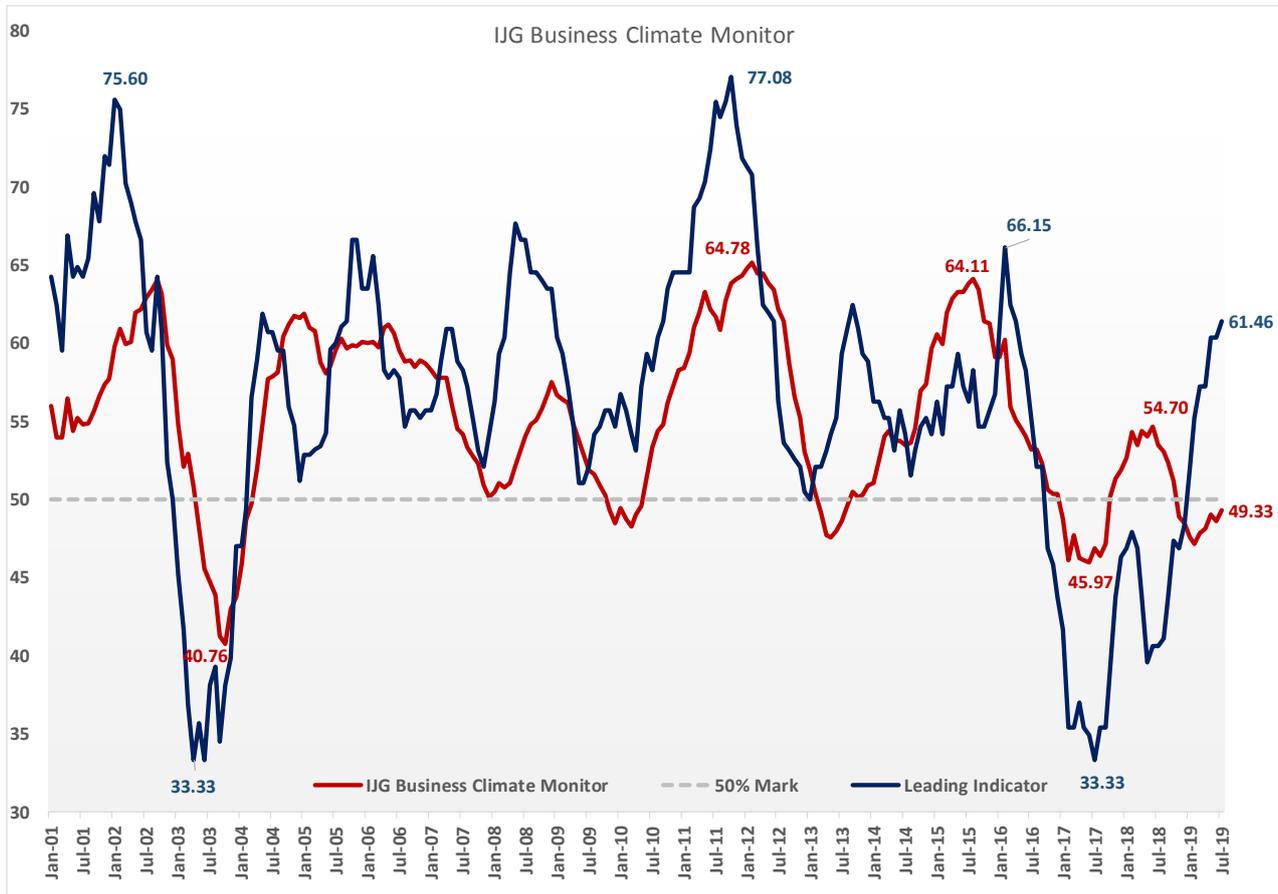




# BUSINESS CLIMATE MONITOR JULY-19

Produced by Institute for Public Policy Research



The **IJG Business Climate Monitor** was back again on an upward trajectory in July 2019 after it dipped in June. The Leading Indicator improved by more than one point ending the month at 61.46 up from 60.42. The IJG BCM rose as well from 48.66 in June to 49.33 in July. However, It remained below the 50-point mark that separates an economic contraction from an expansion despite the good performance of the Leading Indicator. 16 out of the 31 indicators used to compile the IJG BCM showed an improvement, while 14 weakened with one being left unchanged.

The number of livestock marketed continued to decline from a peak at 59,020 in May 2019 to 43,652 in July, while beef prices dropped further as well to NAD42.60 per kg. In contrast, lamb prices remained on an upward trend fetching NAD39.28 per kg compared to a low of NAD33.35 per kg in May. Diamond production was up by more than 50% in July compared to May reaching 157,058 carat compared to just 101,918 carat in May. May 2019 marked the lowest production level since May 2016, when production fell below 100,000 carat. Copper production declined by almost 200 tonnes to 1,113 tonnes in July.

July held some positive news for the construction sector, since the value of building plans approved in Windhoek nearly doubled from NAD60.5 million in June to NAD114,9 million, although the value of building plans completed more than halved to NAD108.3 million. International tourist arrivals at HKIA increased significantly from 15,106 in June to 22,066 in July but remained well below the number in July

2018 (28,446). The numbers for vehicle sales moved in opposite directions, but declined overall. The number of commercial vehicle sales dropped to 522 compared to a slight increase in the number of passenger vehicles to 382. The same trend could be observed for credit extension to the private sector. There was more appetite among individuals to take up credit in July (NAD59,140 m) as compared to June (NAD58,831 m) than by businesses (NAD40,165 m compared to NAD40,389 m respectively). If the number of new business registrations is any indication then the economic future looks brighter. The number of CC, company and defensive name registrations all rose strongly to a total of 1,441 in July compared to 1,178 in June.

**Overall**, the continued upward movement of the Leading Indicator should instil renewed confidence in the economy, even though the I/JG BCM has not yet broken through the 50-point mark. Furthermore, the number of indicators that improved either equalled or exceeded the number of indicators that have weakened since February, which could point at an economic consolidation.

### 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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