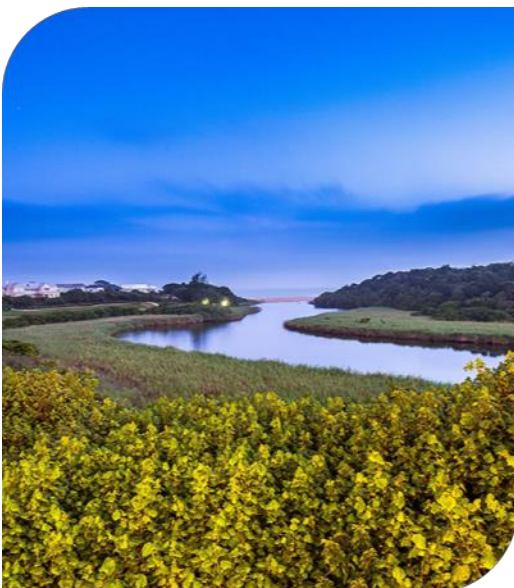


iLembe Business Confidence Index (iBCI)

2023 Mid-Year Review

August 2023



Insight
ilembe
Chamber of Commerce
Industry and Tourism


enterprise ilembe
ECONOMIC DEVELOPMENT AGENCY

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

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

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

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

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

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

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

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

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

Manufacturing, Assembly sector

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

Agriculture, Forestry, Hunting sector

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

Construction, Property Development, Property Sales sector

- The slump in business sentiment in this stalled with an improvement of 5.7 index points, although business confidence in this key sector in the iLembe District's economy remain firmly in the negative.
- Views expressed by responding businesses in this sector once again highlighted delayed planning approvals, unwieldy building control processes, development of infrastructure, expectations around developers' contributions towards infrastructure development, an increasing concern about the capacity of especially road infrastructure and resulting traffic congestion.
- These constraints are magnified in periods of rapidly increasing input costs, and higher inflation in general, with respondents stating that it is not uncommon for developers to rework development costs, and return on cost, numerous times in between development plan submissions.
- An increase in the illegal occupation of private property, and land invasion in general, were highlighted as a growing concern.

Tourism, Catering, Accommodation, Property Management sector

- Business confidence in this sector remained entrenched in the negative, despite an improvement of 2.5 index points on the previous 6-month period.
- This dampened sentiment persisted despite the delivery of a hugely successful 2023 edition of the Ballito Pro Surfing competition, with its popular ancillary activities, that provided a boost to holiday accommodation, with occupancy levels of 95% and above being reported,

and the hospitality industry in general. The inaugural ZA Fest, which featured the Ndlovu Youth Choir, added to the KZN North Coast's destination appeal.

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

In line with the business sentiments expressed by respondents in the *Manufacturing, Assembly* sector, the Mandeni Local Municipality (22.0;<9.9), which hosts the Isithebe Industrial Estate, the manufacturing heartland of the iLembe District, remained the least confident region in the iLembe District.

The most confident local municipality remains Maphumulo (60.0;<12.5), whilst business sentiment in KwaDukuza (41.5;<2.5) declined to entrench itself in the negative.

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

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

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

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

2. Review of iBCI 2023 Mid-Year

The iLembe Business Confidence Index (iBCI) 2023 Mid-Year, assessing business confidence in the iLembe District during the first half of 2023, was shaped by a number of macro and local factors.

Eskom's power generating woes have resulted in South Africa experiencing an average of stage 4 load-shedding every day thus far in 2023, with more Gigawatt hours being load shed in the first 5 months of 2023, than in the whole of 2022.

Damage to electronic equipment, the functioning of businesses at reduced capacity and resulting losses in production, and an increase in operational costs due to the investment in, and operation of, backup power solutions, have added to the financial burden on businesses. Investment is also suffering, with especially foreign investors being deterred by the energy crisis.

The cost-of-living crisis, identified by the President as one of the country's top four challenges in his 2023 State of the Nation

address, manifested itself in fuel, fertiliser, and stubbornly high food prices, setting the trend for headline inflation.

Supply chain obstacles, geopolitical events and international price rises continue to have a significant impact on overall inflation trends. Combined with events that weaken the local currency, South Africa is faced with spiralling inflation.

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

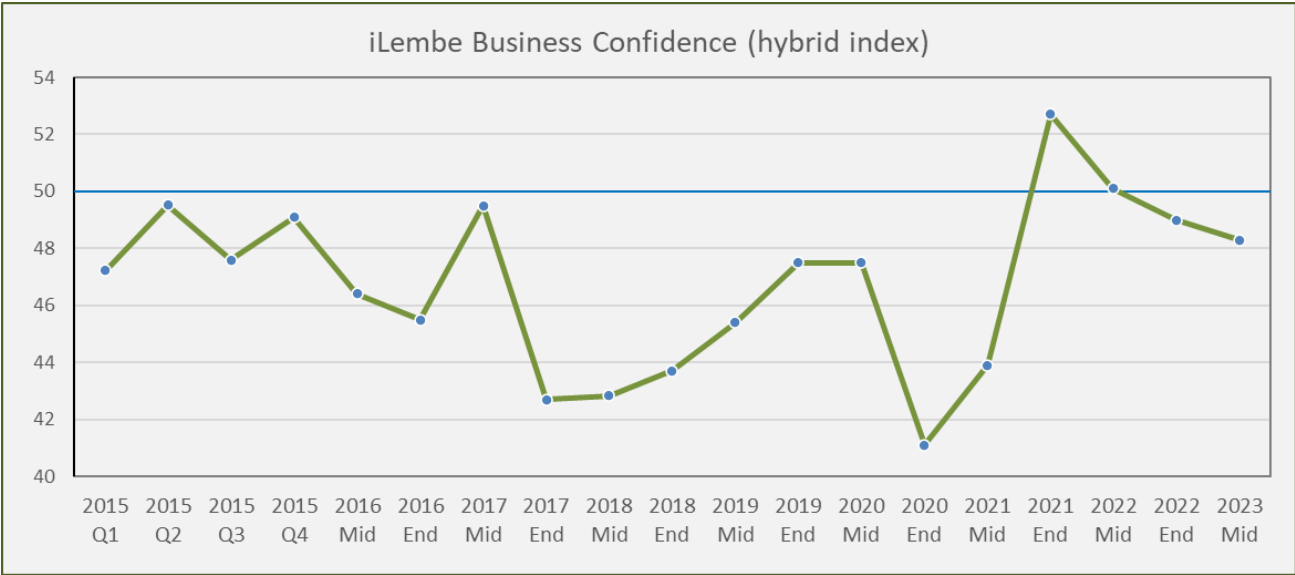
This trading environment resulted in *business sentiment* during the first half of 2023, as measured through the iBCI Survey component, declining by a further 2.1 index points compared to the previous period (2nd half of 2022).

Business sentiment of business owners and business leaders is firmly entrenched in negative territory at **40.6 index points**. This level is 4.0 index points lower than the same period a year earlier, and the lowest level of business sentiment recorded since the riots in 2021.

The **iBCI Economic Activity** Index element was recorded at **55.9 index points**, an improvement of .3 on the previous period and 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) remaining in negative territory (i.e. below the neutral level of 50 index points).

The **iBCI 2023 Mid-Year** was recorded at **48.3 index points**, a decline of .7 index points compared to the 2nd half of 2022, and a 1.8 index point decline Y/Y.



iBCI 2023 Mid-Year Survey Component:

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

The **iBCI Survey Index** was recorded at 40.6 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 (34.9;<10.6), as a measure of business performance, return on sales efforts and trading location, and *Order Book* (38.4;<0.1), as a leading indicator of market depth and liquidity, remained firmly entrenched in negative territory.

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

The other business indicators of *Late Delivery of Orders* (42.6;<2.9), and *Inventory Levels* (43.0;<4.0) were also recorded in the negative.

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

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

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

Manufacturing, Assembly sector

The *Manufacturing, Assembly* sector remains the least confident business sector in the iLembe District, with sentiment being recorded at the lowest levels since the introduction of the iBCI – lower than the levels seen during the pandemic and 2021 unrests.

Load shedding, load curtailment and power outages remain the primary drivers of dampened sentiment in the sector. The factors impact directly on production downtime, output capacity and profitability, and filtering through to business sentiment as well.

The cost-of-living challenges and subdued local economic growth have left manufacturers with not only a reduction in sales volumes, as indicated above, but also with limited opportunity to pass on factory gate price inflation.

Apart from energy insecurity, port inefficiencies, delayed repairs in road infrastructure, industrial and especially community unrest, inadequate security, and decaying infrastructure in industrial nodes continue to take its toll on this vital, labour intensive, sector.

The cost of finance is forcing manufacturers to focus on remaining in operation, while investments in expanding operations will remain on hold.

Agriculture, Forestry, Hunting sector

Sentiment in the *Agriculture, Forestry, Hunting* sector declined by a further 3.5 index points to a confidence level of 37.0 index points – a position best summarized by the recent newspaper headline “KwaZulu-Natal’s sugar industry is enduring a long, long winter”.

Gledhow Sugar Mill’s announcement that it is voluntarily commencing business rescue proceedings, short on the heels of a similar move by Tongaat Hulett in October 2022, set the tone for sentiment in this sector.

Reports of payment defaults and the escalation in fertiliser and fuel prices are contributing to the dejected sentiment in this sector.

The mood is summarised by the following statement:

“Rising input costs, including ever increasing minimum wages, fuel, fertilizer, herbicide costs as well as the ever present political uncertainty is making the farming sector very challenging at the moment. (sic)”

Construction, Property Development, Property Sales sector

The slump in business sentiment in the *Construction, Property Development, Property Sales* sector stalled with an improvement of 5.7 index points, although business confidence in this key sector in the iLembe District’s economy remain firmly in the negative.

Views expressed by responding businesses in this sector once again highlighted delayed planning approvals, unwieldy building control processes, development of infrastructure,

expectations around developers' contributions towards infrastructure development, an increasing concern about the capacity of especially road infrastructure and resulting traffic congestion. These constraints are magnified in periods of rapidly increasing input costs, and higher inflation in general, with respondents stating that it is not uncommon for developers to rework development costs, and return on cost, numerous times in between development plan submissions.

An increase in the illegal occupation of private property, and land invasion in general, were highlighted as a growing concern.

"The red tape in developing residential. The municipal delays in getting plans approved, and all the departments one has to get comment from, takes months. What used to take 3 years from inception to completion is now more like 8-10 (sic)"

Tourism, Catering, Accommodation, Property Management sector

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

Business respondents however bemoaned the ongoing impact of load shedding and prohibitive operational costs on this sector. 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.

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

A respondent observation worth contemplating was the observation that there is a severe lack of interest and financial support in hamlets like Zinkwazi - "it's like this huge holiday market is totally ignored.

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 (22.0;<9.9), which hosts the Isithebe Industrial Estate, the manufacturing heartland of the iLembe District, remained the least confident region in the iLembe District.

The most confident local municipality remains Maphumulo (60.0;<12.5), whilst business sentiment in KwaDukuza (41.5;<2.5) declined to entrench itself in the negative.

iBCI 2023 Mid-Year Business Expectations (2nd half of 2023):

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

Business expectations for the 2nd half of 2023 remains marginally in the negative, being recorded at 49.7 index points, 9.1 index points more positive than the current sentiment.

This improved 6-month business outlook is driven by positive sentiment expressed by respondents in the following sectors, i.e. *Education, Financial & Business Services (incl. IT, Media, Security & related); Construction, Property Development, Property Sales; Tourism, Catering, Accommodation, Property Management; and Arts, Culture & Creative Industries.*

The business outlook in the remaining sectors remain negative.

iBCI 2023 Mid-Year Activity Index Component:

The iBCI Activity Index of the composite iLembe District Business Confidence Index (iBCI) remained virtually unchanged for the third consecutive half year up to the 1st half of 2023. The upward momentum of the Activity Index, especially after the pandemic, continued and was recorded at 55.9 index points. This indicates that positive business prospects are still prevalent in the iLembe region.

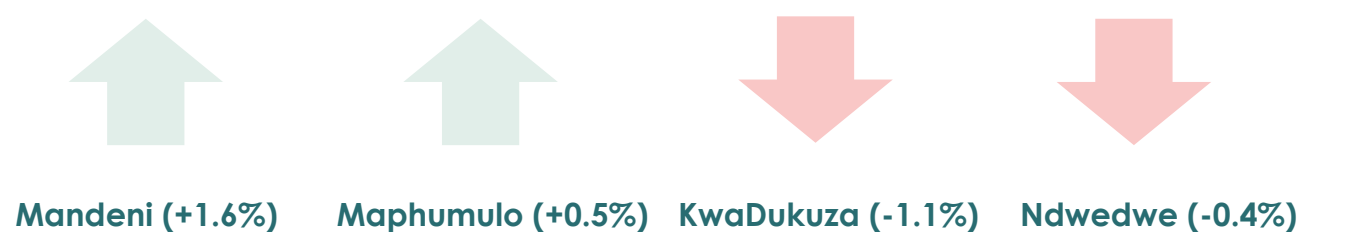
The 1st half 2023 level of 55.9 for the Activity Index confirms that the general business climate in the region is potentially better than what businesses perceive it to be according to the Survey Index (40.6).

The 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 is most probably causing the disparity of 15.3 index points between the Activity Index and the Survey Index of the iLembe District, with the hybrid Composite iLembe Business Confidence Index (iBCI) dipping to 48.3 index points in the 1st half of 2023.

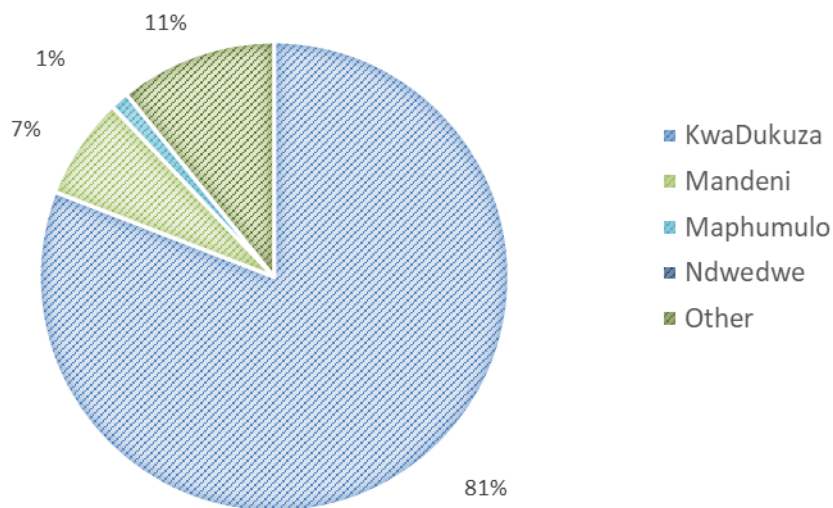
The current level of the Activity Index at 55.9 is 19.4 index points above the April 2020 level (index 2010=100) when the Covid lockdown was at its severest. During the 1st half of 2023 the Activity Index improved on the 2nd half of 2022 owing to the increase in the US\$ sugar price (+6.6%); increased manufacturing output (+1%); increased retail trade volumes (+1.3%); US\$ exchange rate (+5.1%); and more tourists (+11.4%).

Construction activity (-12.2%); tighter credit to business (-1.4%); and higher inflation (-6.1%) weighed negatively on prospects in the iLembe region.

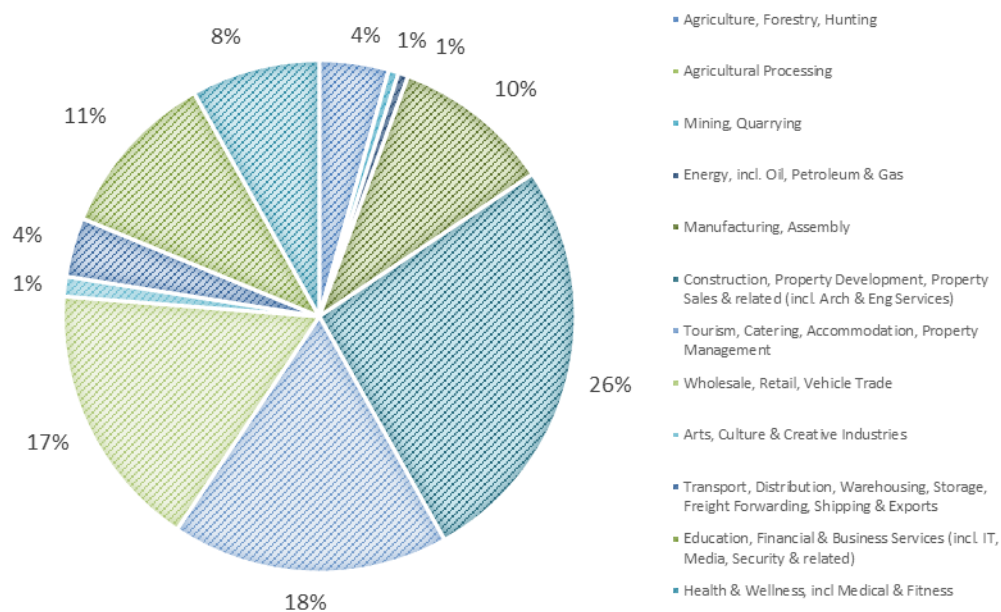
Depending on the type and weight of economic activity in the iLembe sub-regions, overall prospects for activities in the 1st half of 2023, compared to the 2nd half of 2022 remained positive in Mandeni (+1.6%) and Maphumulo (+0.5%). In aggregate, negative prospects prevailed in KwaDukuza (-1.1%) and Ndwedwe (-0.4%) if the 1st half of 2023 is compared to the 2nd half of 2022.



iBCI survey responses from iLembe sub-regions:

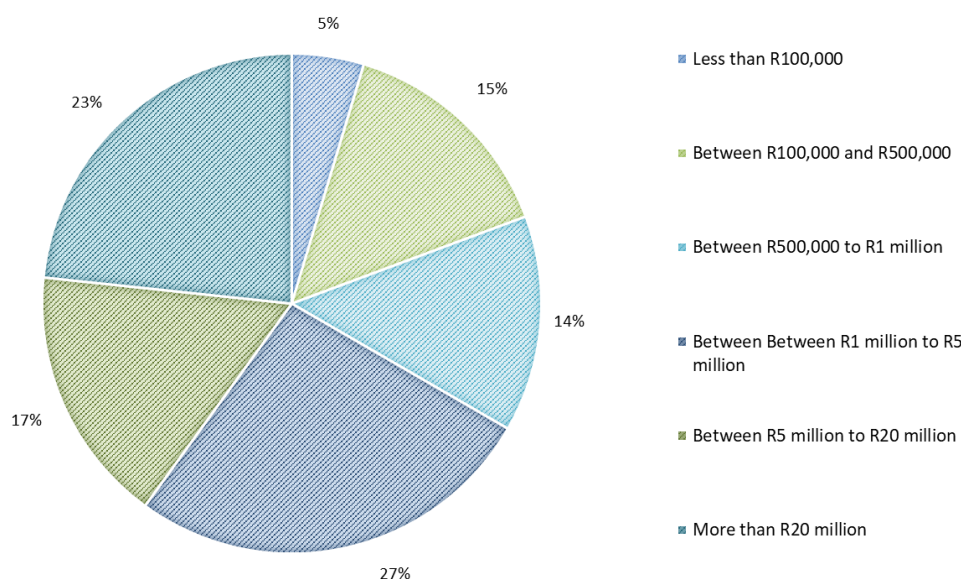


Economic sector participation in the iBCI survey:

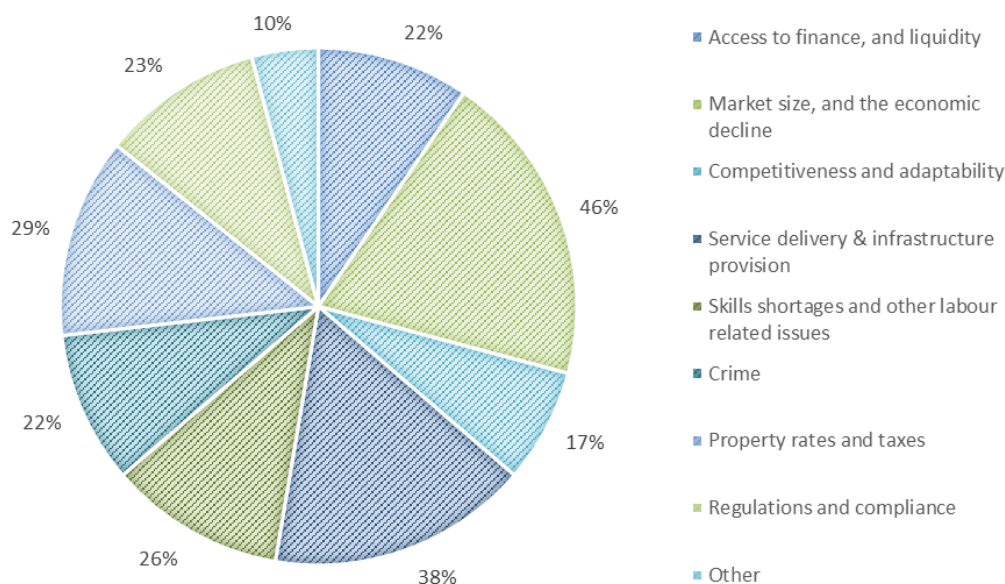


The majority of businesses participating in the 2023 Mid-Year iBCI Survey operated within the *Construction, Property Development, Property Sales* sector (26%), followed by *Tourism, Catering, Accommodation, Property Management* (18%), and *Wholesale, Retail, Vehicle Trade* (17%).

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 62% of participating businesses as **primary constraints to conducting business** in the iLembe District.

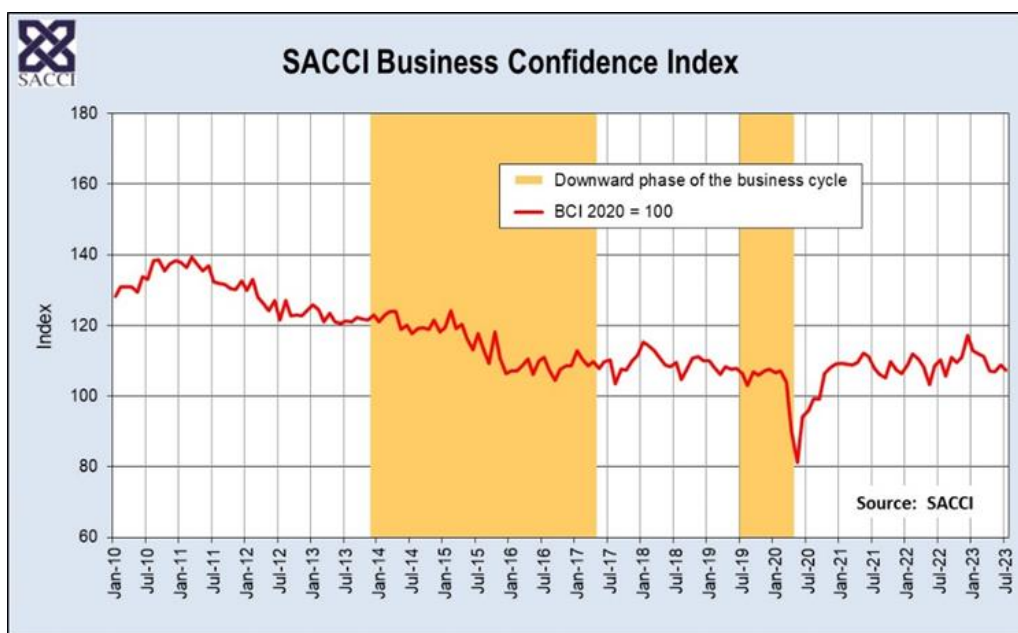
The public sector indicators of *Service delivery & infrastructure provision* (38%), *Regulations and compliance* (23%), and *Property rates and taxes* (29%) were selected by all the business respondents as primary business constraints.

3. SACCI BCI 1st Half 2023

The **SACCI** Business Confidence Index (BCI) with 2020 as base year (2020=100) is a composite index of economic and financial indicators that informs business sentiment and thus confidence levels.

After averaging 110.9 in the 2nd half of 2022

(peaking at 117.3 in December 2022, the average for the BCI declined to 109.8 in the 1st half of 2023. The **SACCI** BCI measured 108.8 in June 2023 and although the **SACCI** BCI lately trended towards, it tended to stabilise.



Between December 2022 and June 2023 six of the fourteen sub-indices had a negative impact on business confidence. These indicators were the weaker and unpredictable rand exchange rate, higher real borrowing costs, lower merchandise import and export volumes, less inward tourists, and the real value of building plans passed. Positive impacts on business confidence between December 2022 and June 2023 came from increased new vehicle sales, energy supply (mainly due to a lower crude oil price), and manufacturing output. The other five sub-indices had a neutral effect on the BCI between December and June.

The persistent electricity supply crisis and 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 a less strict monetary policy stance.

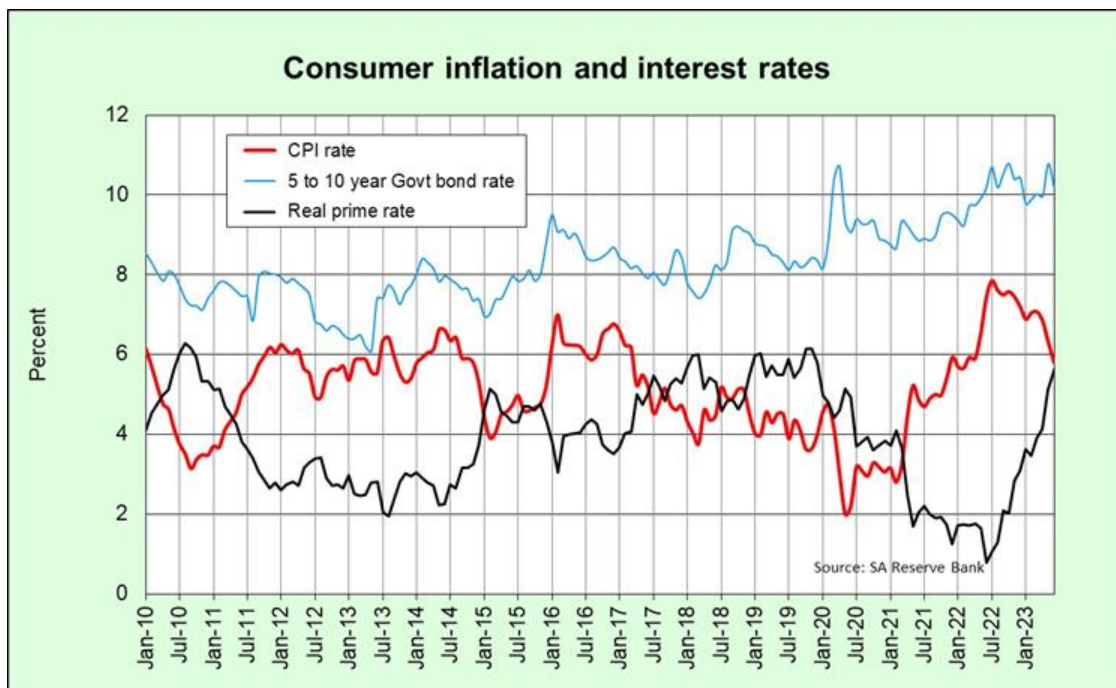
4. Macro-Economic Review 1st Half 2023

The South African economy is facing several hurdles that are hindering its growth and stability. There are concerns regarding the performance of key sectors such as mining, agriculture, manufacturing, and electricity. Additionally, household-spending, inflation, unemployment, and debt servicing costs continue to put pressure on economic activity.

In the first quarter of 2023, the mining and agriculture sectors, along with manufacturing and electricity, experienced a decline in output compared to the previous year. However, transport, communication, financial services, and construction showed positive growth during the same period.

The IMF, in its July 2023 updated outlook of the global economy, projects world economic growth to fall from an estimated 3.5% in 2022 to 3.0% in both 2023 and 2024. As China's economic growth may slow it could have further knock-on effects with negative impacts on the global economy. South Africa will barely register positive growth in 2023 while 2024 might see growth of about 1.5% according to the IMF. The SA Reserve Bank forecast growth of 0.4% in 2023, 1% in 2024, and 1.7% in 2025.

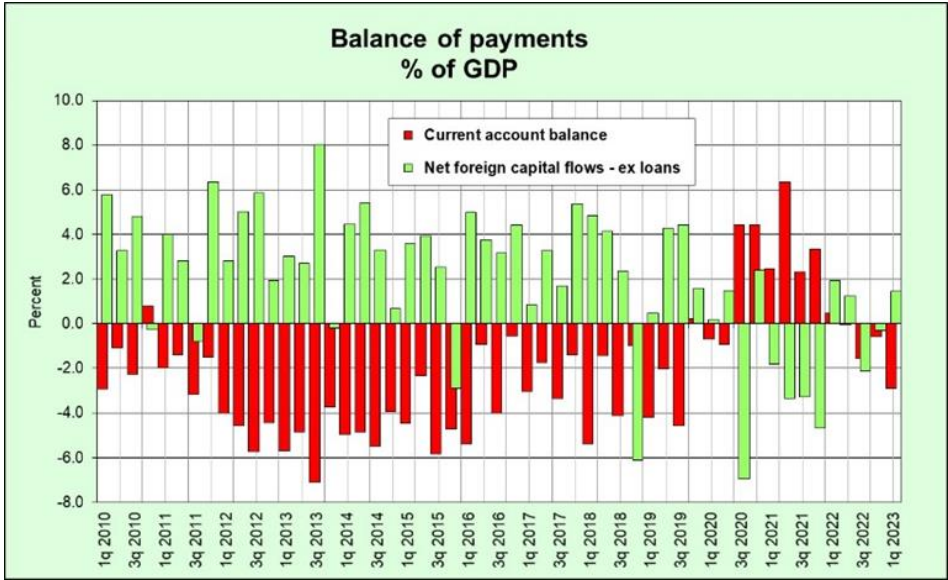
Household spending is under stress due to a decrease in real disposable income, high food inflation, persistently high unemployment rates, and increased debt servicing costs.



Businesses credit comes at a high cost. After a series of interest rate hikes, the SA Reserve Bank at its most recent MPC meeting, has decided to keep rates unchanged for the time being as headline inflation dipped below the upper target range of 6%.

The delivery of public sector services remains a serious problem and is disrupting the proper functioning of the economy. The government's limited fiscal capacity to provide relief is compounded by mounting demands for social spending and grants. Critical electricity shortages and transportation logistic disruptions further hamper the effective delivery of services required.

The rand's value is expected to remain volatile and under pressure, depending on how South Africa resolves its international trading and investment relationships. A growing deficit with foreign trading partners (see figure below) could further weaken the rand, while capital outflows may increase unless the country's global political positioning aligns with economic realities. The weakening and unpredictable rand will impact transport and energy costs, despite a relatively stable global crude oil price. The electricity shortage, in particular, is only expected to be resolved in the medium term, thereby continuing to limit the economy's output potential.



South Africa has faced many economic challenges since July 2019 - with a questionable upward phase of the business cycle since May 2020. South Africa's dire fiscal situation further limits its ability to implement appropriate counter cyclical measures. Consequently, high unemployment levels are likely to persist primarily due to inflexible labour regulations.

5. Conclusion

Several macro and local factors formed the background to a challenging 1st half of 2023, reflected by the iBCI 2023 Mid-Year remaining in 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 generated by iCCIT and Econdow on behalf of Enterprise iLembe. Econdow also compiles the South African Chamber of Commerce and Industry (SACCI) Business Confidence Index (BCI), one of the foremost business confidence indices in South Africa, and allowing the iBCI to be interpreted against the measurement of the broader business mood in South Africa.

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.

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 confidence index ranges between zero and 100, with zero reflecting an extreme lack of confidence and 100 extreme confidence where all participants are satisfied with current business conditions, with 50 indicating neutrality, 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.