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iLembe Business Confidence Index (iBCI) – 2023 Mid-Year

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 iBCI 2023 Mid-Year was shaped by several macro and local factors - Eskom's power generating woes with more Gigawatt hours being load shed in the first 5 months of 2023 than in the whole of 2022, damaged electronic equipment, reduced production capacity and increased operational costs as

businesses invest in load shedding mitigation measures.

The cost-of-living crisis manifested itself in fuel, fertiliser, and stubbornly high food prices, setting the trend for headline inflation.

Locally, the ongoing delay in repairs to infrastructure, specifically critical roads, following the KZN floods of 2022, the continued beach closures in the neighbouring eThekweni Metro, and business rescue interventions at Tongaat Hulett and Gledhow Sugar, formed the background to a challenging 1st half of 2023.

Highlights and Key Findings

- Negative business sentiment resulted in the iBCI 2023 Mid-Year (i.e. both the Survey and Economic Activity Indices) being recorded at 48.3 index points, a decline of .7 index points compared to the 2nd half of 2022, and a 1.8 index point decline Y/Y.
- The iBCI Survey Index component, in which regional businesses leaders and investors indicate their sentiment about the region's economic and business performance, was firmly entrenched in negative territory at 40.6 index points.
- The iBCI Economic Activity Index element was recorded at 55.9 index points, the fifth successive period of positive economic activity for the iLembe District.

- All business indicators included in the iBCI Survey Index was recorded in the negative.

Sales Volumes (34.9;<10.6), as a measure of business performance, return on sales efforts and trading location, and Order Book (38.4;<0.1), as a leading indicator of market depth and liquidity, remained firmly entrenched in negative territory.

Levels of Employment (48.4;>8.4) persistently remains in the negative, despite the improvement recorded. Sentiments around job retention and creation are symptomatic of the challenging economic conditions

- With regards to business sentiment per economic sector, only two sectors recorded positive business confidence, i.e. above the neutral level of 50 index points.

The sectors that recorded positive sentiment are Transport, Warehousing, Storage sector (56.5;>22.7), and Arts, Culture & Creative Industries sector (75.0;>17.5), also the most confident sector.

Business sentiment in other critical economic sectors in the region were in the negative, namely Manufacturing, Assembly sector (28.4;<1.6), Agriculture, Forestry, Hunting sector (37.0;<3.5), Construction, Property Development, Property Sales sector (46.4;>5.7) and the Tourism, Catering, Accommodation, Property Management (46.5;>2.5).

Manufacturing, Assembly sector

- *The Manufacturing, Assembly sector remains the least confident business sector, with sentiment being recorded at the lowest levels since the introduction of the iBCI – lower than the levels seen during the pandemic and 2021 unrests.*
- Load shedding, load curtailment and power outages remain the primary drivers of dampened sentiment in the sector. The factors impact directly on production downtime, output capacity and profitability, and filtering through to business sentiment as well.
- The cost-of-living challenges and subdued local economic growth have left manufacturers with not only a reduction in sales volumes, as indicated above, but also with limited opportunity to pass on factory gate price inflation.

Agriculture, Forestry, Hunting sector

- Sentiment in this sector declined by a further 3.5 index points to a confidence level of 37.0 index points – a position best summarized by the recent newspaper headline “KwaZulu-Natal's sugar industry is enduring a long, long winter”.
- Gledhow Sugar Mill's announcement that it is voluntarily commencing business rescue proceedings, short on the heels of a similar move by Tongaat Hulett in October 2022, set the tone for sentiment in this sector.
- Reports of payment defaults and the escalation in fertiliser and fuel prices are contributing to the dejected sentiment in this sector.

Construction, Property Development, Property Sales sector

- The slump in business sentiment in this stalled with an improvement of 5.7 index points, although business confidence in this key sector in the iLembe District's economy remain firmly in the negative.
- 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.
- These constraints are magnified in periods of rapidly increasing input costs, and higher inflation in general, with respondents stating that it is not uncommon for developers to rework development costs, and return on cost, numerous times in between development plan submissions.
- An increase in the illegal occupation of private property, and land invasion in general, were highlighted as a growing concern.

Tourism, Catering, Accommodation, Property Management sector

- Business confidence in this sector remained entrenched in the negative, despite an improvement of 2.5 index points on the previous 6-month period.
- This dampened sentiment persisted despite the delivery of a hugely successful 2023 edition of the Ballito Pro Surfing competition, with its popular ancillary activities, that provided a boost to holiday accommodation, with occupancy levels of 95% and above being reported, and the hospitality industry in general. The inaugural ZA Fest, which featured the Ndlovu Youth Choir, added to the KZN North Coast's destination appeal.

- o The ongoing water quality issues plaguing the neighboring Metro resulted in the closure of seven Durban and wider eThekweni Metro beaches immediately prior to the commencement of the mid-year school holidays. Fears were expressed that impressions might exist that these issues extend onto the KZN North Coast, and that brand North Coast becomes collateral damage.

In line with the business sentiments expressed by respondents in the *Manufacturing, Assembly* sector, the Mandeni Local Municipality (22.0;<9.9), 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 remains Maphumulo (60.0;<12.5), whilst business sentiment in KwaDukuza (41.5;<2.5) declined to entrench itself in the negative.

The iBCI Survey component also reflects on **business expectations and business outlook** over the next six months. Business expectations for the 2nd half of 2023 remains marginally in the negative, being recorded at 49.7 index points, 9.1 index points more positive than the current sentiment.

The **Activity Index** of the composite iBCI was recorded at 55.9, confirming that the general business climate in the region is potentially better than what businesses perceive it to be according to the Survey Index (40.6).

The two market related indicators of *Market size, and the economic decline, and Competitiveness and adaptability*, were indicated by 62% of participating businesses as **primary constraints to conducting business** in the iLembe District.

The public sector indicators of *Service delivery & infrastructure provision (38%), Regulations and compliance (23%), and Property rates and taxes (29%)* were selected by all the business respondents as primary business constraints.

In conclusion

A concerted effort is required in addressing the “basics” viz. a responsive and effective public sector, refurbishing aging infrastructure, enhancing law and by-law enforcement, curbing community unrests, reining in the cost of doing business and removing red tape. These 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.

Attachment

iLembe Business Confidence Index Review 2023 Mid-Year.

Release of iBCI 2023 Year-End

End February 2024

Why measure business confidence?

The measurement of business confidence is considered significant since it indicates the current and expected state of a region's economy. It is widely recognised that business leader's subjective, individual expectations play a key role in economic developments. It also considered as a very good leading indicator of the overall business cycle in South Africa and its regions.

What is the iBCI?

The iBCI is a biannual index that reflects on the business climate in the iLembe District. The index considers economic and market-related aspects that have a bearing on the business mood, amongst businesses, in the iLembe District of KZN.

It is likely that a region's business mood will be influenced both positively and negatively by various developments in markets and the economy as a whole and the iBCI seeks to reflect the net results of these influences.

End

