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KWAZULU-NATAL PROVINCIAL GOVERNMENT



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PROVINCE OF KWAZULU-NATAL



KwaZulu-Natal Barometer

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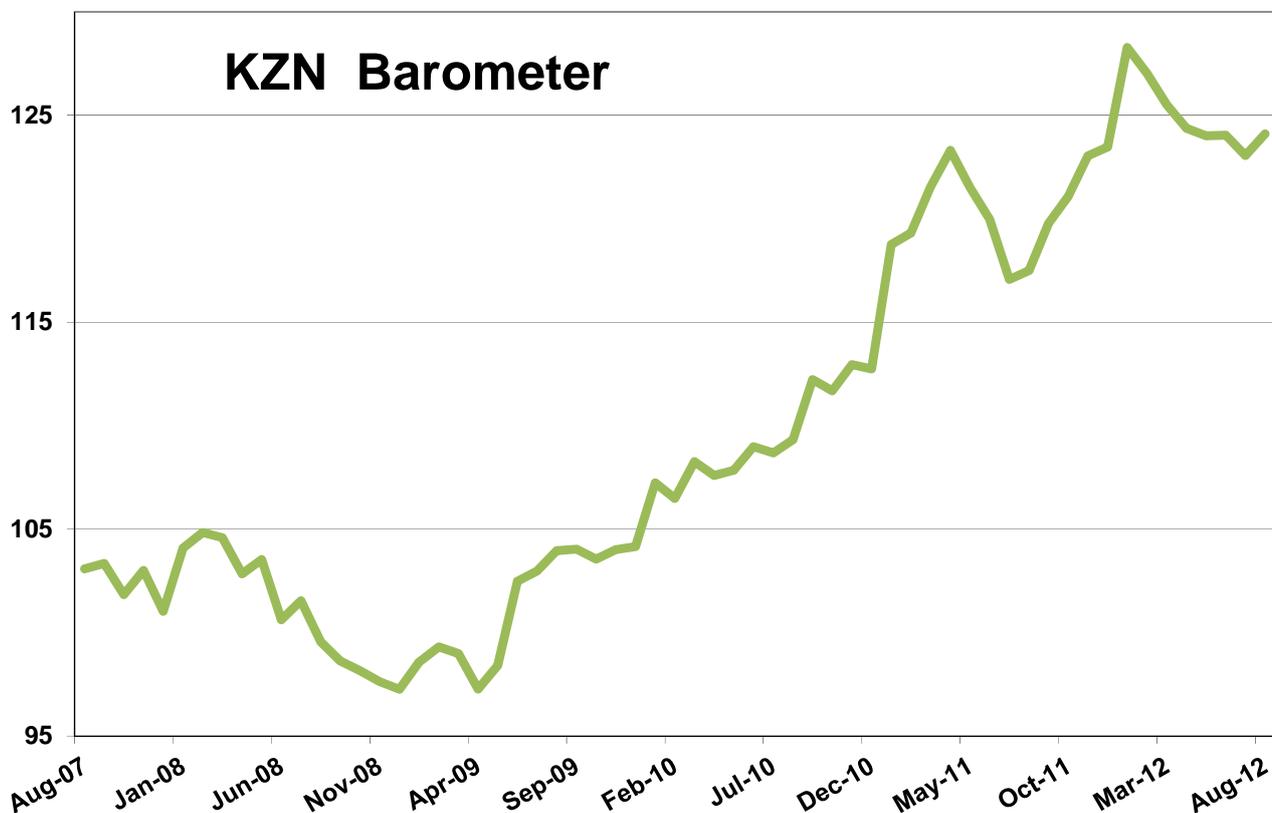
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KwaZulu-Natal economy treading water



The KwaZulu-Natal economy is treading water and while another recession is not yet a possibility, it is time to be concerned about the stagnation of the province's economy. This already hit small businesses harder than large businesses.

The latest KwaZulu-Natal barometer, a measure of economic activity in the private sector and government as compiled by Mike Schüssler of Economists.co.za, grew by 5.6% year-on-year, but only 0.1% quarter-on-quarter and 0.8% from the month before. Most sectors in the KwaZulu-Natal economy still look good year-on-year, but are starting to show signs of stagnation over a shorter term. The KwaZulu-Natal economy grew by 4.1% year-on-year in August, but declined by 0.9% and 0.1% on a quarter-on-quarter and month-on-month basis.

Negative growth for transport and communication

Some sectors in the KwaZulu-Natal economy seem to be running into trouble. Although the transport and communication index grew by 9% year-on-year, the index was negative quarter-on-quarter for the fifth month in a row. Land transport in KwaZulu-Natal only grew by single digits for the fourth consecutive month. This is most likely due to the effect of spectacular African growth, which has been driving land transport in KwaZulu-Natal, waning as commodity prices retreat.

Ports were still busy with 9.2% growth in the volume of cargo handled. This was, however, mainly on the import side. Airport arrivals fell by 7.7% on a year ago, the sixth consecutive month of decline. The whole tourism industry seems to be under pressure due to the global economic slowdown. South Africans also do not always have the means for air transport and many companies rather opt for video conferences.

Communications grew by 15.6% year-on-year, but this was somewhat slower than the growth of more than 20% in the previous two months.

Mining slowing all around

Mining is not only slowing in other parts of Africa due to lower commodity prices, it is also slowing in South Africa and KwaZulu-Natal, albeit for different reasons. The KwaZulu-Natal mining index grew by 4.5% year-on-year, but declined by 2.6% and 2.8% quarter-on-quarter and month-on-month. The year-on-year growth is also expected to turn negative in the next two or three months as the strikes in the mining sector have started to hit KwaZulu-Natal's coal fields. However, mining was never expected to be a boom area in KwaZulu-Natal and the province's mining sector may have reached a short-term peak anyway.

Manufacturing relatively positive growth

The manufacturing sector in KwaZulu-Natal is still performing relatively well with year-on-year growth of 3.5%, but some areas in the sector, like textiles and furniture, are struggling. The global slowdown is starting to have an effect on broad-based manufacturing in some areas. Although the petroleum and chemical production still grew by 7% year-on-year, the export volumes are falling, which indicates that some parts of manufacturing will slow down and decline.

Motor and parts manufacturing still defy the odds and grew by 6%, the fourth consecutive month of growth.

New vehicle sales boost trade index

The growth in the manufacturing of motors is partly linked to the incredible sales of cars still recorded in KwaZulu-Natal. New vehicle sales grew by 29.2% year-on-year after growing by 33% the months before. This has helped to boost the KwaZulu-Natal trade index, which grew by 6.7% year-on-year. However, petrol sales were down 3.9%, the second month of decline. This may have something to do with recent petrol price increases, but could also indicate that people who are buying new cars are using it for recreational purposes and not to get to work and back every day.

Retail sales in KwaZulu-Natal disappointed with an increase of only 1.1% year-on-year. This added to the notion that people's wallets are growing thin. Although official inflation for consumers in KwaZulu-Natal seems low, the prices of electricity and petrol have gone up substantially and most consumers can't avoid paying for these items.

Electricity on a downward slope

The electricity index of KwaZulu-Natal continued its decline for the fifth consecutive month and was down 6.6% year-on-year in August. A lot of this can be attributed to price increases which led to consumers and businesses cutting back on electricity usage where possible.

Government spending steadying KwaZulu-Natal economy

Growth in spending by the national, provincial and local government in KwaZulu-Natal slowed somewhat. The government index grew by 5.7% compared to 7.8% the month before. Government spending also grew on a quarter-on-quarter and month-on-month basis.

Agriculture decline slowing

Agriculture in KwaZulu-Natal has been declining for 14 months now, but the year-on-year decline of 2% is substantially less negative than a few months ago.

The total kilograms of meat slaughtered increased by 13.9% thanks to a 17.4% increase in cattle slaughtered. Only a few months ago the kilograms of cattle slaughtered still declined by more than 40%. However, the pipeline of meat that built up is now being depleted, so orders for meat are streaming in. This is especially due to the prospect of higher maize prices, which will make meat more expensive. Meat producers are also willing to sell now, even though meat prices are expected to climb, as their margins would decline later when they have to feed their cattle with more expensive grain.

The main factors dragging down agriculture in KwaZulu-Natal were the 9.8% decline in crushed sugar volumes and the estimated 4% decline in forestry.

Short-term growth spike for construction

The construction sector was one of the positive surprises in the KwaZulu-Natal economy. Although the KwaZulu-Natal construction index declined by 6.2% – the sixth consecutive month of decline – it was better than the two previous months' double-digit decline. The index grew by 13% quarter-on-quarter and 4.1% month-on-month. It should, however, be kept in mind that construction is a very volatile industry and one must not see these positive

figures in isolation as it can be influenced by the completion of one or two big construction projects. There is a risk of these figures going back into negative territory in the next month or two.

Slight long-term decline for finance, real estate and business services

Property sales did not really reflect the events in the construction sector and declined by 1.1% after 20 months of growth. This contributed to the KwaZulu-Natal finance, real estate and business services index declining by 1.5% year-on-year.

The index grew on a quarter-on-quarter and month-on-month basis. New mortgages performed somewhat better than property transfers, at 2.5% growth. Installment sales grew by 8.4%, but this was mainly because of the strong vehicle sales figures.

The big negative for this index was the 26.6% decline in civil debt cases, which meant less work for lawyers.

Economic stress declines on the back of a decrease in civil debt cases

The decline in civil debt cases did help to lower economic stress in KwaZulu-Natal. The stress index declined by 1.4% year-on-year and 1% on a quarter-on-quarter and month-on-month basis. This helped to underpin some economic growth in the province.

The decline in the stress index was also due to the cut in the prime interest rate by the Reserve Bank and a slight decrease in KwaZulu-Natal's inflation rate.

Results Table:

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	-2.0%	-0.6%	-1.7%	-6.2%
Mining Index	4.5%	-2.8%	-2.6%	-1.2%
Manufacturing Index	3.5%	0.3%	-0.5%	8.6%
Electricity Index	-6.6%	0.5%	-1.9%	-6.7%
Construction Index	-6.2%	4.1%	13.0%	-32.3%
Transport Index	9.0%	-2.6%	-6.0%	31.1%
Trade Index	6.7%	-0.9%	-1.9%	20.3%
Government	5.7%	0.6%	0.8%	34.1%
Finance, Real Estate and Business Services Index	-1.5%	2.4%	4.2%	4.1%
Kwa-Zulu Natal Growth Index	4.1%	-0.1%	-0.9%	15.7%
Kwa-Zulu Natal Stress Index	-1.4%	-1.0%	-1.0%	-3.1%
Kwa-Zulu Natal Barometer	5.6%	0.8%	0.1%	19.4%