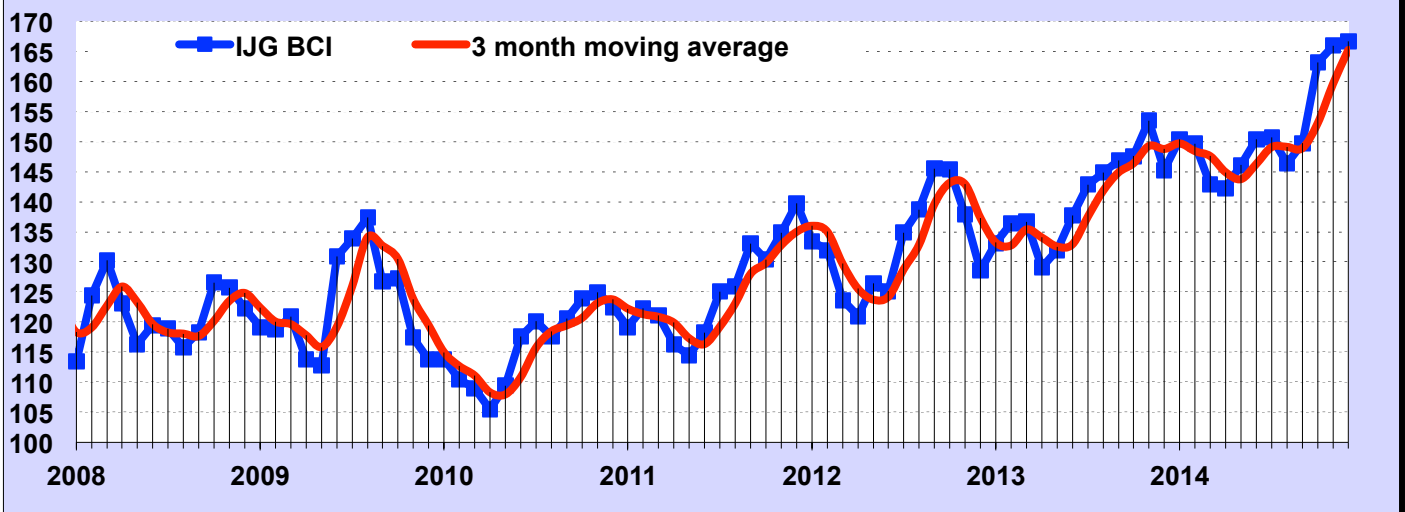




## The *IJG* Business Climate Monitor for December 2014 Produced by the Institute for Public Policy Research

**Index rises by 1.5 points to new high as oil price effect eclipses seasonal slowdown**

### *IJG* Business Climate Index, December 2014 Produced by the Institute for Public Policy Research



The *IJG Business Climate Index* hit its third consecutive all-time high in December as it expanded from 165.9 points, to 166.6. The expansion in the index in Q3 of 2014 was largely driven by a collapsing oil price, and this trend continued in December. During the month, the oil price fell by over 18 percent from U\$71 to U\$58 per barrel. This reflects a year-on-year decline of 46 percent, from U\$108 per barrel in December 2013. The falling oil price caused the oil sub-index component of the overall index to spike from 88.3 in November to 103.1 in December. This spike largely underpins the overall move in the index, which would have been otherwise lower due to the remainder of indicators being flat or negative for the month. Notable in this regard were company registrations, down from 1,781 to 1,333 on account of seasonal factors; vehicle sales, down from 1,992 to 1,831 also due to seasonal factors and base effects; and the USD-ZAR exchange rate, down from 11.06 to 11.57 on account of temporary capital outflows from South Africa.

Despite these factors, the effect of the oil price slump eclipsed the contractions seen in other components of the overall index. Many of these contractions were seasonal and are expected to revert to mean or expand again through Q1 of 2015. Falling oil prices should have a sizable positive effect on the local business climate, as lower oil prices translate into increased disposable income and by extension discretionary spending by consumers. At the same time, falling oil prices will lower the cost of production for companies or industries that are heavy oil users.

Following unprecedented expansion in the *IJG Business Climate Index* to all-time highs in October, the consecutive two months have driven the index to further consecutive highs. Much of the overall move is down to oil prices, which declined by close to 50 percent in the second half of 2014. On a monthly basis, the investment sub-index and leading indicator contracted while the consumption and export sub-indices and the coincident indicator continued to expand despite a strong base created over recent months. On a quarterly basis, the export index contracted slightly as a weak exchange rate was unable to completely offset the negative impact of falling commodity and meat prices. However, on account of falling oil prices, the country's terms of trade will have improved dramatically, providing some much needed respite for the embattled balance of payments and reserve position of the country.

		Monthly			Quarterly	
		Nov	Dec		Q3'14	Q4'14
<b>Business Climate Index</b>	▲	165.9	166.6	▲	148.9	165.2
<b>Investment Index</b>	▼	271.5	259.9	▲	232.0	265.5
<b>Consumption Index</b>	▲	125.2	130.7	▲	122.5	127.5
<b>Export Index</b>	▲	139.3	139.7	▼	139.5	139.5
<b>Leading Indicator</b>	▼	226.7	223.2	▲	207.8	222.2
<b>Coincident Indicator</b>	▲	133.7	137.5	▲	126.0	135.5

**Note on methodology:**

The Business Climate Index is based on 13 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.