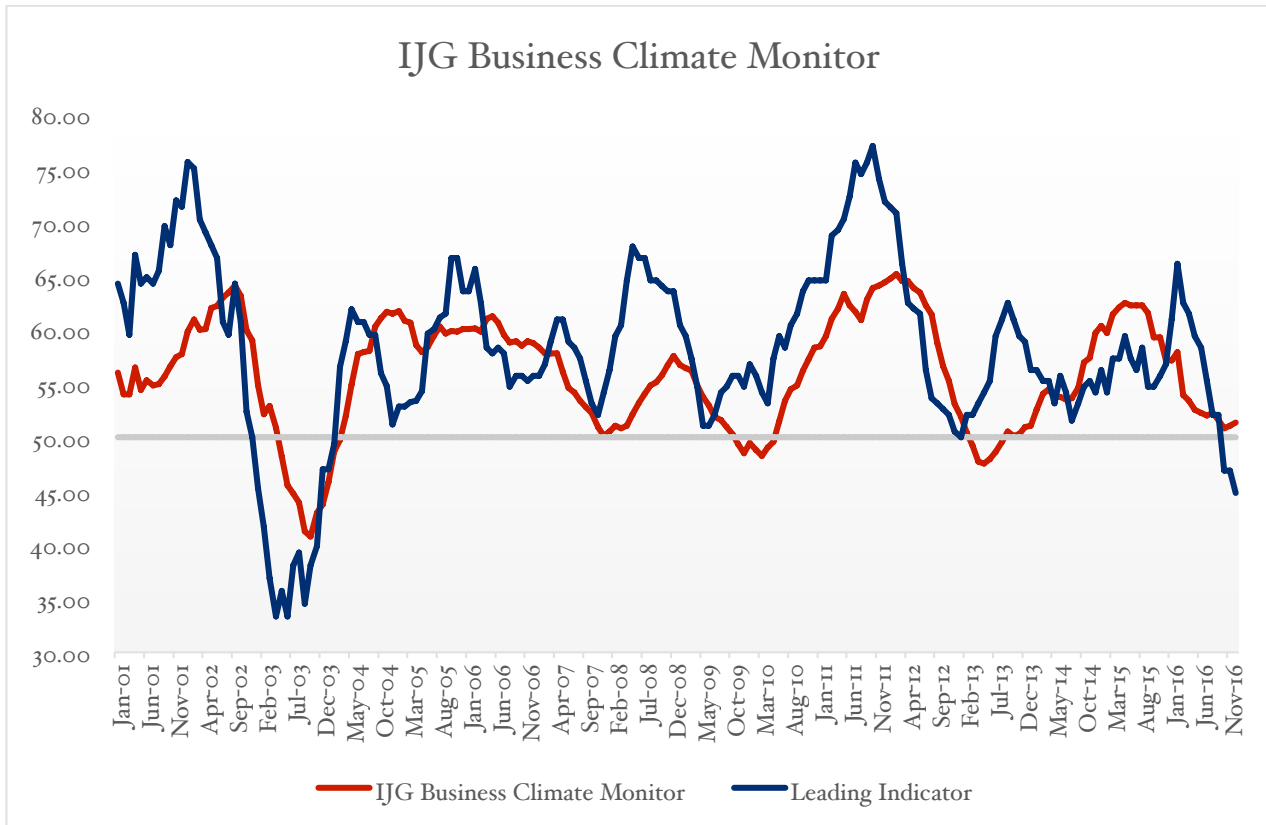




BUSINESS CLIMATE MONITOR **DECEMBER**



The **IJG Business Climate Monitor** increased marginally - by 0.26 points - in December 2016 to a level of 51.34 points. This is the second consecutive up month on the index, the first time this has happened since April 2015. Of the 31 indicators measured by the index, 15 showed deterioration over the past year, while the remaining 16 indicators showed improvement.

2016 proved challenging for Namibia, with many of the indicators showing major deterioration through the year. Livestock marketed in 2016 fell by 31.2% when compared to the previous year, largely due to the persistent drought. Diamond production fell approximately 11%, primarily due to vessel maintenance. While most commodity export prices, in Namibia Dollars, remained fairly stable from 2015 to 2016, the uranium price fell 47.3%, to one of its lowest levels in over a decade. Vehicle sales plummeted by 22.3% on account of government buying less vehicles, liquidity constraints in the commercial banks, and regulatory changes to credit conditions. Following a 33.7% weakening in the Rand and by extension the Namibia Dollar against the US Dollar through 2015, 2016 saw some respite with the currency recovering by 11.1%. Credit extension continued to expand through 2016, but did so at a notably lower rate than in 2015. Credit extension to businesses slowed to 8.5% growth from 14.9% a year earlier. Credit extension to households slowed to 9.3% from 12.5% a year earlier. Although demand for credit remains strong, the supply thereof has become somewhat constrained due to a number of factors. Persistent fiscal and monetary stimulus has resulted in a fiscal crowding out, while low interest rates have incentivised borrowing over saving, resulting

in a closing of the loan-to-funding ratios of the commercial banks. Added to this, policy proposals appear to have spooked foreign and domestic investors and reduced inward investment as well as increased retail outflows from the economy. Finally, inflation picked up dramatically through 2016, averaging 6.7% and finishing the year at 7.3%. By contrast, 2015 inflation was an average 3.4%, finishing the year at 3.7%.

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