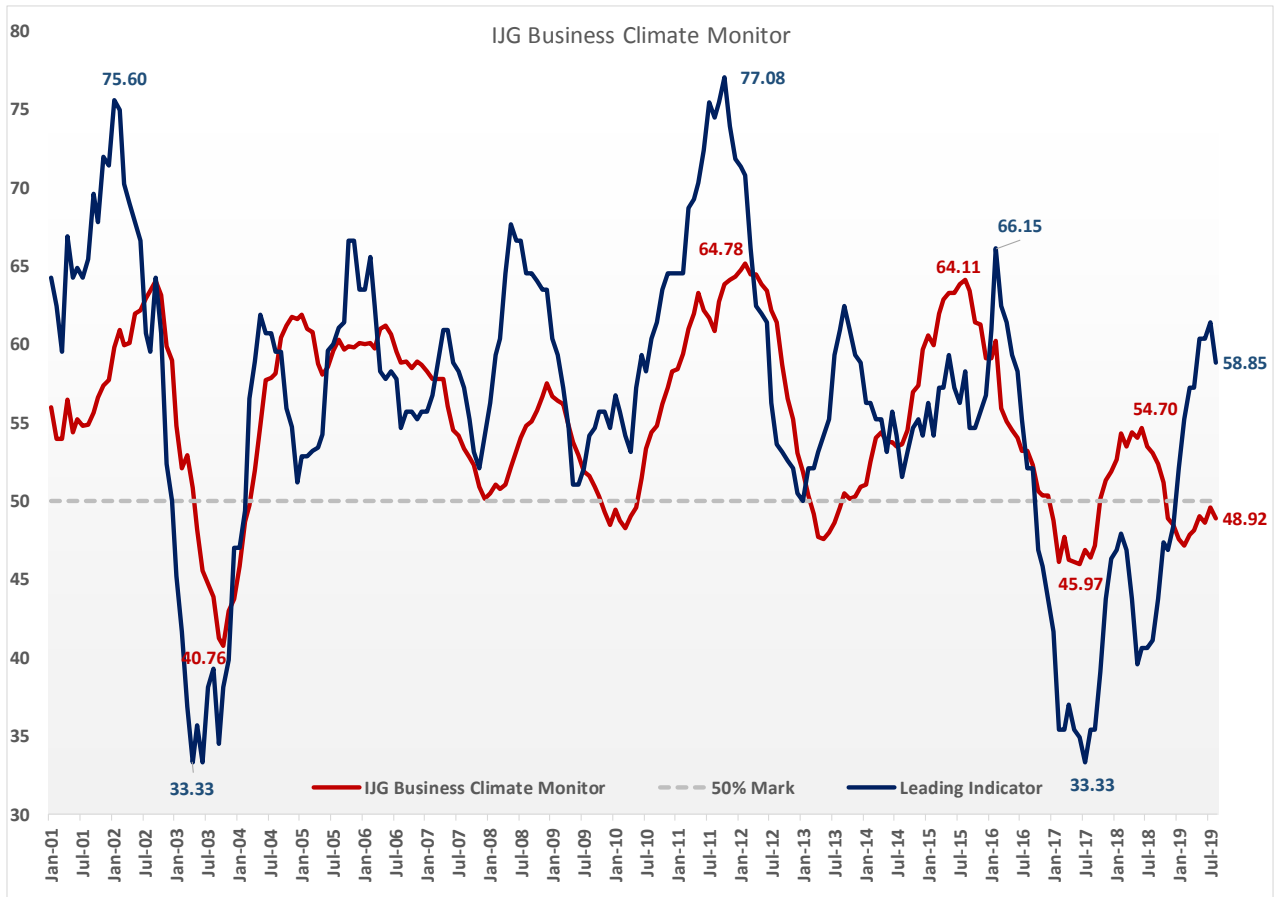




BUSINESS CLIMATE MONITOR AUGUST-19

Produced by Institute for Public Policy Research



The **IJG Business Climate Monitor** continued to zigzag in August as it has done over the past few months. Once it gets close to the 50-point mark it falls back. The IJG BCM dropped in August to 48.92 after moving up to 49.60 in July. The Leading Indicator weakened even more after rising for eight consecutive months and ended August almost three points lower than July at 58.85 compared to 61.46. The movements were reflected in the number of indicators that improved and deteriorated during August. 13 indicators went up, while 18 declined.

After two consecutive months of declines the number of livestock marketed increased by almost 1,500 to 48,011 in August 2019. The prices for both beef and lamb dropped slightly to NAD42.13 per kg and NAD38.38 per kg respectively. Mineral production moved in different directions: While copper production rose to 1,253 metric tonnes from 1,113 and gold output slightly from 494 kg to 509 kg in August, diamond production fell by more than 20,000 carat to 131,229 carat and uranium output by some 300 short tonnes to 388.71 short tonnes. All minerals benefitted from higher prices in Namibia dollars.

August held some good news for the construction sector, since the value of building plans approved in Windhoek grew for a third consecutive month to NAD135.5 million, while in contrast the value of building plans completed in Windhoek declined by NAD10 million to NAD98.1 million. In line with the previous two years, the number of international arrivals at the Hosea Kutako International Airport decreased by some

1,200 to 20,885. Compared to 2018, arrivals at HKIA declined by some 21,000 during the first eight months of 2019. Although this is not the most important indicator for tourism (what matters more is how long the tourists stay in the country and how much money they spend per day) the figures do not bode well for the industry.

Both the number of passenger and of commercial vehicles sold showed contraction in August and total vehicles sold dropped to the lowest (808 vehicles in August) since February 2019. Credit extended to individuals and businesses grew by some NAD400 million to NAD100.75 billion in August. Credit extended to businesses showed slower growth (4.0%) so far this year compared to the same period last year (4.3%), whereas credit extended to individuals rose by 0.3 percentage points to 3.8%.

Overall, the ups and downs for the I/JG BCM as well as the drop in the Leading Indicator suggests that the economy has not yet gained sufficient momentum for a robust turnaround. Government expenditure remained flat, mineral production went sideways, along with credit extension, posing the question: what can be a driver for growth in the short term?

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
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
NCPI (Index)	No	Seasonal Adjustment	Yes

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