

**ILEMBE**  
**BUSINESS CONFIDENCE INDEX (IBCI)**  
**2018 YEAR-END REVIEW**



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## 1. Highlights and Key Findings

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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, a weighted index of financial and economic activity variables.

- Business confidence in the iLembe District has shown a slight increase from the record low levels recorded in the previous two half year periods.
- The combined hybrid iBCI (i.e. both the survey and activity indices) for the 2<sup>nd</sup> half of 2018 showed a positive adjustment of .9 index points, compared to the 1<sup>st</sup> half of 2018. The iBCI 2018 Year-End was recorded at 43.7 index points, despite the positive adjustment it remains entrenched in negative territory, i.e. below the neutral level of 50 index points.
- The survey component of the iBCI, which was conducted in the latter half of January 2019 and which records subjective business sentiment, showed a positive adjustment of 2.8 index points on the all-time low recorded in the previous 6-month period.
- The 38.1 index points is still a considerable 14.3 index points below the highest recorded survey component in the 1<sup>st</sup> half of 2017.
- *Transport, Warehousing, Storage* featured, surprisingly, as the most confident **economic sector**.
- *Agriculture, Forestry, Hunting* remains the second most confident sector, with *Tourism, Catering, Accommodation, Property Management* remaining third in the ranking.
- Despite a slight increase in confidence, the *Manufacturing, Assembly* sector slipped to the 6<sup>th</sup> most confident sector, having been the most confident sector 12 months ago.
- The decline in confidence in the *Construction, Property Development, Property Sales* sector, a key sector in the iLembe District's economy, saw this sector tumble from the 2<sup>nd</sup> most confident sector, in the previous 6-month period, to one of the least confident sectors.
- The *Manufacturing, Assembly* sector's woes continue, with the ongoing spates of industrial unrest, community protests and interference with business in the region's main industrial areas, being exacerbated over the past 6-months by re-introduced Eskom load shedding, and defaulting debtors. Feedback to validate this sector's performance includes a reluctance to invest in larger manufacturing equipment because of the unreliability and cost of electricity, the increasing and unrealistic enterprise development expectations from communities surrounding industrial precincts, the costs of logistics from secluded industrial areas, and the crumbling infrastructure, in especially the Isithebe Industrial Park, and the lack of response from the authorities in this regard.

- The negativity of sentiment in the key sector of *Construction, Property Development, Property Sales* remained being substantiated by delayed planning approvals, unwieldy building control processes and apathy towards the time sensitivity of property development. In addition, the development of infrastructure, increasing concern about the capacity of the road infrastructure and resulting traffic congestion, work disruptions, stoppages and extortion by “business forums” and land occupations contributed to what one respondent described as a “*difficult property market*”.
- The negative sentiment in the *Tourism, Catering, Accommodation, Property Management* sector relates to perceptions expressed that the KZN North Coast is “*unsafe*” and “*unstable*”, ongoing 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 expressed relates to the growth in AirBnB establishments and the inability of registered establishments to compete on a cost basis with such establishments, as well as a need to promote the KZN North Coast to international tourists.
- The Mandeni Local Municipality was the district’s most confident **region**. Although the index points remain in negative territory, this local municipal area, home to the Isithebe Industrial Estate, showed a significant recovery from the record low in the previous period. Business confidence in the Ndwedwe Local Municipality retracted by 23% to embed itself in the negative, despite being the 2<sup>nd</sup> most confident area in the district.
- The **business outlook** for the 6-month period January to June 2019 was recorded at its lowest level, since commencement of the iBCI, at 40.5, a further .9 index points down from the previous low of 41.4 index points recorded for the 1<sup>st</sup> half of 2018.
- The **iBCI Activity Index** was recorded at a negative 49.3 index points, the 3<sup>rd</sup> highest Activity Index level recorded.

### SACCI BCI

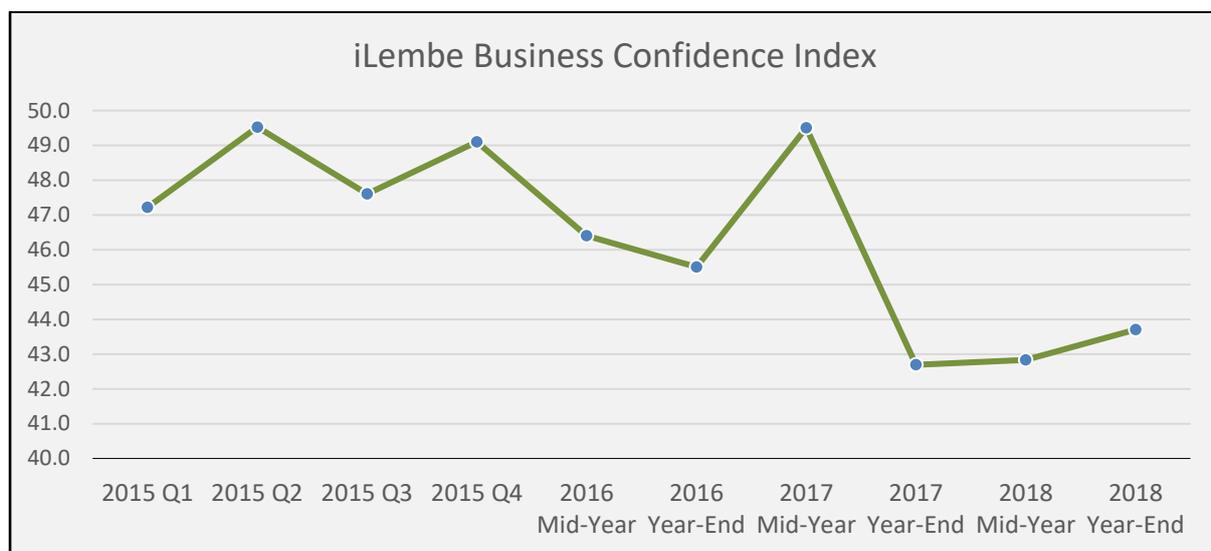
- The **SACCI** Business Confidence Index (BCI) was recorded at 94.3 for the 2<sup>nd</sup> half of 2018, 0.6 index points higher than the 2<sup>nd</sup> half of 2017. The 2<sup>nd</sup> half 2018 business confidence index slipped by 2.4 index points compared to the 1<sup>st</sup> half of 2018.
- The World Economic Forum’s (WEF) meeting in Davos, from 22 to 25 January 2019, paid specific attention to the future of economic progress. 2019 is regarded as ‘... the year of confusion...’ due to the uncertain outcome of Brexit, European economic turmoil, the USA trade difficulties with notably China, and a slowing world economy.
- The continued poor performance by the domestic economy in 2018 (annual GDP growth of 0.8%) and an anticipated 1.3% for 2019, are stressing the desperate need for policy certainty and appropriate sustainable economic policy.

## 2. Review of iBCI 2018 Year-End

Business confidence in the iLembe District, as measured through the iBCI, has shown a slight increase from the record low level recorded in the previous two half year periods.

The combined hybrid iBCI (i.e. both the survey and activity indices) for the 2<sup>nd</sup> half of 2018 showed a positive adjustment of .9 index points, compared to the 1<sup>st</sup> half of 2018. Although it is a comparatively small adjustment, it does pause the record low trends of the previous 12 months.

The iBCI 2018 Year-End was recorded at 43.7 index points, despite the positive adjustment it remains entrenched in negative territory, i.e. below the neutral level of 50 index points.



### iBCI 2018 Year-End Survey Component:

The survey component of the iBCI, which was conducted in the latter half of January 2019 and which records subjective business sentiment, showed a positive adjustment of 2.8 index points on the all-time low recorded in the previous 6-month period.

The 38.1 index points is still a considerable 14.3 index points below the 1<sup>st</sup> half of 2017, the highest recorded survey component points.

Sentiments around all the **business indicators** included in the survey remained in the negative; with outlooks around *Levels of Employment* (38.5;<2.2), *Late Delivery of Orders* (36.4;<1.3) and *Inventory Levels* (37.3;<0.1) were the biggest contributors to the dejected regional business sentiment. The subjective business sentiment around *Levels of Employment* were especially concerning, with this business indicator being recorded at the lowest level since the 4<sup>th</sup> quarter of 2015.

The negative sentiment around *Sales Volumes* (>8.4) and *Order Book* (>4.5) completed the negative mood of the surveyed business indicators.

With regards to business confidence **per economic sector**, the *Transport, Warehousing, Storage* (44.3;>27) featured, surprisingly, as the most confident economic sector.

Despite a decline in confidence, the *Agriculture, Forestry, Hunting* (42.8;<.9) remains the second most confident sector, having been the most confident sector in the previous half year period.

*Tourism, Catering, Accommodation, Property Management* (41.3;>6.9) remained the third most confident economic sector, with a welcomed increase in confidence of 6.9 index points.

Despite an increase in confidence, *Manufacturing, Assembly* (39;>5.8) slipped to the 6<sup>th</sup> most confident sector, having been the most confident sector 12 months ago.

The decline in confidence in the *Construction, Property Development, Property Sales* sector (32.8;<8.7), a key sector in the iLembe District's economy, saw this sector tumble from the 2<sup>nd</sup> most confident sector in the previous 6-month period to one of the least confident sectors. The newly introduced economic sector of *Health & Wellness, incl Medical & Fitness* (31.4) was the least confident sector.

Despite increased business confidence within certain sectors, all economic sectors remained entrenched in the negative, i.e. below the neutral level of 50 index points.

The *Manufacturing, Assembly* sector's woes continue, with the ongoing spates of industrial unrest, community protests and interference with business in the region's main industrial areas, being exacerbated over the past 6-months by re-introduced Eskom load shedding, and defaulting debtors.

Feedback to validate this sector's performance includes a reluctance to invest in larger manufacturing equipment because of the unreliability and cost of electricity, the increasing and unrealistic enterprise development expectations from communities surrounding industrial precincts, the costs of logistics from secluded industrial areas, and the crumbling infrastructure, in especially the Isithebe Industrial Park, and the lack of response from the authorities in this regard.

The growing, and concerning, negativity of sentiment in the key sector of *Construction, Property Development, Property Sales* remained being substantiated by delayed planning approvals, unwieldy building control processes and apathy towards the time sensitivity of property development. In addition, the development of infrastructure, increasing concern about the capacity of the road infrastructure and resulting traffic congestion, work disruptions, stoppages and extortion by "business forums" and land occupations contributed to what one respondent described as a "difficult property market".

The negative sentiment in the *Tourism, Catering, Accommodation, Property Management* sector, despite the continued popularity of the KZN North Coast as a tourist and event tourism destination, relates to perceptions expressed that the KZN North Coast is "unsafe" and "unstable", ongoing 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 expressed in the 2018 Year-End survey relates to the growth in AirBnB establishments and the inability of registered establishments to compete on a cost basis with such establishments, and a need to promote the KZN North Coast internationally.

The negative sentiment in the *Wholesale, Retail, Vehicle Trade* sector once again focused on concerns about the size of the local market, with the apparel and restaurant/food sectors being singled out. The high cost of retail space, and the cost of services such as water and electricity, further exacerbated the pressure on businesses operating in this sector.

With regards to business sentiment **per region** within the iLembe District, the Mandeni Local Municipality (40.1;>12.7) was the district's most confident region. Although the index points remain in negative territory, this local municipal area, home to the Isithebe Industrial Estate, showed a significant recovery from the 27.4 index points in the previous period.

Business confidence in the Ndwedwe Local Municipality (39.5;<11.8), which was the only region in positive territory during the previous survey period, lost 23% index points to embed itself in the negative, despite being the 2<sup>nd</sup> most confident area in the district.

Overall business confidence in the KwaDukuza Local Municipal area (36.9;<.4) remained firmly entrenched in the negative. The sentiments expressed, reflective of the diverse nature of industry in this municipal area, included farm related crime, crop theft, political protests and unrest, poor service delivery and the cost of doing business.

### **iBCI 2018 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 2019 was recorded at its lowest level, since commencement of the iBCI, at 40.5, a further .9 index points down from the previous low of 41.4 index points recorded for the 1<sup>st</sup> half of 2018.

The 6-month outlook around all **business indicators**, were all firmly in negative territory, apart from positive sentiment around Input Prices (57.6;<2.1).

With regards to expectations per **business sector**, the business expectations of two sectors, over the next 6 months, is in the positive, i.e. *Agriculture, Forestry, Hunting* (56.7) and the *Health & Wellness, incl Medical & Fitness* (53.2) sectors. *Manufacturing, Assembly* (33.5) was the sectors with the most negative outlook for the next 6 months.

### **iBCI 2018 Year-End Activity Index Component:**

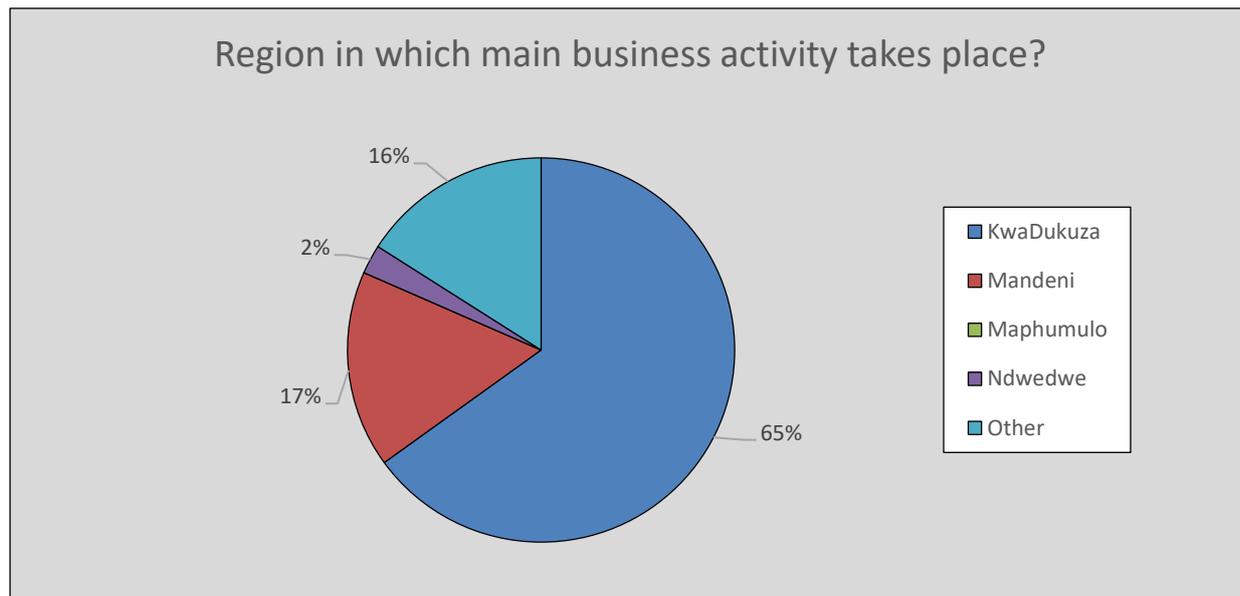
The iBCI Activity Index lost 1.1 index points, from the previous period, to record a negative 49.3 index points. It should be noted that the iBCI 2018 Mid-Year Activity Index Component, the previous period, was recorded at the highest level since the iBCI was introduced.

The 49.3 index points, for the current period, is the 3<sup>rd</sup> highest Activity Index level recorded. The level of the Activity Index is a much-needed retort to the negative sentiments expressed through the survey and business expectation components of the iBCI.

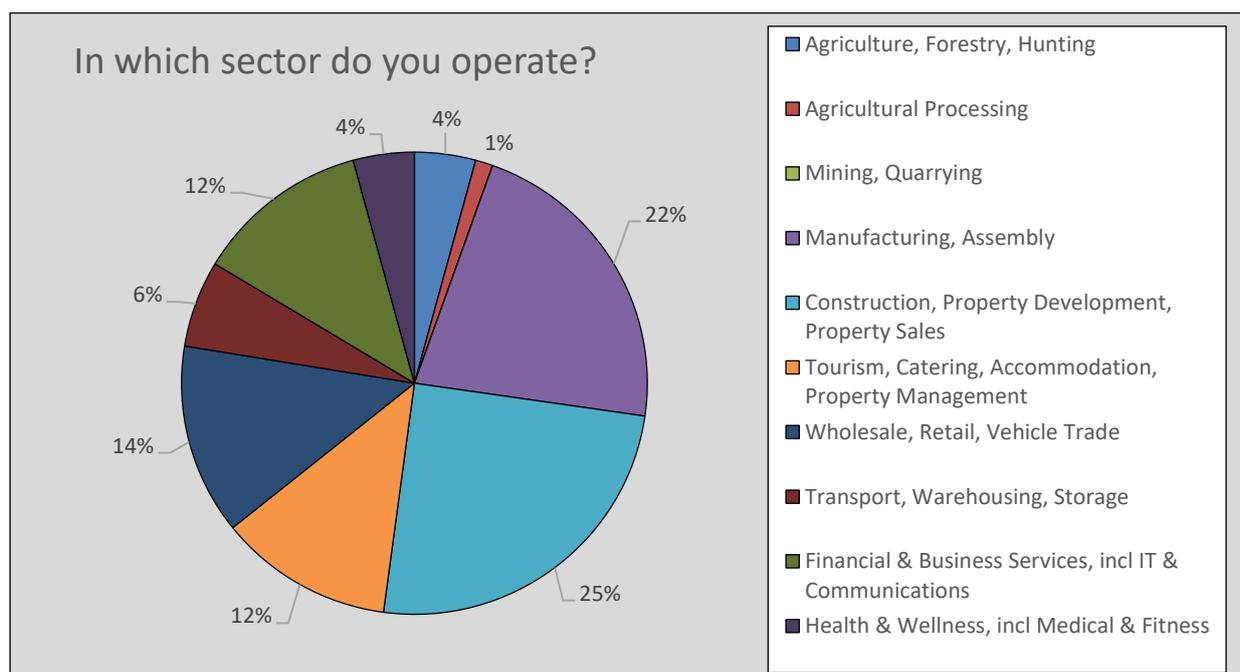
In the 2<sup>nd</sup> half of 2018, the indicators measuring the business climate and economic activity in the iLembe region (detailed in Annexure 2 below), showed a combination of positive and negative effects. In comparing the 2<sup>nd</sup> half of 2018 with the 1<sup>st</sup> six months of 2018, the US\$ *Exchange rate* (-13.4), the *Inflation rate* (-6.8) and the *US\$ Sugar Price (Europe)* (-4.9) showed the largest negative impact on the region's measured economic activity.

Economic activity in *Manufacturing* (+.9) and *Construction* (+.1) reflected slight increases that positively added to the business climate within the iLembe District.

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



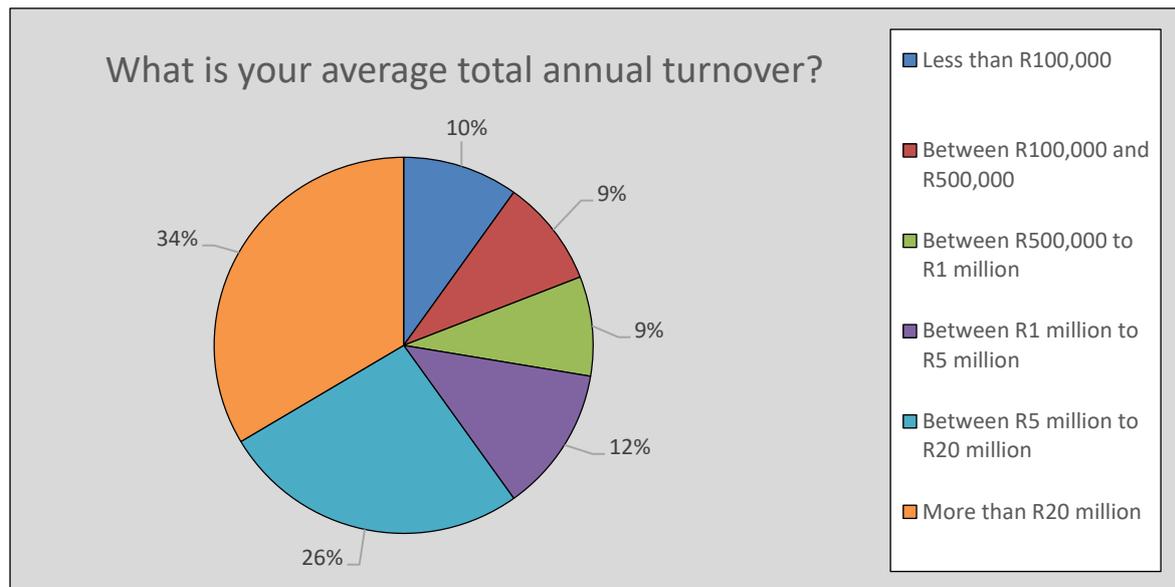
**Economic sector participation in the iBCI survey:**



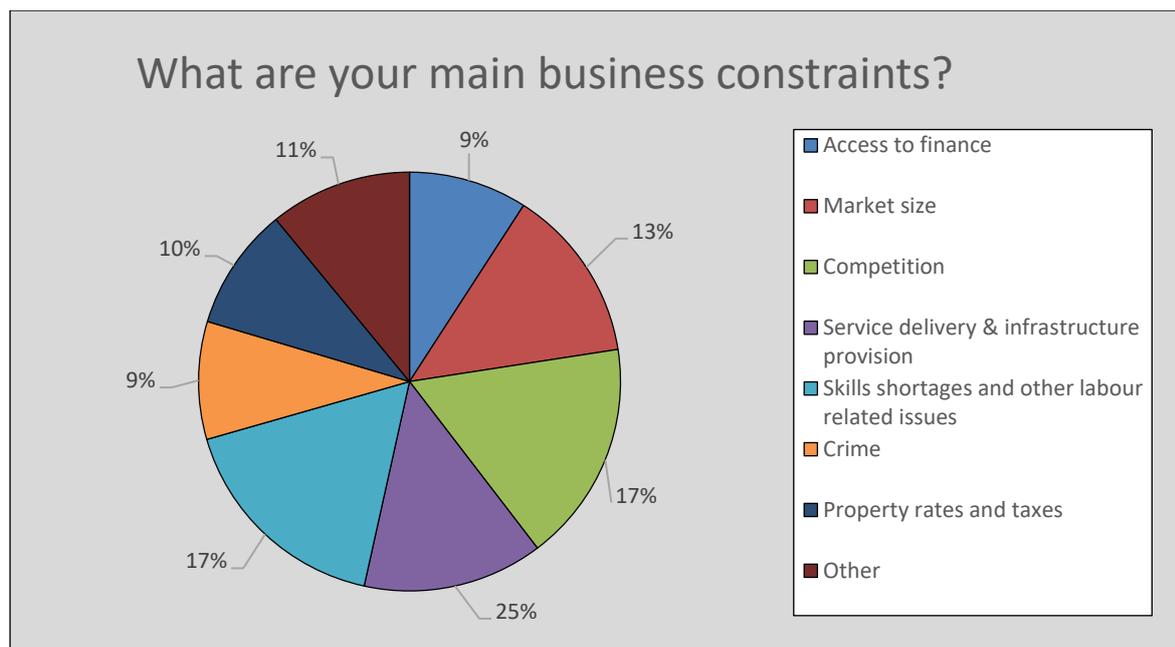
The majority of businesses participating in the 2018 Year-End iBCI Survey operated within the *Construction, Property Development, Property Sales* sector (25%), followed by *Manufacturing, Assembly* (22%), *Wholesale, Retail, Vehicle Trade* (14%), *Tourism, Catering, Accommodation, Property Management* (12%) and *Financial & Business Services, incl IT & Communications* (12%).

*Agriculture, Forestry, Hunting* and *Agricultural Processing* (combined 5%), *Transport, Warehousing, Storage* and *Mining* (6%) and *Health & Wellness, incl Medical & Fitness* (4%) sectors were also represented amongst respondents.

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



**Perceived business constraints:**



The sluggish national economy, the 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 30% of participating businesses.

*Service delivery & infrastructure provision* was a perceived business constraint of 25% of respondents. The cost of development, cumbersome and inefficient administrative and planning approval processes, speed of decision making and decaying infrastructure in established industrial precincts were highlighted as specific contributors to this business constraint.

17% of survey respondents listed *Skills shortages and other labour related issues* as primary business constraints. Considering the negative outlook around employment levels, the importance of this constraint has diminished.

With liquidity an ongoing concern, 10% of respondents listed the level of *Property rates and taxes* as a primary constraint.

### 3. 2018/19 Christmas Holiday Trading

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The Survey component of the iBCI 2018 Year-End also requested feedback on the 2018/19 Christmas Trading Period, the golden trading period for the wider iLembe District. The survey responses were supplemented with feedback gained through personal interviews conducted in mid-January 2019.

The feedback varied significantly, including from sector to sector and region to region.

A general observation was that it was a very good season for trade, with the majority of respondents indicating that it was an improvement on the same trading period in 2017/18. As an overall indicator, holiday rentals and short-term rentals were reported to be up from the previous year.

Real estate sales were reported to be "quiet", despite respondents indicating "a lot of interest" in real estate stock available.

With regards to retail, feedback varied with some of the bigger retailers across consumer sectors reported marginal growth, which was undone if you take inflation into consideration. Over-trading in certain sectors, although hugely beneficial for the consumer and consumer variety and choice, continues to significantly impact on individual business viability. As mentioned in Section 2, the apparel and restaurant/food sectors were singled out in this regard.

Certain retail nodes, and niche retailers, reported significant growth on the previous year, with some store owners indicating double digit sales growth year-on-year. Uniqueness of offering and product quality appear to have given these businesses the edge.

The feedback received from wholesalers was generally positive.

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 2017/18, despite the shorter holiday period, with schools reopening earlier in 2019,

Other interesting feedback from this important sector of our economy was that occupancy percentages were lower than the previous year, but that Food and Beverage spent was higher.

An opinion expressed indicated that the cost of accommodation forced people to shorten their stays.

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.

## 4. SACCI BCI

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The **SACCI** Business Confidence Index (BCI), with base-year 2015=100, registered an average of 94.3 for the 2<sup>nd</sup> half of 2018, which was 0.6 index points higher than the average of 93.7 for the 2<sup>nd</sup> half of 2017.

With the 1<sup>st</sup> half of 2018 averaging 96.7, the 2<sup>nd</sup> half 2018 business confidence index slipped by 2.4 index points.

The **SACCI** BCI started on an exceptionally high level of 99.7 in January 2018, but gradually declined throughout 2018 to 95.2 in December 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 expectations of a better business climate and economic performance.

Despite no further downgrades by reputable credit rating agencies, 70% of the business climate indicators weakened between June 2018 and December 2018. Only four of the thirteen sub-indices of the **SACCI** BCI, namely, real retail sales; the US dollar price of precious metals; the volume of merchandise imports; and manufacturing output, made positive contributions to the **SACCI** BCI between June and December 2018. Two sub-indices improved between December 2017 and December 2018 (real interest rate and energy supply); two remained unchanged; and nine turned negative.

The major challenges for South Africa's economy still remain slow economic growth; structural public finance deficiencies; public sector maladministration, institutional capacity and corruption; unemployment; and inadequate fixed investment by the private sector and foreign investors.

The debate on the land reform and the possible amendment to the Constitution has added an additional uncertainty to economic policy. The continued poor performance by the domestic economy in 2018 (annual GDP growth of 0.8%) and an anticipated 1.3% for 2019, are stressing the desperate need for policy certainty and appropriate sustainable economic policy.

The recent annual meeting in Davos of the World Economic Forum (WEF) that took place from 22 to 25 January 2019 dealt with a number of matters, where its economic agenda amongst others paid specific attention to the future of economic progress.

2019, to some extent, is regarded as '... the year of confusion...' due to the uncertain outcome of Brexit, European economic turmoil, the USA trade difficulties with notably China, and a slowing world economy.

For South Africa, the WEF meeting provided an opportunity to promote South Africa as an investment destination and to quell concerns about economic policy, secure investment, and yields on investment that is compatible with international standards.

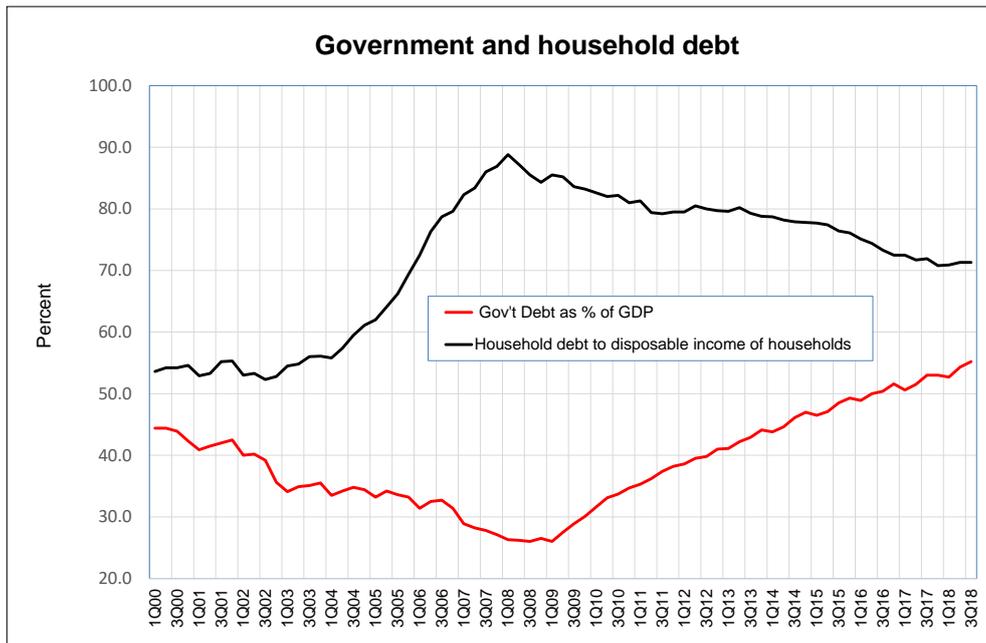
In his presentation of the Medium-Term Budget Policy Statement (MTPBS) on 24 October 2018, the Minister of Finance indicated stark economic realities and choices that come with

prospects for the future. These choices and realities did not only indicate challenges, but could also serve as guidance for areas in the economy that need structural changes.

Of special importance is the curtailing of expenditure and mobilising revenue for the upcoming 2019/20 Budget, with special critical areas such as personal income tax and financing the deficit.

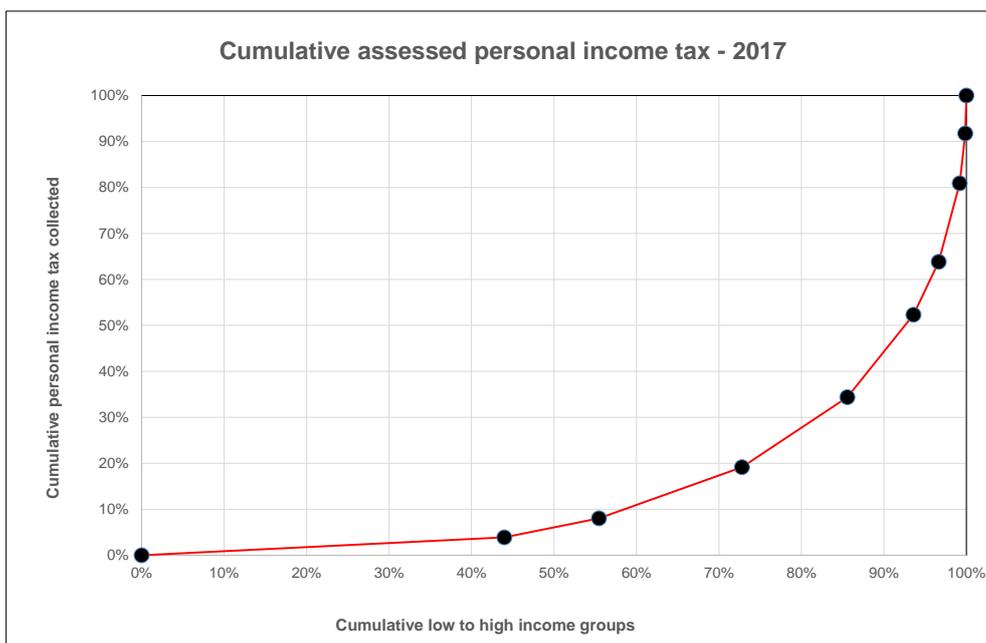
Figures 1 and 2 gives an indication of the degree of public finance challenges.

Figure 1



Source: SA Reserve Bank, Quarterly Bulletin December 2018.

Figure 2



Source: SARS, 2018 Tax statistics.

## 5. Conclusion

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SACCI's BCI confirms that the major challenges for South Africa's economy still remain slow economic growth, structural public finance deficiencies, public sector maladministration, institutional capacity and corruption, unemployment and inadequate fixed investment by the private sector and foreign investors alike.

The debate on land reform and the possible amendment to the Constitution has added an additional uncertainty to economic policy.

The continued poor performance by the domestic economy in 2018 (annual GDP growth of 0.8%) and an anticipated 1.3% for 2019, are stressing the desperate need for policy certainty and appropriate sustainable economic policy.

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

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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 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.