

iLEMBE
BUSINESS CONFIDENCE INDEX (IBCI)
2022 YEAR-END REVIEW
FEBRUARY 2023



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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 iBCI 2022 Year-End was shaped by several macro and local factors - Eskom's record levels of rotational loadshedding, record high fuel prices, and the impact of the Transnet strike in October 2022 on operations of the Durban Harbour. At a regional level, the delay in repairs critical roads, following the KZN floods of April and May 2022, the closure of the adjacent Durban and eThekweni beaches due to critically high E. coli levels, and Tongaat Hulett's business rescue intervention towards the end of October 2022 formed the background to a challenging 2nd half of 2022.

- Negative business sentiment resulted in the iBCI 2022 Year-End (i.e. both the Survey and Economic Activity Indices) declining into negative territory, recorded at 49 index points, a decline of 1.1 index points compared to the 1st half of 2022, and a 3.7 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, remained in negative territory at 42.5 index points – the lowest level recorded since the first half of 2021.
The iBCI Economic Activity Index component remained unchanged at 55.6 index points, the fifth successive period of positive economic activity for the iLembe District.
- The performance of the **business indicators** included in the iBCI Survey Index was varied against the levels recorded in the previous survey period, with all the indicators however being in the negative.
 - *Sales Volumes* (45.5;>3.8), as a measure of business performance, return on sales efforts and trading location, and *Order Book* (38.5;<4.4), as a leading indicator of market depth and liquidity, remained firmly entrenched in negative territory.
 - *Levels of Employment* (40.0;<4.2) 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**, three sectors recorded positive business confidence, i.e. above the neutral level of 50 index points.
 - These sectors were *Energy, incl. Oil, Petroleum & Gas* sector (51.3;-), *Wholesale, Retail, Vehicle Trade* sector (54.2;0), and *Arts, Culture & Creative Industries* sector (57.5;<5) being the most confident.

- Business sentiment in other prominent regional sectors were in the negative, namely *Manufacturing, Assembly* sector (30;<9.7), *Agriculture, Forestry, Hunting* sector (40.5;<14.0), *Construction, Property Development, Property Sales* sector (40.7;<6.6) and the *Tourism, Catering, Accommodation, Property Management* (44;>3.3).
- Business confidence in the *Tourism, Catering, Accommodation, Property Management* sector remained entrenched in the negative, despite a slight improvement from the gloomy sentiment expressed during the previous 6-month period.
 - Responses indicated that general trade in this sector have not yet recovered to pre-Covid levels, and that international tourists, especially, are still less than 2019 levels.
 - Respondents indicated that 2022 visitor numbers were an improvement on the previous year and that domestic marketing is “starting to pay off”.
 - In addition to the impact of the cost of fuel on the travel decisions of holidaymakers, increases in revenue were negated by sharp increases in input costs, especially fuel for stand-by generators. One business reported that generator fuel equates to 2% of its turnover, whilst others reported that the need for electricity generation doubled their operational electricity expenses.
 - Several respondents highlighted the water quality issues which resulted in the closure of a number of Durban and wider eThekweni Metro beaches, and the confusion about whether those issues extended into the KZN North Coast. There was consensus among respondents that local tourism role players have their work cut out to ensure that KZN North Coast brand does not become collateral damage.
- Business sentiment in the *Construction, Property Development, Property Sales* sector continued its slump, with this key sector in the iLembe District’s economy becoming the 5th least confident business sector.
- Sentiment in the *Agriculture, Forestry, Hunting* sector declined by 14 index points, mainly on the back of the Tongaat Hulett business rescue intervention and the uncertainty it placed on the entire sugar value chain, including cane supply, milling operations, refining, and animal feeds.
- The strike in October 2022 that crippled South Africa’s ports, including Durban, contributed to business sentiment in the *Transport, Distribution, Warehousing, Storage, Freight Forwarding, Shipping & Exports* sector declining by 19.1 index points and resulting in this sector being the second least confidence sector.
The “dismal” road infrastructure repairs and maintenance following the 2022 floods has added a daily burden of inconvenience of operators in this industry.
- *Manufacturing, Assembly* sector was the least confident business sector.
Load shedding/load curtailment, power outages, industrial and especially community unrest, inadequate security, and decaying and inadequate infrastructure in industrial nodes, continue to take its toll on this labour-intensive sector.

- The *Mandeni Local Municipality* (31.9;<4.1), 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 Maphumulo (72.5; –), whilst KwaDukuza (43.5;<.3) declined by .3 index points to entrench itself in negative sentiment.
- The iBCI Survey component also reflects on **business expectations and business outlook** over the next six months. **Business expectations** for the 1st half of 2023 remains negative, being recorded at 44.4 index points, 4.6 index points more negative than the current sentiment.
- The **Activity Index** of the composite iBCI remained unchanged in the 2nd half of 2022 at 55.6 index points, confirming that the business potential in the iLembe region is at a better level than what businesses in the region actually experience.
- The two market related indicators of *Market size, and the economic decline*, and *Competitiveness and adaptability*, were indicated by 60% of participating businesses as the **constraints to conducting business** in the iLembe District.
 - The public sector indicators of *Service delivery & infrastructure provision (41%)*, *Regulations and compliance (31%)*, and *Property rates and taxes (28%)* were selected by all the business respondents as primary business constraints.

2021/22 Christmas Holiday Trading

- Enterprise iLembe's Tourism Performance Bi-Annual Report for the period July to December 2022 indicates that Ballito, specifically, welcomed 108 447 visitors, with occupancy levels of 89%. This was an increase of 24% compared to December 2021, and compared to 79% in 2019.
- Respondents to the iBCI Survey component also indicated that 2022 visitor numbers were an improvement on the previous year and that domestic marketing is "starting to pay off".
- Chronic risks to the tourism appeal of the KZN North Coast stubbornly persists.
One respondent reflected that with "drunken behaviour and littering on beaches (the) trajectory is surely downward...unless by-laws are enforced.... We need to WAKE UP and fast...(there) needs to be collaboration and strong leadership."
- Businesses were also asked to rate elements that impact on the local trading environment and visitors experience, during the recent peak holiday season.

2022/23 Holiday Season Scorecard	
Traffic management and control (especially primary shopping nodes)	51%
Provision of additional services to accommodate influx, e.g. waste collection and litter picking	67.3%
Visible policing and the enforcement of municipal bylaws	56.9%
Response from authorities to service interruptions	45.5%

2. Review of iBCI 2022 Year-End

The iLembe Business Confidence Index (iBCI) 2022 Year-End, assessing business confidence in the iLembe District during the second half of 2022, was shaped by a number of macro and local factors.

Eskom's record levels of rotational loadshedding have not only damaged equipment and dented productivity and profitability, it also disrupted the provision of other utilities, including water, sewer networks and cellular communication.

Petrol and diesel prices reached record highs, with an increase of over 36% in a seven-month period. Apart from the ongoing war in the Ukraine, other contributing factors included annual increases in fuel-related taxes.

The diesel price especially had a significant knock-on effect on inflation because of the impact on the transport of food and general goods.

The Transnet strike in October 2022 impacted on the water and landside operations of the Durban Harbour, impacting on container freight ranging from cars to deciduous fruits.

At a regional level, the delay in repairs to infrastructure, specifically critical roads, following the devastating KZN floods of April and May 2022, the closure of the adjacent Durban and eThekweni beaches due to critically high E. coli levels, and Tongaat Hulett's business rescue intervention towards the end of October 2022 formed the background to a challenging 2nd half of 2022.

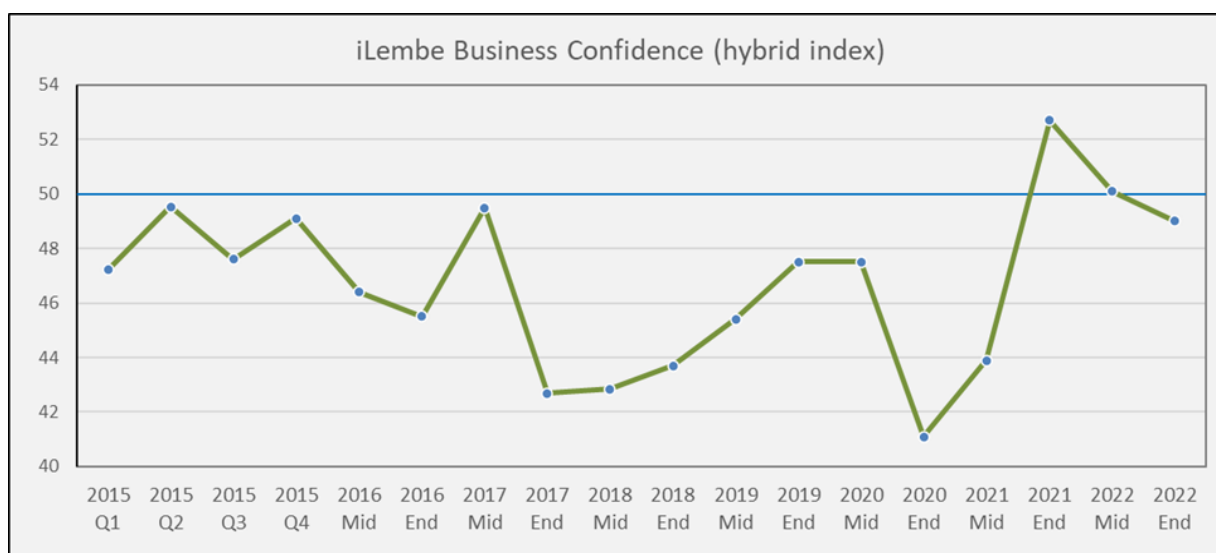
This trading environment resulted in *business sentiment* during the second half of 2022, as measured through the iBCI Survey Index component, declining by a further 2.1 index points compared to the previous period (1st half of 2022).

Business sentiment, which was also recorded at 7.2 index points lower than the same period a year earlier, is now firmly entrenched in negative territory at 42.5 index points.

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

The negative regional business sentiment resulted in the combined hybrid iBCI (i.e. both the Survey and Economic Activity Indices) declining into negative territory, i.e. below the neutral level of 50 index points.

The iBCI 2022 Year-End was recorded at 49 index points, a decline of 1.1 index points compared to the 1st half of 2022, and a 3.7 index point decline Y/Y.



iBCI 2022 Year-End Survey Component:

The iBCI Survey component, in which regional businesses leaders and investors indicate their **sentiment about the region's economic and business performance**, remained in, familiar, negative territory.

The **iBCI Survey Index** was recorded at 42.5 index points, the lowest level recorded since the first half of 2021.

All the **business indicators** included in the iBCI Survey Index were recorded at negative levels. *Sales Volumes* (45.5;>3.8), as a measure of business performance, return on sales efforts and trading location, and *Order Book* (38.5;<4.4), as a leading indicator of market depth and liquidity, remained firmly entrenched in negative territory.

Levels of Employment (40.0;<4.2) remains persistently negative, symptomatic of the adverse events and economic conditions on employment, and social security, in the region.

The other business indicators of *Late delivery of orders* (45.5;<7.0) and *Inventory Levels* (47.0;>1.2) were also recorded in the negative.

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

These sectors were *Energy, incl. Oil, Petroleum & Gas* sector (51.3;-), *Wholesale, Retail, Vehicle Trade* sector (54.2;0), and *Arts, Culture & Creative Industries* sector (57.5;<5) being the most confident.

Business sentiment in other prominent regional sectors were in the negative, namely *Manufacturing, Assembly* sector (30;<9.7), *Agriculture, Forestry, Hunting* sector (40.5;<14.0), *Construction, Property Development, Property Sales* sector (40.7;<6.6) and the *Tourism, Catering, Accommodation, Property Management* (44;>3.3).

Business confidence in the *Tourism, Catering, Accommodation, Property Management* sector remained entrenched in the negative, despite a slight improvement from the gloomy sentiment expressed during the previous 6-month period.

Views were expressed that businesses in this sector have not yet recovered to pre-Covid levels, and that international tourists, especially, are still at less than 20% of the 2019 levels. Respondents indicated that 2022 visitor numbers were an improvement on the previous year and that domestic marketing is "starting to pay off".

Business respondents bemoaned the ongoing impact of load shedding and the cost of fuel on the recovery of this sector locally.

In addition to the impact of the cost of fuel on the travel decisions of holidaymakers, increases in revenue were negated by sharp increases in input costs, especially fuel for stand-by generators. One business reported that generator fuel equates to 2% of its turnover, whilst others reported that the need for electricity generation doubled their operational electricity expenses.

This prominent local industry sector continued to be impacted on by the lethargic response to the repair and replacement of damaged road infrastructure following the KZN floods, especially the economic arteries of the N2, M4, and P103 that remain either closed or restricted.

Restrictions on the N2, and the M4 remain closed 10 months after the flood destruction.

Several respondents highlighted the water quality issues which resulted in the closure of a number of Durban and wider eThekweni Metro beaches, and the confusion about whether those issues extended into the KZN North Coast. There was consensus among respondents that local tourism role players have their work cut out to ensure that KZN North Coast brand does not become collateral damage.

Business sentiment in the *Construction, Property Development, Property Sales* sector continued its slump, with this key sector in the iLembe District's economy becoming the 5th least 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.

Sentiment in the *Agriculture, Forestry, Hunting* sector declined by 14 index points, mainly on the back of the Tongaat Hulett business rescue intervention and the uncertainty it placed on the entire sugar value chain, including cane supply, milling operations, refining, and animal feeds.

The significant anxiety around rumours of delayed supplier payments and the resumption of milling and refining operations, prompted a Chamber member to succinctly summarise the mood, considering the importance of the sugar industry in the iLembe region, that this is not merely a speed wobble, but a collision that needs to be avoided.

The escalation in fertiliser and fuel prices are also contributing to the dejected sentiment in this sector.

The strike in October 2022 that crippled South Africa's ports, including Durban, contributed to business sentiment in the *Transport, Distribution, Warehousing, Storage, Freight Forwarding, Shipping & Exports* sector declining by 19.1 index points and resulting in this sector being the second least confidence sector.

Respondent sentiment in this sector was also impacted on by load shedding, the economy wide impact of the cost of power, as well as that of other services and the resulting pressure on the consumer's disposable income.

The "dismal" road infrastructure repairs and maintenance following the 2022 floods has added a daily burden of inconvenience of operators in this industry.

Manufacturing, Assembly sector was the least confident business sector.

Load shedding/load curtailment, power outages, industrial and especially community unrest, inadequate security, and decaying and inadequate infrastructure in industrial nodes, continue to take its toll on this labour intensive sector.

The mood is summarised by the following statements:

"Loadshedding is just decimating business confidence with resultant drop in sales volumes..Very hard to forecast business going forward..We just hanging in there ...probably hoping in vain for things to improve... (sic)"

"We need major assistance from Government both financial and other market interventions including soft interest loans/grants to be able to survive the foreseeable future and maintain

jobs...there is no real urgency from Government to step in with drastic measures to assist small to medium sized businesses navigate the crippling load shedding and unrealistic minimum wage increases etc. (sic)"

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 (31.9;<4.1), 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 Maphumulo (72.5; –), whilst KwaDukuza (43.;<.3) declined by .3 index points to entrench itself in negative sentiment.

iBCI 2022 Year-End Business Expectations (1st half of 2023):

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

Business expectations for the 1st half of 2023 remains negative, being recorded at 44.4 index points, 4.6 index points more negative than the current sentiment.

The pessimistic 6-month business outlook is shared by the iLembe regions most prominent sectors, namely *Transport, Warehousing, Storage; Agriculture, Forestry, Hunting; Construction, Property Development, Property Sales; and Manufacturing, Assembly.*

iBCI 2022 Year-End Activity Index Component:

The iBCI Activity Index of the composite iLembe District Business Confidence Index (iBCI) remained virtually unchanged in the 2nd half of 2022.

The strong recovery of the Activity Index after the Covid period appears to have stabilized at around 55. This indicates that encouraging business prospects are still prevalent and even better than the pre-Covid level of around 48.

The positive 2nd half 2022 level of 55.6 for the Activity Index confirms that the potential for business in the iLembe region is at a better level than what businesses in the region actually experience.

The effect of exogenous events, in specifically KZN like the unrest of July 2021 and the floods of April/May 2022 that devastated the coastal areas, furthermore affected the economy and the business environment of the iLembe District. Whereas Covid had a national effect, the unrest and floods and the inability of the authorities to rejuvenate the area despite disaster relief aid and efforts, left business in a disadvantaged position. This caused the discrepancy between the iBCI's Activity Index and the iBCI Survey component.

The current level of the Activity Index is some 19 index points above the April 2020 level when the Covid lockdown was at its severest. 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 invasion of Ukraine conflict was a major global obstructing factor in the disruptions of global fuel and food markets.

Although the iBCI Activity Index remained unchanged on the 1st half of 2022, business prospects remained in positive territory and at a comfortable level despite exogenous setbacks referred to earlier.

- Three of the eight sub-indices of the iBCI Activity Index had a positive impact on the index between the 1st half of 2022 and the 2nd half of 2022.

- The positive contribution by far came from improved tourism (+55%), followed by the weaker rand (+12.6%), and credit availability (+4.8%).
- Depending on the type of economic activity per sub-region, the movement of the activity index per region between the 2nd half of 2022 and the 1st half of 2022 was as follow:
 - Mandeni (+1.1%)
 - KwaDukuza (+0.3%)
 - Ndwedwe (-0.9%) and
 - Maphumulo (-1.8%).

It appears that the macro-economic environment was on a recovery path and gaining momentum towards the end of 2022. It had a positive economic and business effect on the country as a whole and was also evident in the iBCI Activity Index of iLembe.

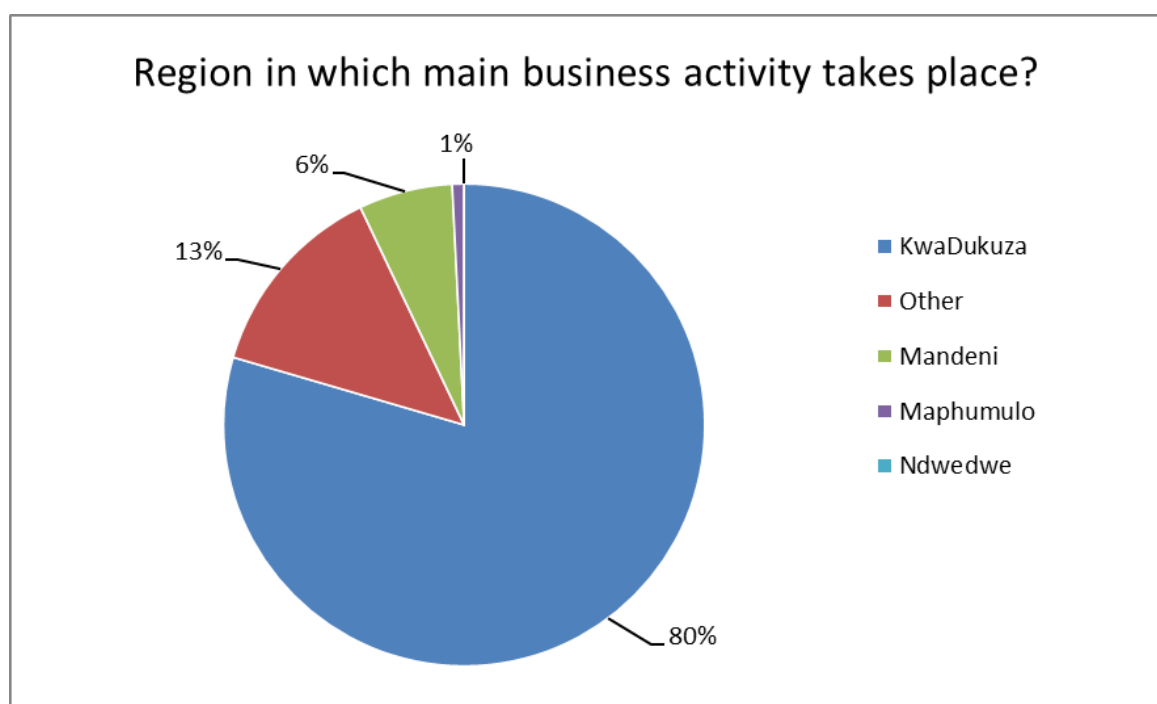
However, high inflation and a stricter monetary policy stance accompanied by electricity supply shortages (even during the holiday period) carried the prospects of tough business conditions ahead and placing a lid on economic expansion and fixed investment. Notwithstanding, established business's resilience and endurance could utilise the positive business prospects to its benefit and bolster business in the iLembe region.

Tourism remains a pivotal activity for the iLembe region, and an important business link to other sectors with the potential to restore normality.

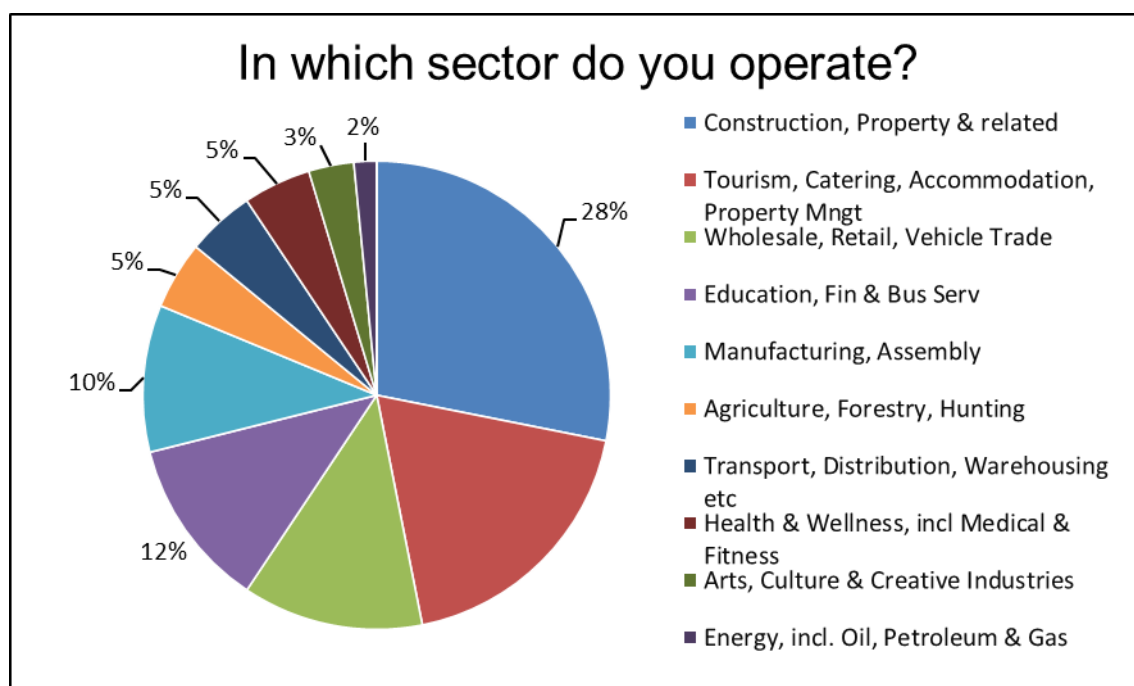
Inflation is slowing and gives rise to a less strict monetary policy stance (less interest rate increases). This is supported by stabilising fuel prices.

Increasing electricity and water tariffs, and consistent more power outages, could however contribute to price instability and hardship amongst households and businesses. Unemployment will remain rigid and unacceptably high and could lead to further socio-political disturbances.

iBCI survey responses from iLembe sub-regions:

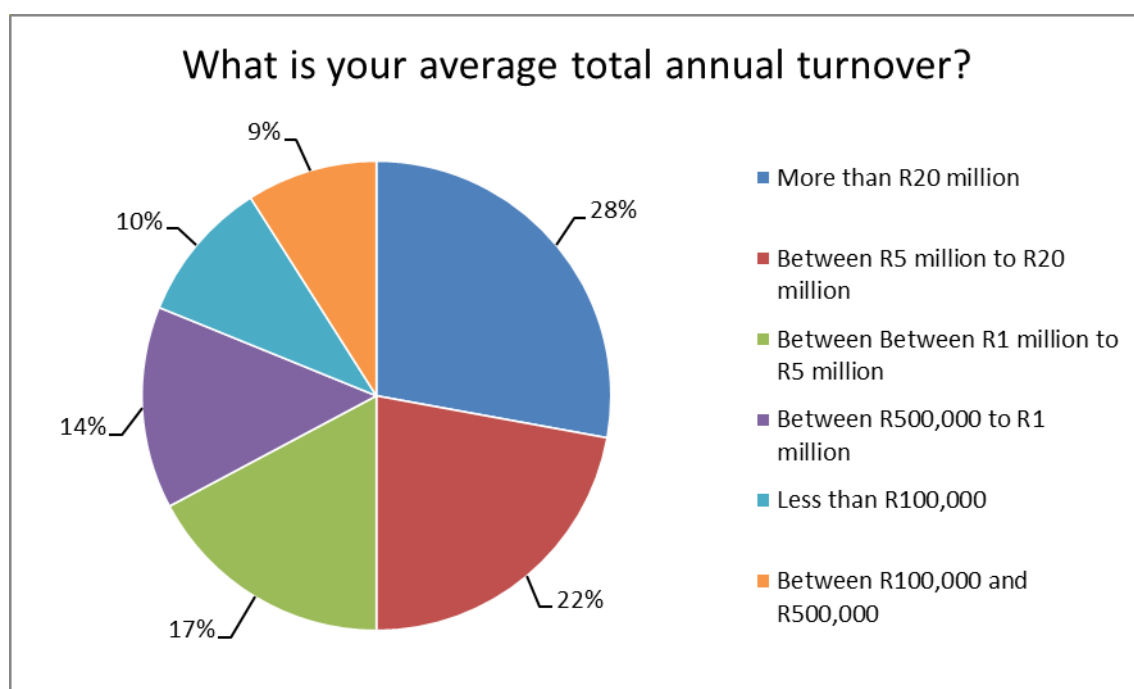


Economic sector participation in the iBCI survey:

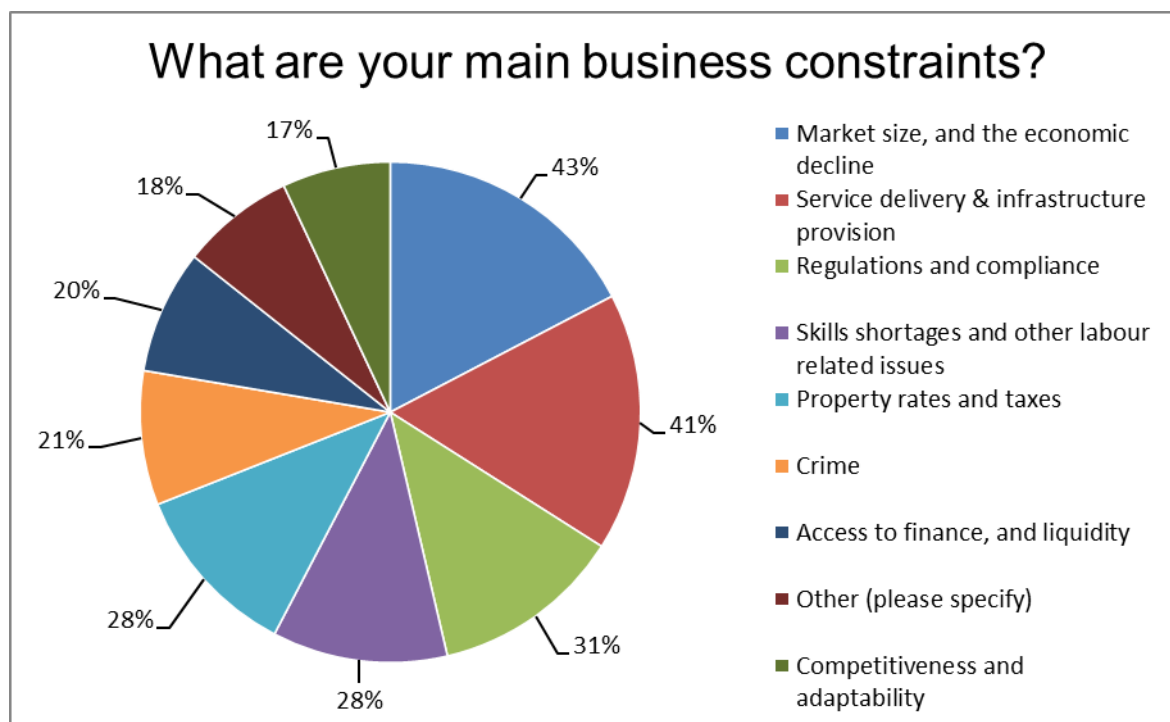


The majority of businesses participating in the 2023 Year-End iBCI Survey operated within the *Construction, Property Development, Property Sales* sector (28%), followed by *Tourism, Catering, Accommodation, Property Management* (19%), and *Wholesale, Retail, Vehicle Trade* (13%).

Participation in the iBCI survey by annual turnover level:



Perceived business constraints:



The two market related indicators of *Market size, and the economic decline*, and *Competitiveness and adaptability*, were indicated by 60% of participating businesses as the **constraints to conducting business** in the iLembe District.

The public sector indicators of *Service delivery & infrastructure provision* (41%), *Regulations and compliance* (31%), and *Property rates and taxes* (28%) were selected by all the business respondents as primary business constraints.

3. 2022/23 Christmas Holiday Trading

The Survey component of the iBCI 2022 Year-End requested feedback on the 2022/23 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 2023.

Enterprise iLembe's Tourism Performance Bi-Annual Report for the period July to December 2022 indicates that Ballito, specifically, welcomed 108 447 visitors, with occupancy levels of 89%. This was an increase of 24% compared to December 2021, and compared to 79% in 2019.

Respondents to the iBCI Survey component also indicated that 2022 visitor numbers were an improvement on the previous year and that domestic marketing is "*starting to pay off*".

Chronic risks to the tourism appeal of the KZN North Coast stubbornly persists.

One respondent reflected that with "*drunken behaviour and littering on beaches (the) trajectory is surely downward...unless by-laws are enforced.... We need to WAKE UP and fast...(there) needs to be collaboration and strong leadership.*"

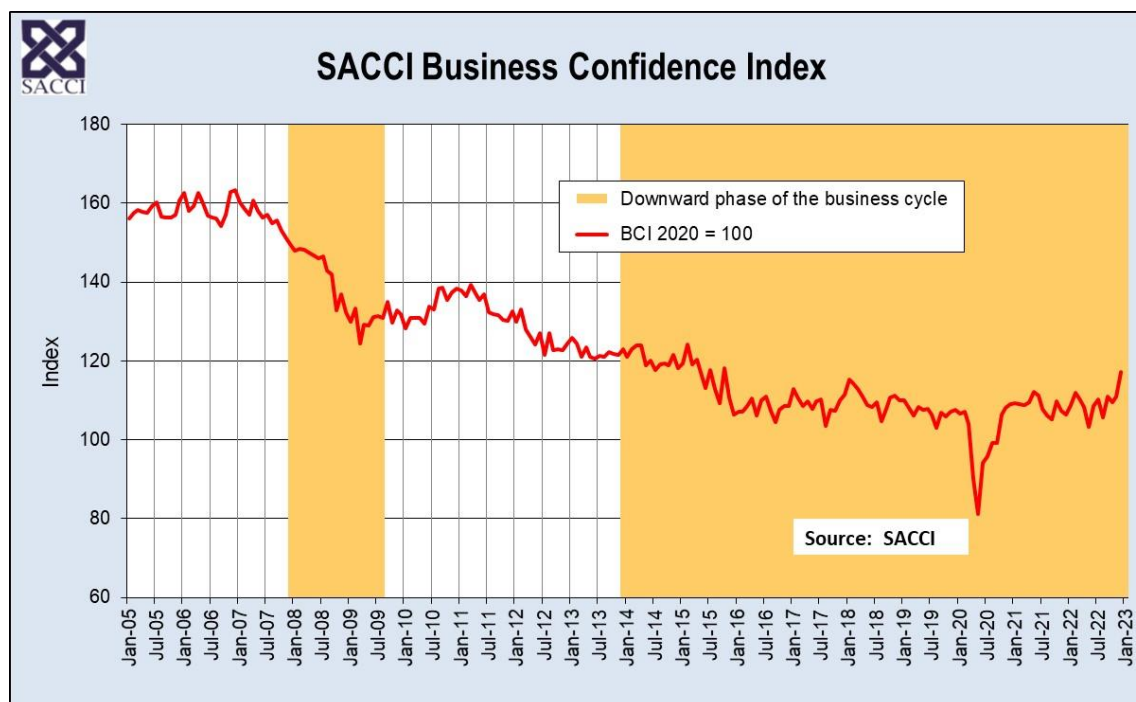
Businesses were also asked to rate elements that impact on the local trading environment and visitors experience, during the recent peak holiday season.

2022/23 Holiday Season Scorecard	
Traffic management and control (especially primary shopping nodes)	51%
Provision of additional services to accommodate influx, e.g. waste collection and litter picking	67.3%
Visible policing and the enforcement of municipal bylaws	56.9%
Response from authorities to service interruptions	45.5%

4. SACCI BCI 2nd Half 2022

With 2020 as base year (2020=100) the **SACCI** Business Confidence Index (BCI) improved by 2.1 index point from an average of 108.6 in the 1st half of 2022 to 110.7 in the 2nd half of 2022. The persistent electricity supply crisis towards the end of 2022 with stricter load shedding, and the continuation of the Russian invasion of Ukraine and its effect on global business relationships and commodity prices, were still negatively affecting the world economy and business confidence. It appears that inflation has been receding lately with less strict monetary policy stance.

The **SACCI** BCI recovered and averaged 108.5 in 2021 and 109.6 in 2022.



Six of the fourteen **SACCI** BCI sub-indices were at better levels in December 2022 than in June 2022 - namely, higher US\$ platinum and gold price, increased merchandise import volumes, improved tourism, increased vehicle sales, increased manufacturing output, and higher share prices on the JSE. Inward tourism recovered markedly and doubled from June to December 2022.

The other six sub-indices of the **SACCI** BCI were neutral to negative but not to the extent to negatively impact the business climate in general. The weaker rand exchange rate, higher inflation, less energy supply, and high interest rates dampened business confidence.

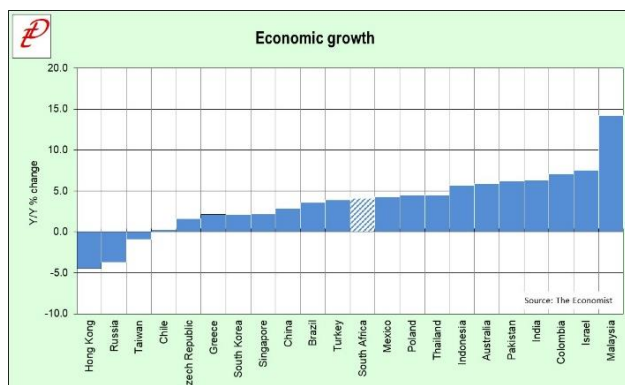
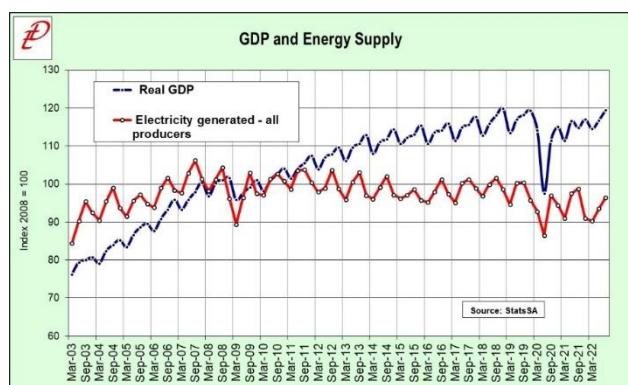
5. Macro-Economic Review 2nd Half 2022

In the first three quarters of 2022, the better performing sectors were transport & communication (+8.9% y/y), wholesale and retail trade, hotels, and restaurants (+4.8%), finance, real estate, and business services (+4.0% y/y), and personal services (+3.9% y/y). Sectors like manufacturing (+0.2% y/y), construction (-4.7% y/y), agriculture (-4.9%), and mining (-6.9%) does not bode well for employment with the unemployment rate above 32%.

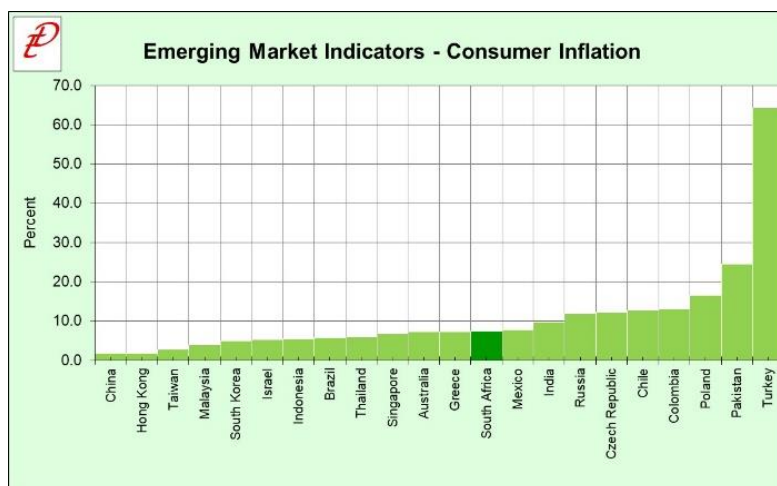
GDP GROWTH						
SECTOR	2020	2021	1Q 2022	2Q 2022	3Q 2022	¾ 2022
	%Δ	%Δ	Y-o-Y %Δ	Y-o-Y %Δ	Y-o-Y %Δ	%Δ
Transport and communication	-15.4%	4.7%	9.0%	6.2%	11.3%	8.9%
Wholesale and retail trade; hotels and restaurants	-12.4%	6.4%	6.0%	1.1%	7.5%	4.8%
Finance, real estate and business services	0.7%	3.3%	1.6%	4.8%	5.5%	4.0%
Personal services	-2.0%	5.5%	6.2%	3.7%	2.0%	3.9%
Manufacturing	-12.5%	6.5%	1.2%	-3.4%	2.7%	0.2%
General government services	0.7%	0.1%	0.9%	-0.7%	-0.6%	-0.2%
Electricity and water	-5.9%	2.2%	-0.2%	-1.8%	-4.6%	-2.3%
Construction	-18.5%	-2.2%	-6.5%	-5.1%	-2.4%	-4.7%
Agriculture, forestry and fishing	14.9%	8.8%	-1.7%	-23.8%	22.3%	-4.9%
Mining and quarrying	-11.8%	12.0%	-4.6%	-9.6%	-6.2%	-6.9%
GDP excluding general government	-6.6%	5.2%	2.9%	0.3%	4.5%	2.5%
GDP excluding agriculture	-6.5%	4.6%	2.8%	1.4%	3.5%	2.6%
GDP at market prices	-6.3%	4.9%	2.7%	0.2%	4.1%	2.3%

Source: StatsSA. Note: Y-o-Y %Δ = year-on-year %

The economic output has returned to pre-Covid levels in the 3rd quarter of 2022 as the real GDP in the 3rd quarter 2022 GDP was 0.2% higher than the real GDP of the 4th quarter 2019. This is somewhat sooner than expected, but with numerous structural impediments still looming, GDP growth is expected be below 1% in 2023. The difficulties of State-Owned Enterprises (SOEs), notably Eskom and Transnet, and lack of service delivery by the public sector in general and local government in particular, place a drag on economic activity and performance. The lack of real action on the Zondo Commission reports and continuing corruption and mal-management still prevails.



South Africa's economic performance within peer group context is towards the median and need to be improved in order to make an impact in global markets. Inflation appears to be receding lately but increased electricity tariffs (+18%) will rekindle the inflationary process. Fiscal constraints and credit ratings below investment grade will hinge on reviewed economic policy options by government.



6. Conclusion

Several macro and local factors formed the background to a challenging 2nd half of 2022, reflected by the iBCI 2022 Year-End retracting to the negative.

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.

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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.