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PROVINCE OF KWAZULU-NATAL



KwaZulu-Natal Barometer

December 2012

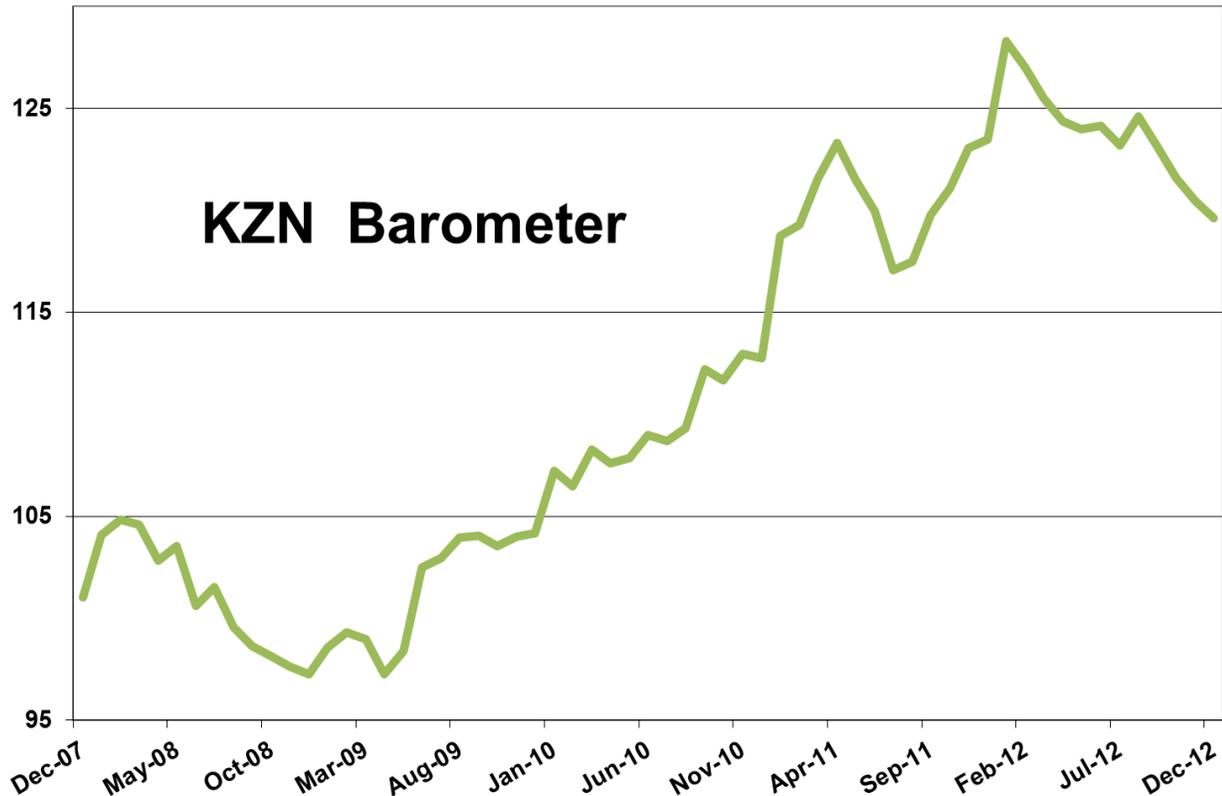
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General slowdown hitting KwaZulu-Natal economy



The effects of the general slowdown in the national economy are starting to show in the KwaZulu-Natal economy. The KwaZulu-Natal barometer, as compiled by Mike Schüssler of Economists.co.za, declined year-on-year, for the second consecutive month, in December. As the strikes in the mining sector started in August, the effect on the economy slowly became clear in September and October. However, it was in November and December that the effect on the economy was loud and clear. The economic growth index increased by only 0.3%, the slowest growth since March 2010.

Aside from the 3.1% year-on-year decline, the barometer was down 2.8% on a quarter ago and 0.7% on the month before.

The slowdown in economic activity was coupled with increased financial strain on consumers as the prices of basic necessities like fuel and electricity increased. It is hitting consumers hard in all provinces, as barometers country-wide begin to reflect this downturn.

All-time low for mining

The KwaZulu-Natal mining index fell by 9.9% year-on-year, the biggest drop in at least 10 years. However, this was not really a surprise as the whole world seems to realise that South Africa's mining sector is in a bad state and the drop in production is merely a reflection of that. Coal being the main contributor to mining in KwaZulu-Natal was affected. Although most of the focus on mining strikes fell on the North West, workers at Tendele's Somkhele anthracite mine in KwaZulu-Natal also went on strike in September and October, affecting mining production in the province.

Farming in a slump

The strikes in the farming sector of the Western Cape did not affect KwaZulu-Natal's agriculture sector, but agriculture in the province did not perform well in 2012. The agriculture index was down 9.3% year-on-year and is 7.8% lower than three years ago. This was partly due a decline in maize production.

Although meat slaughtered was up substantially from November, in line with the usual increased consumer demand for meat in December, it was down from the previous December and thus did not help to drive the agriculture index on a year-on-year basis.

Manufacturing brings hope to barometer

The bad performance of mining and agriculture is seeping through to the manufacturing sector. The KwaZulu-Natal manufacturing index increased by 2% year-on-year, 2.1% quarter-on-quarter and 0.6% month-on-month. Although the sector is far from performing at its best, it has been boosting the KwaZulu-Natal economy. This is mainly through the 11.4% growth in the production of petroleum, chemical, rubber and plastic products without which the manufacturing sector would most likely have been negative.

Electricity decline slowing

The KwaZulu-Natal electricity index also showed the effects on the economic slowdown, with a decline of 1.6% year-on-year. This was however the smallest decline in nine months and the smallest decline in the electricity indices of all the provinces. This is mainly because of the energy-intensive nature of KwaZulu-Natal's industries. While industries are trying to reduce their energy consumption because of costs, they still need the electricity to operate, even in times of less activity.

Mining strike's reach extends to construction

Although the construction sector seems unconnected to the strikes at a first glance, the effects of the strikes have gone much deeper than many people realise. The KwaZulu-Natal construction index has been volatile and was down 0.2% year-on-year in December. Apart from the problems in the property market, building materials produced by striking mine employees caused this decline. This in turn contributed to the slowdown in the completion of building projects.

Communication boosts transport and communication index

The transport and communications index in KwaZulu-Natal showed the strongest year-on-year growth – 2.7% – of all the indices in the province's economy. However, the index was down 0.7% quarter-on-quarter and 0.9% month-on-month.

The year-on-year growth was at the lowest level since June 2009. This was partly because of the gradual slowdown in the communications component of the index, which slowed to 9% year-on-year after several years of mostly double-digit growth. The slowdown can be explained by the migration of internet usage from local browsers on computers to mobile browsers on cellphones.

Arrivals at the King Shaka International Airport continued to drop for the tenth consecutive month, this time by 10.4%. The drop in airport numbers can be ascribed to 1Time disappearing from the market and also to air ticket prices simply being too high for many consumers. This also corresponds with a decline in hotel and restaurant numbers, which forms part of the trade index.

The volume of cargo handled by KwaZulu-Natal's two ports dropped by 5%, the biggest decline in more than three years. This reflects the general slowdown in the economy, in South Africa and worldwide.

Growth in trade slowing

The trade sector in KwaZulu-Natal have, for the better part of 2012, helped to support the economy, but with the trade index growing at only 1.2% year-on-year and declining quarter-on-quarter and month-on-month, the sector is not doing very well at the moment.

Vehicle sales still grew at 5.8%, but this was substantially down from the growth in excess of 20% three and four months before.

Retail sales were down for the second consecutive month, which goes to show that consumers are under financial strain and most likely in debt or focusing on paying off their debt rather than spending a lot of money on shopping.

Government spending expected to pick up

The KwaZulu-Natal government index was down 0.2% on a year ago, and 3.5% quarter-on-quarter. It increased slightly on a month-on-month basis. The different levels of government in KwaZulu-Natal are not spending money and, looking at historic trends, this is very unlike them. If the government was spending money in KwaZulu-Natal, the province's barometer would probably have been positive, although not by much.

Government spending is expected to have picked up in January as the different levels of government spend what are left of their 2012/13 budgets.

All-round bad performance for finance, real estate and business services index

The finance, real estate and business services index is not doing well in any province and in KwaZulu-Natal it was down 2.4% year-on-year.

This was driven by a 9.5% drop in mortgages as consumers are struggling with money issues and thus simply buying less property.

Civil debt cases were down 9.2%, which meant less work for lawyers, although it helped reduce stress on consumers somewhat.

The index was also hit badly by the 11.1% decline in advertising.

Economic stress increases as inflation and unemployment take their toll

Economic stress in KwaZulu-Natal increased sharply over the last few months, driving the province's economic stress index up by 3.5% year-on-year in December. Quarter-on-quarter it was up 1.7% and month-on-month 0.2%.

The increase in economic stress was mainly because of increased inflation and unemployment in KwaZulu-Natal.

Results Table: December 2012

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	-9.3%	0.1%	-2.2%	-7.8%
Mining Index	-9.9%	-1.6%	-10.6%	-9.9%
Manufacturing Index	2.0%	0.6%	2.1%	8.9%
Electricity Index	-1.6%	0.9%	2.5%	-4.1%
Construction Index	-0.2%	1.3%	8.8%	-21.3%
Transport Index	2.7%	-0.9%	-0.7%	33.0%
Trade Index	1.2%	-0.5%	-0.1%	20.3%
Government	-0.2%	0.8%	-3.5%	14.2%
Finance, Real Estate and Business Services Index	-2.4%	-3.1%	-4.6%	1.0%
Kwa-Zulu Natal Growth Index	0.3%	-0.4%	-1.1%	12.6%
Kwa-Zulu Natal Stress Index	3.5%	0.2%	1.7%	-2.0%
Kwa-Zulu Natal Barometer	-3.1%	-0.7%	-2.8%	14.9%