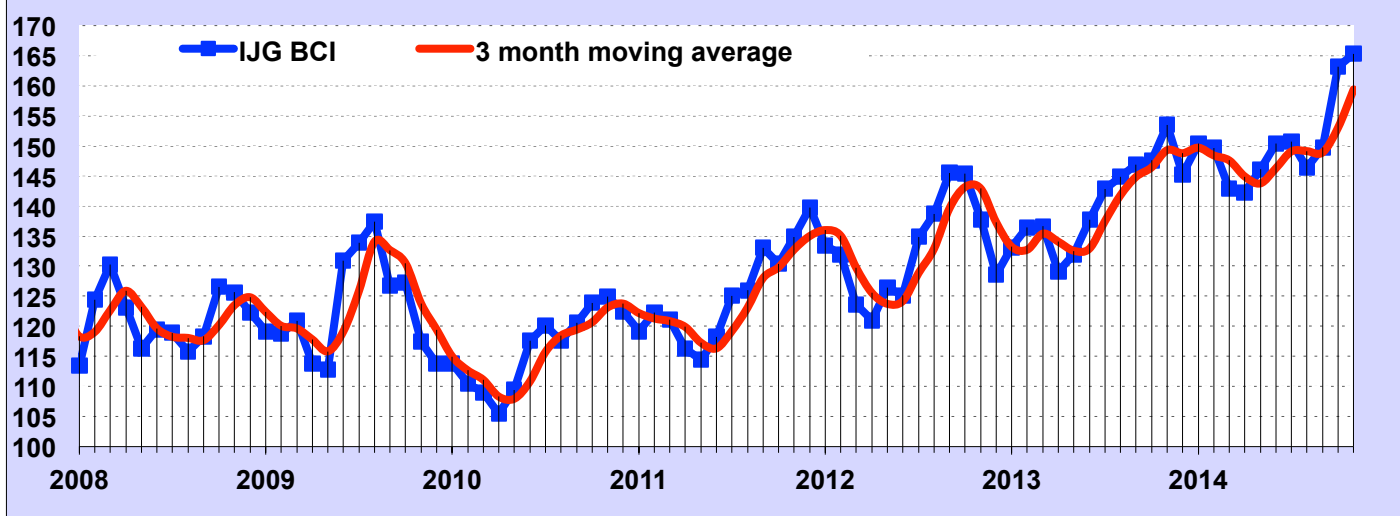




The *IJG* Business Climate Monitor for November 2014 Produced by the Institute for Public Policy Research

Business Climate Monitor continues to reach new heights as oil price collapses

IJG Business Climate Index, November 2014 Produced by the Institute for Public Policy Research



The *IJG Business Climate Index* continued its run of all-time highs in November as it climbed from the October level of 163.1 to 165.3. This increase was driven by a generally buoyant local economy as well as falling oil prices. The oil price sub-index saw a major (10 percent month-on-month) increase as the oil price continued to collapse through the month.

The price of Brent crude oil declined by almost U\$37 in the six months to November 2014, hitting U\$70 per barrel by month end. In December the price fell to its lowest level in over five years. The major price decline can be attributed to both supply and demand dynamics within the global economy. On the demand side, weak global growth and sentiment coupled with major efficiency gains in automotive technology and other oil-derivative intensive industries have driven oil demand to below-trend levels. On the supply side, major increases in supply from the US have fundamentally changed the global oil supply dynamic, with OPEC (Organization of the Petroleum Exporting Countries) losing its ability to manipulate global oil supply in order to raise/lower the oil price and thus their revenues. As the US approaches oil self-sufficiency, a major sector of demand for OPEC oil will disappear, leaving OPEC as the primary provider of oil to much of the remainder of the world. This change in the supply and demand structure means that by cutting production (as was historically done by OPEC in times of weak demand), OPEC will no longer be able to drive up the price sufficiently to compensate for lower demand and thus will be worse off as a result of such practice. This fundamental shift suggests that oil prices are likely to normalise at levels notably below the previous norm of U\$100 per barrel over the coming years.

After a major spike in the *IJG Business Climate Index* in October, the November index level remained elevated, setting a new all-time record. This continued climb in the index was to be expected as the local economy continued to perform well, coupled with the major decline seen in the oil price. On a monthly basis, the business climate index, investment index and leading indicator all continued to expand, while the consumption and export indices and the coincident indicator contracted, coming off last month's high base. On a quarterly basis, all the indices and indicators expanded, bar the export index which contracted marginally in the 4th quarter.

		Monthly			Quarterly	
		Sep	Oct		Q3'14	Q4'14
Business Climate Index	▲	163.1	165.3	▲	148.9	164.2
Investment Index	▲	265.2	271.5	▲	232.0	268.3
Consumption Index	▼	126.6	125.3	▲	122.5	126.0
Export Index	▼	139.6	139.3	▼	139.5	139.4
Leading Indicator	▲	216.7	224.0	▲	207.8	220.4
Coincident Indicator	▼	135.2	133.8	▲	126.0	134.5

Note on methodology:

The Business Climate Index is based on 14 broad economic indicators that are likely to impact on the domestic business environment. All indicators have the same weight except for company registration data, which has a significantly lower weight to reduce its volatility on the overall Index. Data is collected on each indicator on a monthly basis. The indicators are as follows:

1. National Consumer Price Index (NCPI)
2. Unweighted exchange rate of the Namibia dollar against the US dollar and the euro
3. Deflated average price of beef and mutton
4. Deflated average price of white fish
5. Deflated average metal prices
6. Unweighted average of selected OECD leading indicators (as a proxy for diamond price)
7. Total of commercial vehicle sales
8. Real value of building plans completed
9. Real value of building plans approved
10. The NSX local index
11. Total number of business registrations
12. Real private sector (businesses and individuals) credit extension
13. Average prime lending rate
14. Average deflated price of international crude oil

The **Business Climate Index** is based on all indicators.

The **Investment Index** is based on commercial vehicle sales, real value of building plans completed, NSX local index, company registrations, real credit extension (business), average prime lending rate, and the future oil price.

The **Consumption Index** is based on the National Consumer Price Index, the Namibia dollar/US dollar exchange rate, the OECD leading indicators (diamond price proxy), passenger vehicle sales, real credit extension (individuals), the average prime lending rate, and the oil spot price.

The **Export Index** is based on the Namibia dollar/Euro exchange rate, the deflated average price of beef and mutton, the deflated average price of white fish, deflated average metal prices and the OECD leading indicators (diamond price proxy).

The **Leading Indicator** is based on deflated average metal prices (future), commercial vehicle sales, real value of building plans approved, the NSX local index, defensive name registrations, the average prime lending rate, and the future oil price.

The **Coincident Indicator** is based on the National Consumer Price Index, the Namibia dollar/US dollar, the Namibia dollar/Euro exchange rate, the deflated average price of beef and mutton, the deflated average price of white fish, deflated average metal prices (spot) and the OECD leading indicators (diamond price proxy), passenger vehicle sales, real value of building plans completed, company registrations, real credit extension (business and individuals), and the oil spot price.