

I LEMBE
BUSINESS CONFIDENCE INDEX (IBCI)
2017 YEAR-END REVIEW



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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.

- Business confidence in the iLembe District, as measured through the iBCI, has dropped to its lowest levels since the introduction of the index in 2015.
- The iBCI 2017 Year-End was recorded at 42.7 index points, entrenching itself firmly in negative territory, i.e. below the neutral level of 50 index points.
- The survey component of the iBCI, which was conducted between mid and end January 2018, and which records subjective business sentiment, was recorded at the all-time low of 39.2 index points, 13.2 index points down from the 2017 Mid-Year level, a substantial drop of 25%.
- With regards to business confidence **per economic sector**, the *Manufacturing, Assembly* Sector featured for the first time as the most confident economic sector, despite a drop in the sector's overall business confidence. This sector replaced *Tourism, Catering, Accommodation, Property Management* which moved to the third most confident economic sector after *Construction, Property Development, Property Sales*.
- The negative sentiment around *Tourism, Catering, Accommodation, Property Management* sector is especially alarming, with businesses in this sector reflecting negative business confidence at 40.6 index points; 15.2 index points down from the level measured mid-year 2017.
- The negative performance of another significant sector for the iLembe regional economy, *Wholesale, Retail, Vehicle Trade*, is similarly concerning – businesses in this sector recorded negative sentiment at 34.6 index points, a downwards movement of 14.7 index points (-30%).
- A 3.5 index point reduction in the confidence of the *Manufacturing, Assembly* sector was ascribed to the ongoing spates of industrial unrest, community protests and disruption to business in the region's main industrial zones, especially the Isithebe Industrial Park in Mandeni.
- With regards to business confidence per region within the iLembe District, businesses in the Mandeni Local Municipality, home to the Isithebe Industrial Estate, were the most confident, despite a 12.3 negative movement to 41.7 index points.
- The business outlook for the 6-month period January to June 2018 was also recorded at its lowest level since commencement at 48 index points, a disappointing 7.4 index points down from outlooks for the 2nd half of 2017. These 6-month business expectations outlook incorporates two golden trading periods for the iLembe District, namely the Easter and mid-year holiday periods.

- The following business sectors however recorded positive business expectations over the next 6 months, i.e. Manufacturing, Assembly (58.9), Transport, Warehousing, Storage (57.5), Construction, Property Development, Property Sales (51.3) and Financial & Business Services, incl IT & Communications (50.3).
- In addition to business sentiment, the iBCI’s activity component lost 0.4 index points and measured 46.2 in the 2nd half of 2017 compared to 46.6 in the 1st half. Since the 3rd quarter of 2015, when the highest activity index level was recorded, the activity index has shed 3.3 index points.
- With regards to the 2017/18 Christmas Holiday trading period, it appears that the variety and choice on offer impressed consumers and visitors alike, with significant growth being reported in total retail spend.
- Individual retailers’ feedback was however a mixed bag and reflective of a significantly disrupted market - restaurant and take-away establishments reported above expected trading, whilst some established restaurants, located outside high foot traffic retail areas, reported drops in sales, some even significant drops. Other smaller traders indicated that trading was marginally better but did not meet the expectations.
- Enterprise iLembe’s District Accommodation Survey for December 2017 indicated occupancy levels of 72% in Kwadukuza based accommodation establishments, with 64% of overnight visitors hailing from South Africa (excluding KZN), and 12% from international destinations. The majority of international tourists were German.
- For more detail on the Christmas Holiday trading period, please see Section 3 of the detailed iBCI Review.

SACCI BCI

- The SACCI Business Confidence Index (BCI) averaged 93.7 (base 2015=100) in the 2nd half of 2017, a decline of 1.3 index points on the average 95.0 of the 1st half of 2017.
- The World Economic Forum (WEF) has also recently published its 2017/18 Competitiveness Report. It is worth noting South Africa’s position according to various matters that is important to business in the global environment. The numbers give an indication of individual areas of performance in South Africa out of 137 countries - overall (61/137), basic requirements (92/137), efficiency enhancers (52/137) and innovation and sophistication (39/147). An executive opinion survey by the WEF identified the following six weakest elements for doing business in South Africa amongst 16 problematic factors (in declining order):

| | |
|------------------------------------|-------------------|
| Corruption | Crime and theft |
| Political instability | Tax rates |
| Inefficient government bureaucracy | Poor work ethics. |

1. Review of iBCI 2017 Year-End

Business confidence in the iLembe District, as measured through the iBCI, has dropped to its lowest levels since the introduction of the index in 2015.

The combined hybrid iBCI (i.e. both the survey and activity indices) for the 2nd half of 2017 was down 6.8 index points compared to the 1st half of 2016, and 2.8 index points lower than the lowest level recorded in the 2nd half of 2016.

The iBCI 2017 Year-End was recorded at 42.7 index points, entrenching itself firmly in negative territory, i.e. below the neutral level of 50 index points.

iBCI 2017 Year-End Survey Component:

The survey component of the iBCI, which was conducted between mid and end January 2018, and which records subjective business sentiment, was recorded at the all-time low of 39.2 index points, 13.2 index points down from the 2017 Mid-Year level, a substantial drop of 25%. It is also 4.5 index points lower than the previous lowest survey component recorded in the 2nd half of 2016.

Sentiments around all the economic activities included in the survey were in the negative; with outlooks around the Late Delivery of Orders (33.9;<6.7), Order Books (39.4;<14.6) and Sales Volumes (39.9;<14.4) the biggest contributors to the dejected regional business sentiment.

The negative sentiment around Inventory Levels (<11.4) and Levels of Employment (<15.4) completed the negative mood of all the surveyed activities.

With regards to business confidence **per economic sector**, the *Manufacturing, Assembly* Sector (49.9;>3.5) featured for the first time as the most confident economic sector, despite a drop in its confidence index. This sector replaced *Tourism, Catering, Accommodation, Property Management* which moved to the third most confident economic sector after *Construction, Property Development, Property Sales* (41.7;<8.7).

The negative sentiment around *Tourism, Catering, Accommodation, Property Management* is especially alarming, with businesses in this sector reflecting negative business confidence at 40.6 index points; 15.2 index points down from the level measured mid-year 2017.

The negative performance of another significant sector for the iLembe regional economy, *Wholesale, Retail, Vehicle Trade*, is similarly concerning – businesses in this sector recorded negative sentiment at 34.6 index points, a downwards movement of 14.7 index points (-30%). All other economic sectors also remained entrenched in the negative.

The 3.5 index point reduction in the confidence of the *Manufacturing, Assembly* sector was ascribed to the ongoing spates of industrial unrest, community protests and interference with business in the region's main industrial zones, especially the Isithebe Industrial Park in Mandeni.

The negativity of the sentiment in the Tourism sector continues to be attributed to concerns about the management of public spaces, a disregard for, especially, municipal by-laws as well as the associated anti-social behaviour. The N2 rock throwing incidents and resulting tragedies was also mentioned as concerns that need to be addressed by the relevant authorities.

The private sector however did not escape any blame for the woes in this sector, with a survey participant commenting as follows:

“The lack of timeliness and professionalism of suppliers in the tourism industry is a challenge if we are to compete successfully. Turnaround times for quotes are not acceptable.”

The negative sentiment in the *Wholesale, Retail, Vehicle Trade* sector were substantiated by a number of comments, including:

“The new mall and revamps to old malls has made it very difficult, there is too (sic) much competition and I fear a lot of businesses will go under. The electricity charges are also out of hand and have increased to a crippling level”.

“The problem is that the retail space is over traded. There are simply too many shops for the size of the market.”

The factors that contributed to the negative 8.7 index points move in the *Construction, Property Development, Property Sales* sector was condensed by these comments by survey participants:

“Kwadukuza operational issues are causing substantial delays and complications making the region very difficult to do business as development loans and interest costs are escalating resulting in a worsening investor / developer confidence in the area generally.”

“With the number of property developments planned in the region but being hindered due to a lack of service delivery and infrastructure, it definitely makes for a frustrating situation. The appetite for development is visible but the inability to deliver is slowing growth in the region. We need to continue to engage with the authorities to improve capacity and the public/private partnership which ultimately will increase the rates base and growth prospects and employment for the region”.

The town of Kwadukuza also attracted comments relating to its performance in this sector:

“Kwa-Dukuza (sic) is not conducive for (sic) business. As one enters the town one sees litter, unpicked bin bags, dumping of rubbish, overflowing rubbish skips, uncut verges, plastic litter everywhere. The town roads need maintenance, potholes, drains not cleaned. These are not expensive fixes to business confidence. It needs a passionate and focused "health and environment" Officer. The town has become very dirty and we are embarrassed to invite "blue chip" global customers to the town. No capital required, just get the officials to clean the place.”

With regards to business confidence **per region** within the iLembe District, businesses in the Mandeni Local Municipality, home to the Isithebe Industrial Estate, were the most confident, despite a 12.3 negative movement to 41.7 index points.

Overall business confidence in KwaDukuza (41.1), Ndwedwe (34.2) and Maphumulo (27.5) were all firmly entrenched in the negative.

iBCI 2017 Year-End Business Expectations:

The iBCI survey also reflects on business expectations over the next six months.

The business outlook for the 6-month period January to June 2018 was also recorded at its lowest level since commencement at 48 index points, a disappointing 7.4 index points down from outlooks for the 2nd half of 2017.

These 6-month business expectations outlook incorporates two golden trading periods for the iLembe District, namely the Easter and mid-year holiday periods.

The 6-month outlook around the **economic activities** of Late Delivery, Inventory Levels and Employment were all firmly in negative territory and in the main contributed to the

movement. Encouragingly Sales Volumes and Order Book were recorded as positive over the next 6 months.

With regards to expectations per **business sector**, Manufacturing, Assembly (58.9), Transport, Warehousing, Storage (57.5), Construction, Property Development, Property Sales (51.3) and Financial & Business Services, incl IT & Communications (50.3) were positive about business expectations over the next 6 months.

iBCI 2017 Year-End Activity Index Component:

The iBCI activity index lost 0.4 index points and measured 46.2 in the 2nd half of 2017 compared to 46.6 in the 1st half. Since the 3rd quarter of 2015, when the highest activity index level was recorded, the index has shed 3.3 index points.

The activity index remained in negative territory, i.e. below the significant level of 50 index points that reflect no change.

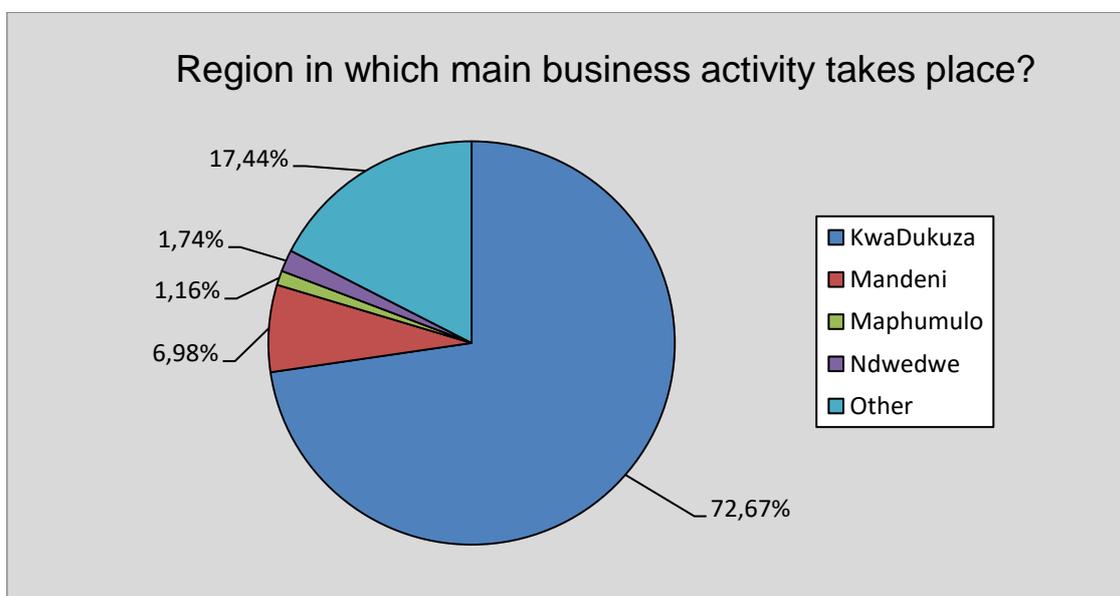
In the 2nd half of 2017, the indicators measuring the business climate and economic activity in the iLembe region (detailed in Annexure 2 below), showed a combination of positive and negative effects. In comparing the 2nd half of 2017 with the 1st half of 2017, the US\$ sugar price (-16.8%), US\$ Exchange rate (-1.3%) and Finance Business Borrowing (-1.3%) showed the largest negative impacts.

Inflation (+19.1) and Construction activities (+11.4%) reflected increases that positively added to the business climate.

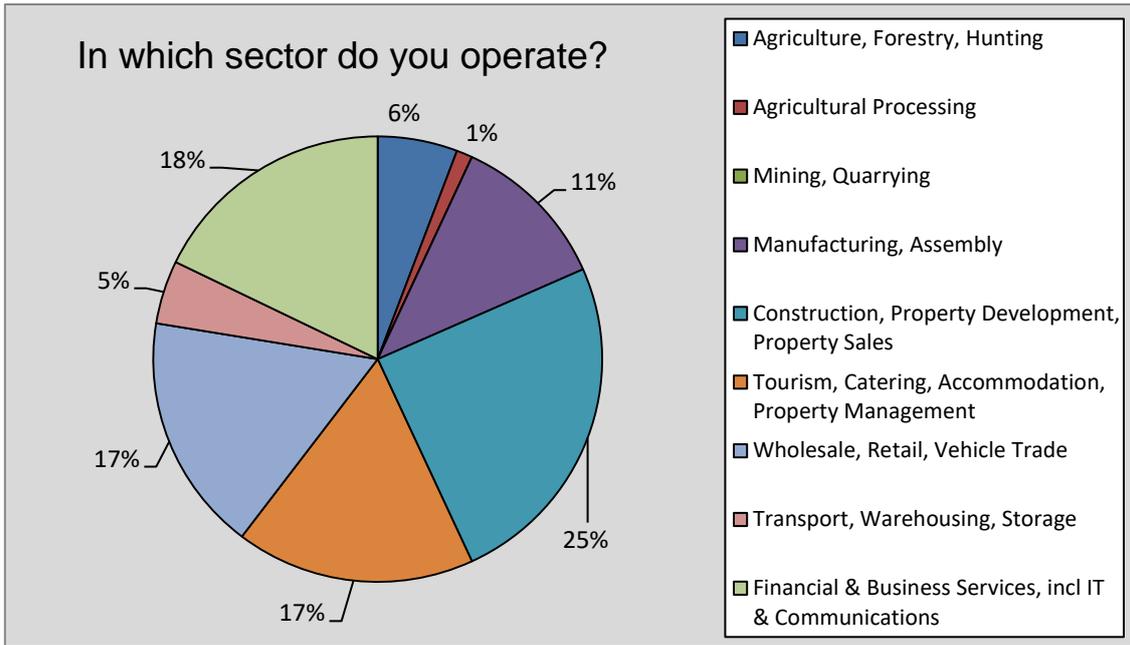
Six-month-on-six-month movements in the sub-indices indicated that a modest decline (compared to the survey component) of the iBCI activity index between the 1st of 2017 and the 2nd half of 2017 of .4 index points.

Year-on-year movements shows a decline of 1 index point between the 2nd half of 2016 and the 2nd half of 2017.

iBCI survey responses from iLembe sub-regions:

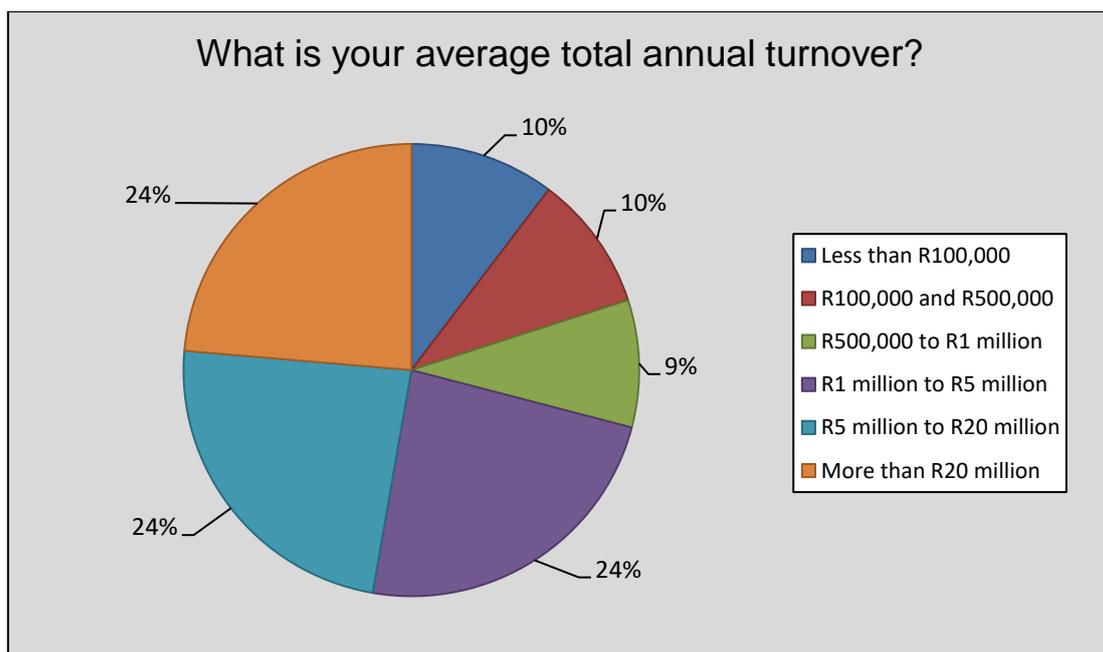


Economic sector participation in the iBCI survey:

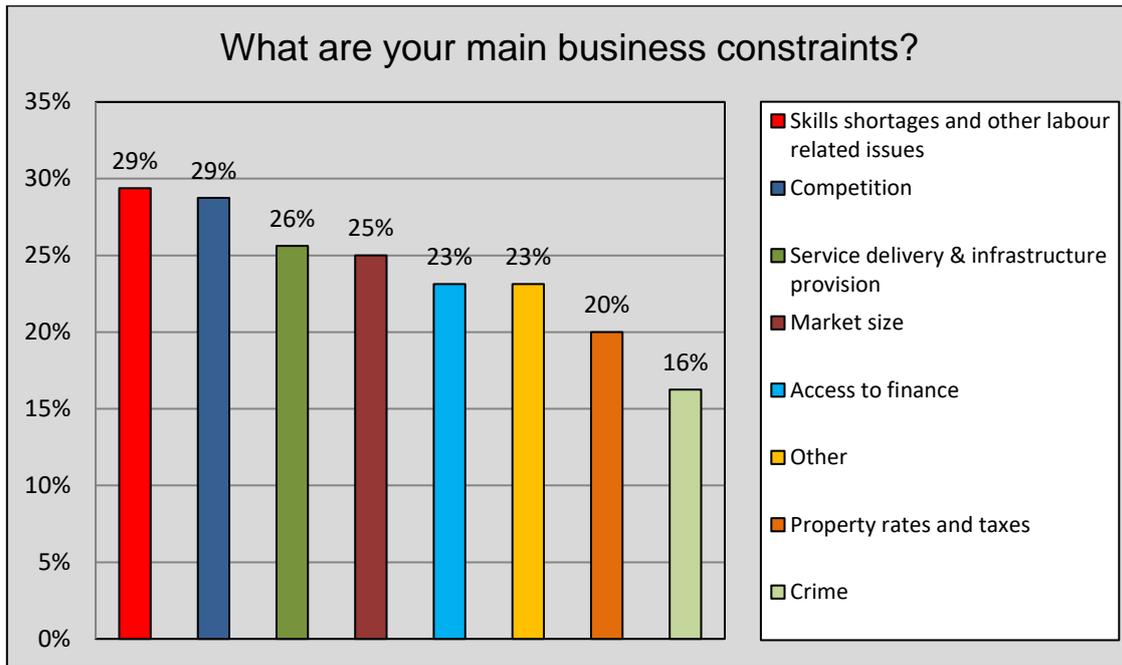


The majority of businesses participating in the 2017 Year-End iBCI Survey operated within the *Construction, Property Development, Property Sales* sector (25%), followed by *Financial & Business Services, incl IT & Communications* (18%), *Tourism, Catering and Accommodation* (17%) and *Wholesale, Retail, Vehicle Trade* (17%). *Manufacturing, Assembly* (11%) and *Agriculture, Forestry, Hunting* and *Agricultural Processing* (combined 7%) and *Transport, Warehousing, Storage* (5%) sectors were also represented amongst respondents.

Participation in the iBCI survey by annual turnover level:



Perceived business constraints:



Considering the low confidence national, and disrupted regional, trading environment it is no surprise that the two market related indicators of *Competition and Market Size* jointly remained the most significant business constraint selected by 54% of businesses. Sentiments that the local market is overtraded in certain sectors highlighted the need for competent and innovative business innovation and management, as well as the imperative of developing a diverse regional economy, with significant job creation potential.

29 % of survey respondents listed *Skills shortages and other labour related issues* as primary business constraints. Comments once again highlighted not only the affordability but also the lack of availability of accommodation for students, apprentices, blue collar workers and manual labourers. The rapid development of technology and the workforce’s inability to keep pace was also singled out in this regard.

Service delivery & infrastructure provision was a perceived business constraint of 26% of respondents, indicating this as their most significant constraint. The cost of development, cumbersome and inefficient administrative and planning approval processes and speed of decision making were highlighted as specific contributors to this business constraint. Businesses that once again highlighted this constraint also attributed its significance to perceived onerous and debilitating macroeconomic policies and the impact on especially smaller manufacturing entities.

2. 2017/18 Christmas Holiday Trading

The Survey component of the iBCI 2017 Year-End also requested feedback on the 2017/18 Christmas Trading Period, the golden trading period for the wider iLembe District.

The feedback varied significantly, including from sector to sector and region to region. The overall feedback from businesses in the Tourism sector was that sales either remained at similar levels or were higher than the levels recorded in 2016/17.

Enterprise iLembe's District Accommodation Survey for December 2017 indicated occupancy levels of 72% in Kwadukuza based accommodation establishments, with 64% of overnight visitors hailing from South Africa (excluding KZN), and 12% from international destinations. The majority of international tourists were German.

The iBCI survey results indicate that higher graded accommodation establishments performed better.

Concerns over the flaunting of municipal bylaws e.g. drinking in public, responsible and considerate use of public spaces especially beaches and anti-social behaviour, as mentioned above, featured prominently in the feedback.

Feedback around property sales were generally positive, sales were indicated as better than the previous year, with more interest from "*genuine buyers*".

Retail feedback was once again a mixed bag with – with restaurant and take-away establishments reporting above expected trading, although some established restaurants, located outside high foot traffic retail centres, reported significant drops in sales.

Other smaller traders indicated that trading was marginally better but did not meet the expectations.

A general comment was that it appeared that the busy period was shorter, starting just before Christmas, whilst the fact that the 16th of December fell on a Saturday further contributed to a shorter golden trading period.

Kwadukuza/Stanger based retailers reported slower sales which was attributed to less cars in the CBD due to the introduction of paid parking arrangements.

It appears that the variety on offer through the various retail centres have impressed consumers and visitors alike - with some retail centres/malls reporting trade figures double that of a normal month.

3. SACCI BCI

The SACCI Business Confidence Index (BCI) averaged 93.7 (base 2015=100) in the 2nd half of 2017 and increased by 0.3 index points on the 93.3 average for the 2nd half of 2016. The 2nd half 2017 SACCI BCI declined by 1.3 index points on the average 95.0 of the 1st half of 2017. Although the SACCI BCI started on a high note of 97.7 in January 2017, it took a severe dip during 2017 and reached a low of 89.6 in August before it recovered to 96.4 on the back of positive political developments towards the end of 2017.

Notwithstanding dealing with credit rating downgrades by reputable credit rating agencies, most of the business climate indicators compared positively in December 2017 with December 2016. Only one of the thirteen sub-indices namely real cost of finance, was worse than a year ago. Lower consumer inflation, higher merchandise export volumes and real retail sales made the largest contribution to the stronger SACCI BCI in December 2017.

The major challenge for South Africa's economy and the business climate is to pay urgent attention to matters raised by the credit rating agencies and economists - such as structural public finance and management issues and insufficient fixed investment by the private and the public sector.

The continued poor performance by the domestic economy in 2016 (GDP growth of 0.3%) and an anticipated 0.7% in 2017 are exposing the dire straits in which the economy finds itself. Only agriculture succeeded in performing exceptionally well in 2017 due to better climatic conditions.

South Africa received a junk investment status rating by two of three reputable rating agencies in November 2017 with a third agency having a negative rating outlook. In its January 2018 update of the World Economic Outlook, the IMF forecast global output at 3.9% for both 2018 and 2019. Emerging and developing economies are to experience growth of 4.9% in 2018 and 5% in 2019. The outlook for growth in Sub-Saharan Africa is anticipated at 3.3% in 2018 and 3.5% in 2019 but growth in South Africa will remain subdued at 0.9% in both 2018 and 2019. Major challenges must be addressed with urgency but with the possibility of improved consumer and business confidence if the trends towards the end of 2017 continue.

The World Economic Forum (WEF) has also recently published its 2017/18 Competitiveness Report. It is worth noting South Africa's position according to various matters that is important to business in the global environment. The numbers give an indication of individual areas of performance in South Africa out of 137 countries - overall (61/137), basic requirements (92/137), efficiency enhancers (52/137) and innovation and sophistication (39/147). An executive opinion survey by the WEF identified the following six weakest elements for doing business in South Africa amongst 16 problematic factors (in declining order):

1. Corruption
2. Crime and theft
3. Political instability
4. Tax rates
5. Inefficient government bureaucracy
6. Poor work ethics.

4. Conclusion

The credit rating downgrades, an underperforming national economy, concerns about public finances and increasing levels of unemployment is reflected in the most negative iBCI recorded thus far.

The private sector and all levels of government within the iLembe District are committed to partnering on specific initiatives that will aid the viability and growth of small and medium enterprises and secure investment in key economic sectors and geographies in our district.

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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.