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**KWAZULU-NATAL PROVINCIAL GOVERNMENT**



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## **KwaZulu-Natal Business Barometer**

**August 2013**

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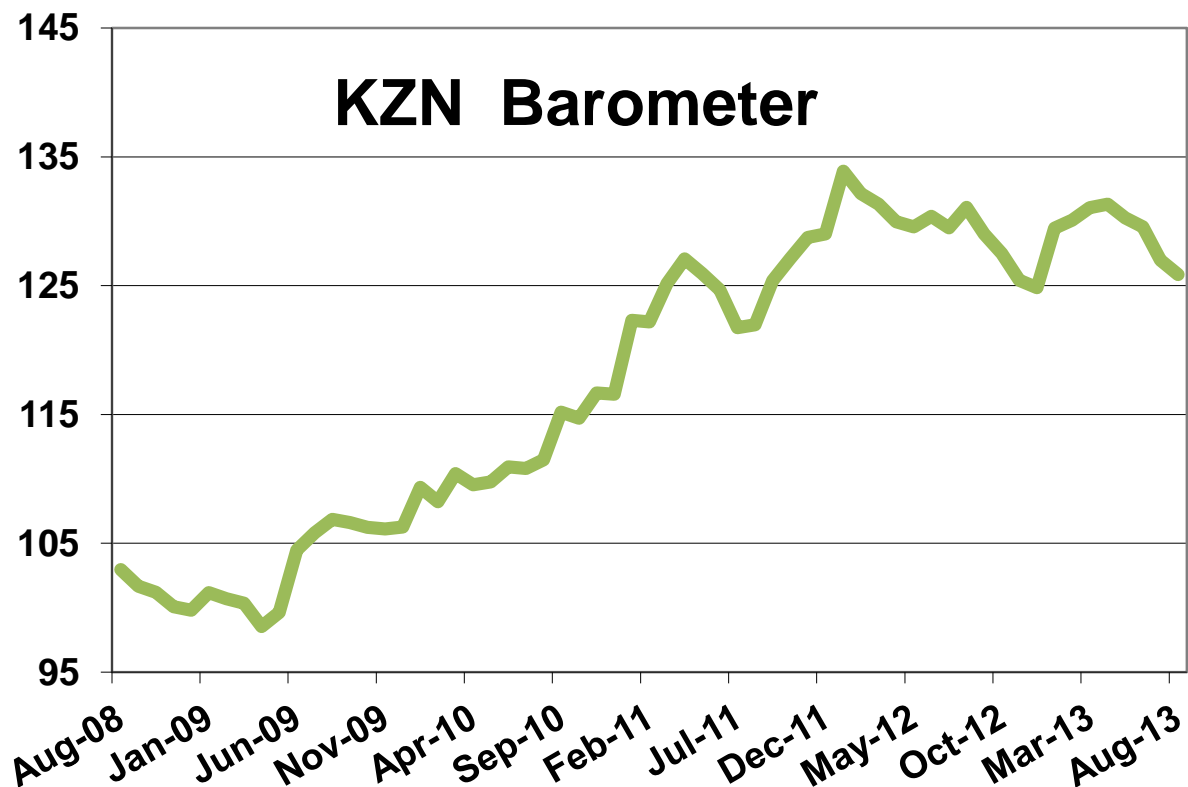
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## KwaZulu-Natal economy is feeling the pressure...



The pressure is mounting up in the South African economy and according to the latest KwaZulu-Natal Barometer, the province is suffering from the same trend. The barometer, as compiled by Mike Schüssler of Economists.co.za, fell 4%, the third consecutive month of year-on-year decline. The barometer was also down on a month-on-month and quarter-on-quarter basis.

The negative barometer reading may hide the fact that the KwaZulu-Natal economy is still showing some growth potential. The province's economy grew 5.1% on a year ago, 0.8% month-on-month and 2.5% quarter-on-quarter. The growth index was also up 14.6% from three years ago. However, rising inflation and unemployment levels in the whole country is affecting the performance of the economy.

### Stress levels leap upward

The main reason for the drop in the barometer, even as the KwaZulu-Natal economy is still growing, is the increase in economic stress levels in the province. Civil debt cases were up by 35%, inflation accelerated to 6.4% and unemployment in KwaZulu-Natal stood at 23.2% compared to 20% a year earlier, increasing the strain on the province's economy. All of these factors are a strain on consumers' pockets. The KwaZulu-Natal stress index was

up 9.5% on a year ago, the biggest upward move since October 2007. The stress index grew 1.7% month-on-month and 6.1% quarter-on-quarter.

### **Agriculture bouncing back after strikes**

Agriculture in KwaZulu-Natal has not been doing too badly in recent months. The agriculture index was up 1.2% year-on-year and even though it was a small growth number, the index has now been positive for three months and was also up on a month-on-month and quarter-on-quarter basis. Sugarcane production rose slightly and the volume of meat slaughtered was up 23.8%. While agriculture had some difficult months at the end of last year and the beginning of this year, the country-wide negative effects of the farm strikes and higher wages have now been absorbed and favourable weather conditions in KwaZulu-Natal contributed to the sector slowly picking up again.

### **Short-term gains for mining**

The KwaZulu-Natal mining index was one of only two in the KwaZulu-Natal barometer which were negative on a year ago. The index was down 12.8% year-on-year, but this was the smallest decrease since the start of the year. Month-on-month and quarter-on-quarter the mining index grew in double digits as coal production, which make up the bulk of KwaZulu-Natal's mining, grew. Compared to last year the mining sector is still not doing very well. The events at Marikana and other mines in the North West has affected mining activity in all provinces that have mining sectors and will continue to do so for a while.

### **Great performance in manufacturing**

Manufacturing in KwaZulu-Natal did reasonably well and the manufacturing index was up 3.7%, the third consecutive month of year-on-year growth and the best growth rate so far this year. Most of this increase can be attributed to an increase in the assembling of vehicles, which boosted manufacturing in KwaZulu-Natal. However, the impact of strikes at car and vehicle component manufacturers in August and September will start to affect the manufacturing index negatively in coming months.

### **Electricity index up**

The electricity index grew year-on-year for the fourth consecutive month, this time by 4.4%, despite increasing electricity tariffs which usually lead to a reduction in power usage by consumers and some businesses. The ongoing growth in the index is most likely due to some big projects still in progress in KwaZulu-Natal and this will probably continue until November, before the slowdown of activity in December.

### **Construction lagging**

The one sector in KwaZulu-Natal which is simply struggling to recover is construction. The construction index has been negative all year and dropped 25.4% year-on-year in August as buildings fell 37.6%. The index was 30.9% down from three years ago. The one positive movement in the construction index was the 4.5% growth in lumber sales, the first growth this year, which shows there are once again some informal construction projects taking place.

### **Growth in transport and communication index**

The transport and communications index grew 13.4% year-on-year and was up 33.8% from three years ago. The strong growth was, as usual, driven by growth in communications, whereas the other variables that make up the index dragged the growth down. The volume of cargo handled at KwaZulu-Natal's two ports fell 2.7% from a year ago, the second month of decrease. Passenger arrivals at King Shaka International Airport have been falling for 18 months now and were down 5.5% year-on-year. It seems like ordinary consumers are flying less, partly because of the prices of air tickets and also because consumers are generally struggling. Most of the air travel to KwaZulu-Natal is likely for business, rather than pleasure or holiday due to tight spending by consumers.

## Trade index disappoints

The troubles of the consumer are also reflected in the KwaZulu-Natal trade index. Although the index was up 2.8%, it was the lowest growth rate so far this year. Retail sales were down for the second consecutive month, showing that consumers are cutting back with consumer confidence at record lows. Vehicle sales still grew, but at a much slower pace than a few months ago and petrol sales fell as fuel prices increased. Wholesale sales were up 4.8%, but this was most likely due to business building stock levels and it did not translate into increased retail sales. The slow growth in the trade index is something to worry about and shows the real story of what is happening to the consumer.

## Finance, real estate and business services index increased

The finance, real estate and business services index of KwaZulu-Natal grew by 3.6% year-on-year, but some of the components of the index have not been doing very well. Advertising has been negative for a year now and dropped 8.1%, property transfers were down 7% and mortgages fell 14.5%. However, the increase in civil debt cases which helped drive up the stress index meant more work for lawyers and helped the finance, real estate and business services index. Instalment sales and insurance and asset management also grew. The index and the whole financial sector closely follows events on the JSE and the recent record highs on the All-Share Index boosted the finance, real estate and business services indices in all provinces.

## Government spending grew

The slowing of spending by the national, provincial and local government in KwaZulu-Natal has turned around. The government index grew 6.3% year-on-year and although it is still not the double-digit growth rates of two years ago, there seem to be some growth in government spending at least, which accounts for almost 15% of the KwaZulu-Natal economy. Fortunately the return of strong growth in government spending came at a time when the stress index shot up. Without the growth in government spending, the barometer could have looked even worse. Government spending also grew on a month-on-month and quarter-on-quarter basis and was up 27.8% from three years ago.

## Results Table: August 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	1.3%	0.3%	1.5%	-4.9%
Mining Index	-12.8%	22.6%	44.6%	18.5%
Manufacturing Index	3.7%	0.6%	3.7%	5.1%
Electricity Index	4.4%	0.4%	0.0%	-2.5%
Construction Index	-25.4%	-3.7%	-4.0%	-30.9%
Transport Index	13.4%	0.1%	-0.9%	33.8%
Trade Index	2.8%	-1.3%	-2.0%	15.2%
Government	6.3%	2.0%	3.6%	27.8%
Finance, Real Estate and Business Services Index	3.6%	1.3%	6.0%	7.1%
Kwa-Zulu Natal Growth Index	5.1%	0.8%	2.5%	14.6%
Kwa-Zulu Natal Stress Index	9.5%	1.7%	6.1%	1.5%
Kwa-Zulu Natal Barometer	-4.0%	-0.9%	-3.4%	12.9%

