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PROVINCE OF KWAZULU-NATAL



KwaZulu-Natal Barometer

November 2012

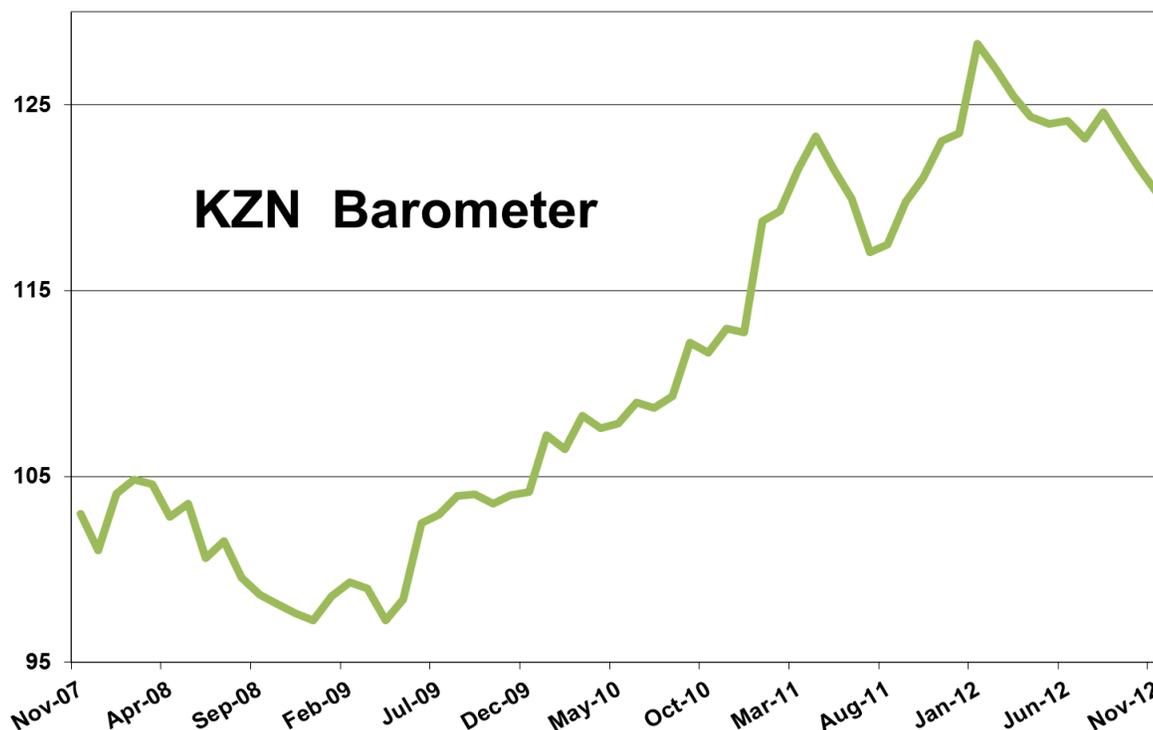
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Strikes shatter confidence and KZN Barometer Declines



The events at Marikana in the North West and subsequent strikes are affecting the KwaZulu-Natal economy. The KwaZulu-Natal barometer, as compiled by Mike Schüssler of Economists.co.za, declined in November for the first time since May 2009. The barometer was down 2.2% on a year ago and declined by 1.1% and 3.5% on a month-on-month and quarter-on-quarter basis respectively.

High economic stress levels bring barometer down

The KwaZulu-Natal economy still grew by 1.1%, but the decline in the barometer was driven by a sharp increase in economic stress levels in the province. The KwaZulu-Natal stress index, which reflects factors like inflation, interest rates and unemployment, increased by 3.4% year-on-year, 0.6% month-on-month and 2.3% quarter-on-quarter. Although inflation in KwaZulu-Natal was unchanged at 5.9%, which is higher than the national average, unemployment in the province is on the rise and stands at 23.2%.

Agriculture suffer under drought conditions

Agriculture in KwaZulu-Natal is under immense pressure and the agriculture index declined for the eighteenth consecutive month, this time by 10.1% year-on-year, most likely due to drought conditions. Crushed sugarcane, an essential part of KwaZulu-Natal agriculture, was down 14.1% and forestry declined by 4%. Field crops increased by 38%, but cattle slaughtered were down 28% on a year ago.

Marikana's ripple effect reaches mining as a whole

KwaZulu-Natal's mining sector, which consists mainly of coal mining, was affected by the spill-over effect of the events at Marikana in August. The KwaZulu-Natal mining index fell by 8.1% year-on-year, 5.5% month-on-month and 10.3% quarter-on-quarter.

Electricity affected by mining decline

The effect on the mining sector in KwaZulu-Natal is causing a continued decline in the KwaZulu-Natal electricity index, which was down 2.8% on a year ago. Mining and manufacturing are the two major commercial electricity users.

Manufacturing not living up to its potential

KwaZulu-Natal's manufacturing index was up by 1.6% year-on-year and also grew on a month-on-month and quarter-on-quarter basis. Although the index is still relatively positive, it is nowhere as strong as it could be.

Major declines in transport and communication

Ailing confidence levels, partly due to Marikana, becomes clear in the breakdown of the KwaZulu-Natal transport and communication index. The index grew by 4.4% year-on-year, but this was mainly driven by the 10.3% growth in communication. Countrywide internet page impressions on local browsers increased by 15% and cellphone minutes used increased by 6.5%.

However, arrivals at the King Shaka International airport were down by 8.9%. This is in line with declines all over South Africa and is partly due to the demise of 1time and also the effect of the strikes on confidence. This was the worst airport arrival figures for KwaZulu-Natal in 42 months and also affected the business volumes of hotels and restaurants in the province.

The total volume of cargo handled at the ports of Durban and Richards Bay declined by 1.8%, the second consecutive month of decline. This is due to the strikes that affected the Richards Bay port as it transports a lot of coal. Less coal production by mines means less cargo for the port. Many strikes at the minor mines did not even make the headlines, but contributed to the bad performance of KwaZulu-Natal's mining and transport sectors.

Land transport grew by 0.5%, but it was the worst growth figure in 30 months.

Decline in trade growth

The KwaZulu-Natal trade index also had its worst month in 30 months and grew by only 2.3% year-on-year.

Retail sales' growth was zero, although food sales grew by 14%. Furniture sales were down 1.4% and hardware sales, usually a sign of people improving and expanding their homes, were down 2.4%.

Petrol sales helped to support the trade index by growing 0.3%, the first growth in five months, but this was mainly due to the decline in the petrol price.

Vehicle sales in KwaZulu-Natal increased 7.4%, but aside from March and April 2012, it was the worst sales growth since September 2011.

Although wholesale sales still grew by an encouraging 6.4% year-on-year, this does not correlate with retail and consumer sales. Discretionary spending by consumers in KwaZulu-Natal is under pressure, something which is also clear from the decline in the number of air passengers. The constant cost pressure of expenses like electricity and fuel, combined with increased unemployment, is eroding confidence levels.

Bleak figures for the finance, real estate and business services index

The low confidence level of consumers and businesses is also reflected in the property market. Property transfers and mortgages form part of the KwaZulu-Natal finance, real estate and business services index, which declined by 0.2% year-on-year and was also down on a monthly and quarterly basis.

The KwaZulu-Natal housing market still seems to be in a better position than that of other provinces and the 2.7% growth in property transfers was the first growth in four months. However, mortgages have been declining for three months in a row and the prices of houses are not moving.

Advertising has been declining for most of 2012 and was 5.1% down in November.

Insurance and asset management grew by 1.8% and instalment sales by 10%, but this is most likely due to growth in unsecured lending and not expenditure on big-ticket items like furniture or vehicles.

Construction worse off than three years ago

The construction index in KwaZulu-Natal also reflects the lacklustre property market and declined by 2.2% on a year ago. The index is now 26.2% down from where it was three years ago.

Slower government spending than in 2011

Spending by the national, provincial and municipal government in KwaZulu-Natal is not growing nearly as strong as in 2011 and increased by only 0.2% year-on-year in November. Month-on-month it was down 2% and quarter-on-quarter 6.3%.

Strikes causing havoc in SA economy

It is clear that the labour problems in South Africa is having an effect in the KwaZulu-Natal economy, especially in mining and consumer confidence levels, which affects the property market and the sales of durable goods. While there could be a turnaround in the economy in the next few months, this is delayed every time there are more non-procedural strikes. If strikes continue at the rate they are going then our economy will crumble. Another aspect to

take into consideration is that markets like Europe and Japan are also still struggling, contributes to damaging the KwaZulu-Natal economy.

November 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 | -10.1% | -4.6% | -6.1% | -12.2% |
| Mining Index | -8.1% | -5.5% | -10.3% | -10.5% |
| Manufacturing Index | 1.6% | 0.4% | 1.8% | 9.2% |
| Electricity Index | -2.8% | 0.6% | 2.8% | -5.1% |
| Construction Index | -2.2% | -4.4% | -5.9% | -26.2% |
| Transport Index | 4.4% | 0.2% | 0.1% | 34.3% |
| Trade Index | 2.3% | 0.6% | 0.8% | 20.6% |
| Government | 0.2% | -2.0% | -6.3% | 17.4% |
| Finance, Real Estate and Business Services Index | -0.2% | -0.4% | -1.5% | 4.2% |
| Kwa-Zulu Natal Growth Index | 1.1% | -0.5% | -1.2% | 13.7% |
| Kwa-Zulu Natal Stress Index | 3.4% | 0.6% | 2.3% | -1.7% |
| Kwa-Zulu Natal Barometer | -2.2% | -1.1% | -3.5% | 15.6% |