

ILEMBE
BUSINESS CONFIDENCE INDEX (IBCI)
REVIEW 2015 Q4



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1. Highlights and Key Findings

- Despite the deteriorating and gloomy economic sentiment nationally, overall business confidence in the iLembe District recovered slightly from the pessimism recorded in Q3 2015, with the combined hybrid iBCI (survey and activity indices) gaining 1.4 index points in the 4th quarter of 2015.
- The Q4 2015 iBCI was recorded at 49 index points, a level in line with the sentiments recorded in Q2 2015, but still remaining in negative territory.
- The survey component of the iBCI, which was conducted between the mid and end of January 2016, and which records subjective business sentiment, was recorded at 49.7, 4 points up from the previous quarters lowest level recorded since the introduction of the iBCI.
- Local business sentiment was boosted by positive outlooks around sales volumes (56.1) and order books (52.7). Sentiments around individual business' order books were recorded at its most positive levels since the introduction of the iBCI.
- The SACCI BCI measured 80.8 in the 4th quarter of 2015, a loss of 9.5 index points since the 1st quarter of 2015 and 4.0 index points from the 3rd quarter of 2015.
- Business confidence worsened notably since February 2015 and was at its worst level in 23 years in December 2015.
- The local business outlook for the 6 month period January to June 2016, gained slightly (.5) against the previous quarter but remains negative at 49.9. This 6 month business expectation is also significantly lower than the high of 57.9 index points recorded in Q2 2015.
- In addition to the ongoing negative sentiment around employment levels, 66% of respondents expected input prices to increase and significantly impact on the overall business expectations for our district.
- The 6 months outlook around sales volumes, order book, sales prices and the ability to supply on-time were all in positive territory.
- 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 Q4

Despite the gloomy economic sentiment nationally, overall business confidence in the iLembe District recovered from the pessimism recorded in Q3 2015, with the combined hybrid iBCI (survey and activity indices) gaining 1.4 index points in the 4th quarter of 2015. The Q4 2015 iBCI was recorded at 49 index points, a level in line with the sentiments recorded in Q2 2015, but still remaining in negative territory.

The survey component of the iBCI, which was conducted between the mid and end of January 2016, and which records subjective business sentiment, was recorded at 49.7, 4 points up from the previous quarters lowest level recorded since the introduction of the iBCI. Business sentiment was boosted by positive outlooks around sales volumes (56.1) and order books (52.7). Sentiments around individual business' order books were recorded at its most positive levels since the introduction of the iBCI.

The remainder of the iBCI survey elements remained in the negative. It is especially the business outlook regarding employment levels that is concerning – sentiment around employment levels were recorded at 36.5 points, the lowest level ever recorded for any element.

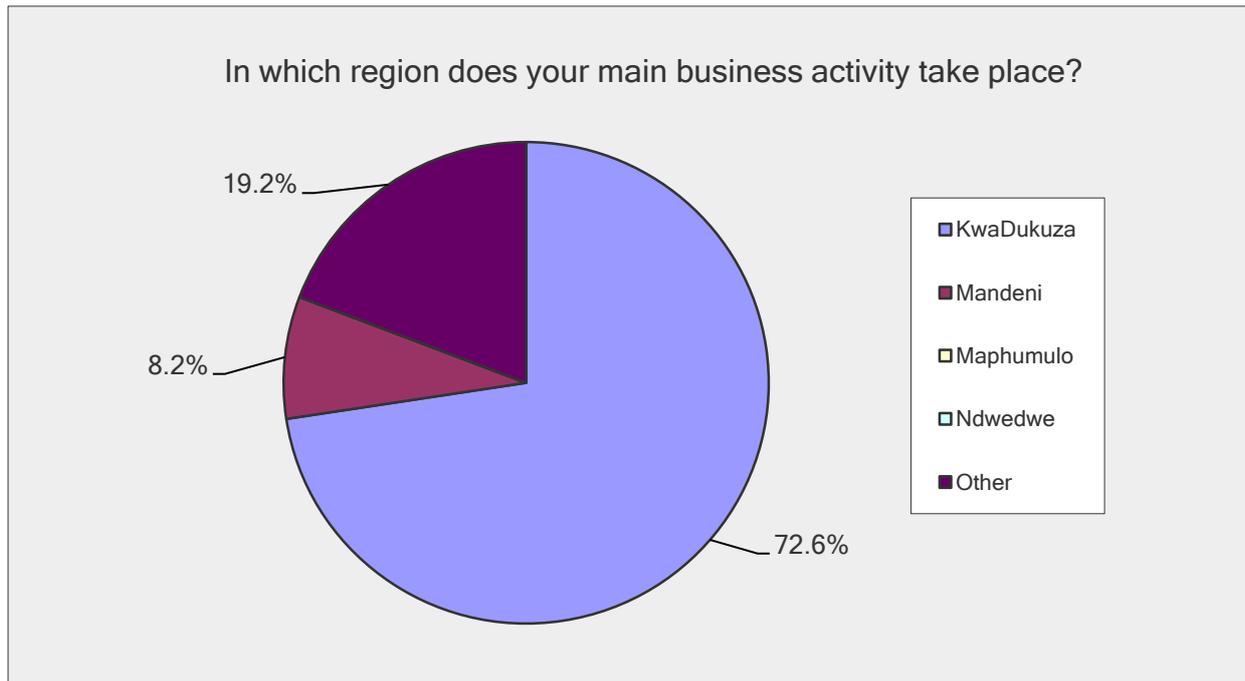
In contrast with the improved sentiment expressed by local businesses, the overall activity measurement tracked national data and was recorded at 48.4 points, not only 1.1 points lower than Q3 2015 but also the lowest recorded during 2015. The iBCI's Activity Index component is firmly entrenched in the negative, i.e. below the significant level of 50 index points that reflect no change.

In 2015 Q4, 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, mostly, negative indicators. Measured quarter-on-quarter (q/q), Construction (-10.4%), the US\$/R exchange rate (-8.4%), Manufacturing (-3.6) and the US\$ Sugar Price were worse off in the 4th quarter of 2015 than in the 3rd quarter. Slight positives were improved q/q Trade (0.3) and Finance Business Borrowing (1.4).

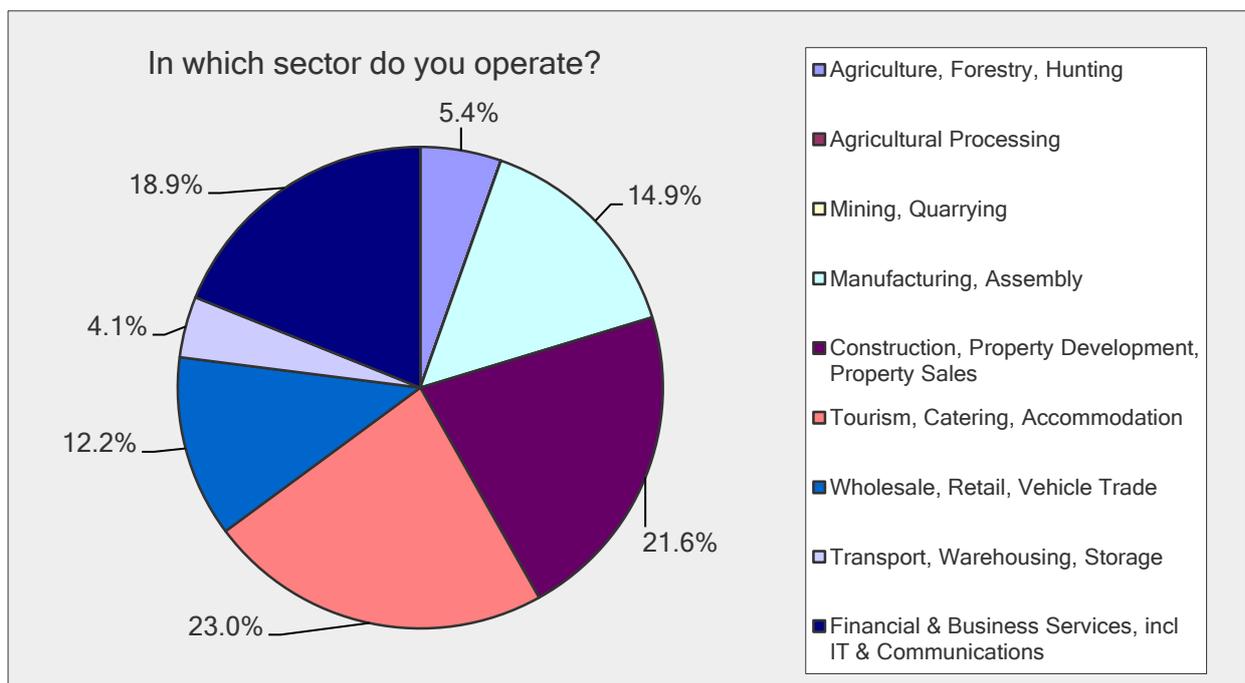
The iBCI survey also reflects on business expectations over the next six months. The business outlook for this period, i.e. January to June 2016, gained slightly (.5) against the previous quarter but remains negative at 49.9. This 6 month business expectation is also significantly lower than the high of 57.9 index points recorded in Q2 2015. The 6 months outlook around sales volumes, order book, sales prices and the ability to supply on-time were all in positive territory. In addition to the ongoing negative sentiment around employment levels, 66% of respondents expected input prices to significantly impact on the overall business expectations in our district.

These district expectations mirror national expectations where the January 2016 month-on-month changes of the SACCI BCI sub-indices which were more encouraging than the changes in December 2015. January 2016 saw five indices moving positive month-on-month, three remaining undecided and five turning negative. The financial climate nationally was also slightly more favourable towards business in January 2016 as the volume of credit extension to the private sector picked up.

iBCI survey responses from iLembe sub-regions:



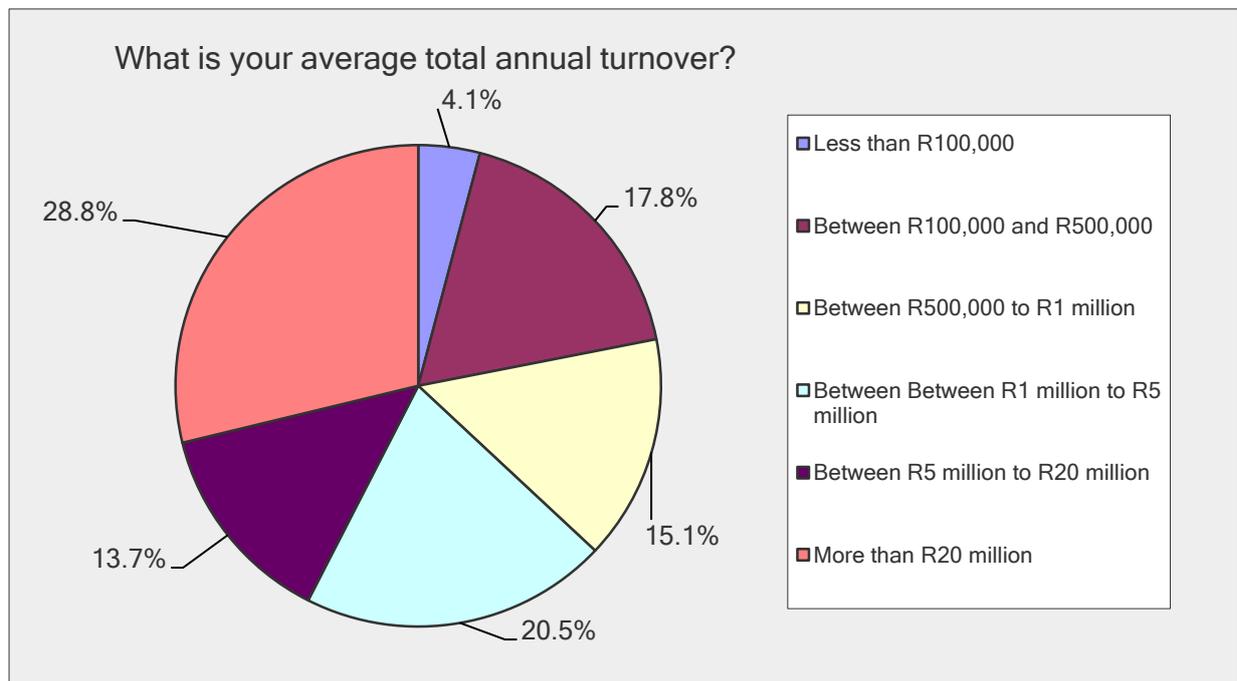
Economic sector participation in the iBCI survey:



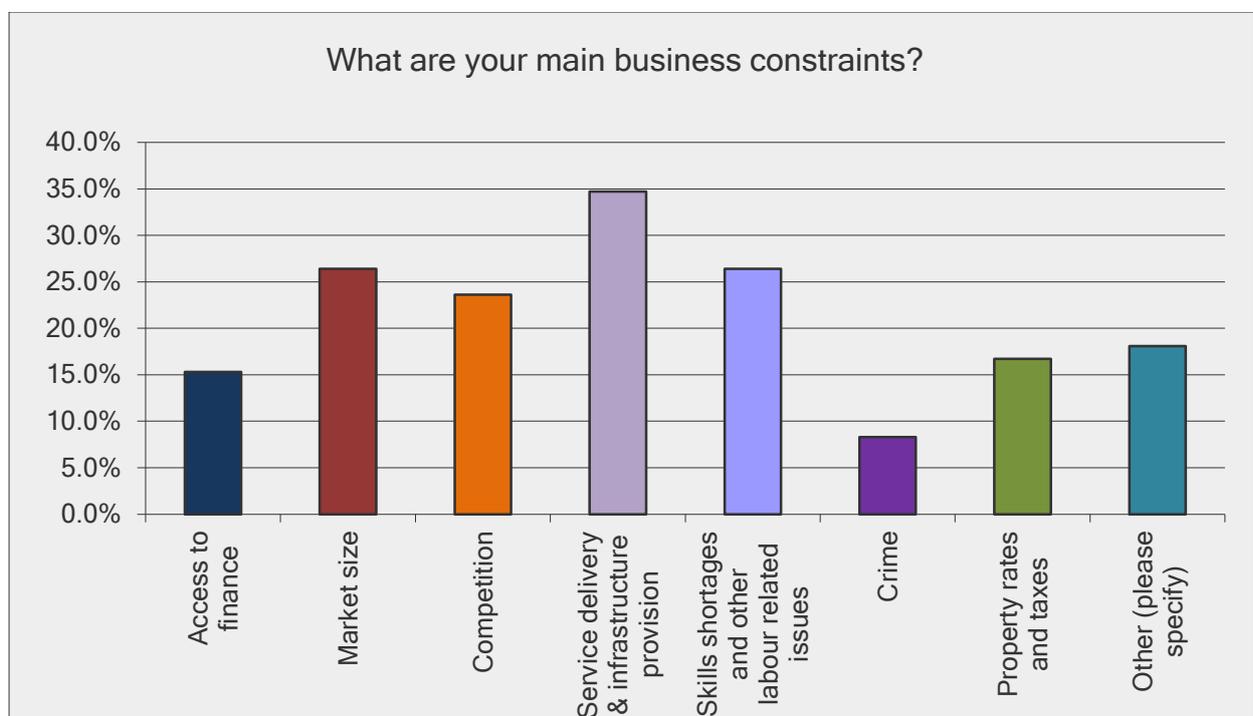
The majority of businesses participating in the 2015 Q4 iBCI Survey operated within the Tourism, Catering and Accommodation sector (23%), followed by Construction, Property Development, Property Sales (21.6%), Financial & Business Services, including IT & Communications businesses (18.9%). Manufacturing, Assembly businesses formed 14.9% of respondents whilst the Wholesale, Retail, Vehicle Trade sector participated at a level of

12.2%. Agriculture, Forestry, Hunting (5.4%) and Transport, Warehousing, Storage (4.1%) sectors were also well represented amongst respondents.

Participation in the iBCI survey by annual turnover level:



Perceived business constraints:



Service delivery & infrastructure provision made a come-back in Q4 2015 to top the list of perceived business constraints with 34.7% of respondents indicating this as the most significant constraint.

Skills shortages and other labour related issues were the most significant constraint of 26.4% of businesses.

Concerns around the stumbling economy have confirmed Market Size (26.4%) and Competition (23.6%) as significant business constraints. These two market related indicators were combined identified by 50% of survey respondents as primary business constraints.

The comments recorded under the *Other* category reflected the significant drought concerns, impact of increasing the cost of borrowing on development initiatives, service delivery issues and the impact of a deteriorating rand on input costs and retail prices.

3. SACCI BCI

The SACCI Business Confidence Index (BCI) measured 80.8 in the 4th quarter of 2015 and lost 9.5 index points since the 1st quarter of 2015 and 4.0 index points between the 3rd and the 4th quarters of 2015. The 4th quarter 2015 SACCI BCI is 8.5 index points lower than in the 4th quarter of 2014. Business confidence worsened notably since February 2015 and was at its worst level in 23 years in December 2015. The year-on-year business climate indicators mainly compared negatively with December 2014. Only inflation (core) and merchandise export volumes were in a positive terrain in December 2015. While merchandise import volumes, municipal services and private sector borrowing did not change materially, all the other sub-indices made negative year-on-year contributions to the SACCI BCI in December 2015.

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.

Though the discussions at the World Economic Forum (WEF) in Davos, Switzerland in January 2016 centered on the so-called 'Fourth Industrial Revolution', it got bogged down on grave contemporary topics such as security, climate change, economic growth and commodity prices. Although the world is making huge strides in the blending of technologies and its competencies in physical, digital and biotic spheres (The Revolution), the momentum and pace of change are going to have dramatic effects on politics, social cohesion and economies.

While the world is moving ahead in the technological/digital fields, the global economy has become stranded for at least the short to medium-term. In January 2016 the IMF revised global economic growth down by 0.2% to 3.4% for 2016. The growth in all the major

advanced economies has also been revised downward. The anticipated growth in Sub-Saharan Africa has been reviewed lower by 0.3% to 4% with Nigerian and South African economic growth coming in lower at 4% and 0.7% respectively in 2016.

World trade volumes growth are also projected to slow to 3.4%, 0.7% less than previously projected. The slower import volumes by advanced economies (3.4% instead of 4.1%) will further impair emerging market economies' trade. With US dollar commodity prices declining further in 2016, and is anticipated to remain low for at least the medium-term, emerging market economies will moreover be constrained for longer unless they could make use of the lower commodity prices as intermediary inputs in secondary economic activity.

4. Conclusion

Despite the overall business confidence in the iLembe District recovering slightly in the 4th quarter of 2015 (1.4 index points) from the pessimism recorded in Q3 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 concern.

Nationally the SACCI Business Confidence Index (BCI) measured 80.8 in the 4th quarter of 2015 and lost 9.5 index points since the 1st quarter of 2015 and 4.0 index points between the 3rd and the 4th quarters of 2015.

Business confidence worsened notably since February 2015 and was at its worst level in 23 years in December 2015.

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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 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.

Annexure 2 - 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.