

I LEMBE
BUSINESS CONFIDENCE INDEX (IBCI)
2016 MID-YEAR REVIEW



Copyright and disclaimer

Copyright and all other intellectual property contained herein rests with the iLembe Chamber of Commerce, Industry & Tourism (iCCIT) and Enterprise iLembe (EI).

The information contained in this document may not be reproduced in either whole or part without prior written consent of the iCCIT or EI.

Although reasonable professional skill, care and diligence are exercised to record and interpret all information correctly, iCCIT, EI and the author(s) do not accept any liability for any direct or indirect loss whatsoever that might result from unintentional inaccurate data and interpretations provided in this review as well as any interpretations by third parties. The iCCIT or EI do not accept any liability for the consequences of any decisions or actions taken by any third party on the basis of information provided in this review. The views, conclusions or opinions contained in this publication are those of the iCCIT and EI and do not necessarily reflect those of SACCI or the iLembe District Municipality.

TABLE OF CONTENTS

1. HIGHLIGHTS AND KEY FINDINGS	4
2. REVIEW OF IBCI 2016 MID-YEAR.....	5
3. SACCI BCI.....	8
4. CONCLUSION.....	9
ANNEXURE 1 - BACKGROUND.....	11
ANNEXURE 2 - METHODOLOGY.....	12

1. Highlights and Key Findings

Enterprise iLembe, in partnership with the iLembe Chamber of Commerce, Industry & Tourism, collaborate to produce the iLembe Business Confidence Index (iBCI) aimed at providing a biannual picture of business confidence in the iLembe District, as well as an overall business outlook. The iBCI is a hybrid index derived from, firstly, a biannual business survey conducted in the iLembe district and secondly, with a weighted index of financial and economic variables.

Please note that the iBCI will from 2016 onwards be conducted on a biannual basis. During 2015 the iBCI was conducted on a quarterly basis.

- The protests and resulting disruptions to businesses in the district during the 1st half of 2016, combined with a deteriorating national economic sentiment, impacted severely on the overall business confidence in the iLembe District, driving the combined hybrid iBCI (survey and activity indices) for the 1st half of 2016 down by 2.6 index points compared to the 4th quarter of 2015.
- The 2016 mid-year iBCI was recorded at 46.4 index points, the lowest level of business confidence recorded since the commencement of the iBCI, entrenching itself firmly in negative territory.
- The survey component of the iBCI, which was conducted between the mid and end of July 2016, and which records subjective business sentiment, was recorded at an all-time low of 44.7 index points, 5 points down from the Q4 2015 level.
- Negative outlooks around sales volumes (45.6; <10.5) and order books (42.7; <10) were the biggest contributors to the dejected local business sentiment. Sentiment around levels of employment was the only economic activity recorded positively, at 51.1 index points.
- It was especially the business confidence in the Manufacturing & Assembly (39.8), Wholesale, Retail & Vehicle Trade (39.7) and Agriculture, Forestry & Hunting (40.7) sectors that contributed to the overall gloomy sentiment.
- The most confident economic sector was Tourism, Catering & Accommodation with businesses in this sector reflecting a business confidence level of 64.7 index points, balancing the overwhelming negativity expressed by the other economic sectors.
- In line with the aforementioned sector sentiment, the confidence expressed by businesses in the Mandeni Local Municipality, home to the Isithebe Industrial Estate, was firmly in the negative on 40.8.
- The SACCI Business Confidence Index (BCI) on average measured 93.6 in the 1st half of 2016 and lost 9.1 index points on the average of 1st half of 2015.
- The main year-on-year contribution to the deterioration of the SACCI BCI from June 2015 to June 2016 came from the weaker weighted rand exchange rate, higher real borrowing costs and slowing merchandise import volumes.

- The local business outlook for the 6-month period July to December 2016, was encouragingly in positive territory at 51.3 index points, a gain of 1.4 points against the last quarter of 2015. This 6-month business expectation is the highest level since the high of 57.9 index points recorded in Q2 2015.
- The 6-month outlook around sales volumes, order book, sales prices and employment were all in positive territory.
- An increase in input prices continued to significantly impact on the overall business expectations for the next 6 months in the iLembe district.

2. Review of iBCI 2016 Mid-Year

The protests that caused significant damage and disruptions to businesses across the iLembe District during the first half of 2016, the highest profiled being the protests in the Isithebe and Shakashead areas, combined with a deteriorating national economic sentiment, severely impacted on the overall business and investor confidence in the iLembe District, as measured mid-year 2016. The combined hybrid iBCI (survey and activity indices) for the 1st half of 2016 was driven down 2.6 index points compared to the 4th quarter of 2015.

The 2016 mid-year iBCI was recorded at 46.4 index points, the lowest level of business confidence recorded since the commencement of the iBCI, entrenching itself firmly in negative territory.

The survey component of the iBCI, which was conducted between the mid and end of July 2016, and which records subjective business sentiment, was recorded at an all-time low of 44.7 index points, 5 points down from the Q4 2015 level.

Negative outlooks around sales volumes (45.6; <10.5) and order books (42.7; <10) were the biggest contributors to the dejected local business sentiment. Sentiment around levels of employment was the only economic activity recorded positively, at 51.1 index points.

It was especially the business confidence in the Manufacturing & Assembly (39.8), Wholesale, Retail & Vehicle Trade (39.7) and Agriculture, Forestry & Hunting (40.7) sectors that contributed to the overall gloomy sentiment. The Financial & Business Services (40.8), Construction, Property Development & Property Sales (43.3) and Transport, Warehousing & Storage (46.3) sectors were also in negative territory.

The most confident economic sector was Tourism, Catering & Accommodation with businesses in this sector reflecting a business confidence level of 64.7 index points, balancing the overwhelming negativity expressed by the other economic sectors.

In line with the aforementioned sector sentiment, the confidence expressed by businesses in the Mandeni Local Municipality, home to the Isithebe Industrial Estate, was firmly in the negative on 40.8. The Isithebe Industrial Estate saw protesters petrol-bombing and looting factories and businesses early in March 2016.

The overall economic activity measurement, the second component of the iBCI, was recorded at 48.2 points, .2 points lower than Q4 2015, the lowest recorded level since commencement. The iBCI’s Activity Index component is firmly entrenched in the negative, i.e. below the significant level of 50 index points that reflect no change.

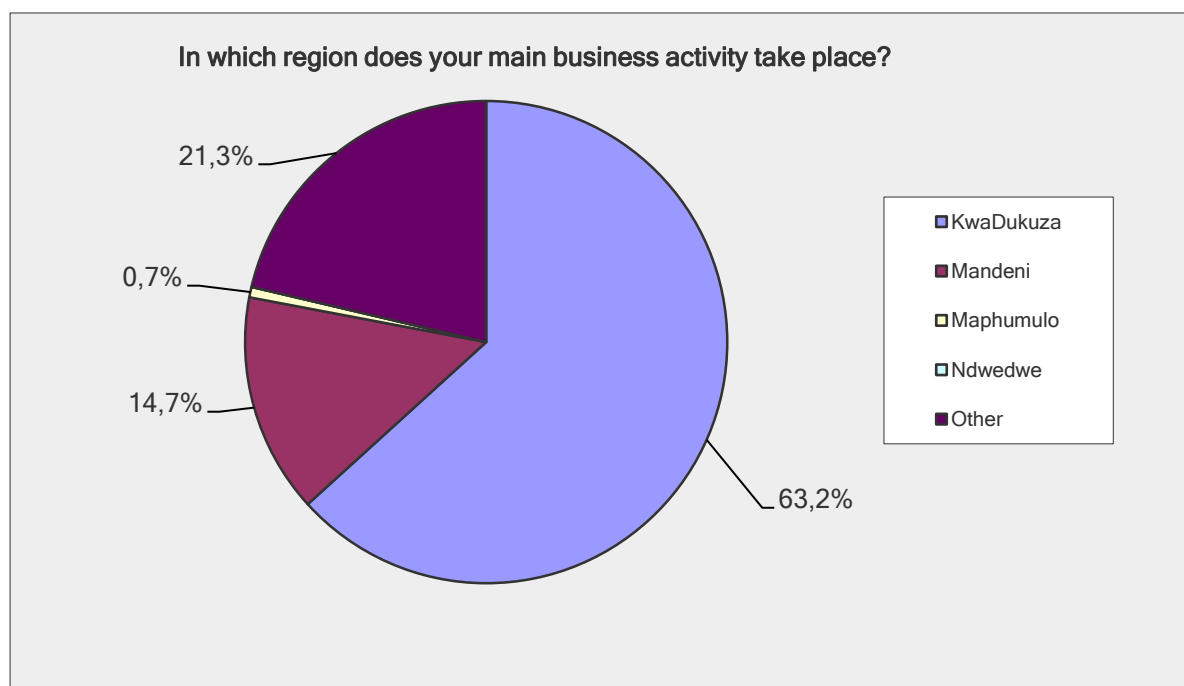
The 2016 Mid-Year proxy indicators for economic activity used for measuring the business environment in the iLembe region, as detailed in Annexure 2 below, were dominated by negative indicators. Measured year-on-year (y/y), Construction (-5.1%), the US\$ Sugar Price (-6%) and the US\$/R exchange rate (-22.8%) were worse off in the 1st half of 2016 than in the equivalent period in 2015. Manufacturing (2%) was a slight positive measured on a y/y basis.

The iBCI survey also reflects on business expectations over the next six months. The business outlook for the 6-month period July to December 2016 was encouragingly in positive territory at 51.3 index points, a gain of 1.4 points against the last quarter of 2015.

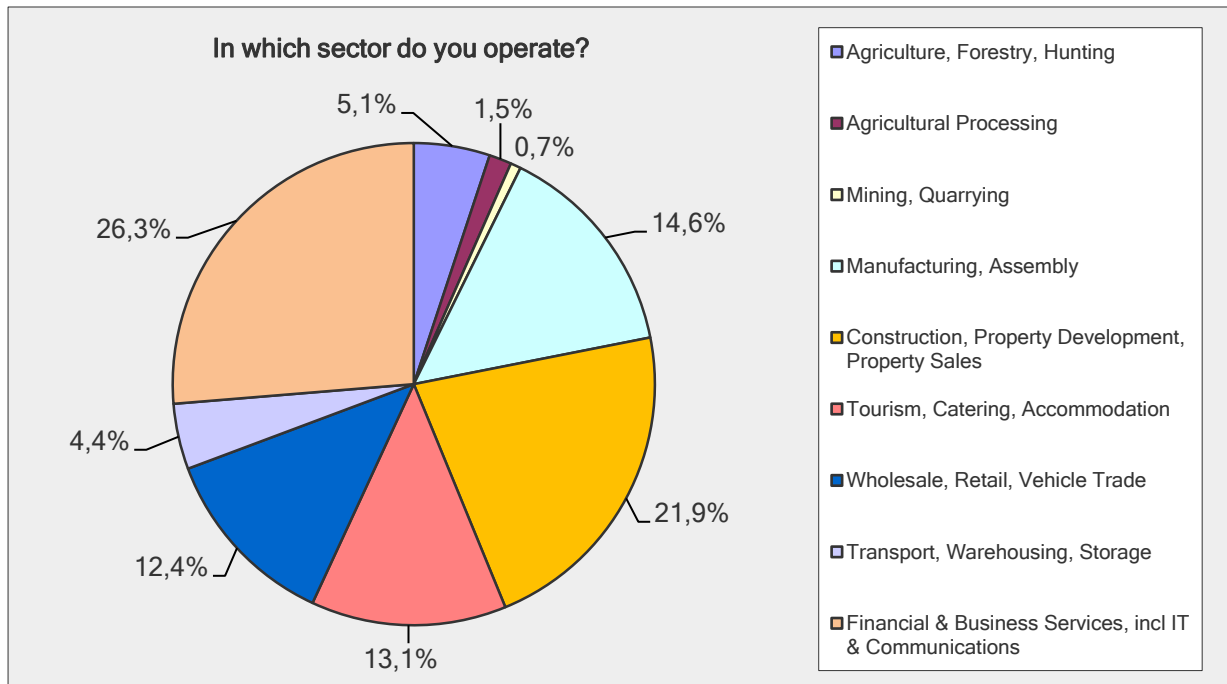
This 6-month business expectation is the highest level since the high of 57.9 index points recorded in Q2 2015. The 6-month outlook around sales volumes, order book, sales prices and employment were all in positive territory.

An increase in input prices continued to significantly impact on the overall business expectations for the next 6 months in the iLembe district.

iBCI survey responses from iLembe sub-regions:

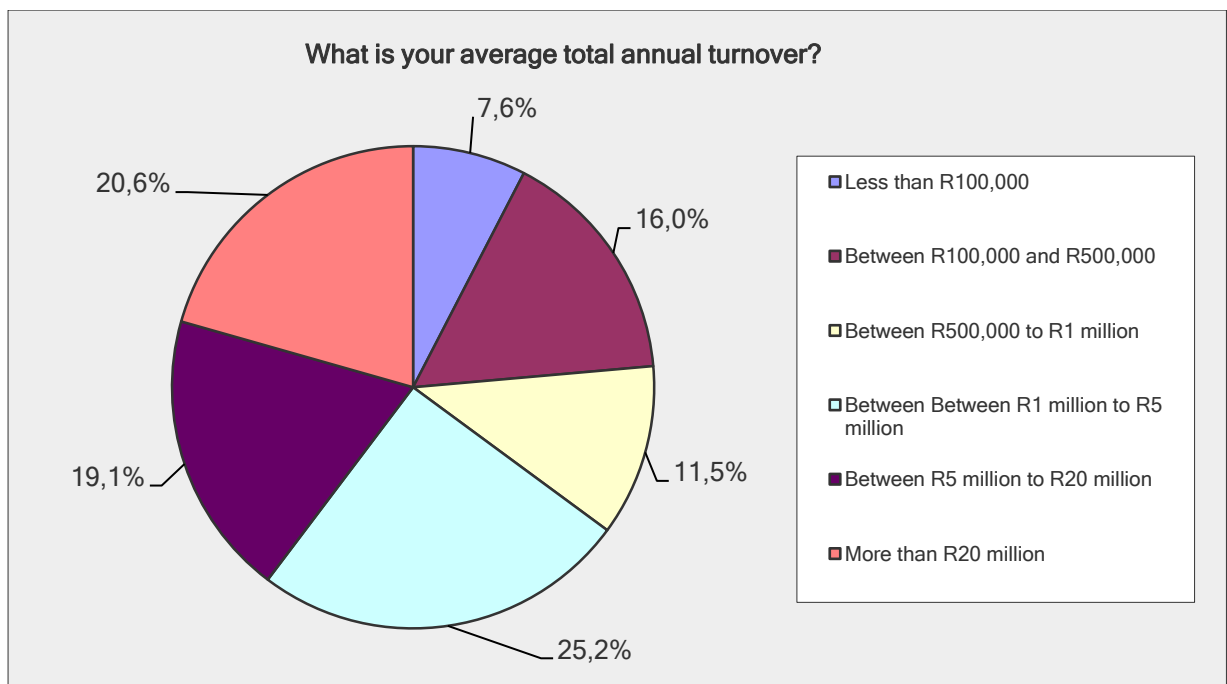


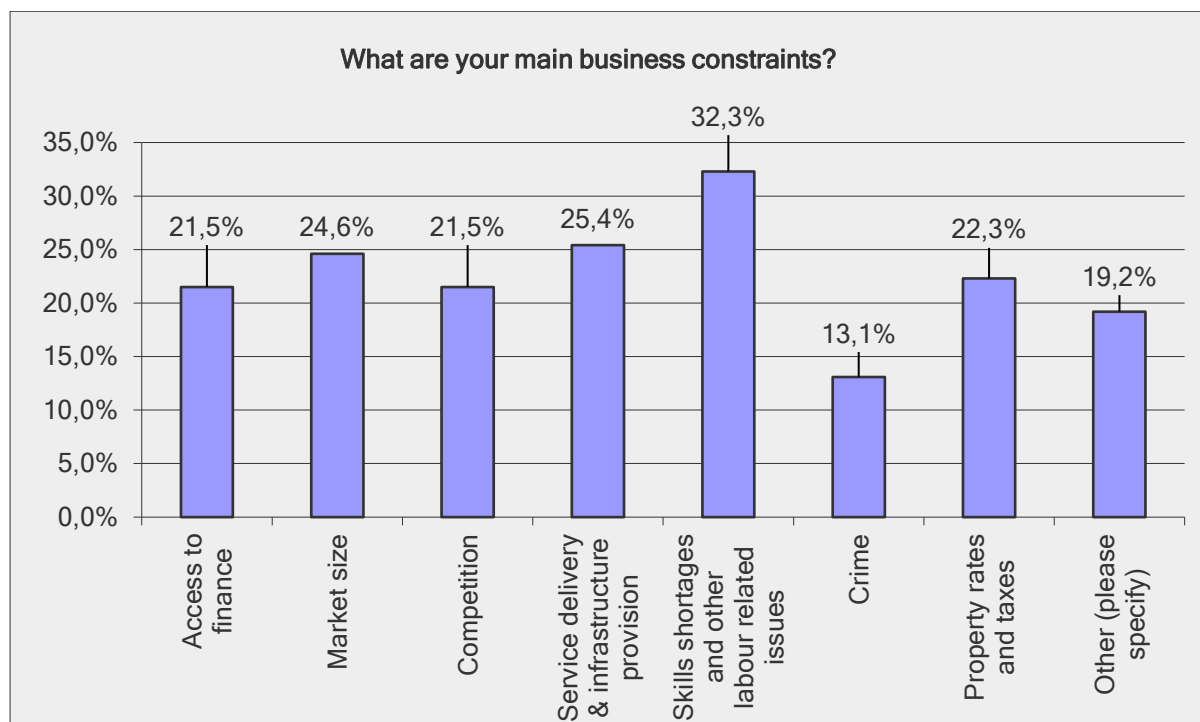
Economic sector participation in the iBCI survey:



The majority of businesses participating in the 2016 Mid-Year iBCI Survey operated within the Financial & Business Services, including IT & Communications businesses (26.3%), followed by Construction, Property Development, Property Sales (21.9%) and Manufacturing, Assembly businesses (14.6%). The Tourism, Catering and Accommodation sector formed 13.1% of respondents whilst the Wholesale, Retail, Vehicle Trade sector participated at a level of 12.4%. Agriculture, Forestry, Hunting (5.1%) and Transport, Warehousing, Storage (4.4%) sectors were also well represented amongst respondents.

Participation in the iBCI survey by annual turnover level:



Perceived business constraints:

Considering the events that characterised the business environment during the 1st half of 2016 it is no surprise that *Skills shortages and other labour related issues* regained its position as the most significant constraint of 32.3% of businesses.

Service delivery & infrastructure provision was a perceived business constraint of 25.4% of respondents, indicating this as the most significant constraint.

The two market related indicators of *Market Size* (24.6%) and *Competition* (21.5%) were combined identified by 46.1% of survey respondents as primary business constraints.

3. SACCI BCI

The SACCI Business Confidence Index (BCI) on average measured 93.6 (2015=100) in the 1st half of 2016 and lost 9.1 index points on the average of 1st half of 2015. The average BCI declined by 3.7 index points between the 2nd half of 2015 and the 1st half of 2016. Business confidence worsened notably since May 2014, gathered downward momentum towards the end of 2015 and reached its worst level in 23 years in December 2015. The year-on-year business climate indicators of June 2016 mainly compared negatively with June 2015. Only merchandise export volumes, manufacturing output and building plans passed were in positive area in June 2016. Inflation and precious metal prices were unchanged year-on-year in June 2016 while all the other sub-indices made negative year-on-year contributions to the SACCI BCI in June 2016.

The main year-on-year contribution to the deterioration of the SACCI BCI from June 2015 to June 2016 came from the weaker weighted rand exchange rate, higher real borrowing costs and slowing merchandise import volumes. Lower share prices, fewer new vehicle sales and higher energy costs contributed to the decline in business confidence but to a lesser degree. The overall economic situation consequently waned.

The IMF lately lowered the world economic growth outlook in the update of its projections. The IMF revised their global economic growth projections downward by 0.1 percentage point to 3.1% for 2016 and by 0.1 percentage point to 3.4% for 2017. These lower growth scenarios are followed by a lower 2.9% increase in trade volumes of emerging and developing economies in 2016 compared to 3.4% in the April 2016 IMF outlook. The IMF also lowered South Africa's economic growth projections by 0.5 for 2016 and 0.2 percentage points for 2017 respectively to 0.1% and 1%. The South African Reserve Bank projected zero growth for South Africa in 2016.

The impact of the Brexit decision on the world economy lead early commentators to speculate which added further to the uncertainty. South African trade agreements already exist with the EU and Britain, and although it can be contractually reviewed, the potential economic impact on South Africa will not be felt for the foreseeable future. A possible recession in Britain and weaker growth in the EU due to the repercussion of Brexit may have a negative effect on the South African economy and a struggling world economy. For South Africa as a small open economy, uncertainty remains a risk. South Africa is particularly vulnerable to capital outflows because of the country's large deficit on the current account, but it is doubtful whether Brexit will necessarily lead to additional capital outflow.

Public finance is one of the areas of concern in the economy. Recently released data on capital expenditure (CAPEX) by public sector institutions again confirmed the obligatory role in the economy of these outlays. Capex was mainly on the acquisition or improvement of fixed assets such as land, roads, buildings and projects to improve service delivery. There has been a relative improvement of economic infrastructure in relation to the South African economic output (GDP). However, the economic performance (real growth), however, does not match the relative expansion in economic infrastructure. It is important that private sector activity be enhanced while impediments that stifle economic growth and employment creation should be removed. The present weak economic performance necessitates affirmed intentions for private sector participation.

4. Conclusion

The extent of the disruption to business and investor confidence, caused by protests in the iLembe District during the 1st half of 2016, is reflected in the most negative iBCI recorded thus far.

It is however encouraging to observe that business expectations for the remainder of 2016 are positive at a level of 51.3 index points. Considering the current positive economic data

and other related activities, especially a strengthening rand and revised growth projections, should contribute significantly to the actual performance of businesses in the iLembe District during the 2nd half of 2016.

Cobus Oelofse

CEO: iLembe Chamber of Commerce

ceo@ilembechamber.co.za

+27 (0)87 727 8630

Cheryl Peters

Acting CEO: Enterprise iLembe

cheryl@enterpriseilembe.co.za

+27 (0)32 946 1256

Richard Downing

Economist: Econdow

econdow@axxess.co.za

Annexure 1 - Background

The iLembe District Municipality is situated on the east coast of South Africa and is one of the 11 district municipalities of the KwaZulu-Natal province. It is the smallest district municipality in the province, measured by population. There are four local municipalities within the iLembe District, i.e. KwaDukuza, Maphumulo, Ndwedwe and Mandeni.

Enterprise iLembe (EI) is the Economic Development Agency of the iLembe District Municipality with its key mandate to drive economic development and to promote of trade and investment.

The iLembe Chamber of Commerce, Industry & Tourism (iCCIT) is a business association that supports businesses, in the iLembe District, to optimise their commercial potential.

The compiling of the iLembe Business Confidence Index (iBCI) forms part of a wider collaboration between the iCCIT and EI aimed at presenting regional economic indicators and intelligence that will support economic development and investment promotion in iLembe. It also aims to assist stakeholders, both in the private and the public sector, by providing indicators that will assist with business attraction and retention.

The iBCI is a biannual index that reflects on the business climate in the iLembe District. The index considers economic and market-related aspects that have a bearing on the business mood in iLembe.

It is likely that a region's business mood will be influenced both positively and negatively by various developments in markets and the economy as a whole and the iBCI seeks to reflect the net results of these influences.

The measurement of business confidence is considered significant since it indicates the current and expected state of a region's economy.

It is widely recognised that business leader's subjective, individual expectations play a key role in economic developments. It also considered as a very good leading indicator of the overall business cycle in South Africa and its regions.

The iBCI is generated by iCCIT and Econdow on behalf of Enterprise iLembe. Econdow are the economists that compile the Business Confidence Index (BCI) of the South African Chamber of Commerce and Industry (SACCI). The SACCI BCI is one of the foremost business confidence indices in South Africa and the iBCI will be interpreted against this measurement of the broader business mood in South Africa.

The SACCI BCI was first published in 1985 and there have been various updates to the BCI with the latest revision in February 2011. As a result the BCI is now calculated according to an updated composition of sub-indices based in 2010 as 100. The latest update ensured that the SACCI BCI has a contemporary reference point (base year of 2010) and relate to up-to-date information on the economy and markets.

Annexure 2 - Methodology

The iBCI is a hybrid index derived from, firstly, a biannual business survey conducted in the iLembe district and facilitated by the iCCIT on behalf of Enterprise iLembe. It is combined, secondly, with a weighted index of financial and economic variables. Economic and market data are used to calculate the 8 (eight) sub-indices that make up the combined weighted index part of the iBCI. The indicators monitored are considered to have a significant bearing on the business mood and climate in iLembe. However, changing economic and business circumstances could necessitate updating and reassessing the indicators that are important to business in the area.

This composite iBCI merges the business survey and the combined weighted index into one business confidence measurement of the business mood in the iLembe district.

Technical features of the iBCI:

- The iBCI is a composite hybrid index;
- The iBCI includes a biannual business survey conducted amongst businesses in the iLembe District;
- It incorporates the combined weighted index of 8 sub-indices;
- The iBCI is built from the bottom up:
 - incorporating the four sub-regions that make up the iLembe District;
 - regional iBCI weighted according to most prominent activities in the sub-regions;
 - data collected from various sources. i.e. StatsSA, the IMF and the SA Reserve Bank;
 - iBCI is weighted according to regional economic contribution of each region, and
 - on a quarterly basis changes in iLembe activity is merged with survey results.

The iBCI business survey:

The iBCI survey covers nine major economic sectors and focuses on perceived business constraints and expected business conditions. Business conditions are represented through eight elements, amongst others expected changes in sales volumes, orders, sales prices and employment levels.

The survey results are obtained from electronic questionnaires completed by senior managers and business owners during the last month of every six-month period. The sample of respondents remains the same from one survey to the next.

The survey questionnaire contains qualitative questions and no figures or data are requested. Survey responses provide unique information, such as business confidence, rating of business conditions and respondents' expectations (or forecasts) for the next six-month period, for which no official figures exist.

The business survey results are processed as follows:

- Weighted into a combined survey index covering sales volumes (0.25), new orders (0.3), supplier deliveries (0.15), inventory levels (0.1) and employment (0.2);
- Survey results are recorded as up, same or down;
- The index at 0 indicates an extreme lack of confidence, 50 indicates neutrality and 100 indicate extreme confidence. If the index records 0, it implies that all respondents have indicated that business conditions are down; if 50 all respondents on average indicate that business conditions are unchanged; and if 100 all respondents indicate business conditions are upbeat, and

- An increase in business confidence indicates that economic activity in the area could improve in the medium term. The opposite applies if confidence declines. The change in the index between quarters gives an indication of a deterioration or an improvement in the business climate.

Business confidence tends to rise when the increase in business activity matches or surpasses previous expectations and the external environment (e.g. the political situation in South Africa, economic policy, the world economy) remains relatively stable.

Low business confidence could be the result of uncertainty about business prospects and/or dissatisfaction with current business performance. This may reflect uncertainty about the macro-environment within which the company operates and/or that business activity (e.g. sales, orders, production and new contracts) is low.

The Combined Weighted Index:

The following sub-indices are contained in the combined iBCI:

- The exchange rate of the rand against the US dollar;
- Consumer inflation rate for metropolitan and urban areas excluding food, non-alcoholic beverages and petrol;
- Retail sales volumes;
- Volume of manufacturing output;
- Real value of private sector building plans passed;
- US dollar sugar price;
- Business borrowing from the banking sector, and
- Number of holiday tourists.