

iLEMBE
BUSINESS CONFIDENCE INDEX (IBCI)
2022 MID-YEAR REVIEW
AUGUST 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 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.

The 2022 Mid-Year iBCI was shaped by the long-awaited removal of the pandemic induced economic restrictions, the lifting of the General State of Disaster, the gradual recovery of businesses after the destruction of the violent civil unrest of July 2021, and, significantly, the devastation caused by the KZN floods of April and May 2022. The disruption in the provision of utilities following the floods was exacerbated by unprecedented load shedding and localised power outages.

- Positive regional economic activity assisted the combined hybrid iBCI to remain, although only slightly, in positive territory, i.e. above the neutral level of 50 index points, for the second survey period in succession.

The iBCI 2022 Mid- Year was recorded at 50.1 index points, a positive level for only the second time since the iBCI was introduced. The iBCI showed a decline of 2.6 index points compared to the 2nd half of 2021, and a 6.2 index point improvement Y/Y.

- The above trading environment resulted in business sentiment as measured through the iBCI Survey Index component, declining by 5.1 index points compared to the previous period (2nd half of 2021). Despite being significantly more positive than the lowest level recorded 12 months earlier, the business sentiment has fallen firmly back into negative territory at 44.6 index points.

The iBCI Economic Activity Index component remained unchanged at 55.6 index points, the fourth successive period of positive economic activity for the iLembe District.

- The performance of **business indicators** included in the iBCI Survey Index was varied against the levels recorded in the previous survey period.

- *Sales Volumes*, as a measure of business performance, return on sales efforts and trading location, and *Order Book*, as a leading indicator of market depth and liquidity, recorded significant declines against the levels of the previous period and are firmly entrenched in negative territory.

- *Levels of Employment* remains persistently negative, symptomatic of the adverse events and economic conditions on employment, and social security, in our region.

- With regards to business confidence **per economic sector**, four sectors recorded positive business confidence.

- These sectors were the *Transport, Distribution, Warehousing, Storage, Freight Forwarding, Shipping & Exports* sector, *Wholesale, Retail, Vehicle Trade* sector, *Agriculture, Forestry, Hunting* sector, and the *Arts, Culture & Creative Industries* sector.

- Business sentiment in other pertinent regional sectors were in the negative, namely *Manufacturing, Assembly* sector, *Tourism, Catering, Accommodation, Property Management* and the *Construction, Property Development, Property Sales* sector.

- Business confidence in the second most confident sector during the previous period, the *Tourism, Catering, Accommodation, Property Management* sector, declined significantly.
 - Despite the lifting of Covid-19 restrictions and the successful and uneventful delivery of the 2022 edition of the Ballito Pro Surfing competition, this all-important local industry was severely impacted on by the KZN floods that caused significant uncertainty, and disruption, immediately prior to the 2022 Easter peak holiday period.
 - Concerns and uncertainty about disruptions to water supply, damage to road infrastructure, specifically the economic arteries of the N2, M4, R102 and P103, that restricted access to the iLembe District, resulted in a significant number of holiday booking cancellations.
 - The impact of the procrastination around road repairs, especially, continues, with the restrictions on the N2 continuing, and the M4 remaining closed four months after the flood destruction.
 - The woes of this economic sector were further exacerbated by unprecedented load shedding and localised power outages.
- Other sub-sectors that indicated a debilitating impact of road repair delays are *Retail, Property Sales, Manufacturing and Transport & Distribution*.
- The *Construction, Property Development, Property Sales* sector slumped to the 6th most confident business sector. Views expressed by responding businesses in this sector once again highlighted delayed planning approvals, unwieldy building control processes, development of infrastructure, expectations around developers' contributions towards infrastructure development, an increasing concern about the capacity of especially road infrastructure and resulting traffic congestion.
- *Agriculture, Forestry, Hunting* sector was the second most confident sector. This positive sentiment is driven by the good rainfall season, resulting in above average crop yields. The sector has also reported a growth in investment, possibly at the expense of other industries, which is reassuring for a notoriously capital-intensive economic sector.
 - It does however disguise concerns around the escalation in especially fertiliser prices that have tripled over the past 12 months, but with hope that prices will stabilise and reduce in the near future. Although export crops were doing well, the global logistics turmoil has seriously impacted the export of these crops.
 - The damage to the local road infrastructure has necessitated the use of alternative routes, adding significantly to the cost of freight. The operations and performance of local milling companies have been severely impacted on by floods, and specifically the delayed responses from authorities to restore utility supply.
- The iBCI Survey component also reflects on **business expectations and business outlook** over the next six months. Business expectations for the 2nd half of 2022 remained positive, although at a lower level than the most positive business outlook recorded in the previous period.
- With regards to **constraints 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 *Market size, and the economic decline*, and *Competitiveness and adaptability* jointly being the most significant business constraints, selected by 68% of participating businesses.

- 40% 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 21% and 32% of responding businesses respectively.

A concerted effort is required in addressing the “basics” viz. refurbishing aging infrastructure, enhancing law enforcement, curbing community unrests, reining in the cost of doing business and removing red tape. The aforementioned elements are all essential for local businesses to overcome the numerous structural and other modern economic challenges.

2. Review of iBCI 2022 Mid-Year

The 2022 Mid-Year iLembe Business Confidence Index (iBCI), assessing business confidence in the iLembe District during the first half of 2022, was shaped by the long-awaited removal of the pandemic induced economic restrictions, the lifting of the General State of Disaster, the gradual recovery of businesses after the destruction of the violent civil unrest of July 2021, and, significantly, the devastation caused by the KZN floods of April and May 2022. The disruption in the provision of utilities due to flood damage was exacerbated by unprecedented load shedding and localised power outages.

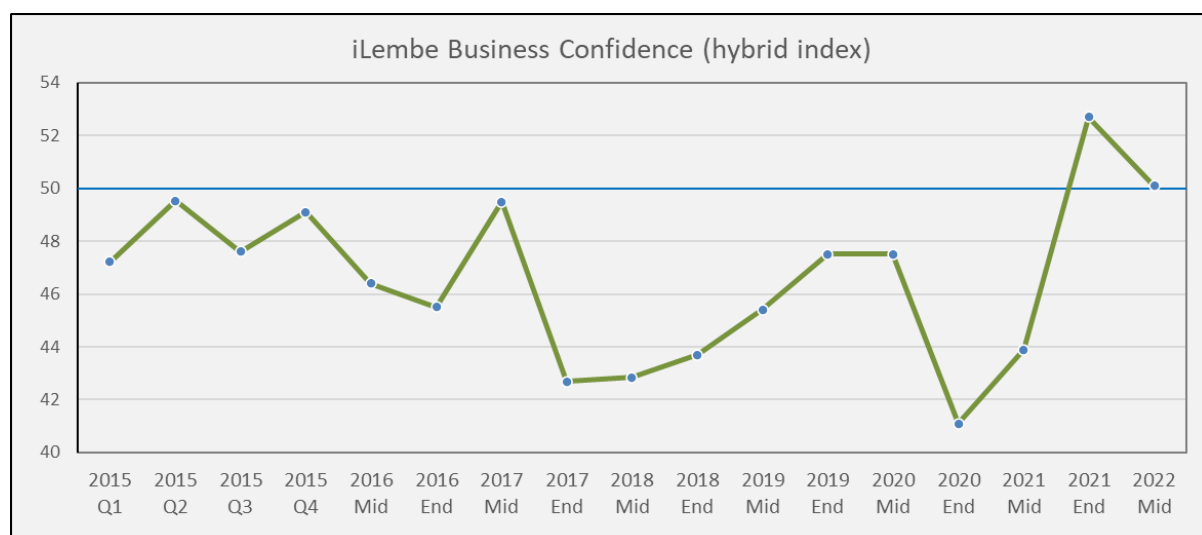
This trading environment resulted in business sentiment during the first half of 2022, as measured through the iBCI Survey Index component, declining by 5.1 index points compared to the previous period (2nd half of 2021).

Despite being significantly more positive than the lowest level recorded 12 months earlier, the business sentiment has fallen firmly back into negative territory at 44.6 index points.

The iBCI Economic Activity Index component remained unchanged at 55.6 index points, the fourth successive period of positive economic activity for the iLembe District.

This positive regional economic activity assisted the combined hybrid iBCI (i.e. both the Survey and Economic Activity Indices) to remain, although only slightly, in positive territory, i.e. above the neutral level of 50 index points, for the second survey period in succession.

The iBCI 2022 Mid- Year was recorded at 50.1 index points, a positive level for only the second time since the iBCI was introduced. The iBCI showed a decline of 2.6 index points compared to the 2nd half of 2021, and a 6.2 index point improvement Y/Y.



iBCI 2022 Mid-Year Survey Component:

The iBCI Survey component, in which regional businesses leaders and investors indicate their **sentiment about economic and business performance**, declined from the second highest level ever recorded in the previous survey period.

The **iBCI Survey Index** was recorded at 44.6 index points, and despite being significantly more positive than the lowest level recorded 12 months earlier, business sentiment was recorded firmly back into negative territory.

The performance of all the **business indicators** included in the iBCI Survey Index was varied against the levels recorded in the previous survey period.

Two of these indicators, viz. *Late delivery of orders* (52.5;>6.7) and *Inventory Levels* (45.8;>.8) improved against the levels recorded in the previous period, with *Late delivery of orders* being the only indicator recording positive sentiment.

Worryingly, *Sales Volumes* (41.7;<13.3), as a measure of business performance, return on sales efforts and trading location, and *Order Book* (42.9;<9.4), as a leading indicator of market depth and liquidity, recorded significant declines and are firmly entrenched in negative territory.

Levels of Employment (44.2;<0.4) remains persistently negative, symptomatic of the adverse events and economic conditions on employment, and social security, in the region.

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

These sectors were *Transport, Distribution, Warehousing, Storage, Freight Forwarding, Shipping & Exports* sector (52.8; >11.5), *Wholesale, Retail, Vehicle Trade* sector (54.2;>1.0), *Agriculture, Forestry, Hunting* sector (54.5;>9.2), and *Arts, Culture & Creative Industries* sector (62.5;>21) being the most confident.

Business sentiment in other pertinent regional sectors were in the negative, namely *Manufacturing, Assembly* sector (39.7;>2.7), *Tourism, Catering, Accommodation, Property Management* (40.7;<15.2) and the *Construction, Property Development, Property Sales* sector (47.3; <2.1).

Business confidence in the second most confident sector during the previous period, the *Tourism, Catering, Accommodation, Property Management* sector, declined significantly. Despite the lifting of Covid-19 restrictions and the successful and uneventful delivery of the 2022 edition of the Ballito Pro Surfing competition, this all-important local industry was severely impacted on by the KZN floods that caused significant uncertainty, and disruption, immediately prior to the 2022 Easter peak holiday period.

Concerns and uncertainty about disruptions to water supply, damage to road infrastructure, specifically the economic arteries of the N2, M4, R102 and P103, that restricted access to the iLembe District, resulted in a significant number of holiday booking cancellations over this period.

The impact of the procrastination around road repairs, especially, continues, with the restrictions on the N2 continuing, and the M4 remaining closed four months after the flood destruction. Other sub-sectors that indicated a debilitating impact of road repair delays are *Retail, Property Sales, and Transport & Distribution*.

The woes of the Tourism sector were further exacerbated by unprecedented load shedding and localised power outages.

Declining business sentiment has resulted in the *Construction, Property Development, Property Sales* sector slumping to the 6th most confident business sector, with the confidence level of this key sector in the iLembe District's economy remaining in negative territory.

Views expressed by responding businesses in this sector once again highlighted delayed planning approvals, unwieldy building control processes, development of infrastructure, expectations around developers' contributions towards infrastructure development, an increasing concern about the capacity of especially road infrastructure and resulting traffic congestion.

The overall positive sentiment in the *Wholesale, Retail, Vehicle Trade* sector once again masked the varied tint per subsector and location.

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.

Agriculture, Forestry, Hunting sector was the second most confident sector. This positive sentiment is driven by the good rainfall season, resulting in above average crop yields. The sector has also reported a growth in investment, possibly at the expense of other industries, which is reassuring for a notoriously capital-intensive economic sector.

It does however disguise concerns around the escalation in especially fertiliser prices that have tripled over the past 12 months, but with hope that prices will stabilise and reduce in the near future.

Although export crops were doing well, the global logistics turmoil has seriously impacted the export of these crops. The damage to the local road infrastructure has necessitated the use of alternative routes, adding significantly to the cost of freight. The operations and performance of local milling companies have been severely impacted on by floods, and specifically the delayed responses from authorities to restore utility supply.

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 outages, industrial and especially 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.

A large manufacturer based in KwaDukuza/Stanger summarised the ongoing challenges in this sector as follows:

“General decline in business confidence and orders due to overstocked levels with customers (sic), high unemployment, increase in borrowing costs, high fuel costs and raw material costs coupled with declining rand dollar exchange rates.”

In general, a lack of support of the manufacturing industry, ineffectual macro-economic initiatives, such as the localisation policy, and rigid bargaining agreements 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 (36.0;>4.0), which hosts the Isithebe Industrial Estate, the manufacturing heartland of the iLembe District, remained the least confident region in the iLembe District.

The most confident local municipality was Ndwedwe (82.5; –), whilst KwaDukuza (43.8;<8.5) declined by 8.5 index points to entrench itself in negative sentiment.

iBCI 2022 Mid-Year Business Expectations (2nd half of 2022):

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

Business expectations for the 2nd half of 2022 remained positive, although at a lower level than the most positive business outlook recorded in the previous period. Business expectations were recorded at 55 index points, 8.4 index points more positive than the current sentiment.

The positive outlook expressed by business in the iBCI survey continuously fail to materialise, with local business, across sectors and regions, becoming increasingly frustrated and disillusioned.

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, curbing community unrest and extortion, 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.

iBCI 2022 Mid-Year Activity Index Component:

The **Activity Index** portion of the hybrid iBCI maintained the level of the 2nd half of 2021. The strong recovery of the Activity Index from 34.1 index points in the 1st half of 2020 to 50.4 in the 2nd half of 2020 was followed by a 57.2 reading in the 1st half of 2021 and settled at 55.6 in the 2nd half of 2021. The 1st half 2022 level of 55.6 for the Activity Index confirmed the recovery of the business climate for the iLembe region and which is better than the pre-Covid level.

The easing of the lockdown restriction and lifting of the General State of Disaster had a positive economic and business effect on the country as a whole and it was also evident in the iBCI Activity Index. Notwithstanding the economic damage caused by the 2021 unrests, and the devastating floods of April and May 2022, the district’s economy managed to uphold a business climate in which business resilience was proved.

During June 2022 the Activity Index pulled back slightly due to economic stress experienced owing to notable globally higher fuel prices, rising inflation and electricity outages. The Russian/Ukraine conflict was a major global obstructing factor in the disruptions of fuel and food markets.

Although the iBCI Activity Index did not improve on the levels recorded during the previous period, the business climate remained in positive territory despite the setbacks detailed.

- Six of the eight sub-indices of the iBCI Activity Index had a positive impact on the index between the 2nd half of 2021 and the 1st half of 2022.
- The lower international sugar price and rising inflation was the only sub-indices that had a negative effect on the business climate compared to the previous six months.
- The largest positive contribution by far came from improved Tourism (+140%) followed to a much lesser extent by Financial Services (+5.6%), Trade (+4.3%), and Construction (+4.1%).

- Depending on the composition of economic activity per sub-region, the movement of the Activity Index per region between the 1st half of 2022 and the 2nd half of 2021 was as follows: Mandeni (+1.3%), KwaDukuza (+1.9%), Ndwedwe (-0.1), and Maphumulo (-1.8%).

The business resilience should be used to bolster business, and investment, in the region.

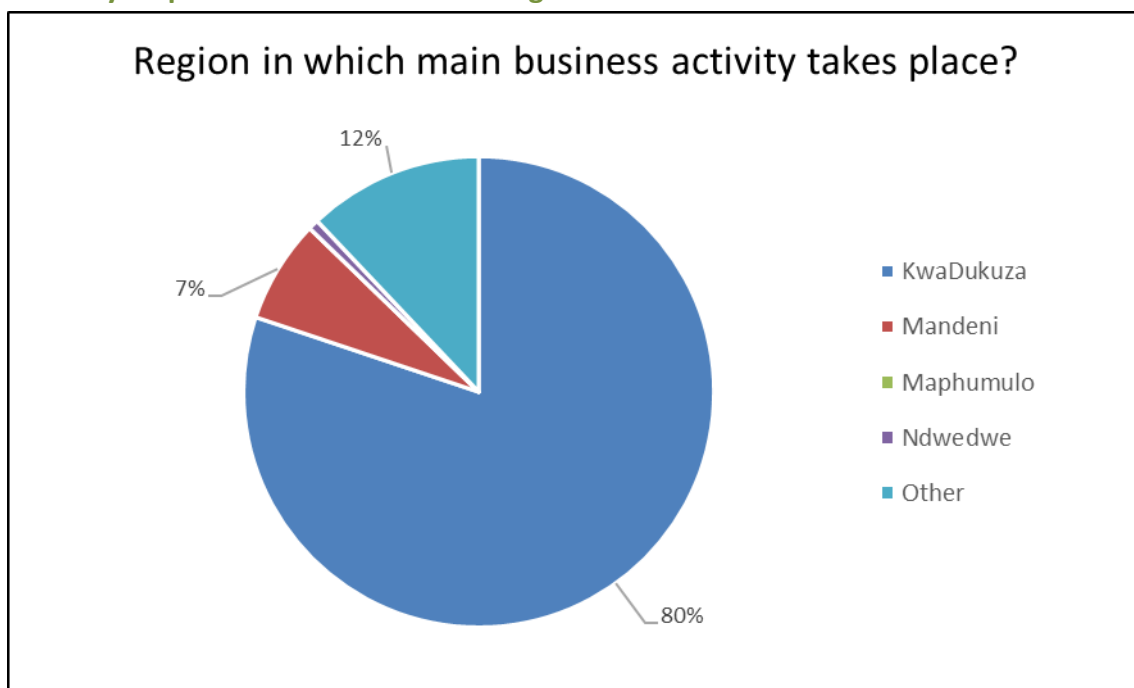
Political stability and tolerance remain a major ingredient in optimizing the business and investment opportunities provided by the prevailing positive business climate.

Tourism remains a pivotal economic activity for the iLembe region and an important business link to restore normality.

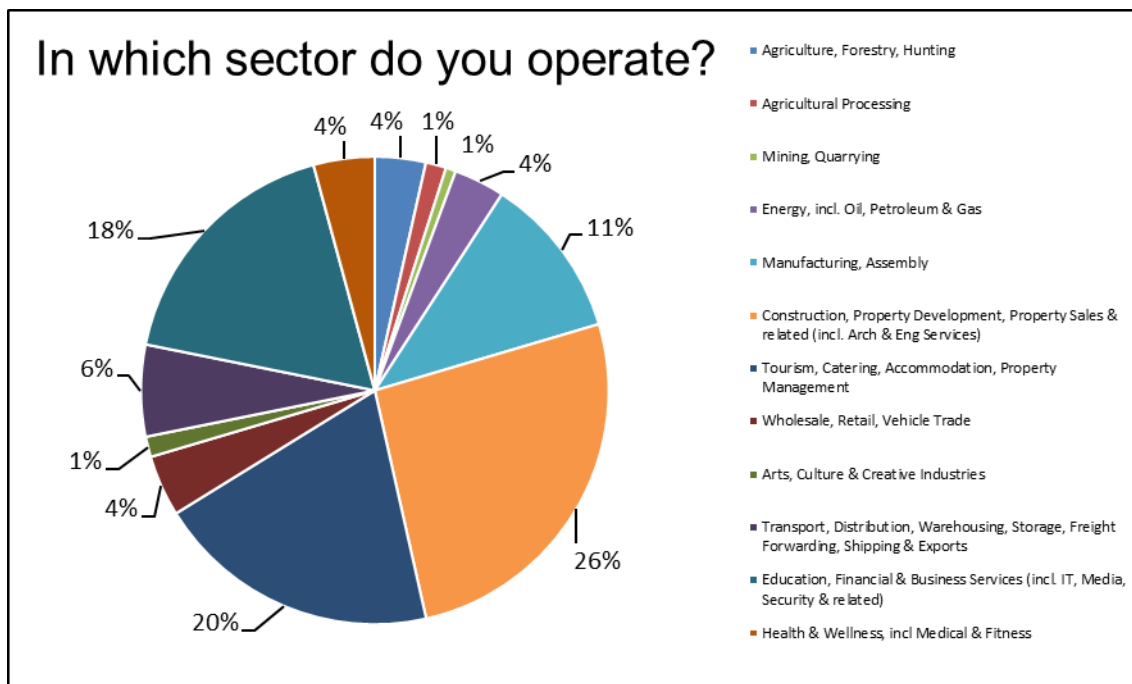
Rising inflation accompanied by a stricter monetary policy stance (higher interest rates), rising fuel prices, increased electricity and water tariffs, and power outages, could however cause more price instability and hardship amongst households. Unemployment remains rigid and unacceptably high and could lead to further socio-political disturbances.

Service delivery by local governments and energy supply also remain major concerns. Attempts for radical and unaffordable irrational economic demands will add to the problems listed above and not resolve any challenges. Social upheaval impedes economic growth and will impact the creation of employment opportunities.

iBCI survey responses from iLembe sub-regions:

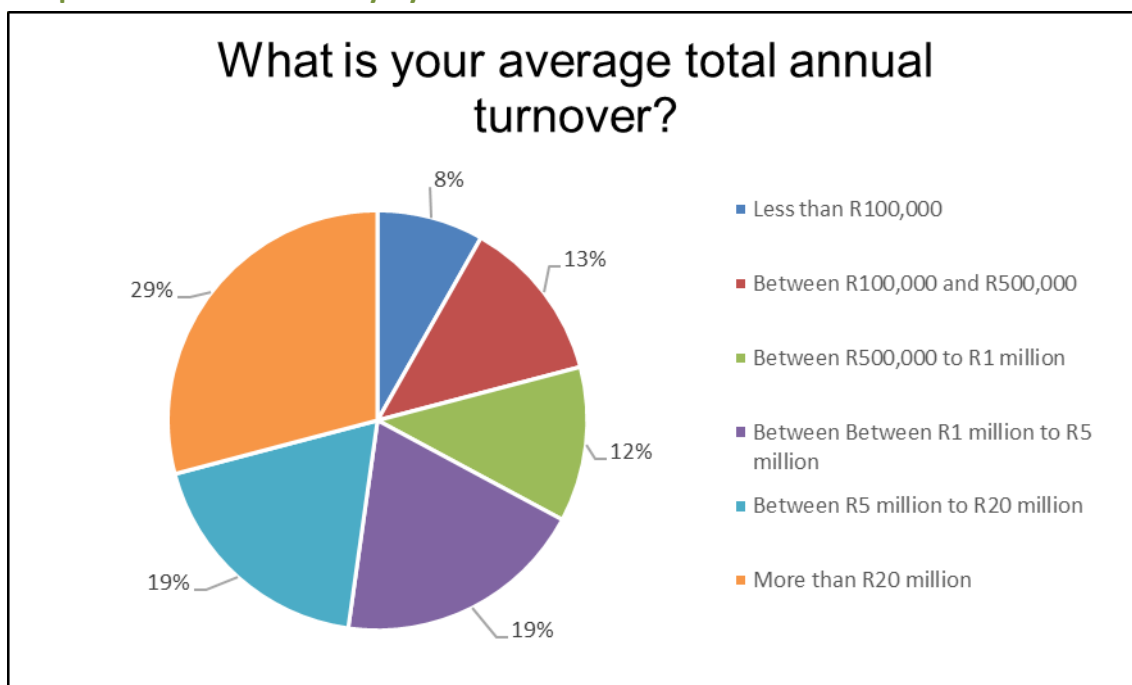


Economic sector participation in the iBCI survey:

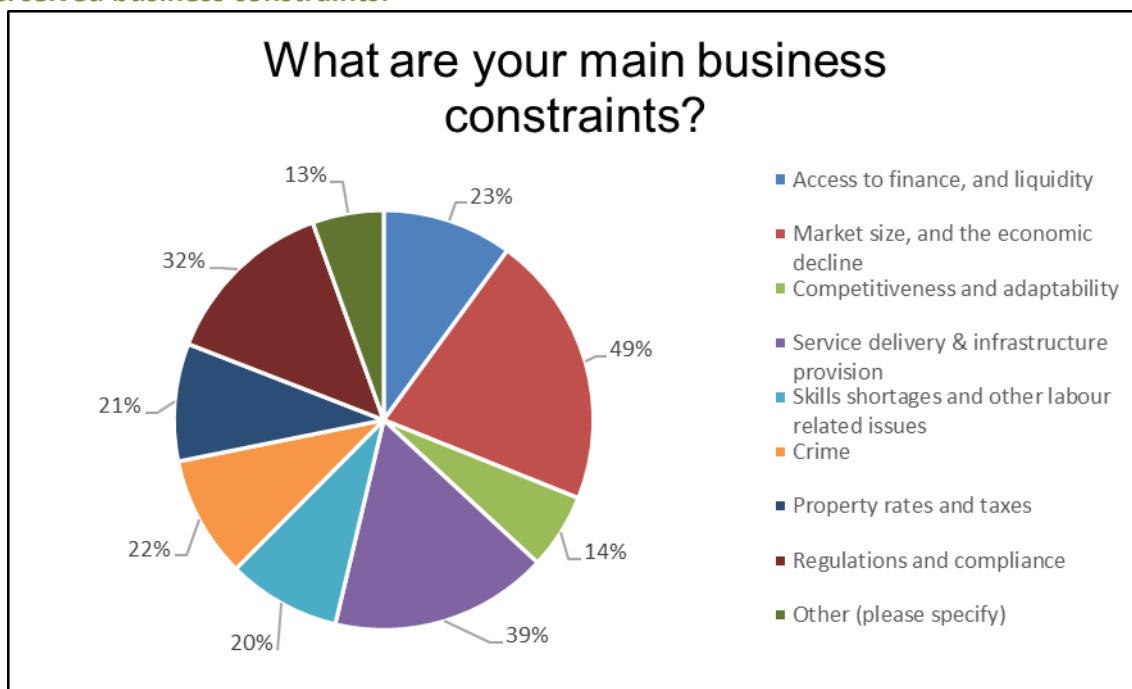


The majority of businesses participating in the 2022 Mid-Year iBCI Survey operated within the *Construction, Property Development, Property Sales* sector (26%), followed by *Tourism, Catering, Accommodation, Property Management* (20%), and *Education, Financial & Business Services (incl. IT, Media, Security & related)* (18%).

Participation in the iBCI survey by annual turnover level:



Perceived business constraints:



With regards to **constraints 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 *Market size, and the economic decline* and *Competitiveness and adaptability* jointly being the most significant business constraint selected by 68% of participating businesses – an increase of 25%.

40% of survey respondents listed *Service delivery & infrastructure provision* as a primary business constraint.

Two further public sector indicators, *Regulations and compliance* and *Property rates and taxes* were perceived as significant business constraints by 21% and 32% of responding businesses respectively.

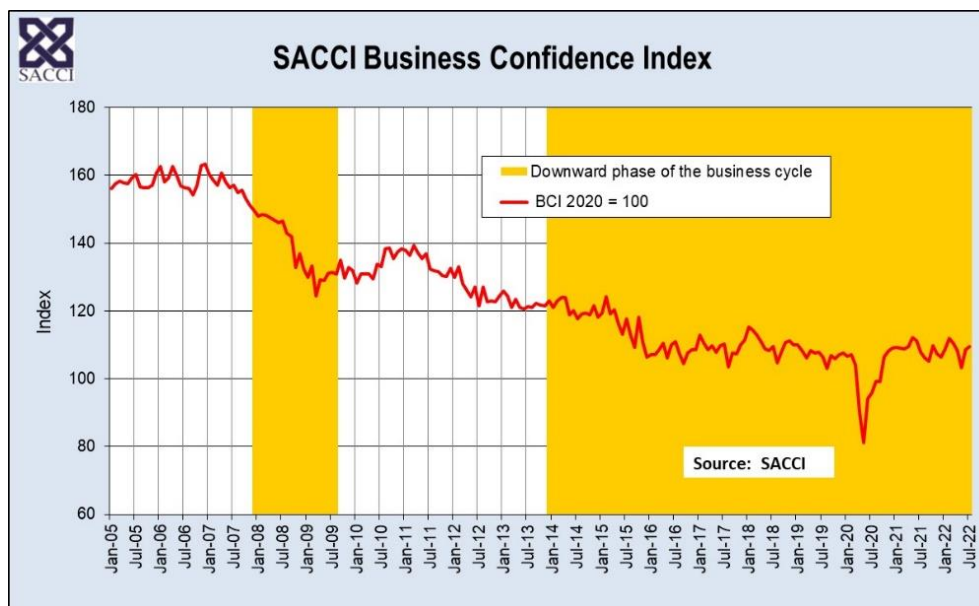
3. SACCI BCI 1st Half 2022

The reference point or base year of **SACCI’s** Business Confidence Index (BCI) has been adjusted to 2020 = 100 and gives the SACCI BCI a more recent reference point (base year 2020=100) taking account of up-to-date information and trends in the economy and financial markets. Inward tourism was added as a fourteenth sub-index.

The SACCI Business Confidence Index (BCI) improved by 1.5 index point from an average of 107.1 (2020=100) in the 2nd half of 2021 to 108.6 in the 1st half of 2022. The end of the State of Disaster due to Covid, the recovery after the opportunistic radical interruption, looting and mayhem of July 2021, and reconstruction after floods of April 2022 in Kwa-Zulu Natal were somehow overcome. The effect of the Russian invasion of Ukraine and its effect on global business relationships and commodity prices are still negatively influencing the world economy.

With the 2020 average of 100 as the lowest annual average for the BCI since its inception in 1985, the BCI recovered and averaged 108.5 in 2021 with base year 2020 equal to 100. The

highest annual average for the BCI at 159.1 (2020=100) was recorded in 2006 with the economy growing at 5.6% at the time.



Six of the fourteen SACCI BCI sub-indices were at worse levels in June 2022 than in December 2021 - namely, higher inflation, higher real interest, lower manufacturing output, less real value of building plans passed, lower volumes of merchandise imports, and lower share prices. It was comforting to note that inward tourism recovered markedly with merchandise export volumes in support. The SACCI BCI of 108.5 in June 2022 was 2.1 index point higher than the 106.4 in December 2021 and improved further to 110.3 in July 2022. A holding situation for business confidence in general.

The other six sub-indices of the SACCI BCI were neutral to positive but not enough to secure business confidence levels – especially with reference to rising inflation, exorbitant fuel prices and electricity supply problems.

4. Macro-Economic Review 1st Half 2022

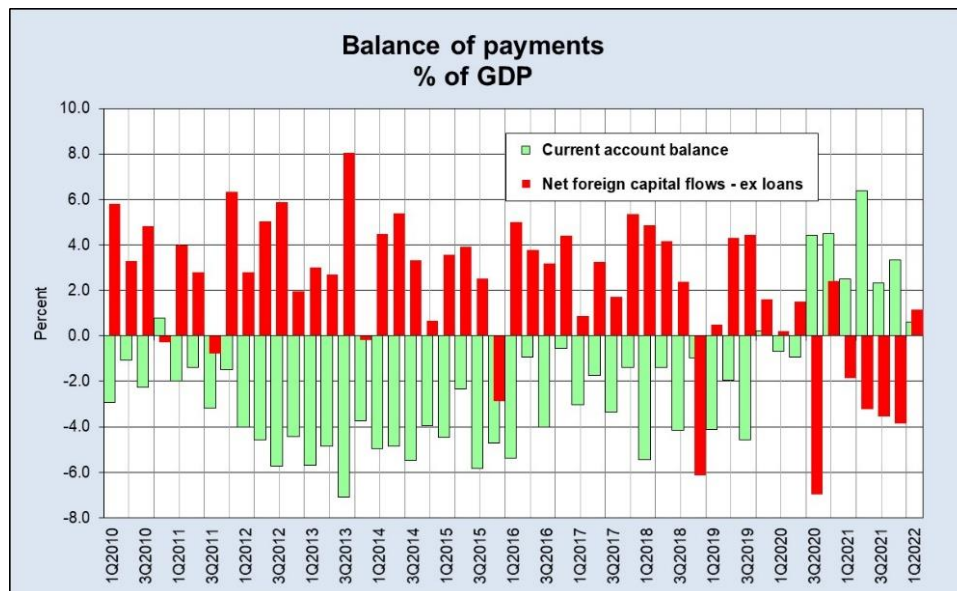
The distortions of the Covid-19 pandemic largely waned as the lockdowns and State of Disaster that caused serious additional structural damages to the economy were suspended. Radical external developments like the riots of July 2021 and the floods of April 2022 in notably Kwa-Zulu Natal inhibited the recovery momentum of the economy and the business climate.

The already desperate fiscal situation continued although the windfall to government revenue coming from high international commodity prices and favourable terms of trade for the moment contained the worsening government debt situation. Government however are still borrowing to finance recurrent expenditure and thus crowd out capital for fixed investment. Emergency financial relief was also obtained from the IMF, World Bank and the Brics Development Bank to fend off the fiscal cliff. The public sector continue to falter on many aspects of service delivery.

The partial economic recovery continued into the 1st half of 2022 with GDP growth at 3% y/y in the 1st quarter of 2022. The spinoffs from global stimulus packages and the demand for commodities impacted global commodity prices. The Russian invasion of Ukraine in February 2022, however, rudely disrupted global economic and business relations and trust.

The largest benefit to South Africa came via the surplus on the trade account with foreign countries. This helped the rand to remain reasonably steady against major trading currencies from January to June 2022. The trade account had a beneficial effect on the rand and thus helped to soften the rand price of more expensive imported fuel. A smaller surplus on the current account of the BoP could spell more difficulties as was already imminent in the 1st quarter of 2022 – see figure 1.

Figure 1



Source: SA Reserve Bank. June 2022 Quarterly Bulletin

South Africa was worryingly also affected by rising food and fuel prices (rising at 58% y/y in June 2022) with consumer inflation measuring 7.4% in June 2022. Producer inflation was not less than 16% in June 2022. This compelled the SA Reserve Bank as a responsible monetary authority to raise the repo-rate by 1 percentage point over the 1st half of 2022 in order to promote price stability in support of real economic growth. The repo-rate was raised by another 0.75 percentage point in July 2022.

An already hampered world economy due to Covid and lockdown processes that necessitated excessive fiscal stimulation and an easy monetary stance, gave rise to high worldwide inflation - notably in the USA and major European economies.

Tighter financial conditions followed as further Covid outbreaks and lockdowns caused the recent slowdown in China's growth while consequences from the war in Ukraine on international trade and commodity prices become evident.

In the latest World Economic Outlook, the IMF lowered its global growth forecast to 3.2% for 2022 and 2.9% for 2023. Growth forecasts for China have been adjusted by -1.1 and -0.5 percentage point for 2022 and 2023; by +2.5 and -1.2 percentage point for Russia; by -0.2 and -1.2 percentage point for the Euro; and by -1.4 and -1.3 percentage point for the USA in 2022 and 2023, respectively.

Growth for Sub-Sahara Africa is anticipated at 3.8% for 2022 and 4% for 2023. Although South Africa could experience growth of 2.3% in 2022 according to the IMF, structural impediments could see slow growth of 1.4% in 2023.

Government is finding it more difficult to implement structural economic reforms – notably in a corrupted and mal-functioning public sector. The dire straits of some State-Owned Enterprises (SOEs) and lack of service delivery by the public sector in general and local government in particular, necessitates urgent attention. The final Zondo Commission reports

clearly highlighted the predicament of a capable state. The latest load shedding by Eskom is having a serious effect on output (growth) and thus unemployment and one of the consequences of mal-administration.

5. Conclusion

The positive economic and business effect resulting from the easing of the lockdown restrictions and lifting of the General State of Disaster is evident. Notwithstanding the economic damage caused by the 2021 unrests, and the devastating floods of April and May 2022, the district's businesses proved its resilience.

A concerted effort is required in addressing the "basics" viz. refurbishing aging infrastructure, enhancing law enforcement, curbing community unrests, reining in the cost of doing business and removing red tape. The aforementioned elements are all essential for local businesses to overcome the numerous structural and other modern economic challenges.

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 change 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.