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PROVINCE OF KWAZULU-NATAL



KwaZulu-Natal Barometer

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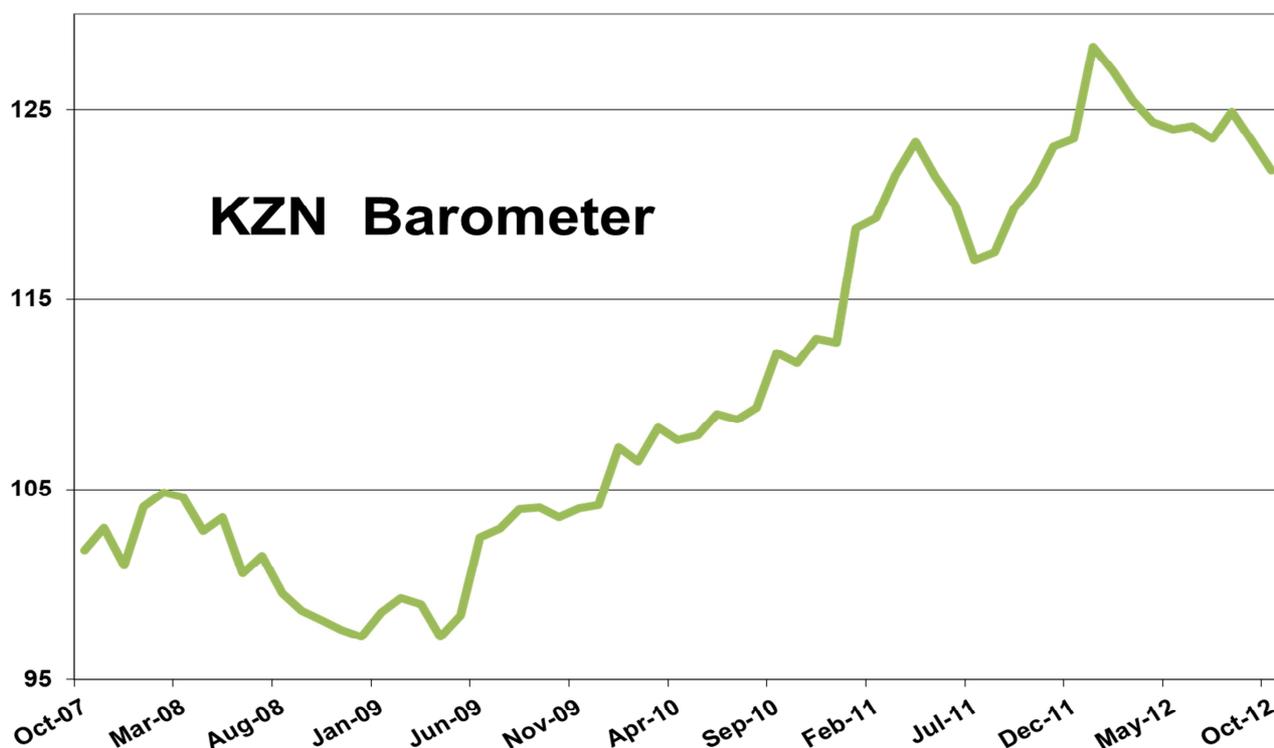
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Strikes impacting on KwaZulu-Natal's economy



The industrial action that hit the country since August has had an effect on the KwaZulu-Natal economy, although a lot of it has been indirectly. The latest KwaZulu-Natal barometer, as compiled by Mike Schüssler of Economists.co.za, grew by only 0.6%, the slowest year-on-year growth since May 2009. The barometer was down on a quarter-on-quarter and month-on-month basis. The province's economy grew by 2.2% on a year ago and also contracted on a quarter-on-quarter and month-on-month basis.

Economic stress increase the culprit

The sudden increase in economic stress in KwaZulu-Natal contributed to the slow growth of the province's barometer. The economic stress index, which reflects factors like inflation, interest rates and unemployment, increased by 1.6% year-on-year – the second consecutive month of increase. Although inflation in KwaZulu-Natal came down slightly to 5.9% and the prime interest rate is still lower than a year ago after the Reserve Bank cut interest rates in July, unemployment in the province increased. While growth in economic stress of below 2% is no reason for concern yet, increased economic stress in KwaZulu-Natal is expected to continue to affect the economy.

Transport strikes taking its toll on mining

It seems like the broader KwaZulu-Natal economy is slowing down fast and part of the reason is mining. Although mining accounts for only 1.65% of the KwaZulu-Natal economy, it's recorded the biggest quarter-on-quarter drop – 4.9% – of all the sectors in the province. This played a big role in the barometer's quarter-on-quarter decline. Year-on-year mining was down 0.7% and month-on-month 2.8%. Coal accounts for 72% of KwaZulu-Natal mining sector and declined by more than 5% on a year ago and more than 4% on a month ago. While the strikes in the mining sector did not really affect coal mining, the indirect effect of the strike in the transport sector in September and October hit mining and manufacturing in KwaZulu-Natal very hard.

Manufacturing buckling under transport and mining strikes

The manufacturing sector in KwaZulu-Natal still grew by 2.6% year-on-year and 1.7% on a quarter ago but the effects of the transport strike together with the indirect effect of the mining strike in other provinces were visible in

KwaZulu-Natal's manufacturing sector. The mine strikes had an influence on what factories could deliver to mines and also affected the amount of electricity used by mines. The transport strike and the strike at Toyota's plant also affected the movement of manufactured goods and the demand for products by the vehicle manufacturer.

Apart from wood and petroleum products, all sub-indices of manufacturing were down on a year ago. The biggest decline was in electrical machinery, which was 11% down. Manufacturing of food and beverages was 5% down, but this could also have been as a result of the strike as it is difficult to get fresh produce like milk to factories during a transport strike.

The strike in the motor industry led to a 1% decline in the manufacturing of motor vehicles and parts and the motor industry is expected to have another negative month.

Strikes impacting electricity usage

The KwaZulu-Natal electricity index was down 3.8% on a year ago, slightly less than the country's average decline of 3.9%. Apart from everybody using less electricity due to higher prices and Eskom paying some big industries for cutting usage, the strikes also affected electricity used in KwaZulu-Natal. The transport strike affected the ability of people to sell their products and this led to the manufacturing sector using less power.

Agriculture on a downward slope

The KwaZulu-Natal agriculture sector is still struggling and October's 4.4% decline was the 16th consecutive year-on-year decline. The sector is now 8% down on three years ago.

Although field crops were up by 38.2% year-on-year, forestry was down 4%, sugar cane crushed was down 13.1% and total meat production was 1.6% down.

Construction surprises

Construction in KwaZulu-Natal saw a sudden positive turn after seven negative months. The construction index was up 6.4% year-on-year, 0.1% quarter-on-quarter and 13% month-on-month. Despite the positive turn, buildings and construction remains volatile, and for the majority of people it is not yet 100% in recovery mode.

Alterations came down by 18%, the completion of flats and townhouses decreased by 1% and there was a 345% completion rate of industrial and warehouse space. This means some big projects were completed recently, which lead to the overall rise in the building and construction industry.

Finance, real estate and business services show quarter-on-quarter growth

Property transfers in KwaZulu-Natal were negative for the third consecutive month, but given all the pressure in the property market, the 0.2% decline can be seen as positive. Although people are still buying houses, mortgages dropped by 3.4% year-on-year, which means banks are still giving credit for big items like houses, but they demand bigger deposits. However, for smaller items they are willing to forego deposits these days. This contributed to the 9.3% growth in instalment sales in KwaZulu-Natal. The growth contributed to the growing debt of South African consumers, which is affecting financial services and supporting certain retail sales.

Overall, the finance, real estate and business services index in KwaZulu-Natal was down 2.1% year-on-year and 1.2% month-on-month, but still grew 1.2% quarter-on-quarter. The biggest decline came from the 18% drop in civil debt cases which, although it means less economic stress in the province's economy, it also means less work for lawyers.

Trade index growth slowing

The KwaZulu-Natal trade index was up 3% year-on-year, which shows the consumer is still active in the economy. However, when looking at the growth rates of more than 6% only two months ago, it is clear the consumer is becoming more wary of difficult economic circumstances. Wholesale sales were up 8%, the lowest increase in more than a year, and retail sales were flat at 0%. Consumers do seem to be under pressure, except when it comes to buying cars. Vehicle sales still grew by 9.4%, even though petrol sales were 4.4% down.

Transport and communication losing double-digit growth

Growth in the transport and communication index fell to 6.1% year-on-year from double-digit growth only two months ago. This was due to a slowdown in communication growth and a 7.3% drop in arrivals at the King Shaka International Airport. Passenger arrivals have been falling for eight months as consumers cut back on most luxury items, except cars. In the last month or two the disappearance of 1Time also contributed to lower passenger numbers.

Port activity turned negative year-on-year for the first time since March 2011 as SA struggles with manufactured exports. Although land transport still grew by 3.4%, this was mostly due to coal being transported, or the transport

of imported products. There seems to have been a shift from products being exported from SA and Africa through KwaZulu-Natal, to rather importing for SA and Africa.

Government spending slowing

Apart from the general slowdown in the KwaZulu-Natal economy, the three tiers of government also seem to have gotten ahead of themselves in terms of spending. The slowdown in government spending is creating havoc in the KwaZulu-Natal economy. Spending by the national, provincial and municipal government in KwaZulu-Natal grew by 2.3% year-on-year, but was down 3.5% quarter-on-quarter and 2.3% month-on-month.

October 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%	-0.1%	-2.1%	-8.0%
Mining Index	-0.7%	-2.8%	-4.9%	-5.2%
Manufacturing Index	2.6%	0.4%	1.7%	9.2%
Electricity Index	-3.8%	1.0%	2.7%	-5.8%
Construction Index	6.4%	13.0%	0.1%	-24.6%
Transport Index	6.1%	0.1%	-1.7%	34.7%
Trade Index	3.0%	-0.2%	-0.7%	20.7%
Government	2.3%	-2.3%	-3.5%	25.1%
Finance, Real Estate and Business Services Index	-2.1%	-1.2%	1.2%	4.5%
Kwa-Zulu Natal Growth Index	2.2%	-0.4%	-0.7%	15.3%
Kwa-Zulu Natal Stress Index	1.6%	0.9%	0.7%	-2.0%
Kwa-Zulu Natal Barometer	0.6%	-1.3%	-1.3%	17.6%