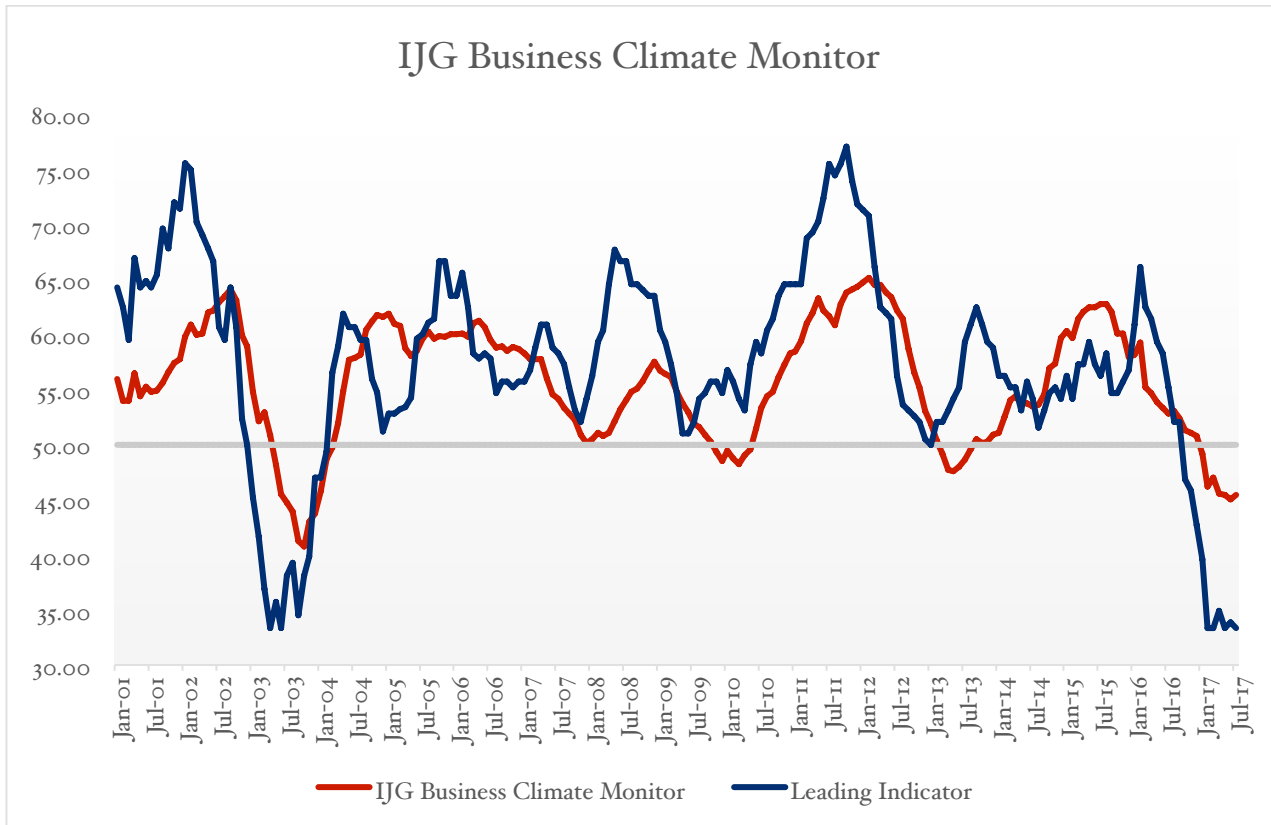




BUSINESS CLIMATE MONITOR AUGUST-17

Produced by Institute for Public Policy Research



After the slight increase seen in July, the **IJG Business Climate Monitor** fell by 1.08 points in August 2017. At 44.35 points, the index is now at its lowest level since December 2003. The index has been below the 50-point level that indicates economic contraction for the entirety of 2017 so far, seeing declines in six of the eight months recorded. Conversely, a recovery of just over 2 points has been recorded for the leading indicator.

Of the 31 indicators measured by the index, 15 expanded in August while 16 contracted. Although uranium prices saw a slight increase (0.5%), an appreciation in the rand meant that the industry remains under pressure. Copper and gold prices, meanwhile, have seen continued gains (6.6% and 4.1% respectively) which offset the impact of the stronger rand. August saw a significant slowdown in credit extended to the private sector. The month-on-month contraction seen in credit extended to individuals shows that households preferred to pay back debt despite the lending rate being cut midway through the month. As most vehicles are financed through installment credit, this contraction feeds through to vehicle sales which fell by around 20% both on a year-on-year and month-on-month basis. A new high of 52,789 cattle were marketed in August, with total sales in 2017 so far having already exceeded the total for 2016. Not only is this a concern for remaining domestic stock levels after the drought, but 80% of these were exported live to South Africa without any local downstream value addition taking place in Namibia.

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 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 |