



**The Business Barometer for the Province of
KwaZulu-Natal**

May 2011

KwaZulu-Natal economy on a jogtrot

The growth pace of economic activity in KwaZulu-Natal went from a fast run a few months back to a jogtrot in May as economic activity throughout the country subsided somewhat.

The latest KwaZulu-Natal barometer, as compiled by economist Mike Schüssler from Economists.co.za, grew by 11.9% year-on-year in May compared to the previous month's growth of 13.4%. The barometer grew by 3.3% on a three-month basis, but turned slightly negative on a month-to-month basis with a decline of 0.6%. But despite the slight slowdown, the province's barometer is 16.4% higher than three years ago, indicating a healthy state of the province's economy.

Drought takes its toll on agriculture

KwaZulu-Natal's agricultural index declined by 2.6% year-on-year – the first year-on-year decline in seven months. The sector's index is also down on a three-month and month-on-month basis as the effect of recent droughts starts to influence production in the sector. Red meat production volumes were 10% down year-on-year and field crops decreased by 19%. The volume of crushed sugar cane, which forms a vital part of the province's agricultural sector, increased by 9.6%.

Two more sectors in the KwaZulu-Natal economy saw a decline in activity levels on a year-on-year basis in May.

Small pre-winter spike in electricity demand

The electricity index declined by 0.2%, the smallest decline in 11 months. With increasing electricity prices, households and businesses continue to find ways to limit electricity usage and alternative electricity sources, leading to the decline in the electricity index. The index increased on a three-month and month-on-month basis, as electricity demand tends to increase as the winter months approach.

Construction shows short-term growth

The construction index continued its decline for the 20th consecutive month and was 4% lower year-on-year compared to the previous month's decline of only 1% as cement sales, lumber sales and buildings completed were all still down year-on-year. However, the sector surprised with growth of 13.2% on a three-month basis.

Slight improvement in mining index

The province's mining sector, which makes the smallest single contribution – 1.65% – to the KwaZulu-Natal's total economy, was supported mainly by one part of the sector. Coal mining volumes, which accounts for more than 70% of the province's mining sector, grew by 8% year-on-

year. The total mining index grew by only 0.3% year-on-year. While better growth in the mining sector is desirable, it is better than the previous month's decline of 1.4%.

Vehicles, clothing and textiles still dragging manufacturing down

The manufacturing sector contributes at least 25% to the province's economy, which is the single largest contribution. The manufacturing index increased by 3% year-on-year, but saw a slight decline of 0.4% on a month-to-month basis. One of the big losers in the sector was the manufacturing of motor vehicles, parts and accessories, which fell by 9% year-on-year. This is partly due to a slowdown in the growth of vehicle sales.

The manufacturing of clothing and textiles was down 7% year-on-year as problems with bargaining councils in KwaZulu-Natal's clothing sector, and especially the Newcastle area, persist. These problems ought to be addressed urgently as they continue to threaten jobs in the province.

Public holidays boost trade

Whereas the manufacturing sector of KwaZulu-Natal was negatively affected by public holidays and a long weekend in May, which meant less working days, the trade sector benefited from these as more shopping days had a substantial impact on the retail sector.

The retail sector performed exceptionally well with 5.5% year-on-year growth. Growth in the sector should slow down as most long weekends are over. Wholesale sales also recorded strong growth of 5.4% year-on-year.

Vehicle sales grew by 17.5%, the 13th consecutive month of growth, but it was nowhere close to the growth rates of more than 30% six months earlier. With a slowdown in demand for vehicles, the growth in sales is expected to decline to single digits in the second half of the year.

The overall trade sector grew by 7.7% year-on-year and was also positive on a three-month and month-on-month basis.

Technology driving communication growth

KwaZulu-Natal's transport and communication index increased by 18.9% year-on-year and also recorded strong growth on a three-month basis. National internet browsing, measured by visits to web pages, increased by 37% year-on-year, the usage of cell phone minutes by 41% and the usage of Telkom landline minutes by only 7%, indicating a continued shift in technology use. While this shift will continue to help grow the transport and communication index, which is an integral part of the economy, there is doubt about the number of jobs this creates.

The volume of cargo handled at the ports of Richards Bay and Durban increased by 5.8% year-on-year. Fuel sales, an indicator of land transport volumes, grew by 3.5% and passenger arrivals at King Shaka International Airport increased by 5%.

Housing market still not fully recovered

Growth in KwaZulu-Natal's finance, real estate and business services index slowed to 3.2% year-on-year after three months of double-digit growth. Property transfers grew by 10.6% year-on-year compared to the previous month's 14.3%. Transfers are still 41.2% down from three years ago and the national slowdown in the housing market is also expected to affect KwaZulu-Natal's housing market. The constant talk of nationalisation plans, by especially the ANC Youth League, could be a contributing factor to consumers holding back on making long-term purchases.

Table 1: KZN Barometer and the economic sectors

	% Change on a year ago	% Change on a month ago	% Change on a Quarter ago
Agriculture Index	-2.6%	-7.9%	-4.5%
Mining Index	0.3%	1.5%	-2.5%
Manufacturing Index	3.0%	-0.4%	0.2%
Electricity Index	-0.2%	0.9%	1.9%
Construction Index	-3.7%	-6.2%	13.2%
Transport Index	18.9%	-0.3%	2.0%
Trade Index	7.7%	0.3%	1.1%
Government	18.0%	-0.2%	15.7%
Finance, Real Estate and Business Services Index	3.2%	-5.6%	-3.8%
Kwa-Zulu Natal Growth Index	8.6%	-1.4%	2.5%
Kwa-Zulu Natal Stress Index	-2.9%	-0.9%	-0.8%
Kwa-Zulu Natal Barometer	11.9%	-0.6%	3.3%

Government spending boosts economy, but lacks sustainability

Government spending, which accounts for 14.44% of the province's economy, grew by 18% year-on-year compared to 19.6% year-on-year in the previous month, as spending by the national and provincial governments supplemented spending by municipalities in the province. While increased government spending was necessary during the recession to stimulate economic growth, government spending should be reduced even more than in May, as it is not sustainable long term. At the same time, municipalities are reporting a spike in bad debt, as taxpayers find it difficult to keep up with some of the municipalities' price increases – proving the increases to be unsustainable.

Second- and third-quarter growth concerns

The growth index of the KwaZulu-Natal barometer increased by 8.7% year-on-year, compared to 11.6% the previous month. The index decreased 1.4% month-on-month, indicating that economic growth could slow down in the coming months. The concern is that the first quarter's economic growth might not be repeated in the second and third quarter of the year, although it might be repeated in the fourth quarter.

KZN stressors declining

Despite some short-term worries in the KwaZulu-Natal economy, the economic stress index in the province, which measures negative factors like interest rates, inflation and unemployment, continued to decline year-on-year and shorter term. The 2.9% year-on-year decline in economic stress was thanks to the prime rate still being at a record-low level of 9%. Inflation in KwaZulu-Natal is still under control at 4%, but is expected to increase with the total South African inflation rate. This will eventually lead to increases in the prime interest rate.

Unemployment in KwaZulu-Natal is at 20.6%, slightly up from the previous month's 20.5%, indicating that a lack of job creation is at the centre of the stress problem.