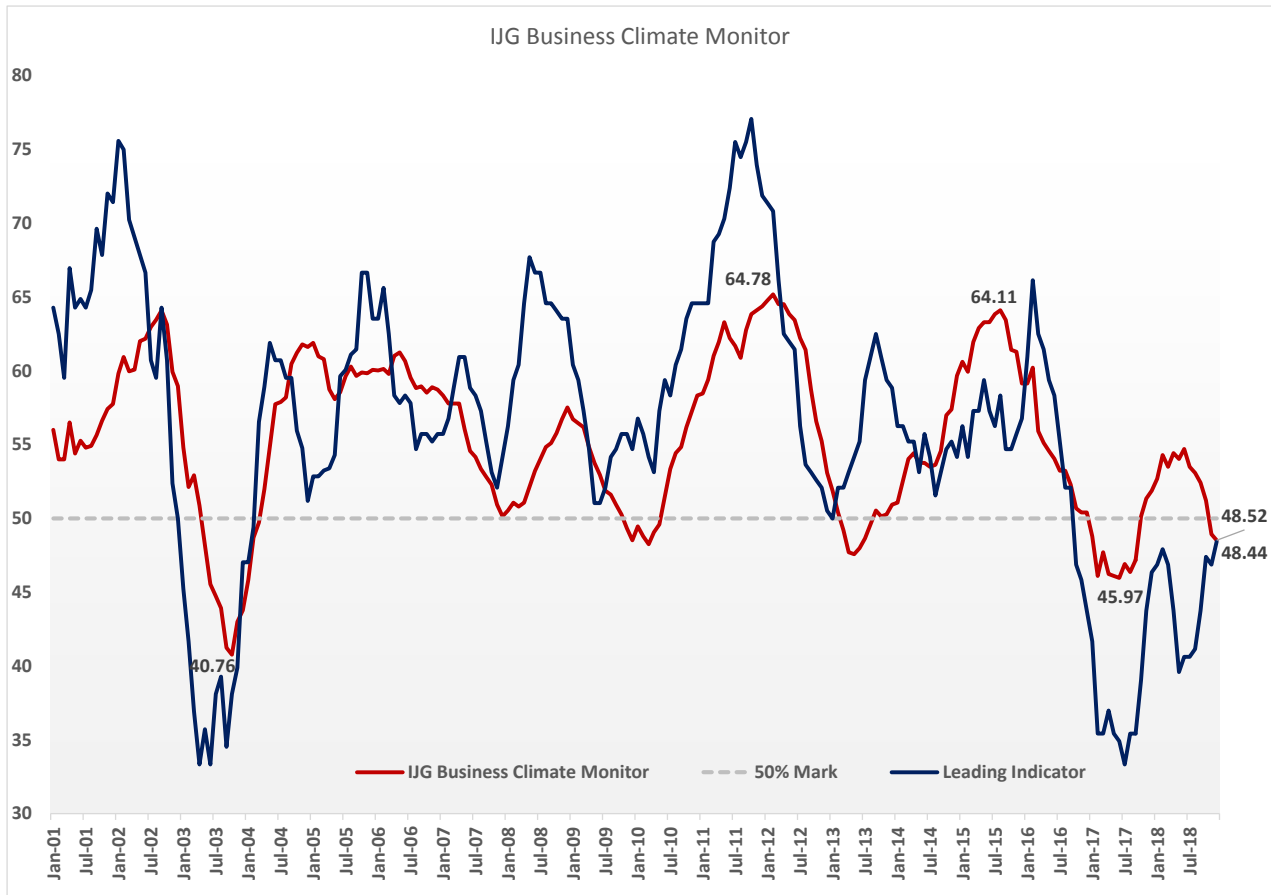




# BUSINESS CLIMATE MONITOR DECEMBER-18

Produced by Institute for Public Policy Research



After disappointing readings in November, the **IJG Business Climate Monitor** closed the year on a slightly more positive note. The IJG BCM has not reversed the downward trend that started in July 2018 and dropped from 48.92 in November to 48.52 in December. In contrast, the Leading Indicator recovered from a slight dip in November to increase to 48.44 in December – the highest value since September 2016. The Leading Indicator entered negative territory in October 2016. However, both indicators remained below the 50-point mark implying that the economy is still facing headwinds.

Out of the 31 indicators used in the calculation of the BCM, 15 showed an improvement while 15 declined. There was some good news for consumers in December, because fuel prices dropped for a second consecutive month – and substantially – resulting in a slowdown of inflation. Credit extended to individuals continued to increase as throughout the year, with the exception of June 2018, that saw a slight decline. In contrast, credit extended to businesses fell slightly compared to November. Vehicle sales recorded their lowest sales in almost a decade with 732 units sold – the lowest sales since May 2009 when 629 units were sold. Although improving to NAD64.9 million from NAD41.0 million in November, the value of building plans approved by the City of Windhoek remained way below previous levels. The number of livestock marketed dropped to the lowest level in 2018 due to seasonal factors. Lamb prices, however, moved to the highest level this year, while beef prices were the second highest after November.

The number of tourist arriving at the international airport dropped to the second lowest number this year after arrivals in February.

**Overall**, while the improvement in the Leading Indicator in December provides some relief, it has not returned to positive territory again. Furthermore, the continued decline of the BCM indicates that economic conditions are not yet improving. The multitude of economic challenges will continue into 2019.

### Note on methodology

The index encompasses 31 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 31 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 satisfactory high-frequency view of the state of the local business climate.

### Indicators

Indicator	Higher Value Better	Transformation	Leading
<b>Policy Environment</b>			
Prime Rate	No	None	Yes
Monthly Government Spending (N\$)	Yes	Deflated	Yes
<b>Primary Sector Output</b>			
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
<b>Secondary and Tertiary Output</b>			
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
<b>External Account</b>			
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
<b>Prices</b>			
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
NCPI (Index)	No	Seasonal Adjustment	Yes

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