

**ILEMBE**  
**BUSINESS CONFIDENCE INDEX (IBCI)**  
**REVIEW 2015 Q3**



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## 1. Highlights and Key Findings

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- The tough economic conditions had a significant impact on business confidence in the iLembe District with the combined hybrid iBCI (survey and activity indices) shedding 1.9 index points in the 3<sup>rd</sup> quarter of 2015.
- The optimism recorded in Q2 was nearly all wiped out with the Q3 2015 iBCI being recorded at 47.6 index points, entrenching itself firmly in the negative.
- The survey component of the iBCI, which was conducted between the end of September and early October 2015 and which records subjective business sentiment, fell to its lowest level since the introduction of the iBCI in Q1 2015 and was recorded at 45.7.
- The SACCI BCI lost a further 2.5 index points between the 2nd and the 3rd quarters of 2015 and is also 4.1 index points lower than in the 3rd quarter of 2014.
- National business confidence worsened notably since February 2015 and was at its worst level in 22 years in September 2015.
- The business outlook for the 6 month period ahead, including the “golden” period over the December/January peak holiday season, was recorded at its lowest level and has for the first time ventured into negative territory (49.4). This is 8.5 index points lower than Q2 2015.
- It is especially the negative sentiment around employment levels that significantly impacted on the overall business outlook. The 6 months outlook around sales volumes, order book and sales prices were, marginally, in positive territory.
- The most negative sectors in terms of sales volumes were the Financial & Business Services (0.48) and Manufacturing, Assembly (.45), with suggestions that the businesses services sector might have been hit by the new labour broking regulations. The sales volumes outlook for Manufacturing, Assembly remains negative for the next 6 month period.
- 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 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.

## 2. Review of iBCI 2015 Q3

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The tough economic conditions had a significant impact on business confidence in the iLembe District with the combined hybrid iBCI (survey and activity indices) shedding 1.9 index points in the 3<sup>rd</sup> quarter of 2015. The optimism recorded in Q2 was nearly all wiped out with the Q3 2015 iBCI being recorded at 47.6 index points, entrenching itself firmly in the negative.

The survey component of the iBCI, which was conducted between the end of September and early October 2015 and which records subjective business sentiment, fell to its lowest level since the introduction of the iBCI in Q1 2015 and was recorded at 45.7. Apart from sales volumes at a positive 50.5 all other elements were negative.

The overall activity measurement provided some relief with an increase of 0.5 index points (49.5) although it remains negative, i.e. below the significant level of 50 index points that reflect no change.

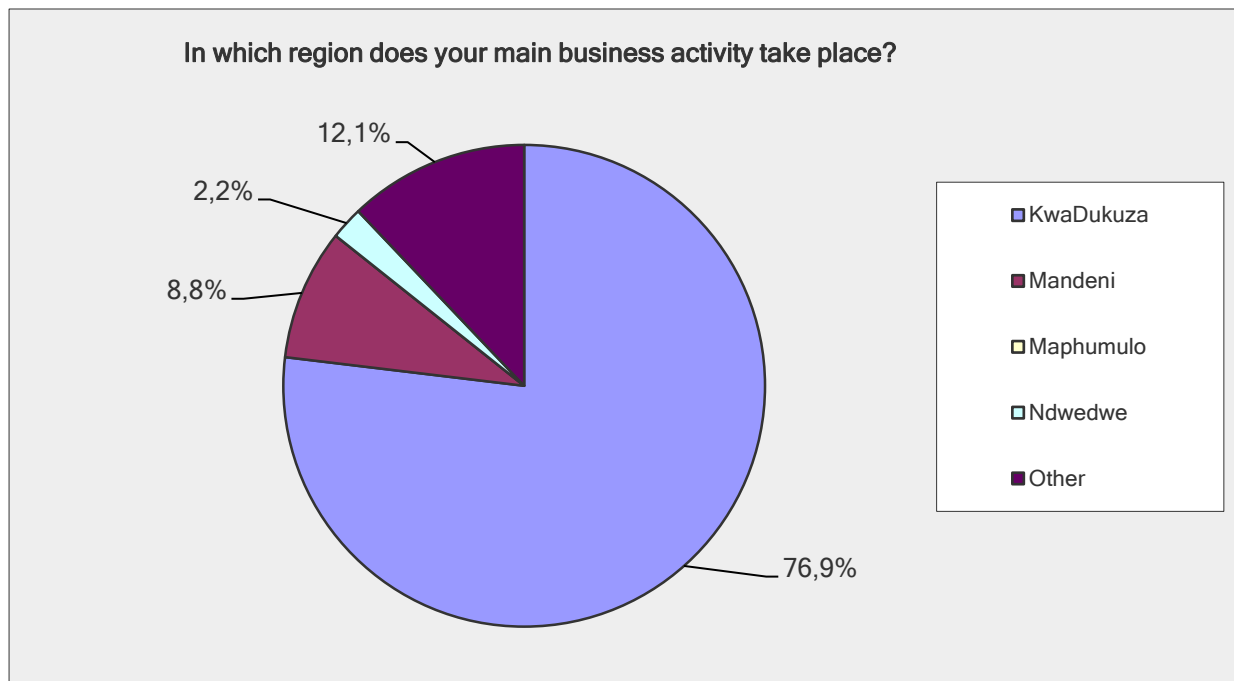
In 2015 Q3, the proxy indicators for economic activity used for measuring the business climate in the iLembe region, as detailed in Annexure 2 below, showed a combination of positive and negative indicators. Measured quarter-on-quarter (q/q), Construction (-17.3%), the US\$/R exchange rate (-6.9%) and Finance Business Borrowing (-1.2%) were worse off in the 3<sup>rd</sup> quarter of 2015 than in the 2<sup>nd</sup> quarter. All the negativity was countered by a slightly improved q/q Manufacturing sector (3.9%).

The iBCI survey also reflects on business sentiment over the next six months. The business outlook for this period, which includes the “golden” period over the December/January peak holiday season, was recorded at its lowest level and has for the first time ventured into negative territory (49.4). This is 8.5 index points lower than Q2 2015. It is especially the negative sentiment around employment levels that significantly impacted on the overall business outlook. The 6 months outlook around sales volumes, order book and sales prices were, marginally, in positive territory.

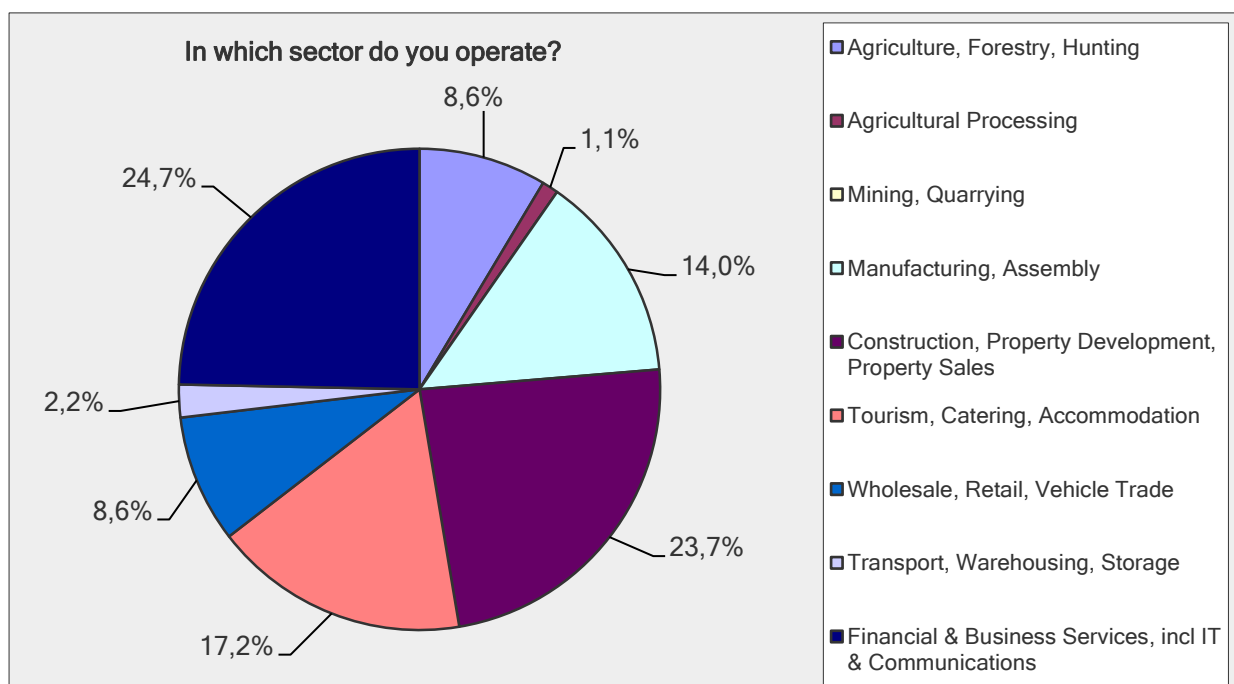
The most negative sectors in terms of sales volumes were the Financial & Business Services (0.48) and Manufacturing, Assembly (.45), with suggestions that the businesses services sector might have been hit by the new labour broking regulations.

The sales volumes outlook for Manufacturing, Assembly remain negative for the next 6 month period.

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

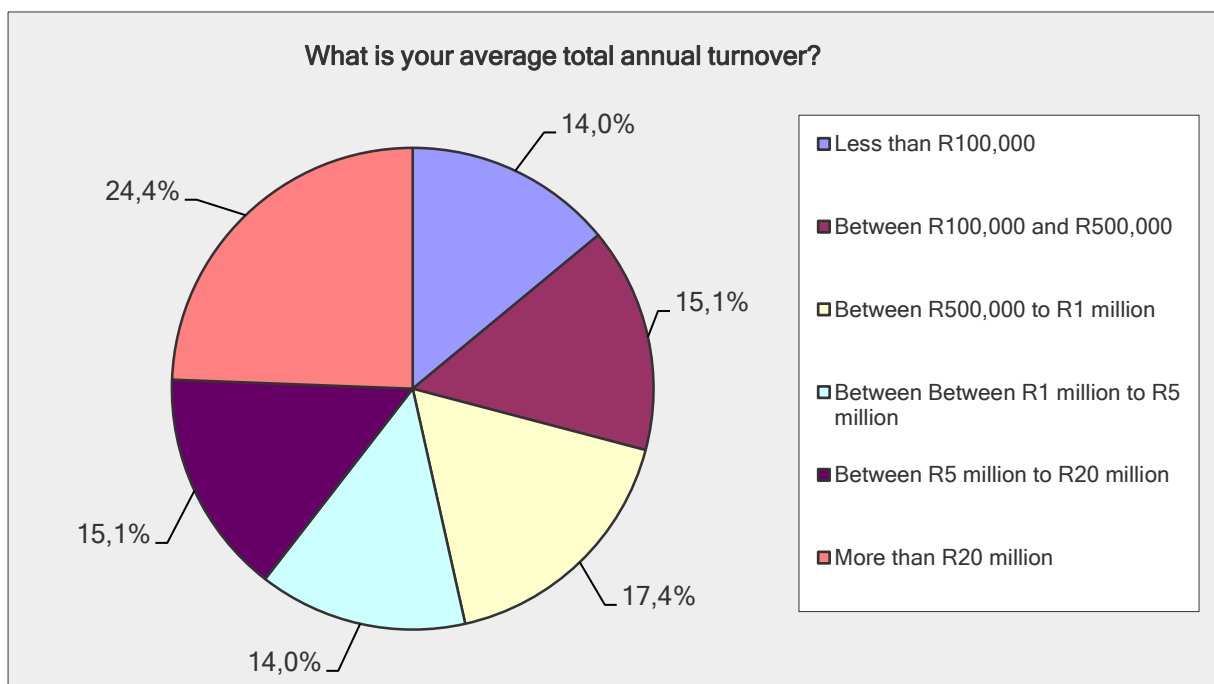


**Economic sector participation in the iBCI survey:**

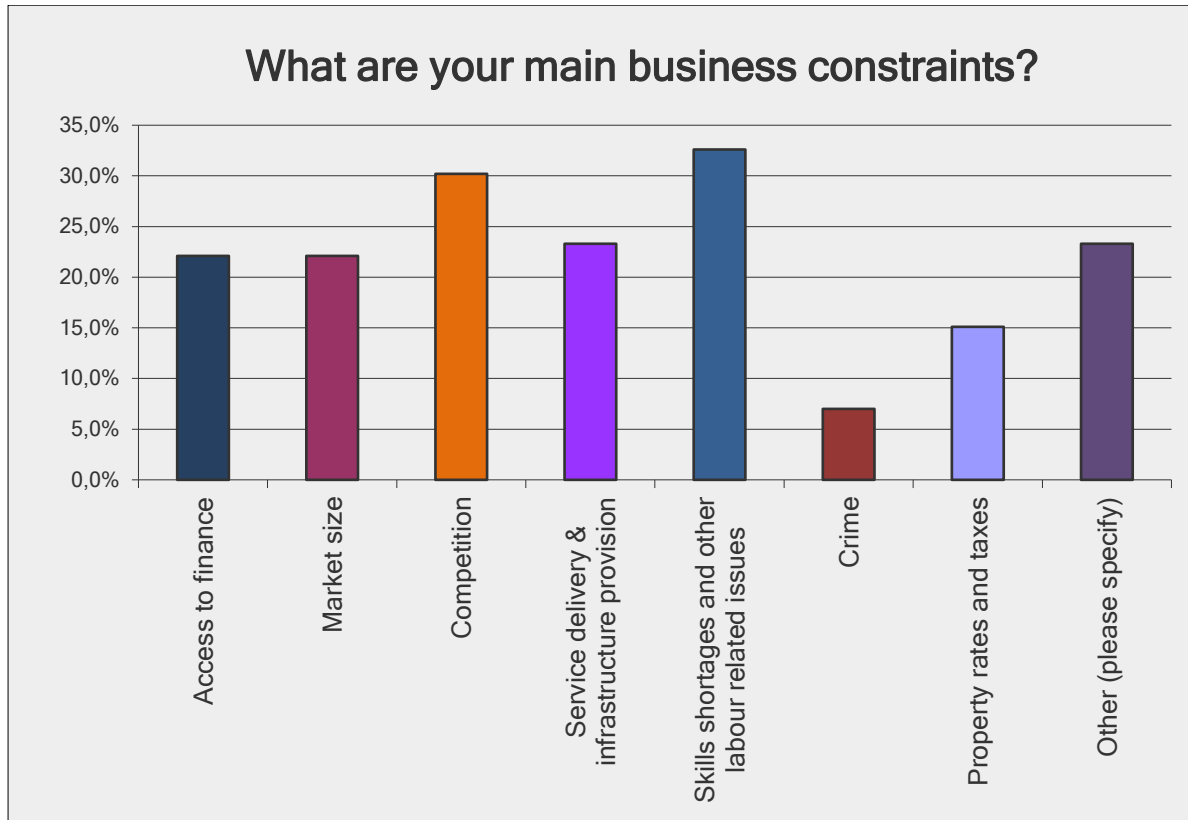


The majority of businesses participating in the 2015 Q3 iBCI Survey operated within the Financial & Business Services, including IT & Communications sector (24.7%), followed by the Construction, Property Development, Property Sales sector (23.7%). Tourism, Catering and Accommodation businesses formed 17.2% of respondents whilst the Wholesale, Retail, Vehicle Trade sector participated at a level of 8.6%. Manufacturing, Assembly (14%) and Agriculture, Forestry, Hunting (8.6%) sectors were also well represented amongst respondents.

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



**Perceived business constraints:**



Skills Shortages & Other Labour Related Issues topped the list of perceived business constraints with 32.6% of respondents indicating this as the most significant constraint.

Concerns around a stumbling economy have elevated Competition as a perceived constraint of 30.2% of businesses – up 10% from the previous quarter.

Similarly the concerns over market conditions have resulted in 23.3% of responding businesses indicating Service Delivery & Infrastructure Provision as the biggest constraints to business, down from 36.3% in the previous quarter.

The majority of the comments recorded under the *Other* category (23.3%) reflected the significant drought concerns, service delivery issues and the revised visa policy impact on tourism.

The two market related indicators of Competition (30.2%) and Market Size (22.1%) were combined identified by 52.3% of survey respondents as a business constraint. This is 12.7% up from the previous quarter.

### 3. SACCI BCI

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The SACCI BCI measured 90.4 in the 3<sup>rd</sup> quarter of 2015 and lost 5.8 index points since the 1st quarter of 2015 and 2.5 index points between the 2nd and the 3rd quarters of 2015. The 3rd quarter 2015 SACCI BCI is also 4.1 index points lower than in the 3rd quarter of 2014.

Business confidence worsened notably since February 2015 and was at its worst level in 22 years in September 2015. The overall economic situation accordingly also deteriorated and the rand exchange rate, merchandise export volumes, the number of new vehicle sales and all-share prices on the JSE were amongst the larger contributors to the slide in the SACCI BCI from a year ago.

Global economic conditions remain fragile as the Chinese economy is struggling while international commodity prices remain weak with a further possible decline in prices. Although the economy and the business climate may set the environment to be more conducive to doing business in South Africa, the micro business environment is critical to enable particularly small and medium size business to take advantage of opportunities in the local and global economy should they transpire. During SACCI's Annual Convention held during September 2015, important motions were discussed. Essential issues were a Bill of Rights for Entrepreneurs, a National Minimum Wage, the Energy Crisis and the Failure of SETAs. These were cited as critical issues for improved business operations.

The latest released data confirm that economic growth in China is busy to slow down. Some commentators even estimate China's growth to be well below the 7% that is expected for the medium term. This is having a notable negative consequence for already low international commodity prices as real demand (volumes) for commodities is also deteriorating. The developments in China and the possibility of rising US interest rates create more uncertainty in especially emerging markets. These economies are utterly susceptible to capital flows and a failing current account of the balance of payments (BoP). The IMF in its latest World Economic Outlook (WEO) analysis<sup>1</sup> remarks that - "The weak commodity price outlook is estimated to subtract almost 1 percentage point annually from

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<sup>1</sup> IMF. WEO, 28 September 2015.



the average rate of economic growth in commodity exporters over 2015–17 as compared with 2012–14.”

The comparative year-on-year business mood worsened markedly in September 2015 and the SACCI BCI dipped well below the BCI for September 2014. Some sub-indices of the BCI, such as import volumes, real retail sales and manufacturing output notwithstanding, improved on last year. With inflation marginally lower than a year ago, the financial climate otherwise remains cloudy compared to a year ago with volatility (rand exchange rate and precious metal prices) and hesitation marking the financial surroundings. The domestic as well as global financial situation continued to contribute to the nervousness in September 2015. Four of the six financial sub-indices of the SACCI BCI were negative, one slightly positive and one unchanged.

## 4. Conclusion

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Low economic growth forecasts and high costs have resulted in national business confidence worsening notably since February 2015 and it was recorded at its worst level in 22 years in September 2015.

The quarterly iBCI for 2015 Q3 reflected this sentiment, worsening by 1.9 index points and being recorded at 47.6 index points. The iBCI Q3 2015 is firmly entrenched in the negative with the outlook for especially businesses in the manufacturing and assembly sectors remaining in this territory over the next 6 months.

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## Annexure 1 - 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 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

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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.