

ILEMBE
BUSINESS CONFIDENCE INDEX (IBCI)
2018 MID-YEAR 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 in the 1st half of 2018 has practically remained unchanged from its lowest ever level, recorded in the previous half-year period.
- The combined hybrid iBCI for the 1st half of 2018 showed an immaterial adjustment of .1 index points compared to the 2nd half of 2017, the 2nd lowest level recorded since the commencement of the index in 2015.
- The survey component of the iBCI, which was conducted in July 2018 and which records subjective business sentiment, was recorded at the all-time low of 35.3 index points, 3.9 index points down from the 2017 Year-End level, the previous low.
- This level is also a significant 17.1 index points lower than the highest survey component points recorded in the 1st half of 2017.
- The *Agriculture, Forestry, Hunting* sector featured as the most confident **economic sector**. Together with *Construction, Property Development, Property Sales*), these sectors were ahead of *Tourism, Catering, Accommodation, Property Management* which remained the third most confident economic sector.
- The *Manufacturing, Assembly* sector tumbled, from the most confident sector in the previous period, to only the 4th most confident sector. This deterioration resulted from the ongoing spates of industrial unrest, community protests and interference with business operations in the region's main industrial areas.
- The negative sentiment around *Tourism, Catering, Accommodation, Property Management* continues with businesses confidence in this sector retracting by 21.4 index points over the past two periods. This deterioration, despite the continued popularity of the KZN North Coast as a tourist and event tourism destination, relates to concerns about the management of public spaces, especially beach nodes and facilities such as ablutions, and a disregard for municipal by-laws and the associated anti-social behaviour. Further concerns relate to "overtrading" in certain tourism subsectors, the persisting seasonal nature of tourism, skills availability, and the pressure on leisure spending due to the increase in VAT and escalating fuel prices.
- The deterioration of sentiment in the *Wholesale, Retail, Vehicle Trade* sector were substantiated by a number of comments, including concerns about the size of the local market and "too much competition", customer safety, theft and diminishing spending power due to VAT, fuel price increases and rates being levied on businesses. Opportunities offered by respondents included improved traffic management and efforts to attract additional business and visitors to retail nodes.

- The factors contributing to the retracting sentiment in the *Construction, Property Development, Property Sales* sector remained unwieldy administrative processes, a lack of support by both the private and public sector for local contractors and professionals, late or no payments, and the lack of national investor confidence that is preventing significant international investors to commit to the region (coupled with the fear that local investor interest is not adequate to unlock the region's full economic potential).
- The Ndwedwe Local Municipality was the only **region** to record positive business sentiment.
- The overwhelming negative sentiment expressed by respondents in the Mandeni Local Municipality, home to the Isithebe Industrial Estate, is especially concerning. The mood in the region, which was the most confident in the previous period, was severely impacted on by the ongoing disruptions to business operations.
- Business confidence in KwaDukuza also retracted, with disruptions in peri-urban areas impacting on the commute of workers being highlighted as a concern.
- The business outlook for the 6-month period July to December 2018 was recorded at its lowest level, since commencement of the iBCI, at 41.4 index points, a disappointing 6.6 index points down from outlooks for the 1st half of 2018, the previous lowest period.
- The iBCI Activity Index gained 4.2 index points and measured a positive 50.4 in the 1st half of 2018, compared to 46.2 in the 2nd half of 2017. This is .9 index points higher than the previous highest activity index level recorded in the 3rd quarter of 2015. The positive Activity Index is a welcome retort to the negative sentiments expressed through the survey and business expectation components of the iBCI. It is however apparent that businesses are experiencing conditions worse than what is indicated by the activity index.

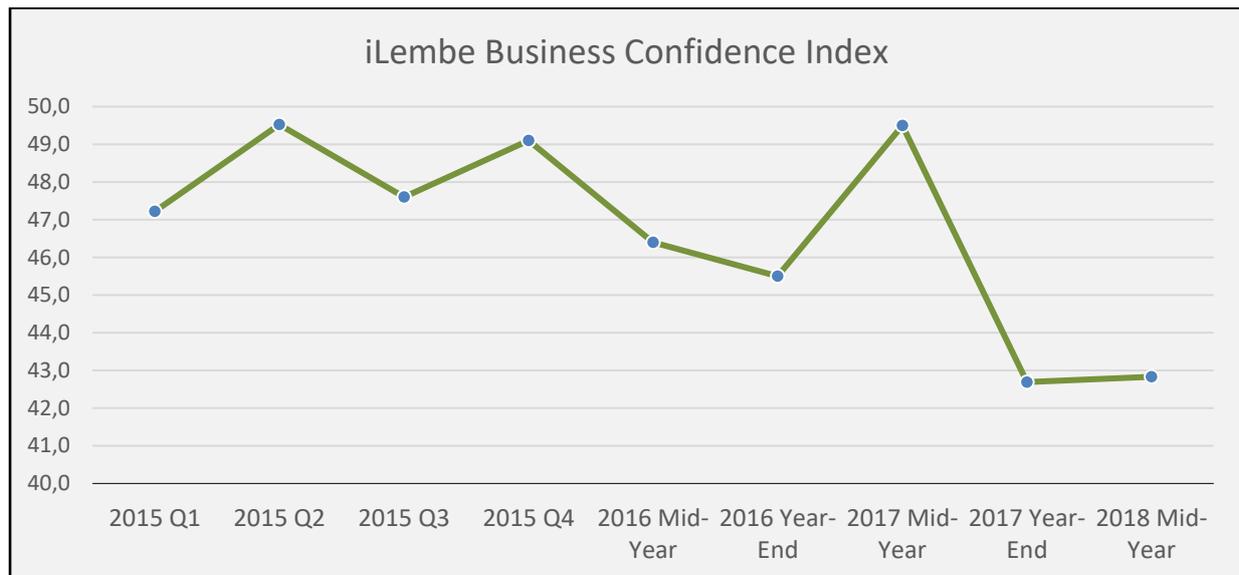
SACCI BCI

- The consensus is that the positiveness during the 1st quarter of 2018 retracted, mainly due to weak business activity and resulting disappointing economic growth figures, exacerbated by the fuel price and VAT increases, as well as local and international concerns around uncertain land policies, especially.
- The major challenges for South Africa's economy still remain slow economic growth, structural unaffordable public finance exposure, public sector management matters and insufficient fixed investment by the private sector. The debate on the land and amendment of the Constitution has entered an additional uncertainty.
- The continued poor performance by the domestic economy into 2018 (GDP growth of 0.8% y/y in the 1st quarter 2018) and an anticipated 1.3% for the whole of 2018, are accentuating the desperate need for policy certainty and a feasible economic policy direction.

2. Review of iBCI 2018 Mid-Year

Business confidence in the iLembe District, as measured through the iBCI, has practically remained unchanged from its lowest ever level, recorded in the previous halfyear period. The combined hybrid iBCI (i.e. both the survey and activity indices) for the 1st half of 2018 showed an immaterial adjustment of .1 index points compared to the 2nd half of 2017, the 2nd lowest level recorded since the commencement of the index in 2015.

The iBCI 2018 Mid-Year was recorded at 42.8 index points, established firmly in negative territory, i.e. below the neutral level of 50 index points.



iBCI 2018 Mid-Year Survey Component:

Despite the level of the composite index, the survey component of the iBCI, which was conducted in July 2018 and which records subjective business sentiment, was recorded at the all-time low of 35.3 index points, 3.9 index points down from the 2017 Year-End level, the previous low.

This level is also a significant 17.1 index points lower than the highest survey component points recorded in the 1st half of 2017.

Sentiments around all the **business indicators** included in the survey were in the negative; with outlooks around Sales Volumes (31;<8.9) and Order Books (33.3;<6) the biggest contributors to the dejected regional business sentiment.

The negative sentiment around Inventory Levels (<3.5), Late Delivery of Orders (>3.8) and Levels of Employment (<.4) completed the negative mood of all the surveyed activities.

With regards to business confidence **per economic sector**, the *Agriculture, Forestry, Hunting* (43.7;>6.6) featured as the most confident economic sector. Together with *Construction, Property Development, Property Sales* (41.5;<.2), these sectors were ahead of *Tourism, Catering, Accommodation, Property Management* (34.4;<6.2) which remained the third most confident economic sector.

The *Manufacturing, Assembly* sector tumbled from the most confident sector in the previous period (33.2;>16.7) to the 4th most confident.

The negative sentiment around *Tourism, Catering, Accommodation, Property Management* continues with businesses in this sector indicating a downward sentiment of 21.4 index points over the past two periods.

The continued negative sentiment of another significant sector in the iLembe regional economy, *Wholesale, Retail, Vehicle Trade*, is similarly concerning – businesses in this sector recorded negative sentiment at 26.5 index points, a further downwards movement of 8.1 index points.

The other economic sectors also remained entrenched in the negative with negative movements from the previous period.

The 16.7 (-33.4%) index point reduction in the confidence of the *Manufacturing, Assembly* sector resulted from the ongoing spates of industrial unrest, community protests and interference with business in the region's main industrial areas.

The negativity of the sentiment in the Tourism sector, despite the continued popularity of the KZN North Coast as a tourist and event tourism destination, relates to concerns about the management of public spaces, especially beach nodes and facilities such as ablutions, and a disregard for municipal by-laws and the associated anti-social behaviour.

Further concerns relate to “overtrading” in certain tourism subsectors, the persisting seasonal nature of tourism peaks, skills availability, and the pressure on leisure spending due to the increase in VAT and escalating fuel prices.

The establishment of a “working platform for all rollplayers (sic) in the tourism industry” was offered as a solution by one respondent.

The negative sentiment in the *Wholesale, Retail, Vehicle Trade* sector were substantiated by a number of comments, including concerns about the size of the local market and “*too much competition*”, customer safety, theft and diminishing spending power due to VAT, fuel price increases and rates being levied on businesses. Opportunities offered included improved traffic management and efforts to attract additional business and visitors to retail nodes.

The factors contributing to the negative sentiment in the *Construction, Property Development, Property Sales* sector remained delayed planning approvals, unwieldy building control processes, a lack of support, by both the private and public sector, for local contractors and professionals, late or no payments and the lack of national investor confidence that is preventing significant international investors to commit to the region (coupled with the fear that local investor interest is not adequate to unlock the region's economic potential).

With regards to business sentiment **per region** within the iLembe District, the Ndwedwe Local Municipality (51.3;>10.2) was the only region in positive territory.

Especially concerning to the industrial base of the region is the overwhelming negative sentiment expressed by respondents in the Mandeni Local Municipality, home to the Isithebe Industrial Estate. The mood in the region, which was the most confident in the previous period, was severely impacted on by the disruptions to business, shed a further 6.8 index points, resulting a combined negative movement of 19.1 over the last two survey periods, or 35%.

Overall business confidence in KwaDukuza (37.3;<3.8) remained firmly entrenched in the negative. Unrest and boycotts in peri-urban areas, disrupting the commute of the workforce, was an observation recorded.

iBCI 2018 Mid-Year Business Expectations:

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

The business outlook for the 6-month period July to December 2018 was recorded at its lowest level, since commencement of the iBCI, at 41.4 index points, a disappointing 6.6 index points down from outlooks for the 1st half of 2018, the previous lowest period.

These 6-month business expectations outlook incorporates the golden trading period for the iLembe District, namely the 2018 year-end holiday period.

The 6-month outlook around all **business indicators** were all firmly in negative territory, apart from positive sentiment around Input Prices (59.7).

With regards to expectations per **business sector**, the business expectations of all sectors over the next 6 months deteriorated and is firmly in the negative. The *Agriculture, Forestry, Hunting* (48.8), *Manufacturing, Assembly* (44.7) and *Construction, Property Development, Property Sales* (42.8) were the sectors with the most positive outlook for the next 6 months.

iBCI 2017 Year-End Activity Index Component:

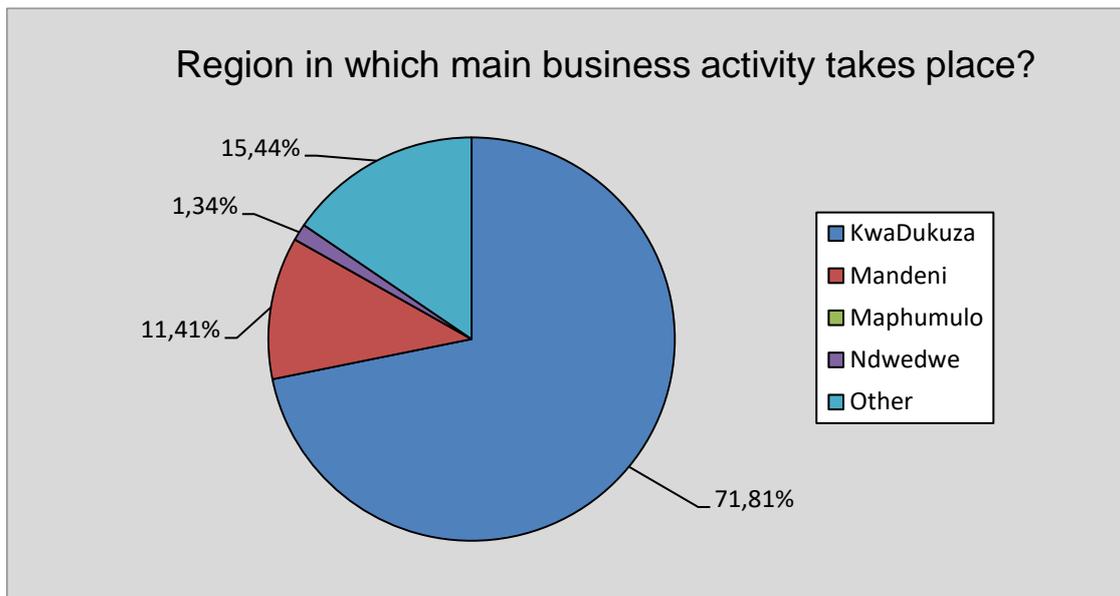
The iBCI Activity Index gained 4.2 index points and measured a positive 50.4 in the 1st half of 2018, compared to 46.2 in the 2nd half of 2017. This is .9 index points higher than the previous highest activity index level recorded in the 3rd quarter of 2015.

The positive Activity Index is a welcome and much needed retort to the negative sentiments expressed through the survey and business expectation components of the iBCI.

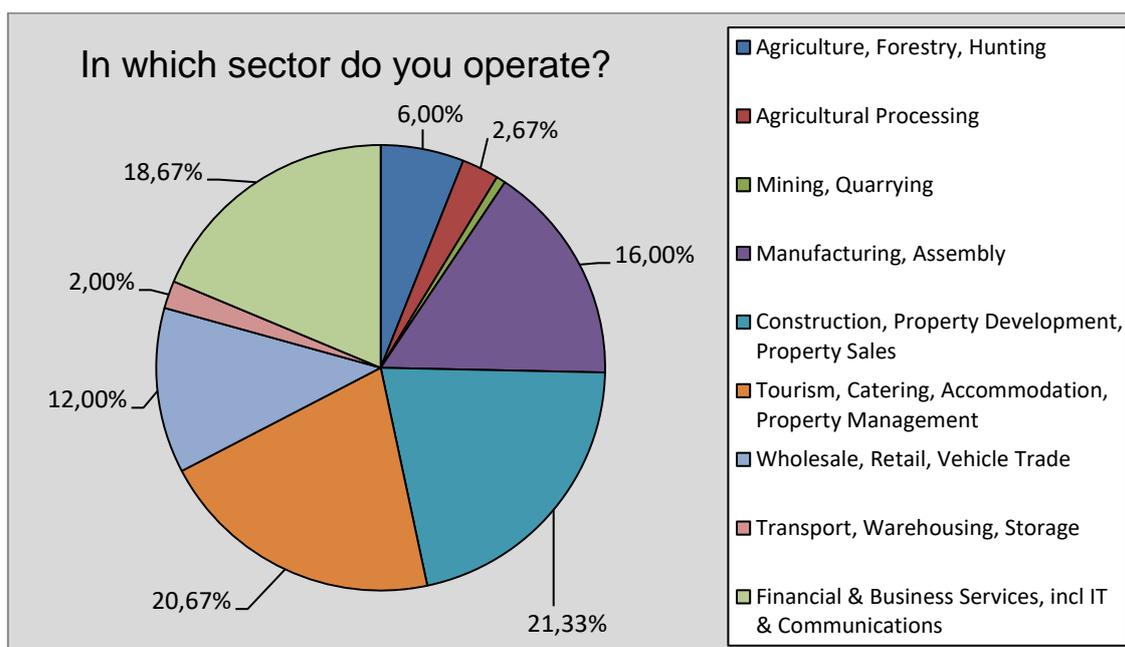
In the 1st half of 2018, the indicators measuring the business climate and economic activity in the iLembe region (detailed in Annexure 2 below), showed a combination of positive and negative effects. In comparing the 1st half of 2018 with the 2nd half of 2017, Construction activities (-3.1), Finance Business Borrowing (-1.8) and Trade (-1.7) showed the largest negative impacts.

The US\$ sugar price (+3.4), US\$ Exchange rate (+9.1) and the Inflation rate (+4.5) reflected increases that positively added to the business climate within the iLembe District.

iBCI survey responses from iLembe sub-regions:

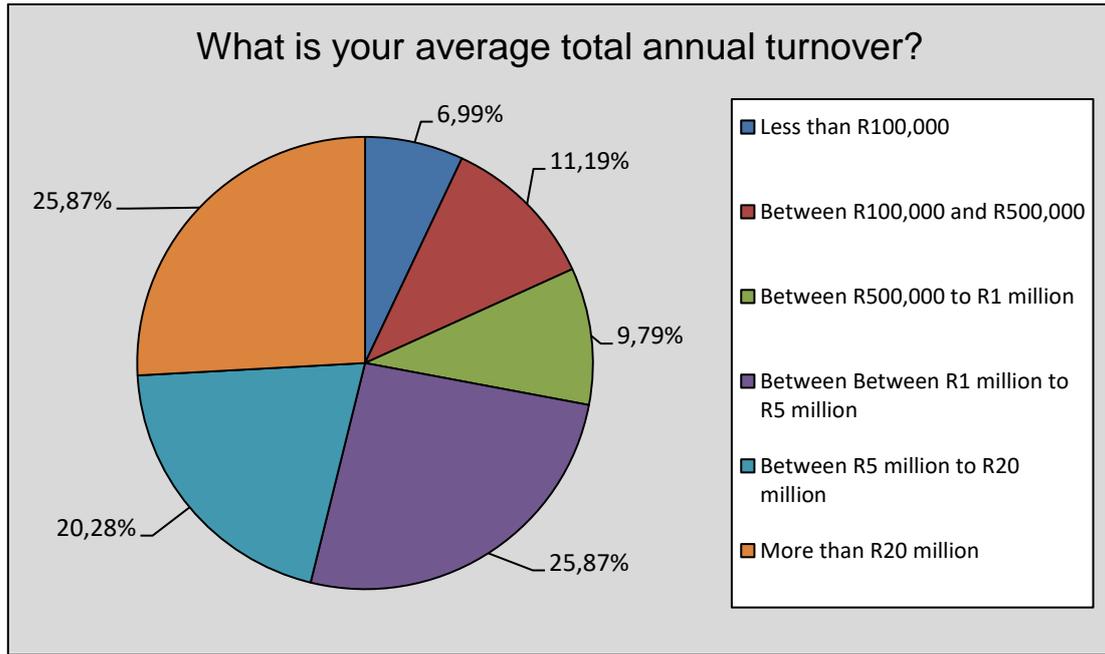


Economic sector participation in the iBCI survey:

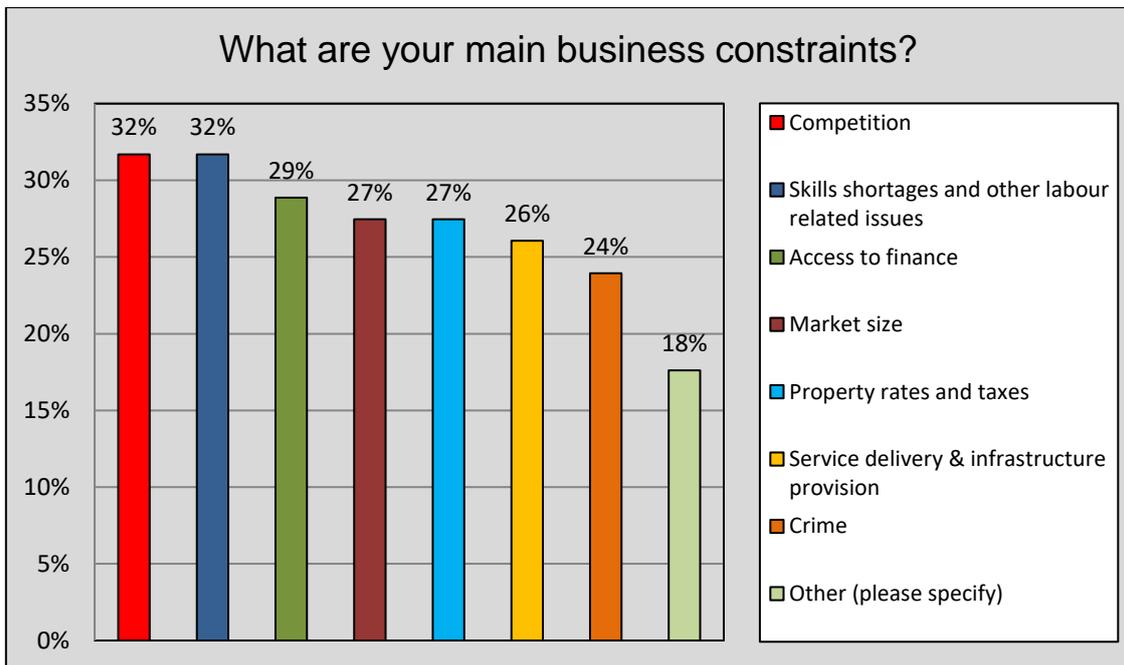


The majority of businesses participating in the 2017 Year-End iBCI Survey operated within the *Construction, Property Development, Property Sales* sector (21,33%), followed by *Tourism, Catering and Accommodation* (20,67%), *Financial & Business Services, incl IT & Communications* (18,67%), and *Manufacturing, Assembly* (16%). *Wholesale, Retail, Vehicle Trade* (12%), *Agriculture, Forestry, Hunting* and *Agricultural Processing* (combined 8,67%) and *Transport, Warehousing, Storage* and *Mining, Quarrying* sectors were also represented amongst respondents.

Participation in the iBCI survey by annual turnover level:



Perceived business constraints:



The contracting national economy and related low economic confidence and the disrupted regional trading environment resulted in the two market related indicators of *Competition and Market Size* jointly being the most significant business constraints selected by 59% of participating businesses.

32% of survey respondents listed *Skills shortages and other labour related issues* as primary business constraints.

With the economic squeeze, *Access to Finance* was the major constraint listed by 29% of respondents. Respondents indicated that access to finance, especially from foreign sources, are severely hampered by policy uncertainty and how that would impact the national economy.

With liquidity a mutual concern, it is to be expected that 27% of respondents listed the level of *Property rates and taxes* as a primary constraint.

Service delivery & infrastructure provision was a perceived business constraint of 26% of respondents. The cost of development, cumbersome and inefficient administrative and planning approval processes and speed of decision making were once again highlighted as specific contributors to this business constraint.

3. SACCI BCI

The **SACCI** Business Confidence Index (BCI) averaged 96.7 (base 2015=100) in the 1st half of 2018 and increased by 3 index points on the 93.7 average for the 2nd half of 2017. The 1st half of 2018 saw the **SACCI** BCI 1.7 index points higher than the average of 95 for the 1st half of 2017. Although the **SACCI** BCI started on a high note of 99.7 in January 2018, it gradually declined to 93.7 in June 2018. The improvement in the **SACCI** BCI in January 2018 followed on the election of new leadership by the governing party in December 2017 and raised expectations of a better business climate.

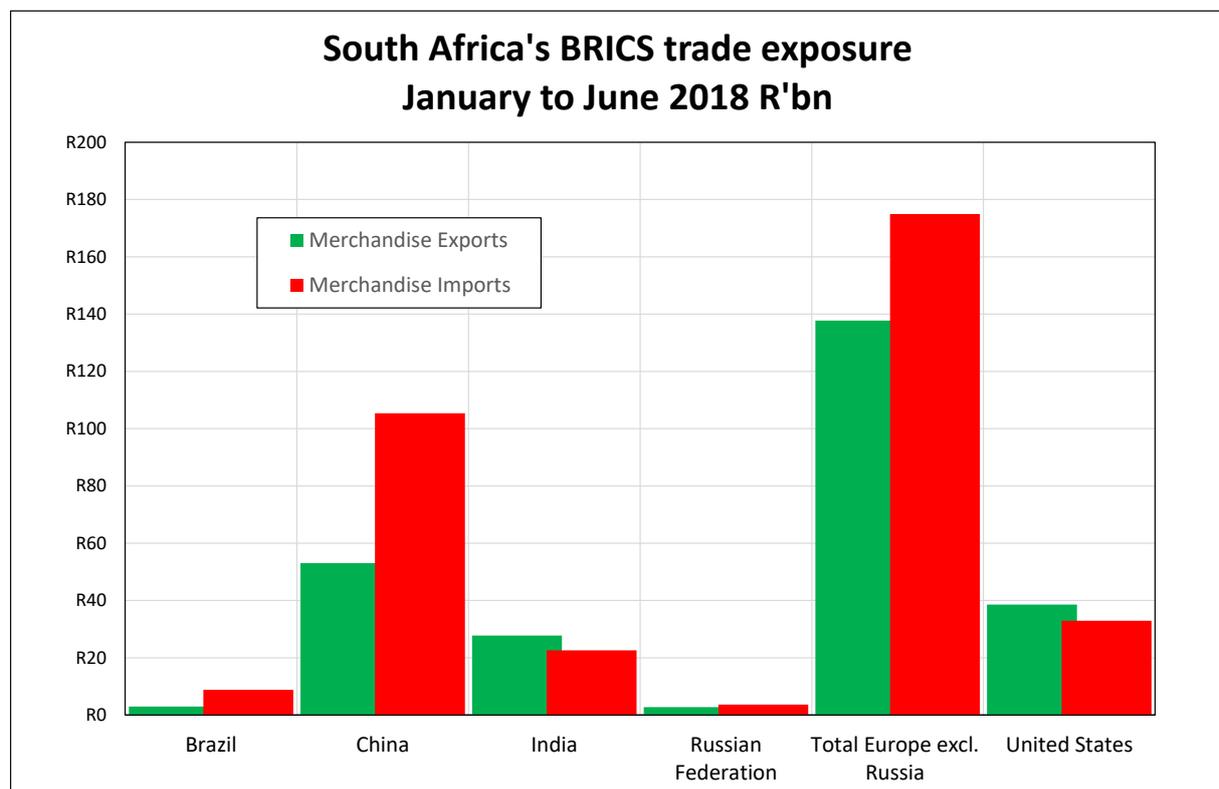
Despite no further downgrades by reputable credit rating agencies, most of the business climate indicators weakened between January 2018 and June 2018. Only three of the thirteen sub-indices of the **SACCI** BCI, namely the real cost of finance, the real value of building plans passed and the volume of merchandise exports, improved from January to June 2018. Five sub-indices improved between June 2017 and June 2018 including consumer inflation, real credit extended to the private sector, the volume of merchandise exports, new vehicle sales and manufacturing output.

The major challenges for South Africa's economy still remain slow economic growth, structural unaffordable public finance exposure, public sector management matters and insufficient fixed investment by the private sector. The debate on the land and amendment of the Constitution has entered an additional uncertainty. The continued poor performance by the domestic economy into 2018 (GDP growth of 0.8% y/y in the 1st quarter 2018) and an anticipated 1.3% for the whole of 2018, are accentuating the desperate need for policy certainty and a feasible economic policy direction.

The Brics countries held their tenth summit in South Africa towards the end of July 2018. A few specific matters transpired, namely, Chinese investment, Chinese bank-loans to Eskom, the Brics Development Bank as an additional source of finance and avenue for financing of infrastructural projects in future, and Brics trade relations. These relations, however, do not provide the panacea for South Africa's economic ills. Although India and China, the two largest economies of the Brics formation, had total direct investment of R81.8 billion in South Africa

at the end of 2016 (latest official data), it represents only 4.4 percent of total foreign direct investment in South Africa compared to 74.7 percent direct investment from Europe.

South Africa has trade deficits with Brazil (R5.8 billion), China (R52.3 billion), Russia (R0.9 billion) – Brics total trade deficit of R53.9 billion for the first six months of 2018 (see chart below). It appears that the trade and investment benefits from Brics to South Africa are still substantially less than with other global economic partners if trade and investment are considered.



Source: SARS, Customs and Excise, July 2018.

4. Conclusion

Both major South African indices confirm that business confidence in South Africa is deteriorating. In addition to the SACCI BCI summarised above, the Rand Merchant Bank (RMB)/Bureau for Economic Research (BER) Business Confidence Index (BCI) reported a decline in business confidence in the 2nd quarter of 2018, after surging in the first quarter. According to RMB, close to three-fifths of respondents regard prevailing business conditions as unsatisfactory.

The consensus is that the positiveness during the 1st quarter of 2018 retracted, mainly due to weak business activity and resulting disappointing economic growth figures, exacerbated by the fuel price and VAT increases, as well as local and international concerns around uncertain land policies, especially.

The major challenges for South Africa’s economy still remain slow economic growth, structural unaffordable public finance exposure, public sector management matters and

insufficient fixed investment by the private sector. The debate on the land and amendment of the Constitution has entered an additional uncertainty.

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.