



Province of KwaZulu-Natal  
Provincial Treasury  
IMES Unit

# THE KWAZULU NATAL ECONOMY – A RISK AND CONDITIONS MONITOR<sup>1</sup>

## Update 4

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## KZN RISK AND CONDITIONS MONITOR – 3<sup>rd</sup> Quarter 2012

### Economic Risk/Conditions Variables

The economic risk/condition variables that are included in the monitor are indicated in the table below. The relative sector weights for the economic risk/condition variables are also displayed and add up to a 100%. The weights at this stage are purely assumed weights and not based on any econometric modelling or calculations simply because of a lack of sufficient time series data. However it must be mentioned that various weightings have been modelled with very little impact on the overall results.

**Table 1: Included economic risk/condition variables and their associated sector weights**

	Rand Dollar (Rand per USD)	Interest Rate (R157 = %)	Inflation (pa %)	Oil Price (USD)	Sugar Price (US cents per pound)	Gold Price (USD)	Credit extended to the domestic private sector (Rm)	Physical volume of electricity production (2005=100)
Agriculture, forestry and fishing	20.00%	10.00%	5.00%	17.00%	30.00%	0.00%	10.00%	8.00%
Mining and quarrying	30.00%	0.00%	0.00%	10.00%	0.00%	40.00%	0.00%	20.00%
Manufacturing	35.00%	20.00%	5.00%	10.00%	0.00%	0.00%	10.00%	20.00%
Electricity, gas and water	10.00%	5.00%	5.00%	20.00%	0.00%	0.00%	10.00%	50.00%
Construction	10.00%	30.00%	10.00%	15.00%	0.00%	0.00%	30.00%	5.00%
Wholesale & retail trade; hotels & restaurants	10.00%	35.00%	20.00%	10.00%	0.00%	0.00%	25.00%	0.00%
Transport, storage and communication	10.00%	20.00%	10.00%	30.00%	0.00%	0.00%	20.00%	10.00%
Finance, real estate and business services	10.00%	35.00%	10.00%	10.00%	0.00%	0.00%	30.00%	5.00%
Personal and General Government Services	10.00%	35.00%	20.00%	0.00%	0.00%	0.00%	30.00%	5.00%

The theoretical impact of a change in each of the economic risk/condition variables are illustrated in the below table. For example when the rand dollar exchange rate depreciates the risk associated is

assumed to be decreasing because of the potential improvement in the economic conditions associated with a depreciating currency.

**Table 2: Implications of a change in the economic risk/condition variables**

	Unit	Movement	Decreasing Risk	Increasing Risk
Rand Dollar Exchange Rate	Rand per 1USD	Appreciate or Depreciate	Depreciate	Appreciate
Interest Rate	Percentage R157 Bond	Increase or Decrease	Decrease	Increase
Inflation Rate	Percentage Per Annum	Increase or Decrease	Decrease	Increase
Oil Price	USD per Barrel	Increase or Decrease	Decrease	Increase
Sugar Price	US cents per pound	Increase or Decrease	Increase	Decrease
Gold Price	USD per Ounce	Increase or Decrease	Increase	Decrease
Credit extended to the domestic private sector	Rand million	Increase or Decrease	Increase	Decrease
Physical volume of electricity production	Index, 2005=100	Increase or Decrease	Increase	Decrease

### Behaviour of the Economic Risk/Conditions Variables

The behaviour or movement of the economic risk/conditions variables over the last 27 months are displayed in the below table.

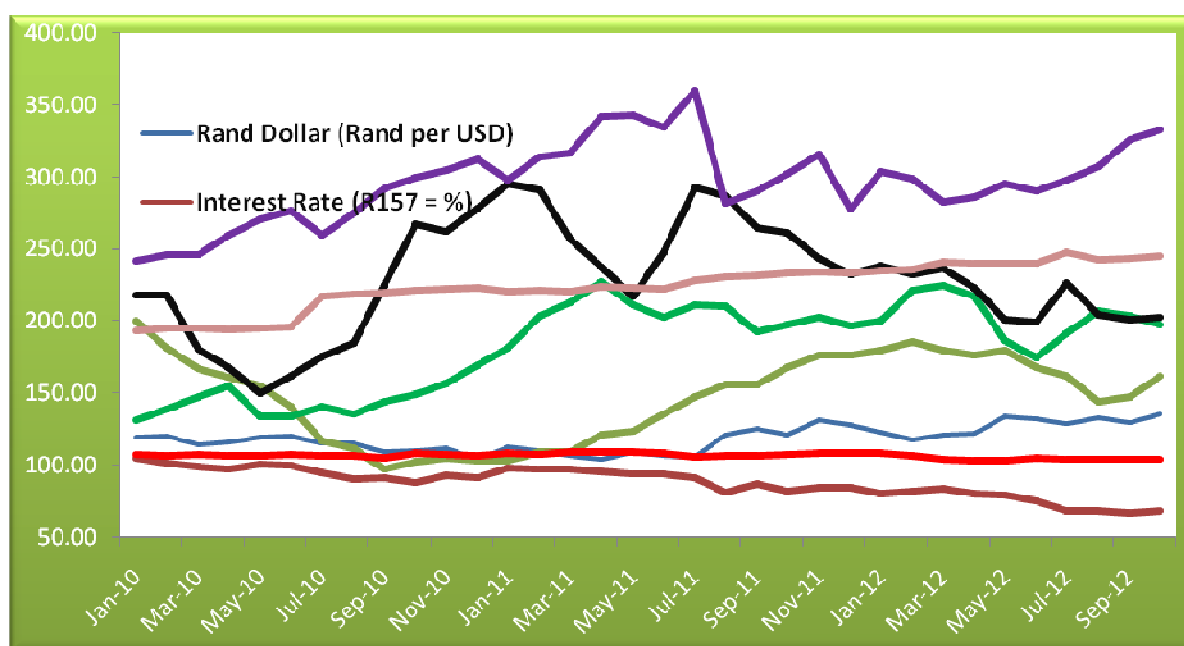
**Table 3: Behaviour of the Economic Risk/Conditions Variables**

	Rand Dollar (Rand per USD)	Interest Rate (R157 = %)	Inflation (pa %)	Oil Price (USD)	Sugar Price (US cents per pound)	Gold Price (USD)	Credit extended to the domestic private sector (Rm)	Electricity generated and available for distribution (Gig watt-hours)
Jul-10	7.31	7.58	3.98	77	17.69	1,168	2,088,490	19,761
Aug-10	7.35	7.23	3.78	75	18.60	1,237	2,105,320	19,785
Sep-10	6.96	7.30	3.30	79	22.67	1,311	2,116,420	19,507
Oct-10	6.99	7.04	3.48	82	26.94	1,345	2,131,382	20,112
Nov-10	7.10	7.46	3.57	86	26.42	1,368	2,143,414	20,022
Dec-10	6.62	7.31	3.50	93	28.04	1,405	2,150,636	19,888
Jan-11	7.17	7.88	3.50	100	29.74	1,339	2,126,592	20,114
Feb-11	7.00	7.77	3.70	112	29.31	1,411	2,130,220	19,970

Mar-11	6.81	7.82	3.70	117	25.90	1,425	2,123,841	20,341
Apr-11	6.60	7.64	4.10	125	23.91	1,537	2,155,530	20,266
May-11	6.92	7.53	4.20	116	21.85	1,540	2,150,865	20,276
Jun-11	6.79	7.50	4.60	112	24.92	1,503	2,140,517	20,139
Jul-11	6.73	7.33	5.00	116	29.47	1,618	2,196,179	19,666
Aug-11	7.07	6.52	5.30	116	28.87	1,265	2,223,736	19,924
Sep-11	7.97	6.99	5.30	106	26.64	1,303	2,227,965	19,905
Oct-11	7.70	6.59	5.70	109	26.30	1,357	2,250,618	19,920
Nov-11	8.33	6.77	6.00	112	24.52	1,419	2,256,503	20,080
Dec-11	8.16	6.75	6.00	108	23.42	1,249	2,252,108	20,090
Jan-12	7.83	6.45	6.10	110	24.02	1,366	2,264,173	20,150
Feb-12	7.48	6.60	6.30	122	23.42	1,343	2,273,281	19,832
Mar-12	7.71	6.69	6.10	124	23.79	1,270	2,321,351	19,414
Apr-12	7.75	6.46	6.00	120	22.48	1,284	2,311,762	19,190
May-12	8.53	6.39	6.10	103	20.27	1,327	2,313,714	19,238
June-12	8.40	6.00	5.70	96	20.10	1,306	2,316,624	19,469
July-12	8.18	5.50	5.50	106	22.76	1,340	2,388,824	19,348
Aug-12	8.48	5.48	4.90	114	21.04	1,383	2,339,721	19,352
Sep-12	8.23	5.37	5.00	112	20.21	1,467	2,348,390	19,390

Graph 1 indicates the behaviour of the economic risk variables in index format (2005 = 100) from January 2010 to September 2012.

**Graph 1: Behaviour of the Economic Risk/Conditions Variables in index format**



From the table and graph it seems that during the 3<sup>rd</sup> quarter of 2012:

- The rand dollar exchange rate has depreciated (✓)
- Interest rates decreased (✓)
- Inflation has decreased (✓)
- Oil prices have decreased (✓)
- Sugar prices have decreased (x)
- Gold price has increased (✓)
- Credit extended has increased (✓)
- Electricity supply has decreased (x)

The above suggested that there have been only 2 variables that have increased the economic risk or decreased the economic conditions in the provincial economy and vice versa.

## Calculating the Monitor

The economic risk/conditions monitor for the province and each of the regions (6 regions) are calculated as follows:

- Step 1. Calculate or compute the monthly percentage change in each of the 8 economic risk/conditions variables ( $t = 1$  to 8 and  $i = 1$  to 184)

$$\% \Delta er_{ti} = (er_{ti} - er_{ti-1}) / er_{ti-1} \times 100$$

Where:

$er_t$  = the different economic risk/conditions variables

$i$  = time in months

- Step 2. Calculate or compute the monthly economic sector weights for each of the 9 economic sectors ( $s = 1$  to 9 and  $i = 1$  to 184)

$$W_{si} = GDP_{si} / GDP_{kzni} \times 100$$

Where:

$W_{si}$  = relative weight of each economic sector

$GDP_{si}$  = gross domestic product per economic sector in period i

$GDP_{kzni}$  = gross domestic product for the province in period i

- Step 3. Calculate or compute the economic sector risk/conditions for each of the 9 sectors

$$ERC_{sti} = \sum (w_{si} \times \% \Delta er_{ti} \times erw_{ti})$$

Where:

$ERC_{st}$  = economic risk/condition of the particular sector

$erw$  = weight of each of the economic risk/conditions per economic sector

- Step 4. Calculate or compute the provincial or regional economic risk/condition monitor

$$ERC_{loc} = \sum ERC_{sti}$$

Where:

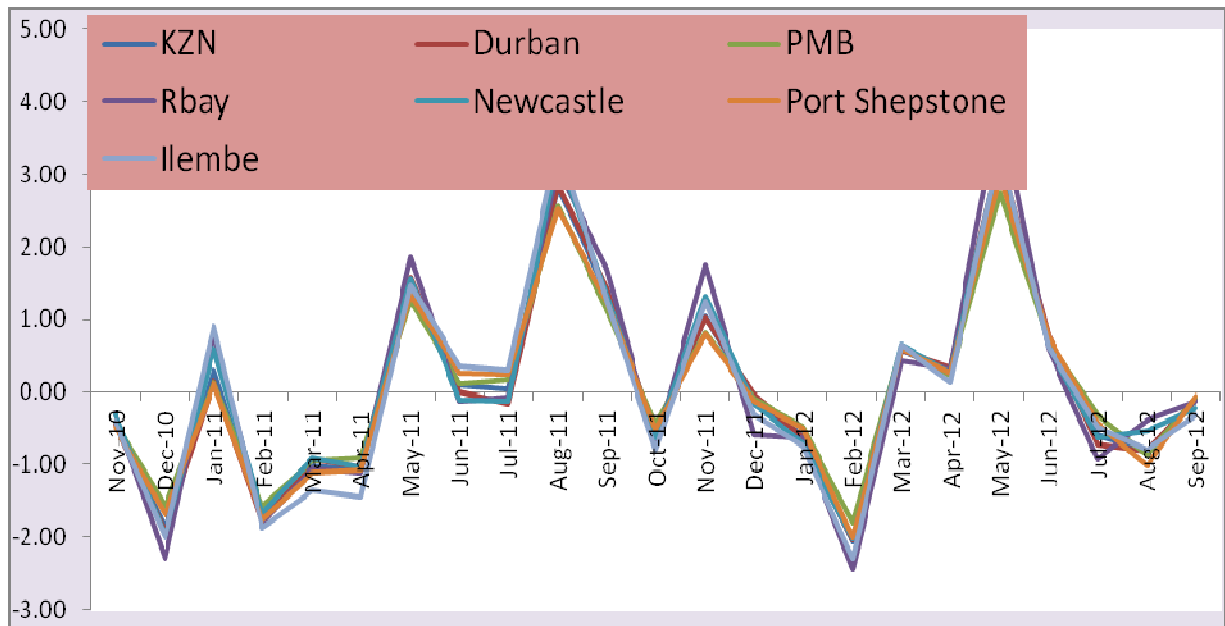
$ERC_{loc}$  = economic risk/conditions monitor for the province or region

## Economic risk/conditions monitor for the province and regions

The results for the province and each of the 6 regions are displayed in the graph and table below (graph 2 and table 4). The results have been smoothed using a 12 month moving average method because of the inclusion of monthly data in the calculations. The monitor should be interpreted as follows:

Positive Numbers	Low or Decreasing Risk
Zero	Neutral Risk
Negative Numbers	High or Increasing Risk

**Graph 2: Economic Risk/Conditions Monitor**



**Table 4: Economic Risk/Conditions Monitor**

	<u>KZN</u>	<u>Durban</u>	<u>PMB</u>	<u>RBay</u>	<u>Newcastle</u>	<u>Port Shepstone</u>	<u>Ilembe</u>
<b>Jul-11</b>	0.04	-0.16	0.18	-0.07	-0.13	0.26	0.34
<b>Aug-11</b>	2.82	2.86	2.54	3.03	3.25	2.51	3.37
<b>Sep-11</b>	1.35	1.43	1.13	1.70	1.34	1.24	1.25
<b>Oct-11</b>	-0.58	-0.57	-0.45	-0.72	-0.63	-0.52	-0.79
<b>Nov-11</b>	1.04	1.02	0.81	1.74	1.29	0.79	1.21
<b>Dec-11</b>	-0.15	-0.03	-0.09	-0.61	-0.16	-0.13	-0.32
<b>Jan-12</b>	-0.59	-0.63	-0.48	-0.60	-0.71	-0.49	-0.73
<b>Feb-12</b>	-2.07	-2.05	-1.78	-2.46	-2.02	-2.00	-2.30
<b>Mar-12</b>	0.58	0.58	0.62	0.42	0.64	0.59	0.65
<b>Apr-12</b>	0.28	0.34	0.23	0.33	0.26	0.26	0.13
<b>May-12</b>	3.20	3.28	2.73	3.98	3.28	2.97	3.31
<b>June-12</b>	0.74	0.79	0.70	0.61	0.64	0.77	0.63
<b>July-12</b>	-0.59	-0.73	-0.30	-0.93	-0.63	-0.41	-0.46
<b>Aug-12</b>	-0.80	-0.81	-0.85	-0.38	-0.55	-0.98	-0.76
<b>Sep-12</b>	-0.11	-0.09	-0.08	-0.13	-0.22	-0.06	-0.31

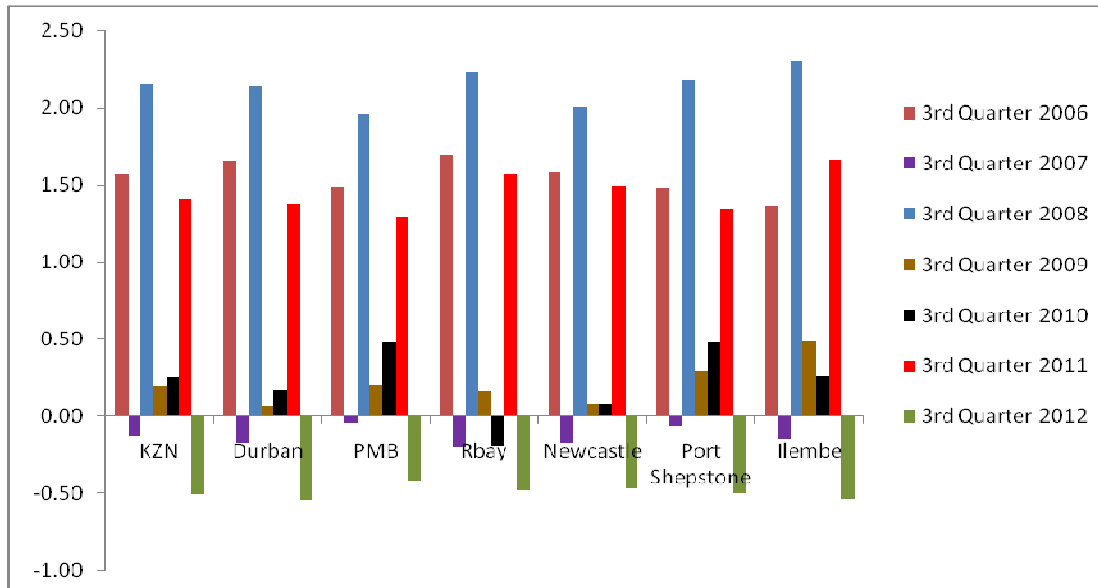
The average risk value for the province and each of the regions for the 3<sup>rd</sup> quarter of 2012 are displayed in the table below. The table also includes the average risk values for the 3<sup>rd</sup> quarter of each of the indicated years.

**Table 5: Average 3<sup>rd</sup> Quarter Economic Risk/Conditions Monitor**

	KZN	Durban	PMB	RBay	Newcastle	Port Shepstone	Ilembe
3rd Quarter 2006	1.57	1.66	1.48	1.69	1.58	1.48	1.36
3rd Quarter 2007	-0.13	-0.17	-0.04	-0.20	-0.17	-0.06	-0.15
3rd Quarter 2008	2.15	2.14	1.96	2.24	2.01	2.18	2.30
3rd Quarter 2009	0.19	0.07	0.21	0.17	0.08	0.29	0.48
3rd Quarter 2010	0.25	0.17	0.48	-0.19	0.08	0.48	0.26
3rd Quarter 2011	1.41	1.38	1.29	1.57	1.50	1.34	1.66
3rd Quarter 2012	-0.51	-0.54	-0.42	-0.48	-0.46	-0.50	-0.53

Table 5 can be graphically illustrated through graph 3.

**Graph 3: Average 3<sup>rd</sup> Quarter Economic Risk/Conditions Monitor**



## **Interpretation of the Monitor**

The results suggest that the economic risk in the province during the 3<sup>rd</sup> quarter 2012 was consistently fairly high and that the economic conditions in the province was not “conducive”. However the outlook seems to be improving given the behaviour of the majority of economic variables since the beginning of the 4<sup>th</sup> quarter.

This should support the economic outlook of the province during the 4<sup>th</sup> quarter of 2012, but only marginally given the massive labour unrest and political uncertainty during the 4<sup>th</sup> quarter of 2012

The results also suggest that economic risk during the 3<sup>rd</sup> quarter of 2012 was the lowest in the Pietermaritzburg economy and the highest in the Durban economy.

Intuitively there are still lots of risks inherent in the economy fuelled by the past labour unrests and the future political uncertainty. This will significantly constrain the national and provincial economy during 2013. It is therefore very unlikely that the economy will perform better in 2013 than during the current year.