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PROVINCE OF KWAZULU-NATAL



KwaZulu-Natal Barometer

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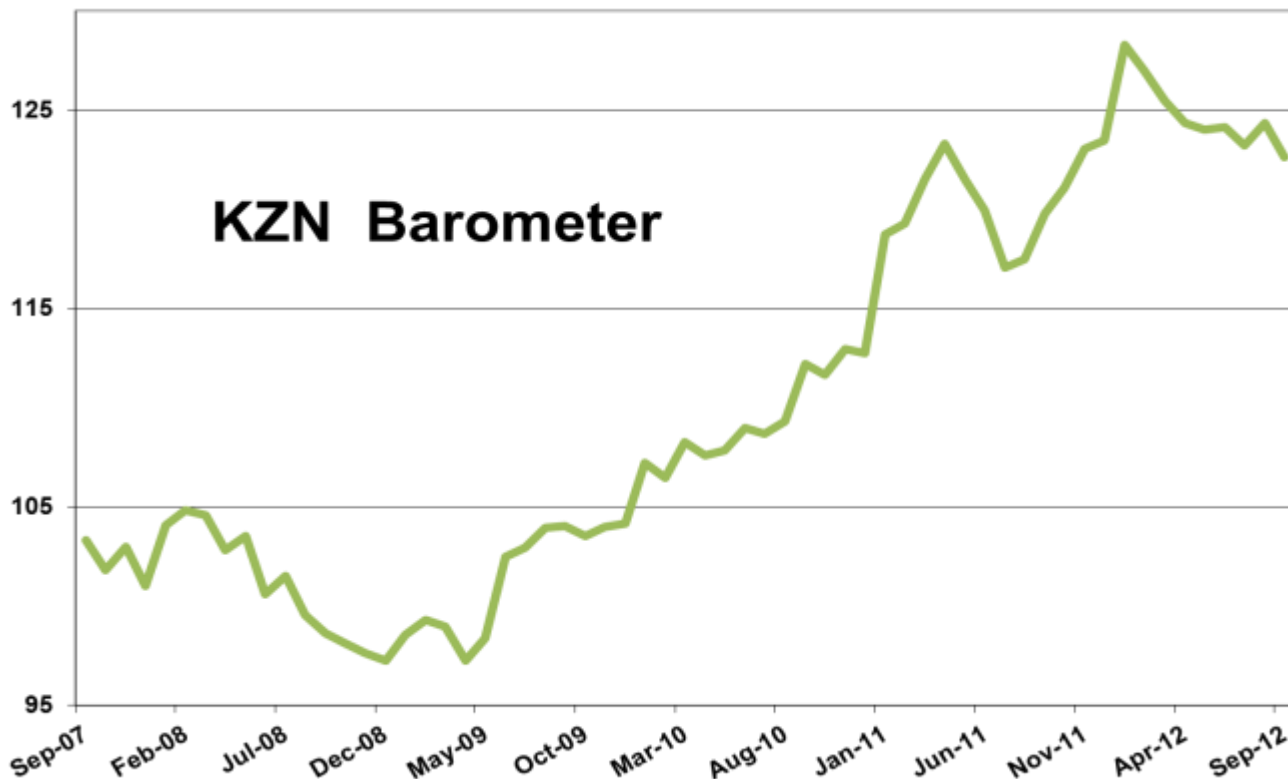
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Strikes to affect KwaZulu-Natal indirectly



Growth in the KwaZulu-Natal economy slowed in September and can slow even further over the short term as the indirect effect of mining strikes and other aspects, such as the demise of airline 1Time, start to show in the province's economy.

According to the latest KwaZulu-Natal barometer, as compiled by Mike Schüssler of Economists.co.za, the KwaZulu-Natal economy grew by 2.8% year-on-year in September, compared to 4.3% the month before, and shrank on a month-on-month and quarter-on-quarter basis. The final KwaZulu-Natal barometer grew by 2.4% year-on-year, less than half the previous growth rate of 5.9% and was also negative over the shorter term.

Year-on-year growth in mining index

The decline in growth rates cannot summarily be ascribed to the recent crippling strikes in the mining sector as the effect of the strikes have most likely not reached KwaZulu-Natal yet. The KwaZulu-Natal mining index still grew by 3.4% year-on-year, but was down 0.6% and 1.7% on a month and a quarter ago, primarily because of a drop in coal prices. Most of KwaZulu-Natal's small mining sector is made up of coal and the effect of the strikes will most likely be more evident in the province's transport sector, since KwaZulu-Natal is a major transport hub for mining products.

Declining growth for transport and communication

The KwaZulu-Natal transport and communication index has become volatile and year-on-year growth in the index fell to 5.3% from 13.3% only two months ago. Transport in KwaZulu-Natal was driven by the African growth and commodity story over the last year and with the commodity boom faltering, the positive effect of African countries transporting commodities through SA, is also faltering. Import volumes are also growing slower because African countries can simply not afford to import at the same levels they did at the height of the commodity boom.

Although the transport and communication index is still growing year-on-year, it has come under severe pressure. The two ports in KwaZulu-Natal are still busy, but the 4.8% year-on-year growth was the slowest in four months. Land transport grew by 4.6%, compared to the double-digit growth early in the year.

Arrivals at the King Shaka International Airport were down 8.3%, the seventh consecutive month of decline. With the recent demise of the 1Time airline, airport arrivals are unlikely to pick up in the next few months as capacity was reduced.

Communication still grew by 9.5%, probably on the back of data and cell phones.

1Time's demise adversely affecting trade index

The disappearance of 1Time will most likely also affect the business of hotels and restaurants in KwaZulu-Natal, which forms part of the province's trade index.

The trade index grew by 5.7% year-on-year, the slowest growth in a year, and could only manage 0.3% month-on-month growth.

The slower growth in the trade index was partly due to the 5.4% drop in petrol sales.

Retail sales are also under pressure, as consumers tighten the belt. It grew by only 1.3% compared to a year ago. Wholesale sales were up 10.3%, but this does not only entail buying for retailers. The one category of sales which is still growing strong is vehicle sales, which grew by 25.9%. This can, however, be a reason for concern as household debt patterns across the country implies that people are borrowing to buy new cars instead of buying property.

Finance, real estate and business services on downward slope

Property transfers, which forms part of the finance, real estate and business services index, was down 0.6%, the second month of decline and this does not bode well for the construction sector. Mortgages were 2.3% down and are likely to stay negative.

Instalment sales are still growing well above the rate of most other parts of the index, at 9.4%, which probably has to do with the growth in car sales. Insurance and asset management grew at 2.9% and advertising was marginally up at 0.8%. Civil debt cases were 21.1% down, which meant less work for lawyers in KwaZulu-Natal.

Overall, the finance, real estate and business services index was down 1% year-on-year, the 11th month of decline.

Double-digit decline in construction

The KwaZulu-Natal construction index has declined significantly and seems to remain volatile. The index declined by 10.2% year-on-year, 8.9% quarter-on-quarter and was 11.5% down from a month before. Construction seems to be the one area where people cut back on their plans as the world economy weakens because they learnt their lesson the last time around. The construction index is 37.2% down from three years ago and really needs some lift-off in residential, non-residential and civil construction. The construction sector across the whole SA is currently in a dire state.

Slight growth for manufacturing

Manufacturing in KwaZulu-Natal is still growing, but could do better than the 3.3% year-on-year growth in the manufacturing index in September.

The manufacturing of wood and paper, an important sector in KwaZulu-Natal, was the best performing manufacturing category with year-on-year growth of 10%. Glass and non-metallic products and electrical machinery were the worst performing manufacturing categories. The manufacturing of motor vehicles and parts grew by 1% and the effect of the strike in the motor industry will most likely only be seen in the October barometer.

The expected indirect effect of the strikes in the mining sector and the slower world economy will influence manufacturing in KwaZulu-Natal. Growth in the sector is likely to be slower in the province until at least the start of next year.

Electricity shows short-term increase

The KwaZulu-Natal electricity index was 5.1% down year-on-year, but increased slightly on a month-on-month and quarter-on-quarter basis. Electricity is not a big sector in KwaZulu-Natal and the usage and production of electricity in the whole of SA has declined significantly as prices rose for consumers and producers. The users of electricity are now reaching the point where even the slightest tariff increase makes an impact.

Agriculture outlook still bleak

Agriculture in KwaZulu-Natal has been negative for 16 months and in September the index declined by 3.6% year-on-year, 2.8% quarter-on-quarter and 1.4% month-on-month. The volume of crushed sugarcane declined by 10% and field crops were down 3%. The field crops might just be a little late and could start having a positive effect. The

big issue in agriculture in KwaZulu-Natal is the drop in crushed sugarcane volumes, as it affects food production and eventually manufacturing in the province.

Government spending slowing

Spending by the national, provincial and local governments in KwaZulu-Natal grew by 3.6% year-on-year in real terms, compared to the 6.2% growth in August. The renewed slowdown in government spending shows that government revenue is under pressure, and they do not have as much money as they did during the great recession to increase spending.

Unemployment still rife in KZN

Unemployment in KwaZulu-Natal rose to 21.3%, up from 19.1% a year ago. The KwaZulu-Natal economy is still not creating jobs, which is a critical factor in increasing economic stress in the province. Inflation in KwaZulu-Natal is 6%, which is slightly higher than the national inflation rate. The recent drop in the prime interest rate also helped to keep the stress index under control. The KwaZulu-Natal stress index increased by 0.4% year-on-year, but was 0.2% down on a quarter-on-quarter basis.

Results Table for September:

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	-3.6%	-1.4%	-2.8%	-8.3%
Mining Index	3.4%	-0.6%	-1.7%	-1.4%
Manufacturing Index	3.3%	0.8%	1.4%	9.7%
Electricity Index	-5.1%	1.1%	1.6%	-6.0%
Construction Index	-10.2%	-11.5%	-8.9%	-37.2%
Transport Index	5.3%	-1.1%	-6.3%	29.7%
Trade Index	5.7%	0.3%	-0.5%	20.9%
Government	3.6%	-2.0%	-2.9%	29.9%
Finance, Real Estate and Business Services Index	-1.0%	0.0%	2.8%	5.1%
Kwa-Zulu Natal Growth Index	2.8%	-0.6%	-1.4%	15.2%
Kwa-Zulu Natal Stress Index	0.4%	0.8%	-0.2%	-2.3%
Kwa-Zulu Natal Barometer	2.4%	-1.4%	-1.2%	17.9%