



**economic development
& tourism**

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KWAZULU-NATAL PROVINCIAL GOVERNMENT



treasury

Department:
Treasury

PROVINCE OF KWAZULU-NATAL



KwaZulu-Natal Business Barometer

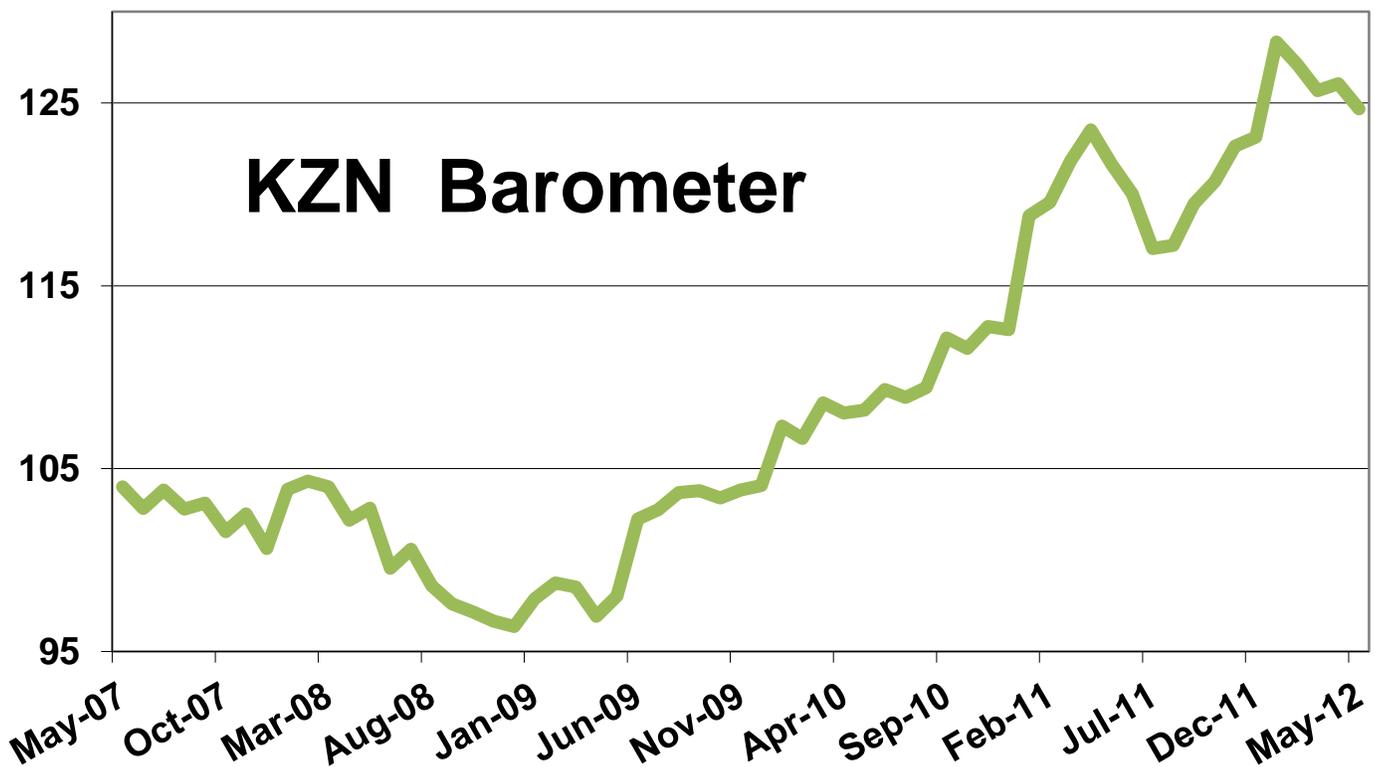
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Government spending – KwaZulu-Natal’s saving grace

Government spending helped to prevent the KwaZulu-Natal economy from shrinking in May. According to the latest KwaZulu-Natal barometer, as compiled by Mike Schüssler of Economists.co.za, the KwaZulu-Natal economy grew by 3.3% year-on-year in May, but declined on a month-on-month basis and grew by only 0.4% on a quarter-on-quarter basis. The KwaZulu-Natal barometer was up 2.5% year-on-year, but declined on a month-on-month and quarter-on-quarter basis.

The slowdown in KwaZulu-Natal seems to echo the slowdown of last year’s winter months, from which the province recovered toward the end of last year. KwaZulu-Natal is likely to again save face, but the global economic slowdown might make this more difficult. On the positive side, the barometer is still 27.2% up from three years ago.

Government spending rises in new financial year

Spending by the national, provincial and municipal governments, which accounts for more than 14% of the KwaZulu-Natal economy, increased by 7.8% year-on-year after growth hit a low of 1.2% in March. The government did not have much left to spend in the last quarter of its financial year ending March 2012, but spending programmes seem to be active again in the new financial year – to the benefit of the KwaZulu-Natal economy.

Global market concerns threaten consumer spending

Consumers were the other big saving grace of the province’s economy. Consumer-based sectors, excluding expensive big-ticket items, were some of the clear winners, while sectors like manufacturing and mining came under pressure from global market concerns. However, these concerns are also making consumers more nervous than they should be, and if consumer spending slows down even further, the KwaZulu-Natal economy could face serious challenges.

Transport and communication impress

The KwaZulu-Natal transport and communication index was by far the best performer in the latest barometer, growing by 10.1% year-on-year. The index was up 40.3% from three years ago. The volume of cargo handled at ports was 3.7% up and land transport increased by 7.5% year-on-year. Arrivals at the King Shaka International Airport declined by 2.8% – the third consecutive decline. Communication was up 15.5% year-on-year, which is the strongest growth in a year. This was driven by countrywide year-on-year growth of 63.3% in page impressions on local browsers and growth of 10.6% in cell phone minutes. The growth in communication is a reflection of improved and more accessible technology, but is also driven by consumers.

Trade index shows steady growth

The trade index grew by 7.2% year-on-year and was also positive on a month-on-month and quarter-on-quarter basis, again reflecting the positive effect the consumer still has on the KwaZulu-Natal economy. Wholesale grew by 13.8%, vehicle sales were amazingly up by 12.6% after three months of single-digit growth and retail sales were up 3.6%. The growth in retail sales was due to growth of about 7% in general retailers' sales and growth of 15% in the sales of hardware stores. The growth in hardware store sales could be an indication that people would rather invest in home improvement and enlargement at the moment, than in building or buying new houses. This trend of people staying put should remain for some time to come.

Property transfers adversely affect finance, real estate and business index

Property transfers in KwaZulu-Natal declined by 0.2% year-on-year, contributing to the KwaZulu-Natal finance, real estate and business service index falling 6.3% year-on-year. The index has been declining year-on-year for seven months in a row and is still 3.5% down from three years ago. Mortgages granted was up 0.3% year-on-year and civil debt judgments declined by 28.8% year-on-year, which meant less stress on the economy, but also much less work for lawyers.

Construction in a slump

The decline in property transfers does not bode well for the KwaZulu-Natal construction index, which fell by 7.4% year-on-year. The index grew slightly on a month-on-month basis, but was down 7.5% quarter-on-quarter and was still 36.6% lower than three years ago. The KwaZulu-Natal construction index seems to have reached the bottom and is now showing small fluctuations at bottom level, without any real pick-up yet. One positive was the 17.1% growth in lumber sales in KwaZulu-Natal, reinforcing the observation that people are opting for informal building or home extensions, rather than buying or building complete new houses.

Electricity still on decline

The electricity index in KwaZulu-Natal declined by 5.9% year-on-year and was also down from the previous month and the previous quarter. While there is a definite savings element in the decline – consumers and industries find ways to use less electricity due to rising costs – temperatures have not really reached normal winter lows, lessening the need to switch on heating appliances.

Coal export prices and production force mining down

Another reason for lower electricity usage could be the 0.4% year-on-year decline in the KwaZulu-Natal mining index. The mining sector is one of the big users of electricity. The index grew by 0.5% month-on-month, but declined by 1.8% quarter-on-quarter. The main reason for the decline is most likely the decline in coal export prices, which have fallen from around \$125 per ton to \$83 in a year. KwaZulu-Natal's mining sector consists mainly of coal, but the province has one gold mine. The gold price has also been on the decline. Added to these price declines was the news that some Chinese traders have had cash flow problems and could not pay for some 20 cargoes of coal, which affected coal production levels negatively.

Bleak outlook for manufacturing

The manufacturing sector, another big electricity user, grew by 0.8% year-on-year, the slowest growth in eight

months. The sector's index was down 1.1% from a month ago and 2.1% from the previous quarter. The South African purchasing managers' index fell to below 50 index points recently, indicating that manufacturing countrywide is likely to be a bit weaker in coming months.

USA drought could prove a win for SA agriculture

The KwaZulu-Natal agriculture sector declined by 4.4% year-on-year and has been negative for a full year now. This is still driven by the decline of more than 50% in cattle slaughtered. As red meat prices are down, the supply chain is full and farmers are holding back on slaughtering. Cattle accounts for 84% of meat production in KwaZulu-Natal. Field crops were down 11.6% year-on-year and crushed sugarcane was down 12.4%. While agriculture still seems to be in a bad season, one hopes this will turn around on the back of rising food and agricultural prices, partly because of the drought in the USA and an expected lower maize crop.

Unemployment on the increase

The economic stress index of KwaZulu-Natal, which measures factors like unemployment, inflation and interest rates, increased year-on-year for the second consecutive month, this time by 0.8%. The stress index increased by 0.4% month-on-month and 2.4% quarter-on-quarter. With interest rates unchanged since November 2010 and inflation falling, the increase in the stress index was caused by an increase in unemployment in KwaZulu-Natal, to 21.3%, and the fact that the fall in civil debt cases has slowed substantially. The increase in economic stress is not yet too concerning, but it does mean growth in consumer activity will be somewhat constrained.

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	-4.4%	1.4%	-1.4%	-6.4%
Mining Index	-0.4%	0.5%	-1.8%	3.5%
Manufacturing Index	0.8%	-1.1%	-2.1%	9.0%
Electricity Index	-5.9%	-2.9%	-5.9%	-4.4%
Construction Index	-7.4%	3.5%	-7.5%	-36.6%
Transport Index	10.1%	-0.1%	-0.2%	40.3%
Trade Index	7.2%	0.1%	0.9%	17.7%
Government	7.8%	-1.3%	8.2%	51.2%
Finance, Real Estate and Business Services Index	-6.3%	-1.5%	-2.5%	-3.5%
Kwa-Zulu Natal Growth Index	3.3%	-0.7%	0.4%	18.1%
Kwa-Zulu Natal Stress Index	0.8%	0.4%	2.4%	-7.2%
Kwa-Zulu Natal Barometer	2.5%	-1.1%	-1.9%	27.2%