

Institute for Public Policy Research

Feeling the Pinch

The *IJG* Quarterly Business Confidence Survey Fourth Quarter of 2008



Introduction

The *IJG* Business Confidence Survey is a quarterly assessment of business expectations. This survey was conducted in January 2009 by the Institute for Public Policy Research (IPPR). A questionnaire was sent to 103 companies, drawn from Namibia's largest employers across various sectors of the economy, and 50 responses were received. The survey contained questions that sought to gauge business sentiment in terms of **performance, revenue expectations, workforce dynamics and investment expectations.**

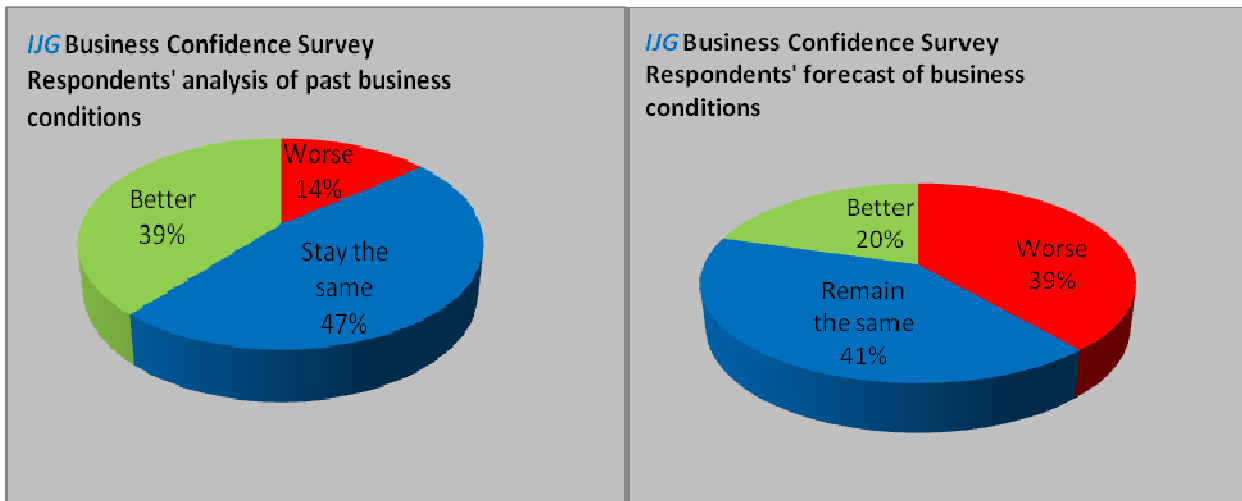
Survey highlights

Namibian businesses, just like those operating elsewhere in the world, began to feel the pinch of the global economic recession. This is shown by the jobs that some big operators have begun to shed in response to a sharp fall in global demand. The general outlook is mixed when compared to the responses to the previous survey (third quarter (Q3) 2008) that were generally positive about the fourth quarter (Q4) of 2008.

- Only 20% of the respondents expect business conditions to be better in Q1 2009, while 41% expect the same conditions as Q4 2008 and 39% believe conditions will worsen.
- Most respondents (57%) do not have plans to invest in plant and equipment in Q1 2009. Only banks and technology companies have indicated plans for such investments.
- Namibian companies, with the exception of mines and fishing firms, will maintain the same levels of employment in Q1 2009 as in Q4 2008. Only 24% of respondents will take on more labour.
- More companies (50%) expect revenue performance in Q1 2009 to tally with Q4 2008 performance, compared to 25% that expect revenue increases and the same proportion that predict falls in revenue.
- Several operators in the high-end of the tourism market indicated that bookings were decreasing as a result of the global economic crisis.



Business Conditions and Performance

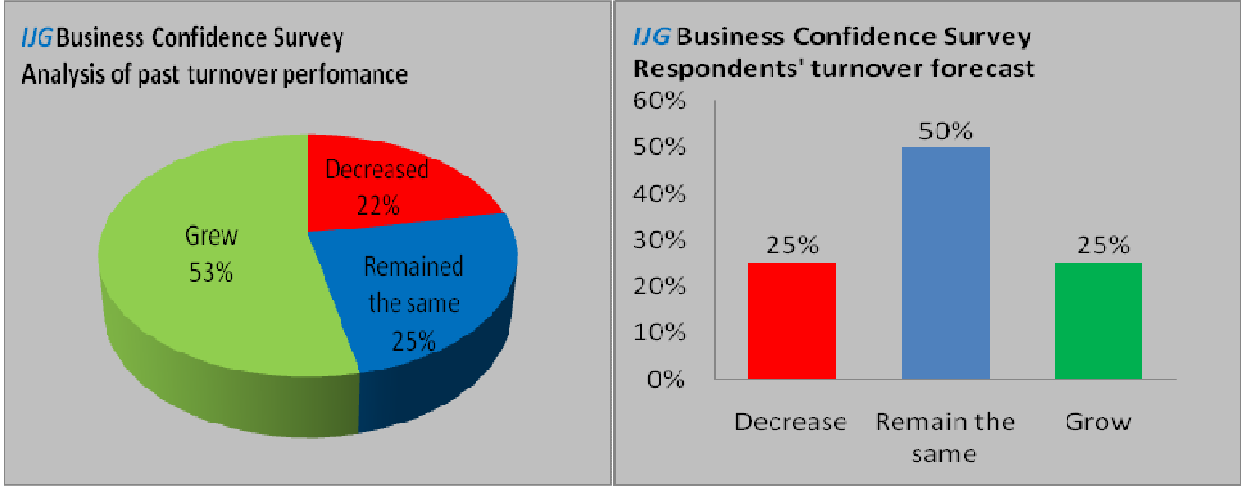


In this regard, companies were asked to rate general business conditions over the past three months (October to December 2008) as compared to the previous three-month period. An analysis of the responses points to a generally favourable 4th quarter as compared to the 3rd quarter in terms of business conditions. In the third quarter of 2008, thirty percent of the respondents indicated that the quarter had been worse than the previous quarter while fourth quarter analysis shows that only fourteen percent of the respondents indicated that business conditions were worse than in the previous quarter.

This positive trend was more prevalent in the retail and hospitality sectors. This can most probably be attributed to the festive season which fell in the quarter under review. Increased consumer spending on basic and luxury goods, as well as the number of people on holiday, worked in favour of these two sectors. The mining and construction sectors experienced bumpy conditions as the cost of power and cement took a toll on industry operators. Sentiments were mixed in the financial sector as well as the manufacturing sector.

The outlook is becoming gloomier. 39% of the respondents said they expected business conditions to worsen in the 1st quarter of 2009. Back in Q3 of 2008, only 13% of respondents had indicated that the fourth quarter's business climate would be worse. However, 41% of respondents said business conditions would remain the same, while 20% said they would improve. This, as was the case in the third quarter analysis, indicates a faith in the resilience of the Namibian economy against the backdrop of the now biting global economic crisis.

Revenue outlook

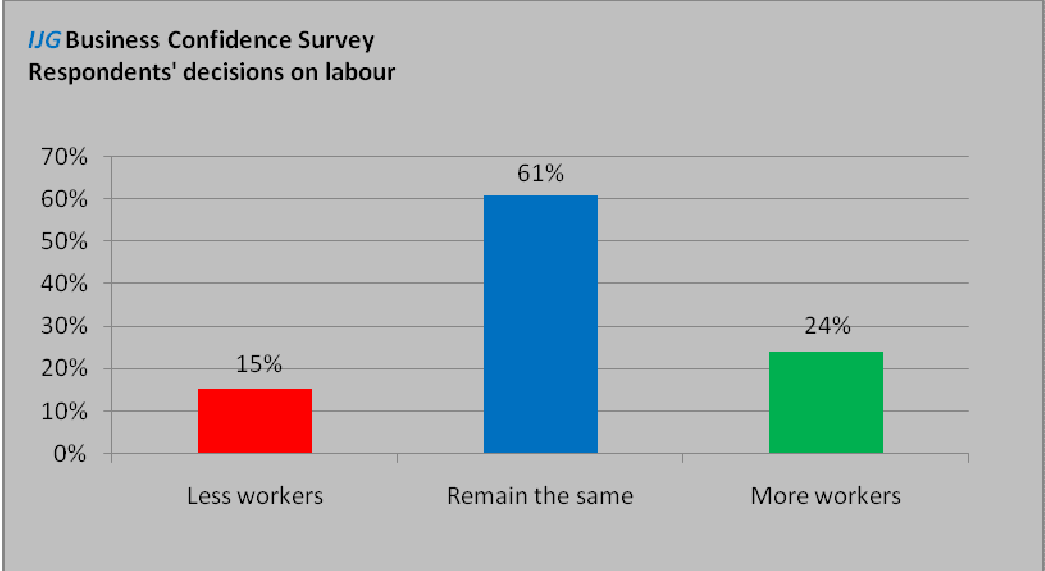


Companies were asked how they had performed during the past three months (October to December 2008) in terms of turnover (income from sales and services). More respondents (53%) witnessed increases in turnover as compared to 48% in the third quarter. Turnover increases were mostly attributed to the festive season which is generally characterised by higher spending. This trend was more prevalent in agriculture, retail, financial and health sectors.

However, manufacturers and mining companies recorded falls in turnover as a result of weaker global demand, weaker private consumption, combined with the general fall in commodity prices, and an increase in input costs.

It is evident that the festive season has come and gone as most retailers generally forecast a decline in revenue in the first quarter of 2009. This sector, together with the hospitality sector had a very good fourth quarter, but sentiments have become less positive as more pressing needs such as school fees take precedence over holiday and consumption of luxuries.

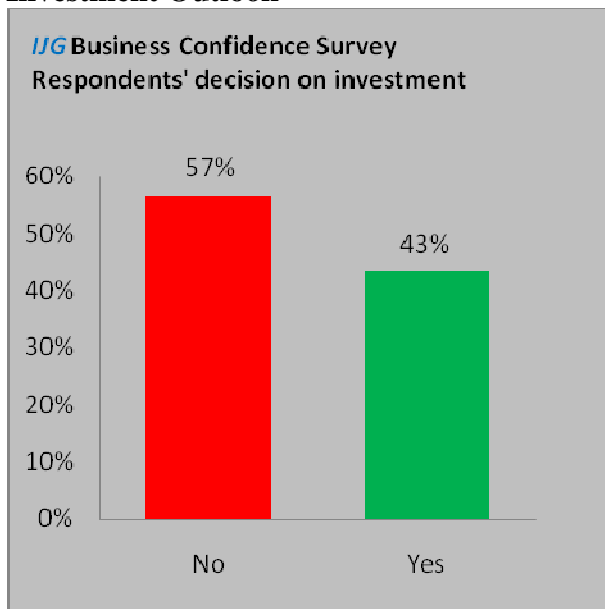
Workforce Dynamics



Companies were asked if they would employ more, fewer or the same number of workers in the next three months (January to March 2009) as compared to the fourth quarter.

The effects of the global economic crisis have started to cascade down to the Namibian economy as fewer companies (12) have indicated that they will employ more people as compared to 14 in the third quarter. However, 61% of the respondents expect to keep employee figures at the same levels as the last quarter, indicating that many companies will seek to avoid retrenchments despite gloomier prospects.

Investment Outlook



Companies were asked if they were planning any significant investments during the coming three months (January to March 2009). More than half the respondents indicated that they had no plans to make any significant capital investments. This further affirms the effect of the world financial crisis as credit becomes less accessible and companies batten down the hatches in view of uncertainty over how severe and long-lasting the crisis will be. However, it is encouraging to note that 43% of those surveyed will make significant investments as compared to 40% in the last quarter.

SECTOR BY SECTOR ANALYSIS

Agriculture

Only three responses were received from this sector, with two coming from grape producers and the other from a retail co-operative. The overriding factor in the experience of the farmers in this sector is the seasonal nature of their operations. Grape producers experienced the same business conditions as in the third quarter, mainly due to the fact that there is only one harvest per year. For Q1 2009, no major investments will take place and less labour will be employed. On the retail side, livestock sales were subdued in the fourth quarter and the same is expected in the first quarter of 2009. Turnover is expected to fall in Q1 2009.

Banking and finance

Business conditions in the financial sector in general were the same as in the third quarter. In terms of turnover performance for Q3 2008, the banks were generally positive. There were no major changes in the insurance sub-sector compared to the previous period as retail investment was under pressure in the third

quarter. The situation was made worse by the high volatility that generally characterised investment markets, leading to a great deal of uncertainty. Major investments and labour uptake will not feature in the insurance sub-sector in the first quarter of 2009.

Fishing

A major player in the Namibian economy, the fishing sector was affected by the weak exchange rate which resulted in production costs rising. This effect was, however diluted by the fall in fuel costs. In Q4 2008 business conditions and revenue performance remained constant at Q3 levels but players plan to take on more labour in the first quarter of 2009 as the sea harvesting season starts. However, the sector has been badly affected by the provisional liquidation of one big player, which could eventually lead to the loss of about 700 jobs.

Health

Revenue performance is expected to improve in the first quarter of 2009 as a result of an 8% increase in general tariffs, as well as improved limits for medical aid members. However, this increase might be offset by an anticipated rise in operating costs.

Hospitality

The honeymoon is definitely over for this sector as all respondents had negative sentiments about the first quarter of 2009. This is in sharp contrast to the generally favourable business conditions over the festive season which lies in the fourth quarter of the year. The end of the festive holiday season and an expected drop-off in the number of European tourists visiting the country were responsible for the downturn in business sentiment. One luxury lodge company said tourist arrivals had dropped by 15% in Q4 2008 and the situation was not expected to improve in early 2009. Other businesses commented on a slowdown in accommodation bookings that went beyond the seasonal norm. However, three respondents indicated that they were investing millions of dollars in upgrading facilities and marketing, an indication of long-term faith in the industry.

Information and communication technology

The general feeling for Q4 2008 in this sector was positive and indications are that the future is something to look forward to. Telecommunication companies were upbeat about past and future performance and the economy will see more investments in this sub-sector. Competition has been robust and in order to stay on top of the market, players will invest in capital equipment in Q1 2009. Computer equipment suppliers generally expect business conditions in the first quarter of 2009 to be same as those in the fourth quarter of 2008.

Manufacturing

Third quarter momentum spilled into the fourth quarter as the sector generally performed well. Business conditions remained constant and revenue performance was on the up side. Four respondents do not intend to make any major investments while the same number plans to make capital investments.

Mining and construction

The latest stabilisation in the price of zinc has brought some relief to zinc producers. The rise in uranium prices, from US\$43/lb in late October to US\$55/lb in December 2008, worked wonders for uranium producers as one mining company in the uranium sector indicated. This, however, is most likely not going to be the case in Q1 2009 as the price of uranium has begun to fall.

The biggest challenge in this sector is job lay-offs, with more companies announcing job losses as a result of reduced global demand and a sharp fall in commodity prices. Outside the uranium sector, employment prospects remain gloomy with larger mines predicting more retrenchments in the first quarter. The continued increase in the price of cement on the world market dampened sentiment for the construction sector in Q4 of 2008, and will continue to do so in the first quarter of 2009. However, the sector still exhibits some positives as they plan to engage in major investment projects.

Retail

Just like the hospitality sector, the retail sector experienced favourable business conditions in the fourth quarter characterised by high turnover performance as a result of festive spending. Forecasts remain positive mainly because most retailers trade in basic items that will always find a market no matter what conditions are prevailing. Forecasted lower inflation in 2009 is expected to boost consumer confidence and subsequently work in favour of retailers.

About the IPPR and IJG

The **Institute for Public Policy Research (IPPR)** is a not-for-profit organisation with a mission to deliver independent, analytical, critical yet constructive research on social, political and economic issues that affect development in Namibia. The IPPR has been established in the belief that development is ***best promoted through free and critical debate informed by quality research.***

IJG Securities (Pty) Ltd, which sponsors the Business Confidence Survey, is one of Namibia's leading financial services boutiques, serving the institutional and corporate market and specialising in research, debt and equity placement, corporate finance and equity and fixed-income dealing.



© IPPR 2009

Incorporated Association Not for Gain Registration Number 21/2000/468

Trustees: M M C Koep, D Motinga, W Lindeke, P Hailonga van Dijk, A du Pisani, R C D Sherbourne, G Hopwood (ex-officio)

14 Nachtigal Street · P O Box 6566, Ausspannplatz, Windhoek, Namibia · Tel: +264 61 240514 Fax +264 61 240516
info@ippr.org.na · www.ippr.org.na