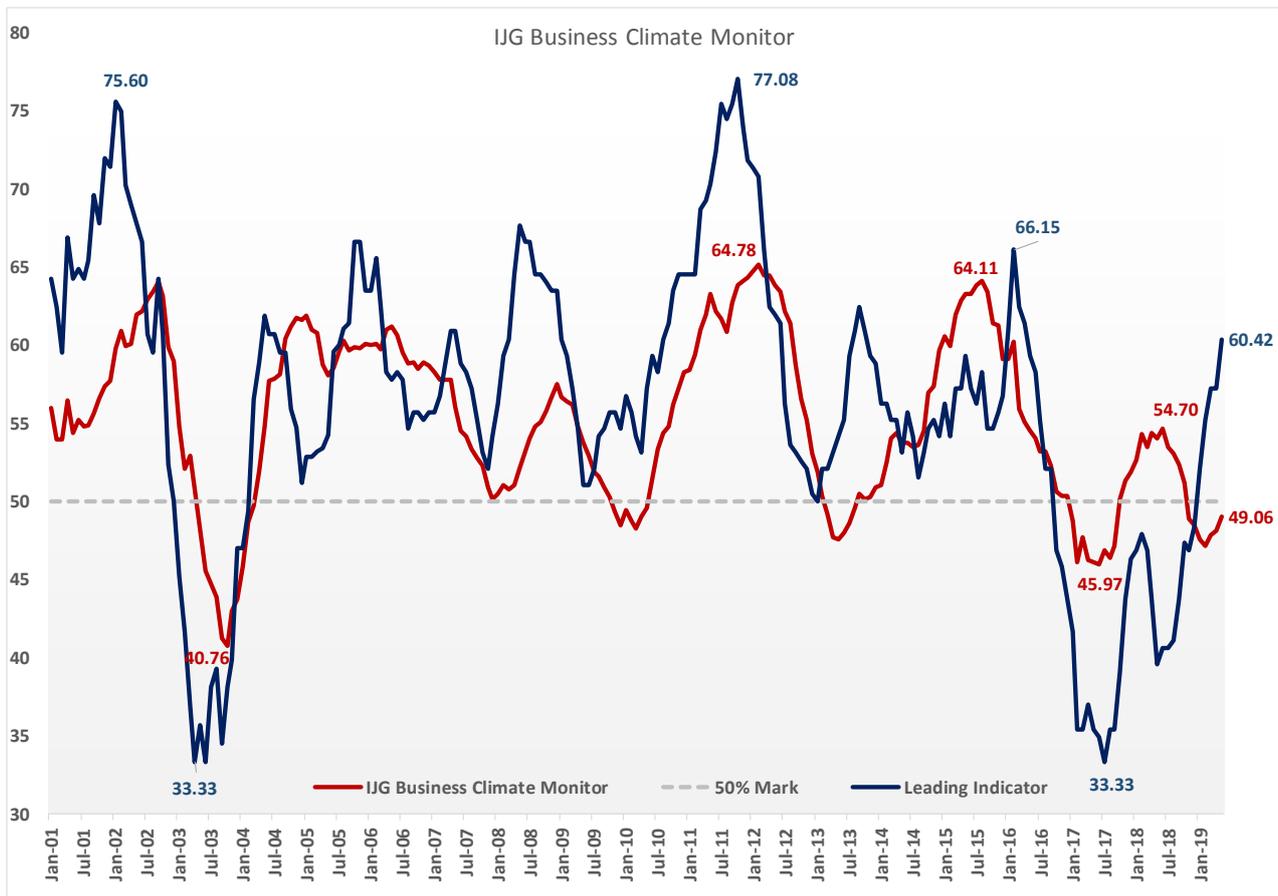




# BUSINESS CLIMATE MONITOR MAY-19

Produced by Institute for Public Policy Research



The **IJG Business Climate Monitor** continued to show improvement - a trend started by the Leading Indicator in June 2018 and by the main IJG BCM in March 2019. The Leading Indicator performed well in May 2019 rising by three points to 60.42 – the highest level since April 2016. This is well above the 50-point mark that separates an economic expansion from a downturn. The IJG BCM moved slightly closer to the 50-point mark ending May 2019 at 49.06, the highest value so far this year, but still short of the 50-point mark. 16 out of 31 indicators showed an improvement in May, while 14 indicators deteriorated with one remaining flat.

The improvement in the Leading Indicator was supported by an increase in the credit extended to businesses as well as by the depreciation of the Namibia dollar against the Euro and USD that is usually associated with the improved competitiveness of Namibian products on the global market or increased income in domestic currency for commodities traded in currencies such as the USD and Euro.

The IJG BCM benefited from a substantial increase in the number of livestock marketed that rose from 46,676 in April to 59,020 in May, while beef prices rose as well in contrast to lamb prices that dropped. Mineral production showed some mixed results with the output of copper and gold rising, while diamond production continued to fall although at a slower pace than in previous months. The value of building

plans completed and approved in Windhoek moved in opposite directions. The value of completed plans rose sharply from NAD55.2 million to NAD142.5 million, but the value of approved plans dropped by more than 50% to NAD81.3 million. Both passenger and commercial vehicle sales picked up in May to an aggregate of 1,055 units from 926 units in April. The number of company registrations fell to its lowest level since January 2018, while the number of defensive names registered decreased moderately in contrast to the number of CC registrations that rose slightly to 782 from 763 in April.

**Overall**, the improvement in both indicators and in particular the strong increase in the Leading Indicator supports more optimistic business sentiment, but the fact that data within categories often moved in opposite directions only re-emphasises that Namibia still faces considerable economic headwinds which continue to prevent the return of the IJG BCM to positive territory.

### 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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