

## **Introduction**

Given the growing interest in forward-looking short-term economic activities and the need to provide policy-makers and the business community with early signals of turning points in the economy, it is imperative to have a Business Confidence Index (BCI). A BCI helps gauge business people's moods or sentiments in their day-to-day businesses. The index is computed using data from methodical surveys to determine the current economic situation and future direction of commerce, monitor growth in output, and present an advance warning of turning points in economic activity.

This report presents the Durban BCI for the fourth quarter of 2022, which is the second BCI constructed using survey data collected from the business community in eThekweni Municipality. The index varies between zero and 100, where zero shows an extreme lack of confidence while 100 represents extreme confidence and 50 indicates neutrality. The first Durban BCI was launched in the third quarter of 2022.

## **The Durban BCI**

Durban business leaders expressed a lack of confidence in the Durban business environment in the fourth quarter of 2022. However, there is a glimpse of hope in the 2022 fourth quarter relative to the third quarter. The index increased by 8.57 points from 35.47 in the third quarter of 2022 to 44.04 in the fourth quarter of 2022.

The reported index, however, masks interesting dynamics across the sectors. Most sectors, except for electricity, agriculture, and construction, reported an increase in confidence. Unsurprisingly, confidence in the electricity, gas and water as well as the agricultural sectors were the key contributors towards the lack of confidence in Durban.

The ongoing and escalating load shedding combined with the water shortages in some parts of the KwaZulu-Natal (KZN) province, including some parts of Durban, pose a significant strain on the business environment in Durban as reflected by the decline in confidence in these sectors. In the survey, 72% of the respondents reported that electricity, water and water-related issues (e.g. sewerage and solid waste management) are the poorest services provided by the government.

Following a significant decline in Wholesale and Retail trade during the COVID-19 period, the sector has rebounded significantly, with its index jumping from 22.61 in the third quarter of 2022 to 58.72 in the fourth quarter. A large part of this improvement in performance can be attributed to the festive season, which usually leads to an upward surge in trading activities. Notwithstanding this improvement, the persistence of the Durban energy and water challenges may reverse the improvements in the other sectors.

In the Transport, storage and communication sector, confidence has improved from 32.57 in the third quarter of 2022 to 51.44 in the fourth quarter of 2022. This sector has proved to be a key and most resilient sector in the province of KwaZulu-Natal, particularly in Durban. The Port of Durban, which is the largest and busiest harbour in Sub-Saharan Africa, accounts for a significant proportion of activities in the Transport, Storage and Communication sector in Durban and KZN.

The negative mood or sentiment of businesses in Durban mirrors the national BCI computed by Stellenbosch University's Bureau for Economic Research (BER), which was recorded at 38 during the same quarter. Confidence in Durban, whilst still low, has improved relative to the national level, which dipped from 39 in the third quarter to 38 in the fourth quarter of 2022. This may partly be explained by the interventions implemented by the government following the July 2021 unrest and April 2022 floods in KZN.

### Service Delivery

Among the surveyed businesspersons, 78% reported that if they (or anyone else) reported a 'poor service delivery' complaint, it is very unlikely that the authorities would attend to it. This partly explains the low confidence that the businesspersons have in Durban. The survey respondents also reported that among the services provided by the government in Durban, electricity is the worst followed by environmental management (sewerage, solid waste and parks), roads and public safety (police, fire and ambulance services), in that order.

### Review of Selected Macroeconomic Indicators

The KZN economy grew faster than the national economy in the third quarter of 2022. According to The Durban EDGE, the KZN economy recorded a quarter-on-quarter growth rate of 2.1% compared to the national economy's growth rate of 1.6% during the third quarter of 2022. Durban, on

the other hand, grew at the same rate as the national economy, at 1.6%, over the same period. This was a significantly improved performance following a slump of 1.1% registered by the KZN economy in the second quarter of 2022, which was larger than the contraction recorded by the national economy at 0.7% during the same period. Durban's economy shrunk by 0.8% in the second quarter of 2022.

Despite the improvement in economic performance, the persistent load shedding across the country continues to be a major setback to the struggling economy, as businesses desperately try to operate with intermittent power. Load shedding makes businesses lose production, damages equipment, decreases productivity, and increases theft and burglary, leading to sluggish economic growth. The KZN economy, famous for attracting large numbers of tourists, may have also suffered a recovery setback following reports of leaking sewerage pipes that have been polluting rivers and many parts of Durban's beaches.

South Africa's inflationary pressure eased in November 2022 with a decline in consumer price inflation to 7.4% from 7.6% in the previous month (Figure 1). The current inflation rate remains above the upper limit of the South African Reserve Bank's (SARB) target range of 3% - 6%.

Following the high inflation rates, the SARB responded by increasing the repo rate from 5.5% to 6.25% on 22 September 2022 and to 7% on 24 November 2022 (Figure 2). The implication of the tighter monetary policy (high-interest rates) is a slowdown in interest sensitive spending and investment and thus economic growth in the province and the city. This in turn leads to an increase in the already high unemployment, particularly youth unemployment.

Figure 3 presents the exchange rates of the South African rand vis-à-vis the United States



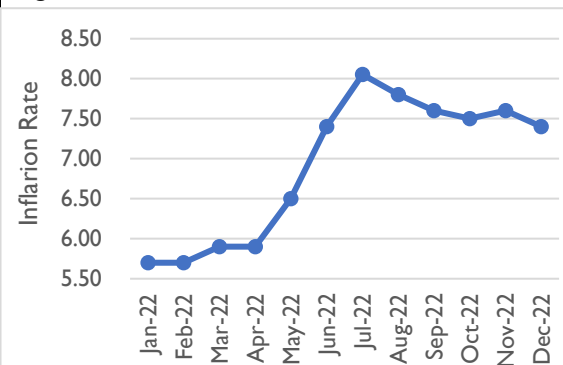
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dollar (ZAR/USD). The ZAR/USD exchange rate remains unstable and volatile. It was recorded at 16.64 ZAR/USD at the end of July 2022 before weakening to 17.11 ZAR/USD, 18.14 ZAR/USD, and 18.29 at the end of August, September and October 2022, in that order. The local currency strengthened against the US dollar closing at 17.17 ZAR/USD and 17.02 ZAR/USD at the end of November and December 2022, respectively. The weakened rand has in-depth implications for the economies of Durban and KZN, given the significance of international trade in these economies. A volatile exchange rate makes investment decisions difficult because exchange rates can quickly change the expected rates of return on investments. It is not surprising, therefore, that business confidence is somewhat low in Durban given the volatility of the rand vis-à-vis the US dollar.

### Post Script

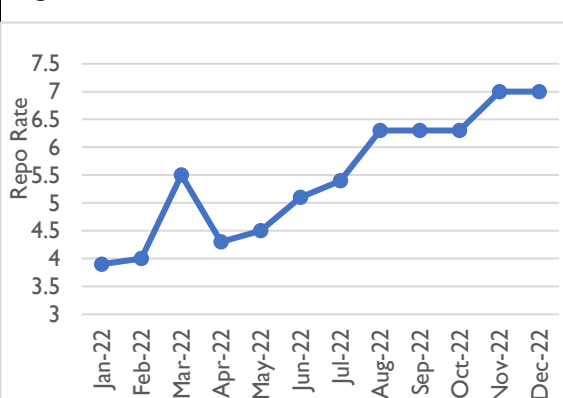
Durban has not recovered from the July 2021 unrest as well as the devastating floods and mudslides of April 2022. Coupled with the prolonged electricity shortages throughout 2022, water rationing and consequent infrastructure project delays, these conditions continue to leave Durban's economy in a vulnerable position. The Durban EDGE reports that Durban's economy suffered a GDP loss of R3.6 billion in quarter three of 2022 due to the persistent load shedding and the lagged effects of the extensive flooding. In addition, the relatively high inflationary pressures on commodity prices (including food and fuel prices), the rising interest rates and the consistent weakening of the rand against the US dollar have been increasing the cost of living and investment, further adversely affecting Durban's economy.

Figure 1: South Africa's Inflation Rates



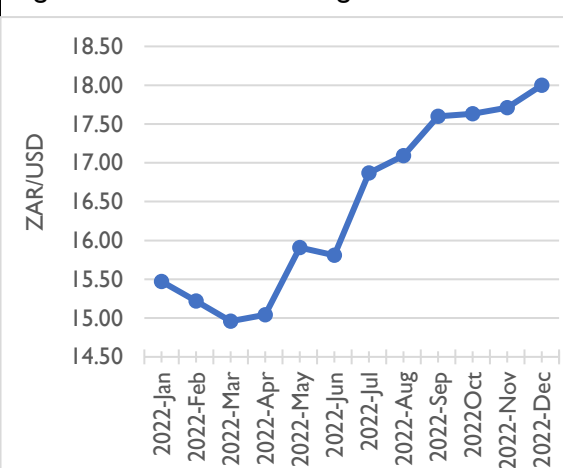
Data Source: Statistics South Africa

Figure 2: South Africa's REPO rates



Data Source: South African Reserve Bank

Figure 3: ZAR/USD Exchange Rates



Data Source: South African Reserve Bank

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