

iLEMBE
BUSINESS CONFIDENCE INDEX (IBCI)
2021 YEAR-END REVIEW
FEBRUARY 2022



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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 Year-End iBCI was set against the backdrop of more relaxed economic restrictions associated with the Covid-19 Risk Adjusted Strategy, the global *outrageous overreaction* to the fourth wave in South Africa attributed to the Omicron variant, and the destruction of businesses and business confidence during the violent civil unrest that engulfed KwaZulu-Natal, and parts of Gauteng, during July 2021.

The iBCI demonstrates the resilience of the iLembe District's economy, and a turn on a positive trajectory that was aided by the economic recovery strategy of the region.

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.

- iLembe based businesses came back to life during the 2nd half of 2021 with the combined hybrid iBCI (i.e. both the Survey and Economic Activity Indices) being recorded at the highest level ever. The iBCI 2021 Year-End was recorded at 52.7 index points, the first positive index recorded, i.e., above the neutral level of 50 index points, since the introduction of the iBCI.
- Although the iBCI Survey component marginally recorded negative sentiment at 49.7 index points, the 18.3 index point improvement on the previous period greatly contributed to the overall level of the composite index.
The positive iBCI Economic Activity Index component of 55.6 index points was the third successive period of positive economic activity for the iLembe District.
- All the **business indicators** included in the **iBCI Survey Index** improved against the levels recorded in the previous 6- and 12-month periods.
 - *Sales Volumes*, as a measure of business performance, return on sales efforts and trading location, was at the best levels in 6 years.
 - Similarly, *Order Book*, as a leading indicator of market depth and liquidity, was at the best level since the 1st half of 2017.
 - Whilst the business sentiment recorded for the remainder of the business indicators, i.e. *Levels of Employment*, *Inventory Levels* and *Late Delivery of orders* remained in negative territory, all showed improvements compared to the lows of the previous 6 months. The persisting negative sentiment around *Levels of Employment* is symptomatic of the dilemma of employment stagnation in our region, and more effort is required to eliminate barriers to job creation and the constraints to conducting business.
- With regards to business confidence **per economic sector**, three sectors recorded positive business confidence, i.e. above the neutral level of 50 index points. The *Health & Wellness, incl Medical & Fitness* sector was the most confident economic sector, followed by *Tourism, Catering, Accommodation, Property Management* and the *Wholesale, Retail, Vehicle Trade* sector.

Despite sentiment remaining in the negative, all other pertinent sectors recorded improved sentiment, namely the *Construction, Property Development, Property Sales* sector, *Agriculture, Forestry, Hunting* sector, the *Transport, Distribution, Warehousing, Storage, Freight Forwarding, Shipping & Exports* sector, and the *Manufacturing, Assembly* sector.

- Having felt the full brunt of the pandemic induced economic restrictions, the *Tourism, Catering, Accommodation, Property Management* sector, the most pessimistic sector during the 1st half of 2021, benefitted from the decision to maintain Alert Level 1, and the hasty global response to the Omicron variant. In addition to beaches remaining open and international travel restrictions forcing South Africans to make alternative local holiday plans, the return of the popular Ballito Rage and the Ballito Pro contributed to the positive sentiment.

The common concern expressed by respondents in this sector was the need to maintain the positive trajectory of the North Coast of KZN, and the ability to respond to, and address, the risks that has the potential to wreck it.

- The confidence level of the *Construction, Property Development, Property Sales* sector, a key sector in the iLembe District's economy, remained in negative territory. 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 continue to contribute to the prevailing sentiment.

One survey respondent summarised the business sentiment as follows:

"The challenges to development/growth in the region is very quickly being narrowed down to infrastructure. Roads that are below the minimum requirement, and roads not being maintained. Electricity and water infrastructure under increased strain. All the above are highly visible and does not inspire confidence."

- Despite an improvement in business sentiment, business confidence in the *Manufacturing, Assembly* sector remains firmly entrenched in negative territory. A variety of factors are influencing this sentiment, including macro-economic factors such as raw material pricing and the availability of input stock, both locally and imported.
- The iBCI Survey component also reflects on **business expectations and business outlook over the next six months**. Business expectations for the 1st half of 2022 continues on its positive trajectory, recording the most positive business outlook, 58 index points, since the commencement of the iBCI.

The sentiments expressed in the iBCI survey paints a picture of light at the end of a very long tunnel, with local business emerging from the crisis weaker than going into it.

Business requires local government, and its public sector partners, to urgently respond to its pleas around addressing the "basics", viz. tackling decaying infrastructure, effective law enforcement, reining in the cost of doing business and removing red tape, if local businesses is to stand a chance to survive the numerous structural and other modern economic challenges it faces.

- With regards to **constraints to conducting business** in the iLembe District, 32% of responding businesses indicated that the market uncertainty brought about by the Covid-

19 pandemic, and the inconsistency of responses to mitigate the business impact thereof was their primary constraint.

- The subdued national economy, the related low overall business confidence and the disrupted regional trading environment resulted in the two market related indicators of *Market size, and the economic decline* and *Competitiveness and adaptability* jointly being the most significant business constraints selected by 43% of participating businesses.
- 31% of survey respondents listed *Service delivery & infrastructure provision* as primary business constraints. Two further public sector indicators, *Regulations and compliance* and *Property rates and taxes* were perceived business constraints of 19% and 24% of responding businesses respectively - making these three public sector indicators being chosen by an overwhelming 74% of respondents as the primary risk to business.

2021/22 Christmas Holiday Trading

- With significant numbers of tourists descending on KZN North Coast, some businesses in especially the hospitality industry described the 2021/22 Christmas holiday period as “the best season yet in recent years”.
International travel restrictions that required tourists to look at local alternatives, and the return of the Ballito Rage (despite being cancelled on the 2nd day of the event) and the rescheduled Ballito Pro surfing competition contributed to an extended, bumper season.
- Whilst feedback from the Tourism, Hospitality, Retail and related sectors such as warehousing and storage were overwhelmingly positive, *people flocking* to the KZN North Coast resulted in new business start-ups and more competition.
- Chronic risks to the tourism appeal of the KZN North Coast stubbornly persists. One respondent reflected that “...the unruly behaviour on the beaches and in the Village area will very quickly undo any progress made in this regard. Without safe clean beaches, Ballito will quickly lose its tourism.”
Questions were also raised about the timing of road works and infrastructure maintenance during the busiest time of the year, with one respondent observing that it “is illogical and delivered a poor experience for holiday makers”.
- Feedback from a number of other sectors were more subdued. Unemployment and the resulting strain on disposable income and consumer spend impacted on the traditional year-end demand for household goods such as lounge suites and appliances, as well as long distance coach travel.
- The rating of elements that impact on the local trading environment and visitors experience, during the recent peak holiday season were as follows:
 - Traffic management and control (especially primary shopping nodes) – **Fair to Good**
 - Provision of additional services to accommodate influx, e.g. waste collection and litter picking - **Fair to Good**
 - Visible policing and the enforcement of municipal bylaws - **Fair to Good**
 - Response from authorities to service interruptions – **Poor to Fair**

2. Review of iBCI 2021 Year-End

The 2021 Year-End iLembe Business Confidence Index (iBCI), assessing business confidence in the iLembe District during the second half of 2021, was set against the backdrop of the ongoing economic restrictions associated with the Covid-19 Risk Adjusted Strategy, the global *outrageous overreaction* to the fourth wave in South Africa attributed to the Omicron variant, and the destruction of businesses and business confidence during the violent civil unrest that engulfed KwaZulu-Natal, and parts of Gauteng, during July 2021. This scene resulted in business sentiment during the first half of 2021, as measured through the iBCI Survey Index, plummeting to its lowest level ever.

Despite this setting, iLembe based businesses came back to life with the combined hybrid iBCI (i.e. both the Survey and Economic Activity Indices) showing a positive adjustment of 8.8 index points in the 2nd half of 2021 compared to the 1st half of 2021 - the highest level recorded since inception.

The iBCI 2021 Year-End was recorded at 52.7 index points, testing positive territory, i.e., above the neutral level of 50 index points, for the first time since the iBCI was introduced.

Despite a 0.7 index point decline, the positive iBCI Economic Activity Index component of 55.6 index points was the third successive period of positive economic activity for the iLembe District.

Although the iBCI Survey component marginally recorded negative sentiment, the 18.3 index point improvement greatly contributed to the level of the composite index.



iBCI 2021 Year-End Survey Component:

The iBCI Survey component, in which regional businesses leaders and investors indicate their sentiment about economic and business performance, was recorded at the highest level since the first half of 2017.

The iBCI Survey Index was recorded at 49.7 index points, a marked 18.3 index points improvement on the lowest level ever recorded (1st half of 2021), and firmly entrenched in negative territory.

Although the iBCI Survey component marginally recorded negative sentiment, it is the most optimistic iBCI Survey Index recorded since the 1st half of 2017.

All the **business indicators** included in the iBCI Survey Index improved against the levels recorded in the previous 6- and 12-month periods.

Two of these indicators, viz. *Sales Volumes* (55.0;>29.6) and *Order Book* (52.3;>24.6) improved significantly allowing both indicators to record positive sentiment. *Sales Volumes*, as a measure of business performance, return on sales efforts and trading location, was at the best levels in 6 years. Similarly, *Order Book*, as a leading indicator of market depth and liquidity, was at the best level since the 1st half of 2017.

Whilst the business sentiment recorded for the remainder of the business indicators, i.e. *Levels of Employment* (44.6;>9.0), *Inventory Levels* (45.0;>12.3) and *Late delivery of orders* (45.8;>3.3) remained in negative territory, all showed improvements compared to the lows of the previous 6 months. The persisting negative sentiment around *Levels of Employment*, is symptomatic of the dilemma of employment stagnation in our region.

With regards to business confidence **per economic sector**, three sectors recorded positive business confidence, i.e. above the neutral level of 50 index points.

The *Health & Wellness, incl Medical & Fitness* sector, (68.3;>42.8) was the most confident economic sector, followed by *Tourism, Catering, Accommodation, Property Management* (55.9;> 36.5) and the *Wholesale, Retail, Vehicle Trade* sector (53.2;>16.8).

Despite sentiment remaining in the negative, survey respondents in all other pertinent sectors recorded improved sentiment, namely the *Construction, Property Development, Property Sales* sector (49.4;>7.3), *Agriculture, Forestry, Hunting* sector (45.3;>10.3), *Transport, Distribution, Warehousing, Storage, Freight Forwarding, Shipping & Exports* (41.3;>19.9), and the *Manufacturing, Assembly* sector (37.0;>7.7).

Having felt the full brunt of the pandemic induced economic restrictions, the *Tourism, Catering, Accommodation, Property Management* sector, the most pessimistic sector during the 1st half of 2021, benefitted from the decision to maintain Alert Level 1, and the hasty global response to the Omicron variant. It allowed this sector to become the 2nd most confident sector during the 2nd half of 2021. In addition to beaches remaining open and international travel restrictions forcing South Africans to make alternative local holiday plans, the return of the popular Ballito Rage and the Ballito Pro contributed to the positive sentiment.

The comments to the survey by respondents from this all-important local industry were refreshingly upbeat compared to the recent past, despite some of the chronic risks stubbornly persisting.

- “Record turnover. Good visibility by SAPS on busy days, crowd and alcohol control. Zero traffic control.”
- “Occupancy was up nicely. Main area of concern would be the drinking and lawless behaviour along the Ballito beachfront making the environment less family friendly.”
- “Yes, things were almost back to normal. While we saw people flocking to Ballito and trade figures reaching record highs, there are also new businesses which means competition is high so turnovers were up but not reaching record levels. As overseas travel remained difficult many holiday makers opted for local travel making Ballito a perfect destination. Restrictions were not implemented as they were last year allowing free trade which assisted all business, especially in our industry. There is however a serious concern we need to address. The unruly behaviour on the beaches and in the village area will very

quickly undo any progress made in this regard. Without safe clean beaches, Ballito will quickly lose its tourism.”

- “Was much better than previous year due to less restrictions and guests with extra cash not able to travel overseas, so spending more locally.”

The common concern expressed by respondents in this sector was the need to maintain this positive trajectory of the North Coast of KZN, and the ability to respond to, and address, the risks that has the potential to wreck it.

- “I think the biggest threat to our business is drinking in public and public spaces. Beggars and unsavoury loitering that may reduce the return of tourists. More people coming in to town requires more police presence. Keep beaches safe and clean, Brand Ballito will be strong.”
- “Service infrastructure (street lights inoperable, over grown verges, pot holes, insufficient dustbins (causing litter in Ballito) detract from tourists returning. Guests at our guesthouse noted the retrogression in infrastructure since their last visits to the area.”

The overall positive sentiment in the *Wholesale, Retail, Vehicle Trade* sector masked the varied tint per subsector and location. Although respondents generally reported increased trading levels, some of the increases were cited against the Covid impacted 2020/21 trading season, resulting in increased trading being disappointing.

A number of respondents from this sector also indicated that they have not yet resumed trading after being affected by the KZN unrests of July 2021.

Respondents indicated that this unease is exacerbated by rental affordability, increased competition and escalating utility costs.

Respondents in this sector bemoaned the general decline of central business districts, the lack of visible policing, poor service delivery, and infrastructure in primary trading nodes.

Views expressed endorsing sentiments in this sector include:

- “Trading was up by 5% only which is lower than the average. I think that the visitors to Ballito wanted to spend time on the beach and with family, that's why food retail businesses should have done well.”
- “Streets are poorly maintained, the criminal element, and rubbish found lying for days at the entrance of the town keep shopper's and investors away.”
- “We wish to see our municipality show support to small businesses. In my area, there are street lights but there are always off and because of that the risk is very high, in winter we are enforced (sic) to close early because of that this (sic) is our biggest challenge.”

Despite improved business sentiment in the 4th most confident business sector, the confidence level of the *Construction, Property Development, Property Sales* sector, a key sector in the iLembe District's economy, remained in negative territory.

Respondents indicated that Property Sales improved during the 2nd half of 2021, resulting from restricted international travel and people spending more on residential assets.

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 continue to contribute to the prevailing sentiment.

One survey respondent summarised the business sentiment as follows:

“The challenges to development/growth in the region is very quickly being narrowed down to infrastructure. Roads that are below the minimum requirement, and roads not being maintained. Electricity and water infrastructure under increased strain. All the above are highly visible and does not inspire confidence.”

The negative sentiment prevailing in the *Agriculture, Forestry, Hunting* sector, and more specifically the Sugar industry despite an improvement in sentiment in agricultural sectors, is as a result of the uncertainty in the performance of milling companies.

Thousands of tons of sugarcane have been left unmilled during 2021, and the continued impact of unmilled sugarcane adds to that uncertainty.

The industry had a torrid year, with the halt in production at ten sugar mills due to the July 2021 unrests and riots, resulting in direct losses to the industry of over R100 million. Over 500000 tons of cane was burnt by arsonists in that period, with an effect of that will be felt by the Sugar industry for the next few years.

This indispensable economic sector for the iLembe region remains vulnerable.

Despite an improvement in business sentiment, business confidence in the *Manufacturing, Assembly* sector remains firmly entrenched in negative territory.

A variety of factors are influencing this sentiment, including macro-economic factors such as raw material pricing and the availability of input stock, both locally and imported.

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. Stagnant or declining market prices further add to the woes.

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

With regards to business sentiment **per region** within the iLembe District, and in line with the sentiments expressed by respondents in the *Manufacturing, Assembly* sector, the Mandeni Local Municipality (32.0;>7.2), which hosts the Isithebe Industrial Estate, the manufacturing heartland of the iLembe District, remained the least confident region in the iLembe District.

Business sentiment in the two most confident local municipalities, i.e. Maphumulo (53.0; –) and KwaDukuza (52.3;>20.5) were both in the positive.

iBCI 2021 Year-End Business Expectations (1st half of 2022):

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

Business expectations for the 1st half of 2022 continues on its positive trajectory, recording the most positive business outlook since the commencement of the iBCI. Business expectations were recorded at 58 index points, 15.3 index points better than the current sentiment.

The sentiments expressed in the iBCI survey paints a picture of light at the end of a very long tunnel, with local business emerging from the crisis weaker than going into it.

Business requires local government, and its public sector partners, to urgently respond to its pleas around addressing the “basics”, viz. tackling decaying infrastructure, effective law enforcement, reining in the cost of doing business and removing red tape, if local businesses is to stand a chance to survive the numerous structural and other modern economic challenges it faces.

With regards to the outlook per **business sector**, the aforementioned observations were especially relevant to the sectors that have recorded the most negative outlook for the next 6 months, i.e. *Transport, Distribution, Warehousing, Storage, Freight Forwarding, Shipping & Exports* (39.6) and *Manufacturing, Assembly* (40.3).

Health & Wellness, incl Medical & Fitness (77.5), *Construction, Property Development, Property Sales* (67.1), and *Agriculture, Forestry, Hunting* (65.3) had the most positive outlook for the next 6 months.

Of the **regions**, businesses in the Mandeni Local Municipality (35.0) were the most pessimistic about the region’s short-term economic outlook, whilst the other local municipalities recorded positive outlooks, with KwaDukuza the most positive at 61.6 index points.

iBCI 2020 Year-End Activity Index Component:

The **Activity Index** part of the hybrid iBCI gathered pace in the 1st half of 2021 and almost maintained that level in the 2nd half of 2021. The strong recovery of the Activity Index from 34.1 index points to 50.4 in the 2nd half of 2020, was followed by 57.2 in the 1st half of 2021 and registered 55.6 in the 2nd half of 2021.

The latest level is slightly better than pre-Covid levels of the business climate for the iLembe District.

Notwithstanding the lockdown processes due to consecutive Covid-19 infection waves, the local economy managed to uphold a business climate in which business could endure. Despite the unrests of July 2021, the economic prospects for the area remained positive.

The December 2021 level of the Activity Index was well above the April 2020 level when the lockdown was at its severest and it registered 6 index points above the disrupted July 2021 level.

The iBCI Activity Index gained not less than 23.1 index points from the devastating 1st half of 2020, to register an average of 57.2 index points in the 1st half of 2021. Although the iBCI Activity Index improved by 6.8 index points in the 2nd half of 2020 and lost a marginal 1.6 index points in the 2nd half of 2021, the business climate was still positive and at a comfortable level.

- Four of the eight sub-indices of the iBCI Activity Index had a positive impact on the index between the 1st half of 2021 and the 2nd half of 2021.
- Lower manufacturing output, less construction activity, constrained real retail trade and higher inflation constrained the business climate in the region.
- The other four business climate indicators showed improvements against those recorded in the 1st half of 2021. The higher global sugar price (some 16%), easier credit availability

(plus 1%), a favourable exchange rate for foreign tourists (Rand minus 3%) and more tourism activity (more than double) contributed notably to and preserved the advances made in the business climate.

- Depending on the type of regional economic activity, the decline between the 1st half of 2021 and the 2nd half of 2021 activity index levels of the regions were Mandeni (-1.4%), KwaDukuza (-1.3%), Ndwedwe (-4.9%), and Maphumulo (-1.6%).

More caution in managing the lockdown had a less harsh economic and businesses effect and provided breathing space which was mirrored by 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.

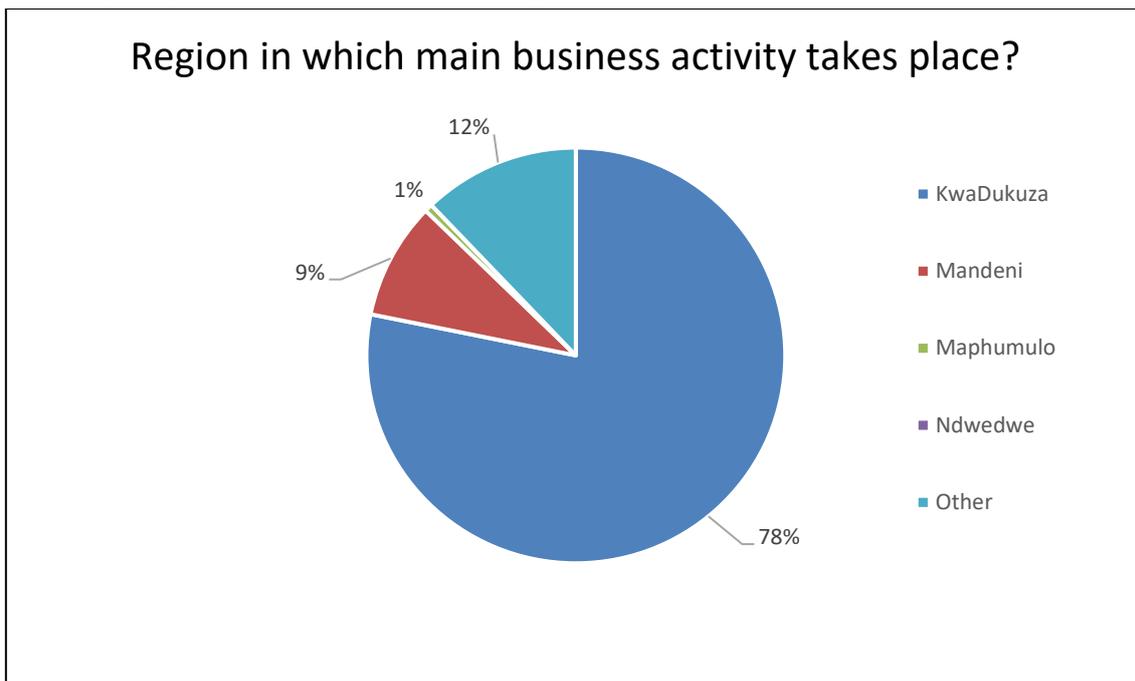
Higher levels of vaccination and probable herd immunity contributed to the effect of the 4th wave of infections having less of an effect on health services than experienced with former waves. The eventual lifting of tourist restrictions in December 2021 by major tourist countries had a positive effect - especially after initially being red-listed.

Tourism remains a pivotal activity for the iLembe region and an important business link if normality is to prevail.

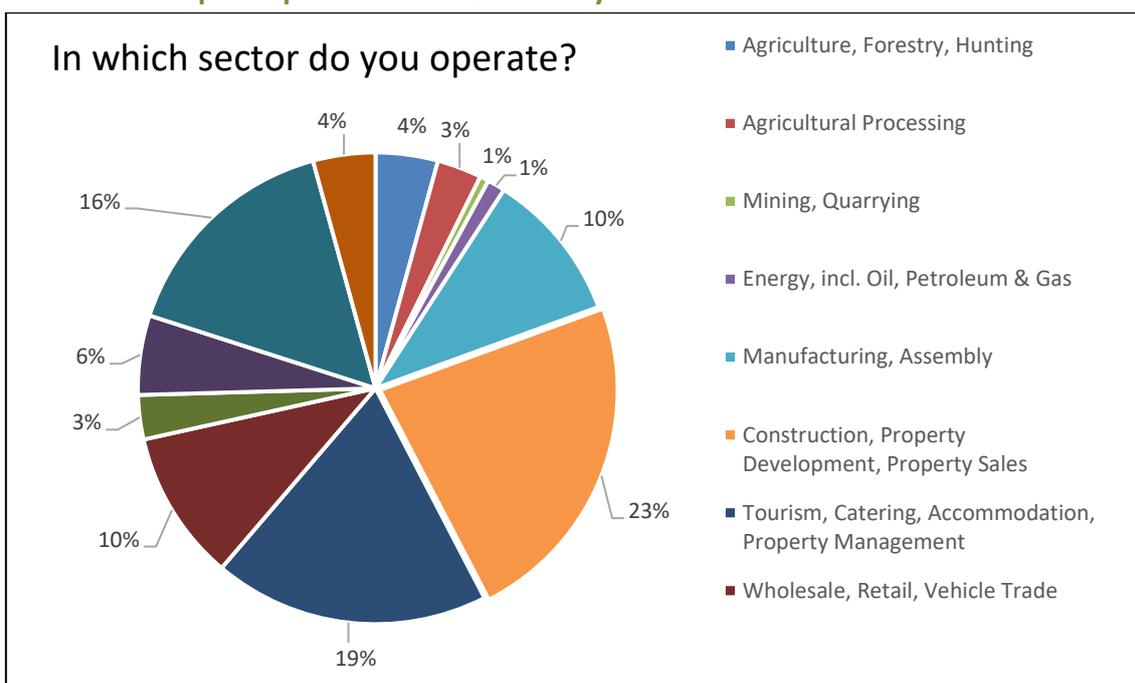
A tighter financial environment caused by higher inflation and cost increases like rising fuel prices, increased electricity and water tariffs could all lead to more price instability and a greater possibility for higher interest rates. Unemployment remains sticky and unacceptable high and could lead to further socio-political disturbances. A rigid labour dispensation does not help to resolve the matter. Service delivery by local governments and energy supply also remain major concerns.

Attempts for radical and unaffordable irrational economic reforms added opportunity costs to attending to expectations and economic progress. It encumbers stronger economic growth and employment opportunities. These factors only prolong the achievement of a better life for all – especially those for whom so-called radical solutions are proposed.

iBCI survey responses from iLembe sub-regions:

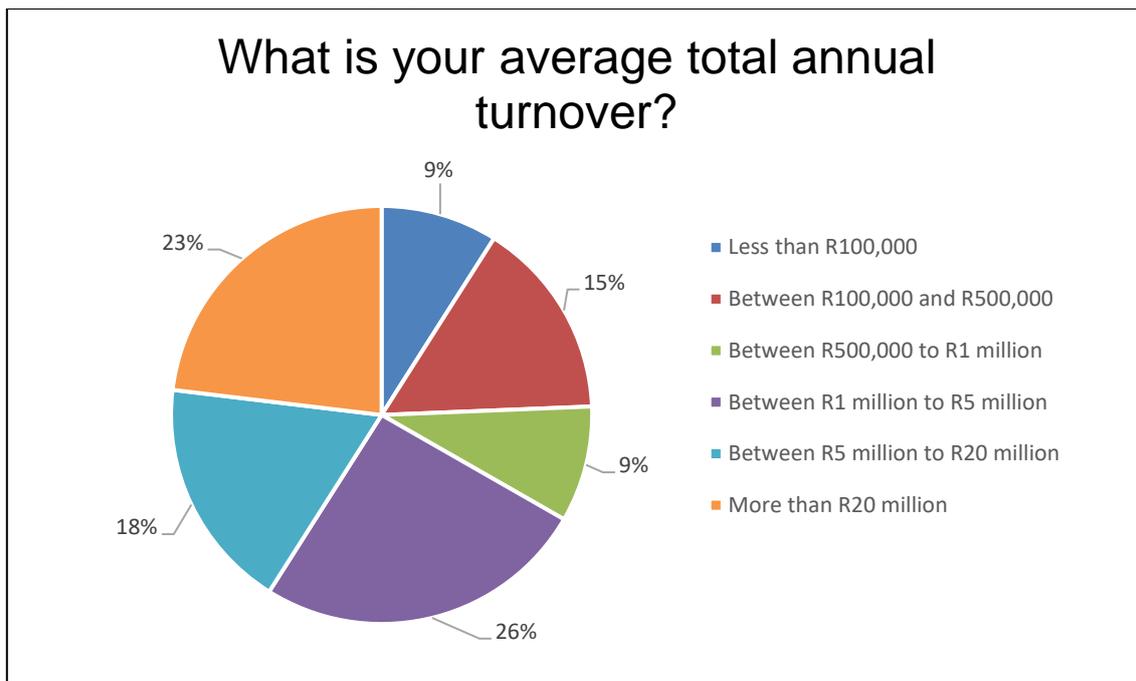


Economic sector participation in the iBCI survey:

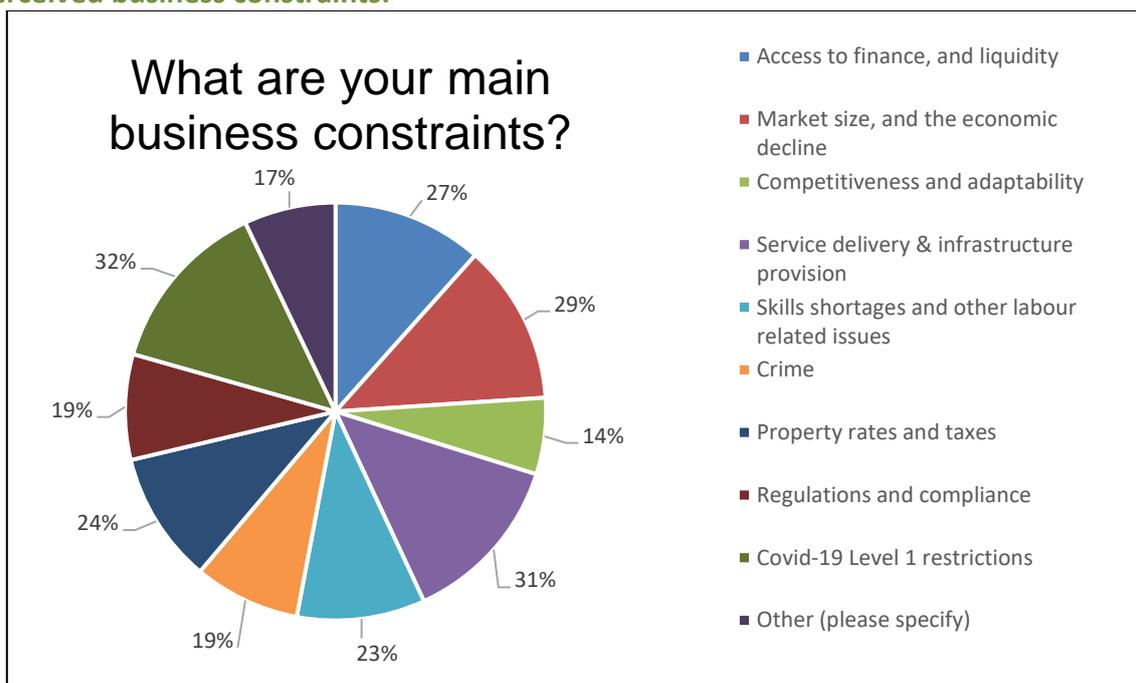


The majority of businesses participating in the 2021 Year-End iBCI Survey operated within the *Construction, Property Development, Property Sales* sector (23%), followed by *Tourism, Catering, Accommodation, Property Management* (19%), and *Education, Financial & Business Services (incl. IT, Media, Security & related)* (16%).

Participation in the iBCI survey by annual turnover level:



Perceived business constraints:



With regards to **constraints to conducting business** in the iLembe District, 32% of responding businesses indicated that the market uncertainty brought about by the Covid-19 pandemic, and the inconsistency of responses to mitigate the business impact thereof was their primary constraint.

The contracting national economy, the related low overall business confidence and the disrupted regional trading environment resulted in the two market related indicators of *Market size, and the economic decline* and *Competitiveness and adaptability* jointly being the most significant business constraints selected by 43% of participating businesses.

31% of survey respondents listed *Service delivery & infrastructure provision* as primary business constraints.

Two further public sector indicators, *Regulations and compliance* and *Property rates and taxes* were perceived business constraints of 19% and 24% of responding businesses respectively - making these three public sector indicators being chosen by an overwhelming 74% of respondents as the primary risk to business.

3. 2021/22 Christmas Holiday Trading

The Survey component of the iBCI 2021 Year-End also requested feedback on the 2021/22 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 January 2022.

With significant numbers of tourists descending on KZN North Coast, some businesses in especially the hospitality industry described the 2021/22 Christmas holiday period as “the best season yet in recent years”.

International travel restrictions that required tourists to look at local alternatives, and the return of the Ballito Rage (despite being cancelled on the 2nd day of the event) and the rescheduled Ballito Pro surfing competition contributed to an extended, bumper season. Other contributing factors were the mild weather and the infrastructure failures and service disruptions experienced by other KZN holiday destinations, which in some cases resulted in beach closures.

Whilst feedback from the Tourism, Hospitality, Retail and related sectors such as warehousing and storage were overwhelmingly positive, *people flocking* to the KZN North Coast resulted in new business start-ups and more competition.

As mentioned above, chronic risks to the tourism appeal of the KZN North Coast stubbornly persists.

One respondent reflected that “the unruly behaviour on the beaches and in the Village area will very quickly undo any progress made in this regard. Without safe clean beaches, Ballito will quickly lose its tourism.”

Questions were also raised about the timing of road works and infrastructure maintenance during the busiest time of the year, with one respondent observing that it “is illogical and delivered a poor experience for holiday makers”.

Feedback from a number of other sectors were more subdued. Unemployment and the resulting strain on disposable income and consumer spend impacted on the traditional year-end demand for household goods such as lounge suites and appliances, as well as long distance coach travel.

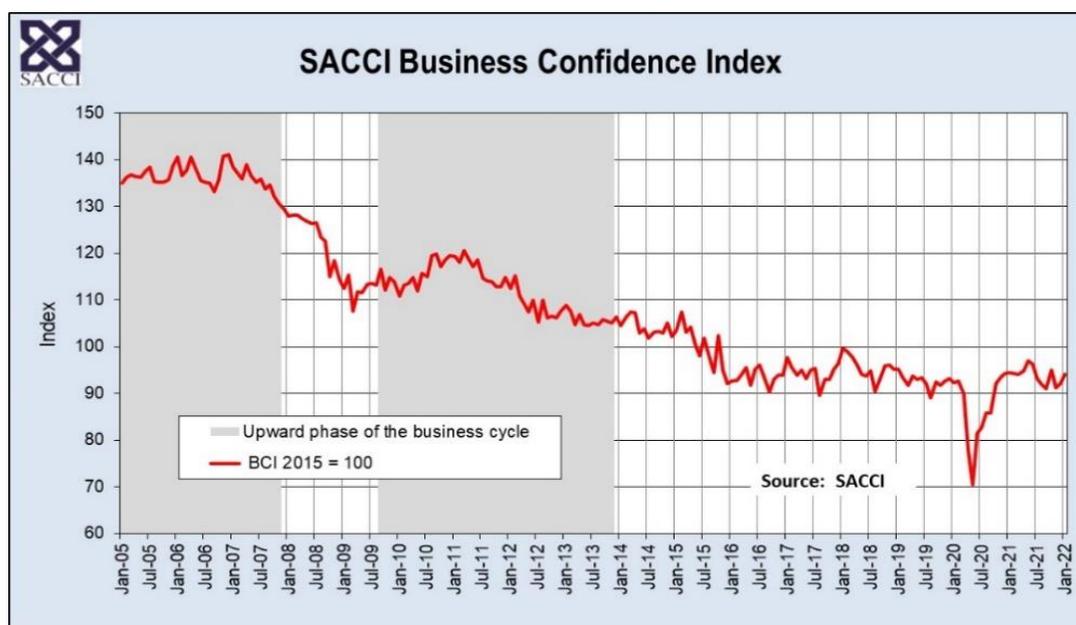
Businesses were also asked to rate elements that impact on the local trading environment and visitors experience, during the recent peak holiday season.

	Poor	Fair	Good	Excellent
Traffic management and control (especially primary shopping nodes)			X	
Provision of additional services to accommodate influx, e.g. waste collection and litter picking			X	
Visible policing and the enforcement of municipal bylaws			X	
Response from authorities to service interruptions		X		

4. SACCI BCI 2nd Half 2021

The SACCI Business Confidence Index (BCI) declined from an average of 95.1 in the 1st half of 2021 to 92.6 in the 2nd half of 2021. Notably the lockdown processes were followed by much more circumspection but opportunistic radical interruption and the looting and mayhem of July 2021 were a setback to the positive momentum of the 1st half of 2021.

The 2020 average of 86.5 for the BCI in 2021 was the lowest annual average for the BCI since its inception in 1985, but notwithstanding the mayhem in July 2021, the BCI averaged 93.9 in 2021 with base year 2015 equal to 100. The highest annual average for the BCI was recorded in 2006 at 137.5 with the economy growing at 5.6%.



Seven of the thirteen SACCI BCI sub-indices were at worse levels in December 2021 than in June 2021 - namely, the rand exchange rate, inflation, real retail trade, precious metal prices, merchandise export volumes and energy supply (due to uncertain electricity supply and higher fuel prices). The BCI of 96.2 in June 2021 dipped to 92.0 in December 2021 before improving to 94.1 in January 2022.

The other six sub-indices of the SACCI BCI were neutral to positive but not enough pull the BCI up. The level of the June 2021 BCI of 96.2 implies that the decline in business confidence will take time to turn around and must be actively managed by strong political and private leadership. The less serious Covid-19 infection waves and success with the vaccination

program could ensure a quicker return to normality and higher confidence levels. The upcoming National Budget and its direction will set the tune.

5. Macro-Economic Review 2nd Half 2021

The Omicron variant of the Covid-19 pandemic had less severe health impacts although it was more infectious. The light lockdown was therefore justified and did less damage to the economy and the business climate than previous variants. There are views that the pandemic has moved to an epidemic phase and that the State of Disaster should be abolished. The initial strict lockdowns caused serious additional structural damages to the economy.

Many businesses had to close while government bailouts ran dry. An already desperate fiscal situation has worsened as it was not for windfall government revenue emanating from high commodity prices. Emergency financial relief was obtained from the IMF, World Bank and the BRICS Development Bank to fend off a fiscal implosion.

The partial economic recovery continued into the 1st half of 2021. The spinoffs from global stimulus packages and the demand for commodities impacted global commodity prices. South Africa largely benefitted resulting in the surplus on the trade account 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 more expensive imported fuel.

The additional social responsibilities that government took upon itself and a 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 accelerated and contributed to a milder herd effect. This should hasten a return to economic normality. Sectors like tourism and catering are better off but not yet near pre-Covid levels. Notwithstanding, there are still proponents for radical economic change that is threatening social stability. All of these factors have led to inadequate fixed investment that put up 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 economy, however, continued to recover in the 3rd quarter of 2021 (2.9% y/y GDP growth), after an average decline of 4.6% y/y in the 2nd half of 2020. Apart from slowing economic decline, tough conditions in the economy prevailed.

In the 3rd quarter of 2021, the better performing sectors were transport & communication (+6.9% y/y), personal services (+5.6% y/y) and finance, real estate and business services (+4.7% y/y). Sectors like manufacturing (-0.5% y/y), wholesale and retail trade, hotels and restaurants (+0.4% y/y), and construction (+1.2% y/y) were amongst those that still bore the brunt of the lockdown due to Covid-19 and is important for creating jobs. It is expected that all sectors improved further on last year's 4th quarter with the result that the overall economic situation in the 2nd half of 2021 has improved marginally on the 1st half of 2021.

GDP GROWTH						
SECTOR	2019	2020	1Q 2021	2Q 2021	3Q 2021	% 2021 / % 2020
	Y-o-Y %Δ	%Δ				
Construction	-3.0%	-19.8%	-16.8%	17.6%	1.2%	-1.5%
General government services	1.6%	0.5%	0.4%	0.3%	0.8%	0.5%
Agriculture, forestry and fishing	-6.3%	13.4%	-1.5%	15.9%	-7.2%	3.3%
Electricity and water	-3.7%	-5.9%	-1.2%	13.4%	0.9%	4.1%
Finance, real estate and business services	2.1%	0.8%	-0.6%	10.3%	4.7%	4.6%
Personal services	1.3%	-2.1%	-0.1%	9.8%	5.6%	5.0%
Transport and communication	-1.0%	-15.4%	-10.7%	23.2%	6.9%	5.1%
Wholesale and retail trade; hotels and restaurants	-0.6%	-12.0%	-5.5%	33.6%	0.4%	7.3%
Manufacturing	-1.2%	-12.3%	-0.9%	43.5%	-0.5%	10.8%
Mining and quarrying	-1.1%	-11.9%	2.0%	46.3%	1.6%	13.8%
GDP excluding general government	-0.1%	-6.6%	-2.7%	20.5%	2.9%	6.2%
GDP excluding agriculture	0.0%	-6.4%	-2.4%	18.4%	3.0%	5.7%
GDP at market prices	0.1%	-6.4%	-2.6%	19.1%	2.9%	5.1%

Note: Y-o-Y %Δ = year-on-year % change

It may take up to 2023 for economic activity to recover to pre-Covid levels - assuming that fixed investment soon turns positive. Government will find it more difficult to implement structural economic reform – notably in a corrupted and mal-functioning public sector. 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. The Zondo Commission reports clearly indicated the problem.

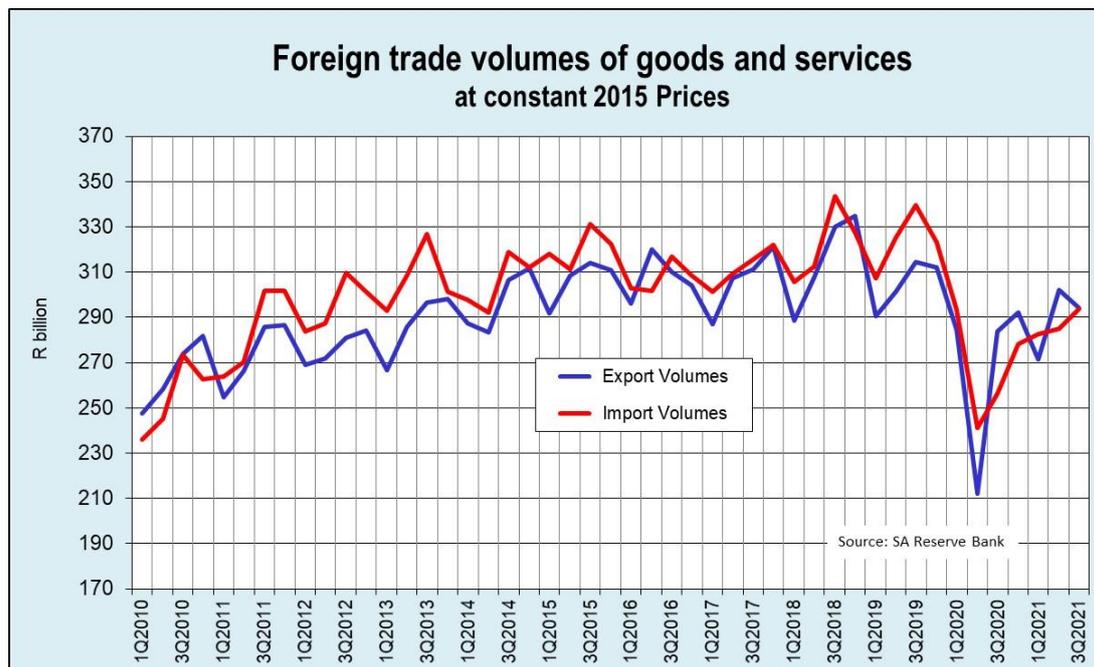
In the IMF's January 2022 update of the World Economic Outlook (WEO), world output is estimated to have increased by 5.9% in 2021, 4.4% in 2022 and 3.8% in 2023 – less than anticipated in October 2021, albeit from a contraction of 3.1% in 2020. For Sub-Saharan Africa growth for 2021 is estimated at 4% for 2021 but down to 3.7% in 2022. South Africa's growth was revised to 4.6% for 2021 and 1.9% for 2022. This is after South Africa's estimated output contracted by 6.4% in 2020.

Economic Growth	2018	2019	2020	2021e	2022f	2023f
	%	%	%	%	%	%
World	3.5	2.8	-3.1	5.9	4.4	3.8
United States	3.0	2.2	-3.4	5.6	4.0	2.6
Euro Area	1.9	1.3	-6.4	5.2	3.9	2.5
Germany	1.3	0.6	-4.6	2.7	3.8	2.5
United Kingdom	1.3	1.4	-9.4	7.2	4.7	2.3
Japan	0.6	0.3	-4.5	1.6	3.3	1.8
Emerging & Developing Europe:	3.4	2.4	-1.8	6.5	3.5	2.9
Emerging & Developing Asia:	6.4	5.3	-0.9	7.2	5.9	5.8
China	6.7	5.8	2.3	8.1	4.8	5.2
India	6.5	4.0	-7.3	9.0	9.0	7.1
Sub-Saharan Africa:	3.2	3.2	-1.7	4.0	3.7	4.0
South Africa	0.8	0.2	-6.4	4.6	1.9	1.4

Source: IMF, WEO January 2022. f = forecast. e = estimate.

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 accelerated and caused an extraordinary surplus on the trade account that spilled over into a

stronger rand and increased tax revenue. 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.



Source: SA Reserve Bank. Quarterly Bulletin, December 2021

6. Conclusion

The sentiments expressed in the iBCI survey paints a picture of light at the end of a very long tunnel, with local business emerging from the crisis weaker than going into it.

Business requires local government, and its public sector partners, to urgently respond to its pleas around addressing the “basics”, viz. tackling decaying infrastructure, effective law enforcement, reining in the cost of doing business and removing red tape, if local businesses is to stand a chance to survive the numerous structural and other modern economic challenges it faces.

Resolute political leadership, intent on reassuring the private sector of an improved and supportive business and investment environment remains critical. It is especially the persisting negative sentiment around *Levels of Employment* that is symptomatic of the dilemma of employment stagnation in our region, and more effort is required to eliminate barriers to job creation and the constraints to conducting business.

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.