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KWAZULU-NATAL PROVINCIAL GOVERNMENT



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PROVINCE OF KWAZULU-NATAL



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KwaZulu-Natal Business Barometer

April 2013

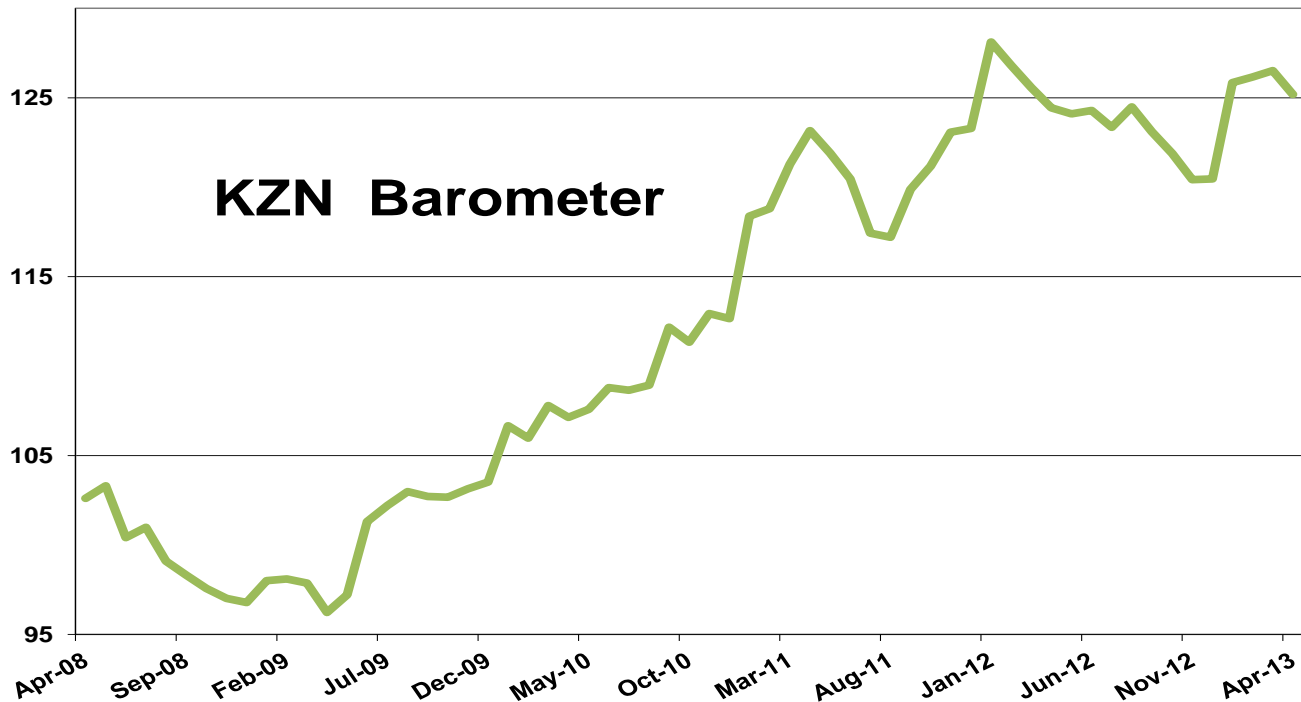
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Manufacturing struggle leads to slow KwaZulu-Natal growth



Public holidays and the ailing manufacturing sector had a negative effect on economic activity in KwaZulu-Natal in April. The growth index of the latest KwaZulu-Natal barometer was slowed to 2.3% year-on-year, from 3% the month before. The overall barometer was up 0.6% year-on-year, after growing by 0.8% the previous month. However, both the growth index and the overall barometer were down on a month-on-month and quarter-on-quarter basis, which does not bode well for the KwaZulu-Natal economy going forward.

The KwaZulu-Natal manufacturing index makes the biggest single contribution – 25.88% - to the KwaZulu-Natal economy and was one of the main drivers of the slower overall growth. The index lost 0.4% year-on-year, the first decline since September 2011. This was in part due to a slowdown in the production of steel, furniture and wood. The production category of wood, paper, printing and publishing, which comprise a vital share of what KwaZulu-Natal manufactures, was down by 8.3% year-on-year. The manufacturing index was also down 2.6% month-on-month and 3.2% quarter-on-quarter.

The only consolation for the KwaZulu-Natal manufacturing sector is that the decline in manufacturing is a countrywide trend, as shown by the low level of the Purchasing Managers' Index.

Mining, although contributing only 1.65% to the KwaZulu-Natal economy, also had big negative effect on the overall growth index and barometer. The mining index was down 8.8% year-on-year, the biggest year-on-year drop of all the sectors in the KwaZulu-Natal economy. This was because of a drop in coal production and also because the

strain in the national mining sector is simply continuing. Every time there is negative news it just continues to affect production of mining countrywide, so it will take a while for mining to get back to its normal levels.

The KwaZulu-Natal mining index was up 16% month-on-month, but since KwaZulu-Natal does not have a lot of mines or strikes like some other provinces, there could have been some production happening in April. However, because of what is happening nationally it does not extend to the long term.

Both manufacturing and mining are energy-intensive sectors and usually a slowdown in these two sectors leads to a slowdown in electricity usage. The KwaZulu-Natal electricity index did decline by 0.8% year-on-year, but this slowdown was substantially less than the average decline of 3.2% over the last year. The electricity index declined by 0.3% month-on-month and 1.4% quarter-on-quarter.

The KwaZulu-Natal agriculture index turned negative again in April after showing signs of recovery with growth in March. The index was down 2.2% year-on-year, 3.1% month-on-month and 2.1% quarter-on-quarter.

Despite a drop in maize production, total field crop production was up 14.5% thanks to increases in sunflower seed, soybeans and wheat. However, meat production was down by 0.5% as a skin disease among cattle in northern KwaZulu-Natal continued to affect the meat sector. Sugar cane crushed was down 13.6%. There have been reports of problems with sugar farming in March due to adverse conditions and some of these problems may be persisting. The drastic increase in farm wages that took effect in March may also still be influencing the operations of some farmers and it will be a while before sugar production is back to its normal levels.

The construction sector in KwaZulu-Natal and several other provinces is still in a slump and as yet there is no indication of when it will recover.

The KwaZulu-Natal construction index was down 4.7% year-on-year. Although this was much less than the previous two months' declines, the index has now been negative for 12 out of the last 14 months.

Buildings in KwaZulu-Natal was up by only 0.6% and lumber was down by 12.3%, which was one of the main factors that affected the overall construction index negatively. The sharp drop in lumber sales – the biggest since June 2009 – also shows that there is very little happening in terms of informal building in KwaZulu-Natal.

One of the only positives in the KwaZulu-Natal building numbers was the 738% increase in office and banking space, which shows that at least one big non-residential project was completed recently.

The KwaZulu-Natal transport and communications index was the best performer among all the sectors in the province's economy, and this was mainly because of growth in communications. The overall index was up 10.1% year-on-year and 5.5% quarter-on-quarter. Strong year-on-year growth in local browsers and cell phone minutes helped communications to growth by 15.2%, the third consecutive month of double-digit growth.

Passenger arrivals at King Shaka International Airport still struggled and declined by 5.9%, but this should improve in the coming months.

A 19.23% increase in cargo handled in the Durban harbour meant the total cargo handled by the province's two ports increased by 11.4%. Although the Durban cargo volumes at the Durban harbour declined for some months last year, this latest increase was not only due to the low base of last year. There has been an increase in cargo coming into Durban and that is part of a stable trend. The port has become busier than it used to be.

The trade sector in KwaZulu-Natal was another positive contributor. Although the 3.6% year-on-year increase in the trade index was far from brilliant, the last time the index increased by at least 3% was in October 2012. Month-on-month the trade index was up only 0.4% and quarter-on-quarter it was up 1.7%.

Retail sales were up only 1.8% year-on-year and declined 12% month-on-month, a bad sign for the overall trade sector. The trade index was pulled up by the 5.9% increase in wholesale sales and the 11.8% increase in vehicle sales, the first double-digit vehicle sales growth since September 2012.

The finance, real estate and business services index has been struggling for a while, and this is not only limited to KwaZulu-Natal. In KwaZulu-Natal the index grew by 0.8% year-on-year. The index has now been negative or growing in very low single-digit numbers since July 2011. The fact that the index reading was slightly positive for three out of the last four months shows that there may just be some hope for the sector, despite a 0.9% quarter-on-quarter decline.

The government index was negative year-on-year for the first time since last April. The most recent index includes the new numbers from government, but mostly shows spending by the provincial government and not yet spending by the municipalities as some of the municipal audits are still being finalised. There should be some improvement in the government index once the municipal numbers are published and included. Despite this it is not good to see a decline in any government spending as KwaZulu-Natal needs government spending for its economy to pick up.

The KwaZulu-Natal stress index, which measures factors like inflation, interest rates and unemployment, grew at the lowest year-on-year rate since October 2012 – 1.7%. Month-on-month economic stress was up 0.4% and quarter-on-quarter it rose by only 0.1%. While the slowdown in the growth of stress is welcome, it is highly unlikely that stress will decrease soon. The unemployment rate in KwaZulu-Natal increased from a year ago and with the recent rand weakness the prospect of higher inflation is even bigger.

Results Table: April 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	-2.2%	-3.1%	-2.1%	-6.1%
Mining Index	-8.8%	16.0%	1.7%	25.0%
Manufacturing Index	-0.4%	-2.6%	-3.2%	5.1%
Electricity Index	-0.8%	-0.3%	-1.4%	-4.3%
Construction Index	-4.7%	-0.4%	-16.7%	-21.1%
Transport Index	10.1%	-0.7%	5.5%	37.0%
Trade Index	3.6%	0.4%	1.7%	19.4%
Government	-0.8%	-1.2%	-4.0%	23.7%
Finance, Real Estate and Business Services Index	0.8%	0.9%	-0.9%	6.5%
Kwa-Zulu Natal Growth Index	2.3%	-0.7%	-0.4%	16.0%
Kwa-Zulu Natal Stress Index	1.7%	0.4%	0.1%	-0.8%
Kwa-Zulu Natal Barometer	0.6%	-1.1%	-0.5%	16.9%