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KWAZULU-NATAL PROVINCIAL GOVERNMENT



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PROVINCE OF KWAZULU-NATAL



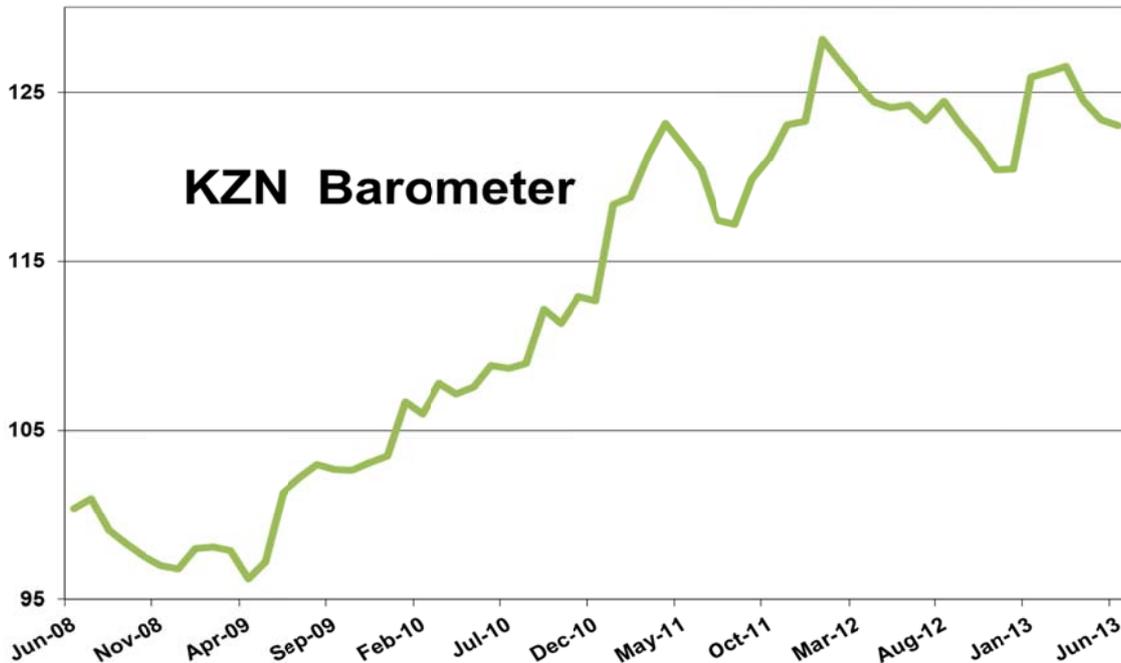
**Trade &
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KwaZulu-Natal Business Barometer

June 2013

Inflation taking its toll in KwaZulu-Natal



Inflation and unemployment are taking their toll in KwaZulu-Natal, as reflected in the latest KwaZulu-Natal barometer. The barometer, as compiled by Mike Schüssler of Economists.co.za, declined by 1% year-on-year. Month-on-month it was down 0.4% and quarter-on-quarter 2.5%.

Stress index on the increase

The decline was primarily due to the increase in province's stress index. The index, which reflects negative factors like inflation, unemployment and interest rates, was up 3.4% year-on-year, the biggest increase since January. This was caused by inflation, which is rising countrywide and rose to 5.5% in KwaZulu-Natal. Inflation is simply eating away the consumer's purchasing power; it has decreased consumer confidence which in turn is affecting business confidence. Rising unemployment also contributes to higher economic stress. Unemployment in KwaZulu-Natal stood at 22% in June, compared to 19.8% a year ago. The Quarterly Labour Force Survey for the second quarter published by Statistics South Africa showed national unemployment rose to 25.6%. The increase will also reflect in the next month's KwaZulu-Natal barometer, which will mean more growth in economic stress.

Bullish outlook

On the positive side, the KwaZulu-Natal economy is still growing. The growth index was up 2.3% year-on-year and has been positive for more than three years, even though there has been negative barometer numbers caused by increases in the stress index. The continued growth gives some hope that activity and projects are happening in KwaZulu-Natal and that will eventually lead to a more positive barometer number. Once the government starts pumping some money into the KwaZulu-Natal economy again, there will be enough positivity to help counter the negative effect of increased stress and inflation.

Government spending taking a dive

Government spending in KwaZulu-Natal was down year-on-year for the third consecutive month – this time by 3.2%. Quarter-on-quarter it was down 1.3%, but month-on-month it was up 2.1%. Despite this short-term uptick, it is difficult to say whether the next month will be more positive, but hopefully spending will increase at some point. The prospect of next year's election might be a catalyst to encourage government spending in KwaZulu-Natal in coming months.

Cattle slaughtered keeping agriculture afloat

The KwaZulu-Natal agriculture index barely moved and was up 0.2% year-on-year. It was also positive on a month-on-month and quarter-on-quarter basis. The positive year-on-year movement was driven by a 53% increase in the production of cattle slaughtered, which boosted the whole agriculture index. The production of lamb was up by 17% and the production of pork continued to decline, although the 6% decline was a substantial improvement in the double-digit declines of at least the last seven months.

Mining makes a comeback

The other primary sector in KwaZulu-Natal – mining – is still reeling from the national strain on the sector. Year-on-year the mining index was down 18.6%, but month-on-month it rebounded with 25.5%. Despite the better short-term performance, it is still clear that things have not been good for the country's mining this year. Nationally mining is expected to be negative for a while, especially as wage negotiations are heading for some tough talks; and rival unions Amcu and NUM still seem to be fighting, which further erodes confidence in the mining sector.

In KwaZulu-Natal coal dominates the mining sector and coal production grew by only 1.1%. However, this should increase at some point as there are not a lot of strikes or wage disputes on KwaZulu-Natal's coal mines at the moment.

Manufacturing index surprises

The KwaZulu-Natal manufacturing index was boosted by a 25.1% year-on-year increase in the manufacturing of basic ferrous and non-ferrous metal and metal products. The overall index was up 2.4% year-on-year, its best performance in four months. The production of textiles, clothing, leather and footwear also helped to boost manufacturing as it grew by 20.9%. This is partly due to change of seasons, which increased the demand for winter clothing and also led to an increase in retail sales in this category.

Vehicles boost trade index

Trade in KwaZulu-Natal increased by 2.7%. The 15.6% increase in vehicle sales was the main contributor. Despite the difficult times consumers are facing, people in South Africa just love buying cars. Retail sales were up 0.8% after it declined by 0.6% in the previous month. Wholesale sales were up 3.3%.

A slight increase in the electricity index

The KwaZulu-Natal electricity index is showing an interesting trend and increased by 5.2% year-on-year, the second consecutive month of increase. Month-on-month the electricity index was up 0.3% and quarter-on-quarter it was up 0.2%. The strong year-on-year increase seems to buck the trend of declining electricity usage due to increased tariffs and declining economic growth. The big increase is most likely due to the low base created last June, when the electricity index declined by 8.7%.

Construction still in a slump

The construction index has been negative for 14 out of the last 16 months. In June it was down 15.3% year-on-year and 22.1% from its level of three years ago. The most recent decline was due to the 16.7% decline in buildings completed. Lumber sales also continued to decline and dropped 13% year-on-year in June. Although the Quarterly Labour Force Survey showed that the construction sector contributed to employment in the second quarter, it was most likely due to temporary projects.

Transport and communication up

The KwaZulu-Natal transport and communication index was up 8.8% year-on-year, but declined on a month-on-month and quarter-on-quarter basis. The increase was primarily due to the 14.8% growth in communications as page views on local browsers and cellphone minutes used grew. This was despite the fact that MTN and Vodacom reported a drop in prepaid customers in the first three months of the year. The big mobile operators usually run big promotions to regain the lost customers, or entice new customers, as soon as they see a drop in subscribers.

On the transport side things did not look too good. Arrivals at King Shaka International Airport declined by 5.7% year-on-year, the 16th month of decline. The volume of cargo handled at KwaZulu-Natal's two ports grew by 2.5%, the lowest growth in four months.

Finance, real estate and business services impress

The finance, real estate and business services index showed more confidence in the private sector as it grew by 3.2% year-on-year, its best performance in two years. Month-on-month the index was up 4.3% and quarter-on-quarter 3.4%. The year-on-year increase was due to strong growth in instalment sales and advertising. Civil debt cases also grew for the first time since September 2010. Although this contributed to increased economic stress, it meant more work for lawyers, which helped to boost this index.

Results Table: June 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	0.2%	1.4%	0.6%	-3.2%
Mining Index	-18.6%	25.5%	12.3%	10.2%
Manufacturing Index	2.6%	0.7%	-1.7%	4.9%
Electricity Index	5.2%	0.3%	0.2%	-3.3%
Construction Index	-15.3%	4.6%	4.5%	-22.1%
Transport Index	8.8%	-1.0%	-2.1%	33.5%
Trade Index	3.2%	-0.5%	-0.7%	17.1%
Government	-3.2%	2.1%	-1.3%	15.7%
Finance, Real Estate and Business Services Index	3.2%	4.3%	3.4%	3.8%
Kwa-Zulu Natal Growth Index	2.4%	1.2%	-0.5%	13.0%
Kwa-Zulu Natal Stress Index	3.4%	1.5%	2.0%	-0.2%
Kwa-Zulu Natal Barometer	-0.9%	-0.4%	-2.5%	13.2%