



**economic development
& tourism**

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KWAZULU-NATAL PROVINCIAL GOVERNMENT



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PROVINCE OF KWAZULU-NATAL



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KwaZulu-Natal Business Barometer

October 2013

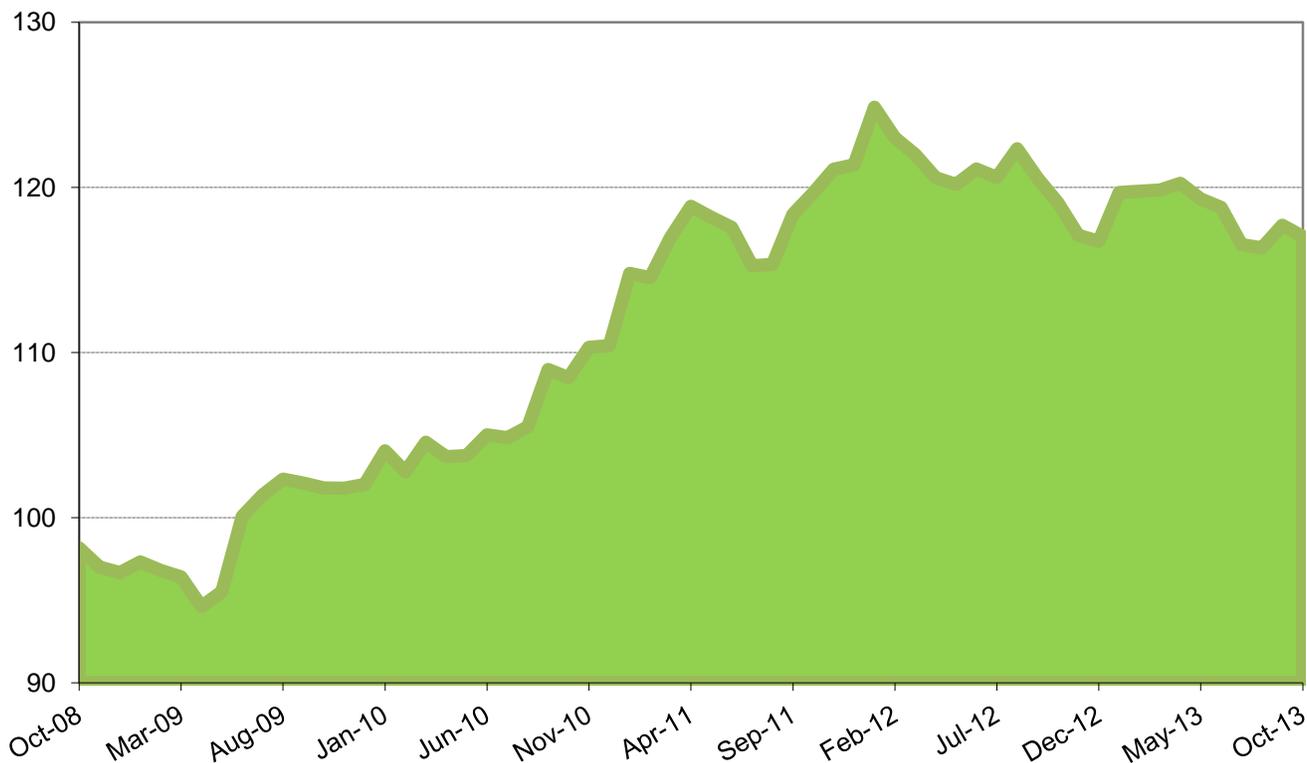
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KwaZulu-Natal economy defies strike odds



Source: Economists.coza (2013)

KwaZulu-Natal's economy managed to show improvement in October despite the delayed effects of the devastating strikes in the car manufacturing sector. The KwaZulu-Natal barometer decreased by 1.7% year-on-year, but it was the smallest decline in five months. Quarter-on-quarter the barometer was up 0.4% and month-on-month it lost 0.6%. Despite the fact that the barometer was still negative and the KwaZulu-Natal growth index grew at the slowest pace since May, things are looking better in the province. The provincial economy grew 1.1% year-on-year and was negative on a month-on-month and quarter-on-quarter basis, but compared to the 0.7% quarter-on-quarter annualised growth for South Africa that Statistics South African recently announced, the growth story is not too bad in KwaZulu-Natal at a time when the whole country is struggling.

Economic stress index shows slower increase

A slower increase in economic stress also helped the overall KwaZulu-Natal barometer. The economic stress index, which measures indicators like inflation, interest rates and unemployment, still increased by 2.8% year-on-year, but it was the slowest increase in five months. Month-on-month and quarter-on-quarter economic stress came down. While the national inflation rate surprised in October by declining to 5.5%, KwaZulu-Natal's inflation rate came down to 5.1%. Unemployment in KwaZulu-Natal is still high at 20.9%, and the interest rate effect on the stress index was zero because the prime interest rate has been unchanged at 5% since July 2012.

Agriculture surprises

The KwaZulu-Natal agriculture index had its best year-on-year performance since May 2011 and grew 2.5% year-on-year. The index was also positive on a month-on-month

and quarter-on-quarter basis. The pick-up in agriculture was thanks to a good season of field crops, which grew 24% year-on-year. Sugar production and meat production both came down by 4%. Meat production can be expected to pick-up in the coming months as consumers spend money on the luxury of meat for the festive season.

Mining still strong

Mining also had a good month in KwaZulu-Natal. The mining index grew 5.3% year-on-year, just slightly down from the previous month's 7.4% growth. The September growth followed 14 straight months of year-on-year declines in mining. However, the main reason for the pick-up in mining in the last two months is the low base effect that was caused by the lagged impact of last year's devastating mining strikes, which included the tragedy at Marikana. It is thus not surprising that the mining numbers are positive even though things might not really be that positive in the mining industry. Coal mining, which comprises 72% of KwaZulu-Natal's mining sector, was still down 1% from a year ago; the mining building materials fell 20%. The mining of other non-metallic minerals, which include ceramics, cement and lime, grew 46%, which helped to boost the industry.

Manufacturing moving at a snail's pace

The KwaZulu-Natal manufacturing sector has been weak for quite a while and grew only 0.1% year-on-year, the slowest pace since May's decline. The biggest reason for the slowdown in the manufacturing index was the 50% year-on-year drop in the production of vehicles, parts and accessories and transport equipment, a lagged result of the strikes of car and parts manufacturers, which only ended early in October. Other parts of the manufacturing sector were also affected by the strikes, and so were other categories under the manufacturing index, but not to the same extent as motor manufacturing. The vehicles category contributes 10% to the KwaZulu-Natal manufacturing sector, so a big drop in the category will

have a visible effect on the manufacturing index.

Trade index shows positive movement

The trade index in KwaZulu-Natal was also affected by the strikes in car manufacturing. Wholesale grew by 7.2% year-on-year, the strongest growth since May, but retail sales declined by 0.1%. Vehicle sales grew only 8%. Hotels and restaurants fell 4.5%, the 15th consecutive month of decline, as consumers are simply not spending much on luxuries, like going out. While some reports suggest consumers still do have money for such discretionary spending, KwaZulu-Natal might not get the full benefit of that in the same way a province like Gauteng, which simply has so much more people. The best performer among the retail categories was the general dealers, which represent mostly smaller businessmen in the economy and which shows they are at least growing. Overall the trade index grew 3.5% year-on-year, 1% month-on-month and 0.3% quarter-on-quarter.

Electricity on the up

The KwaZulu-Natal electricity index grew year-on-year for the fifth consecutive month, this time by 4.1%. This was partly due to some base effects after usage declined for most of last year, but it also shows that some big projects are happening in the province. One such project could be the shopping mall which recently collapsed in Tongaat. The growth in lumber sales, which form part of the construction index, also indicates that some big unrecorded building projects are going on in KwaZulu-Natal.

KwaZulu-Natal has experienced increased electricity usage since May and according to Statistics South Africa it is the second biggest user of electricity, after Gauteng.

Construction on a downward slope?

Construction in KwaZulu-Natal is the one sector which simply cannot turn the corner. The construction index has been negative for most of the last 15 months and declined

20.4% year-on-year in October. The index was still 12.4% below its level of three years ago, but increased on a month-on-month and quarter-on-quarter basis, which shows some positivity over the short term.

One of the building categories that grew was additions to dwelling-houses, which usually means normal house renovations. Often, when people get their year-end bonuses some of the money will be used to improve their houses. That also explains some of the 10.1% increase in lumber sales, which usually shows that some informal building is taking place.

Transport and communication looking up

The KwaZulu-Natal transport and communication index grew 5.5% year-on-year, the fastest in more than a year, mostly due to a 12% increase in communications. Month-on-month the index was unchanged and on a quarter-on-quarter basis, it grew 1.1%.

The volume of cargo handled at the province's two ports recovered and grew 4.2%, but passenger arrivals at the King Shaka International Airport declined by 4.5%. As the holiday season approaches there should, however, be an increase in air travel and that will be reflected in the January barometer.

Finance, real estate and business services drops

slightly

The finance, real estate and business services index was down 1%, the first year-on-year decline this year. This was partly because the JSE suffered from the effects of the temporary shutdown of the US government in October. Property, advertising and mortgages were all negative. Civil debt cases was one of the only categories that showed convincing growth of 15.3%. While growth in civil debt cases means more work for lawyers, it has a negative effect on the economic stress index.

The bad performance of the finance sector shows the slowdown in the economy is also affecting the private sector. All the bad news about e-tolls and possible sovereign debt downgrades also affect the index negatively as it weighs on investor sentiment.

Government spending slowing down

Growth in the KwaZulu-Natal government index continues to slow down and grew only 0.4% year-on-year in October, the slowest pace since March. Month-on-month the index was down 4.2% and quarter-on-quarter it was down 5%. The index was, however, still 18.9% up from three years ago. The slowdown in the government index should turn around when the National Treasury publishes the latest government spending figures. Spending is also expected to pick up in the run-up to next year's election.

Results Table: October 2013

Main and sub indices of Kwazulu-Natal Barometer	% Change on a year ago	% Change on a month ago	% Change on a Quarter ago	% change on 3 years ago
Agriculture Index	2.5%	0.6%	0.2%	-1.3%
Mining Index	5.3%	-12.9%	15.0%	-1.6%
Manufacturing Index	0.1%	-1.7%	-1.3%	5.1%
Electricity Index	4.1%	0.7%	2.2%	-1.3%
Construction Index	-20.4%	6.2%	0.9%	-12.4%
Transport Index	5.5%	0.0%	1.1%	14.0%
Trade Index	3.5%	1.0%	0.3%	17.6%
Government	0.4%	-4.2%	-5.0%	18.9%
Finance, Real Estate and Business Services Index	-1.0%	-4.2%	-3.3%	0.3%
Kwa-Zulu Natal Growth Index	1.1%	-2.0%	-1.5%	8.6%
Kwa-Zulu Natal Stress Index	2.8%	-1.4%	-1.9%	0.6%
Kwa-Zulu Natal Barometer	-1.7%	-0.6%	0.4%	7.9%

Source: Economists.coza (2013)