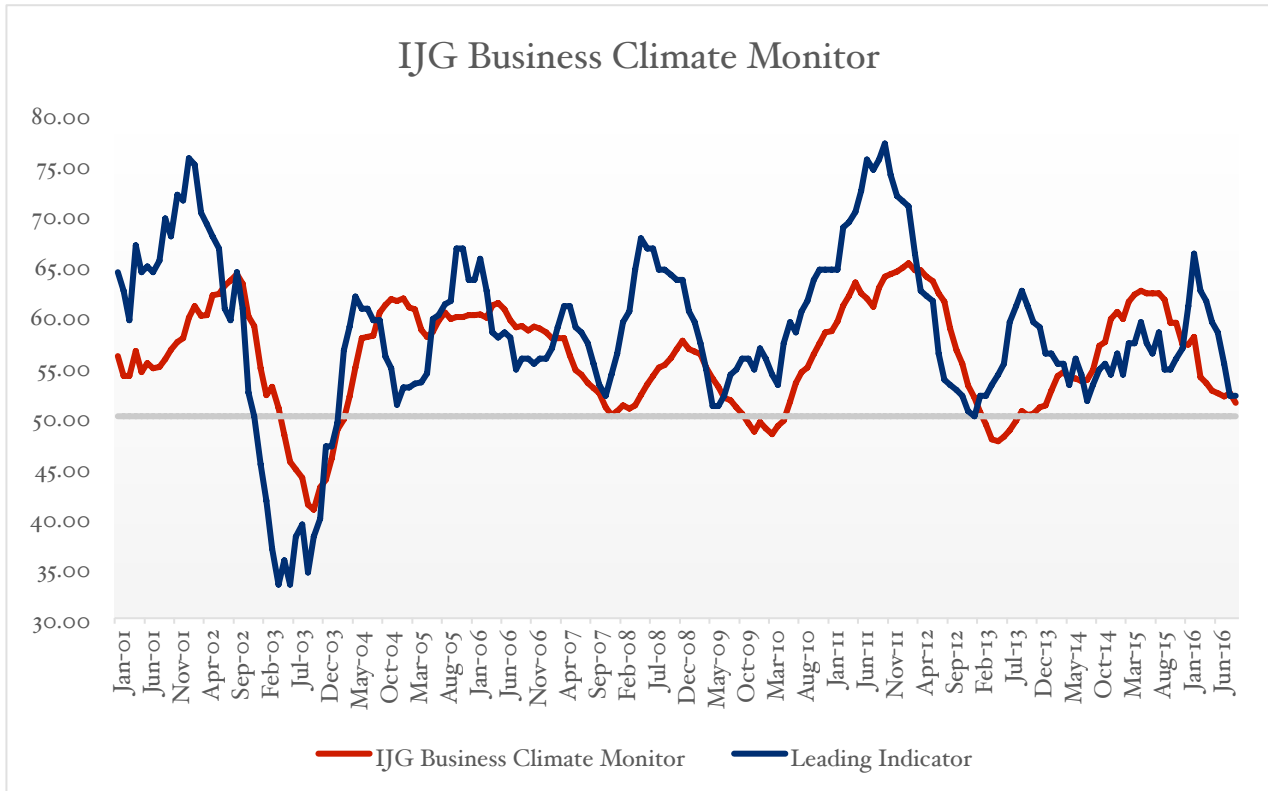




# BUSINESS CLIMATE MONITOR SEPTEMBER 2016



The **IJG Business Climate Monitor** fell by 0.94 points in September 2016 to a level of 51.34 points. This tick down follows the first upward move seen on the index since February 2016 and suggests a continuation of the weakening business climate in the country. Of the 31 indicators measured by the index, 17 showed deterioration over the past year while the remaining 14 indicators showed improvement.

As has been the case throughout the year, many of the core indicators in the index continue to point towards a contraction in activity in the local economy in 2016 when compared to 2015. This is driven by a number of factors, including the weakening external position driving down demand for Namibian commodities and therefore commodity prices, as well as the drought and a number of home-grown challenges. From a policy perspective, major cuts in government expenditure and increasing interest rates continue to put the brakes on the local economy, which when combined with the external environment means the slow down has been accelerated by macroeconomic policy decisions. Monthly government expenditure (adjusted for inflation) was down by 6.9% in September 2016 when compared to the same period in 2015, while at the same time interest rates are up 50 basis points on their September 2015 levels, reflecting a 4.9% increase in rates. Many other indicators look similarly bleak, with most sectors showing sizable contractions. In this regard, the high frequency data is unquestionable – the Namibian economy has contracted throughout 2016, when compared to 2015. However, many sectors will bounce back fairly quickly should the external environment improve and should we see significant rainfall.

## 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