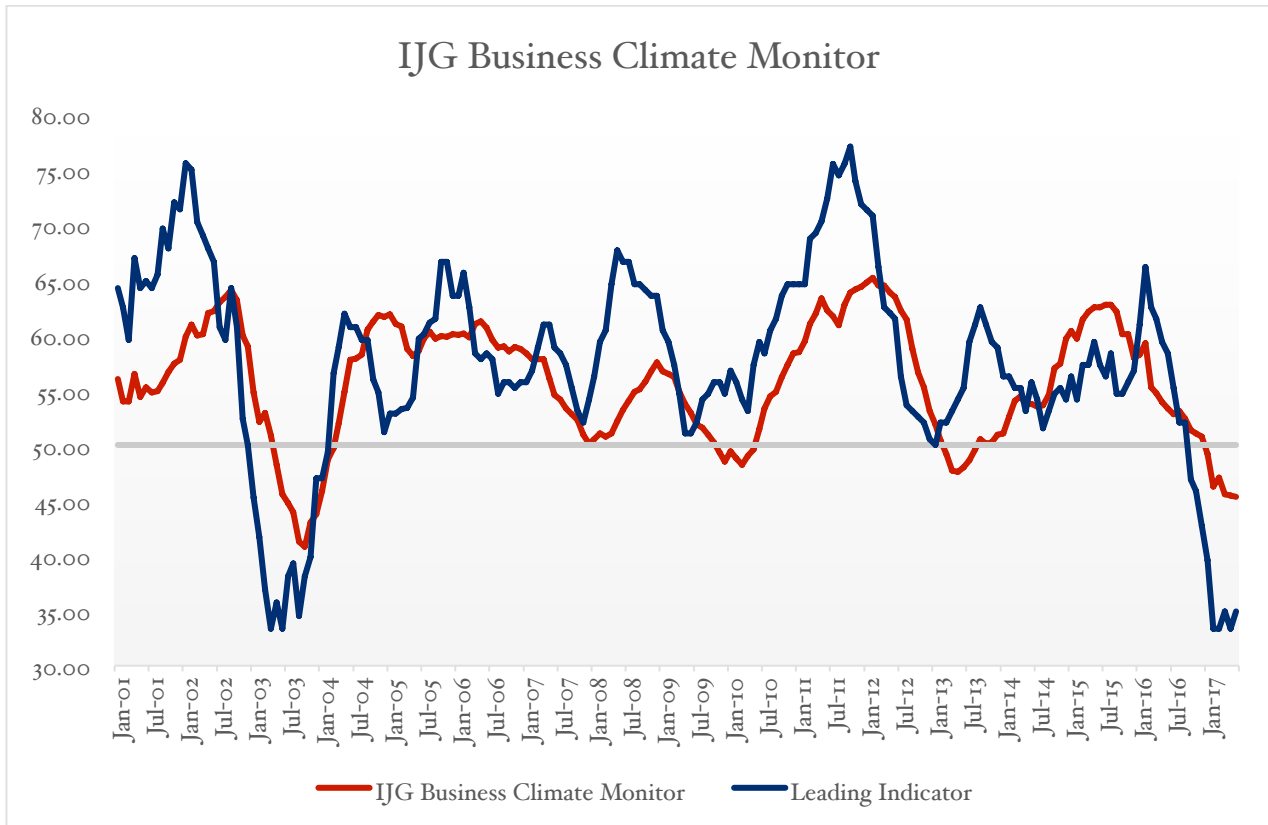




# BUSINESS CLIMATE MONITOR JUNE-17

Produced by Institute for Public Policy Research



The **IJG Business Climate Monitor** fell by 0.13 points in June 2017, after an identical 0.13 point fall in May. The index now stands at a level of 45.30 points, its lowest level since December 2003. This is the sixth consecutive month that the index is below the 50-point level that indicates economic contraction. The leading indicator has recovered slightly, reaching the same level recorded in March this year, but remains well below the 50-point level for the ninth consecutive month. The slight drop in the BCM, coupled with the recovery in the leading indicator, suggests that the economic downturn is moderating.

Of the 31 indicators measured by the index, 15 expanded in June, one remained unchanged and the remaining 15 contracted. The preliminary trade statistics are a cause for concern. While the value of imports fell slightly, the value of exports fell by 40% from May to June, to their lowest level since June 2015. This poses a danger for international reserve levels, and requires continued capital inflows in order to maintain macro-stability and the currency peg over the long term. Vehicle sales were up slightly in June, but still below the level seen for the same period last year. On a positive note, agriculture growth is improving after the end of the drought, with the highest number of livestock marketed on record being seen in June. Similarly, despite sales volumes, beef and lamb prices are at their highest levels to date. Diamond production has also increased - up by 31% compared to May. The uranium price remains weak, and a strong rand does not bode well for the sector over the coming months.

## 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 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  |
| NCPI (Index)                         | No  | Seasonal Adjustment           | Yes |