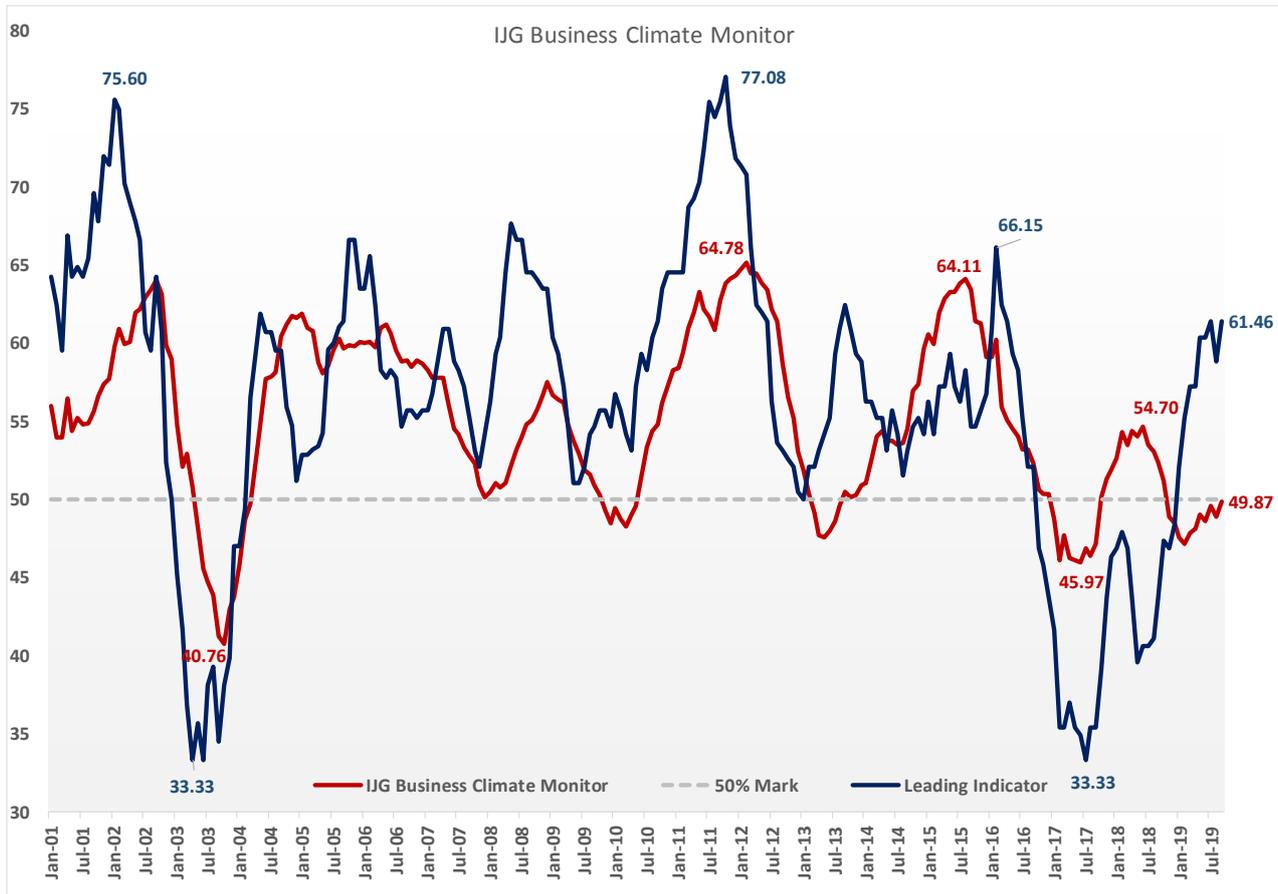




BUSINESS CLIMATE MONITOR SEPTEMBER-19

Produced by Institute for Public Policy Research



The **IJG Business Climate Monitor** remained in negative territory in September 2019 although it came close - at 49.87 - to the 50-point mark that separates economic expansion from economic contraction. This is the longest period the IJG BCM has stayed in the contraction area since the Business Climate Monitor started in 2001. Over the past five months, we have seen a continuous back and forth, with a recent drop to 48.92 in August and an upward movement to 49.87 in September. The Leading Indicator reversed the decline in August and moved back to 61.46, the same point it reached in July 2019 – the highest since April 2016. However, the strong performance of the Leading Indicator was not sufficient to push the IJG BCM above the 50-point mark. The highest number of indicators (18) since June 2018 went up in contrast to 13 indicators that decreased.

After strong figures for livestock marketed in the previous months, the sector experienced a decline by almost 10,000 head to 38,292 in September. Despite the lower marketing numbers, beef prices dropped from NAD42.13 per kg to NAD41.86 per kg – the lowest price since September 2018. Lamb prices in contrast rose to the highest level in half a year (NAD38.92 per kg). Copper production of 1,378 tonnes climbed to the highest level since March 2018, while diamond production gained some ground again with an increase by more than 10,000 carat to 141,625 carat. Uranium production also improved to 451.5 short tonnes compared to 388.7 tonnes in August. International passenger arrivals remained stable at

20,458 in September (20,885 in August). Total vehicle sales decreased by two units to 806 with passenger vehicles declining by 40 units to 320 and commercial vehicle sales up by 38 units to 489.

Total credit extension grew by 6.4% year-on-year to NAD101.4 billion, which was below the growth rate recorded in September 2018 of 7.3%. Credit extension to individuals outperformed credit extension to businesses with a growth rate of 7.0% vis-à-vis 6.2%. The economy continues to benefit from stable fuel prices that have remained unchanged since June 2019. The number of new CCs and companies registered showed a decline in September from 740 to 711 and 105 to 69 respectively, while more defensive names were recorded in September (380) than in August (358).

Overall, despite the strong performance of the Leading Indicator, the weak performance of other indicators prevented the IJG BCM from moving back into positive territory - which would indicate an economic expansion.

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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