

**iLEMBE**  
**BUSINESS CONFIDENCE INDEX (IBCI)**  
**2019 YEAR-END REVIEW**



## *Copyright and disclaimer*

Copyright and all other intellectual property contained herein rests with the iLembe Chamber of Commerce, Industry & Tourism (iCCIT) and Enterprise iLembe (Ei).

The information contained in this document may not be reproduced in either whole or part without prior written consent of the iCCIT or Ei.

Although reasonable professional skill, care and diligence are exercised to record and interpret all information correctly, iCCIT, Ei and the author(s) do not accept any liability for any direct or indirect loss whatsoever that might result from unintentional inaccurate data and interpretations provided in this review as well as any interpretations by third parties. The iCCIT or Ei do not accept any liability for the consequences of any decisions or actions taken by any third party on the basis of information provided in this review. The views, conclusions or opinions contained in this publication are those of the iCCIT and Ei and do not necessarily reflect those of the iLembe District Municipality.

# TABLE OF CONTENTS

<b>1. HIGHLIGHTS AND KEY FINDINGS .....</b>	<b>4</b>
<b>2. REVIEW OF IBCI 2019 YEAR-END.....</b>	<b>7</b>
<b>3. 2019/20 CHRISTMAS HOLIDAY TRADING .....</b>	<b>12</b>
<b>4. SACCI BCI.....</b>	<b>14</b>
<b>5. CONCLUSION.....</b>	<b>16</b>
<b>ANNEXURE 1 - BACKGROUND.....</b>	<b>17</b>
<b>ANNEXURE 2 - METHODOLOGY.....</b>	<b>18</b>

## 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, a weighted index of financial and economic activity variables.

- Business confidence in the iLembe District has shown a further increase in the 2<sup>nd</sup> half of 2019 to record the highest level of business confidence in the district in 30 months.
- The combined hybrid iBCI (i.e. both the survey and activity indices) for this period showed a positive adjustment of 2.1 index points, compared to the 1<sup>st</sup> half of 2019. The index has now gained a steady 4.8 points since its lowest level recorded in the 2<sup>nd</sup> half of 2017. It is also at its highest level since the 1<sup>st</sup> half of 2017.
- The iBCI 2019 Year-End was recorded at 47.5 index points, but despite the positive adjustment remains fixed in negative territory, i.e. below the neutral level of 50 index points.
- At 47.3 index points, the survey component of the iBCI is 5.1 index points higher than the 1<sup>st</sup> half of 2019, but also this level below the 1<sup>st</sup> half of 2017, the highest ever recorded survey index.
- In respect of **business confidence per economic sector**, three sectors recorded positive business confidence, i.e. above the neutral level of 50 index points. The *Agriculture, Forestry, Hunting* sector (57.2;>11.8) featured as the most confident economic sector. The *Financial & Business Services, incl IT & Communications* (53.1;>7.1) was the second most confident sector, with the *Wholesale, Retail, Vehicle Trade* sector (52.7;>12.5) being the third most confident sector, also showing the biggest increase in confidence.
- Confidence in the *Agriculture, Forestry, Hunting* sector continues to be negatively impacted on by policy uncertainty around, and the impact of, expropriation without compensation, the depressed level of the sugar price, the sugar tax, as well as the level of sugar imports.  
Farm attacks, crop theft and arson were highlighted as further concerns negatively impacting on business confidence in this sector.  
More localised aspects highlighted were the need to mitigate the impact of activities that influence the flow and levels of local rivers, and the impact of the restructuring of Tongaat Hulett on trade activity and scale in this sector.  
The lack of government support for advancing the sugar industry's "green economy" potential was once again emphasised as an opportunity begging.
- The bullishness of the *Wholesale, Retail, Vehicle Trade* sector accurately reflects the trading figures reported for the 2019/20 Christmas Holiday period.  
Despite the increase in confidence, sentiment expressed by survey participants in this sector however paints a picture of a sector significantly impacted on by Eskom's load shedding, fears around the stagnant economy and disruptions to trade. A lack of law enforcement over the 2019/20 peak trading period, and resulting alcohol abuse, anti-

social behaviour and inadequate vehicle control especially, led to disruptions in trade and especially impacted on businesses located in the coastal nodes.

- The negative confidence surrounding the *Tourism, Catering, Accommodation, Property Management* (48.9;>8.9) sector prevailed, despite confidence within this sector recovering by 8.9 index points.

Respondents were unanimous in stressing the vulnerability of the KZN North Coast's tourism reputation, resulting from violent and other crime, especially during peak trading periods, the disregard for municipal by-laws and the associated anti-social behaviour, as well as the degeneration of especially popular beach nodes.

The general appearance and state of infrastructure and buildings were highlighted as wholly inadequate for attracting local, but more specifically international tourists.
- The *Manufacturing, Assembly* sector (43.4;>2.1) is now the 3<sup>rd</sup> least confident sector, having been the most confident sector a mere 24 months ago.

In addition to the industrial unrest and community protests, load shedding and load curtailment are weighing down the sentiment within this sector.

Industrial property rates and decaying infrastructure, specifically in industrial nodes, were highlighted by established industries.

A lack of support of industry, by local authorities, was highlighted as a risk to conducting business in a sustainable manner.
- The *Construction, Property Development, Property Sales* sector (43.1 ;>.2), a key sector in the iLembe District's economy, is the only sector that recorded a decline in confidence over the last 6-months. This sector is now the 2<sup>nd</sup> least confident sector within the iLembe District's economy.
- The "shocking" service levels at the Durban Harbour, resulting in the slow clearing of containers and the diversion of containers to alternative ports, have resulted in the *Transport, Warehousing, Storage* (28.3;>2.7) sector retaining its slot as the least confident sector.

Non-compliant operators and the impact of poorly maintained roads on the cost of maintenance further undermined confidence in this sector.
- The most significant business constraints identified by 59% of responding businesses, were the two market related indicators of *Competition* and *Market Size*. 31% of respondents listed *Skills shortages and other labour related issues* as primary business constraints.

*Service delivery & infrastructure provision* was a perceived business constraint of 28% of respondents. The lack of impactful law enforcement and control over the peak trading period, decaying and tiresome tourist nodes, coupled with the cost of development, cumbersome and inefficient administrative and planning approval processes, speed of decision making and the state of infrastructure in established industrial precincts were highlighted as specific contributors to this business constraint.
- The **business outlook** for the 6-month period January 2020 – June 2020 was recorded at a positive 50.4, despite being 3.6 index points down from the 2-year high recorded in the previous period.

With regards to expectations per **business sector**, business expectations of only two sectors, over the next 6 months, is positive, i.e. the *Financial & Business Services, incl IT &*

*Communications* (62.8) and *Agriculture, Forestry, Hunting* (58.8). The remainder of the sector's outlooks are negative, with the *Health & Wellness, incl Medical & Fitness* (42.1) sector recording the most negative outlook.

- The iBCI **Activity Index** lost .9 index points, from the previous period, to record a negative 47.8 index points.

### 2019/20 Christmas Holiday Trading

- A general observation was that it was a good trading season, with the majority of respondents indicating that it was an improvement on the same trading period in 2019/20. It appears that food sales, despite an increase in customer numbers, were flat if compared to the same period in 2018. Feedback indicated however that liquor sales were significantly up.
- The consistent theme of feedback, from both tourism and retail respondents, was the unprecedented lawlessness along the southern KDM beach nodes during the holiday season.
- Feedback from rural based retailers and restaurants was that trade exceeded expectations, with trading in some instances being described as “far better than previous years”.  
One such retailer attributed this increase to the innovative use of traditional market practices, such as stokvels and saving clubs, allowing for the advance booking of smaller functions such as birthdays and baby showers.

### SACCI BCI

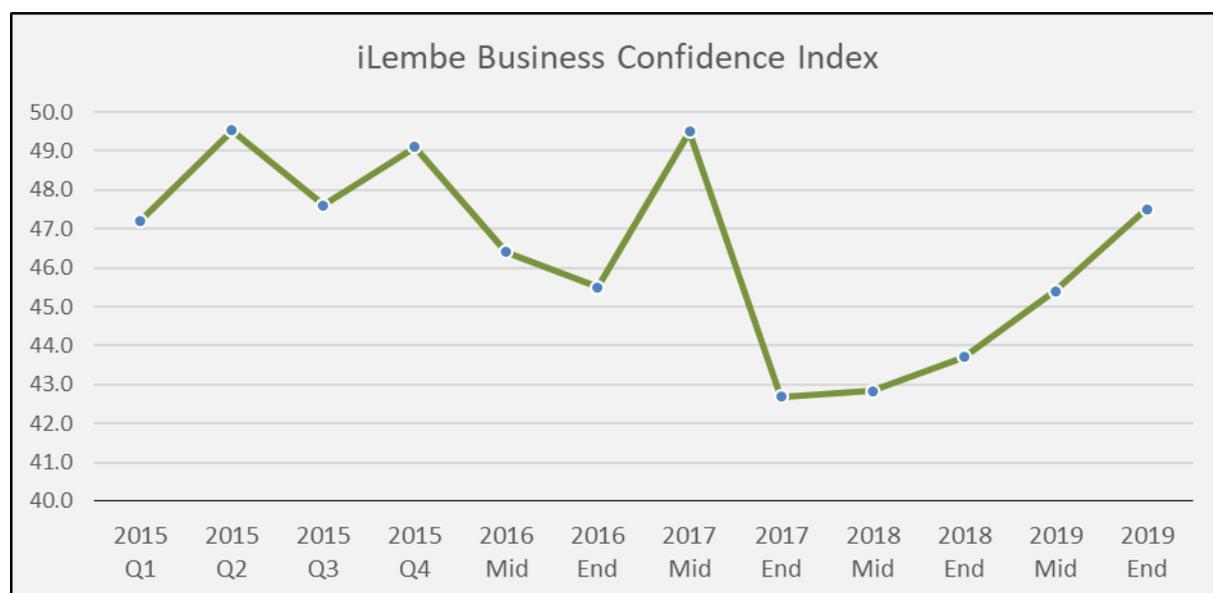
- Although the 2019/20 National Budget and the outcome of the elections in May 2019 held promises of a better business climate and economic performance in the 2<sup>nd</sup> half of 2019, the lack of implementation of critical structural reforms were lacking. The medium-term Budget, tabled in October 2019, confirmed a gloomy picture of public finances and economic performance.
- The SACCI BCI started on a reasonable level of 95.1 in January 2019, but gradually declined throughout 2019 to reach a low level of 89.1 in August 2019, but to recover somewhat to 93.1 in December 2019 – the highest level in the 2<sup>nd</sup> half of 2019.
- Despite no further downgrades by reputable credit rating agencies, the latest outlook by Moody's turned negative. The economy, for the second time in 2019, registered a technical recession in the 3<sup>rd</sup> quarter of 2019. Notwithstanding the subdued economic growth, 65% of the business climate sub-indices of the SACCI BCI improved between June 2019 and December 2019.
- The major challenges for the South African economy remain numerous: subdued economic growth, a wavering growth potential, structural public finance impediments, public sector maladministration, institutional incapacity and corruption, high unemployment, and inadequate fixed investment by the private sector and foreign investors. The uncertainty around land reform and the possible amendment to the Constitution continued to cause serious ambiguity and inconsistency of economic policy.

## 2. Review of iBCI 2019 Year-End

Business confidence in the iLembe District, as measured through the iBCI, has shown a further increase in the 2<sup>nd</sup> half of 2019 to record the highest level of business confidence in the district in thirty months.

The combined hybrid iBCI (i.e. both the survey and activity indices) showed a positive adjustment of 2.1 index points in this period, compared to the 1<sup>st</sup> half of 2019. The index has now gained a steady 4.8 points since its lowest level recorded in the 2<sup>nd</sup> half of 2017. It is at its highest level since the 1<sup>st</sup> half of 2017.

The iBCI 2019 Year-End was recorded at 47.5 index points, but despite the positive adjustment remains fixed in negative territory, i.e. below the neutral level of 50 index points.



### iBCI 2019 Year-End Survey Component:

At 47.3 index points, the survey component of the iBCI is 5.1 index points higher than the 1<sup>st</sup> half of 2019, but also this index point below the 1<sup>st</sup> half of 2017, the highest ever recorded survey index.

Despite sentiments around all the **business indicators** included in the survey remaining in the negative, outlooks around all indicators showed positive gains on the previous six-month period.

*Sales Volumes* (49.7;>8.4) showed the biggest adjustment in sentiment, followed by *Inventory Levels* (49.7;>5.8), *Levels of Employment* (49;>1.7), *Late Delivery of Orders* (43;>4.9) and *Order Book* (45.4;>4.5).

Despite a positive adjustment, business sentiment expressed around *Levels of Employment* specifically was disappointing, gaining a mere 1.7 index points on the previous period - indicating little possibility to impact our region’s employment predicament.

It is disheartening that the positive business outlook for the 2<sup>nd</sup> half of 2019, recorded at a positive, two-year high of 54.1 index points as part of the 2019 Mid-Year iBCI, did not materialise.

With regards to business confidence **per economic sector**, it was encouraging to note that three sectors recorded positive business confidence, i.e. above the neutral level of 50 index points. The *Agriculture, Forestry, Hunting* sector (57.2;>11.8) featured as the most confident economic sector, having been the second most confident sector in the previous half year period.

The *Financial & Business Services, incl IT & Communications* (53.1;>7.1) was the second most confident sector, with the *Wholesale, Retail, Vehicle Trade* sector (52.7;>12.5) being the third most confident sector, showing the biggest increase in confidence.

It is deduced from views expressed by survey participants in the *Agriculture, Forestry, Hunting* sector that confidence continues to be negatively impacted on by policy uncertainty around, and the impact of, expropriation without compensation, the depressed level of the sugar price, the sugar tax that was introduced almost two years ago, as well as the level of sugar imports.

The increase in violence in rural areas of KZN, including attacks in the KwaDukuza area, resulted in farm attacks being highlighted as a significant issue negatively impacting on business confidence. In the same context, crop theft and arson were highlighted as further concerns.

More localised aspects highlighted by survey participants were the need to mitigate the impact of activities that influence the flow and levels of local rivers, and the consequences of the restructuring of Tongaat Hulett on trade activity and the scale in this sector.

A need for a study into the contribution of poorly designed speed bumps on agricultural transport routes and the resulting increase in haulage costs and road hazards were also highlighted.

The lack of government support for advancing the sugar industry's "green economy" potential was once again emphasised as an opportunity begging.

One survey participant summarised this sector's challenges succinctly as follows "without government support, the sugar industry is not going to survive".

As mentioned, the biggest increase in confidence was in the *Wholesale, Retail, Vehicle Trade* sector. The bullishness of this sector accurately reflects the trading figures reported for the 2019/20 Christmas Holiday period. Also see 3. 2019/20 Christmas Holiday Trading below.

Despite the increase in confidence, sentiment expressed by survey participants in this sector paints a picture of a sector significantly impacted on by Eskom's load shedding, fears around the stagnant economy and disruptions to trade. A lack of law enforcement over the 2019/20 peak trading period, and resulting alcohol abuse, anti-social behaviour and a lack of vehicle control especially, led to disruptions in trade and especially impacted businesses located in the coastal nodes.

Ongoing concerns about the size of the local market, the high cost of retail space, the cost of amenities and level of municipal property rates exacerbated the pressure on businesses operating in this sector.

The negative confidence surrounding the *Tourism, Catering, Accommodation, Property Management* (48.9;>8.9) sector prevailed, despite confidence within this sector recovering by 8.9 index points.

Respondents were unanimous in stressing the vulnerability of the KZN North Coast's tourism reputation, resulting from violent and other crime, especially during peak trading periods, the disregard for municipal by-laws and the associated anti-social behaviour, as well as the degeneration of especially popular beach nodes.

In addition to the aforementioned, the general appearance and state of infrastructure and buildings were highlighted as wholly inadequate for attracting local, but more specifically international tourists.

Local municipal support for the development of diverse tourism products, and support in marketing such products where they do exist, were also stressed.

The *Manufacturing, Assembly* sector (43.4;>2.1) is now the 3<sup>rd</sup> least confident sector, having been the most confident sector a mere 24 months ago.

In addition to the industrial unrest and community protests, load shedding and load curtailment are weighing down the sentiment within this sector.

Industrial property rates and decaying infrastructure, specifically in industrial nodes outside privately owned industrial parks, were highlighted by established industries.

In general, a lack of support of industry, by local authorities, was highlighted as a risk to conducting business in a sustainable manner.

The confidence of the *Construction, Property Development, Property Sales* sector (43.1 ;>.2), a key sector in the iLembe District's economy, is the only sector that recorded a decline in confidence over the last 6-months. This sector is now the 2<sup>nd</sup> least confident sector within the iLembe District's economy.

Negative sentiments continue to be 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 the prevailing sentiment.

The "shocking" service levels at the Durban Harbour resulting in the slow clearing of containers and the diversion of containers to alternative ports, have resulted in the *Transport, Warehousing, Storage* (28.3;>2.7) sector retaining its slot as the least confident sector. Non-compliant operators and the impact of poorly maintained roads on the cost of maintenance further undermined confidence in this sector.

With regards to business sentiment **per region** within the iLembe District, the two smaller local municipalities were the most confident, with the business confidence in the Maphumulo (85; -0) and Ndwedwe (62.5;>12.5) Local Municipalities the only regions in positive territory.

The Mandeni Local Municipality (43.3;>7.5), which hosts the Isithebe Industrial Estate, the industrial heartland of the iLembe District, retained its position as the least confident region in the iLembe District.

Overall business confidence in the KwaDukuza Local Municipal area (48.4;>6.2) remained in the negative, despite an improvement in sentiment.

The sentiments expressed, reflective of the diverse nature of industry in this municipal area, included crime, poor service delivery, the cost of doing business and overtrading within certain sectors.

### **iBCI 2019 Mid-Year Business Expectations:**

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

The business outlook for the 6-month period January 2020 – June 2020 was recorded at a positive 50.4, despite being 3.6 index points down from the 2-year high recorded in the previous period.

Apart from *Late delivery of orders* and *Employment*, all **business indicators**, were in the positive, with positive sentiment being led by *Sales Volumes* (54) and *Inventory Levels* (52.3).

With regards to expectations per **business sector**, business expectations of only two sectors, over the next 6 months, is positive, i.e. the *Financial & Business Services, incl IT & Communications* (62.8) and *Agriculture, Forestry, Hunting* (58.8). The remainder of the sector’s outlooks are negative, with the *Health & Wellness, incl Medical & Fitness* (42.1) sector recording the most negative outlook.

Of the **regions**, businesses in the KwaDukuza Local Municipal (48.5) area and the Mandeni (45.3) area were pessimistic about the region’s business short-term future.

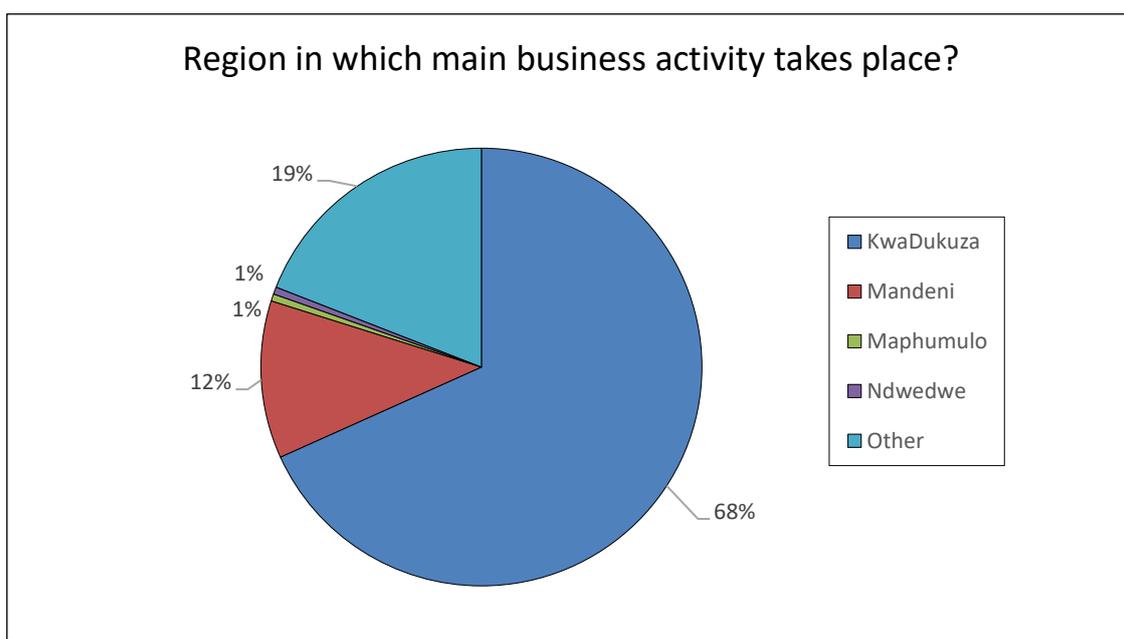
**iBCI 2019 Mid-Year Activity Index Component:**

The iBCI Activity Index lost .9 index points, from the previous period, to record a negative 47.8 index points.

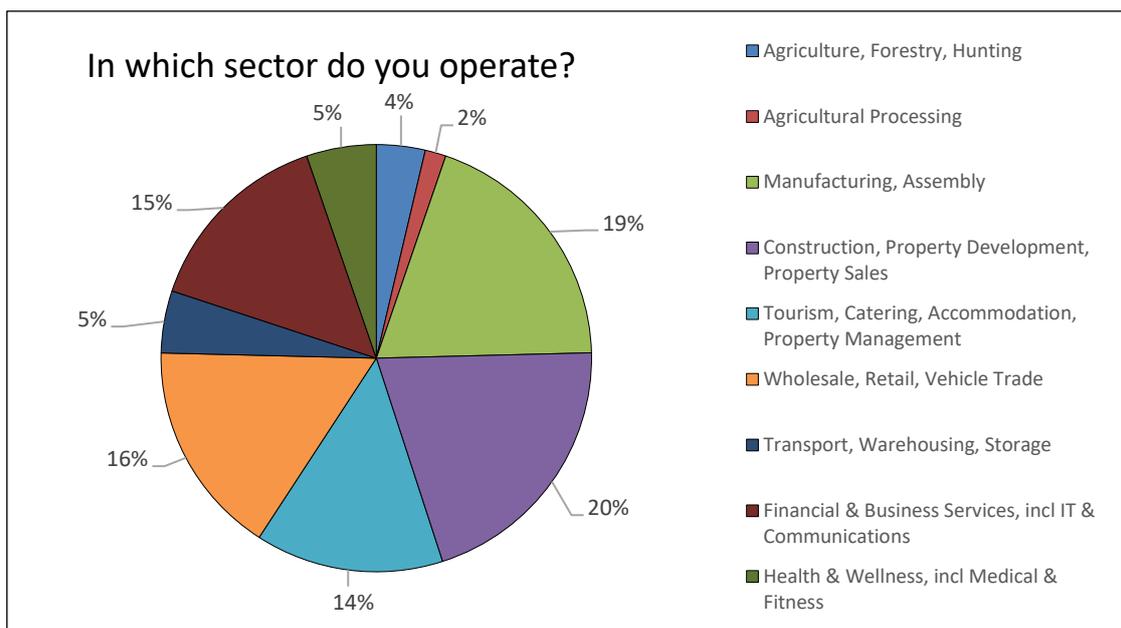
In the 2<sup>nd</sup> half of 2019, the indicators measuring the business climate and economic activity in the iLembe region (detailed in Annexure 2 below), showed a combination of positive and negative effects. In comparing the 2<sup>nd</sup> half of 2019 with the 1<sup>st</sup> six months of 2019, *Construction* (-11.9) activity, *US\$ Exchange rate* (-3.3) and *Manufacturing* (-2.8) activity showed the largest negative impact on the region’s measured economic activity.

*Inflation rate* (+1.4) was the only economic activity that positively added to the business climate within the iLembe District.

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

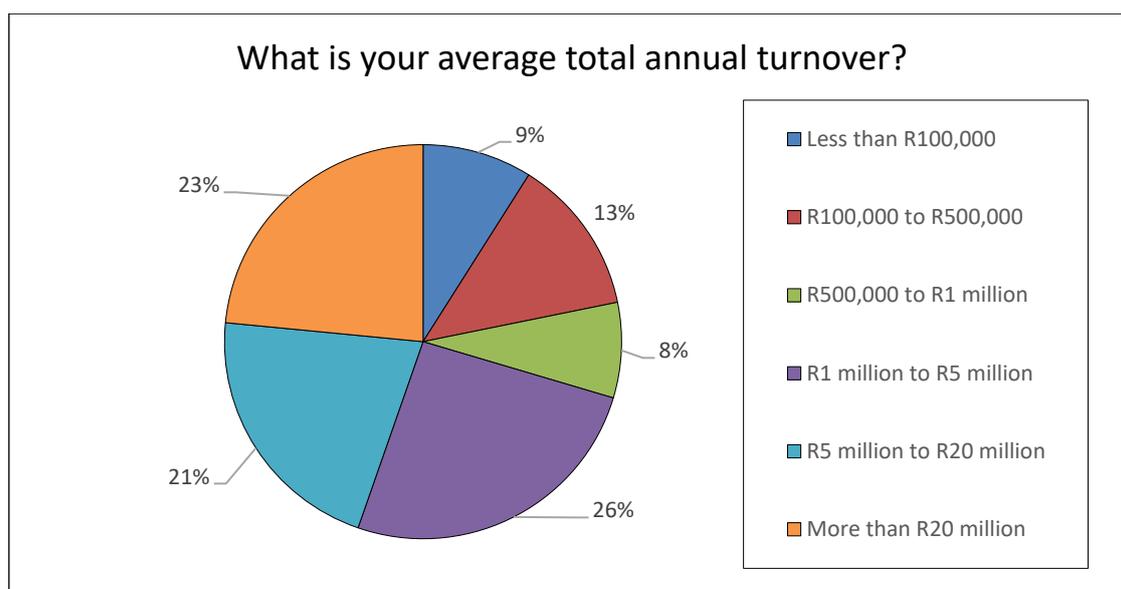


### Economic sector participation in the iBCI survey:

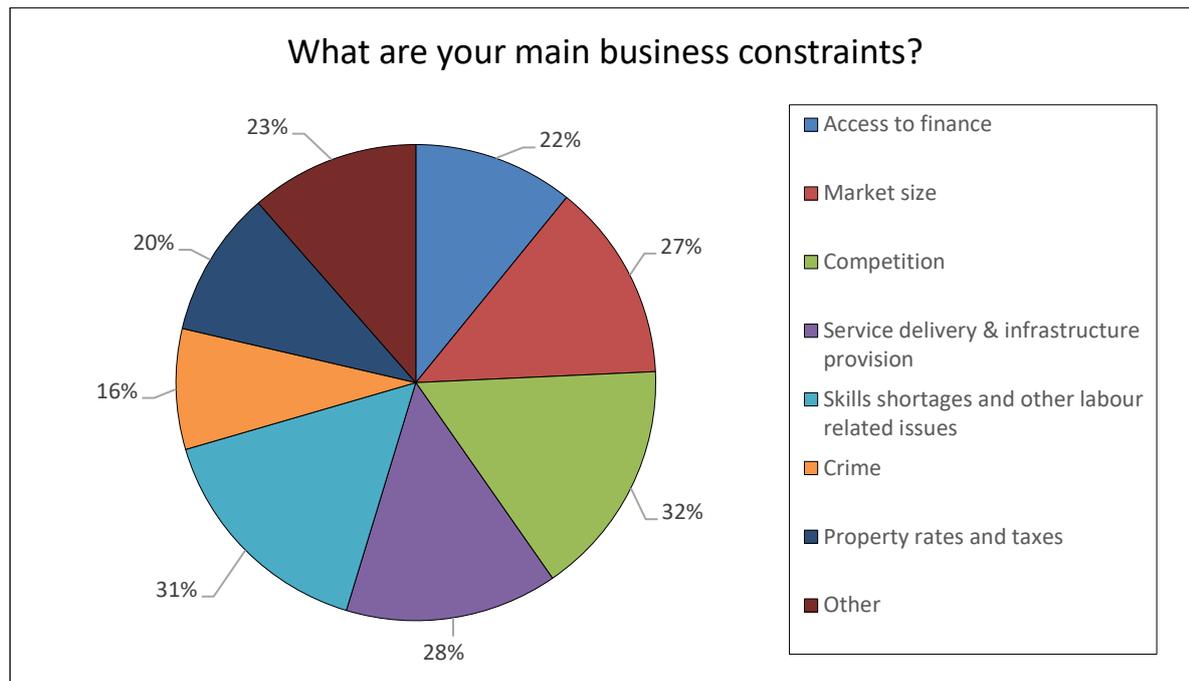


The majority of businesses participating in the 2019 Mid-Year iBCI Survey operated within the *Construction, Property Development, Property Sales* sector (20%), followed by *Manufacturing, Assembly* (19%), *Wholesale, Retail, Vehicle Trade* (16%), *Financial & Business Services, incl IT & Communications* (15%), and *Tourism, Catering, Accommodation, Property Management* (14%).

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



**Perceived business constraints:**



The stagnant 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 59% of participating businesses.

31% of survey respondents listed *Skills shortages and other labour related issues* as primary business constraints.

*Service delivery & infrastructure provision* was a perceived business constraint of 28% of respondents. The lack of impactful law enforcement and control over the peak trading period, decaying and tiresome tourist nodes, coupled with the cost of development, cumbersome and inefficient administrative and planning approval processes, speed of decision making and the state of infrastructure in established industrial precincts were highlighted as specific contributors to this business constraint.

### 3. 2019/20 Christmas Holiday Trading

The Survey component of the iBCI 2019 Year-End also requested feedback on the 2019/20 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 2020.

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

A general observation was that it was a good trading season, with the majority of respondents indicating that it was an improvement on the same trading period in 2019/20. Some respondents indicated that trade in December 2020 assisted the subdued trading during the other months of the survey period.

Respondents within the *Tourism, Catering, Accommodation, Property Management* sector attributed the increase in local tourists, as well as in foreign tourists and visitors, to the weak Rand.

The consistent theme of feedback, from both tourism and retail respondents, was however the unprecedented lawlessness along the southern KDM beach nodes during the holiday season.

Feedback from one respondent summarises the situation as follows:

“No control on the beach front between Hops and The Galley. Drunken people on the beach fighting and harassing people, braaiing on the beach, taxis blocking off Compensation Beach rd (sic) restricting access to people who wanted to come to the old Ballito village to eat at beachfront restaurants. No plan put together by KDM to monitor and prevent this. If this carries on many businesses will be forced to close as people do not want to come to the old Ballito village anymore due to the lawlessness that took place as from the 16th Dec to the 12 December. 22 stabbings in the area during that period”.

An opinion repeated was the cost of accommodation on the North Coast and the impact on the region’s competitiveness, especially compared to a rejuvenated South Coast.

Retailers observed that seasonal trade commenced later than in 2018, with some of the bigger retailers, across consumer sectors, reported marginal growth, which was undone if you take inflation into consideration.

It appears that food sales, despite an increase in customer numbers, were flat if compared to the same period in 2018. Feedback indicated however that liquor sales were significantly up.

Feedback from rural based retailers and restaurants was that trade exceeded expectations, with trading in some instances being described as “far better than previous years”.

One retailer attributed this increase to the innovative use of traditional market practices, such as stokvels and saving clubs, allowing for the advance booking of smaller functions such as birthdays and baby showers.

As is the case in the more urban commercial nodes, the uniqueness of offering, continued innovation and product quality are giving these businesses the edge.

Real estate sales were reported to be subdued, with the unresolved land occupation in Sheffield Beach frustrating real estate interest in this significant development node.

## 4. SACCI BCI

---

The SACCI Business Confidence Index (BCI), with base-year 2015=100, averaged 91.8 in the 2<sup>nd</sup> half of 2019 compared to 93.4 in the 1<sup>st</sup> half of 2019 – a decline of 1.6 index points. In the 2<sup>nd</sup> half of 2018, the SACCI BCI averaged 94.3.

Although the 2019/20 National Budget and the outcome of the elections in May 2019 held promises of a better business climate and economic performance in the 2<sup>nd</sup> half of 2019, the lack of implementation of critical structural reforms were lacking. The medium-term Budget, tabled in October 2019, confirmed a gloomy picture of public finances and economic performance.

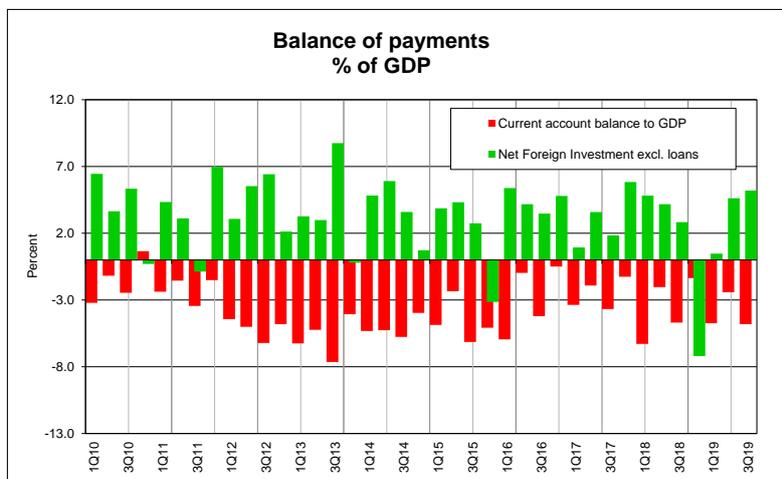
The SACCI BCI started on a reasonable level of 95.1 in January 2019, but gradually declined throughout 2019 to reach a low level of 89.1 in August 2019, but to recover somewhat to 93.1 in December 2019 – the highest level in the 2<sup>nd</sup> half of 2019.

Despite no further downgrades by reputable credit rating agencies, the latest outlook by Moody's turned negative. The economy, for the second time in 2019, registered a technical recession in the 3<sup>rd</sup> quarter of 2019. Notwithstanding the subdued economic growth, 65% of the business climate sub-indices of the SACCI BCI improved between June 2019 and December 2019. The four SACCI BCI sub-indices that made negative impacts on the BCI were *merchandise export volumes*, *energy supply*, *the real value of building plans passed*, and the *JSE all-share index*. Despite the more positive trend during the 2<sup>nd</sup> half of 2019, only 20% of the thirteen sub-indices of the SACCI BCI made positive contributions to the business climate between December 2018 and December 2019.

The major challenges for the South African economy remain numerous: subdued economic growth, a wavering growth potential, structural public finance impediments, public sector maladministration, institutional incapacity and corruption, high unemployment, and inadequate fixed investment by the private sector and foreign investors. The uncertainty around land reform and the possible amendment to the Constitution continued to cause serious ambiguity and inconsistency of economic policy. The economy continued its poor performance in the 1<sup>st</sup> quarter of 2019 (zero y/y GDP growth), marginally positive in the 2<sup>nd</sup> quarter (0.9% y/y GDP growth), and registering only 0.1% y/y GDP growth in the 3<sup>rd</sup> quarter of 2019. It appears that government finds it difficult to remedy the inevitability of structural economic adjustment and realignment. The dire straits of State-Owned Enterprises (SOEs) with lack of service delivery and financial viability of public sector institutions have not been resolved.

Accompanying the compromised fiscal position of a large number of public sector entities, the current and financial accounts of the Balance of Payments (BoP) remain critical variables that serve as a check on the economic situation. The subdued performance of the South African economy on the output side (low GDP growth) is preventing the easing of monetary policy. A softer monetary stance could lead to relative excessive domestic demand and exacerbate prevailing sensitive BoP imbalances. These imbalances could further fuel demand

inflation and price instability - notably in the presence of an erratic rand. The 3<sup>rd</sup> quarter of 2019 current account deficit of the BoP stood at 4.8% of GDP. This deficit was comfortably financed by net direct investment, net portfolio investment and net derivative inflows of 5.2% of GDP. See figure below.



Source: Quarterly Bulletin, December 2019, SA Reserve Bank

Net borrowing from abroad by monetary authorities, the general government, public corporations, banks, and the private sector, added a further 6.5% of net foreign inflows to the financial account of the BoP. These loans supported the rand although causing substantial unpredictability on financial proceeds or costs that impact foreign trade and add to uncertainty due to the higher risk associated with cost of finance. However, servicing these loans could have a negative longer-term effect if not managed prudently and applied in a constructive efficient manner that causes the economy to perform better.

## 5. Conclusion

---

At national level the continued poor performance by the domestic economy during the latter part of 2019, was reflective of the numerous challenges faced by the South African economy, i.e. subdued economic growth, a wavering growth potential, structural public finance impediments, public sector maladministration, institutional incapacity and corruption, high unemployment, and inadequate fixed investment by the private sector and foreign investors. The uncertainty around land reform and the possible amendment to the Constitution continued to cause serious ambiguity and inconsistency of economic policy.

Within the iLembe District, the improved business sentiment, despite remaining in the negative, can be consolidated through productive collaboration between the private and public sector, singularly focussed on addressing persistent inherent structural issues.

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.

### **Cobus Oelofse**

CEO: iLembe Chamber of Commerce

ceo@ilembechamber.co.za

+27 (0)87 354 6343

### **Nathi Nkomzwayo**

CEO: Enterprise iLembe

nathi@enterpriseilembe.co.za

+27 (0)32 946 1256

### **Richard Downing**

Economist: Econdow

econdow@axxess.co.za

## 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.