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KWAZULU-NATAL PROVINCIAL GOVERNMENT



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KwaZulu-Natal Business Barometer

September 2013

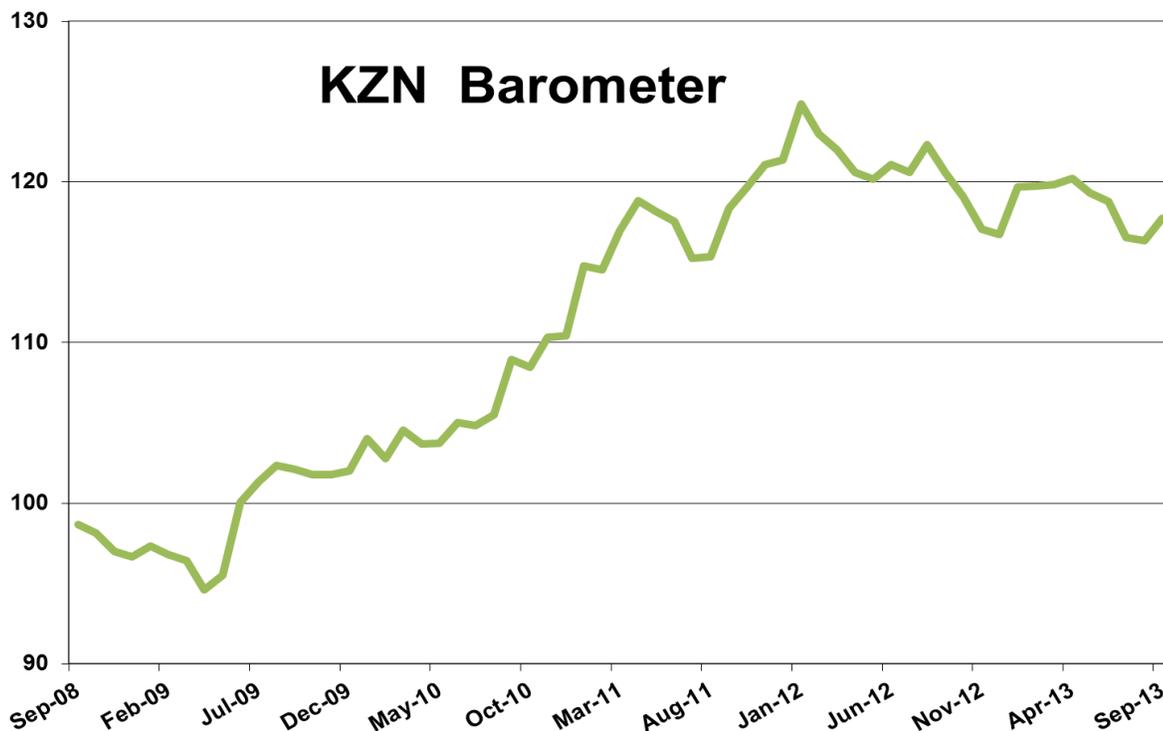
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KwaZulu-Natal economy not as bright as first impression suggests



At first glance the KwaZulu-Natal economy seems to be doing quite well, but a closer look at the sub-sectors of the province's economy shows things are not all that positive. The KwaZulu-Natal barometer, as compiled by Mike Schüssler of Economists.co.za, declined year-on-year for the 12th consecutive month, although the 2.3% decline was somewhat smaller than that of the previous two months. Month-on-month the barometer was up 1.2%, but quarter-on-quarter it was down 0.9%.

Economic stress high

Economic stress in KwaZulu-Natal is still high, although unemployment and inflation declined. The 5.8% inflation for the province in September is still close to the 6% upper band of the Reserve Bank's target range. While the KwaZulu-Natal growth index was up 3%, the best growth in more than a year, the effect of inflation on the economy is material as it weakens growth. The stress index was up 5.5%, and though this was a smaller increase than in the previous two months, the stress index still had a hugely negative effect on the barometer. If it was not for the high levels of the stress index the total barometer would not have been negative.

Strikes continue to take its toll

Aside from the fact that economic stress is still increasing, many industries also did not do too well in September and the effect of the earlier strikes have started to show in sectors like manufacturing and retail in most provinces. Because many of the strikes lasted more than four weeks, the negative effects will continue to trickle down into next month's barometer as well.

Agriculture index on the up

The KwaZulu-Natal agriculture index has been positive for five out of the last nine months now and although September is usually not a good month for agriculture in the province, it grew 2% year-on-year instead of the usual decrease in September. There was also an increase in employment in agriculture, according to Statistics South Africa. While the decrease in livestock production still seems to be evident in some other provinces, livestock production has not been doing too badly in KwaZulu-Natal and has actually been on the rise for quite a while now.

Mining index increased

Mining was up by 7.8% year-on-year, 8% month-on-month and 24.7% on a quarter ago. The mining data in this barometer comes a year after the Marikana shootings and its impact on the sector last year when mining declined in most provinces. While some of the year-on-year increase in mining was due to the base effect created by last year's negative events, the almost 20% increase in the production of non-metallic minerals – which include, amongst others, ceramics, cement, glass and lime – also contributed. Coal, which makes up the bulk of mining in KwaZulu-Natal, declined 1.3%.

Year on year growth in manufacturing

Several sub-sectors of manufacturing were hit by the strikes in August and September. The KwaZulu-Natal manufacturing index still grew 2.8% year-on-year and 2.4% quarter-on-quarter, but it was down 0.1% on a month ago. The strikes in the vehicle manufacturing and components sectors had a particularly negative effect on manufacturing and the production of motor vehicles, parts and accessories fell 25% from a year ago. The strike of petrol attendants affected the vehicle sub-sector and trade negatively, contributing to September not having been a good month for manufacturing, even though the index was positive. Food and beverage manufacturing was down 13%, the production of petroleum products was down 9%, radios and televisions were down 5% and the production of furniture declined 1%.

Electricity index positive

The KwaZulu-Natal electricity index increased 4.4% year-on-year, 1.1% month-on-month and 0.8% quarter-on-quarter. The increase is a good indicator that economic activity, investment or big projects are currently running. Some of these projects will probably be finished next year which will boost the barometer.

Construction down by double digits

The construction sector is the only one in the KwaZulu-Natal economy that is outright negative. The index declined 15.4% year-on-year and was also negative on a month-on-month and quarter-on-quarter basis. Activity in the construction sector is still 30.7% down from three years ago. Although total building statistics were down 25.5% year-on-year, the completion of non-residential buildings, which include industrial and warehouse space, increased by 456%. This means some businesses that put up industrial warehouses are actually busy. It is just unfortunate that the KwaZulu-Natal construction sector is going through a tough time; otherwise the positive effect of this increase would have been much clearer. There is also a 13.4% in lumber sales, the best performance since June 2012, which shows there are some building projects taking place in KwaZulu-Natal.

Transport and communication index grew

The KwaZulu-Natal transport and communication index grew 4.9% year-on-year and was also positive on a month-on-month and quarter-on-quarter basis. The volume of cargo handled at the ports of Durban and Richards Bay grew 2% year-on-year after two months of decline. Arrival numbers for the King Shaka International Airport was down for the 19th consecutive month, this time by 4.8%. But because of what is happening in the economy, consumers would just not be using airplanes to travel that much other than for business purposes.

The big driver of the transport and communication index still remains communications, which was up 12.1% on a year ago.

Trade index increased

The trade index showed a tale of two sub-sectors moving in opposite directions. The index as a whole as up 2.6% year-on-year and while wholesale sales grew 6% from a year ago, retail sales were down 0.3%. This discrepancy could be because some businesses are trying to hedge themselves against inflation and thus increase their inventory levels even though there is not much going on in terms of retail sales. The activities of hotels and restaurants were down 4.8% and while vehicle sales still grew by 6.9%, it was far from the double-digit growth which used to be the norm.

Finance, real estate and business services index showed a slight increase

The KwaZulu-Natal finance, real estate and business services index grew at its slowest pace in four months and in the midst of a bad month; the index did not do much to boost overall growth. Property transfers were down 2.6%, mortgages dropped 18.9% and advertising declined 3.8%. The sub-sectors that still helped the index grow, was instalment sales, insurance and asset management and a 27.6% increase in civil debt cases, which meant more work for lawyers.

Upcoming elections motivate government spending

Spending by the national, provincial and municipal governments, which account for more that 14% of the KwaZulu-Natal economy, continue to show an increase in growth as next year's elections draw closer. The government index grew 4.4% year-on-year, but it was negative on a month-on-month and quarter-on-quarter basis. The growth in government spending should continue towards the end of the year and give some boost to the barometer as a whole. However, the growth rate will increase gradually and not simply shoot up to double-digits as such big increases in spending at the last minute.

Results Table: September 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 | 2.0% | -0.5% | -0.5% | -4.4% |
| Mining Index | 7.8% | 8.0% | 24.7% | 3.2% |
| Manufacturing Index | 2.8% | -0.1% | 2.4% | 5.7% |
| Electricity Index | 4.4% | 1.1% | 0.8% | -1.8% |
| Construction Index | -15.4% | -1.3% | -9.7% | -30.7% |
| Transport Index | 4.9% | 1.4% | 0.3% | 15.1% |
| Trade Index | 2.6% | 0.5% | -1.3% | 16.0% |
| Government | 4.4% | -1.7% | -2.7% | 22.0% |
| Finance, Real Estate and Business Services Index | 2.1% | -0.8% | 1.2% | 5.9% |
| Kwa-Zulu Natal Growth Index | 3.0% | -0.2% | 0.3% | 9.9% |
| Kwa-Zulu Natal Stress Index | 5.5% | -1.4% | 1.2% | 1.7% |
| Kwa-Zulu Natal Barometer | -2.3% | 1.2% | -0.9% | 8.0% |