

ILEMBE
BUSINESS CONFIDENCE INDEX (IBCI)
2020 YEAR-END REVIEW



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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 2020 Year-End iBCI is the first business confidence review conducted since the pandemic enforced lockdown of 27 March 2020, and subsequent risk adjusted business constraints.

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 Covid-19 crisis has turned, which in hindsight was perceived as a relatively positive upward local economic trend, into one of ravaged business confidence and significant uncertainty.
- Business confidence in the iLembe District, as measured through the iBCI, has plummeted to its lowest level since the inception of the iBCI. The iBCI 2020 Year-End was recorded at 41.1 index points, solidly entrenched in negative territory. The level of business confidence is 1.6 index points lower than the previous lowest level recorded by the 2017 Year-End iBCI.
- The survey component, which focuses on business constraints and expected business conditions as perceived by responding businesses, was at 31.8 index points, 15.5 index points lower than the 2nd half of 2019, and 3.5 index point below the lowest ever recorded.
- In relation to business sentiment **per economic sector**, all sectors recorded negative business confidence, i.e. below the neutral level of 50 index points. The *Agriculture, Forestry, Hunting* sector (42.5;<14.7) remained the most confident economic sector. The *Construction, Property Development, Property Sales* sector (39.4;<3.7) was the second most confident sector.
- The Covid-19 pandemic has wrenched the confidence from KZN North Coast's tourism sector. Having felt the full brunt of the business restrictions emanating from the pandemic, the *Tourism, Catering, Accommodation, Property Management* was the second least confident sector, with an index level of a mere 17 index points (17.0;<31.9). Business expectations within this sector, for the 1st half of 2021, remains dejected, indicative of the uncertainty experienced by many tourism businesses, and their struggle to plot an escape from the consequences of business restrictions.
- The least confident economic sector however remained the *Transport, Warehousing, Storage* sector (12.5;<15.8).
- Diminished confidence in the *Manufacturing, Assembly* sector (34.8;<8.6) was driven among others, by the uncertainty around the extent of the predicted reduction in consumer spending. The reduction in the demand for durable consumer goods, cautiousness from retailers and the loss of export orders supported this sentiment. The significant disruption in the supply of raw materials, depleted supplier stock levels and the influence thereof on raw material cost further eroded confidence within this sector.

- Business confidence in the *Wholesale, Retail, Vehicle Trade* sector (37.5;<15.2) was very much dependent on the subsector, with general retail (FMCG focus) and department stores appearing to be largely unaffected.
- The negative sentiment in the hospitality trade, specifically, was worsened by extended local power outages (even prior to the introduction of level 3 economic restrictions), depriving businesses from the opportunity to trade optimally during the most important trading period of the year, albeit a disrupted trading period.
- The iBCI survey also reflects on business expectations and outlook over the next six months. **Business expectations** for the 1st half of 2021 were recorded at an index low of 37.5 index points.
This disheartening outlook emphasises the extreme disruption caused by the lockdown regulations. And despite the adjustments to alert levels, it is obvious that businesses are not convinced that the destructive impact of the pandemic on the regional economy, and its businesses, will improve over the next 6 months. A further contributing factor is the lack of clarity on recovery measures and support to industry from all levels of government.
- The only sector that had a positive outlook for the 1st half of 2021 was the *Health & Wellness, incl Medical & Fitness* sector (57.9), substantiated by the anticipated increased activity in the Wellness subsector when schools reopen, and the need for psychological and mental support during this period of “business pessimism”.
- The majority of responding businesses, i.e. 51%, indicated that the market uncertainty brought about by pandemic induced business restrictions, and inconsistent responses to mitigate the impact of the restrictions, has presented itself as the biggest **constraint to conducting business** in the iLembe District.
The contracting national economy, the related low overall business confidence and the disrupted regional trading environment resulted in the two market related indicators of *Competition* and *Market Size* jointly being the most significant business constraints selected by 57% of participating businesses.
- 23% of survey respondents listed *Regulations and compliance* as primary business constraints. Two further public sector indicators, *Service delivery & infrastructure provision* and *Property rates and taxes* were perceived business constraints of 22% and 17% of responding businesses respectively - making these three public sector indicators being chosen by 62% of respondents as stifling to business.
- The **Activity Index**, which measure actual major economic activity in the iLembe region, has improved in the 2nd half of 2020 and recovered from the lowest level since inception of the iBCI, and brings a welcomed balance to the negative business sentiments recorded.

2020/21 Christmas Holiday Trading

- Despite the promising start to the festive season, 76% of business that are benefitting from seasonal trade reported a drop in sales in comparison with the same period in 2019/2020. Almost 20% of these businesses reported a reduction in sales of more than 50%.

- The **Tourism** sector was the hardest hit with 96% of responding business indicating a reduction in turnover. Of these businesses, more than a quarter indicated a reduction in sales of 50% or more.
- 64% of businesses in the **Wholesale, Retail, Vehicle Trade** sector, that benefit from seasonal trade, reported a reduction in sales when compared to 2019/20. Increased or similar turnover was reported by 36% of businesses in this sector. Of businesses within the **Manufacturing, Assembly** sector that benefit from seasonal trade, 77% recorded a reduction in turnover.
- In comparison with the 2019/20 peak trading period, **employment levels** were significantly impacted on with 52% of responding businesses indicated that staffing was reduced, and 18% of those businesses reporting a reduction in staffing of up to 50%. Almost 40% of responding businesses in the Tourism sector reported cuts in employment of more than ¼ of their workforces.
- The sentiments expressed in the iBCI survey paints a picture of fading businesses resilience, with pleas for assistance that will help businesses navigate the crisis, among others by rates concession, and considered tariff adjustments.
- The threat to business and our regional economy remains real - 45% of responding business indicated that they will only remain viable, under the current conditions (Risk Adjusted Level 3, January 2021), for a period of up to six months.
- This risk is especially pertinent in the critically important Tourism sector where 26% of responding businesses have indicated that they will remain viable for a period of up to 3 months only, and 52% of tourism businesses indicated that they won't survive for longer than 6 months. These concerns emphasise the importance of "normal trading" over the upcoming Easter 2021 period.
- 41% of responding retail businesses indicated that they won't be viable for a period of longer than 6 months.

2. Review of iBCI 2020 Year-End

The 2020 Mid-Year iLembe Business Confidence Index (iBCI), assessing business confidence during the first six months of 2020, was postponed due to the acknowledged record low levels of confidence in the provincial and national economies, and more specifically in the iLembe District.

The 2020 Year-End iBCI is thus the first business confidence review conducted since the pandemic enforced lockdown of 27 March 2020, and subsequent risk adjusted levels.

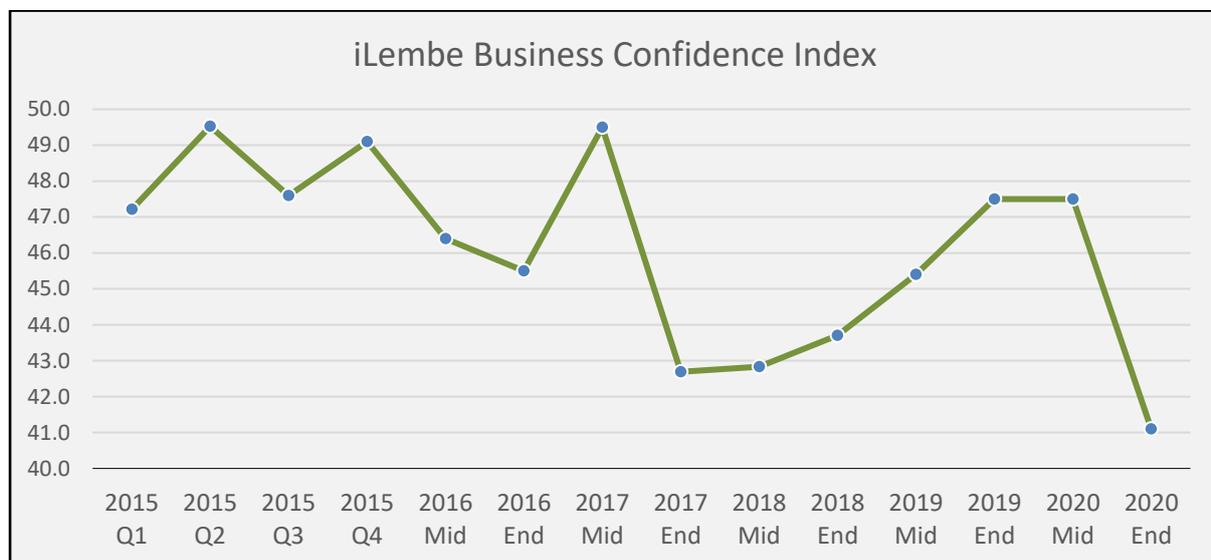
The Covid-19 crisis has turned, which in hindsight was perceived as a relatively positive upward local business trend, into one of devastated business confidence and significant uncertainty.

Business confidence in the iLembe District, as measured through the iBCI, has plummeted to its lowest level since the inception of the iBCI.

The combined hybrid iBCI (i.e. both the survey and activity indices) showed a negative adjustment of 6.4 index points in this full year period, compared to the 2nd half of 2019.

The iBCI 2020 Year-End was recorded at 41.1 index points, solidly entrenched fixed in negative territory, i.e. below the neutral level of 50 index points.

The level of business confidence is 1.6 index points lower than the previous lowest level recorded by the 2017 Year-End iBCI.



iBCI 2020 Year-End Survey Component:

At 31.8 index points, the survey component of the iBCI is a staggering 15.5 index points lower than the 2nd half of 2019, and 3.5 index point below the lowest ever recorded survey index in the 1st half of 2018. The iBCI survey component focuses on business constraints and expected business conditions as perceived by responding businesses during the survey period.

As to be expected, all the **business indicators** included in the survey remained in the negative, and outlooks around all indicators slumped in comparison to the previous twelve-month period.

The business sentiment recorded around *Levels of Employment* is especially alarming, slumping by 15 index points on the previous period, to the lowest level since the iBCI survey commenced - indicating a further deterioration of our region's employment dilemma.

Levels of Employment (31.8;<15) and *Sales Volumes* (37.2;<12.5) showed the biggest negative adjustment in sentiment, followed by *Order Book* (36.4;<9), *Inventory Levels* (42;<7.7) and *Late Delivery of Orders* (41.6;<1.4).

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

The *Agriculture, Forestry, Hunting* sector (42.5;<14.7) remained the most confident economic sector.

The *Construction, Property Development, Property Sales* sector (39.4;<3.7) was the second most confident sector.

The Covid-19 pandemic has wrenched the cheer from the KZN North Coast's tourism sector's optimism. Having felt the full brunt of the pandemic induced economic restrictions, the *Tourism, Catering, Accommodation, Property Management* was the second least confident sector, with an index level of a mere 17 index points (17.0;<31.9).

Business expectations within this sector for the 1st half of 2021 remains dejected, indicative of the uncertainty experienced by many tourism related businesses and their struggle to plot their escape from the consequences of the lockdown emanating from the pandemic.

The least confident economic sector however remained the *Transport, Warehousing, Storage* sector (12.5;<15.8).

Please see *iBCI 2020 Year-End Business Expectations* below.

It is deduced from views expressed by survey participants from the *Agriculture, Forestry, Hunting* sector that confidence in the sugar sector, specifically, is boosted by good sugar crop estimates and a favourable sugar price, offsetting lower sugar production due to lower sugar RV ratios.

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

At regional level, the decaying road infrastructure is increasing transport costs, whilst illegal hunting/poaching has become a threat to lives and crops. The disinterest of the SAPS to deal with the threat has resulted in more security spend, a negative sunk cost. The impact of the indefinite mothballing of the Darnall Sugar Mill on haulage costs were also highlighted.

Despite the 2nd most confident sector, the confidence of the *Construction, Property Development, Property Sales* sector, a key sector in the iLembe District's economy, has declined by a further 3.7 index points over the last 12-months.

Negative sentiments pertaining to delayed planning approvals and unwieldy building control processes were exacerbated by "local government departments closing down every second day" during the risk adjusted strategy for economic activity, and the extended closure of the Deeds Office.

The delay/suspension of government contracts as well as the extensive delay in the payment of invoices by government entities, especially during the festive season, further negatively impacted on the sentiment in this sector.

The development of infrastructure, the expectations around developers' contributions towards infrastructure development, an increasing concern about the capacity of the road

infrastructure and resulting traffic congestion, work disruptions, stoppages and extortion by “business forums” and land occupations also contributed to the prevailing sentiment.

The negative confidence surrounding the *Tourism, Catering, Accommodation, Property Management* sector reached a new low, with sector confidence plummeting by 31.9 index points.

The initial positiveness about the estimated occupancy levels for the 2020/21 holiday season was turned on its head by the move to alert level 3 on the 28th of December 2020, resulting in major cancellations, an exodus of holiday makers and the postponement of bookings.

The restrictions on liquor sales, the total closure of beaches and the introduction of a night time curfew presented an unprecedented challenge to the resilience of businesses operating in this key economic sector for the KZN North Coast and the iLembe District in general.

Please also see comments under *3. 2020/21 Christmas Holiday Trading*.

Observations by survey respondents that resulted in the *Transport, Warehousing, Storage* (12.5;<15.8) sector retaining its slot as the least confident sector, includes the impact that the economic restrictions and related job losses had on discretionary consumer spending, and as a result the demand for frozen protein. It was observed that customers in this sector find it difficult to source product due to limited supply as well as the adverse rand exchange rate. The violent attacks on truck drivers which saw at least 84 trucks being set alight during the last quarter of 2020 had a crippling affect on the Transport sector specifically and contributed to the negative sentiment of this sector.

Business confidence in the *Wholesale, Retail, Vehicle Trade* sector (37.5;<15.2) was very much dependent on the subsector.

From survey responses it is concluded that business confidence in general retail (FMCG focus) largely remained unaffected, as well as that of department stores.

In contrast, the negative sentiment in the hospitality trade, specifically, was worsened by extended local power outages (even prior to the introduction of level 3 economic restrictions), preventing especially smaller businesses to trade optimally during the most important trading period of the year.

Diminished confidence in the *Manufacturing, Assembly* sector (34.8;<8.6) was driven among others, by the uncertainty around the extent of the predicted reduction in consumer spending. The reduction in the demand for durable consumer goods, cautiousness from retailers and the loss of export orders supported this sentiment.

The significant disruption in the supply of raw materials, depleted supplier stock levels and the influence thereof on raw material cost further eroded confidence within this sector.

Load shedding/load curtailment, industrial unrest and decaying and inadequate infrastructure in industrial nodes, continue to undermine the sentiment in this sector, with a number of respondents indicating that alternative industrial premises are actively pursued.

In general, a lack of support of industry, by local authorities, was highlighted as a risk to conducting business in a sustainable manner.

With regards to business sentiment **per region** within the iLembe District, the Ndwedwe Local Municipality (56.3;<6.2) was the most confident, and in the positive, although at a reduced level.

The Mandeni Local Municipality (25.8;<17.5), which hosts the Isithebe Industrial Estate, the manufacturing heartland of the iLembe District, retained its position as the least confident region in the iLembe District, with confidence sliding by an eye watering 17.5 index points.

Business confidence in the KwaDukuza Local Municipal area (31.8;<16.6) remained in the negative, with a significant reduction of 16.6 index points.

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

The threat to business and our regional economy remains real - 45% of responding business indicated that they will only remain viable, under the current conditions (Risk Adjusted Level 3, January 2021), for a period of up to six months.

This risk is especially pertinent in the critically important Tourism sector where 26% of responding businesses have indicated that they will remain viable for a period of up to 3 months only, and 52% of tourism businesses indicated that they won't survive for longer than 6 months.

41% of responding retail businesses indicated that they won't be viable for a period longer than 6 months.

iBCI 2020 Year-End Business Expectations (1st half of 2021):

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

Business expectations for the 1st half of 2021 were recorded at an index low of 37.5 index points, a decline of 13 index points compared to the same period in 2019, and 3 index points lower than the lowest business outlook level recorded in the 2nd half of 2018.

This disheartening business outlook emphasises the extreme disruption caused by the lockdown regulations resulting from the pandemic. And despite the adjustments to alert levels, it is obvious that businesses are not convinced that the destructive impact of the pandemic on the regional economy, and its businesses, will improve over the next 6 months. A further contributing factor to the depressed business outlook is the lack of clarity on recovery measures and support to industry from all levels of government.

With regards to the outlook per **business sector**, the aforementioned observations were especially relevant to the *Tourism, Catering, Accommodation, Property Management* sector which had the most negative outlook over the next 6 months (17.6).

The only sector that had a positive outlook for the 1st half of 2021 was the *Health & Wellness, incl Medical & Fitness* sector (57.9), substantiated by the anticipated increased activity in the Wellness subsector when schools reopen, and the need for psychological and mental support during this period of "business pessimism".

The *Construction, Property Development, Property Sales* sector (49.4) had the second most positive outlook for the next 6 months, fuelled by the continued interest in the KZN North Coast's real estate market.

Of the **regions**, businesses in the Mandeni (27.1) and the KwaDukuza (38.5) Local Municipal areas were the most pessimistic about the region's short-term economic future.

iBCI 2020 Year-End Activity Index Component:

The **Activity Index** part of the hybrid iLembe Business Confidence Index (iBCI) has improved in the 2nd half of 2020 and recovered from the lowest level since inception of the iBCI, and brings a welcomed balance to the negative sentiments recorded.

These indicators measure actual major economic activity in the iLembe region (please see Annexure 2 below).

The iBCI Activity Index lost 13.7 index points, from the 2nd half of 2019 to record a low of 34.1 index points during the 1st half of 2020. The iBCI picked up 16.3 index points on this 1st half low to average 50.4 in the 2nd half of 2020.

The strong recovery was largely the result of the extremely low level in the 1st half of 2020, resulting from the Covid-19 pandemic, the declaration of a State of Disaster and the lockdown of a substantial part of the economy and restrictions imposed on business activity.

- Five of the eight sub-indices of the iBCI Activity Index pushed the index up from its low 1st half 2020 pandemic and lockdown depressed level.
- Tourism was the hardest hit, after a decline in the 1st half of 2020 by 57% (compared to the 2nd half of 2019), Tourism activity dropped by a further 93% during the 2nd half of 2020.
- Less credit extended to businesses, and the stronger rand exchange rate in the 2nd half of 2020, had slight negative effects on the business climate.
- The other indicators all showed a strong improvement on the dismal levels of the 1st half of 2020. The higher global sugar price (10%), increased manufacturing output (14%), construction plans (36%), retail trade volumes (7%), and lower inflation (down from average of 3.8% to average 3.5%), all contributed to the improved Activity Index - albeit from severely depressed levels

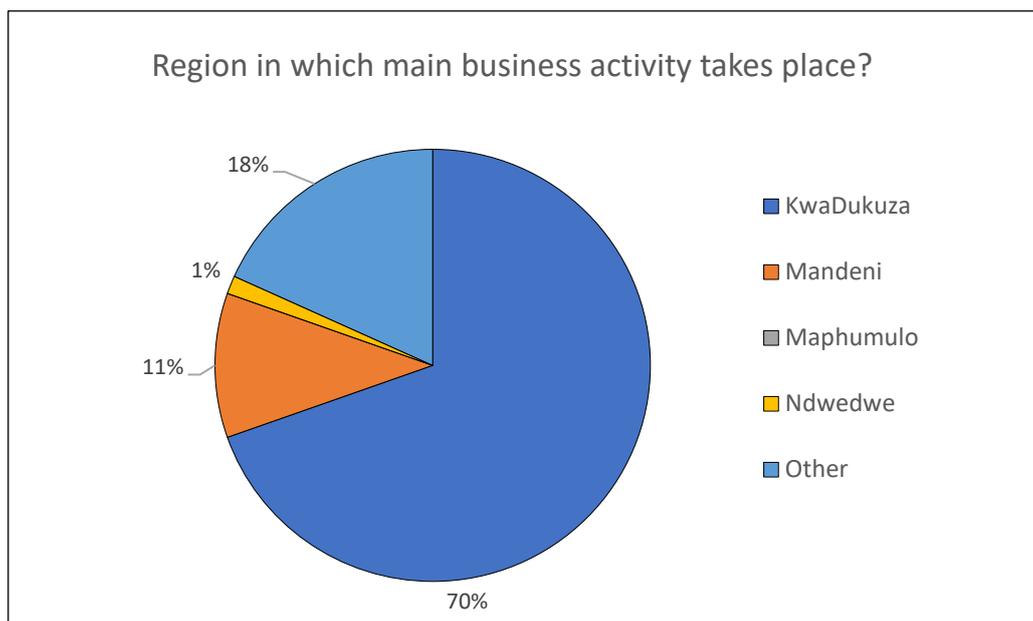
The major positive effect on businesses was the selective easing of lockdown restriction on real economic activity, and not the health effect of Covid-19 as a global pandemic *per se*. Lockdowns and tourist restrictions, imposed by other countries, also had an important effect on international travel and tourists visiting the KZN North Coast.

The relaxation of financial conditions by the SA Reserve Bank and the commercial banks, and the provision of a number of unrestricted relief programs by Government, helped some business to survive during the 1st half of 2020 – whilst many did not survive, despite this support.

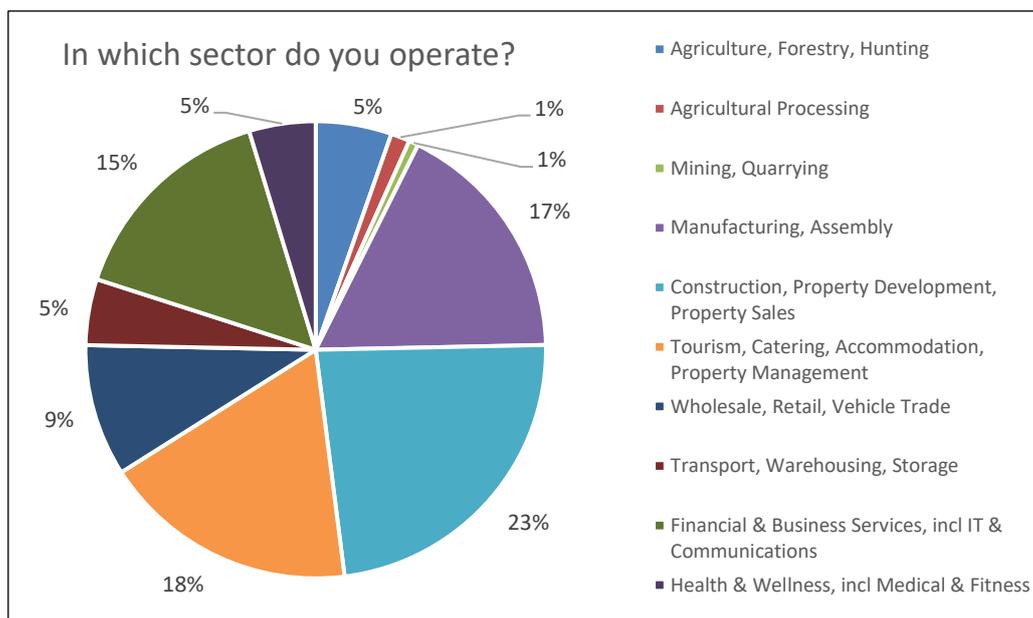
Improved real economic activity played a larger role in business fortunes during the 2nd half 2020 revival, highlighting the importance of real economic activity to business and those employed by them.

The improved Activity Index in the 2nd half of 2020 benefitted from less severe restrictions and the improved health situation, allowing surviving businesses a breather.

iBCI survey responses from iLembe sub-regions:

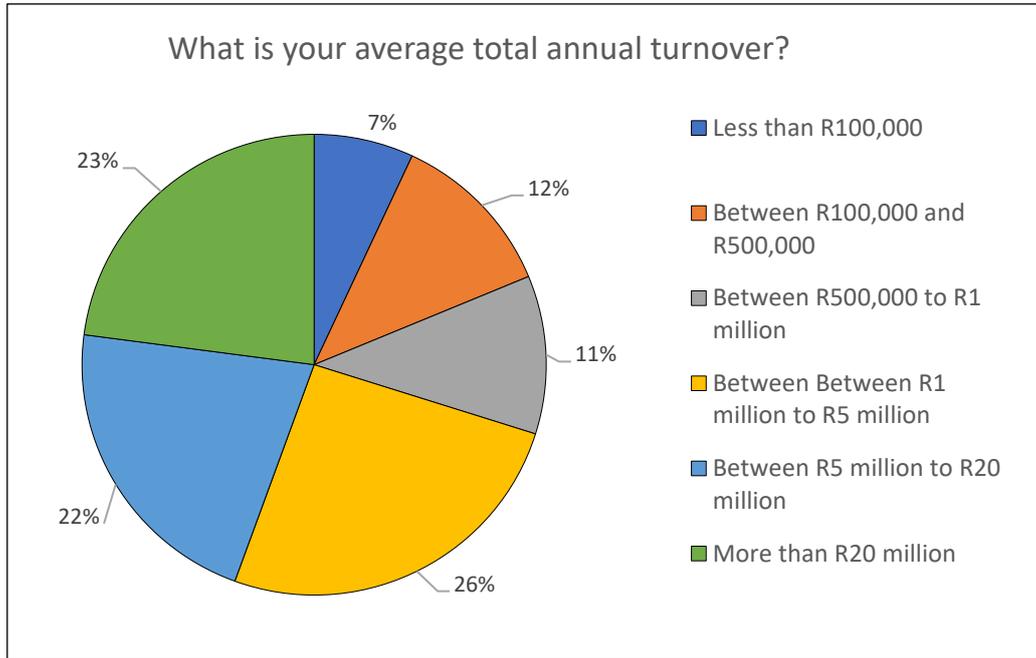


Economic sector participation in the iBCI survey:

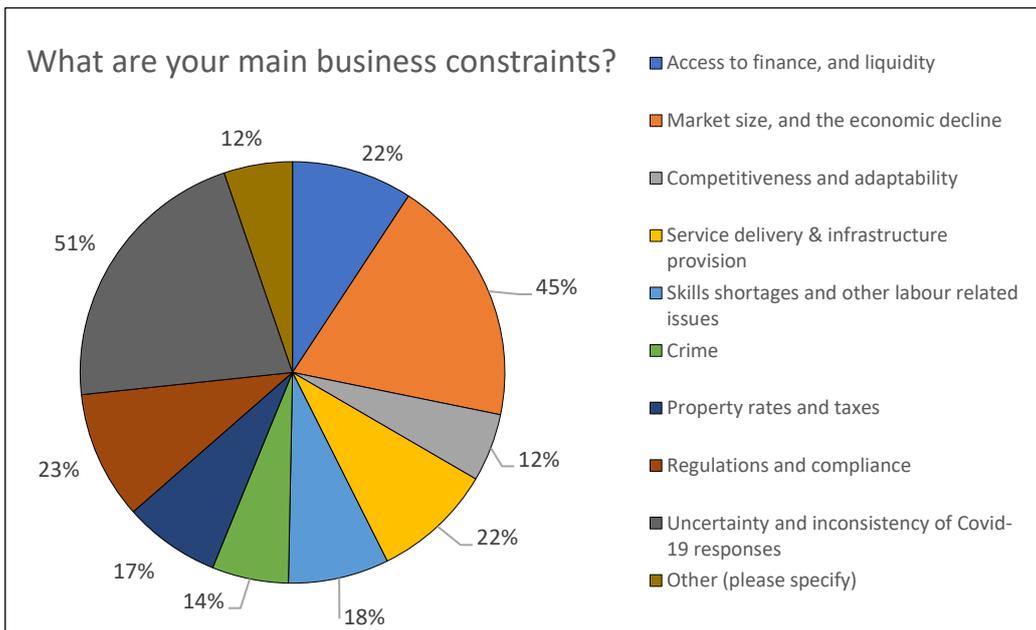


The majority of businesses participating in the 2020 Year-End iBCI Survey operated within the *Construction, Property Development, Property Sales* sector (23%), followed by *Tourism, Catering, Accommodation, Property Management* (18%), *Manufacturing, Assembly* (17%), *Financial & Business Services, incl IT & Communications* (15%) and *Wholesale, Retail, Vehicle Trade* (9%).

Participation in the iBCI survey by annual turnover level:



Perceived business constraints:



The majority of responding businesses, i.e. 51%, indicated that the market uncertainty brought about by the Covid-19 pandemic, and the inconsistency of responses to mitigate the business impact thereof, has presented itself as the biggest constraint to conducting business in the iLembe District.

The contracting national economy, the related low overall business confidence and the disrupted regional trading environment resulted in the two market related indicators of *Competition* and *Market Size* jointly being the most significant business constraints selected by 57% of participating businesses.

23% of survey respondents listed *Regulations and compliance* as primary business constraints. Two further public sector indicators, *Service delivery & infrastructure provision* and *Property rates and taxes* were perceived business constraints of 22% and 17% of responding businesses respectively - making these three public sector indicators being chosen by 62% of respondents as stifling business.

3. 2020/21 Christmas Holiday Trading

The Survey component of the iBCI 2020 Year-End also requested feedback on the 2020/21 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 2021.

Despite the promising start to the festive season, 76% of business that are benefitting from seasonal trade reported a drop in sales in comparison with the same period in 2019/2020.

Almost 20% of these businesses reported a reduction in sales of more than 50%.

The **Tourism** sector was the hardest hit with 96% of responding business indicating a reduction in turnover.

64% of businesses in the **Wholesale, Retail, Vehicle Trade** sector, that benefit from seasonal trade, reported a reduction in sales when compared to 2019/20. Increased or similar turnover was reported by 36% of businesses in this sector.

Of businesses within the **Manufacturing, Assembly** sector that benefit from seasonal trade, 77% recorded a reduction in turnover.

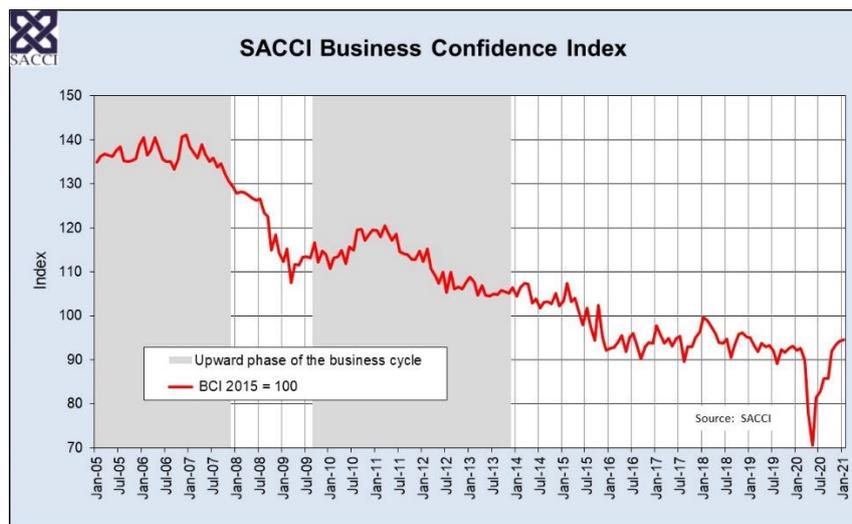
In comparison with the 2019/20 peak trading period, **employment levels** were significantly impacted on with 52% of responding businesses indicated that staffing was reduced, with 18% of those businesses reported a reduction in staffing of up to 50%.

4. SACCI BCI

After the SACCI Business Confidence Index (BCI) declined by 1.6 index points in the 2nd half of 2019 to 91.8, it averaged 84.0 in the 1st half of 2020 and improved to 89.0 in the 2nd half of 2020 with base-year 2015=100.

Notably the SACCI BCI (due to the State of Disaster announced towards the end of March 2020 caused by the Covid-19 global pandemic), declined from an average of 91.6 in the 1st quarter of 2020 to 76.4 in the 2nd quarter of 2020. Measuring 77.8 in April 2020, the BCI retreated further to 70.1 in May 2020 after unexpectedly extending the strict lockdown to May 2020 with various questionable regulations being announced. This was the lowest level ever since the inception of the SACCI BCI in 1985.

With base year 2015 at 100, the 2020 average of 86.5 is also lowest annual level for the BCI since its inception in 1985. During the economic sanctions period of the 1980s, the 1985 BCI measured the second lowest average of 91.5, followed by the average of 92.6 in 2019. The highest annual average for the BCI was recorded in 2006 at 137.5.



Nine of the thirteen sub-indices of the SACCI BCI were at better levels in December 2020 than in June 2020. Lower inflation and lower interest rates played a lesser role in the improvement than the less restrictive lockdown of physical economic activity. The lack of general real activity, particularly between April and June 2020, had a stifling effect on the business psyche. The major positive impacts on the SACCI BCI came from **increased merchandise import volumes, real value of building plans, increased number of vehicles sold, and increased manufacturing output**

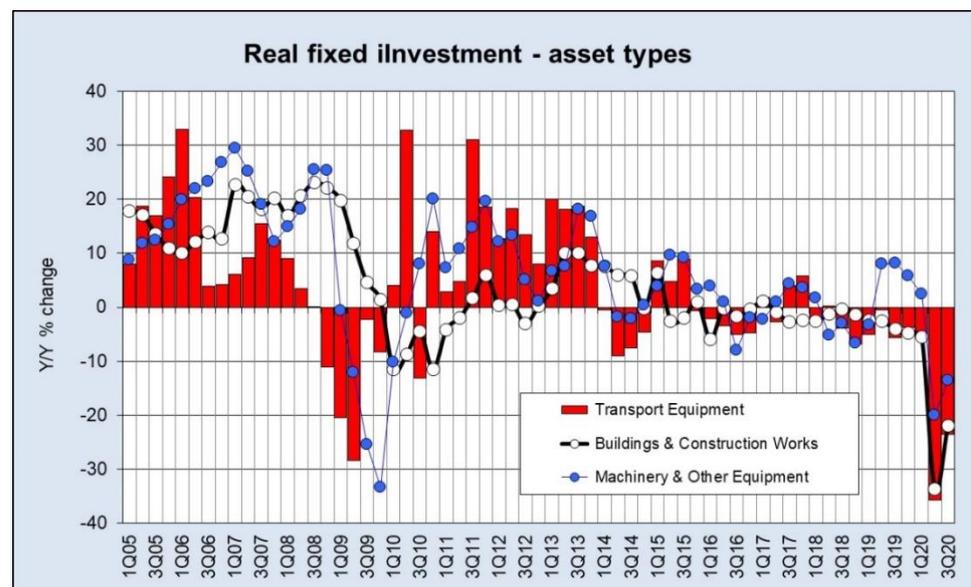
The level of the December 2020 BCI figure of 94.5 suggests that the recovery of the business climate will be a prolonged process. The Covid-19 infection waves and uncertainty on the vaccine program do not inspire confidence.

5. Macro-Economic Review 2nd Half 2020

The major problems within the South African economy did not suddenly come to the fore with the announcement of the Covid-19 pandemic, but were extended and deepened by it. Amongst these are declining output, much higher unemployment, a dented growth potential, public sector financial logjams and lack of service delivery, the scourge of endemic corruption, mal-administration, and institutional incapacity. These are the most prevalent unresolved issues and have been on the agenda for the past two years. This resulted in real fixed investment of the private sector, the public sector and foreign investors declining by 18% y/y in the first three quarters of 2020.

Figure 1

(Source: SA Reserve Bank. Quarterly Bulletin, December 2020)



The uncertainty around land reform and the possible amendment to the Constitution continue to cause nervousness. The economy continued its poor performance in the 3rd quarter of 2020 (6% y/y GDP decline), after the particular sharp decline of 17.5% y/y in the 2nd quarter of 2020. Although the “technical” recession came to an end in the 3rd quarter, depressed conditions in the economy prevailed.

With real fixed investment declining (see Figure 1), it may take up to two years before economic activity will return to pre-Covid-19 levels. Apart from first attending to economic restoration after the lockdown, government will find it more difficult to remedy the inevitability of structural economic adjustment and realignment given junk investment status afforded by the credit rating agencies. The dire straits of State-Owned Enterprises (SOEs) and lack of service delivery at local government level caused the financial viability of public sector institutions to deteriorate further.

In the IMF’s January 2021 update of the World Economic Outlook (WEO), world output was revised upward by 0.3 %-points to 5.5% for 2021 but remained on 4.2% for 2022. For Sub-Saharan Africa, growth for 2021 was revised marginally higher by 0.1 %-points to 3.2% for 2021 and down by 0.1 %-points to 3.9% in 2022. South Africa’s growth was revised lower by 0.2 %-

points to 2.8% for 2021 and 0.1 %-points lower to 1.4% for 2022. This is after South Africa's estimated output has contracted by 7.5% in 2020.

With steep rising unemployment and an unsustainable fiscal position, it is clear that the present core economic policy agenda should focus on restoring the economy before other matters can be addressed. The unsustainable public sector debt situation in South Africa can be ascribed to difficulty in servicing the level of public sector debt, the narrow tax (revenue) base, institutional incapacity, and other urgent social priorities that requires attention.

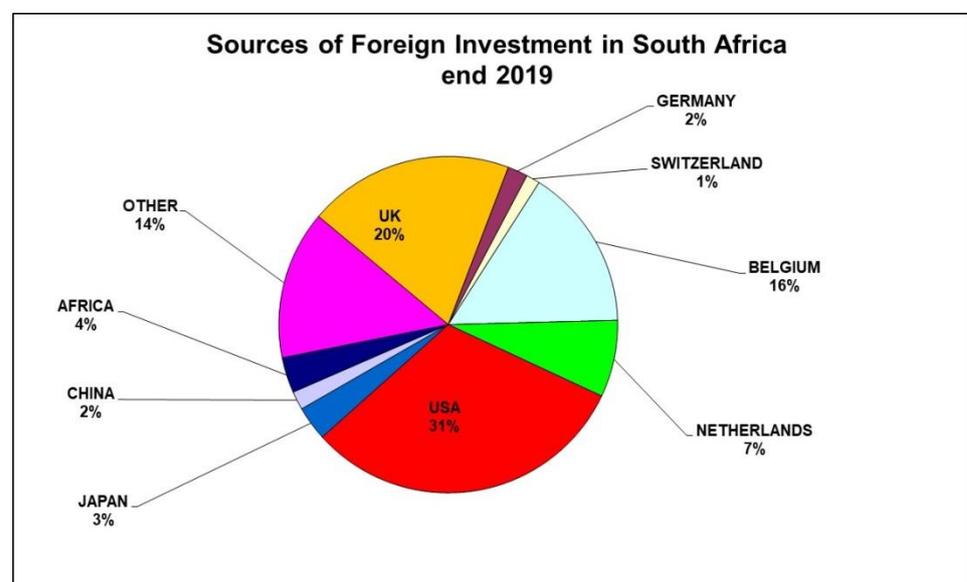
Capital markets are sceptical of whether re-current expenditure elements like remuneration of employees and social grants could be reined in. The debt trend might therefore become more unsustainable. The only way out of this predicament is to enhance private sector fixed investment, provide credible economic policy that improves confidence in economic growth prospects, and reduce the role of the state to lessen borrowing levels and public debt servicing costs.

It is in this context that Budget 2021/22 will be a watershed event to pay urgent attention to medium term corrections and adjustments of public sector finances. Read together with the recent State of the Nation Address, it will be important to note if decisions that reflect on the dilemma of the Minister of Finance find their way into the Budget and overall policy direction. It is not about convincing, but realising the seriousness of getting the economy back on a growth trajectory that goes beyond restoration. To put the economy in a position to attend to matters such as unemployment and equitable rewards for all South Africa's citizens.

The new administration in the USA will assumedly bring a fresh approach to the US economy and in global economic interactions. At the moment the new administration is entangled in its own economic rescue plan. As the largest economy in the world, South Africa should reassess its economic relations with the US and, with a change in global economic relations, act in the best interest of South Africa and its citizens. The USA as an important foreign investor and could play an important role in assisting in the way forward for structural economic reform and sustainable economic growth and employment in South Africa. See Figure 2 for country origins of investment in South Africa.

Figure 2

(Source: SA Reserve Bank. Quarterly Bulletin, December 2020)



The latest economic data for the 4th quarter of 2020 suggests that the economic situation has improved somewhat since the 3rd quarter of 2020 albeit in an indifferent and uncertain environment. Research indicates that a most likely positive outcome could be average 1% GDP growth per annum up to 2024. If structural economic adjustments do not take place, the economy will continue to contract and the business climate will remain vulnerable.

6. Conclusion

The 2020 Year-End iBCI indicates that on many measures businesses are stabilising, many businesses remain challenged and hoping for government support of their sectors, but all remain anxious about what comes next and how the business environment will be propped up.

The emergence of new strains of the virus and the delayed start to a vaccine rollout represent serious threats to the business recovery timetable.

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

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Annexure 1 - Background

The iLembe District Municipality is situated on the east coast of South Africa and is one of the 11 district municipalities of the KwaZulu-Natal province. It is the smallest district municipality in the province, measured by population. There are four local municipalities within the iLembe District, i.e. KwaDukuza, Maphumulo, Ndwedwe and Mandeni.

Enterprise iLembe (EI) is the Economic Development Agency of the iLembe District Municipality with its key mandate to drive economic development and to promote of trade and investment.

The iLembe Chamber of Commerce, Industry & Tourism (iCCIT) is a business association that supports businesses, in the iLembe District, to optimise their commercial potential.

The compiling of the iLembe Business Confidence Index (iBCI) forms part of a wider collaboration between the iCCIT and EI aimed at presenting regional economic indicators and intelligence that will support economic development and investment promotion in iLembe. It also aims to assist stakeholders, both in the private and the public sector, by providing indicators that will assist with business attraction and retention.

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

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

The measurement of business confidence is considered significant since it indicates the current and expected state of a region's economy.

It is widely recognised that business leader's subjective, individual expectations play a key role in economic developments. It also considered as a very good leading indicator of the overall business cycle in South Africa and its regions.

The iBCI is generated by iCCIT and Econdow on behalf of Enterprise iLembe. Econdow are the economists that compile the Business Confidence Index (BCI) of the South African Chamber of Commerce and Industry (SACCI). The SACCI BCI is one of the foremost business confidence indices in South Africa and the iBCI will be interpreted against this measurement of the broader business mood in South Africa.

The SACCI BCI was first published in 1985 and there have been various updates to the BCI with the latest revision in February 2011. As a result, the BCI is now calculated according to an updated composition of sub-indices based in 2010 as 100. The latest update ensured that the SACCI BCI has a contemporary reference point (base year of 2010) and relate to up-to-date information on the economy and markets.

Annexure 2 - Methodology

The iBCI is a hybrid index derived from, firstly, a biannual business survey conducted in the iLembe district and facilitated by the iCCIT on behalf of Enterprise iLembe. It is combined, secondly, with a weighted index of financial and economic variables. Economic and market data are used to calculate the 8 (eight) sub-indices that make up the combined weighted index part of the iBCI. The indicators monitored are considered to have a significant bearing on the business mood and climate in iLembe. However, changing economic and business circumstances could necessitate updating and reassessing the indicators that are important to business in the area.

This composite iBCI merges the business survey and the combined weighted index into one business confidence measurement of the business mood in the iLembe district.

Technical features of the iBCI:

- The iBCI is a composite hybrid index;
- The iBCI includes a biannual business survey conducted amongst businesses in the iLembe District;
- It incorporates the combined weighted index of 8 sub-indices;
- The iBCI is built from the bottom up:
 - incorporating the four sub-regions that make up the iLembe District;
 - regional iBCI weighted according to most prominent activities in the sub-regions;
 - data collected from various sources. i.e. StatsSA, the IMF and the SA Reserve Bank;
 - iBCI is weighted according to regional economic contribution of each region, and
 - on a quarterly basis changes in iLembe activity is merged with survey results.

The iBCI business survey:

The iBCI survey covers nine major economic sectors and focuses on perceived business constraints and expected business conditions. Business conditions are represented through eight elements, amongst others expected changes in sales volumes, orders, sales prices and employment levels.

The survey results are obtained from electronic questionnaires completed by senior managers and business owners during the last month of every six-month period. The sample of respondents remains the same from one survey to the next.

The survey questionnaire contains qualitative questions and no figures or data are requested. Survey responses provide unique information, such as business confidence, rating of business conditions and respondents' expectations (or forecasts) for the next six-month period, for which no official figures exist.

The business survey results are processed as follows:

- Weighted into a combined survey index covering sales volumes (0.25), new orders (0.3), supplier deliveries (0.15), inventory levels (0.1) and employment (0.2);
- Survey results are recorded as up, same or down;
- The index at 0 indicates an extreme lack of confidence, 50 indicates neutrality and 100 indicate extreme confidence. If the index records 0, it implies that all respondents have indicated that business conditions are down; if 50 all respondents on average indicate that business conditions are unchanged; and if 100 all respondents indicate business conditions are upbeat, and

- An increase in business confidence indicates that economic activity in the area could improve in the medium term. The opposite applies if confidence declines. The change in the index between quarters gives an indication of a deterioration or an improvement in the business climate.

Business confidence tends to rise when the increase in business activity matches or surpasses previous expectations and the external environment (e.g. the political situation in South Africa, economic policy, the world economy) remains relatively stable.

Low business confidence could be the result of uncertainty about business prospects and/or dissatisfaction with current business performance. This may reflect uncertainty about the macro-environment within which the company operates and/or that business activity (e.g. sales, orders, production and new contracts) is low.

The Combined Weighted Index:

The following sub-indices are contained in the combined iBCI:

- The exchange rate of the rand against the US dollar;
- Consumer inflation rate for metropolitan and urban areas excluding food, non-alcoholic beverages and petrol;
- Retail sales volumes;
- Volume of manufacturing output;
- Real value of private sector building plans passed;
- US dollar sugar price;
- Business borrowing from the banking sector, and
- Number of holiday tourists.