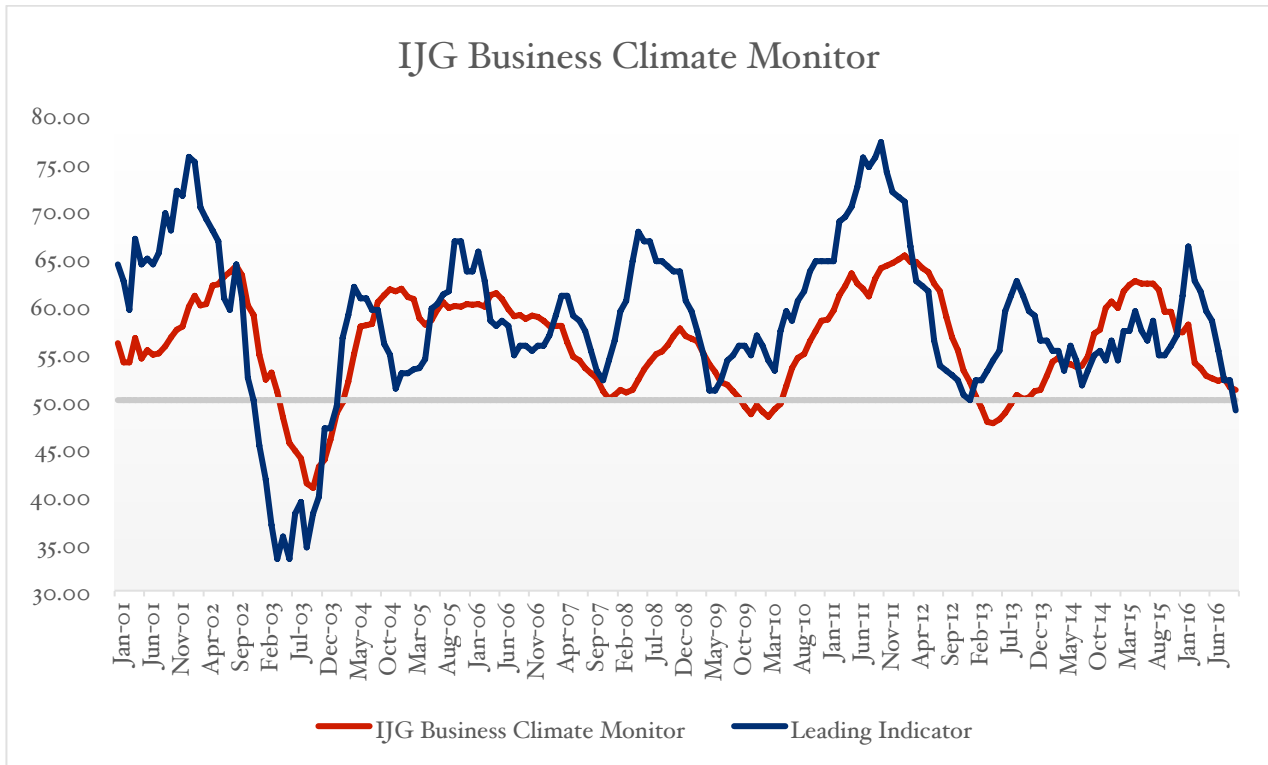




# BUSINESS CLIMATE MONITOR **OCTOBER**



The **IJG Business Climate Monitor** fell by 0.27 points in October 2016 to a level of 51.08 points. Thus, the index continues on its downward trend since the high of June 2015. Of the 31 indicators measured by the index, 17 showed deterioration over the past year while the remaining 14 indicators showed improvement.

Major deterioration in most of the indicators suggests that 2016 will see Namibia’s first growth contraction since 1993. There are a number of reasons for this slowdown including the high base created over the past half-decade, the worsening external environment (particularly reduced demand for Namibia’s exports), the current drought, and macroeconomic policy decisions taken by the central bank and the Ministry of Finance over the past three years.

Over the past year, fiscal expenditure has contracted by 13% on an inflation-adjusted basis and interest rates have increased by 50 basis points. As the same time, livestock marketed has fallen by 32%, diamond production is down approximately 12%, building plans approved are down 11% and vehicle sales are down over 20%. Similarly, the prices of key exports have fallen dramatically with the uranium price falling over 40% by October 2016 as compared to a year earlier; diamond prices are down approximately 2% while copper is down approximately 13%. On a more positive note, fuel prices have also fallen and are down approximately 8% on the October 2015 prices on an inflation-adjusted basis.

2016 has proven to be a challenging year for Namibia, with a “perfect storm” of domestic and external factors driving a downturn in the local business climate. Particularly hard hit are local construction companies and wholesale and retail entities. Due to the general deterioration, the leading index of the

Business Climate Monitor has fallen below a level of 50 (signalling a contraction), for the first time since early 2004.

### 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 is adjusted and transformed for seasonality, inflation and exchange rate as appropriate. In addition, the data is 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