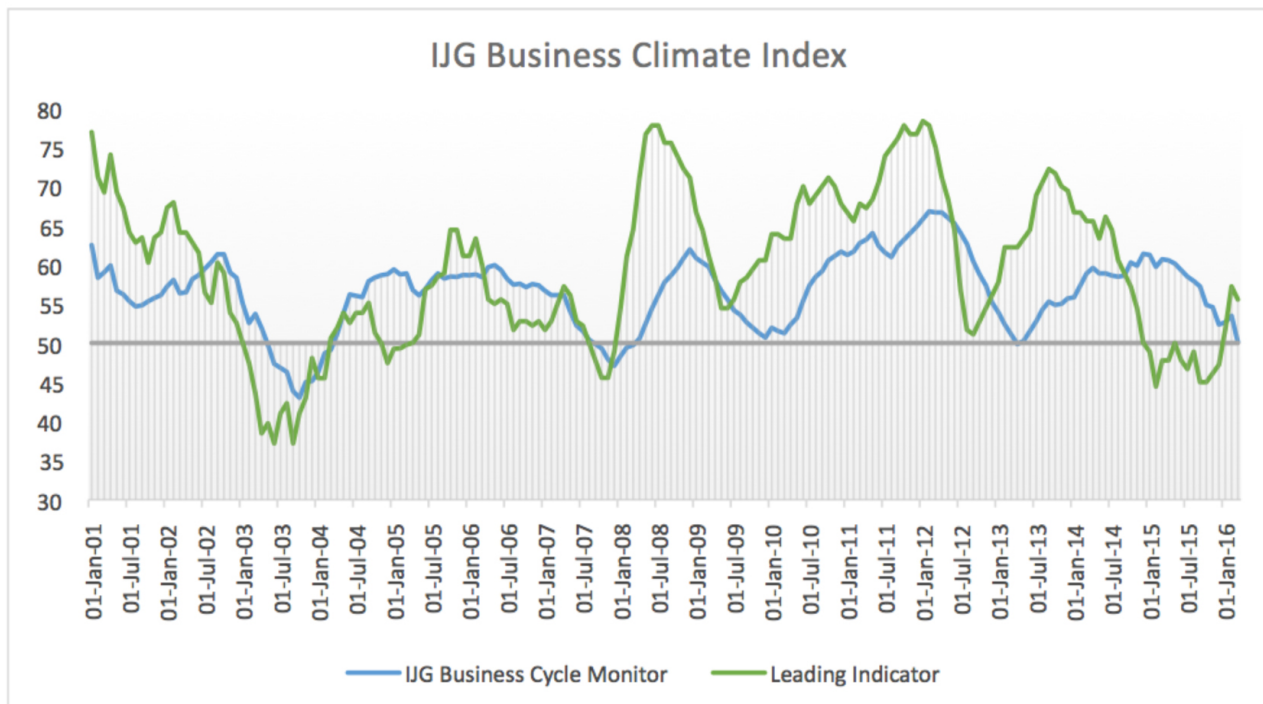




# BUSINESS CLIMATE MONITOR MARCH 2016

By the Institute for Public Policy Research



The **IJG Business Climate Monitor** fell by 3.3 points in March 2016, to a level of 50.1 points. Just over half of the indicators are seeing growth when compared to a year ago.

The index continued to fall as lamb prices, gold production, building plans, company registrations and exports fell year on year, while imports continue to expand on a year-on-year basis. In addition, the rand prices of copper and uranium have started to decrease, albeit marginally in the case of the latter.

From a policy perspective, interest rates have increased by 50 basis points since March 2015, while as of March 2016, government spending had increased year on year. However, subsequently government spending has slowed as the Ministry of Finance cut expenditure in the most recent budget. Thus, both primary macroeconomic policy tools are putting negative pressure on the local business climate.

All of the primary sector output indicators, including livestock and mineral production, contracted year on year, with the exception of uranium output, which expanded marginally. With regards to the secondary and tertiary sector indicators, vehicle sales continue to contract, as do building plans approved and completed. However, credit extension continues to see reasonably strong growth.

Lamb prices are down year on year, while beef prices have increased. Fuel prices remain relatively favourable for businesses when compared to a year ago. Mineral prices show a mixed picture, with the price of the main export commodity, diamonds, improving in Namibia Dollar terms, when compared to a year ago. Gold and uranium prices in Namibia Dollars are similar to those seen a year ago, while copper prices remain well below the level seen a year ago.

Overall, the Business Climate Monitor illustrates that the Namibian economy has entered a low-growth period, with many of the indicators pointing towards areas of contraction.

## Note on methodology

The index encompasses 30 indicators, selected from available high frequency data. These are split into five broad categories, namely: policy environment, primary sector output, secondary and tertiary output, external account and pricing. Given the available high frequency data, these categories provide the best available high frequency insight into developments in the local economy and business cycle.

The raw data are adjusted and transformed for seasonality, inflation and exchange rate as appropriate. In addition, the data are adjusted to factor in whether higher or lower values are desirable (for example higher government spending is positive for the business climate, while higher interest rates are negative).

In order to develop a stationary indicator (i.e. not trending up or down), and to show dispersion from a mean value, the common PMI (Purchasing Managers' Index) approach has been slightly adjusted and utilised. This approach sees transformed indicators that are contracting over a 12-month period given a value of 0, while unchanged indicators are valued at 50 and expanding indicators valued at 100. The average value across the 30 indicators is then taken, with an overall value of over 50 implying expansion in the majority of indicators, while a value below 50 shows contraction in the majority of indicators. In addition to the level, the trend of the BCM line illustrates whether indicators are generally improving or deteriorating. A 12 period moving average is then used to smooth the indicator and ensure that short term volatility or base effects do not provide a misleading view of the local business climate.

When compared to the historic business cycles, this approach gives a very satisfactory high-frequency view of the state of the local business climate.

## Indicators

Indicator	Higher Value Better	Transformation	Leading
Policy Environment			
Prime Rate	No	None	Yes
Monthly Government Spending (N\$)	Yes	Deflated	Yes
Primary Sector Output			
Livestock marketed (#)	Yes	Seasonal Adjustment	No
Copper Production (tons)	Yes	None	No
Gold Production (kg)	Yes	None	No
Diamond Production (000' carats)	Yes	None	No
Uranium Production (short tons)	Yes	None	No
Secondary and Tertiary Output			
Building Plans Completed (N\$)	Yes	Deflated, Seasonal Adjustment	No
Building Plans Approved (N\$)	Yes	Deflated, Seasonal Adjustment	Yes

Tourism Arrivals (#)	Yes	Seasonal Adjustment	No
Passenger Vehicle Sales (#)	Yes	Seasonal Adjustment	No
Commercial Vehicle Sales (#)	Yes	Seasonal Adjustment	No
Credit Extended to Individuals (N\$)	Yes	Deflated, Seasonal Adjustment	No
Credit Extended to Businesses (N\$)	Yes	Deflated, Seasonal Adjustment	Yes
CC Registrations (#)	Yes	Seasonal Adjustment	Yes
Company Registrations (#)	Yes	Seasonal Adjustment	Yes
Defensive Name Registrations (#)	Yes	Seasonal Adjustment	Yes
External Account			
Imports (N\$)	No	Deflated, Seasonal Adjustment	Yes
Exports (N\$)	Yes	Deflated, Seasonal Adjustment	No
EURZAR Exchange rate	Yes	None	Yes
USDZAR Currency Exchange rate	Yes	None	Yes
Prices			
Beef Price (N\$)	Yes	Deflated, Seasonal Adjustment	No
Lamb Price (N\$)	Yes	Deflated, Seasonal Adjustment	No
Copper Spot (N\$)	Yes	Converted to ZAR, Deflated	Yes
Gold Spot(N\$)	Yes	Converted to ZAR, Deflated	Yes
Diamond Rough Price (Index)	Yes	Converted to ZAR, Deflated	Yes
Uranium Spot (N\$)	Yes	Converted to ZAR, Deflated	Yes
Brent Crude Oil (N\$)	No	Converted to ZAR, Deflated	Yes
Petrol (95 Octane) (N\$)	No	Deflated	No
Diesel (500 ppm) (N\$)	No	Deflated	No