

**ILEMBE**  
**BUSINESS CONFIDENCE INDEX (IBCI)**  
**REVIEW 2015 Q2**



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## 1. Highlights and Key Findings

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- The combined hybrid iBCI for Q2 2015 was recorded at 49.5 index points; despite remaining in negative territory it is an improvement of 2.3 index points compared with the 1<sup>st</sup> quarter of 2015.
- The survey component of the iBCI, which was conducted between the 25<sup>th</sup> of June and 9 July 2015, reflected no change in sentiment (50.00) compared to Q1 of 2015, whilst the overall activity measurement (49.00) was negative, i.e. below the significant level of 50 index points that reflect no change.
- This quarterly improvement in the iBCI is in contrast with the national SACCI Business Confidence Index (BCI) which lost 3.3 index points in the 2nd quarter of 2015 compared to the 1st quarter of 2015. National business confidence worsened notably in the first half of 2015 and was at its worst level in 16½ years.
- The iBCI survey suggests a positive outlook on business conditions of 57.9 index points over the next 6 months. This positivity was especially supported by 66.28% of respondents indicating an increase in sales volumes and 50% of respondents indicating an increase in orders.
- The Construction, Property Development, Property Sales sector remains positively strong comparing 2015 Q2 vs 2015 Q1 whilst the 6 months outlook suggests an even more positive performance for this sector.
- The majority of respondents from the Agriculture, Forestry, Hunting and Agricultural Processing sectors expressed a deterioration in the trading environment compared with Q1 of 2015, as well as the outlook for the next 6 months of 2015.
- These sectors reported job losses as a result of the worst drought in a century and the accompanying water crisis.
- In some mill areas crop decrease is feared to be as high as 53% - which is likely to result in further job losses.
- Losses in output and increases in operational costs have resulted in earnings forecasts for businesses within these two sectors being severely negatively affected. It is also envisaged that suppliers of services to businesses in these sectors would not escape the impact.
- The iLembe Business Confidence Index (iBCI) is produced by Enterprise iLembe in partnership with the iLembe Chamber of Commerce, Industry & Tourism and is aimed at providing a quarterly 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 quarterly business survey conducted in the iLembe district and secondly, with a weighted index of financial and economic variables.

## 2. Review of iBCI 2015 Q2

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The combined hybrid iBCI (survey and activity indices) remained negative in the 2<sup>nd</sup> quarter of 2015. Despite remaining in negative territory, the Q2 2015 iBCI showed an improvement of 2.3 index points on the 1<sup>st</sup> quarter of 2015 and was recorded at 49.5 index points.

The survey component of the iBCI, which was conducted between the 25<sup>th</sup> of June and 9 July 2015, reflected no change in sentiment (50.00) compared to Q1 of 2015, whilst the overall activity measurement (49.00) was negative, i.e. below the significant level of 50 index points that reflect no change.

The quarterly survey indicated that 48.8% of respondents reported lower sales volumes and 53.5% of respondents an increase in input prices.

In 2015 Q2, the proxy indicators for economic activity used for measuring the business climate in the iLembe region, as detailed in Annexure 2 below, showed a combination of positive and negative indicators. Measured quarter-on-quarter (q/q), Manufacturing (-.54%) and the US\$/R exchange rate (-2.65%) were worse off in the 2<sup>nd</sup> quarter of 2015 than in the 1<sup>st</sup> quarter, whilst this negativity was countered by upbeat Construction (8.17%) and Tourist figures (3.77%).

The iBCI survey also reflects on business sentiment over the next six months. The survey suggests a positive outlook on business conditions of 57.9 index points. This positivity was especially supported by 66.28% of respondents indicating an increase in sales volumes and 50% of respondents indicating an increase in orders.

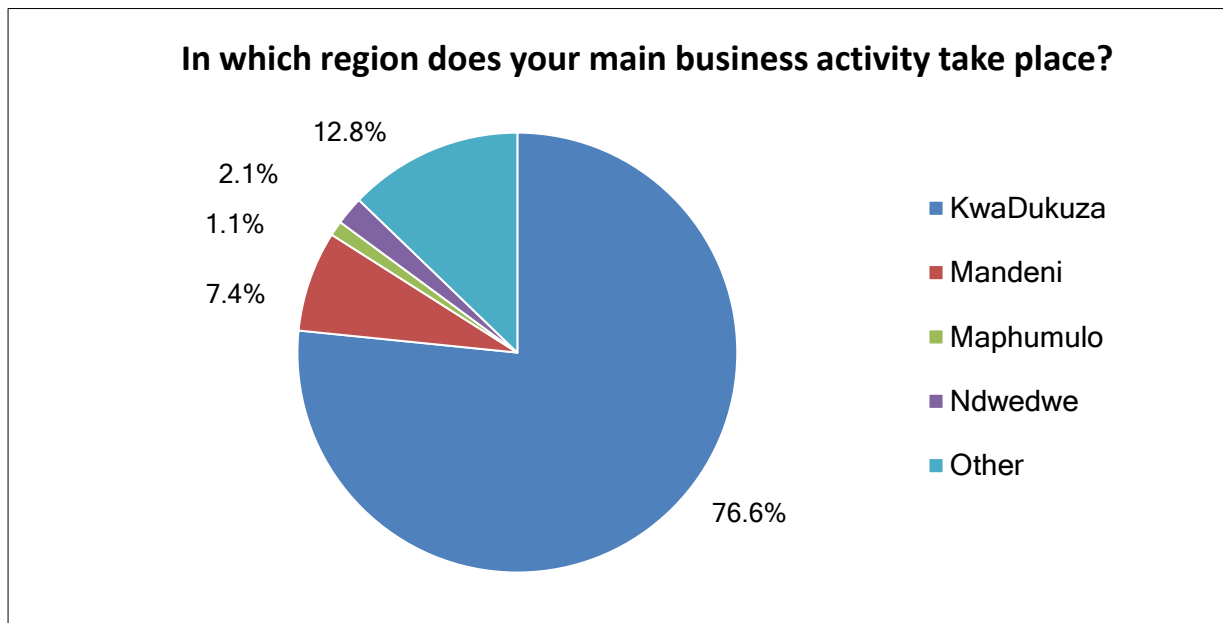
The Construction, Property Development, Property Sales sector remains positively strong for both the 2015 Q2 vs 2015 Q1 comparison as well as the 6 months outlook. In comparison with 2015 Q1 Sales Volumes were at a positive of 52.5 and Sales Prices at 67.5. The outlook for the next 6 months reflects an even stronger positive sentiment with Sales volumes at 75, Order Book at 70 and Sales prices at 62.5.

In contrast were respondents from the Agriculture, Forestry, Hunting and Agricultural Processing sector. The majority of respondents in this industry cluster expressed a deterioration in the trading environment compared with Q1 of 2015, with the outlook for the next 6 months of 2015 also reflecting negative sentiments.

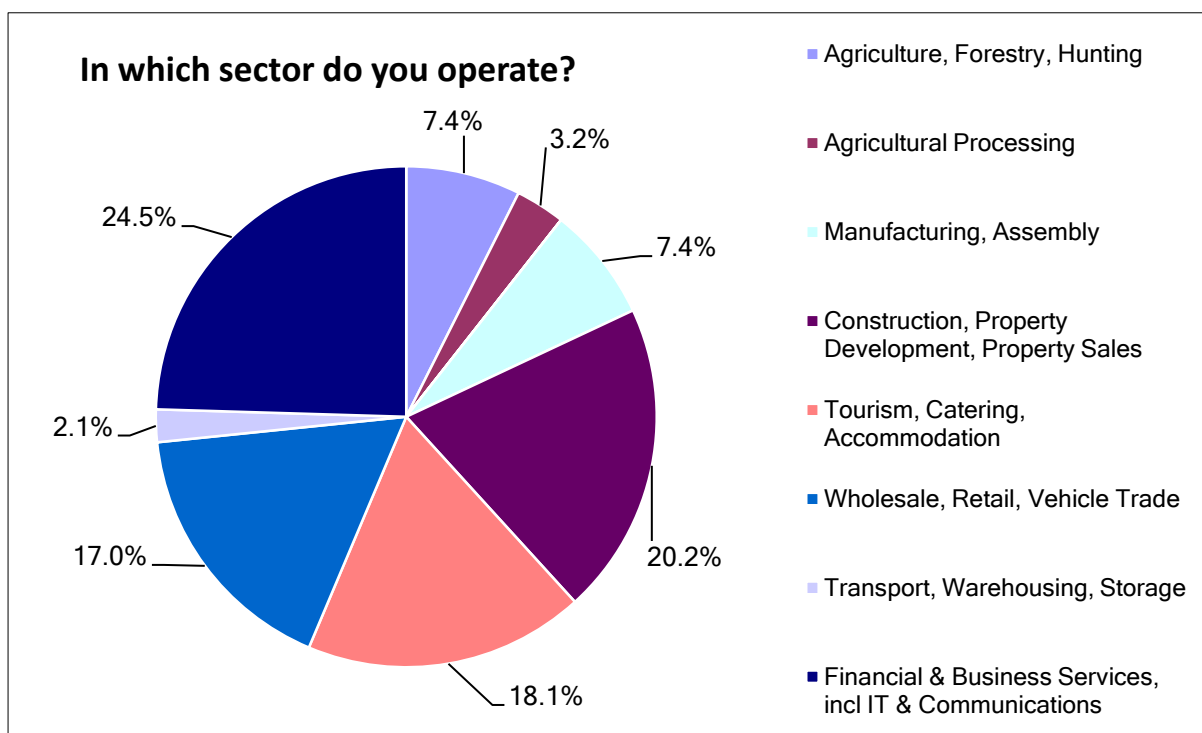
A complementary survey conducted amongst businesses in these two sectors reported job losses as a result of the worst drought in a century and the accompanying water crisis, with mostly cane cutting and cane haulage jobs being impacted on thus far. Temporary, casual and contract labour jobs have also been affected. These businesses report that staff are required to take extended periods of leave during low or no production periods whilst reduced working hours have also resulted in a loss of income for employees in these sectors. In some mill areas crop decrease is feared to be as high as 53% - which is likely to result in further job losses.

These low yields have resulted in mill closures or extended shut downs for certain sections of mills, with significant losses in output. In addition, the loss of production efficiencies has resulted in an increase in operational costs. The net result of all the above is that earnings forecasts for businesses within these two sectors has been severely negatively affected. It is also envisaged that suppliers of services to businesses in these sectors would not escape the impact.

**iBCI survey responses from iLembe sub-regions:**



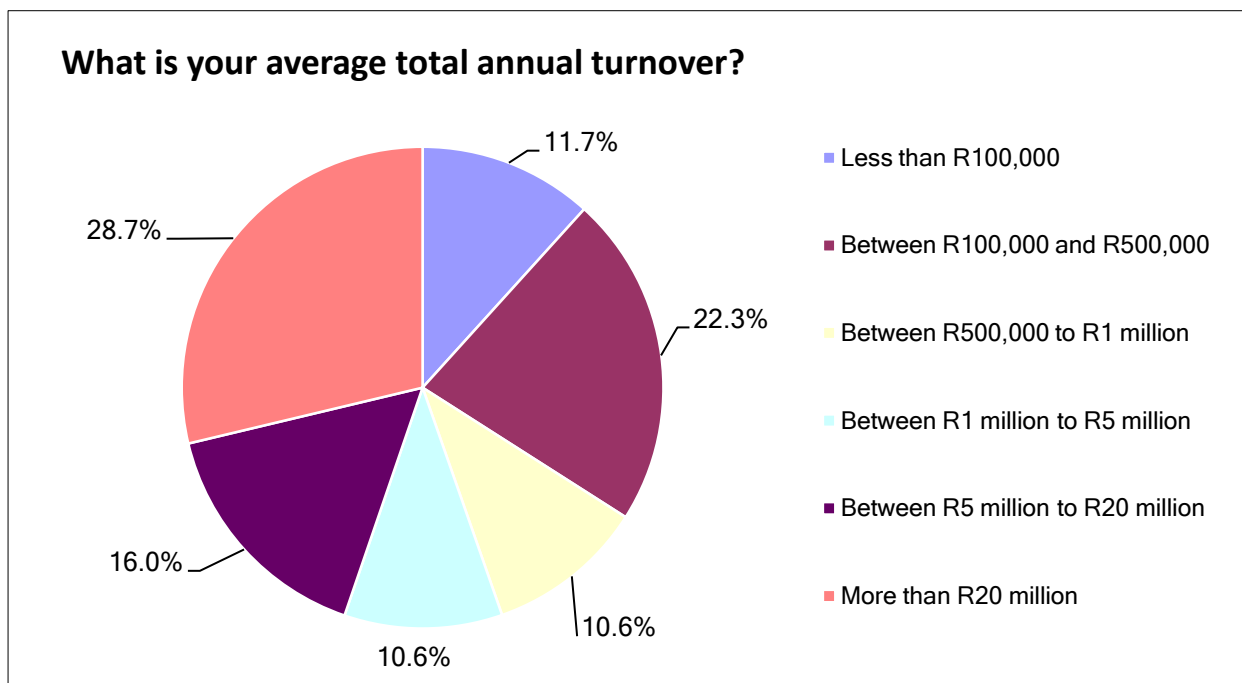
**Economic sector participation in the iBCI survey:**



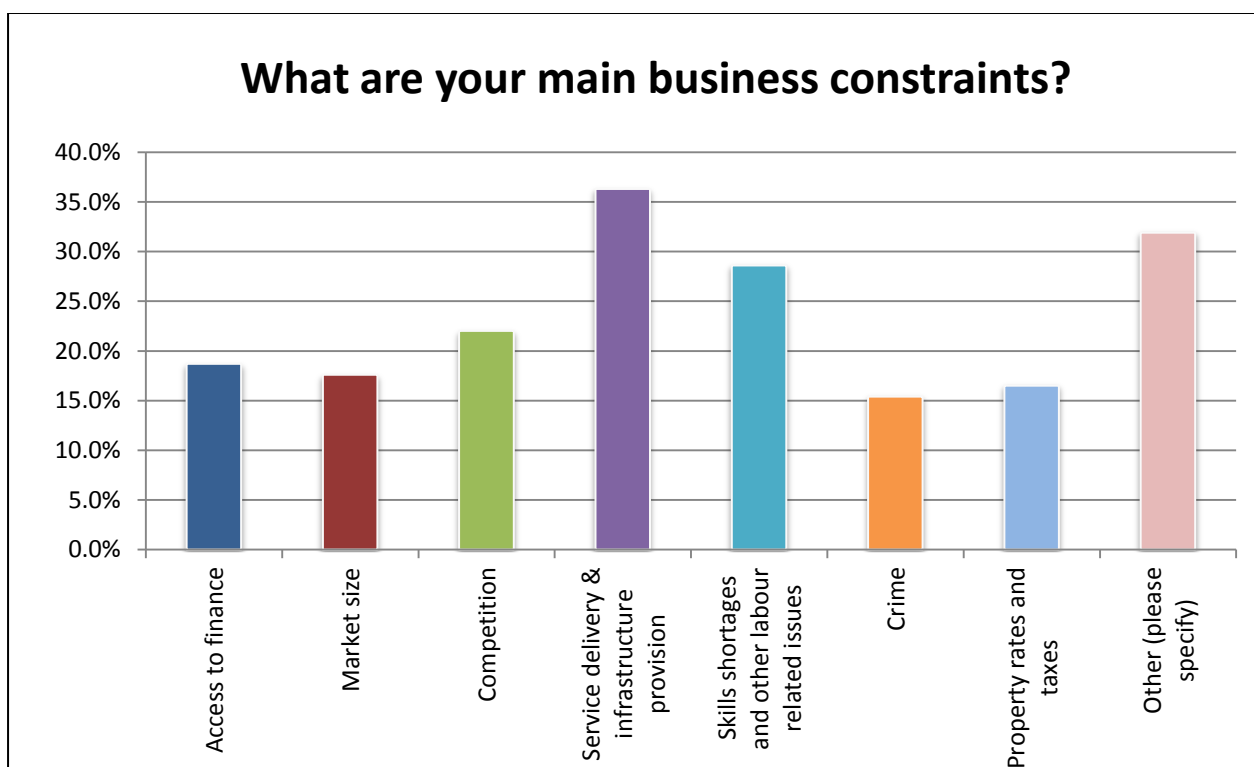
The majority of businesses participating in the 2015 Q2 iBCI Survey operated within the Financial & Business Services, incl IT & Communications sector (24.5%), followed by the

Construction, Property Development, Property Sales sector (20.2%). Tourism, Catering and Accommodation businesses formed 18.1% of respondents whilst the Wholesale, Retail, Vehicle Trade sector participated at a level of 17%. Manufacturing, Assembly and Agriculture, Forestry, Hunting sectors both participated at a level of 7.4%.

**Participation in the iBCI survey by annual turnover level:**



**Perceived business constraints:**



Electricity shortages and resulting load shedding, coupled with the water supply crisis in iLembe together with the drought have resulted in 36.3% of respondents indicating that Service Delivery & Infrastructure Provision are the biggest constraints to business.

The majority of the comments recorded under the *Other* category (31.87%) reflected the significant drought concerns as well other service delivery issues.

Skills Shortages & Other Labour Related Issues were indicated as a business constraint by 28.57% of respondents.

In line with the previous quarter, Competition (22%) and Market Size (17.6%) were the next major business constraints. Combined, these two market related indicators were identified by more than 39.6% of survey respondents as a business constraint.

### 3. SACCI BCI

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The SACCI Business Confidence Index (BCI) measured 87.1 in the 2nd quarter of 2015 and lost 3.3 index points compared to the 1st quarter of 2015. The 2nd quarter 2015 SACCI BCI is also 3.3 index points lower than in the 2nd quarter of 2014. Business confidence worsened notably in the first half of 2015 and was at its worst level in 16½ years. The overall economic situation tightened further and it is anticipated to be even less supportive of the general business climate.

The latest monthly SACCI BCI reflects a constrained domestic and global business climate for South Africa with prospects for the rest of 2015 looking uncertain. Data on the South African economy points towards mounting difficulties in notably public sector institutions and an undesirable growth performance. The shortage in the supply of electricity is widely disruptive to businesses.

Seemingly, imbalances in global economic performance picked up momentum in June 2015 with the stalled Greek deliberations on austerity packages contributing to uncertainties in dealing with the European Union. Over-borrowed EU member countries in general and methodologies to rearrange economies to return to sustainable growth and prudent financing, are the essence of the problem. It reflects on countries heading for similar problems in the future and the prevention of similar occurrences. Lately the instability in the Chinese financial markets added to global woes.

Reinforcing the uninspiring business mood, the year-on-year (y/y) changes in the sub-indices of the SACCI BCI indicate that nine of the thirteen sub-indices in June 2015 declined and one being unchanged. Four of the six financial sub-indices were negative y/y, one undecided and one positive. Five of the real activity sub-indices were negative, two were positive while increased lending to the private sector slightly improved the financial environment.



Building construction continued to improve on last year's levels, but it is worrying to note that activities like real retail trade, share prices, export volumes and the number of new vehicle sales are deviating further from their long-term trends. The aforementioned points towards mounting structural tensions within the economy.

## 4. Conclusion

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The overall South African economic situation has tightened further in Q2 of 2015 and it is anticipated to soon not be supportive of the general business climate, a sentiment supported by business confidence worsening to its worst level in 16½ years.

In contrast the quarterly iBCI for 2015 Q2 improved by 2.3 index points to 49.5 index points. Despite this improvement, the overall iBCI remained in negative territory and was dominated by the devastating outlook for the agricultural and related sectors as a result of the drought and water crisis in the iLembe District.

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## Annexure 1 - Background

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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 quarterly 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, 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

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The iBCI is a hybrid index derived from, firstly, a quarterly 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 quarterly 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 quarter. 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 quarter, 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.