

I LEMBE
BUSINESS CONFIDENCE INDEX (IBCI)
2017 MID-YEAR REVIEW



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1. Highlights and Key Findings

Enterprise iLembe, in partnership with the iLembe Chamber of Commerce, Industry & Tourism, collaborate to produce the iLembe Business Confidence Index (iBCI) aimed at providing a biannual picture of business confidence in the iLembe District, as well as an overall business outlook. The iBCI is a hybrid index derived from, firstly, a biannual business survey conducted in the iLembe district and secondly, with a weighted index of financial and economic variables.

- The composite iBCI recovered from its lowest level recorded at the year-end 2016, with the combined hybrid index (i.e. both the survey and activity indices) for the 1st half of 2017 gaining 4 index points compared to the 2nd half of 2016.
- The iBCI 2017 Mid-Year was recorded at 49.5 index points, equalling the highest business confidence level recorded during the 2nd quarter of 2015. The iBCI however continues to remain in negative territory, i.e. below the neutral level of 50 index points.
- The iBCI 2017 Mid-Year displayed the most significance variance recorded, since the commencement of the iBCI, between the survey component (expressing subjective business sentiment) and the activity index (reflecting actual economic activity within the iLembe District).
- The activity index component was recorded at its lowest level ever, at 46.6 index points firmly entrenched in the negative.
- The survey component of the iBCI, which was conducted during July 2017 was recorded at a high of 52.4 index points.
- The *Financial & Business Services, incl IT & Communications* sector was the most confident economic sector (57) followed by *Tourism, Catering & Accommodation* (55.8), *Agriculture, Forestry, Hunting* (54.8) and *Construction, Property Development, Property Sales*, which also includes Property Management (50.4).
- The negativity of the iBCI activity index was severely impacted on by the US\$ sugar price (-3.5%), tourism (-5.4%) and construction activity (-18.4%) being the biggest contributors.
- The two market related indicators of Competition and Market Size jointly remained the most significant business constraint selected by 51% of businesses. Sentiments that the local market is overtraded in certain sectors highlighted the need for competent and innovative business innovation and management, as well as the imperative of developing a diverse regional economy, with significant job creation potential.
- 31% of survey respondents listed Skills shortages and other labour related issues as primary business constraints. The rapid development of technology and the workforce's inability to keep pace was also singled out in this regard.
- Service delivery & infrastructure provision was a perceived business constraint of 24% of respondents. The cost of development, cumbersome administrative processes and speed of decision making were highlighted as specific contributors to this business constraint.

- The **SACCI** Business Confidence Index (BCI) averaged 95.0 (2015=100) in the 1st half of 2017 and increased by 1.4 index points on the 93.6 average for the 1st half of 2016. In the 1st half of 2017 the average of the **SACCI** BCI increased by 1.7 index points on average of 93.3 the 2nd half of 2016.
- The major challenge for South Africa is firstly to escape the recessionary economic conditions and to adhere to matters listed by the credit rating agencies as hampering economic growth and improving employment opportunities. In this context business and investor confidence are pivotal. The poor performance of the domestic economy in 2016 (GDP growth of 0.3%) and an anticipated 0.5% in 2017 are exposing the dire straits in which the economy finds itself.

2. Review of iBCI 2017 Mid-Year

The composite iBCI recovered from its lowest level recorded at the year-end 2016, with the combined hybrid index (i.e. both the survey and activity indices) for the 1st half of 2017 gaining 4 index points compared to the 2nd half of 2016.

The iBCI 2017 Mid-Year was recorded at 49.5 index points, equalling the highest business confidence level recorded since the 2nd quarter of 2015. The iBCI however continues to remain in negative territory, i.e. below the neutral level of 50 index points.

The iBCI 2017 Mid-Year displayed the most significance variance recorded, since the commencement of the iBCI, between the survey component (expressing subjective business sentiment) and the activity index (indicating economic activity in the iLembe District). The activity index component was recorded at its lowest level ever, at 46.6 index points firmly entrenched in the negative. This 2017 Mid-Year level is 1.4 index points lower than the previous low recorded at 2016 Year-End.

It is also worth noting that the iBCI 2017 Mid-Year survey delivered the most responses from business since the start of the index.

iBCI 2017 Mid-Year Survey Component:

The survey component of the iBCI, which was conducted during July 2017, and which records subjective business sentiment as stated above, was recorded at a high of 52.4 index points. The previous high was 50 index points recorded in the 2nd quarter of 2015.

Sentiments around all the economic activities included in the survey improved from levels recorded in the previous period. Outlooks around sales volumes (54.3;>5.9), order book (54;>10), inventory levels (52.2;>8.9) and encouragingly also employment (56.5;>10.5) all firmly positive. The only activity in negative territory was late delivery of orders, although this activity also showed an improvement on the levels recorded in the previous period.

With regards to business confidence per economic sector, four sectors recorded a positive outlook with Tourism, Catering & Accommodation (55.8) being replaced by Financial & Business Services, incl IT & Communications as the most confident economic sector with businesses in this sector reflecting positive business confidence at 57 index points. The other positive sectors were Agriculture, Forestry, Hunting (54.8) and Construction, Property Development, Property Sales (50.4).

Although the other economic sectors, namely Wholesale, Retail, Vehicle Trade (49.3), Manufacturing, Assembly (46.4) and Transport, Warehousing, Storage (41.3) remained in negative territory, all of these sectors recorded improved business confidence from the previous period. The Government's ability to effectively administer trade tariffs on imported manufactured and agricultural goods and produce, as well as illegal imports were highlighted as issues impacting on sentiments expressed.

With regards to business confidence expressed by businesses in the different regions of the iLembe District, the Mandeni Local Municipal Area, home to the Isithebe Industrial Estate, showed a significant improvement from the previous period and recorded at 54 index points. This improvement was recorded despite concerns around possible rental increases, coal

supply and a lack of localised support services. Businesses in the KwaDukuza Local Municipality area also recorded a positive business sentiment.

The iBCI survey also reflects on business expectations over the next six months. The business outlook for the 6-month period July to December 2017 was an upbeat to 55.4 index points, a heartening 9.5 index points improvement on the 2nd half of 2016.

These business expectations incorporate two golden trading periods for the iLembe District, namely the July and December holiday periods.

The 6-month outlook around sales volumes, order book, on-time supply and inventory levels in the main contributed to the movement, with sales volumes recording a 7.9 index point increase. Late deliveries, input prices and employment were recorded as negative over the next 6 months.

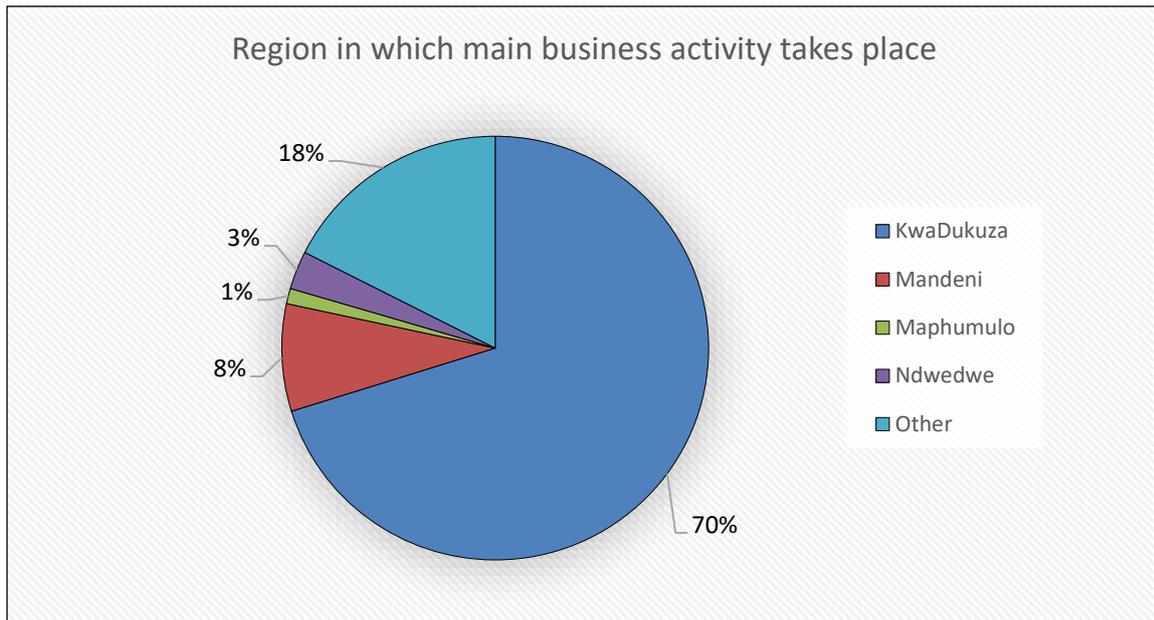
iBCI 2016 Year-End Activity Index Component:

Contrary to the survey component, the iBCI Activity Index (which measures the business climate and economic activity in the iLembe region as detailed in Annexure 2 below), lost a further 0.6 index points and measured 46.6 in the 1st half of 2017 compared to 47.2 in the 2nd half of 2016. Between the 2nd quarter of 2015 and the 1st half of 2017 the Activity Index shed 2.4 index points. The iLembe Activity Index remains firmly entrenched in negative territory, i.e. below the significant level of 50 index points that reflect no change.

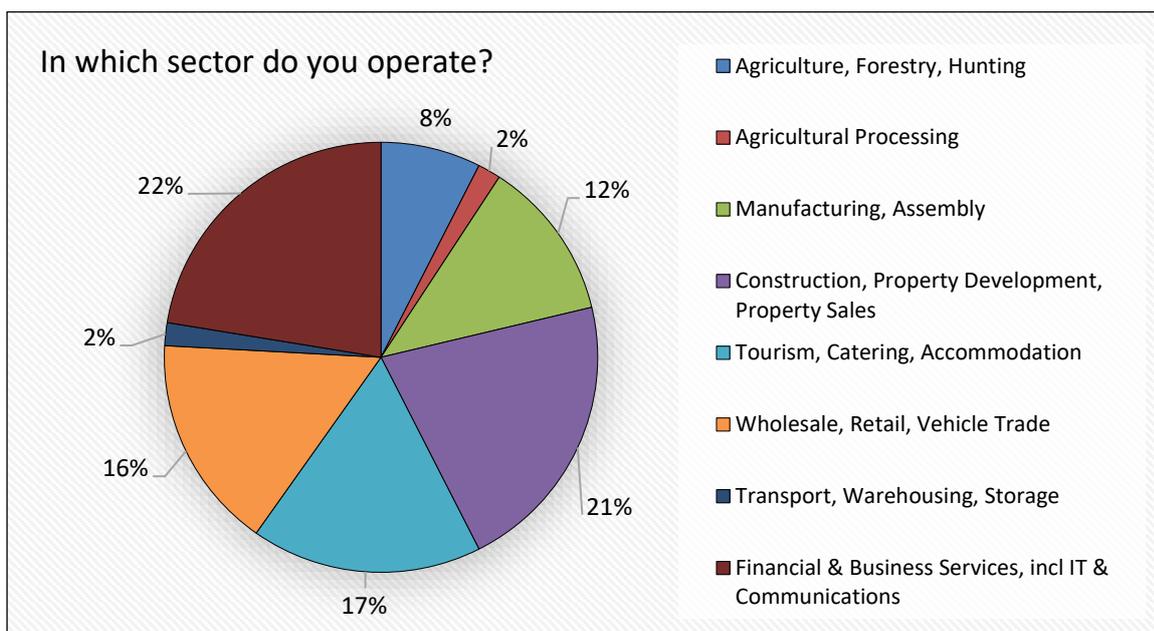
The majority of the activities featuring in the Activity Index of the iBCI showed a negative movement in comparison with the 2nd half of 2016. Year-on-year (Y/Y), i.e. 1st half 2016 compared with the 1st half of 2017, the picture is similar, with the US\$ sugar price (-3.5%), tourism (-5.4%) and construction activity - real value of business plans passed (-18.4%), the biggest contributors to the negative business climate. The other activities reflecting a negative trend are manufacturing (-2.2%), business borrowing (-1.3%) and trade (-.3%). Positive contributing activities to the business climate are the US\$ exchange rate (7.2%) and the inflation rate (12.3%).

The movement in the sub-indices indicated above resulted in the decline of the iBCI Activity Index, between its high in the 3rd quarter of 2015 and the 1st half of 2017, of 2.9 index points.

iBCI survey responses from iLembe sub-regions:

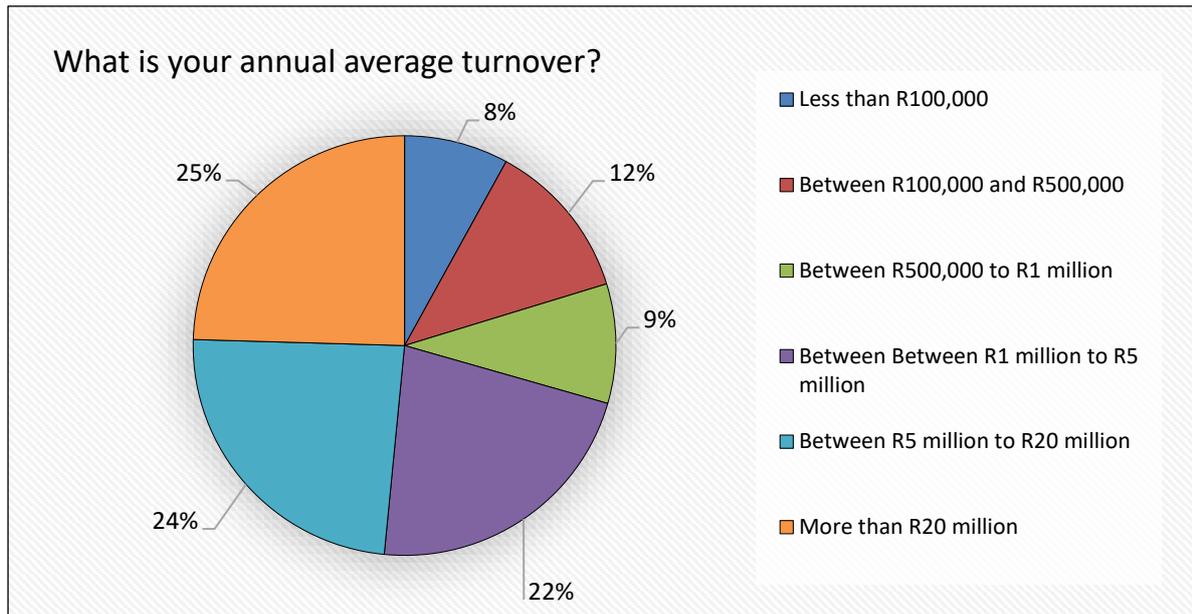


Economic sector participation in the iBCI survey:

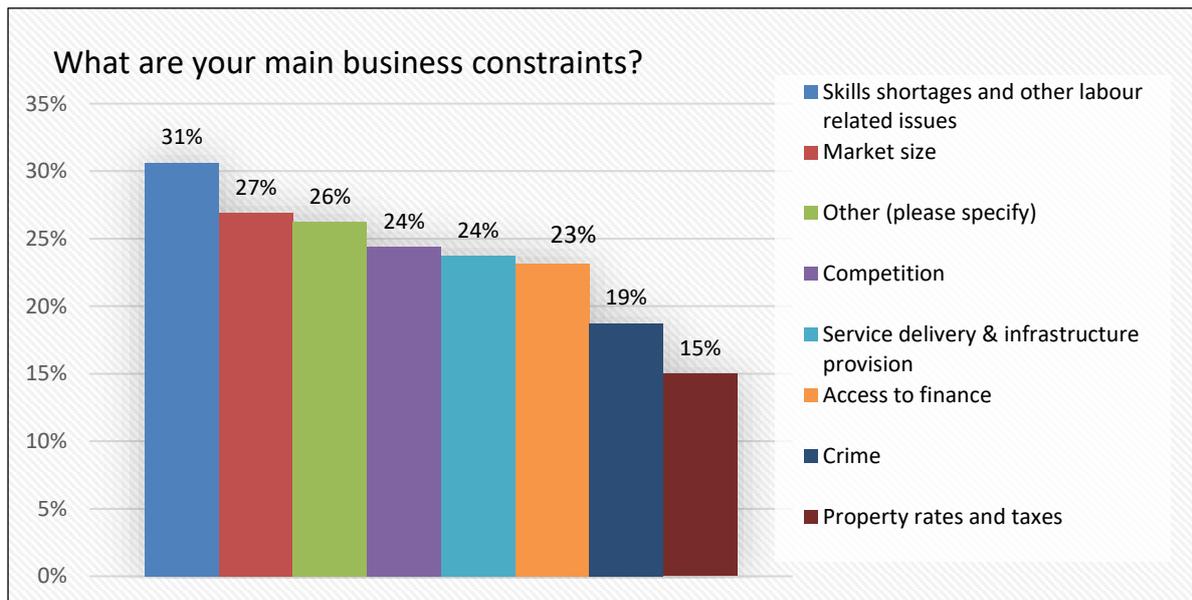


The majority of businesses participating in the 2017 Mid-Year iBCI Survey operated within the *Financial & Business Services, including IT & Communications* businesses (22%), followed by *Construction, Property Development, Property Sales* (21%), *Tourism, Catering and Accommodation* (17%) and *Wholesale, Retail, Vehicle Trade* (16%). *Manufacturing, Assembly* (12%) and *Agriculture, Forestry, Hunting* and *Agricultural Processing* (combined 10%) and *Transport, Warehousing, Storage* (2%) sectors were also represented amongst respondents.

Participation in the iBCI survey by annual turnover level:



Perceived business constraints:



Considering the tough national and regional trading environment it is no surprise that the two market related indicators of *Competition and Market Size* jointly remained the most significant business constraint selected by 51% of businesses. Sentiments that the local market is overtraded in certain sectors highlighted the need for competent and innovative business innovation and management, as well as the imperative of developing a diverse regional economy, with significant job creation potential.

31% of survey respondents listed *Skills shortages and other labour related issues* as primary business constraints. Comments once again highlighted not only the affordability but also the lack of availability of accommodation for students, apprentices, blue collar workers and

manual labourers. The rapid development of technology and the workforce's inability to keep pace was also singled out in this regard.

Service delivery & infrastructure provision was a perceived business constraint of 24% of respondents, indicating this as their most significant constraint. The cost of development, cumbersome and inefficient administrative and planning approval processes and speed of decision making were highlighted as specific contributors to this business constraint.

Businesses that once again highlighted this constraint also attributed its significance to perceived onerous and debilitating macroeconomic policies and the impact on especially smaller manufacturing entities.

3. SACCI BCI

The **SACCI** Business Confidence Index (BCI) averaged 95.0 (2015=100) in the 1st half of 2017 and increased by 1.4 index points on the 93.6 average for the 1st half of 2016. In the 1st half of 2017 the average of the **SACCI** BCI increased by 1.7 index points on average of 93.3 the 2nd half of 2016.

Business confidence improved in January and February 2017 to average close to 97.0, but after replacing Mr. Gordhan as Minister of Finance at the end of March 2017, the **SACCI** BCI contracted to average about 94 in the next four months up to June 2017 and became trapped around 94 up to June 2017. Most of the business climate indicators compared negatively in June 2017 with June 2016. Of the thirteen sub-indices the stronger trade and investment weighted rand exchange rate, the lower inflation rate, increased volumes of merchandise imports and exports, and more new vehicle sales contributed positively to the BCI. All the other sub-indices made negative year-on-year contributions to the **SACCI** BCI in June 2017.

The major challenge for South Africa is firstly to escape the recessionary economic conditions and to adhere to matters listed by the credit rating agencies as hampering economic growth and improving employment opportunities. In this context business and investor confidence are pivotal. The poor performance of the domestic economy in 2016 (GDP growth of 0.3%) and an anticipated 0.5% in 2017 are exposing the dire straits in which the economy finds itself.

South Africa lost its leeway to maintaining the investment status by reputable rating agencies in March 2017 when the Minister of Finance was replaced and serious allegations of corrupt practices surfaced more openly.

In its July 2017 update of the World Economic Outlook, the IMF kept projected global output at 3.5% in 2017 and 3.6% in 2018. Emerging and developing economies are to see heightened activity with growth of 4.6% in 2017 and 4.8% in 2018. In Sub-Saharan Africa, the outlook for growth is to improve in 2017 and 2018, but hardly improving per capita. The IMF outlook for South Africa is subdued with political ambiguity and weak investor, consumer and business confidence leading to low growth projections for 2017 at 1% and 1.2% in 2018.

The economy may escape from its technical recession, but all indications are that the economy, the consumer and the investor will be constrained by low economic growth and economic performance for the foreseeable future. The prerequisite for economic recovery is to turn from socialist leanings, political uncertainty, and eradicate corruption and restore business and investor confidence. The economy will only be corrected by concrete action where the state focuses on the most effective delivery of its services. This will take time and 2017 and 2018 can only be the starting point for economic recovery.

4. Conclusion

The optimistic sentiment and expectations expressed by businesses in the district was a welcome antidote for the negative business climate and economic activity reflected in the Activity Index component of the iBCI. This optimism will be a brace since the IMF outlook for South Africa is subdued with political ambiguity and weak investor, consumer and business confidence leading to low growth projections for 2017 at 1% and 1.2% in 2018.

The private sector and all levels of government within the iLembe District are committed to partnering on specific initiatives that will aid the viability and growth of small and medium enterprises and secure investment in key economic sectors and geographies in our district.

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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.