

**iLEMBE**  
**BUSINESS CONFIDENCE INDEX**  
**REVIEW 2015 Q1**



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## 1. Highlights and Key Findings

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- The iLembe Business Confidence Index (iBCI) is produced by Enterprise iLembe in partnership with the iLembe Chamber of Commerce, Industry & Tourism and is aimed at providing a quarterly picture of business confidence in the iLembe District as well as an overall business outlook.
- The iBCI for the first quarter of 2015 is the first iBCI produced through the collaboration between these two entities.
- The iBCI is a hybrid index derived from, firstly, a quarterly business survey conducted in the iLembe district and secondly, with a weighted index of financial and economic variables.
- The iBCI was recorded at 47.2 index points indicating lower, or negative, business confidence in the 1st quarter of 2015 compared to the 4th quarter of 2014.
- Both the survey component of the iBCI (45.8) and the activity measurement (48.6) were negative, i.e. below the significant level of 50 index points that reflect no change.
- The iBCI survey, which was conducted between 17 and 31 March 2015, suggests that 55.9% of the respondents were positive about business conditions over the next six months.
- Respondents felt especially upbeat about sales volumes, increased order book, sales prices and employment.
- 34.4% of respondents indicating that Service Delivery & Infrastructure Provision are the biggest constraints to business.
- Similarly, 34.4% of respondents have indicated that Skills Shortages & Other Labour Related Issues are a business constraint.
- Competition (31.3%) and market size (25%) were the next major business constraints. Combined, these two market related indicators were identified by more than 56% of survey respondents as a business constraint.
- Amongst smaller businesses (business with an annual turnover of less than R1million), 35% of respondents indicated Access to Finance as the biggest constraint to business.

## 2. Introduction and Background

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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 quarterly 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, 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.

## 3. Methodology

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The iBCI is a hybrid index derived from, firstly, a quarterly 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 quarterly 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 quarter. 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 quarter, 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.

The above introduction, background and methodology will be omitted from future iBCI Reviews but can be viewed on the websites of both the iCCIT and EI.

## **4. Review of iBCI 2015 Q1**

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The iBCI for the first quarter of 2015 was the first of the quarterly business confidence index to be generated in collaboration by iCCIT and EI and as a result there is no historic iBCI that can be used for comparative purposes. Both the survey and weighted index component of the survey however reflected on the region's economic performance since the last quarter of 2014.

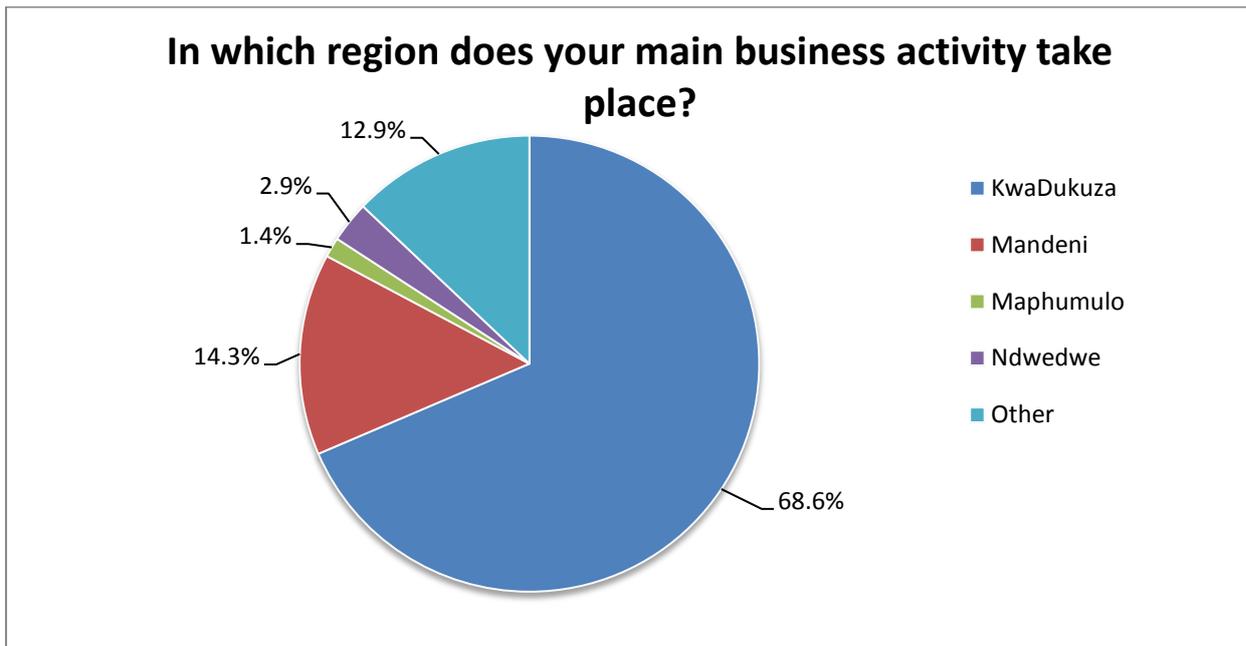
The combined hybrid iBCI (survey and activity indices) was negative in the 1st quarter of 2015 compared to the 4th quarter of 2014. The iBCI was recorded at 47.2 index points with both the survey component of the iBCI (45.8) as well as the activity measurement (48.6) being negative, i.e. below the significant level of 50 index points that reflect no change.

All proxy indicators for economic activity used for measuring the business climate in the iLembe region, as detailed in Section 3 above, were worse off in the 1st quarter of 2015 than in the 4th quarter of 2014. Measured quarter-on-quarter (q/q), Construction (-15.3%), the US\$/R exchange rate (-4.5%), US\$ sugar price (-3.6%) and tourist numbers (-2.1) were the largest contributors to the comparative negativity in the business climate recorded.

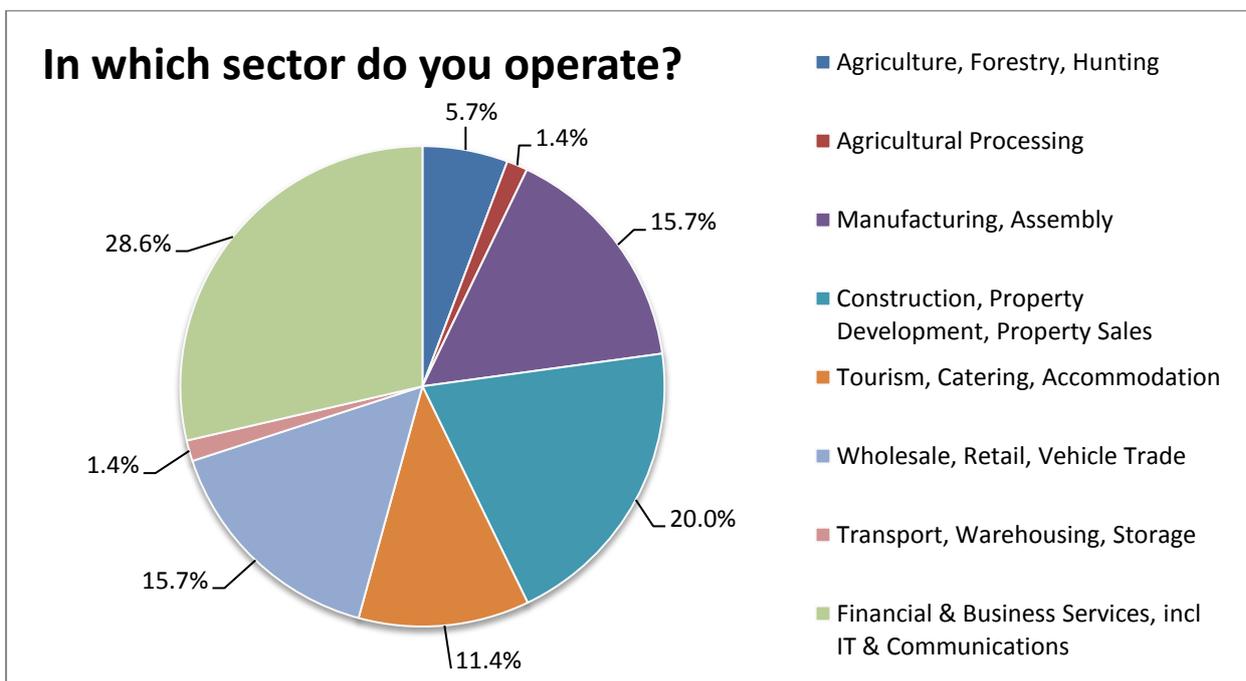
It is important to note that the business mood reflected in the iBCI of the first quarter of 2015 is against the 4<sup>th</sup> quarter of 2014; a period that includes amongst others the peak annual trading period as well as increased manufacturing and construction activity prior to the annual shutdown.

On a more optimistic note, the iBCI survey, which was conducted between 17 and 31 March 2015, suggests that 55.9% of the respondents were positive about business conditions over the next six months. Respondents felt especially upbeat about sales volumes, increased order book, sales prices and employment; all of which the majority of respondents felt positive about. The late delivery of orders over the next 6 months was the concern shared by most respondents.

**iBCI survey responses from iLembe sub-regions:**

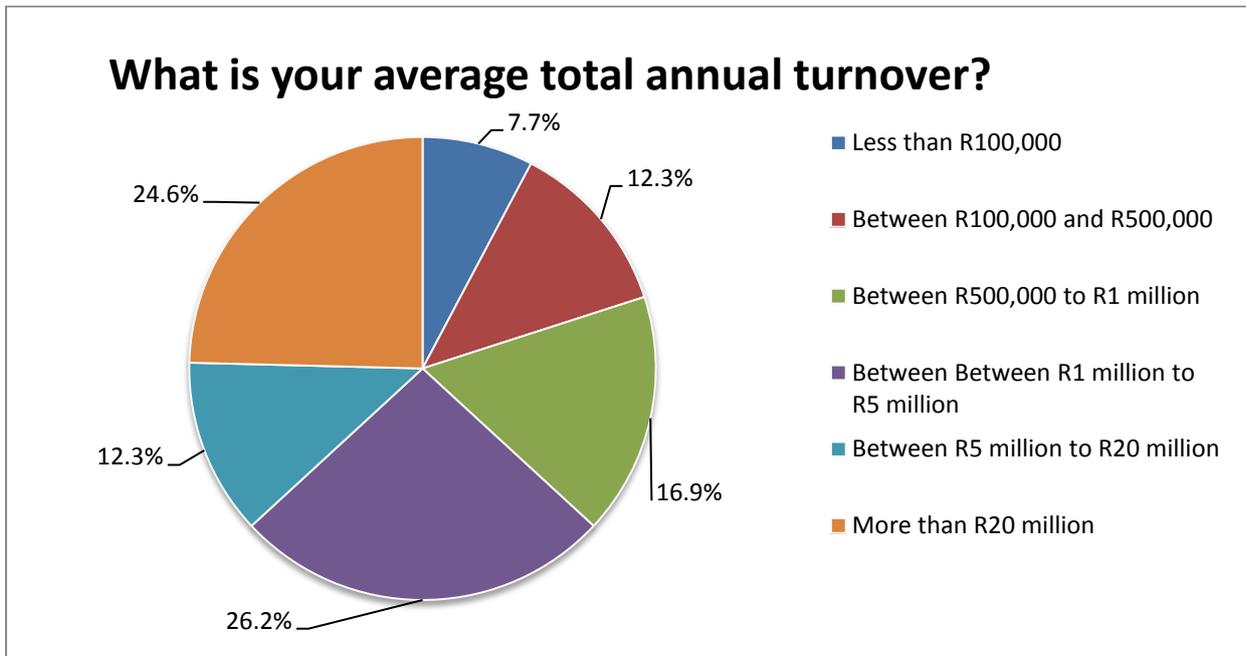


**Economic sector participation in the iBCI survey:**

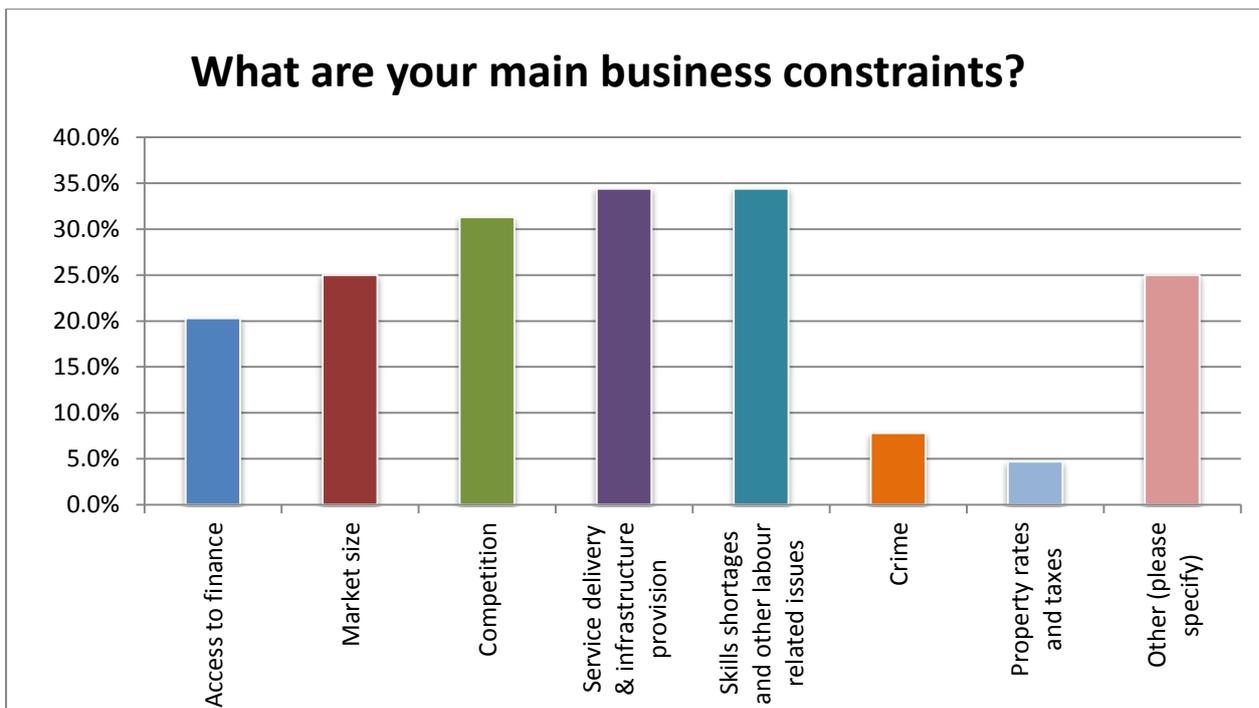


The majority of participating businesses operated within the Financial & Business Services, incl IT & Communications sector (28.6%), followed by the Construction, Property Development, Property Sales sector (20%). The Manufacturing, Assembly and Wholesale, Retail, Vehicle Trade sectors both participated at a level of 15.7%.

**Participation in the iBCI survey by annual turnover level:**



**Perceived business constraints:**



The debilitating impact of the electricity shortages and resulting load shedding, coupled with the water supply crisis in iLembe as well as the drought have resulted in 34.4% of respondents indicating that Service Delivery & Infrastructure Provision are the biggest constraints to business. It is suggested that the proposed increases to both water and electricity tariffs have also contributed to the significance of this constraint.

Similarly, 34.4% of respondents have indicated that Skills Shortages & Other Labour Related Issues are a business constraint.

Competition (31.3%) and market size (25%) were the next major business constraints. Combined, these two market related indicators were identified by more than 56% of survey respondents as a business constraint, endorsing the view that certain industry sectors within the region are over-serviced.

Amongst smaller businesses (business with an annual turnover of less than R1million), 35% of respondents indicated Access to Finance as the biggest constraint to business.

## 5. Comparative SACCI BCI & iBCI

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The SACCI BCI was recorded as 90.4 in the 1st quarter of 2015 – a gain of 1.1 index points on the 4th quarter of 2014. However, it is worth noting that the 1st quarter SACCI BCI is 1.3 index points lower than in the 1st quarter of 2014. Business confidence therefore appeared to be more depressed than in the 1st three months of 2015 than in the corresponding period of 2014. Despite the 1st quarter of 2015 BCI implied an improved business confidence compared to the end of 2014, the overall economic situation is not supportive of a restored business mood.

Although the latest SACCI BCI figure is better than the 15-year low level for the BCI recorded in July 2014, the domestic and global business climate for South Africa have not been much changed since then.

In its January 2015 World Economic Update, the IMF has reviewed growth for South Africa, and the World economy for that matter, downward. Since 2014 the economic and market indicators have also moved further away from the long-term positive trend.

The discouraging business climate, mostly due to serious structural economic constraints with regards to utility services by the public sector, is placing a lid on business confidence.

Nine of the thirteen sub-indices making up the SACCI BCI turn negative over the twelve month period up to March 2015. Two of the seven physical economic sub-indices and two from the five financial sub-indices were positive in March 2015 year-on-year (y/y).

Only the rand and real financing cost of the six financial sub-indices made positive year on year contributions to business confidence. Real activities like manufacturing, exports, vehicle sales, retail sales and building construction all pulled the BCI down in March 2015 if compared to March 2014 activity levels.

## 6. Conclusion

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The South African economy remains characterised by the tapering off of the demand side on the one hand and impact of load shedding and labour strife on the supply side.

It appears that the trend within the iLembe region is not much different although businesses are feeling much more positive about the short term future.

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