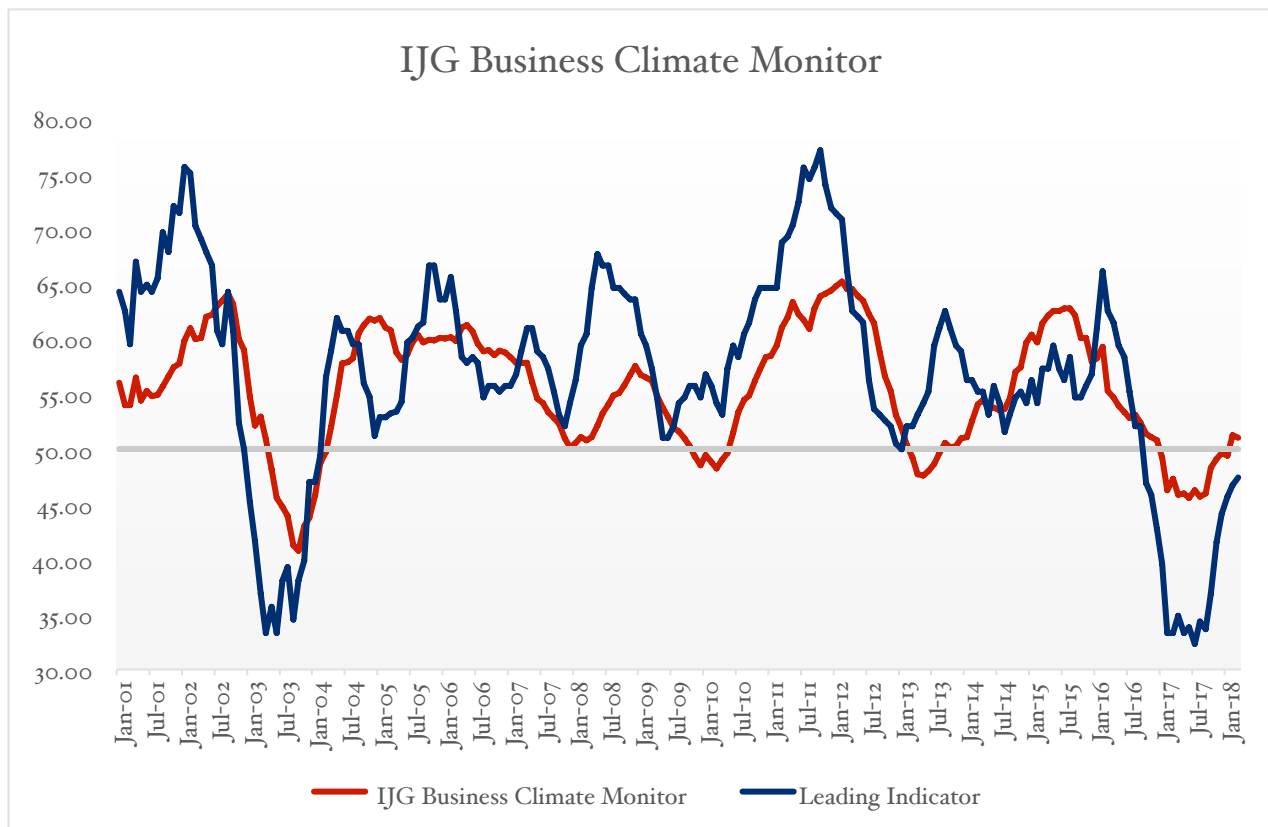




BUSINESS CLIMATE MONITOR MARCH-18

Produced by Institute for Public Policy Research



The **IJG Business Climate Monitor** declined slightly to 50.87 in March 2018. Despite the fall, the index remains above the 50-point mark, suggesting a recovery in the economy after the deep contractions witnessed in 2017. The leading indicator once again showed improvement, climbing to 47.6 points. The continued upward trajectory of the leading indicator bodes well for recovery.

Of the 31 indicators monitored, March 2018 saw just 13 improve, while the remaining 18 contracted. Commodity prices remained fairly level in US dollar terms. A relatively strong rand, especially when compared to March 2017, means that spot prices are significantly lower in local currency than a year ago. Uranium remains a particular concern, with spot prices continuing to weaken in 2018 at just US\$21 per pound. This equates to N\$248.85 per pound, the lowest local currency spot price since October 2006. Low production levels and persistently weak prices place the future of the entire local industry in jeopardy.

Annual inflation remained flat at 3.5%, the result of a slowdown in prices in a number of categories, particularly the two largest: food and non-alcoholic beverages, and housing, water, electricity and other fuels. Food inflation is down to 2.7% from 7.3% a year, as a result of decrease across all sub-groups, indicative of a recovery in the agriculture sector. Rental payment increases slowed down to just 2.6%

from 9.6% in March 2017, attributable to a weaker housing market given the recessionary climate from 2017.

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 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