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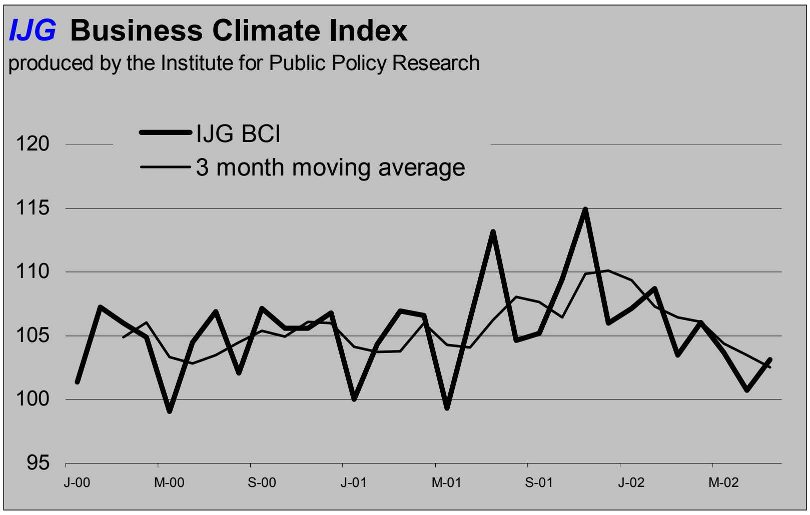
The *IJG* Business Climate Monitor for July 2002

produced by the Institute for Public Policy Research

- **The IJG Business Climate Index rose almost three points between June and July due mainly to higher vehicle sales, a rise in corporate registrations and an increase in bank credit to individuals.**
- **The IJG Business Climate Survey was less positive in July than in June reflecting businesses' more pessimistic outlook for the economy. A smaller proportion of businesses expect revenues to rise and to invest in new plant and equipment than in the previous month.**
- **Increases in interest rates appear to have negatively affected investment expectations in the economy.**

The IJG Business Climate Index for July 2002



The ***IJG Business Climate Index*** climbed by almost 3 points between June and July from 100.7 to 103.2 while the smoothed 3-month moving average continued to decline steadily from its peak in December 2001. Higher passenger and commercial vehicle sales, an increase in the registrations of companies and close corporations and higher credit to individuals helped outweigh the negative effects of subdued export prices. These positive developments are surprising given the rise in interest rates since the beginning of the year. The OECD leading indicators, a measure of industrial country prospects and our proxy for diamond prices, fell for the first time since the *IJG* BCI was published in November 2001. Although the prospects for the US improved after a fall in May, the outlook for the OECD and the EU-15 worsened.

		July	June
Business Climate Index	▲	103.2	100.7
Investment Index	▲	110.2	102.4
Consumption Index	▲	93.0	91.5
Export Index	▼	108.2	112.3
Leading Indicator	▼	103.1	114.7
Coincident Indicator	▼	95.6	97.2

The IJG Business Climate Survey for July 2002

The *IJG* Business Climate Survey asks 50 top businesses in Namibia to reply to four questions on revenues, employment, investment and prevailing business conditions. In addition to this sample, members of the Namibian Manufacturers Association (NMA) are also included in the survey. This month the survey received 50 responses in total of which 15 were from manufacturers. Results here are reported for the whole sample and for all manufacturers.

Q1: How do you expect your revenues to change over the next 12 months?

Half the number of responding businesses expected revenues to increase.

Firms were given a choice of three responses to the question on revenues: revenues could decrease, stay the same or increase. Out of 50 responses, 25 expected revenues to increase while 20 expected revenues to stay the same and 5 expected revenues to fall. Manufacturers gave a similar response, with 6 stating that their revenues were likely to increase, 8 stating that they would stay the same and only 1 stating they were likely to decrease.

Q2: How do you expect your workforce to change over the next 12 months?

Over half the respondents expect their labour forces to stay the same.

Firms were given a choice of three responses to the question on employment: either they expected to shed labour, or their workforces were expected to remain the same, or they expected to take on labour. This month 4 firms stated they expected to shed labour while 28 expected their workforces to stay the same and 18 expected to take on labour. These results are similar to last month's responses. While only 1 manufacturer expected to shed labour, 9 expected their workforces to stay the same and 5 expected to take on labour.

Q3: Do you intend to invest in new plant and equipment (not inventories) over the next 12 months?

The proportion of respondents intending to invest in new plant and equipment fell from three quarters to three fifths. Two-thirds of manufacturers do not intend to invest.

Firms could respond either that they intended to invest in new plant and equipment or that they did not intend to invest. Out of the 50 respondents who replied to this question, 30 stated that they intended to invest in new plant and equipment while 20 replied that they would not. A total of 10 out of 15 manufacturers did not intend to invest.

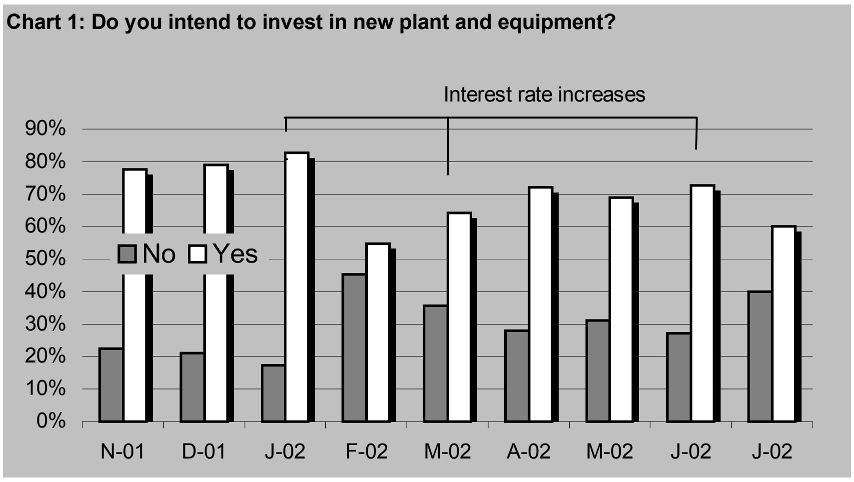
Q4: How do you find prevailing business conditions for your business?

Seven out of ten responding firms continue to view prevailing business conditions as positive but manufacturers were more equally split.

Firms were given a choice of four responses to the question on prevailing business conditions: very negative, negative, positive or very positive. Out of 50 responses, 35 viewed prevailing business conditions as positive while 15 viewed them as negative. Manufacturers were almost equally split between positive and negative.

The ***IJG*** Business Climate Survey is less upbeat than last month although the ***IJG*** Business Climate Index has risen. The problem here may lie in the fact that some of the data used in the Index is published only with a one or two month lag while the Survey is conducted during the month in question. It appears that the rise in interest rates has had an impact on investment decisions resulting in a rise in the number of respondents not expecting to invest in new plant and equipment.

Commentary for July



The ***IJG*** Business Climate Monitor is still in its infancy. It is not yet possible to make a detailed comparison between the results of the Index and the Survey and time series data collected from the economy. One interesting observation so far may be that investment decisions have altered as a result of the three interest rate increases which have taken place since the beginning of 2002. Chart 1 presents the results of the ***IJG*** Business Climate Survey on investment as percentages of the total response. Highlighted are the months of the three interest rate changes. The chart suggests that the first interest rate increase which followed the sharp depreciation of the Rand and the Namibia dollar had a significant impact on investment expectations. Between January and February the number of firms expecting to invest in new plant and equipment fell steeply as a proportion of the total sample. Investment expectations have been lower following this increase. The first interest rate increase appears not to have been anticipated by our sample of businesses. The second increase in March had no such impact and appears to have been expected and factored into investment decisions. The third increase in June seems once again not to have been anticipated since July's survey shows once again that the rise affected investment decisions and changed expectations. These interpretations are intuitively appealing since raising the cost of borrowing is likely to lead to a reduction in investment. They suggest that the ***IJG*** Business Climate Survey contains useful information about the economy.

Namibia's ***crop and food security bulletin*** for June 2002 had been released by the Namibia Early Warning and Food Information System in the Ministry of Agriculture. It states that the crop survey by the Namibian Agronomic Board in the commercial sub-sector is estimated at 64,200 tonnes, only 47% of production in 1999/00 of 135,500 tonnes. Most regions of the country have been negatively affected by poor rainfall. The cereal shortfall is estimated at 155,100 tonnes.

Commercial millers plan to import 103,300 tonnes leaving a deficit of 51,800 tonnes which will be met by additional imports and food aid. The bulletin can be obtained from Mr Johannes Mbango on mbangoj@mawrd.gov.na. Table 1 below shows the latest estimates in a longer-term perspective. It shows that coarse grain (mahangu, sorghum, maize and wheat) production in Namibia has been highly variable. Imports and other measures mean that food security is likely to be maintained for Namibian households. The economically more questionable goal of self-sufficiency in staple food, however, seems to be as far away as ever.

Table 1: Namibian coarse grain production in tonnes

	1997/98	*1998/99*	*1999/00*	*2000/01*	*2001/02**
North Central	35.4	40.2	74.0	65.2	30.8
Kavango	1.2	6.2	7.7	3.6	3.5
Caprivi	1.9	3.3	16.0	6.1	3.0
Commercial (irrigated)	8.5	6.2	5.0	6.5	14.3
Commercial (rainfed)	4.3	16.4	32.6	10.9	12.7
Total	51.3	72.1	135.5	92.2	64.2

*estimate