IJG BUSINESS CLIMATE MONITOR

Produced for the IPPR

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Outline

- What is the BCM?
- Methodology
- Indicators
- Limitations
- Namibia’s current business climate developments
  - Policy environment
  - Primary sector indicators
  - Secondary and tertiary sector indicators
  - External indicators
  - Price indicators
- Conclusions

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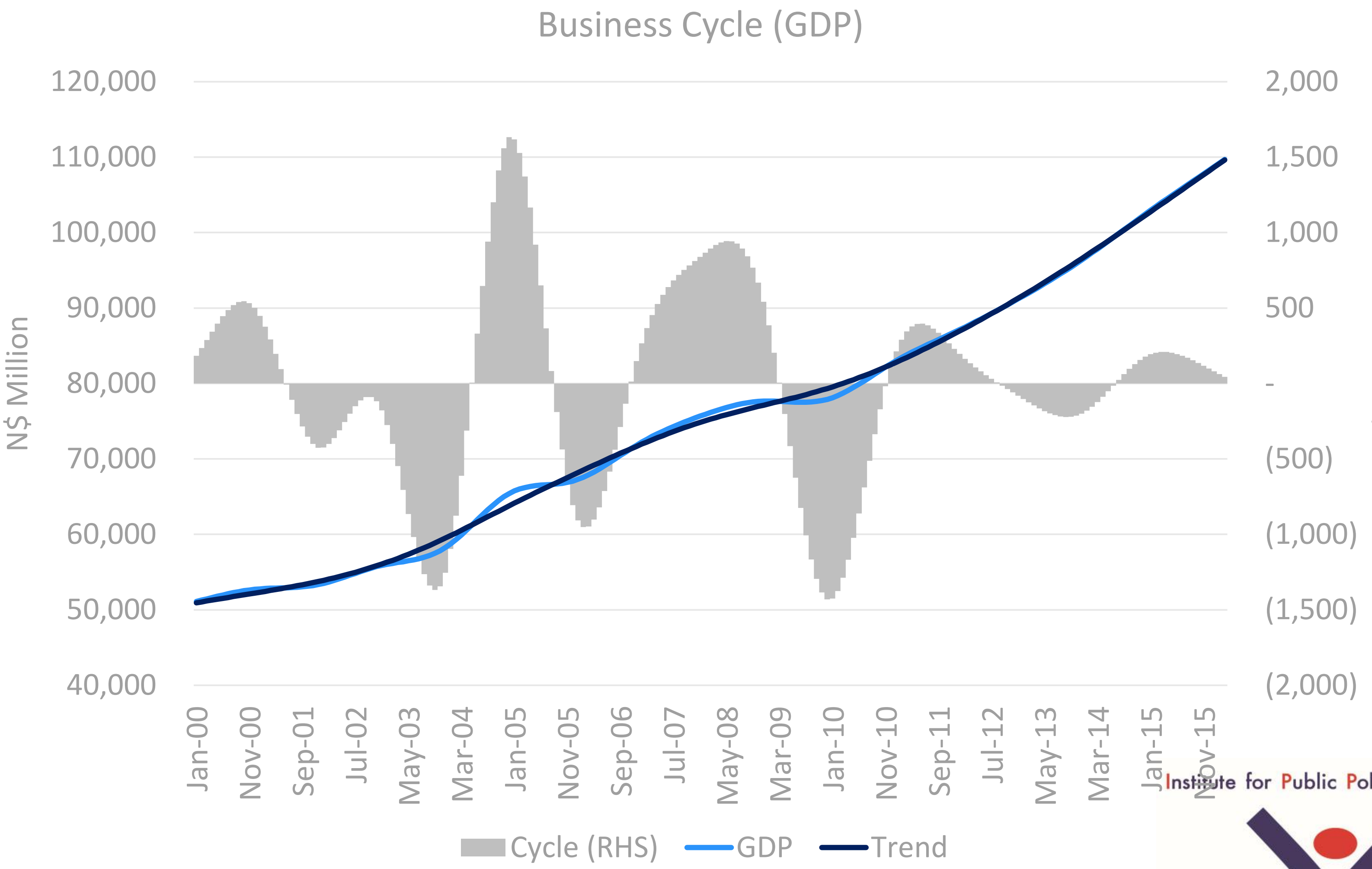
What is the BCM?

- High frequency indicator, designed to track the business cycle in as close to real time as possible.
- Provides a monthly update on the local economy and business climate.
  - Notably more frequent than GDP numbers.
- Uses 30 high frequency indicators that represent key parts of the Namibian economy.
- Illustrates if the economy is likely to be growing or contracting, and if the economic situation is improving or deteriorating.
- Leading indicator provides insight as to the business climate approximately 3-6 months ahead of time, based on leading indicators.
- Imperfect measure, but good indicator of health of local business climate.

Business Cycle



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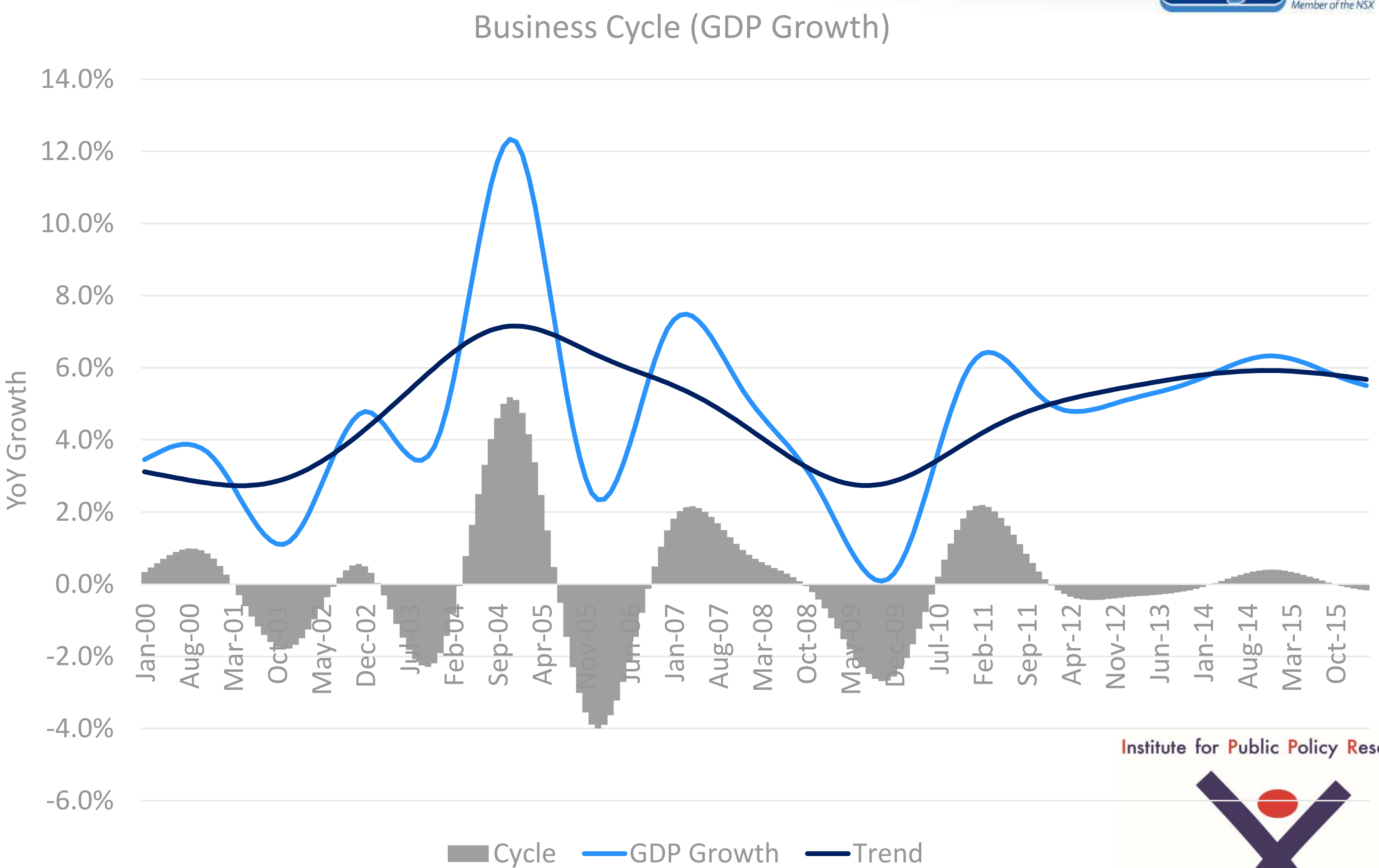
Business Cycle



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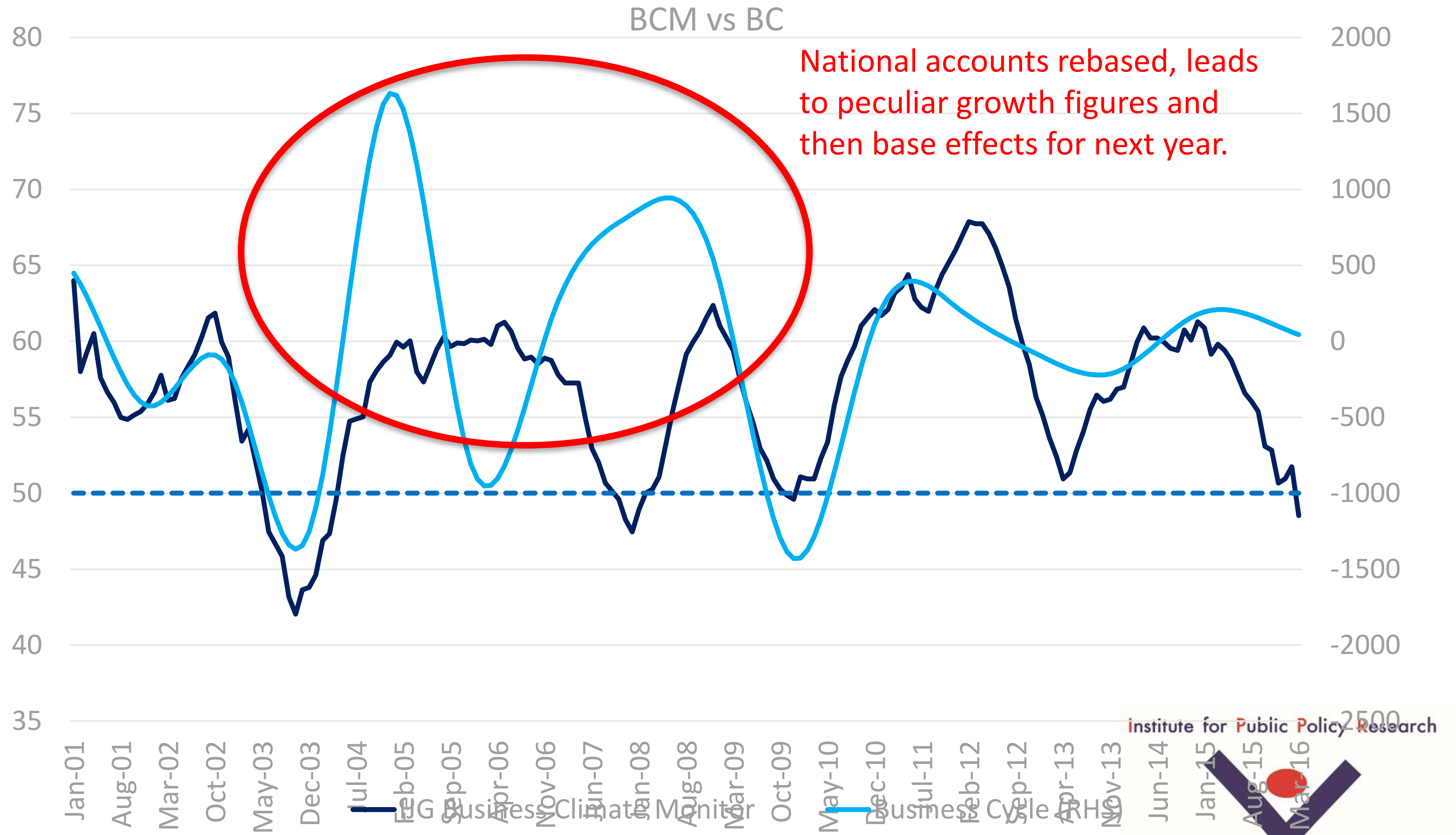
BCM vs BC



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Methodology

- 30 indicators
- Transformed as appropriate
  - Seasonal adjustment
  - Deflated
  - Converted into NAD
- Assessed for expansion or contraction over 12m period
  - Expansion = 100
  - Unchanged = 50
  - Contraction = 0
- Values of 30 indicators averaged, for overall level, meaning:
  - Over 50 = general expansion
  - 50 = generally unchanged
  - Under 50 = general contraction.
- Smoothed using 12 period moving average
- Indicator is stationary over time.

PMI APPROACH

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Indicators

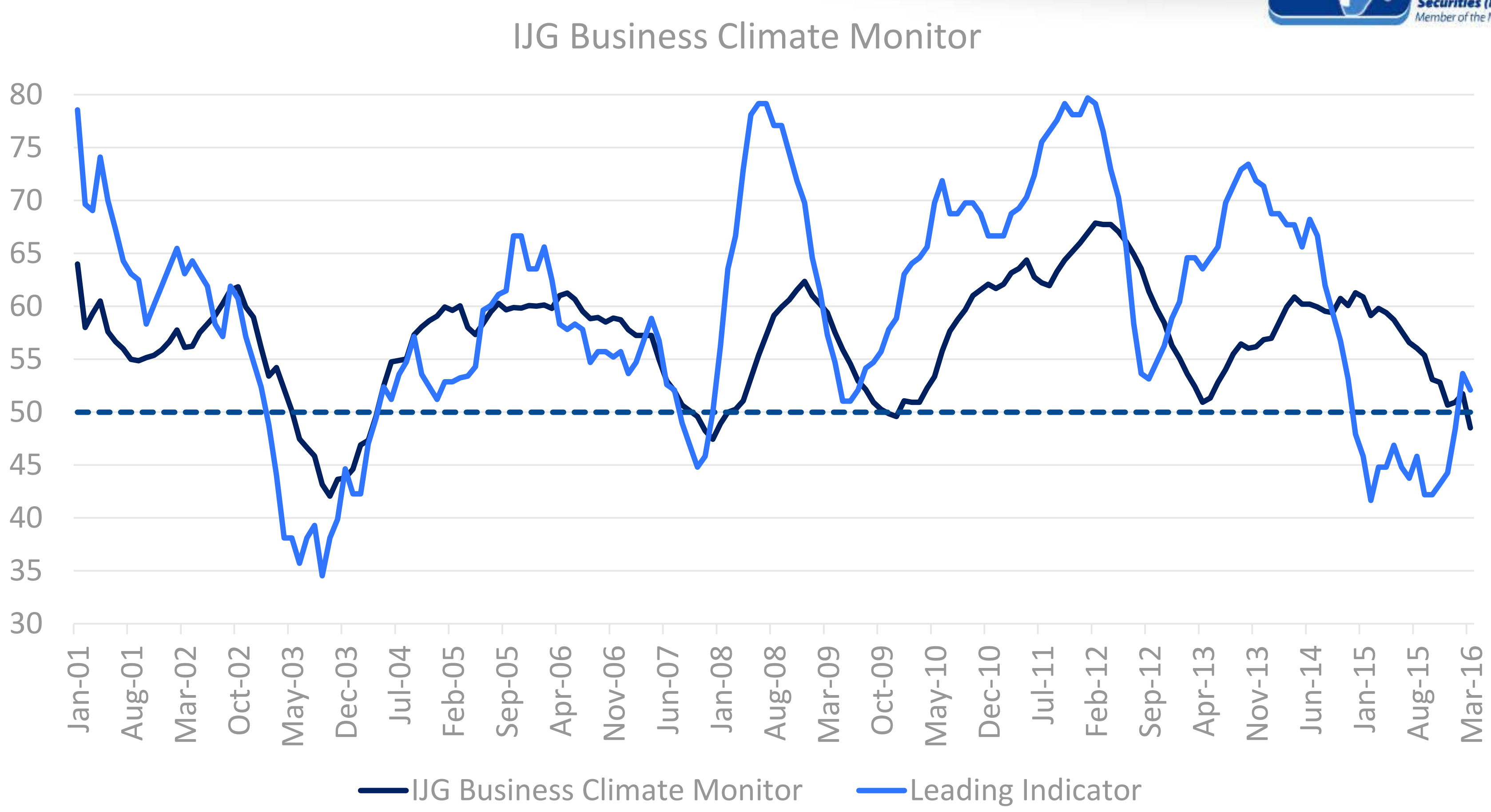
Indicator	High Good/Bad	Transformation	Leading
Policy Environment			
Prime Rate	Bad	None	Yes
Monthly Government Spending (N$)	Good	Deflated	Yes
Primary Sector Output			
Livestock marketed (#)	Good	Seasonal Adjustment	No
Copper Production (tons)	Good	None	No
Gold Production (kg)	Good	None	No
Diamond Production (000' carats)	Good	None	No
Uranium Production (short tons)	Good	None	No
Secondary and Tertiary Output			
Building Plans Completed (N$)	Good	Deflated, Seasonal Adjustment	No
Building Plans Approved (N$)	Good	Deflated, Seasonal Adjustment	Yes
Tourism Arrivals (#)	Good	Seasonal Adjustment	No
Passenger Vehicle Sales (#)	Good	Seasonal Adjustment	No
Commercial Vehicle Sales (#)	Good	Seasonal Adjustment	No
Credit Extended to Individuals (N$)	Good	Deflated, Seasonal Adjustment	No
Credit Extended to Businesses (N$)	Good	Deflated, Seasonal Adjustment	Yes
CC Registrations (#)	Good	Seasonal Adjustment	Yes
Company Registrations (#)	Good	Seasonal Adjustment	Yes
Defensive Name Registrations (#)	Good	Seasonal Adjustment	Yes
External Account			
Imports (N$)	Bad	Deflated, Seasonal Adjustment	Yes
Exports (N$)	Good	Deflated, Seasonal Adjustment	No
EURZAR Exchange rate	Good	None	Yes
USDZAR Currency Exchange rate	Good	None	Yes
Prices			
Beef Price (N$)	Good	Deflated, Seasonal Adjustment	No
Lamb Price (N$)	Good	Deflated, Seasonal Adjustment	No
Copper Spot (N$)	Good	Converted to ZAR, Deflated	Yes
Gold Spot(N$)	Good	Converted to ZAR, Deflated	Yes
Diamond Rough Price (Index)	Good	Converted to ZAR, Deflated	Yes
Uranium Spot (N$)	Good	Converted to ZAR, Deflated	Yes
Brent Crude Oil (N$)	Bad	Converted to ZAR, Deflated	Yes
Petrol (95 Octane) (N$)	Bad	Deflated	No
Diesel (500 ppm) (N$)	Bad	Deflated	No

Limitations

- Limited to (reliable) high frequency data
  - No indicators for social unrest, service availability, etc.
  - Certain sectors not captured (eg fishing, real estate etc.)
  - Abnormalities (large mine construction, fiscal challenges, rainfall, property prices) not captured directly
  - Unweighted
  - Not able to quantify growth/contractions, but illustrate direction.
- May differ from NSA business cycle
  - Eg 2004 and 2015.
    - Who is right?
- Imperfect measure, however good high-frequency indicator.

So what is the BCM telling us at present?

BCM – March 2016



- **BCM below 50, suggesting most indicators are contracting**
- **BCM trending down, suggesting business climate continuing to deteriorate.**
- **Leading indicator recovering, suggesting improvement 6-12 months ahead**

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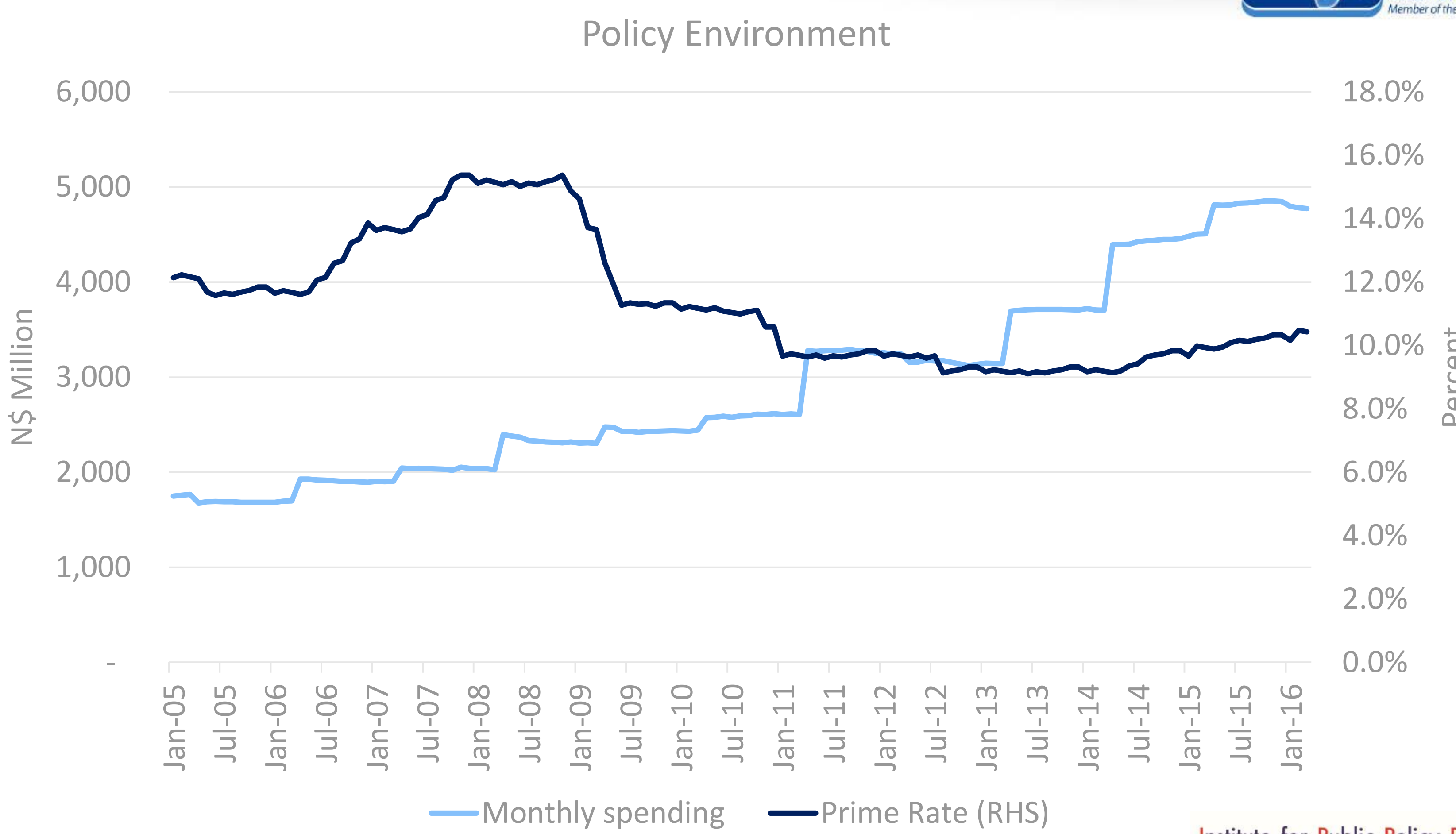
Policy Environment



- **Policy environment continues to deteriorate**
- **Interest rates increasing**
- **Government spending contracting**
  - **To worsen going forward.**

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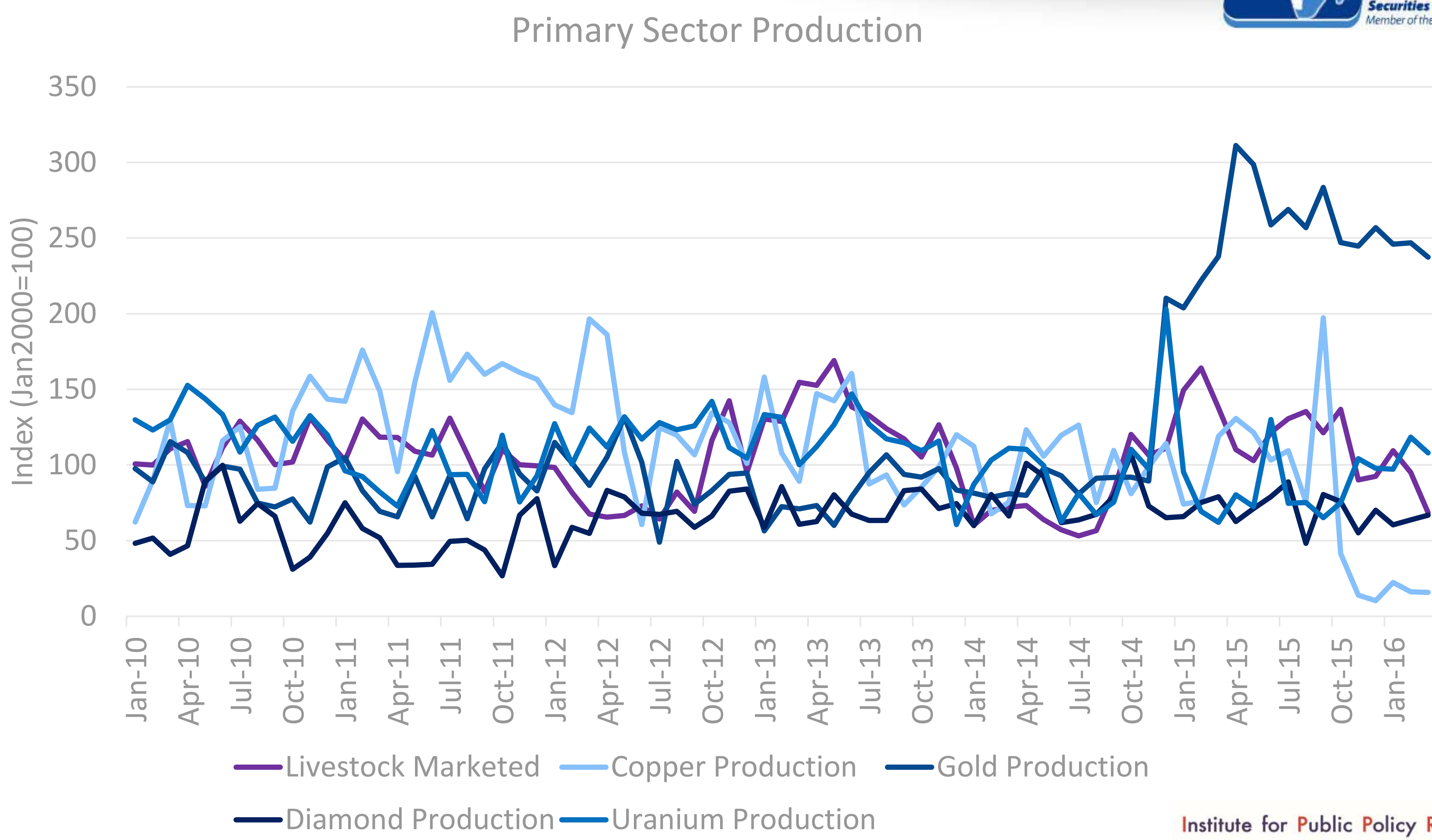
Primary Sector Production



- **Primary sector production remains under pressure.**
  - **Agriculture and mining both seeing output constraints**
  - **Driven by low commodity prices and drought.**

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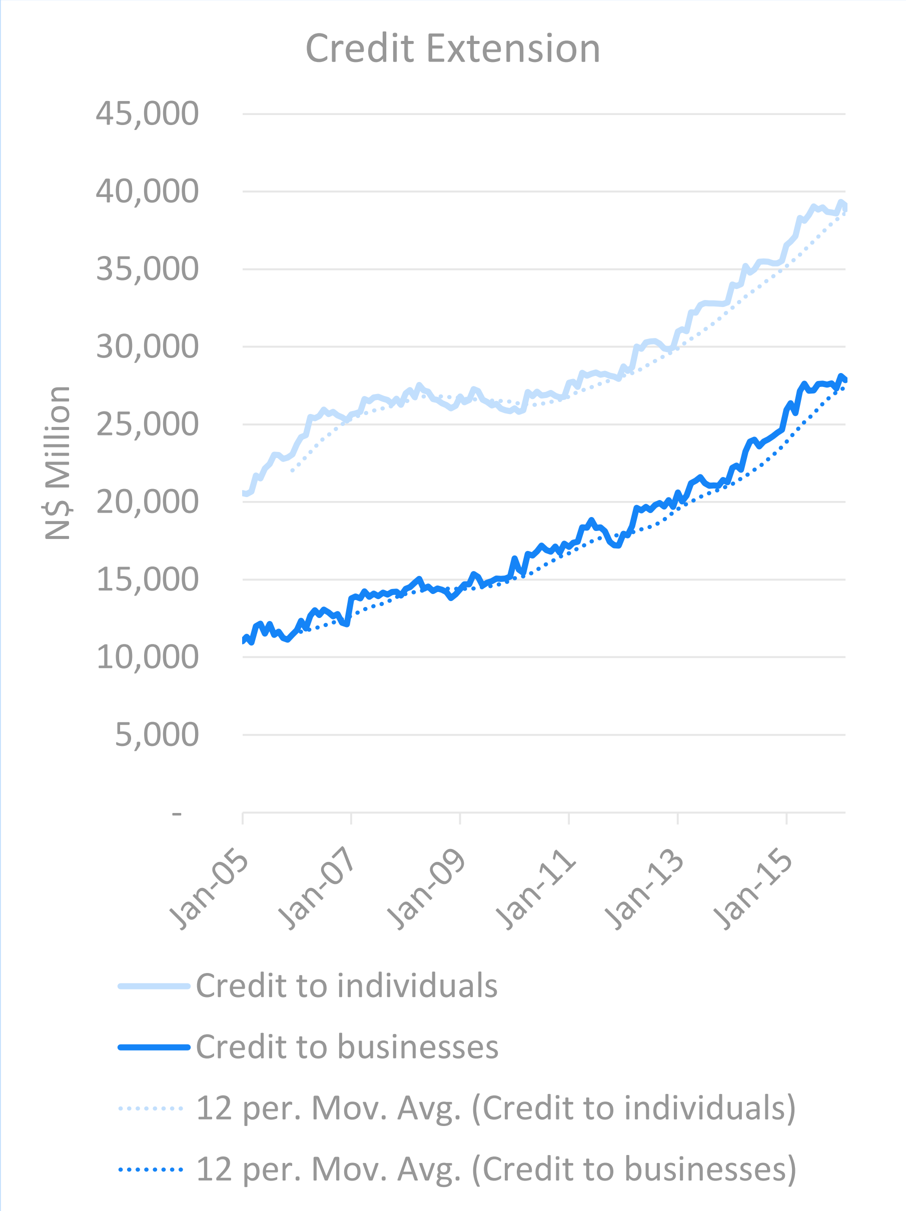
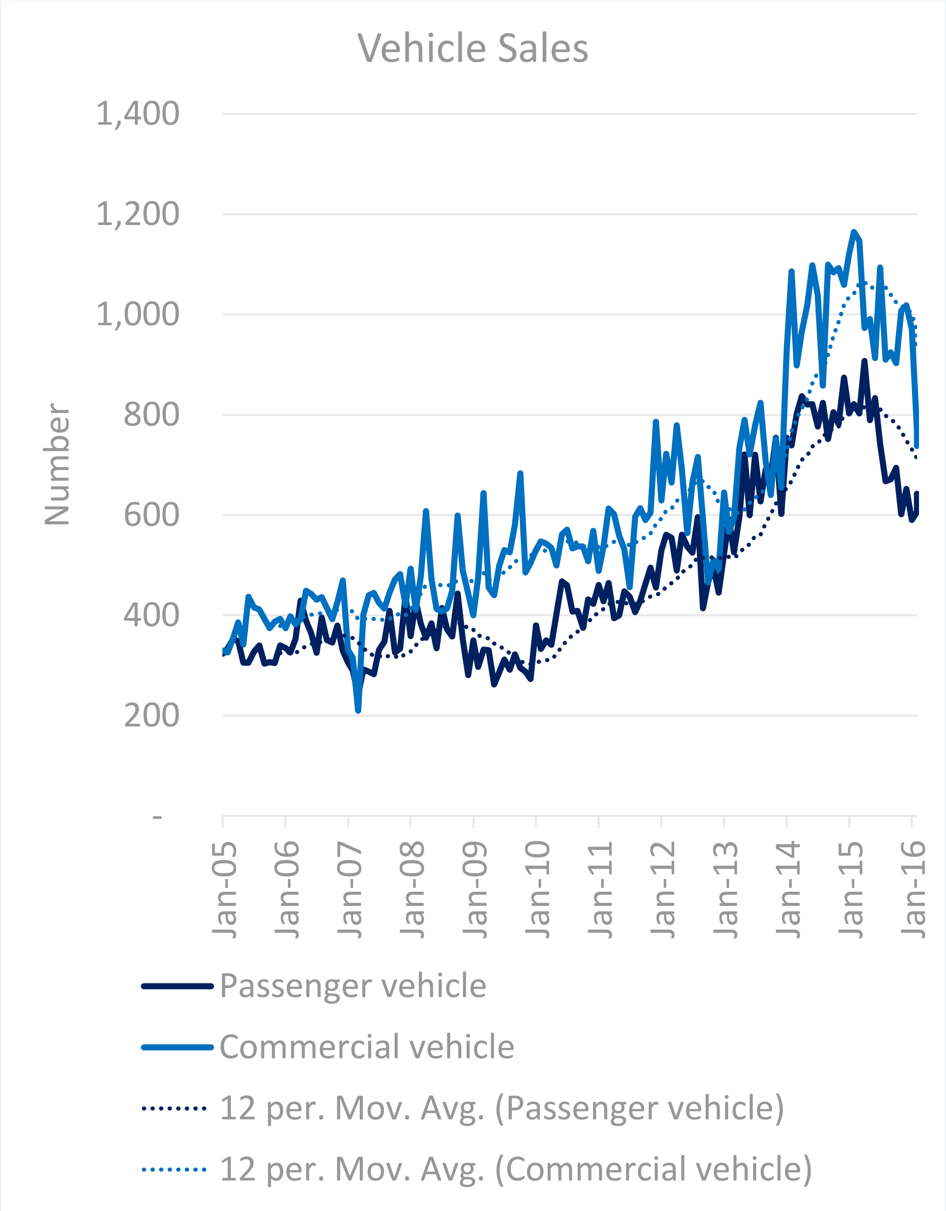
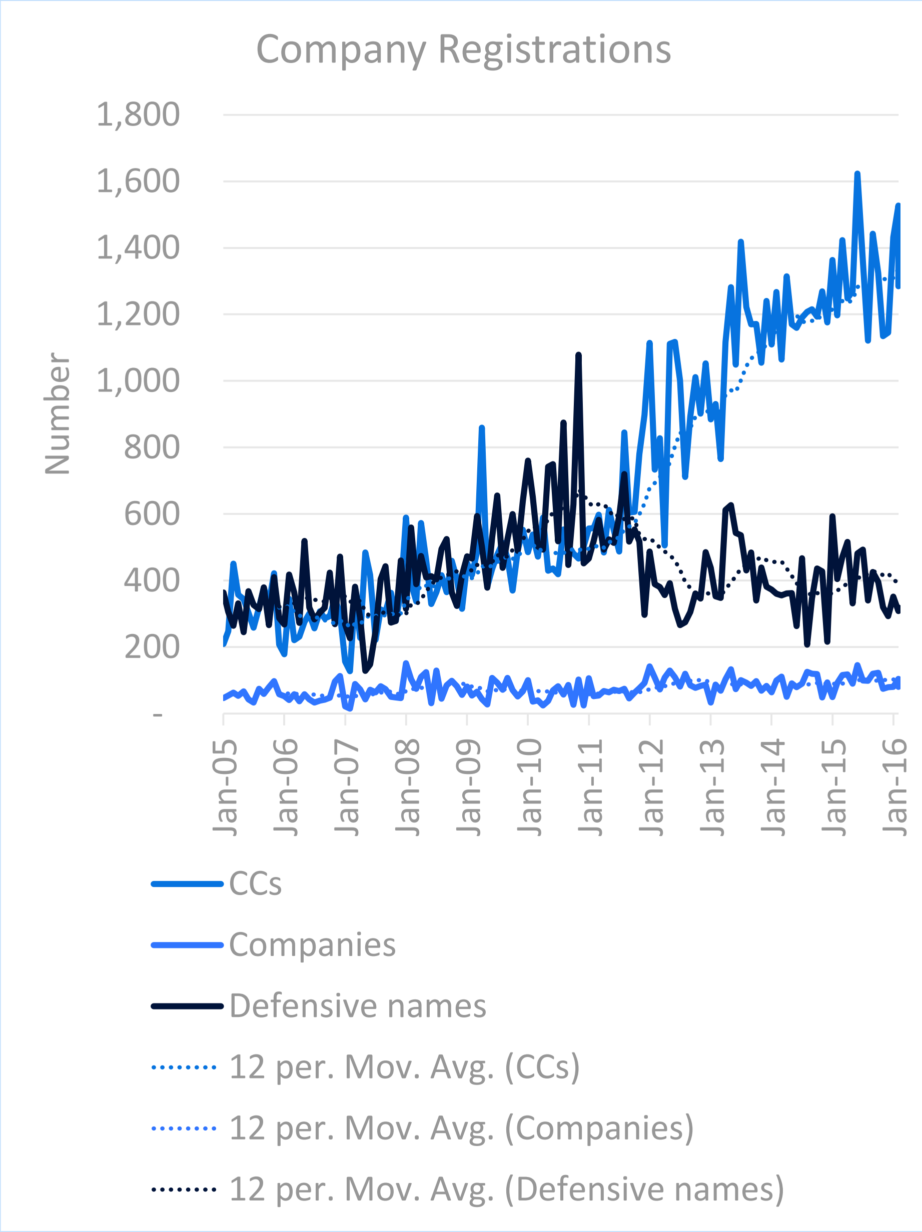
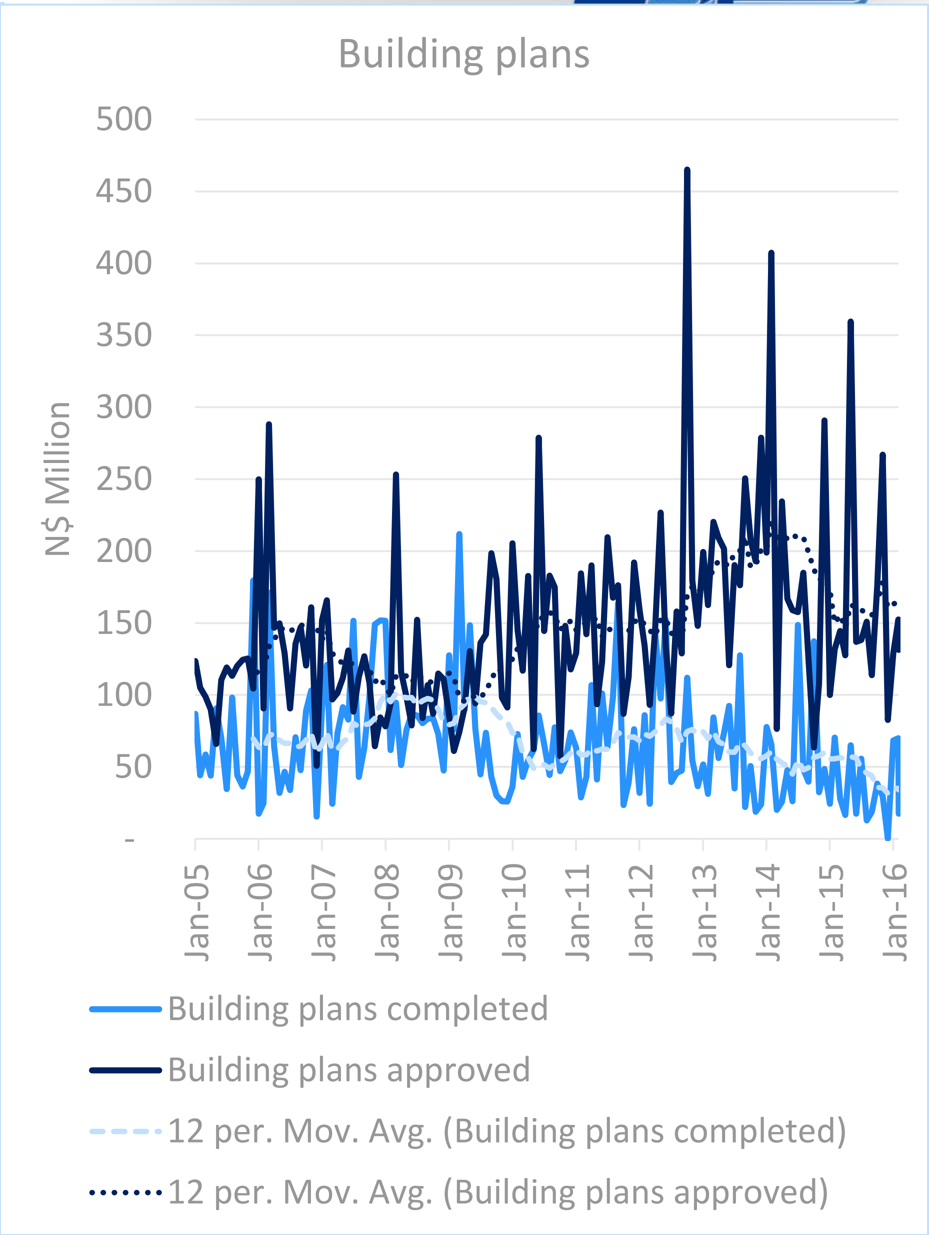
Secondary and Tertiary



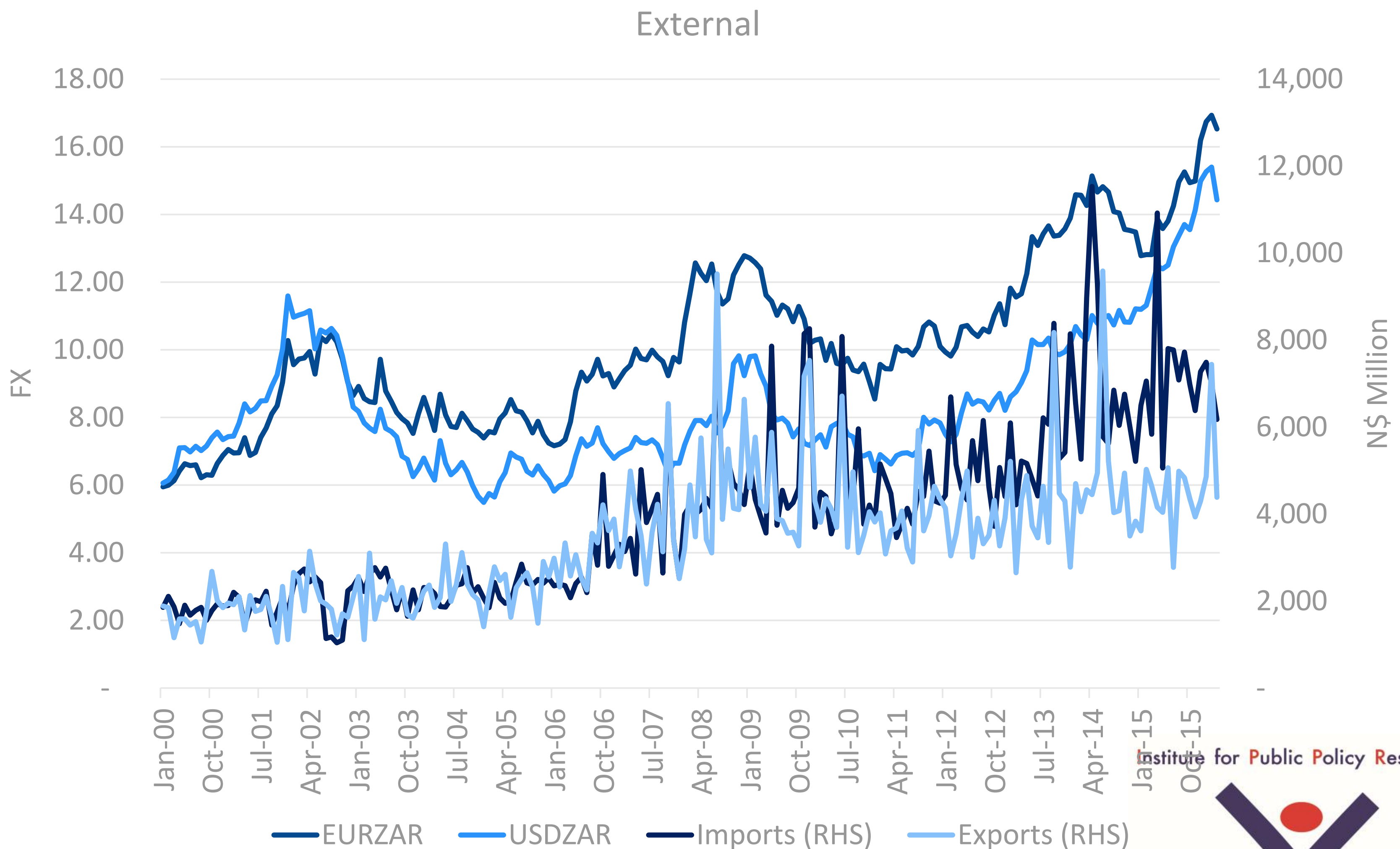


Secondary and Tertiary





External Account



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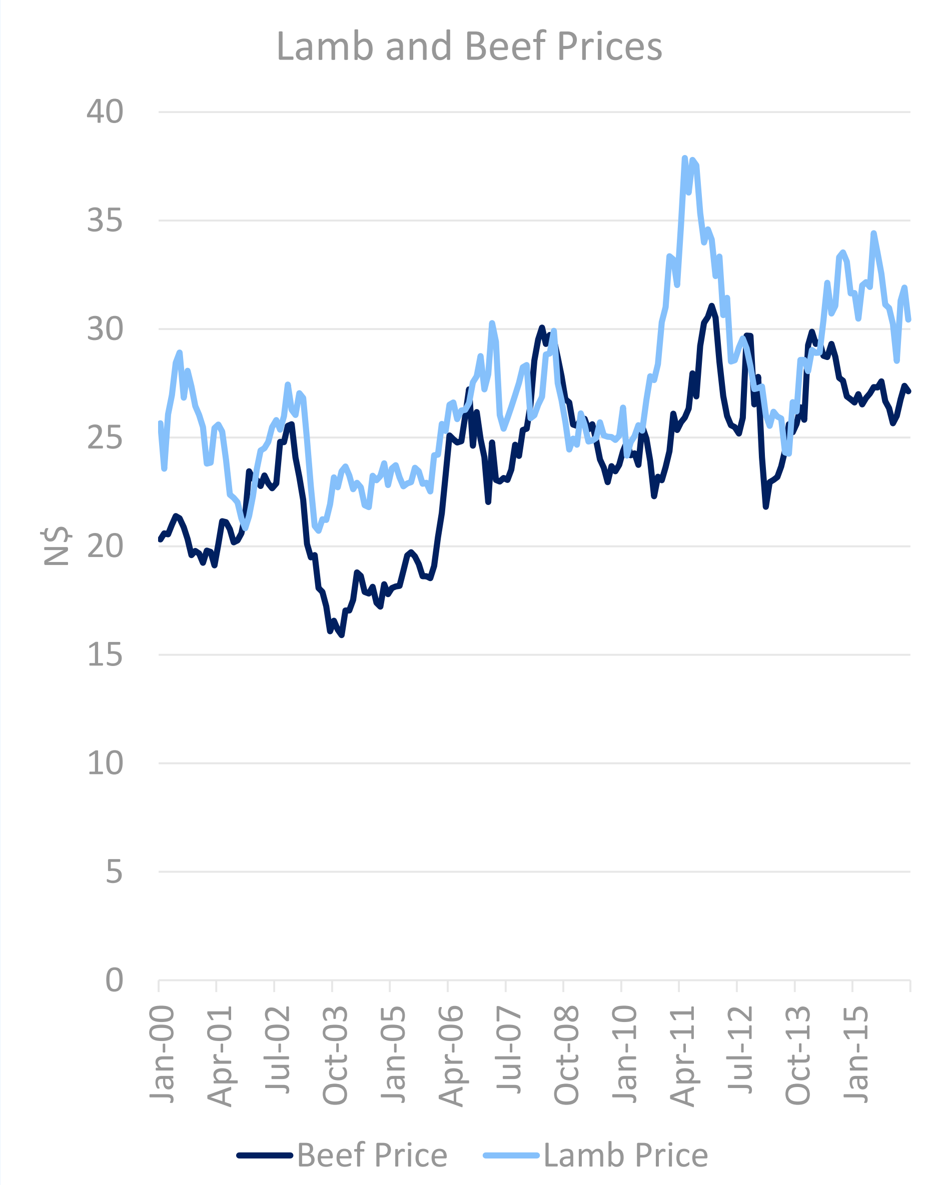
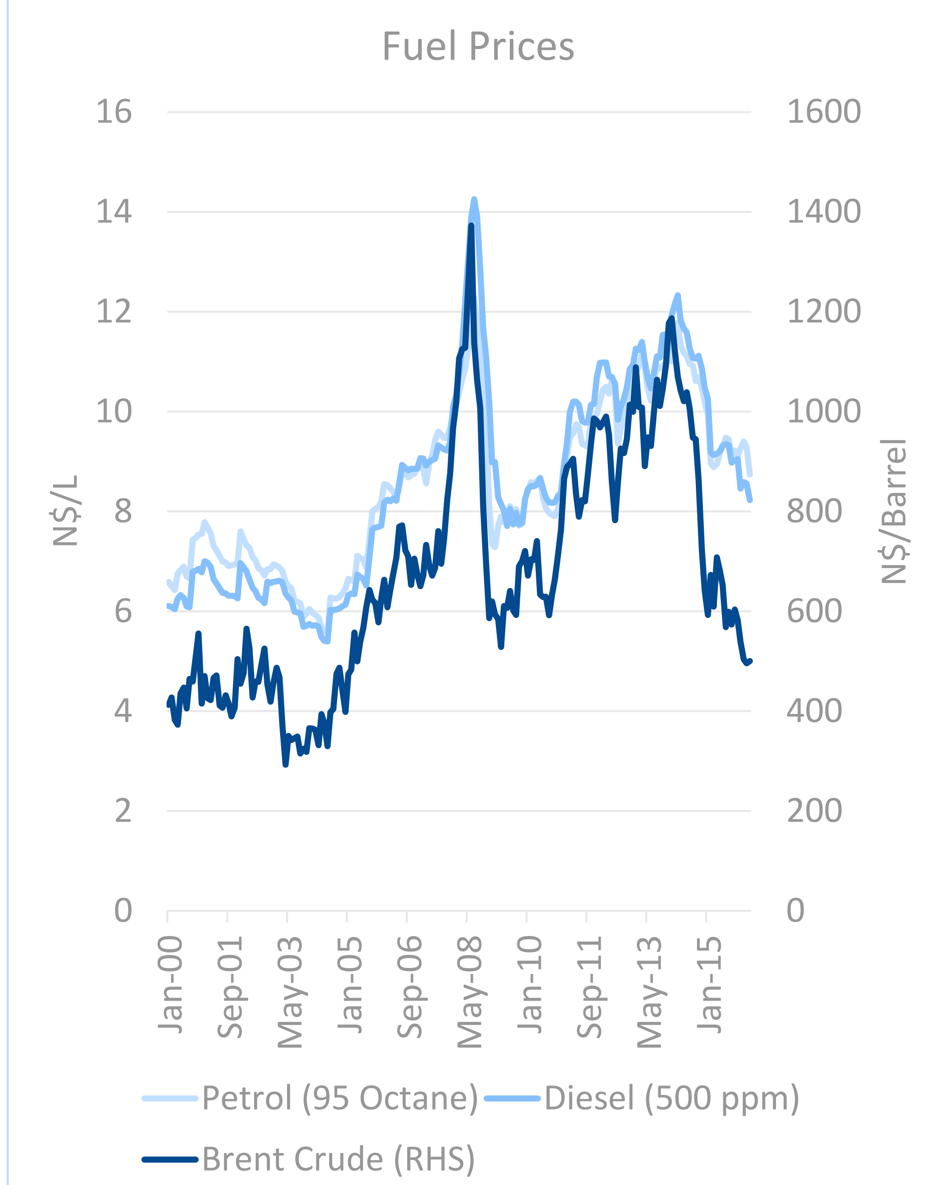
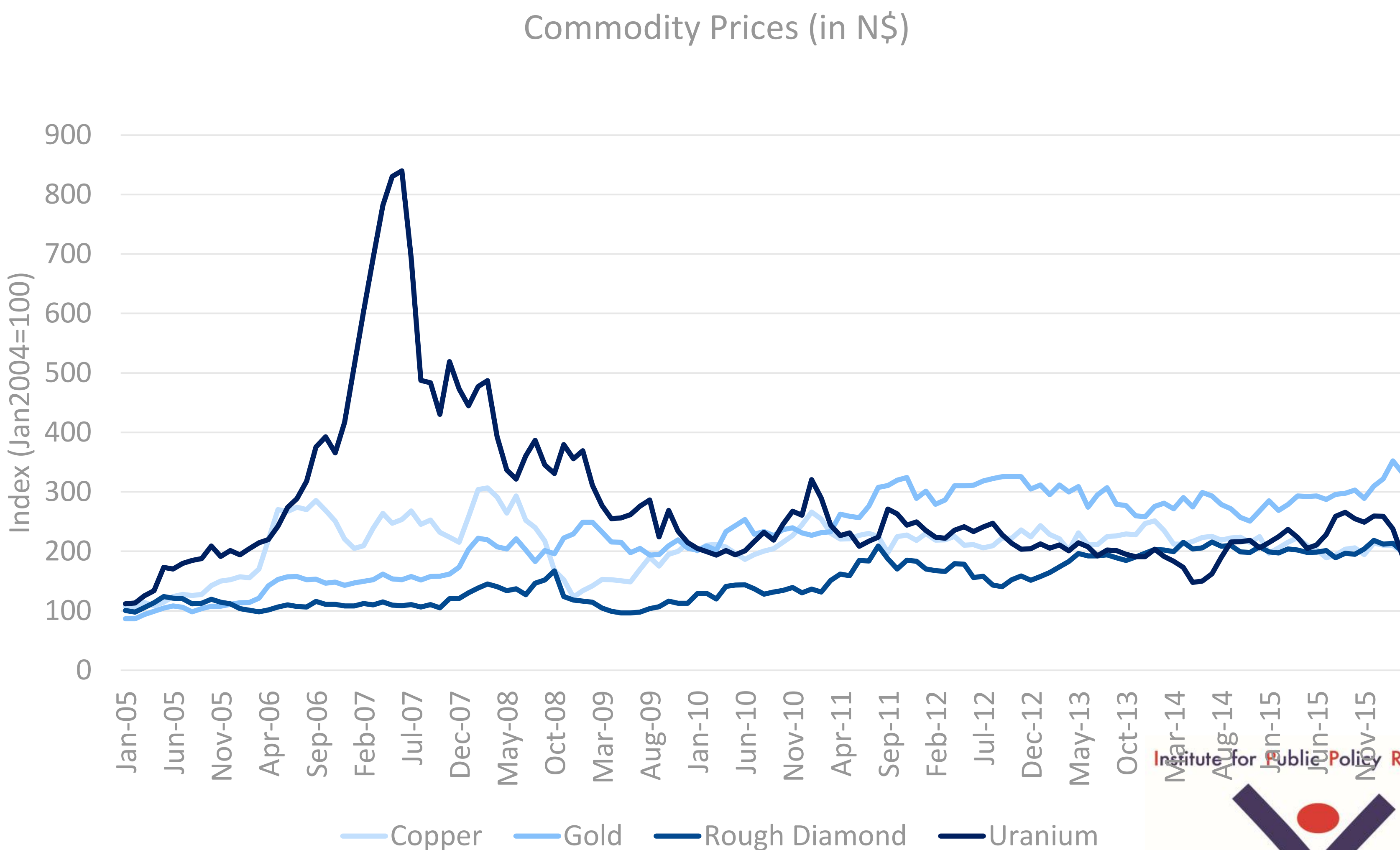
Prices


Lamb and Beef Prices
N$
40
35
30
25
20
15
10
5
0
Jan-00
Apr-01
Jul-02
Oct-03
Jan-05
Apr-06
Jul-07
Oct-08
Jan-10
Apr-11
Jul-12
Oct-13
Jan-15
Beef Price
Lamb Price


Fuel Prices
N$/L
16
14
12
10
8
6
4
2
0
N$/Barel
1600
1400
1200
1000
800
600
400
200
0
Jan-00
Sep-01
May-03
Jan-05
Sep-06
May-08
Jan-10
Sep-11
May-13
Jan-15
Petrol (95 Octane)
Diesel (500 ppm)
Brent Crude (RHS)

Prices



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Conclusions

- The business cycle monitor suggests that the economy is slowing and the business climate deteriorating.
- This is being driven by a deteriorating policy environment, as well as a weak primary sector.
- The secondary and tertiary spaces remain relatively strong, however vehicle sales continue to contract.
- Prices show a mixed story, with fuel prices adding some buoyancy to the business climate.
- The leading indicator suggests some recovery can be expected in the next 6-12 months.
- This is largely driven by the strong growth in credit and company registrations. However, the rate of growth of credit is now slowing.

- The index remains imperfect, and factors such as availability of services, high levels of government debt and social unrest are not measured/captured directly.

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THANK YOU!

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