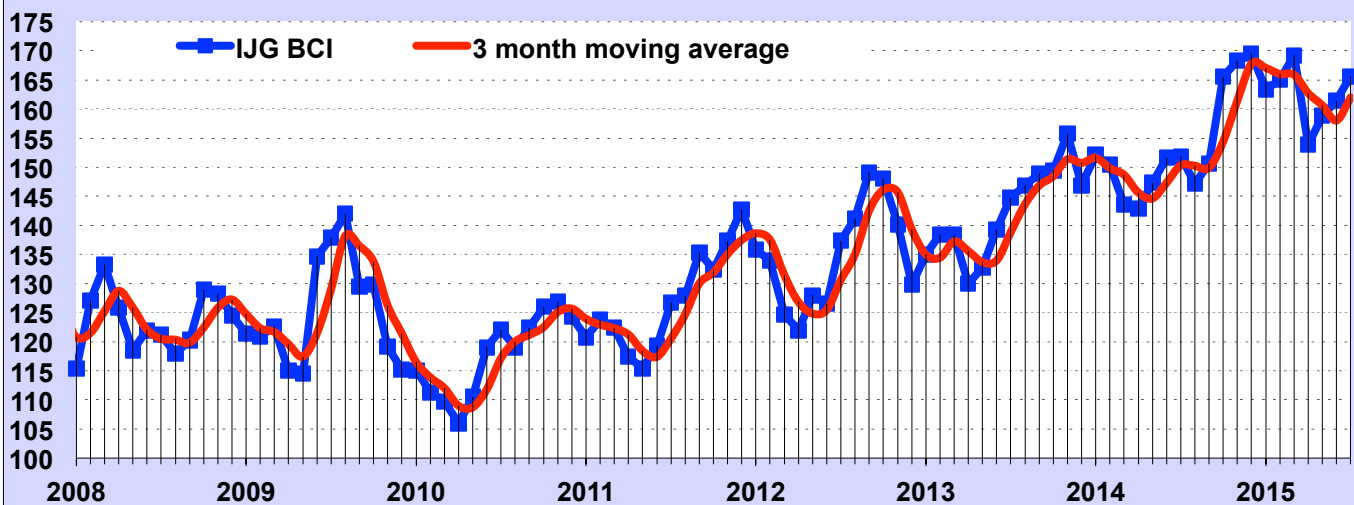




The *IJG* Business Climate Monitor for July 2015 Produced by the Institute for Public Policy Research

Business climate monitor continues to recover as oil prices fall

IJG Business Climate Index, July 2015 Produced by the Institute for Public Policy Research



The *IJG Business Climate Index* continued to recover in July, with the month seeing the third consecutive expansion in the index, following a sharp decline in April. After this straight quarter of expansion, the index now stands at a level of 165.7 points, up by 4.2 from June. Many sub-categories of the index showed improvement in July, including the Euro exchange rate (to the Namibia Dollar), beef and lamb prices, fish prices, vehicle sales, building plans completed, the NSX Local Index and, most notably, the oil price.

Brent crude oil closed the month at the lowest month-end level since early 2009, both from spot and future perspectives, opening the door for prices to fall further, possibly below US\$40/barrel over the coming months. Current low prices, should they persist, can be expected to remove some of the more costly supply from the market. In addition low prices can be expected to stimulate demand (albeit fairly marginally). These two factors should underpin the long-term prices at a higher level. In the meantime, prices are likely to remain highly volatile, with large swings driven by speculation. Through July, the Rand and Namibia Dollar depreciated against the Euro to the weakest level seen since late 2014, driven both by relative strengthening in the Euro vis-à-vis other major currencies, but also due to Rand and other emerging market currency weakness. Poor economic conditions in South Africa, notably driven by weak commodity prices, national leadership challenges and energy issues, have driven some of Rand's weakness. In addition, major global fund flow reversals show a risk-off appetite from investors as the US gears up to increase interest rates for the first time since 2007. The Namibia Dollar's weakness bodes well for Namibian exports, which are becoming more competitive internationally, while remaining detrimental for hard-currency denominated imports.

The *IJG Business Climate Index* continued to recover in July. However, it remains below the all-time highs set in December 2014. This recovery was largely driven by oil prices and the Euro exchange rate, but was also supported by beef and lamb prices, fish prices, vehicle sales, building plans completed and the NSX Local Index. On a monthly basis, only the consumption and coincident indicators contracted, while on a quarterly basis, only the consumption index has slowed. Slowing consumption may well be an early indicator of a growth slowdown, and should be carefully monitored, as the consumption component of GDP remains excessively important to the local economy at the current point in time.

		Monthly			Quarterly	
		June	July		Q2'15	Q3'15
Business Climate Index	▲	161.5	165.7	▲	158.0	165.7
Investment Index	▲	256.8	273.1	▲	250.2	273.1
Consumption Index	▼	131.8	127.6	▼	128.1	127.6
Export Index	▲	139.9	142.2	▲	138.5	142.2
Leading Indicator	▲	228.3	241.4	▲	229.2	241.4
Coincident Indicator	▼	131.8	130.8	▲	128.4	130.8

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.