

Introduction

There is near consensus among researchers that the Business Confidence Index (BCI) contains important information about future investment growth due to its predictive ability and superior forecasting power. The index presents an early warning on the expected state of the economy, which in turn assists policymakers in predicting economic expansions, contractions, and turning points. Effectively, economic growth, economic stagnation, and to some extent economic recessions or economic crises can be foreseen with a reasonable degree of accuracy.

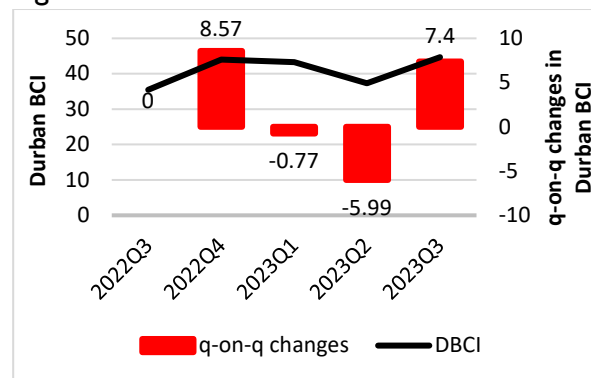
The Durban BCI is computed from quarterly survey data of business conditions and business expectations in which business executives and entrepreneurs in the greater eThekweni Municipality are the respondents. This report presents the Durban BCI for the third quarter of 2023, which is the fifth BCI for the region. The index ranges from 0 to 100, where less than 50 implies a lack of confidence in the Durban economy, equal to 50 means the business situation is normal/neutral, and greater than 50 denotes confidence in the economy. The further below 50 the index is, the greater the lack of confidence in the municipality. The reverse holds when the index is above 50.

The Durban BCI

Durban business leaders have yet again expressed pessimism about the City's current

and future economic climate. However, compared to the previous quarter, the second quarter of 2023, the index has improved slightly from 37.28 to 44.68. This represents an improvement of 7.4 index points quarter-on-quarter (see, Figure 1). The level of business confidence in the City of Durban remains high relative to the country's business confidence. South Africa's business confidence compiled by the Bureau of Economic Research (BER) is reported at 33 index points in the third quarter of 2023 compared to 27 index points in the second quarter of 2023. The improved confidence, though remaining weak, is partly attributed to the reduction in power cuts, which significantly affected the stocks and profits of businesses.

Figure 1: Durban Business Confidence Index



Source: Durban BCI technical team

Year-on-year, the Durban Business Confidence Index has improved by 9.21 index points from 35.47 in the third quarter of 2022 to 44.68 in the third quarter of 2023. This may

be attributed to the waning of the impact of the July 2021 unrest, the April 2022 floods and mudslides, and load shedding on the Durban economy. The Durban BCI for the third quarter of 2023, nonetheless, still shows that businesspersons lack confidence in the Durban economy.

The reported index, however, masks interesting heterogeneities across different sectors of the City's economy. The confidence in most sectors, apart from wholesale and retail trade; repair of motor vehicles, motorcycles, and personal and household goods; catering, and accommodation, has improved. Confidence in the Community, Social, and personal services significantly improved from 39.96 index points in the second quarter of 2023 to 56.55 index points in the third quarter. In the construction sector, confidence significantly dropped from 25.45 index points in the second quarter to 15 index points in the third quarter of 2023. This could partly be attributed to the rise of the so-called 'construction mafias' and the inability of the government to deal with them. Financial intermediation, insurance, real estate, and business services experienced a marginal increase in confidence from 35.33 index points in the second quarter of 2023 to 35.94 index points in the third quarter of 2023. Tight financial market conditions, a weaker global economic outlook, and economic uncertainty remain a huge impediment for this sector. However, as inflation stabilises and interest rate hikes are paused, confidence in this sector is likely to improve in the subsequent quarters.

Service Delivery

There was a marginal improvement in the perception of service delivery in Durban during the third quarter of 2023. Of the surveyed businesspersons, 78.4% stated that if they (or anyone else) reported a 'poor service delivery' complaint, it is very unlikely that the authorities would attend to it. This

was an improvement from 84.6% in the second quarter of 2023. The proportion of the surveyed participants expressing unhappiness with service delivery by the municipality remains relatively high. Electricity tops the list as the poorest service provided (35.1%), followed by environmental management (sewerage, solid waste, and parks) (21.6%), roads (18.9%), water (16.2%), and public safety (police, fire, and ambulance) (8.1%).

Review of Selected Macroeconomic Indicators

Although the country's real GDP increased by 0.6% in the second quarter of 2023, from 0.4% in the previous quarter, household consumption expenditure decreased by 0.3% in the same quarter contributing -0.2% to total growth (Stats SA., 2023). Net exports were also reported to have made a negative contribution (-0.8%) to total growth. According to Statistics South Africa (2023), four industries contracted in the second quarter of 2023. These are construction, trade, electricity, and transport, which, respectively, shrunk by 0.4%, 0.4%, 0.8%, and 1.9%.

Following the national trend, the Durban economy recorded sluggish growth of 0.5% in the first quarter of 2023 and it is projected that the Metropolitan Municipality's growth will decline by 0.4% in the subsequent quarter due to the impact of load shedding and slow-paced investment. Other factors that contributed to the sluggish and poor economic performance of the metro include restrictive macroeconomic policies and the widespread budgetary shortfall to support critical infrastructural development and service delivery.

The country's unemployment rate improved slightly from 32.9% in the first quarter of 2023 to 32.6% in the second quarter. Durban on the other hand recorded an increase in strict unemployment from 19.4% in 2023Q1 to

20.7% in 2023Q2. This may partly be explained by slow growth in the country (and the metro), which has been attributed to rising public debt, lingering political and structural challenges, infrastructural decay, powerful organised labour, natural disasters, and the constant rolling blackouts. Power Availability Statistics (PAS) reveals that in 2023 alone, South Africa has experienced a combined 1,296 blackout hours – an equivalent of 54 full days of no electricity, which has had a significant adverse effect on the country's growth.

In addition, high interest and inflation rates as well as instability of the South African rand continue to undermine the economy. As shown in Figure 2, the rate of inflation increased for the second consecutive month reaching 5.4% in September 2023, from 4.8% in August and 4.7% in July 2023. Until recently, the trend has been downwards since July 2022. This means that the cost side of business, especially locally sourced goods and services, has been gradually decreasing, on average. The recent upturn, if it is sustained, is highly likely to negate the gains attained in the previous year.

According to Statistics South Africa, the main contributors to the 4.8% and 5.4% increases in the rate of inflation in August and September 2023, respectively, were food and non-alcoholic beverages, housing and utilities, and miscellaneous goods and services, which affected households' consumption. For instance, in August 2023, food and non-alcoholic beverages increased by 8.0%, housing and utilities increased by 5.5%, and miscellaneous goods and services increased by 6.2%, year-on-year, while in September 2023, food and non-alcoholic beverages increased by 11%, housing and utilities increased by 4.2%, and miscellaneous goods and services increased by 6.4%, respectively, year-on-year. In addition, the cost of transportation, electricity, and production

generally, have remained relatively high across the country, which may exert further pressure on the rate of inflation in the fourth quarter of 2023. This is in line with the view expressed by the business executives and entrepreneurs in eThekweni Municipality in which 45.9% expect inflation to go up in the fourth quarter of 2023, while only 16.2% expect the downward trend to continue.

Following the downward trend in the rate of inflation (that ended in July 2023), the South African Reserve Bank (SARB) decided to keep the repo rate unchanged at 8.25% throughout the third quarter of 2023 (Figure 3). While many believe that the repo rate may be adjusted downwards at the next monetary policy committee of the SARB (after remaining constant since May 2023), we hold the view that it will remain unchanged within the foreseeable future. The recent upturn in inflation coupled with expectations of high inflation as well as the continued depreciation of the rand against the USD are the main reasons for the SARB to sustain a tight grip on monetary policy where the Repo has been kept at 8.25% for the entire 2023Q3 (see Figure 3).

A large proportion of the survey respondents (24.3%) further identified insufficient demand as the most limiting factor to business performance in the province. This is in line with the distortion to household income caused by rising prices in the economy and stagnant wage growth.

This further aligns with the views expressed by the respondents in which 51.4% indicated that their present situation concerning access to credit has remained tight. In comparison to the previous three months, 37.8% of the respondents indicated that their companies' financial situation has worsened while only 24.3% indicated that there has been an improvement. Since April 2023, the SARB has kept the repo rate at a

local peak of 8.25%, which continues to reduce consumer and business spending, consequently lowering firms' stocks and investment that in turn has a negative effect on economic growth.

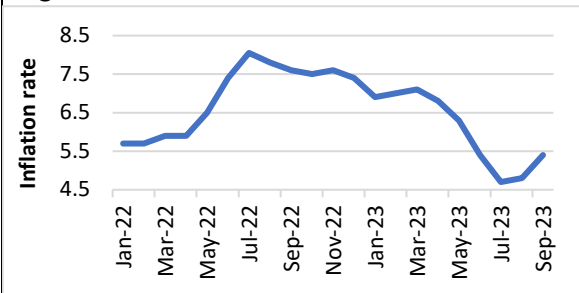
Figure 4 presents a plot of the exchange rates of the South African rand vis-à-vis the United States dollar (ZAR/USD). The rand weakened against the US dollar for the entire 2023Q3, from R18.75 at the end of 2023Q2 to R19.21 at the end of 2023Q3. The low economic growth, low investor confidence, load shedding, exposure of the Rand to China (any adjustments to Chinese foreign policy have a direct impact on the Rand), high-interest rates, and soaring material costs, are the major factors affecting the exchange rate. This instability in the value of the rand vis-à-vis the USD spreads to other sectors of the economy through its effect on international trade and input costs.

Post Script

Since the inception of the Durban BCI, in 2022Q3, business executives and entrepreneurs in eThekweni Municipality have consistently expressed a lack of confidence in the Durban economy. The business captains have highlighted poor service delivery as a particular source of concern (78% in 2022Q4 and 2023Q1, 84.6% in 2023Q2, and 78.4% in 2023Q3). Among the various services provided by the municipal authorities, electricity has been singled out as the largest source of pessimism in the Durban economy. This may reflect frustrations arising from load shedding and the resulting consequences in the production of goods and provision of services. Scholars generally agree that a reliable and sustainable power supply is a necessary condition for economic growth.

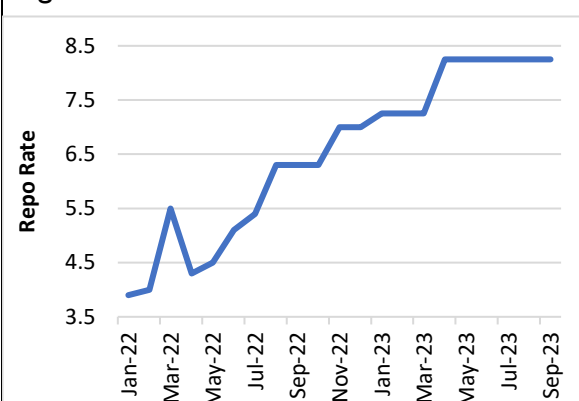
Not surprisingly, the real output growth in Durban has been stagnant.

Figure 2: South Africa's Inflation Rates



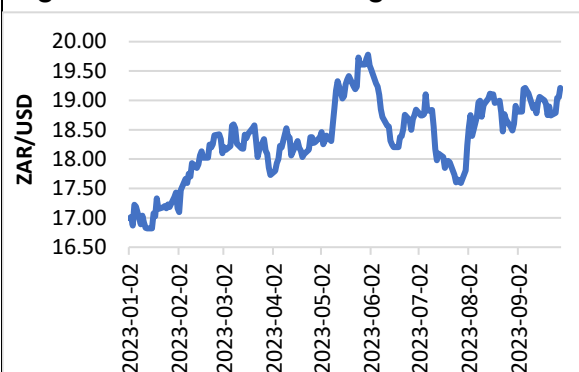
Source: Statistics South Africa

Figure 3: South Africa's REPO rates



Data Source: South African Reserve Bank

Figure 4: ZAR/USD Exchange Rates



Data Source: South African Reserve Bank

Authors: Harold Ngalawa, Ntokozo Nzimande and Adebayo Kutu, Macroeconomics Research Unit, University of Kwa-Zulu-Natal

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