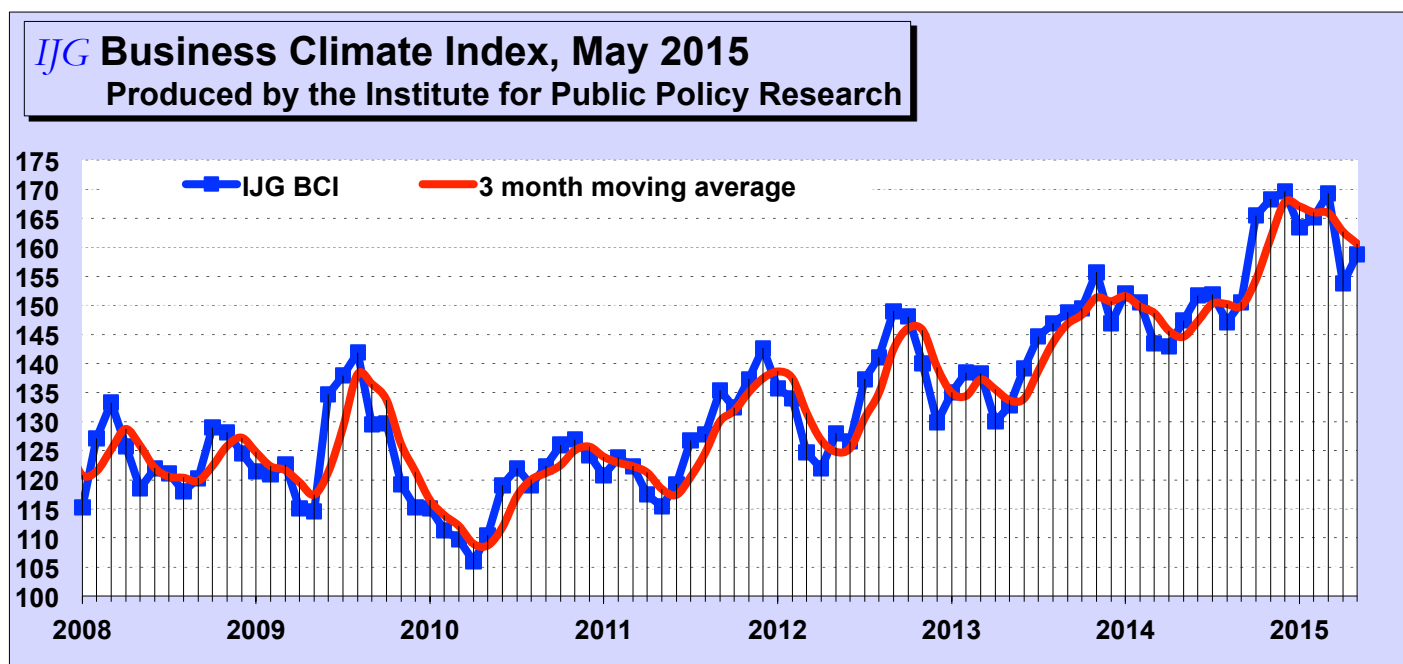




The *IJG* Business Climate Monitor for May 2015 Produced by the Institute for Public Policy Research

Business climate index regains ground as building plans increase



The ***IJG Business Climate Index*** recovered slightly in May after its abrupt slowdown in April. The index now stands at 158.8 points up from 153.8. The recovery in the index largely stemmed from a dramatic recovery in the building plan indices, both of which contracted sharply in April before recovering in May. Building plans completed in April totalled N\$20 million compared to the 12-month average of N\$66 million. Building plans approved were similarly low during April, at N\$110 million, compared to the 12-month average of N\$157 million. However, in May both approved and completed plans rebounded, with N\$367 million worth of plans approved and N\$71 million worth of plans completed.

Current high frequency indicators suggest that the rate of growth in the local economy has peaked after a number of years of strong growth. This was to be expected as much of the recent growth has been driven by fiscal and monetary stimulus coupled with strong foreign direct investment. As most of the above stimuli tend to be transitory in nature, their ultimate unwinding is inevitable. While fiscal stimulus continues to be pursued by the government, notable monetary tightening has been seen over the past year and, as a result, credit extension growth, particularly to households, has started to slow. With regards to foreign direct investment, much of the large inflows seen over the past two years have been used to fund the construction of three new mines in Namibia. As these construction projects were, or are, labour intensive, and given the mining employment multipliers, the overall positive effect on the local economy and consumer spending power have been significant. However, as the construction of two of the three mines has now finished, a notable step down will be seen in construction sector activity, while it will take a number of months for mines to ramp up their output to full production and replace the loss in construction activity.

The ***IJG Business Climate Index*** recovered somewhat in May, following a sharp downturn in April from March highs. This reversal was largely driven by the building plan indices. On a monthly basis, the investment index and leading indicator both expanded alongside the overall index. The consumption, export and coincident indicators, however, all contracted. On a quarterly basis, all of the indicators

contracted in Q2 2015 when compared to Q1. This was largely due to the abnormally high base set in the first quarter, primarily because of the oil price decline witnessed through the period.

		Monthly			Quarterly	
		Apr	May		Q1'15	Q2'15
Business Climate Index	▲	153.8	158.8	▼	165.9	156.3
Investment Index	▲	243.0	250.6	▼	269.5	246.8
Consumption Index	▼	129.9	122.7	▼	130.0	126.3
Export Index	▼	138.6	137.1	▼	138.2	137.8
Leading Indicator	▲	221.1	238.3	▼	230.6	229.7
Coincident Indicator	▼	127.3	126.0	▼	133.8	126.7

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.