

Joint Press Statement



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iLembe Business Confidence Index (iBCI) – 2019 Year-End

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.

Highlights and key findings

- Business confidence in the iLembe District has shown a further increase in the 2nd 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 1st half of 2019. The index has now gained a steady 4.8 points since its lowest level recorded in the 2nd half of 2017. It is also at its highest level since the 1st 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 1st half of 2019, but also this level below the 1st 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 3rd 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 2nd 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 2nd 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 2nd 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 3rd 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.

In summary

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.

Release of 2020 Mid-Year iBCI

Early August 2020

Attachments

iLembe Business Confidence Index Review 2019 Year-End.

Why measure business confidence?

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.

What is the iBCI?

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, amongst businesses, in the iLembe District of KZN.

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.

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