

I LEMBE
BUSINESS CONFIDENCE INDEX (IBCI)
SUMMARY REVIEW 2015



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1. Summarised Highlights and Key Findings - 2015

- The iLembe Business Confidence Index (iBCI) is produced by Enterprise iLembe (EI) in partnership with the iLembe Chamber of Commerce, Industry & Tourism (iCCIT) 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.
- The iBCI Q1 2015 was the first quarterly business confidence index to be generated through the collaboration between iCCIT and EI. No historic iBCI therefore existed that could be used for comparative purposes.
- The survey design however allowed for both the survey and weighted index component of the survey to reflect the region’s economic performance since the last quarter of 2014.
- Summary of iBCI 2015:

Period	iBCI*	Survey Component	Econ Activity
Q1 2015	47.2	45.8	48.6
Q2 2015	49.5	45.8	49
Q3 2015	47.6	45.7	49.5
Q4 2015	49	49.7	48.4

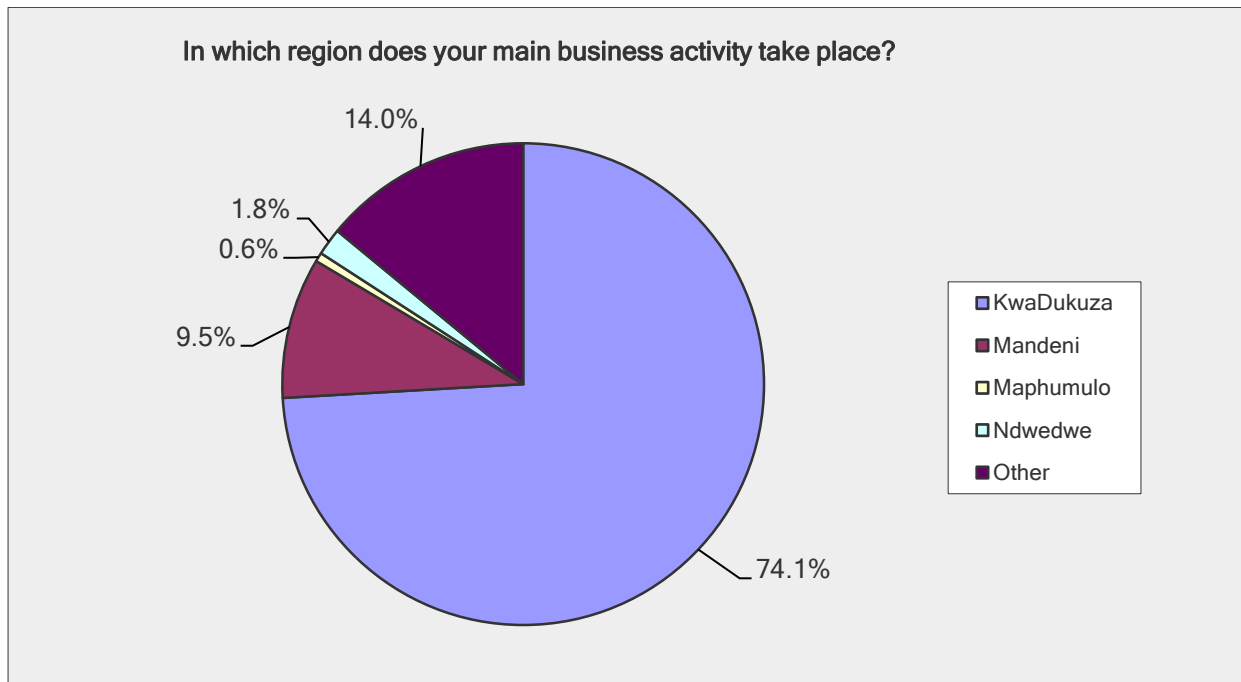
* The iBCI is considered to be negative if it measured to be below 50 index points. 50 index points reflect no change, or neutral. The iBCI will be considered to be positive if it measured to be above 50 index points.

- Biggest constraints to business in the iLembe District:

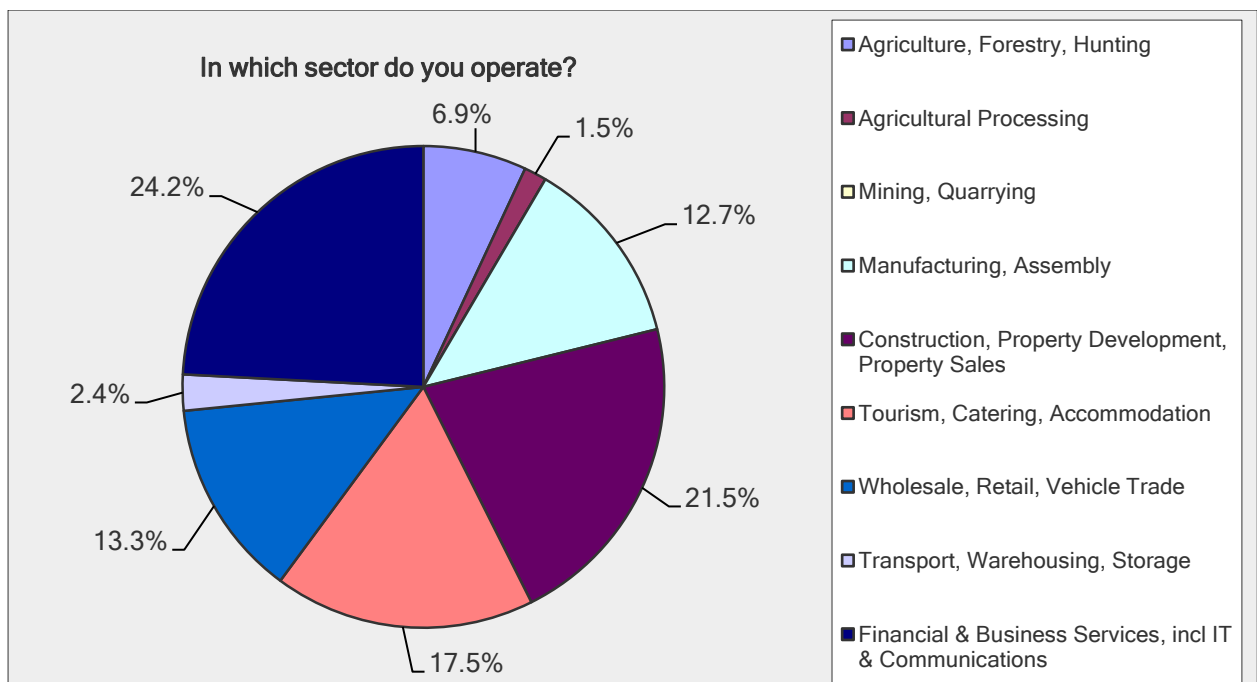
Period	Constraints identified
Q1 2015	Service Delivery & Infrastructure Provision (34%) Skills Shortages & Other Labour Related Issues (34%) Competition (31%) & Market Size (25%)
Q2 2015	Service Delivery & Infrastructure Provision (36%) Other (32%), i.e. significant drought concerns and service delivery issues Skills Shortages & Other Labour Related Issues (29%) Competition (22%) & Market Size (18%)
Q3 2015	Skills Shortages & Other Labour Related Issues (33%) Competition (30%) & Market Size (22%) Service Delivery & Infrastructure Provision (23%)
Q4 2015	Service Delivery & Infrastructure Provision (35%) Skills Shortages and Other Labour Related Issues (26%) Market Size (26%) & Competition (24%)

2. Review of iBCI 2015

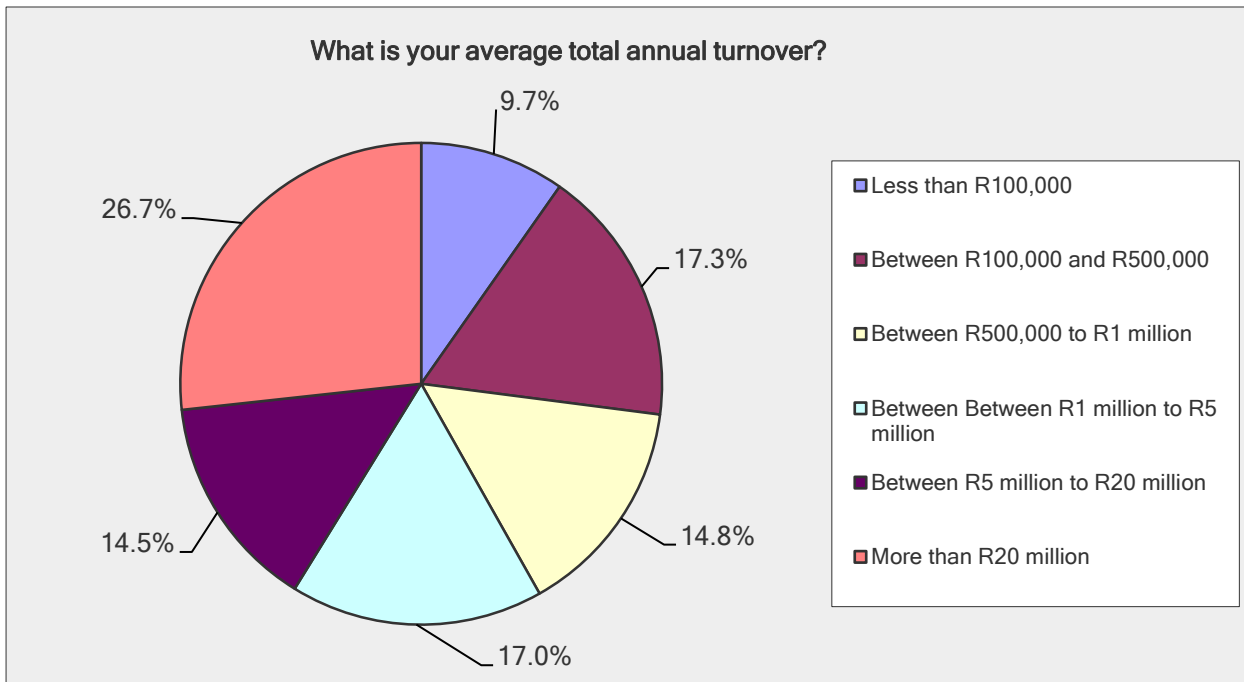
iBCI 2015 survey responses from iLembe sub-regions:



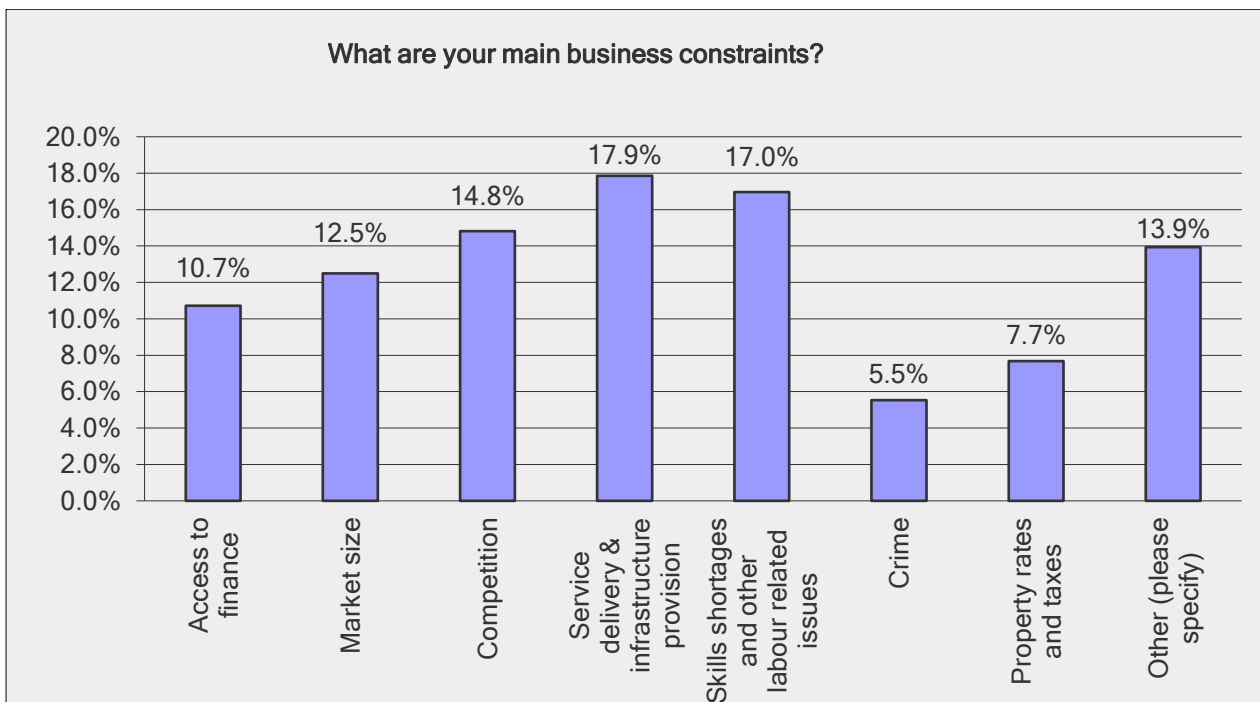
Economic sector participation in the iBCI 2015 surveys:



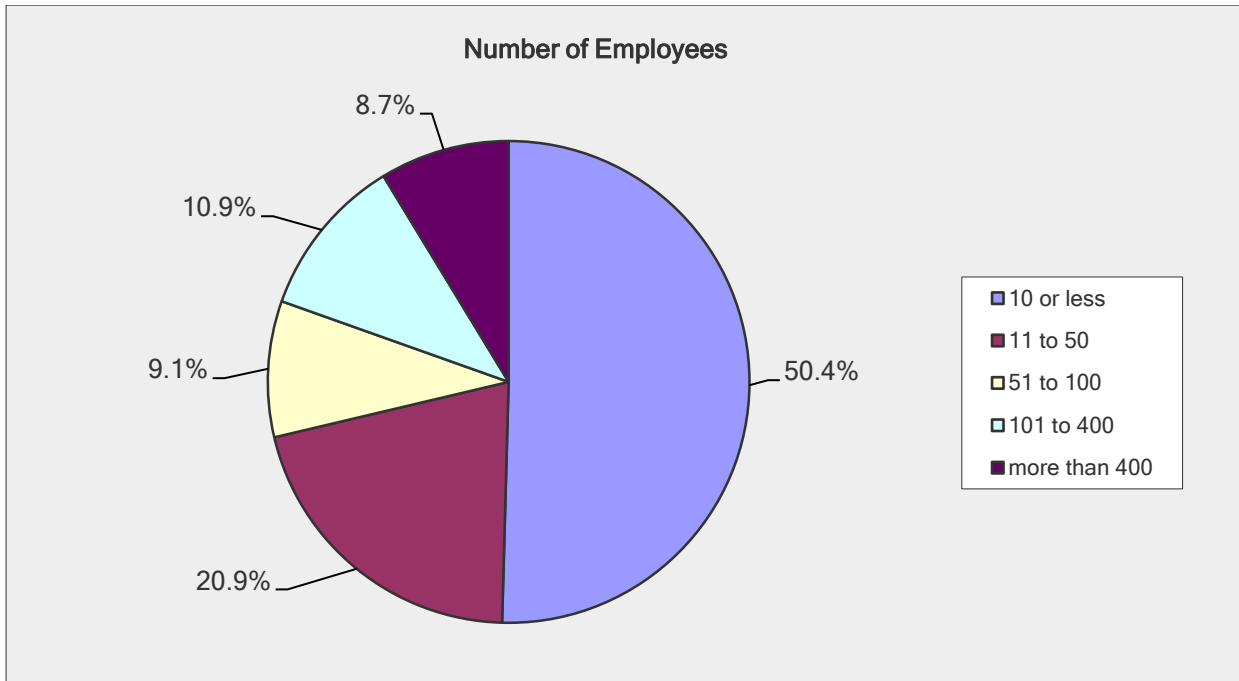
Participation in the iBCI 2015 surveys by annual turnover level:



Perceived business constraints identified during 2015:



Participation in the iBCI 2015 surveys by number of employees:



3. Background to the iBCI 2015

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 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.

4. iBCI 2015 Methodology

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.

5. SACCI BCI

National business confidence worsened notably during the course of 2015 and was at its worst level in 23 years in December 2015. The overall economic situation accordingly also deteriorated and the rand exchange rate, merchandise export volumes, the number of new vehicle sales and all-share prices on the JSE were amongst the larger contributors to the slide in the SACCI BCI over the year.

The main year-on-year contribution to the deterioration of the SACCI BCI from December 2014 to December 2015 came from the weighted rand exchange rate followed by building activity, share prices and retail trade. Real financing costs, manufacturing output and municipal services also contributed to the decline in business confidence but to a lesser degree. The overall economic situation therefore necessarily deteriorated and the rand exchange rate, merchandise export volumes, the number of new vehicle sales and all-share prices on the JSE were amongst the larger contributors to the slide in the SACCI Business Confidence Index during 2015.

6. Conclusion

Despite the overall business confidence in the iLembe District recovering slightly in the 4th quarter of 2015, the 6 month outlook for the period January to June 2016 remains negative at 49.9.

It is especially the negative sentiment around employment levels that is of an ongoing concern for our region's economy.

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