



The Business Barometer for the Province of KwaZulu-Natal

April 2011

KZN economy one of best performers in SA

Introduction

The KwaZulu-Natal provincial economy has been one of the best performers among the country's nine provinces in the last year.

This good performance continued in April, as shown by the KwaZulu-Natal provincial barometer, a measure of economic activity in the province, which is compiled by Mike Schüssler, economist of Economists.co.za.

The KwaZulu-Natal barometer grew by 12.69% year-on-year in April, its strongest growth since 2005. Most of the major sectors in the province contributed to the 10.8% year-on-year economic growth, the same growth level seen in the previous month. But despite the strong year-on-year growth of most sectors, many are still not at the same levels as three years ago.

Best country-wide growth in construction

Although the construction sector in KwaZulu-Natal, which contributes 2.28% to the province's economy, is declining by 0.7% year-on-year, it seemed to have turned the corner in the shorter term. The sector grew by 20.6% on a three-month basis, making KwaZulu-Natal the only province in the country showing growth in construction. The shorter term recovery in the sector might point to a change in the investor's attitude towards construction projects. And while the year-on-year growth is still negative, it is much less so than that of other provinces.

Electricity and mining on downward slope

Apart from construction, the mining and electricity indices were the only ones in the KwaZulu-Natal economy to still decline on a year-on-year basis. The province's mining sector, mainly consisting of coal mining, declined by 3.2% year-on-year and 7.3% on a three-month basis. This could be, in part, linked to the 1.4% year-on-year decline in the electricity index. Higher electricity tariffs forced electricity demand to drop. The possibility of Eskom shutting down BHP Billiton's smelters to help manage electricity supply could make the index drop even further in May and June. Furthermore, electricity supply constraints could play a role in lower mining production. We expect electricity constraints to show in the coming winter months.

Vehicles and parts carrying manufacturing sector

One of the strongest sectors in the KwaZulu-Natal economy, like in many parts of the country, remains the manufacturing sector. It is also the second-largest sector in the national economy and makes the single biggest contribution – 25.88% – to the KwaZulu-Natal provincial economy. The manufacturing sector grew by 3.6% year-on-year, one of the best performances across all provinces and also grew on a one-month and three-month basis. It is, however, still 6.8% down

from three years ago.

Most industries in the KwaZulu-Natal manufacturing sector are growing on a year-on-year basis. Textile, clothing, leather and footwear manufacturing, which accounts for almost 14% of the province's manufacturing industry, is still declining, this time by 3% year-on-year. April was the eleventh consecutive month of decline in textile and clothing manufacturing. And while it is not an immediate cause for concern, it should be watched closely given its potential as a job creator in the province. On the other hand, the manufacturing of motor vehicles, parts and accessories, which make up 10% of KwaZulu-Natal's manufacturing industry, grew by an impressive 15%, which counters the negative impact of textiles and clothing.

Finance, real estate and business on the up

KwaZulu-Natal's financial, real estate and business services index, the second-biggest contributor to the province's economy, grew by 15.4% year-on-year and 5.9% on a three-month basis. It is 14% down compared to three years ago, which is still not too bad when considering other provinces' figures. Also, the fact that the index is still lagging on a three-year basis, should be seen against the backdrop of a property sector having gone through its worst recession in 40 or 50 years. Property transfers and mortgages are still down more than 40% and 50% respectively compared to three years ago, but both are growing strongly on a one-year basis.

Record growth in transport and communication

The province's transport and communication index is still growing rapidly. The 19.8% year-on-year growth in April was the strongest in more than eight years and the index is also growing on a three-month basis. This is largely driven by 31.6% growth in the province's communication sector, although port activity, airport arrivals and land transport all contributed.

Trade still growing

Trade in KwaZulu-Natal grew by 8% year-on-year in April and 3.3% on a three-year basis. Retail sales, business by hotels and restaurants and petrol sales are all growing on a three-year basis. However, vehicle sales are still struggling and are 12.4% less than three years ago, despite a strong recovery last year. This shows certain big-ticket items are still not selling as well as it used to, with consumers being cautious of buying too much too soon.

Agriculture adversely affected by weather

Agriculture in KwaZulu-Natal, of which sugar cane is the mainstay, grew by 7.3% year-on-year, but showed a 3.3% decline on a three-month basis. This was mostly due to weather conditions.

Possible positive government spending trend emerging

Expenditure by the national, provincial and local governments in KwaZulu-Natal, which accounts for 14.44% of the province's economy, grew by 15.4% year-on-year and a massive 45.9% on a

three-year basis. But the year-on-year growth is substantially lower than in the previous month, and on a month-on-month basis the government expenditure index declined by 4.9%. Although the month-on-month decline should be viewed cautiously as March, the last month of the financial year, is traditionally a big-spending month for government, it could be the beginning of a positive trend where government spending does not grow indefinitely and where KwaZulu-Natal's economy is not so dependent on government spending.

Unemployment still driving economic stress

The continued decline in economic stress in KwaZulu-Natal has helped to improve the barometer's overall growth. The stress index, which measures negative factors like unemployment, interest rates, inflation and civil debt cases, declined by 1.7% year-on-year and is 9.9% lower than three years ago. However, on a three-month basis, economic stress increased by 1.1%. With the province's inflation at 3.6%, which is lower than the national average of 4.2%, as well as the prime interest rate still at a record-low and the number of civil debt cases being 10.5% lower than a year before, the only factor contributing to economic stress in KwaZulu-Natal is persistent unemployment. The province's unemployment rate rose to 20.5% in April, despite strong growth in manufacturing and other sectors that are failing to create the jobs expected and needed in the province.

Table 1: The seasonally adjusted changes over the last year, month and quarter.

	% Change on a year ago	% Change on a month ago	% Change on a Quarter ago
Agriculture Index	7.3%	4.8%	-3.3%
Mining Index	-3.2%	-3.3%	-7.3%
Manufacturing Index	3.6%	0.6%	0.5%
Electricity Index	-1.4%	1.2%	0.0%
Construction Index	-0.7%	6.3%	20.6%
Transport Index	19.0%	0.7%	3.4%
Trade Index	8.0%	0.7%	2.2%
Government	15.4%	-4.9%	0.7%
Finance, Real Estate and Business Services Index	15.6%	1.2%	5.9%
Kwa-Zulu Natal Growth Index	10.8%	-0.1%	2.2%
Kwa-Zulu Natal Stress Index	-1.7%	-0.3%	1.1%
Kwa-Zulu Natal Barometer	12.69%	0.2%	1.1%

Table 2: 3 year overview special table.

Special overview	3 year % change
Agriculture Index	4.5%
Mining Index	-6.4%
Manufacturing Index	-6.8%
Electricity Index	0.0%
Construction Index	-22.2%
Transport Index	25.5%
Trade Index	3.3%
Government	45.9%
Finance, Real Estate and Business Services Index	-13.9%
Kwa-Zulu Natal Growth Index	5.5%
Kwa-Zulu Natal Stress Index	-9.9%
Kwa-Zulu Natal Barometer	17.1%

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