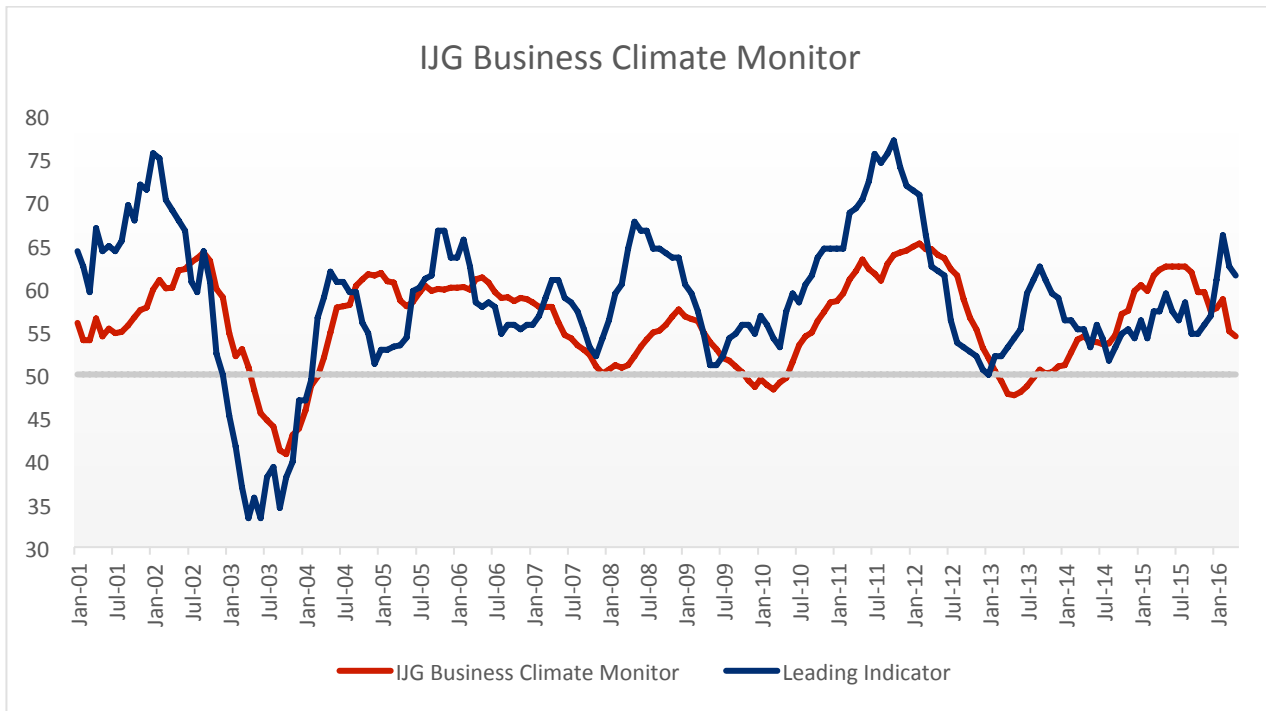




BUSINESS CLIMATE MONITOR APRIL 2016

Produced by Institute for Public Policy Research



The **IJJ Business Climate Monitor** fell by 0.54 points in April 2016 to a level of 54.4 points, following an upward revision of the March level to 54.9 points. On a year on year basis, 17 of the 31 indicators covered showed improvement, while the remaining 14 indicators showed deterioration.

On a year on year basis, diamond, copper concentrate and gold production fell while uranium production increased. So far in 2016, copper concentrate production has fallen 89.9%, gold production is down 5.2% and diamond production is down 7.1%, while uranium production is up 32.8%. From a price perspective, the Rand price of copper has fallen 4.9% over the past year, while the Rand price of uranium is down 10.7%. The price of gold in Rand, however, has climbed 30.5% year on year, while the diamond price in Rand is up 9.7%.

Much of the recent commodity price weakness, driven by reduced global commodity demand, particularly from China, has been offset by a weakening Rand over the past year, which has resulted in the Rand price of most of Namibia's key minerals remaining broadly unchanged, with the exception of gold. The gold price has increased dramatically over the past year, driven by increased global uncertainty and the ongoing hunt for safe haven assets by global investors, primarily.

From a macroeconomic policy perspective, interest rates have increased, while government spending decreased over the past year, both contributing to a deterioration in the business climate. In many ways, this is a normalisation of macroeconomic policy, however it comes at an inopportune time as many factors are culminating in a dramatic slowdown in the local economy, resulting in an amplified business cycle. Thus, policy that is conventionally used to dampen the business cycle is driving the opposite outcome.

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 very 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 |