

iLEMBE
BUSINESS CONFIDENCE INDEX (IBCI)
2021 MID-YEAR REVIEW
INCL COVID & KZN UNREST 21/7



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1. Highlights and Key Findings

The iLembe Chamber of Commerce, Industry & Tourism, in partnership with Enterprise iLembe, 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 2021 Mid-Year iBCI was conducted amidst the ongoing economic restrictions associated with the Covid-19 Risk Adjusted Strategy, as well as the worst civil unrest in democratic South Africa that affected KwaZulu-Natal and Gauteng.

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 sentiment in the iLembe District, as measured through the iBCI Survey Index, has plummeted to its lowest level since the inception of the iBCI – it is also the 2nd successive survey period recording record lows, confirming the downward spiral of economic sentiment. The Covid-19 crisis, combined with the civil unrest in the iLembe District, ravaged business sentiment and created significant uncertainty within the regional economy.
- A positive iBCI Economic Activity Index contributed to the combined hybrid iBCI (i.e. both the Survey and Economic Activity Indices) showing a positive adjustment of 2.8 index points in this ½ year period, compared to the 2nd half of 2020, the lowest level ever recorded.
- The iBCI 2021 Mid-Year was recorded at 43.9 index points, remaining solidly entrenched in negative territory, i.e. below the neutral level of 50 index points.
- All the **business indicators** included in the **iBCI Survey Index** remains in the negative. Whilst the business sentiment around *Levels of Employment* improved slightly compared to the lows of the previous 6 months, it remained at the 2nd lowest level since the commencement of the iBCI Survey - indicating the continued deterioration of our region's employment dilemma.
Sales Volumes, as an indicator of business performance, return on sales efforts and trading location, was at the lowest level ever recorded. Similarly, *Order Book*, as a leading indicator of market depth and liquidity, was at an all-time low.
- With regards to business confidence **per economic sector**, all sectors recorded negative business confidence. The *Construction, Property Development, Property Sales* sector was the most confident economic sector. The KZN unrests contributed to the negative sentiment in this sector, with disruptions to existing contracts, impact on market demand, and investor sentiment being quoted as determinants of rebuilding, reinvestment, and new investments. Views expressed by responding businesses repeated concerns pertaining to delayed planning approvals and unwieldy building control processes.
- Having felt the full brunt of the pandemic induced economic restrictions, including limitations brought about by Risk Adjusted Alert Level 4 implemented from 28 June to 25 July 2021, the *Tourism, Catering, Accommodation, Property Management* was the most pessimistic sector. The safety and security concerns, and travel disruptions brought about by the KZN Unrests 21/7, added to distress of businesses continued struggle to plot an escape from the dire state of this sector. The common concern expressed was the urgent

need to attract local and international tourists back to the North Coast of KZN, and to reassure them that it is a safe destination. The impact of event tourism being suspended, e.g. the cancellation of the Comrades Marathon and postponement of the Ballito Pro, is a body blow for the sector, and the end of the road for many businesses therein.

The comments by respondents to the survey paints the picture of an all-important local industry on its knees.

“The stop start of the covid lockdowns is play (sic) havoc on cashflow and a normal very profitable, well-run business is floundering.”

“Short timed staff - have applied for TERS – high rates, taxes and water costs and not able to pay suppliers. Help please.”

- The diminishing confidence in the *Manufacturing, Assembly* is driven by a variety of factors influencing sentiment. Load shedding/load curtailment, power failures, industrial and community unrest, inadequate security, and decaying and inadequate infrastructure in industrial nodes, continue to undermine the sentiment in this sector, with a number of respondents indicating that alternative industrial premises are actively pursued. The availability and pricing of raw materials, combined with stagnant or declining market prices further add to the woes of this sector.

In general, a lack of support of industry, by local authorities, and ineffectual macro-economic initiatives such as the localisation policy, was highlighted as a risk to the re-industrialisation of our region’s economy.
- The iBCI survey also reflects on business expectations and outlook over the next six months. **Business expectations** for the 2nd half of 2021 improves markedly, but remains negative. This dejected business outlook emphasises the extreme disruption caused by the pandemic induced lockdown regulations and apprehension in the aftermath of the KZN unrests. Local businesses are not convinced that the destructive impact of the pandemic and the unrests, on our region’s economy will improve significantly over the next 6 months.
- The majority of responding businesses, i.e. 45%, indicated that the market uncertainty brought about by the Covid-19 pandemic, and the inconsistency of responses to mitigate the business impact thereof, has presented itself as the **biggest constraint to conducting business** in the iLembe District. The contracting national economy, the related low overall business 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 53% of participating businesses.

18% of survey respondents listed *Regulations and compliance* as primary business constraints. Two further public sector indicators, *Service delivery & infrastructure provision* and *Property rates and taxes* were perceived business constraints of 21% and 18% of responding businesses respectively - making these three public sector indicators being chosen by 57% of respondents as the primary risk to business.
- The **Activity Index**, which measures actual major economic activity in the iLembe region and reflects the potential if businesses were in a position to utilize the business climate as indicated by the economic backdrop/indicators, was the saving grace for the hybrid iLembe Business Confidence Index (iBCI).

The Activity Index was recorded at its highest level since inception of the iBCI, and brings a welcomed balance to the negative business sentiments expressed.

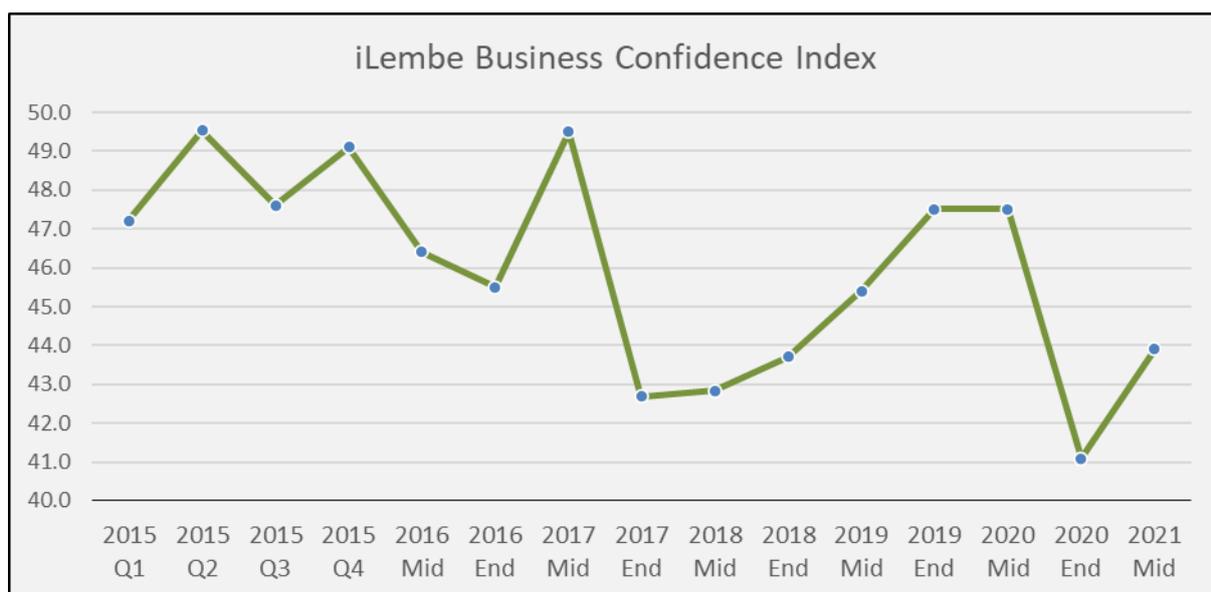
2. Review of iBCI 2021 Mid-Year

The 2021 Mid-Year iLembe Business Confidence Index (iBCI), assessing business confidence during the first part of 2021, was conducted amidst the ongoing economic restrictions associated with the Covid-19 Risk Adjusted Strategy, as well as the worst civil unrest in democratic South Africa that affected KwaZulu-Natal and Gauteng.

Business sentiment in the iLembe District, as measured through the iBCI Survey Index, has plummeted to its lowest level since the inception of the iBCI – it is also the 2nd successive survey period recording record lows, confirming the downward spiral of economic sentiment. The Covid-19 crisis, combined with the civil unrest in the iLembe District, ravaged business sentiment and created significant uncertainty within the regional economy.

A positive iBCI Economic Activity Index component contributed to the combined hybrid iBCI (i.e. both the Survey and Economic Activity Indices) showing a positive adjustment of 2.8 index points in this ½ year period, compared to the 2nd half of 2020, the lowest level ever recorded.

The iBCI 2021 Mid-Year was recorded at 43.9 index points, remaining solidly entrenched in negative territory, i.e. below the neutral level of 50 index points.



iBCI 2021 Mid-Year Survey Component:

The iBCI Survey component, in which regional businesses leaders and investors indicate their sentiment about economic and business performance, was recorded at its most pessimistic level since the commencement of the iBCI.

The iBCI Survey Index was recorded at 31.4 index points, .4 index points lower than the lowest level ever recorded (2nd half of 2020) and firmly entrenched in negative territory. This level is a grim 21 index points lower than the most optimistic iBCI Survey Index recorded in the 1st half of 2017.

All the **business indicators** included in the iBCI Survey Index remains in the negative. Whilst the business sentiment recorded around *Levels of Employment* improved slightly compared to the lows of the previous 6 months, it remained at the 2nd lowest level since the

commencement of the iBCI Survey - indicating the continued deterioration of our region's employment dilemma (35.6;>1.6).

Sales Volumes (25.4;<11.8), *Inventory Levels* (32.7;<9.3) and *Order Book* (27.7;<8.7) showed the biggest negative adjustments in sentiment. *Sales Volumes*, as an indicator of business performance, return on sales efforts and trading location, was at the lowest level ever recorded. Similarly, *Order Book*, as a leading indicator of market depth and liquidity, was at an all-time low.

With regards to business confidence **per economic sector**, all sectors recorded negative business confidence, i.e. below the neutral level of 50 index points.

The *Construction, Property Development, Property Sales* sector (42.1;>2.7) was the most confident economic sector, followed by *Energy, incl. Oil, Petroleum & Gas* (40;–).

Wholesale, Retail, Vehicle Trade (36.4;<1.1), despite a decline in sentiment, pushed the *Agriculture, Forestry, Hunting* sector (35;<7.5) into the fourth most confident sector.

Having felt the full brunt of the pandemic induced economic restrictions, including limitations brought about by Risk Adjusted Alert Level 4 implemented from 28 June to 25 July 2021, the *Tourism, Catering, Accommodation, Property Management* (19.4;<2.4) was the most pessimistic sector, with an index level of a mere 19.4 index points. The safety and security concerns, and travel disruptions brought about by the KZN Unrests 21/7, added to distress of businesses continued struggle to plot an escape from the dire state of this sector.

Despite being the most confident sector, the confidence level of the *Construction, Property Development, Property Sales* sector, a key sector in the iLembe District's economy, remained firmly in the negative.

The KZN Unrests contributed to the negative sentiment, with disruptions to existing contracts, impact on market demand, and investor sentiment being quoted as determinants of rebuilding, reinvestment, and new investments.

Views expressed by responding businesses in this sector repeated concerns pertaining to delayed planning approvals and unwieldy building control processes.

The development of infrastructure, the expectations around developers' contributions towards infrastructure development, an increasing concern about the capacity of the road infrastructure and resulting traffic congestion, work disruptions, stoppages and extortion by "business forums" and land occupations continue to contribute to the prevailing sentiment.

The negative sentiment in the *Wholesale, Retail, Vehicle Trade* sector (36.4;<1.1) was amplified by the impact of the KZN Unrests 21/7, although dependent on the location. In the economic nodes worst affected by the unrest, respondents deplored the lack of "assistance in protection of the community" by the SAPS and the local municipality, whilst the unavailability of Councillors "to meet and address" the issues at hand prompted accusations of leadership "only looks for personal gain" and "abuse (of) authority".

Respondents bemoaned the general decline of central business districts, the lack of visible policing, poor service delivery, "rampant" crime and poor infrastructure in primary trading nodes. Escalating property rates, planned load shedding and regular power outages wrapped up the views of this disheartened sector.

It is deduced from views expressed by survey participants from the *Agriculture, Forestry, Hunting* sector that confidence in the sugar sector, specifically, is boosted by good sugar crop

estimates and a favourable sugar price, offsetting lower sugar production due to lower sugar RV ratios.

The sector continues to be negatively impacted on by the economic downturn, uncertainty around government policies, onerous regulations (also relating to the response to the Covid pandemic), escalating input and operational costs (especially fuel and haulage costs) and fraud.

At regional level, the decaying road infrastructure is increasing transport costs, whilst illegal hunting/poaching has become a threat to lives and crops. The disinterest of the SAPS to deal with the threat has resulted in more security spend, a negative sunk cost.

Vandalism of crops, especially but not exclusively during the KZN unrests, highlighted the vulnerability of this critical economic sector.

The negative confidence surrounding the *Tourism, Catering, Accommodation, Property Management* sector reached a new low, with sector confidence plummeting to 19.4 index points.

The comments by respondents to the survey paints the picture of an all-important local industry on its knees.

The common concern expressed was the urgent need to attract local and international tourists back to the North Coast of KZN, and to reassure them that it is a safe destination. The impact of event tourism being suspended, e.g. the cancellation of the Comrades Marathon and postponement of the Ballito Pro, is a body blow for the sector, and the end of the road for many businesses therein.

“The stop start of the covid lockdowns is play havoc on cashflow and a normal very profitable, well-run business is floundering.”

“Continued uncertainty, we are in a tourism area, and without tourists and with the hard lockdown for restaurants it is going to be very difficult to survive.”

“To have a restaurant and not be able to supply alcohol to guests with lunches and dinners is causing sales to drop drastically; which will be difficult to recover. Also, with a wedding venue not to be able to host large any type of function in level 4 restrictions; big financial losses.”

“Short timed staff - have applied for TERS – high rates, taxes and water costs and not able to pay suppliers. Help please.”

Businesses operating in the *Arts, Culture & Creative Industries* (20;-) sector were the second least confident. Observations by survey respondents reflect a significant impact on especially performing arts businesses where physical performing and teaching were restricted by Covid regulations. The limitations of virtual technology left staff and performers “isolated, frustrated and discouraged”.

“Despite being forced to return to Zoom lessons once again but still need to pay rent for a place I am not allowed to use. I have not taken a salary this entire year and fear that I will need to close my doors after 9 years if I cannot teach in studio.”.

The diminishing confidence in the *Manufacturing, Assembly* sector (29.3;<5.5) is driven by a variety of factors influencing sentiment.

Load shedding/load curtailment, power failures, industrial and community unrest, inadequate security, and decaying and inadequate infrastructure in industrial nodes, continue to undermine the sentiment in this sector, with a number of respondents indicating that alternative industrial premises are actively pursued. The availability and pricing of raw materials, combined with stagnant or declining market prices further add to the woes of this sector.

In general, a lack of support of industry, by local authorities, and ineffectual macro-economic initiatives such as the localisation policy, was highlighted as a risk to the re-industrialisation of our region's economy.

With regards to business sentiment **per region** within the iLembe District, the Ndwedwe Local Municipality (50;<6.3) was the most confident, and in the positive, although at a reduced level.

The Mandeni Local Municipality (24.8;<1), which hosts the Isithebe Industrial Estate, the manufacturing heartland of the iLembe District, remained the least confident region in the iLembe District, with confidence sliding by another 1 index point, and a concerning 18.5 index points over the last 12 months.

Business confidence in the KwaDukuza Local Municipal area (31.8;–) remained unchanged in the negative.

The sentiments expressed in the iBCI survey repeats a picture of fading businesses resilience, with pleas for assistance that will help businesses navigate the crisis, among others by rates concession, and considered tariff adjustments.

iBCI 2021 Mid-Year Business Expectations (2nd half of 2021):

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

Business expectations for the 2nd half of 2021 improves markedly, despite remaining at a negative 42.7 index points. The outlook for the next 6 months is 11.3 index points better than the present sentiment, and 5.2 index points better than the lowest expectations recorded for the 1st half of 2021.

This dejected business outlook emphasises the extreme disruption caused by the pandemic induced lockdown regulations and apprehension in the aftermath of the KZN unrests. Local businesses are not convinced that the destructive impact of the pandemic and the unrests, on our region's economy will improve significantly over the next 6 months. A further contributing factor to the depressed business outlook is the lack of clarity on recovery measures and support to industry from all levels of government.

With regards to the outlook per **business sector**, the aforementioned observations were especially relevant to the *Tourism, Catering, Accommodation, Property Management* sector which had the most negative outlook over the next 6 months (29.4).

Two sectors, namely *Energy, incl. Oil, Petroleum & Gas* (64.3) and *Agriculture, Forestry, Hunting* (50), had positive outlooks for the 2nd half of 2021.

Wholesale, Retail, Vehicle Trade (47.9) and *Construction, Property Development, Property Sales* sector (45.4) had the next most positive outlook for the next 6 months, fuelled by the continued interest in the KZN North Coast's real estate market.

Of the **regions**, businesses in the KwaDukuza (42.9) and the Mandeni (45.5) Local Municipal areas were the most pessimistic about the region's short-term economic future.

iBCI 2020 Year-End Activity Index Component:

The **Activity Index** was the saving grace for the hybrid iLembe Business Confidence Index (iBCI).

The Activity Index, which measures actual major economic activity in the iLembe region in the 1st half of 2021, was recorded at its highest level since inception of the iBCI, and brings a welcomed perspective to the negative sentiments recorded, and our region's economic possibilities.

The Activity Index recovered 5.9 index points, from the 2nd half of 2020, and gathered further pace to record a high of 56.3 index points during the 1st half of 2021. The Activity Index have gained an encouraging 22.2 index points compared to the same period 12 months ago.

The strong recovery was largely due to a return to pre-Covid levels of activity for the majority of indicators. The declaration of a State of Disaster and the Level 5 lockdown for two months in April and May 2020 closed down a substantial part of the economy and business activity. It is therefore not extraordinary that the month of April 2021 saw a substantial improvement on April 2020 when the lockdown was at its severest.

- Six of the eight sub-indices of the iBCI Activity Index had a positive impact on the index between the 2nd half of 2020 and the 1st half of 2021.
- Less credit extended to business and the stronger rand were placing a strain on the business climate – credit extension declined by 6.7% and the rand appreciated by 10.6%.
- Although tourism improved somewhat it was still markedly (91%) below the pre-Covid levels of March 2020.
- The other business climate indicators showed strong improvements on the 2nd half of 2020. The higher global sugar price (24%), increased manufacturing output (2.4%), construction plans (23%), retail trade volumes (nearly 4%), lower inflation (down from an average of 3.5% to average 3.1%), and tourist numbers that improved by 57%, after being being down nearly 90% between the 1st half 2020 and the 2nd half of 2020.
- Depending on the nature of economic activity per region, improvement between the 2nd half of 2020 and the 1st half of 2021 activity levels of the regions were: Mandeni (+1.2%), KwaDukuza (+1.8%), Ndwedwe (+2.8%), and Maphumulo (+5.5%).

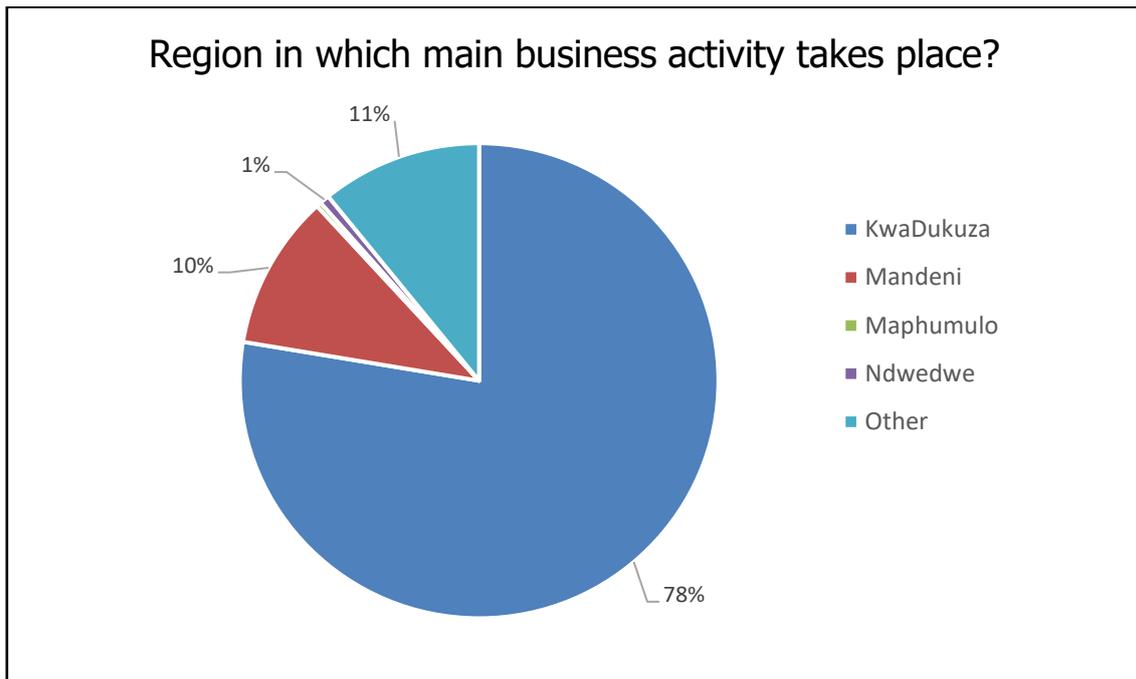
After being in a lockdown process of various levels, and more caution being exercised with lockdown restrictions due to the adverse economic effect, businesses obtained some breathing space that is evident from the iBCI Activity Index. The major positive effect on businesses was the less restrictive nature of the lockdown on real economic activity and not the health effect of Covid-19 *per se*. However, the slow vaccination process and looming social instability in South Africa due to unemployment contributed to uncertainty for South Africa as a tourist destination and a negative outlook for investment. An easing of restrictions on tourists by other countries could be an important business catalyst for the iLembe region if a degree of normality could be regained.

A tighter financial environment due to lower credit ratings for notably government debt and its institutions, higher inflation, rising fuel prices, increased electricity and water tariffs could

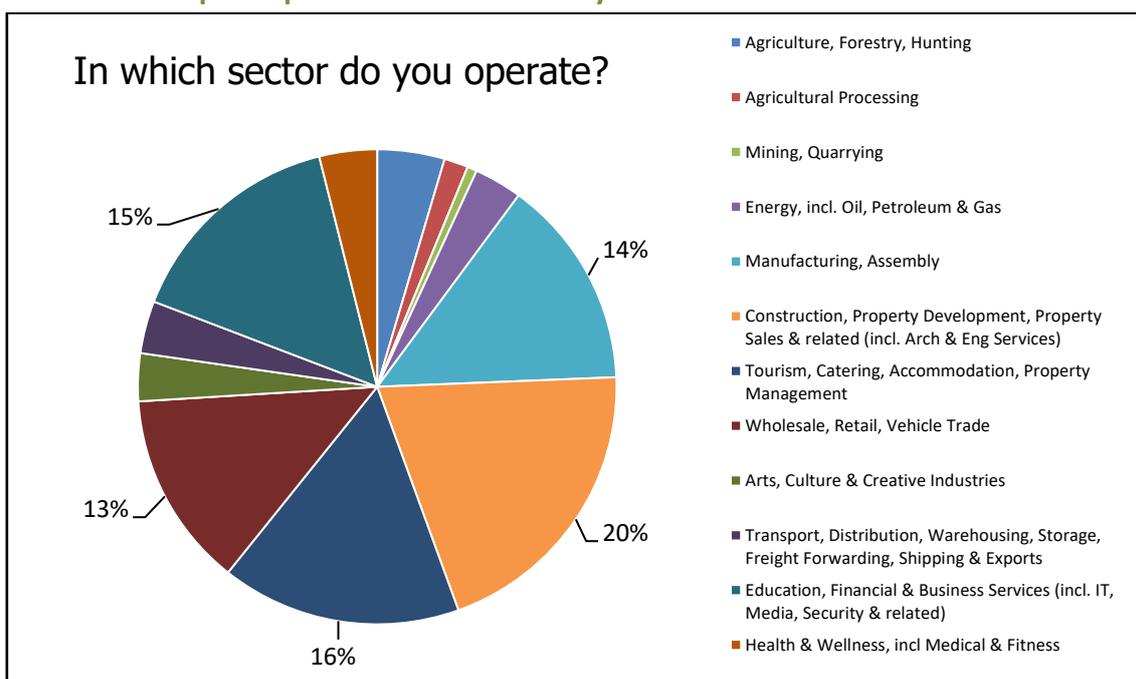
all lead to more price instability and a lesser chance of easier monetary policy and lower interest rates. Unemployment is set to rise further accompanied by socio-political disturbances. Service delivery by local government remains a major concern.

Attempts for radical and unaffordable irrational economic reforms are creating more expectations, economic malfunctioning and structural economic fault lines. These factors could put the progress in the business climate obtained in the 1st half of 2021 and environment at serious risk. The prospects for growth and employment may be in jeopardy.

iBCI survey responses from iLembe sub-regions:

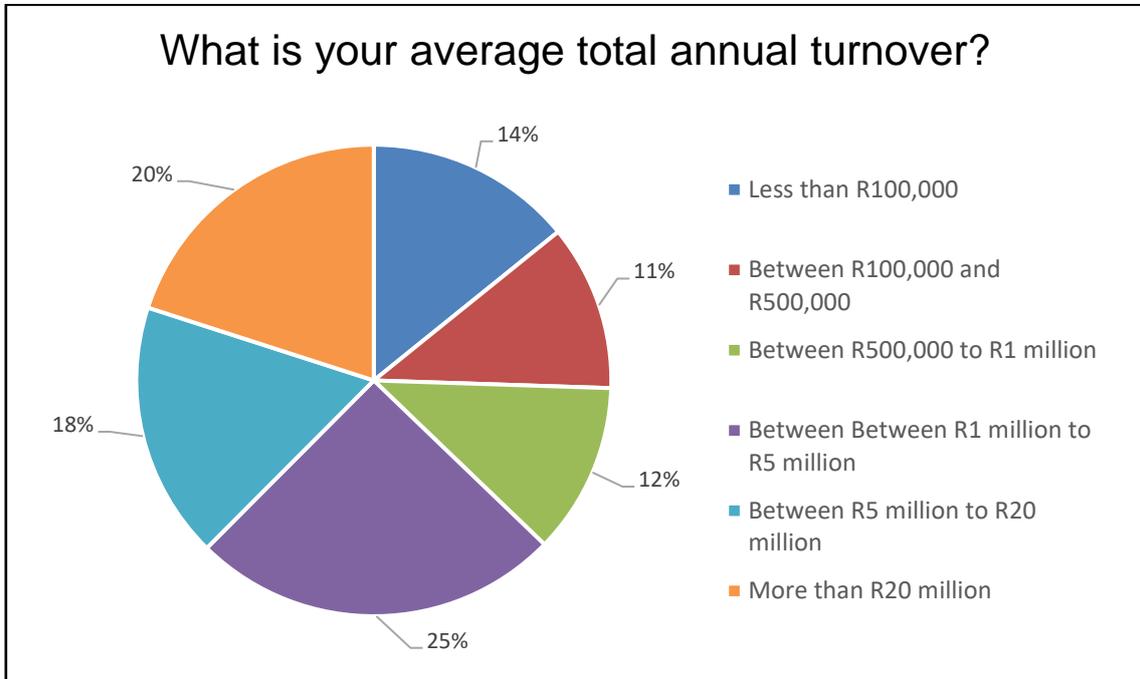


Economic sector participation in the iBCI survey:

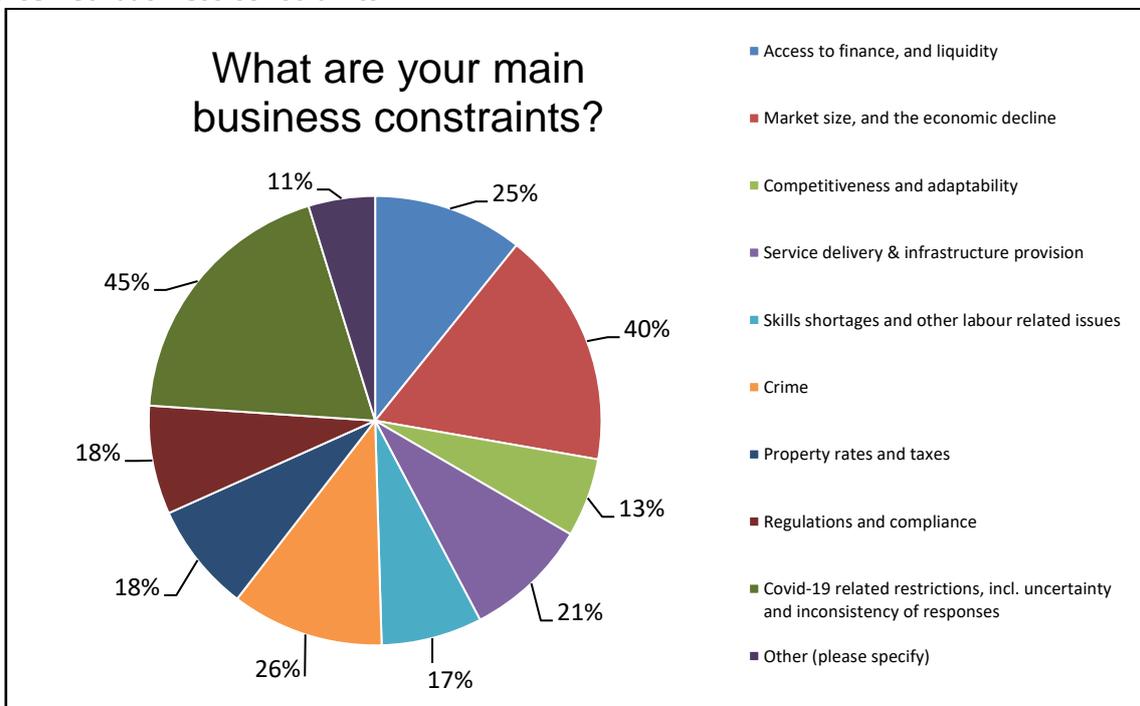


The majority of businesses participating in the 2021 Mid-Year iBCI Survey operated within the *Construction, Property Development, Property Sales* sector (20%), followed by *Tourism, Catering, Accommodation, Property Management* (16%), *Education, Financial & Business Services* (15%), *Manufacturing, Assembly* (14%) and *Wholesale, Retail, Vehicle Trade* (13%).

Participation in the iBCI survey by annual turnover level:



Perceived business constraints:



The majority of responding businesses, i.e. 45%, indicated that the market uncertainty brought about by the Covid-19 pandemic, and the inconsistency of responses to mitigate the business impact thereof, has presented itself as the biggest constraint to conducting business in the iLembe District.

The contracting national economy, the related low overall business 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 53% of participating businesses.

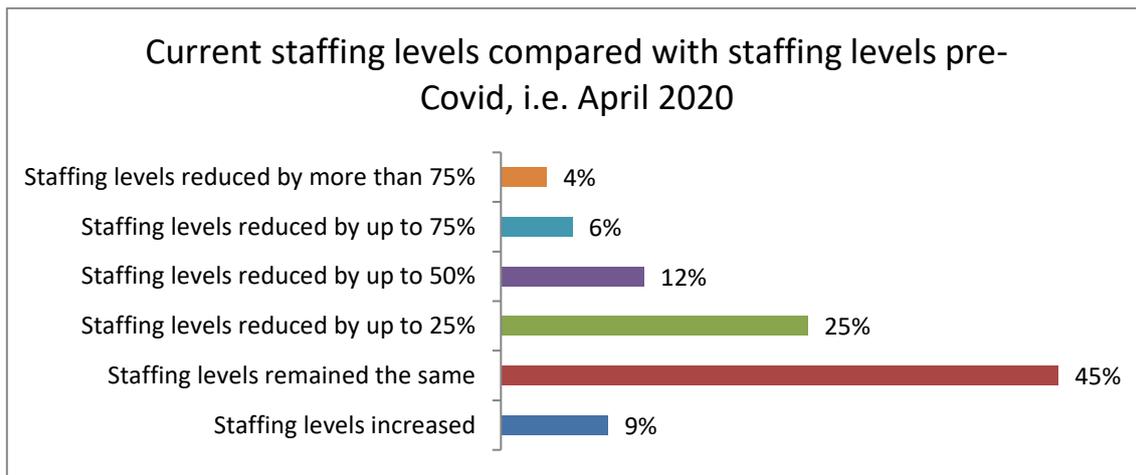
18% of survey respondents listed *Regulations and compliance* as primary business constraints. Two further public sector indicators, *Service delivery & infrastructure provision* and *Property rates and taxes* were perceived business constraints of 21% and 18% of responding businesses respectively - making these three public sector indicators being chosen by 57% of respondents as the primary risk to business.

3. Impact of COVID-19

Impact on staffing levels:

To assess the impact of the COVID-19 pandemic on staffing levels in iLembe businesses, they were asked how their current staffing levels compare with staffing levels pre-Covid, i.e. April 2020.

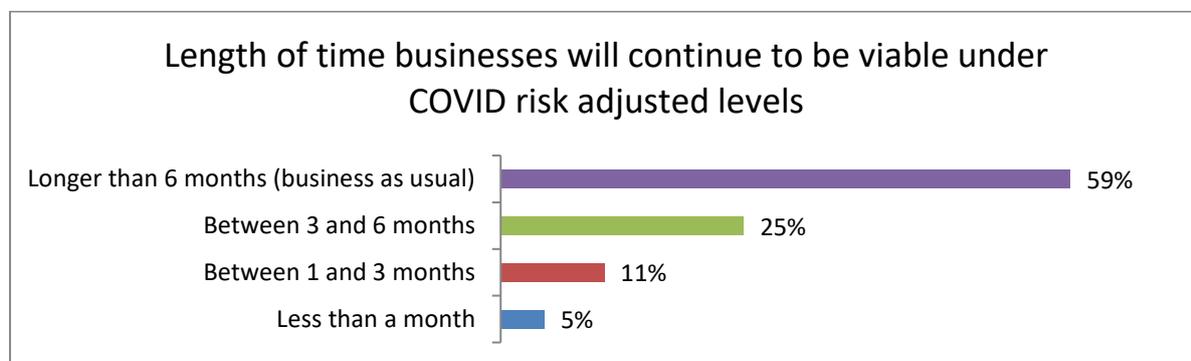
Nearly half the businesses noted that their staffing levels had remained the same (45%). Of concern, 9 businesses reported that staffing levels had reduced by up to 75% and 28 companies reported a reduction in staffing levels by up to 50%.



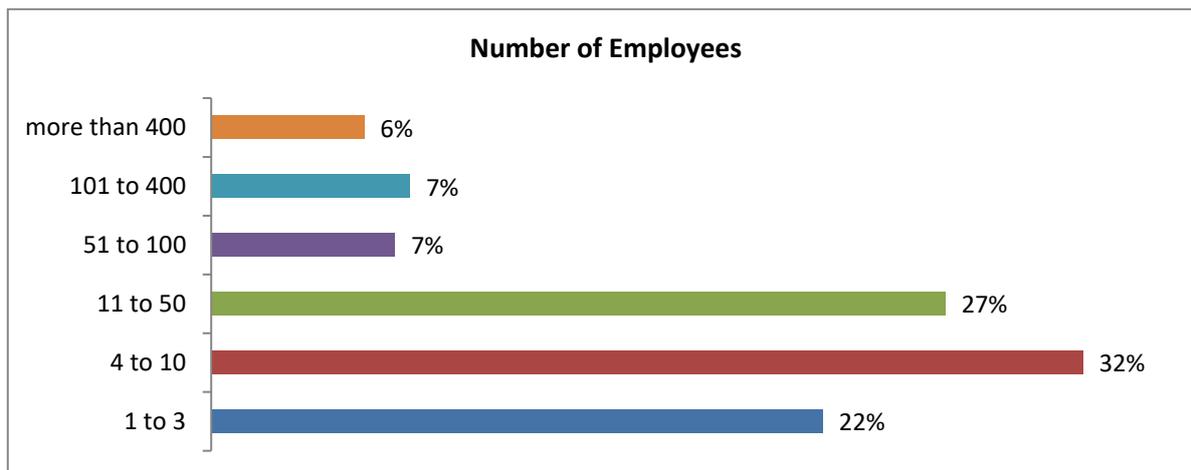
In the survey comments, one company reported a 16% reduction in staff equating to 250 employees. Other businesses reported that they were working on a rotational basis which impacts staff income. Other businesses however that they were committed to retaining staff to not negatively impact the unemployment rate of the district.

Business viability:

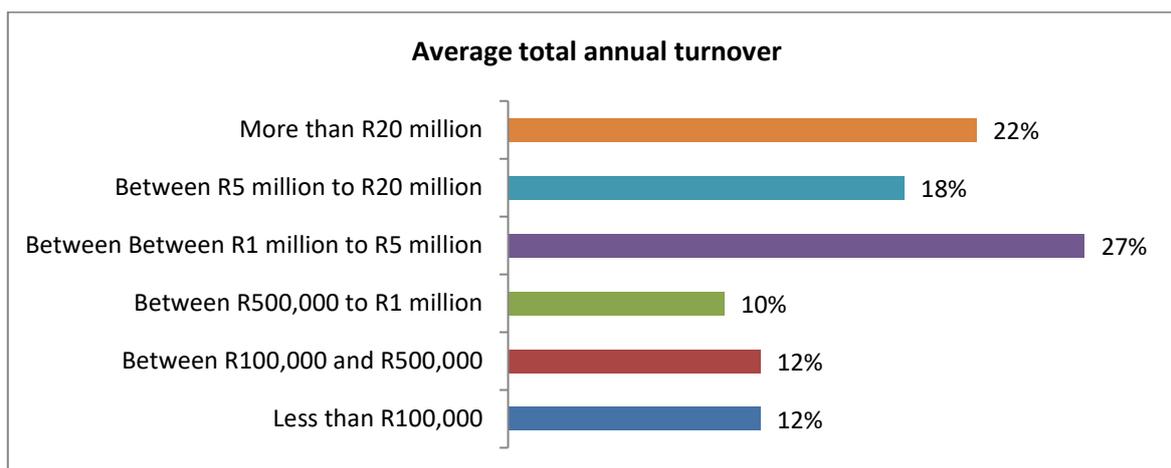
iLembe businesses were asked to indicate how much longer they envisaged their business continuing under COVID lockdown levels. These results largely mirror the results of the September 2020 survey.



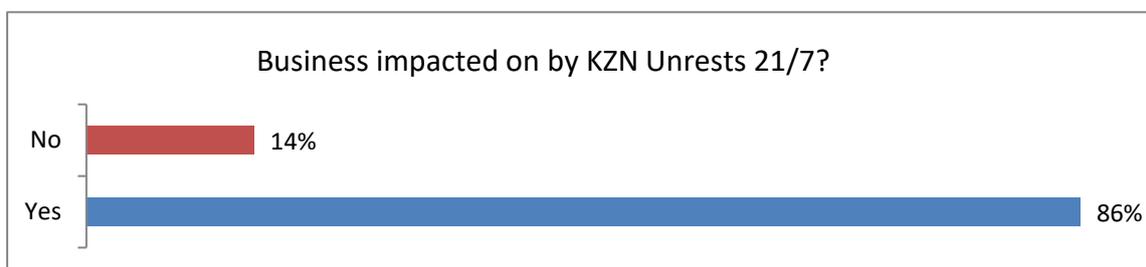
4. Impact of KZN Unrest 21/7



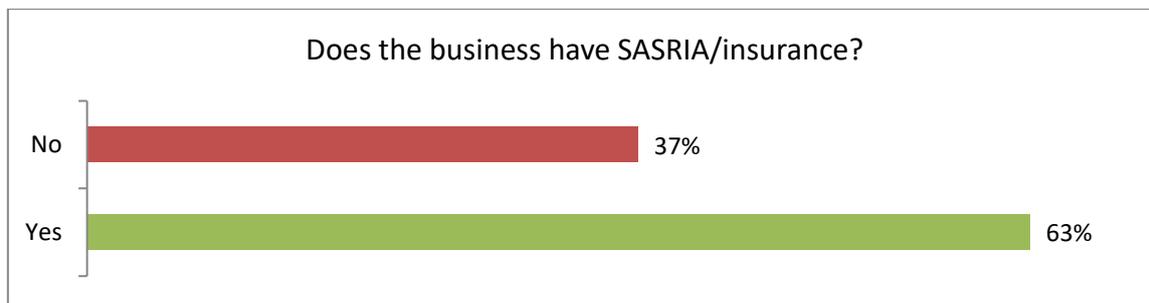
As can be seen most businesses employ less than 50 persons, showing how important the SMME economy is for the district. 10 companies reported to employ more than 400 persons, meaning between them they employ at least 4 000 people.



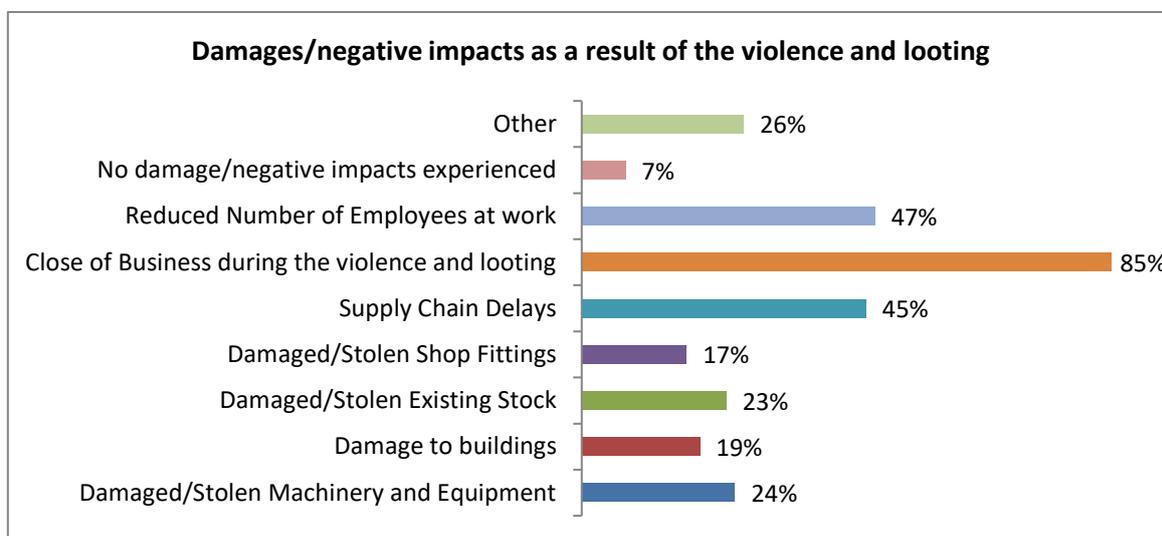
Unrest impact:



Of the businesses that reported experiencing an impact from the unrest, 37% reported not having insurance.



In terms of the nature of the damages/impacts that they experienced, the vast majority (85%) were forced to close their business during the violence and looting. Of concern is that nearly a quarter reported that they had either damaged or stolen machinery or equipment, and nearly a fifth reported damage to buildings. Nearly half of the businesses reported a reduced number of employees at work, and supply chain delays.



Under other, a selection of the inputs is below;

- The anxiety of staff due to the violence
- Client uncertainty and client financial losses resulting in contract cancellations
- Loss of tourism bookings and huge hesitancy in booking post the violence
- Market insecurity
- Business operations hampered by roadblocks
- Increased security costs to protect premises.

Businesses that reported experiencing an impact were asked what the total estimated cost of all damages listed in the previous question is. The total of all estimates of the 108 responding businesses is R322,530,017. Two businesses reported damages to be R100m. Businesses were also asked what value their order book has been disrupted for the next 12 months. Totals reported by these 108 businesses was R522,321,652. The highest value of this disruption to the order book was R200m. The amount of time listed by respondents for when they will be up and running again varied significantly. Many businesses reported that they were already operational, which others stated that it will take significant time for their supply chain to be up and running again. Many businesses however were not able to predict, noting that this would depend on their SASRIA claim.

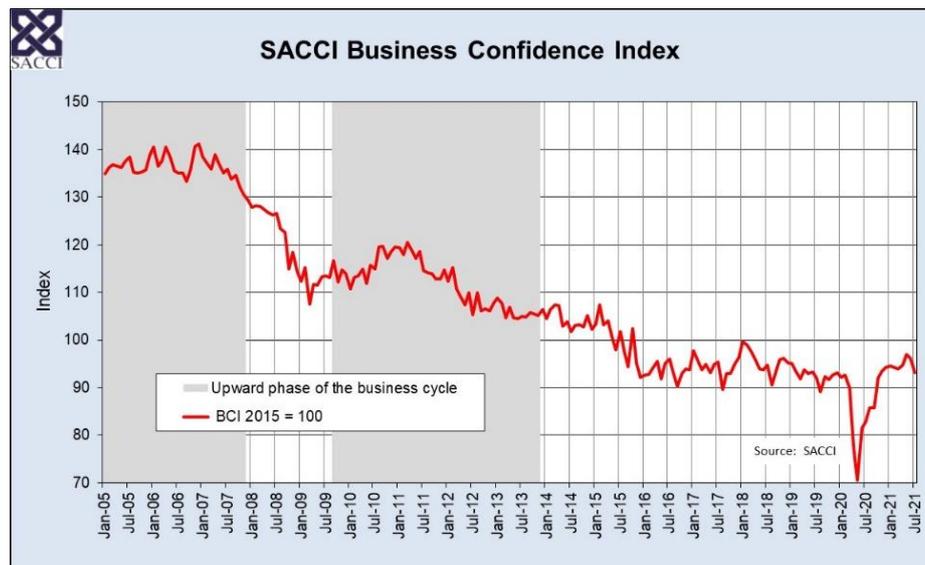
To assess the impact on jobs in the district, businesses were asked to indicate how many jobs have been permanently lost in their businesses due to the unrest. 54 businesses indicated that they will not lose any jobs, while the total number of jobs lost as reported by 122 businesses is 1,261 with the highest reported job losses being a business that reported 500 jobs lost.

Businesses were asked what support they require to return to full production or operation. A third of the businesses listed that funding or financial support is required. Other businesses noted that they required speedy payout of their SASRIA insurance. Another financial related need listed by businesses was rebates on rates and taxes. Tourism businesses noted the need for marketing and the lowering of COVID lockdown regulations. A large number of businesses noted the need for there to be safety and security in place and that a specific drive will be required from local government for investor confidence.

5. SACCI BCI 1st Half 2021

The SACCI Business Confidence Index (BCI), which considers South Africa's general business sentiment, improved to 89.0 in the 2nd half of 2020 and gathered further momentum to average 95.1 the 1st half of 2021.

Notably the State of Disaster announced towards the end of March 2020, saw the SACCI BCI declining from an average of 91.6 in the 1st quarter of 2020 to 76.4 in the 2nd quarter of 2020. The 2020 average of 86.5 for the SACCI BCI is the lowest annual average for the BCI since its inception in 1985 with the base year 2015 as 100. The highest annual average for the BCI was recorded in 2006 at 137.5 with the economy growing at 5.6%.



Only two sub-indices of the thirteen SACCI BCI sub-indices were at worse levels in June 2021 than in June 2020 - namely, real credit extended to the private sector and energy supply (due to uncertain electricity supply and higher fuel prices). The largest positive contribution to the business climate came from merchandise exports volumes, followed by merchandise import volumes and the number of new vehicles sold.

The rest of the thirteen SACCI BCI sub-indices were also positive but to a lesser degree. Real economic activity was responsible for most of the economic year-on-year recovery. The level of the June 2021 BCI of 96.2 implies that the recovery of business confidence could be a process that will take time and must be actively nurtured. The continuing Covid-19 infection waves and success with the vaccination program could unsure a quicker return to normality and higher confidence levels.

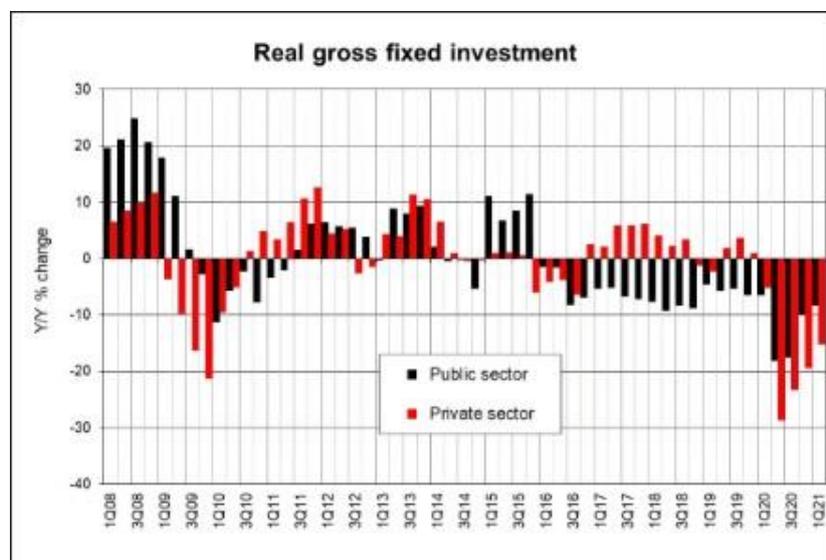
6. Macro-Economic Review 1st Half 2021

The major problems facing the South African economy were already structurally embedded when Covid-19 emerged. The initial overenthusiastic strict lockdown of April 2020, that was surprisingly extended to May 2020, added to the structural deficiencies in the economy. Many businesses had to rely on bailout from government or leniency from credit providers like banks. The drawn-out pandemic however extended the return to normality and triggered more economic hardship. An already desperate fiscal situation had to obtain emergency relief for the IMF, World Bank and the New Development Bank (formerly referred to as the BRICS Development Bank) to fend off a deepening fiscal crisis and social spending needs.

The partial economic recovery in the 2nd half of 2020 continued into the 1st half of 2021. Substantial support packages within advanced economies assisted those economies and the rest of the world economy to recover faster. This had spinoffs in global demand for commodities and global prices. South Africa largely benefitted as was evident in the surplus on the trade account (merchandise trade) with foreign countries. Although the rand exchange rate weakened considerably during the strict lockdown, the trade account had a beneficial effect on the rand recovery and the rand price of for instance imported fuel.

The additional social responsibilities the government took upon itself and still fragile business climate and investor confidence, were among the pressing problems that found its way towards structural higher unemployment and slow economic growth. The vaccination process was also off to a slow start with serious consequences for a return to economic normality. Sectors like Tourism and Catering are still going through difficult times and might suffer permanent damage. Notwithstanding, there are still proponents for radical economic change that is threatening social stability. All of these factors have led to fixed investment not at a level that could build capital stock for future growth and employment. The menace of endemic corruption, mal-administration, and institutional incapacity were still pervasive and degrading the role and efficiency of the public sector. The consequences for fixed capital formation are reflected below.

Figure 1



Source: SA Reserve Bank. Quarterly Bulletin, December 2020

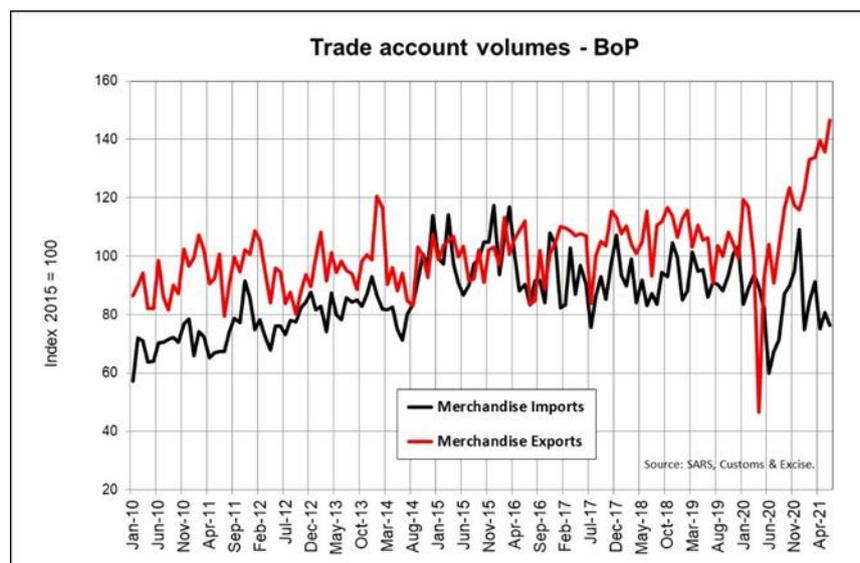
The uncertainty surrounding land reform and the possible amendment of the Constitution continue to cause nervousness. The economy, however, continued to recover in the 1st quarter of 2021 (3.2% y/y GDP decline), after an average decline of 5.2% y/y in the 2nd half of 2020. Apart from a slower economic decline, tough conditions in the economy continue to prevail.

With real fixed investment that continues to decline (see Figure 1), it may take another two years for economic activity to recover to pre-Covid levels - assuming that fixed investment soon turns positive. Apart from attending to economic restoration, government will find it more difficult to remedy the inevitability of structural economic adjustment and realignment given the fiscal overhang that must be managed downwards. The dire straits of State-Owned Enterprises (SOEs) and lack of service delivery by the public sector in general and local government in particular, necessitates urgent attention.

In the IMF's July 2021 update of the World Economic Outlook (WEO), world output was forecast to increase by 6% in 2021 and 4.9% in 2022 – albeit after contracting by 3.2% in 2020. For Sub-Sahara Africa, growth for 2021 is anticipated at 3.4% for 2021 – increasing by 0.2% points from the previous forecast to 4.1% in 2022. Sub-Sahara Africa economic output declined by 1.8% in 2020. South Africa's growth was revised to 4% for 2021 and 2.2% for 2022. This is after South Africa's estimated output contracted by 7% in 2020.

Higher global growth had a positive effect on commodity prices and demand. South Africa benefitted substantially from this development as the value of merchandise export trade with the world accelerated and caused an extraordinary surplus on the trade account that spilled over into a stronger rand and increased tax revenue – see Figure 2. This provided Treasury with a windfall that could be used to provide some relief to fiscal distress in providing a social safety net owing to Covid-19.

Figure 2



In the 1st quarter of 2021, the better performing sectors were agriculture, forestry and fishing (+7.5% y/y) and mining and quarrying (+3.5% y/y). Sectors like manufacturing (-1.1% y/y), wholesale and retail trade, hotels and restaurants (-3.8% y/y), finance, real estate and business services (-5.3% y/y), transport and communication (-11.5% y/y) and construction (-

17.5% y/y) were amongst those that still bore the brunt of the lockdown due to Covid-19. It is expected that all sectors improved further on last year's 2nd quarter with the result that the overall economic situation has improved notably compared to a depressed 1st half of 2020.

7. Conclusion

The Covid-19 crisis, combined with the civil unrest in the iLembe District, ravaged business sentiment and created significant uncertainty within the regional economy.

A positive iBCI Economic Activity Index however contributed to the combined hybrid iBCI (i.e. both the Survey and Economic Activity Indices) showing a positive adjustment of 2.8 index points in this ½ year period, compared to the 2nd half of 2020, the lowest level ever recorded.

Resolute political leadership, intent on reassuring the private sector of an improved and supportive business and investment environment, speedy relief to affected businesses, and an improved trajectory of the vaccine rollout will aid our region's business recovery timetable.

The private sector and all levels of government within the iLembe District are committed to dynamically partnering on specific initiatives to stabilise our economy, and 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.