



Department of Economic Development and Tourism

Umyango Wezokuthuthukiswa
Komnotho Nezokuvakasha

KWAZULU-NATAL PROVINCIAL GOVERNMENT

2nd Quarter 2011

EZOMNOTHO

THE KWAZULU-NATAL QUARTERLY ECONOMIC AND STATISTICAL OVERVIEW



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For enquires about this publication please contact the following:

Department of Economic Development and Tourism

General Manager, Economic Planning

Sihle Mkhize

Tel: +27(0) 33 264 2607

E-Mail: mkhizesi@kznded.gov.za

Cell : +27 (0) 82 776 6072

Authors

Department of Economic Development and Tourism

Policy and Planning Unit (Economic Planning)

Cosmas Hamadziripi

Tel: +27(0) 33 264 2781

Email: HamadziripiC@kznded.gov.za

Cell: +27 (0) 82 520 8715

Paul Court

Tel: +27(0) 33 264 2785

Email: court@kznded.gov.za

Cell: +27 (0) 82 520 8716

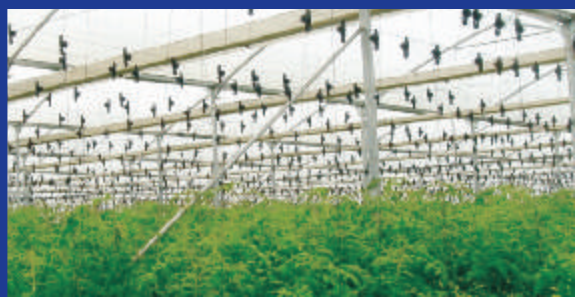
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Trade and Investment KZN

Felleng Mahlatsi

KZN Provincial Treasury

Nokuthemba Lembethe



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1.1 About this publication

The publication aims to present economic trends for the province to our respective stakeholders and policy makers. Notably, the publication provides detailed statistics on Gross Domestic Product (GDP), employment, inflation, foreign and domestic investment and international trade. Furthermore, the publication highlights developments in the South African and the provincial economies with emphasis on priority sectors in KwaZulu-Natal (KZN) Province.

The main data sources used are Statistics South Africa (Stats SA) and the Reserve Bank (SARB). Other data sources used in this report are Quantec, Global Insight, Naamsa, and Department of Trade and Industry, the National Treasury, and the Financial Times.

1.2 Authorship of the publication

Ezomnotho is a collaborative effort by the KwaZulu-Natal Department of Economic Development and Tourism (KZNDEDT), Economic Planning Programme; KwaZulu-Natal Provincial Treasury, Macro-Economic Analysis Unit; and Trade and Investment KwaZulu-Natal (TIKZN).

The Economic Planning Programme is critical to enhance efficiency and effectiveness of the KZNDEDT. This is mainly through facilitation and promotion of economic development policies, strategies and programmes. The programme is made up of four sub-programmes; Policy and Planning, Research and Development, Knowledge Management, and Monitoring and Evaluation.

Its purpose is pivoted around the following:

- Provision of economic and investment opportunity information to various stakeholders.
- Provision of leadership and guidance in the development of provincial economic policies and strategies.
- Monitoring the implementation of economic policies and strategies, and periodically evaluating them with a view to determining their effectiveness.
- Providing management with information on which strategic decision making processes are based to enhance the overall efficiency and effectiveness of the Department.

The purpose of the KZN Treasury's Macro-Economic Analysis Unit is to determine and evaluate economic parameters and socio-economic imperatives within a provincial, local, and national macro-economic context. It also provides the KwaZulu-Natal Treasury and Executive with sound statistical information for decisions on the Medium Term Expenditure Framework (MTEF) and budget framework allocations.

TIKZN is a provincial trade and investment promotion agency, developed to promote the province of KwaZulu-Natal (KZN) as an investment destination. It facilitates trade by assisting local companies to identify markets and export their products. Part of TIKZN's strategic objectives is strengthening the organisation's knowledge management capabilities, through production and dissemination of new knowledge outputs, and development of investment packages for potential domestic and international investments by means of packaging sector opportunities.



1.3 KwaZulu-Natal at a Glance

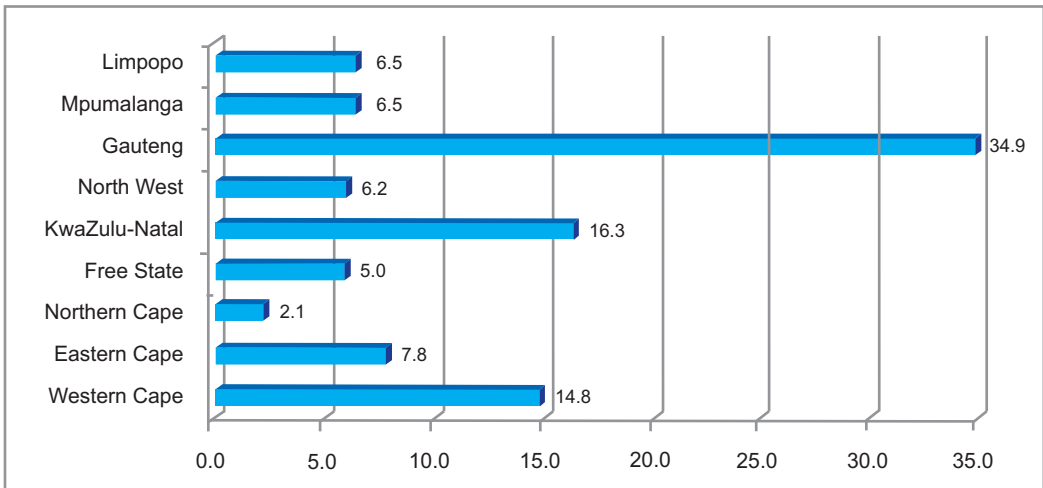
KwaZulu-Natal and South Africa Socio-Economic Indicators at a Glance

Size of KwaZulu-Natal relative to South Africa

Indicator	KwaZulu-Natal	South Africa
GDP (R 000s) at 2005 constant prices- August 2011 (Rmill)	307,967	1,885,512
GDP Growth (2 nd Quarter 2011)	1%	1.3%
Population (000s) (Mid-year estimates, 2010)	10,645	49,991
Working Age Population (000s) (15-64 years)	6,748	32,435
Formal and Informal Employment (000s) (QLFS, August 2011)	2,500	17,663
Unemployment (000s) (QLFS, August 2011)	638	4,538
Unemployment Rate (2 nd Quarter 2011)	20.3%	25.7%
Labour Force (000's)	3,137	17,663
Absorption Rate (employed/population ratio)	37%	40.5%
Gini Coefficient (2009)	0.66	0.65
Human development Index (HDI)- 2009	0.52	0.56
Functional literacy (2009)	68.7%	73.7%
Inflation (August 2011)	4.2%	5%
Foreign tourists per annum (000s) (2009)	1,211	9,900
Cargo tonnage handled at ports in the 2 nd quarter 2011 (000s)	29,300	48,800
Number of containers handled at ports in the 2 nd quarter 2011 (000s)	668	1,076
Hotel occupancy rates (2 nd quarter 2011)	55.8%	52.1%
Total Air Passenger Movements at King Shaka International for the 2 nd quarter 2011	1.2 million	

Source: Stats SA, Quantec and Global insight

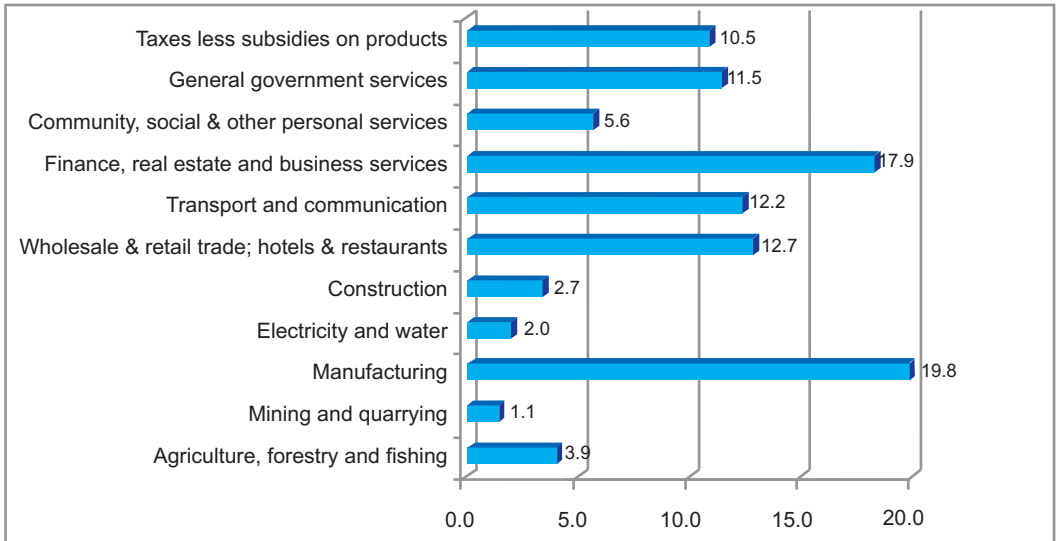
Provincial Contribution (%) to South Africa GDP



Source: Stats SA & Quantec

Structure of Kwazulu-Natal economy

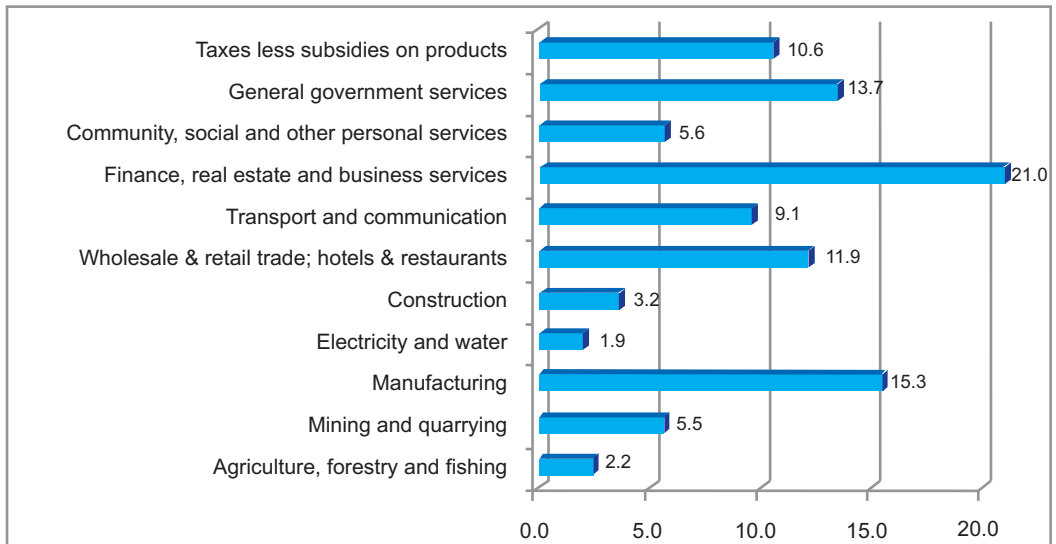
Size (%) of each Sector relative to KwaZulu-Natal GDP



Source: Calculations based on Quantec Quarterly GDP statistics, August 2011

Structure of South African economy

Size (%) of each Sector relative to South Africa GDP



Source: Calculations based on Stats SA Quarterly GDP statistics, August 2011

KwaZulu-Natal's Comparative Advantages

- The ports of Durban (Largest Port in Africa in terms of cargo handling and volume of vessels) and Richards Bay, together handle over 60% of South Africa's cargo tonnage. KwaZulu-Natal also boasts of the newly built King Shaka International Airport, which handled 1.2 million passengers in the 2nd

quarter of 2011 and the Dube Trade Port, aimed at promoting the export of perishable goods.

- KwaZulu-Natal boasts of highly advanced manufacturing sector which contributes close to 20% of the province's GDP.
- Richards Bay is the centre of the country's aluminium industry operations, producing over 4% of the world's export of aluminium. It is also the seat of the world's largest sand mining and mineral-producing operations.
- KwaZulu-Natal boasts of a highly diversified agricultural sector. The province is the country's leading producer of timber, processing over half of all timber used in the country, and accounting for a significant percentage of the country's wood exports. Sugar cane is also a premier produce in the province with some of the country's largest sugar processing plants.
- KwaZulu-Natal is a premier tourist destination, recording 1.2 million foreign tourists in 2009, and has one of the best hotel occupancy rates in the country. The province boasts of the iconic Moses Mabhida Stadium, host to the World Cup semi-final; as well as two World Heritage Sites in the form of the Drakensberg Mountains and the Isimangaliso Wetland Park.
- The Province has the highest export propensity, as well as the highest level of industrialization in the country.
- The Province is second only to Gauteng in terms of its percentage contribution to South Africa's GDP.
- The province has the lowest strict unemployment rate, and the second biggest labour force in the country.



2.1 Recent Global Economic Developments

The global economy continues to grow, albeit at a slow pace as a number of risks have emerged. Some of these risks include the virulent euro area debt crisis, US risks of default, civil unrest in the Middle East and North Africa and the volatile commodity prices. Overheating pressures in some key emerging economies have also intensified as observed in elevated inflation pressures, and in some cases high asset prices. Financial exposures across the Euro area are transmitting weakness and spreading fear from market to market, country to country, periphery to core and this has remained the major cause of lacklustre growth globally. These risks have been aggravated further by deterioration in confidence and a growing sense that policymakers do not have the conviction, or simply are not willing, to take the decisions that are needed. Decisive action in policy implementation will bolster the confidence that is required to restore and rebalance global growth.

In the 2nd quarter, global economic growth was characterized by a mild slowdown emanating predominantly from the continued Euro area debt crisis and the US debt ceiling crisis. Irrespective of these developments, the global economic recovery continues but the road to stability seems long. The 2nd quarter global outturn was underpinned by many unanticipated offsetting factors. Key among the negative surprises was the devastating effect of the earthquake and tsunami on the Japanese economy, with supply disruptions weighing down heavily on industrial production, and consumer sentiment and spending. Downside risks, both old and new, are increasing. IMF forecast global growth of 4.3% (down by 0.1%, relative to April) growth for 2011, and 4.5% for 2012. This figure conceals very different performances for advanced economies on the one hand, and for emerging and developing economies on the other. For advanced economies, IMF projects a growth rate of 2.2% for 2011 (down by 0.2% in 2011), and 2.6% for 2012.

Three major risks to the global economic recovery are emanating from:

- **Europe debt crisis** - Improving competitiveness and returning to fiscal health in the debt-laden countries is critical. Strong policies such as fiscal consolidation and structural reforms remain important to ensure return to normalcy in these countries.
- The **second risk is on the fiscal side**, and affects a large number of advanced countries. Many countries, including the United States, are yet to put in place a convincing medium term fiscal consolidation plan. Such a lack of adjustment leads markets into volatility, higher risk premium and increasing the cost of borrowing not only for the sovereign but also for private borrowers.
- **Signs of overheating in emerging and developing countries** - While the difference between a strong and an overheating economy is often difficult to tell in real time, there are reasons to think that a number of emerging countries may be close to crossing the line. Inflation is increasing beyond what can be explained by commodity and food prices. Credit growth rates and some asset prices are starting to look high relative to historical standards. Some economies, with strong domestic demand and strong capital inflows, face difficult policy choices. Some countries, in particular in Asia, should allow for further appreciation of their currency and a reduction of their current account surplus. Others, in particular in Latin America, have already allowed for a substantial appreciation, and their adjustment must take place at other margins.

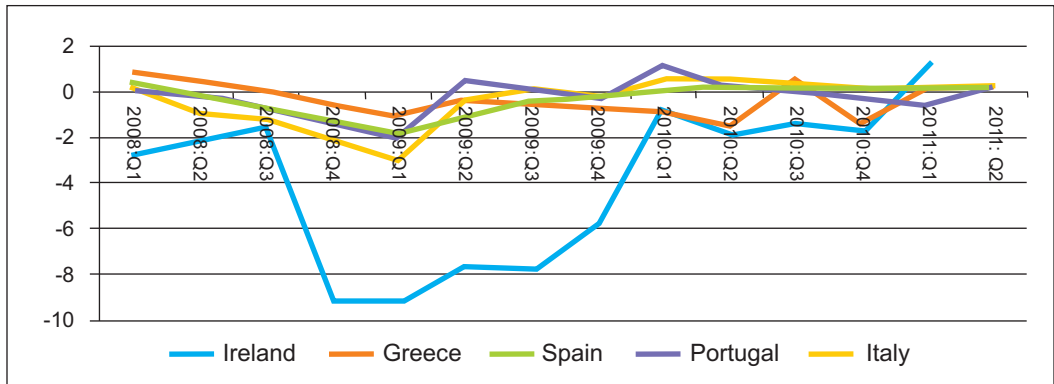
Global economic growth depends primarily on quick recovery of the major advanced economies. Lacklustre growth in these countries is the major cause of the slow global economic recovery recorded in the 2nd quarter.

2.2 European debt crisis

The more than year-long European debt crisis continued to be the major downside risk characterising the global market during the 2nd quarter. In April 2011, Portugal was the victim of the crisis, receiving a bailout from the European Union and the IMF totalling **78 billion euro (\$115 billion)**. In 2010, the European Union and the IMF bailed out Greece and Ireland after their governments failed to service sovereign debt. During

the period under review, renewed debt challenges in Greece, high risk of sovereign debt default in Italy and Spain shook the global economy with a number of analysts predicting a double dip recession in 2011. The inclusion of Italy in this group provided evidence of high intensity of European debt crisis. In the entire debt crisis hit countries economic growth remained modest, with Portugal posting a 0.0% growth rate (Figure 1). Italy and Spain also recorded lacklustre growth rates of 0.2% and 0.3% respectively during the 2nd quarter.

Figure 1: Growth trends in sovereign indebted countries (quarter-on-quarter)¹



Source: Trading Economics, September 2011

2.2.1 Europe Debt Crisis: Chronology of Debt developments

- Feb. 2, 2010:- The Greek government outlines spending cuts and measures to boost tax revenue, in a bid to cut the budget deficit to 3% of gross domestic product by 2012.
- Feb. 9, 2010:- Germany considers a plan with its EU partners to offer Greece and other troubled euro-zone members loan guarantees in an effort to calm fears of a government default and prevent a widening of the credit woes.
- Feb. 17, 2010:- The Spanish government gets a boost with a new \$6.9 billion bond issue that is well received by investors.
- Feb. 23, 2010:- Greece's financial instability begins to spread to private-sector banks. Fitch Rating downgrades the country's four major banks to triple-B. Fitch characterizes its outlook for Greek banks as "negative."
- March 3, 2010:- The Greek government announces a new austerity plan that will yield €4.8 billion in savings. The government decides to move ahead with steep cuts in civil-service salaries and entitlements, and to raise Greece's sales tax by two percentage points.
- May 2, 2010:- **Greece reaches a historic deal with other euro-zone countries and the IMF for a huge bailout, at first for one of the 16 countries using the euro. The deal was expected to total more than 100 billion euros (\$133.14 billion) over three years, though only the EU has set out its figure- 30 billion euros, for the first year.**
- May 10, 2010:- The EU agrees on a €750 billion bailout plan that would be available to rescue euro-zone economies that get into financial trouble. The plan would consist of €440 billion of loans from euro-zone governments, €60 billion from an EU emergency fund and €250 billion from the IMF.
- Nov. 21, 2010:- The Irish government announced that it had applied for tens of billions of euros in aid from the European Union and the International Monetary Fund. The EU and the IMF indicated the money would be forthcoming, pending negotiations on the steps to restructure Ireland's debts and cut its budget deficit.
- Nov. 24, 2010:- Ireland's government outlines €15 billion (\$20.55 billion) in spending cuts and tax hikes

¹ Data for Greece and Ireland not available at the time of printing.

over four years that are intended to reduce the budget deficit to 9.1% of gross domestic product in 2011.

- Nov. 28, 2010:- **Europe seals a €67.5 billion bailout of Ireland. Portugal resists pressure to take a bailout. Bond-market turmoil around the euro zone worsens.**
- March 11, 2011:- EU leaders agree on rules for a permanent, €500 billion bailout fund from 2013.
- March 23, 2011:- Portugal's government collapses in a bitter fight over austerity measures. Prime Minister Jose Socrates resigns.
- March 24-25, 2011 -- EU leaders agree on "Euro plus Pact," a watered-down version of the "pact for competitiveness."
- April 6, 2011:- Portugal asks for a financial bailout from the European Union.
- May 4, 2011:- **Portugal reached an agreement with international lenders for an economic bailout totalling 78 billion euro (\$115 billion).**
- August 10, 2011:- Spain completely ruled out the possibility of the need for a financial rescue from the International Monetary Fund (IMF) and the European Union (EU).

The debt crisis in the Euro area calls for urgent measures to recapitalize banks, making sovereign finances sustainable and a common vision for the region's future.

2.2.2 Implications to South Africa

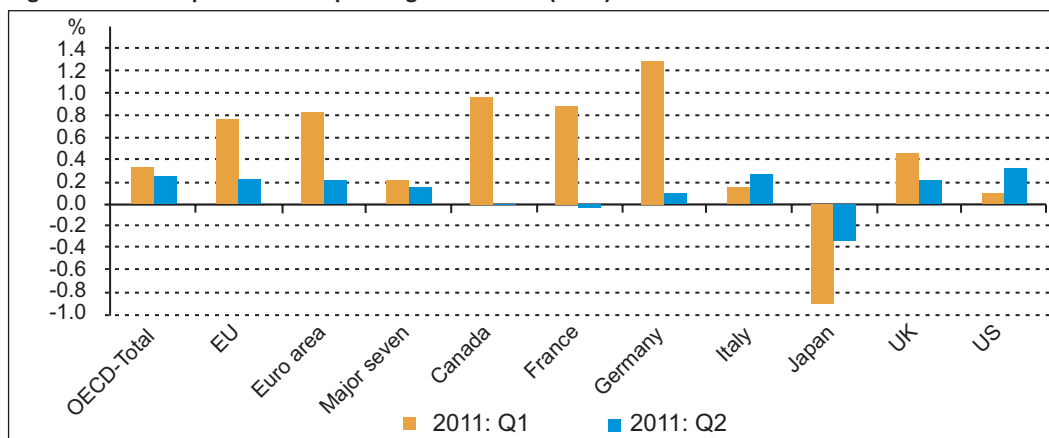
Debt developments in the euro zone entered a new phase in recent times, with the focus moving from the peripheral countries to some of the larger economies in the region. The global systemic risks posed by any failure to overcome the sovereign debt crisis are enormous. Europe is South Africa's 2nd largest trading region after Asia. Recession in the euro area will inevitably affect South Africa's tradeable sector and this will in turn impact on domestic output leading to unemployment.

2.3 Global economic growth trends

2.3.1 Advanced Economies- Organisation for Economic Co-operation and Development (OECD)

Slow economic growth characterised most of the advanced economies during the 2nd quarter of 2011. Gross domestic product (GDP) in the OECD area continued to slow down with a rate of 0.2% in the 2nd quarter, down from 0.3% in the previous quarter. This comes at a time when the Japanese economy contracted further, debt crisis remaining strong in the Euro area and a slow growth rate in the US (Figure 2). Growth in industrialised economies is expected to average 2.2% and 2.6% in 2011 and 2012 respectively.

Figure 2: OECD 2nd quarter and 1st quarter growth trends (2011)



Source: OECD Statistics, September 2011

United States of America (US)

The 2nd quarter of 2011 saw the US real gross domestic product (RGDP) increasing at an annual rate of 1.3%. This follows a growth rate of 0.4% (revised from 1.9%) in the 1st quarter. Drivers of the 2nd quarter growth rate were exports, non-residential fixed investment, private inventory investment, and an upturn in federal government spending that were partly offset by a sharp deceleration in personal consumption expenditures. The disappointing growth results in the US reflected transitory factors including higher commodity prices, bad weather, and supply chain disruptions from the Japanese earthquake on U.S. manufacturing. During the period under review, the debt-ceiling crisis engulfed the US economy. The impact of the debt-ceiling crisis manifested in the form of declining international stock prices, exchange rate volatility and upswings in the prices of metals mainly gold and platinum. The agreement to raise the US government's borrowing limit and cut the budget deficit in early August 2011 reduced a major uncertainty in the markets, bolstering US fiscal credibility and augurs well for both the US and the global economy. The risk of default has remained high with the US credit rating downgraded to AA from AAA. The IMF expects the economic growth in the US to average 4.3% (revised from 4.4% relative to April) in 2011 and 4.5% in 2012 (**Table 1**).

Japan

The Japanese economy succumbed to recession after contracting by 0.3% in the 2nd quarter reflecting dwindling exports and shrinking housing investment. This follows a contraction of 0.9% in the previous quarter. Recession in Japan emanated from the devastating earthquake and tsunami in March, with disruptions from the earthquake being stronger than anticipated, and account for most of the decline. Compared to the same quarter of the previous year, GDP contracted by 1.0%. As a result of this, IMF expects the Japanese economy to shrink by 0.7% in 2011 and grow by 2.9% in 2012, revised from 1.4% and 2.1% for 2011 and 2012 respectively relative to April (**Table 1**). Japan's problems are expected to go away, and the economy to rebound more strongly in 2012.

United Kingdom (UK)

Gross Domestic Product (GDP) increased by 0.2% in the 2nd quarter of 2011, following an increase of 0.5% in the 1st quarter. Growth acceleration was weighed down by decreases in the manufacturing, mining and utilities sectors while the construction, hotels and accommodation and transport, storage and communication sectors were the major drivers. In recent times, the UK was characterised by violent demonstrations, which many analysts believe were caused mainly by economic related challenges in the aftermath of the recession. High unemployment and creeping inflation are the major economic challenges facing the UK (**Table 1**). According to IMF, economic growth will average 1.5% and 2.3% in 2011 and 2012 respectively.

Euro Area

GDP increased by 0.2% in both the Euro Area² (EA16) and the Eu27³ during the 2nd quarter of 2011. In the 1st quarter GDP growth was 0.8% in both zones. The 2nd quarter GDP is the weakest in two years indicating that the impact of the endemic debt crisis is somewhat stubborn. IMF expects Euro area GDP growth rate to average 2.0% and 1.7% in 2011 and 2012 respectively.

Germany

The Gross Domestic Product (GDP) in Germany expanded 0.1% in the 2nd quarter of 2011 compared to 1.3% (revised from 1.5%) in the 1st quarter. On a quarter-on-quarter comparison (adjusted for price, seasonal and calendar variations), positive contributions were made by exports and capital formation. However, imports rose more strongly than exports. Slow growth in the German economy bodes ill for Euro area economic recovery given that since the end of the recession the country has been the major driver of economic growth in the region. The IMF expects growth to average 3.2% and 2.0% in 2011 and 2012 respectively (**Table 1**).

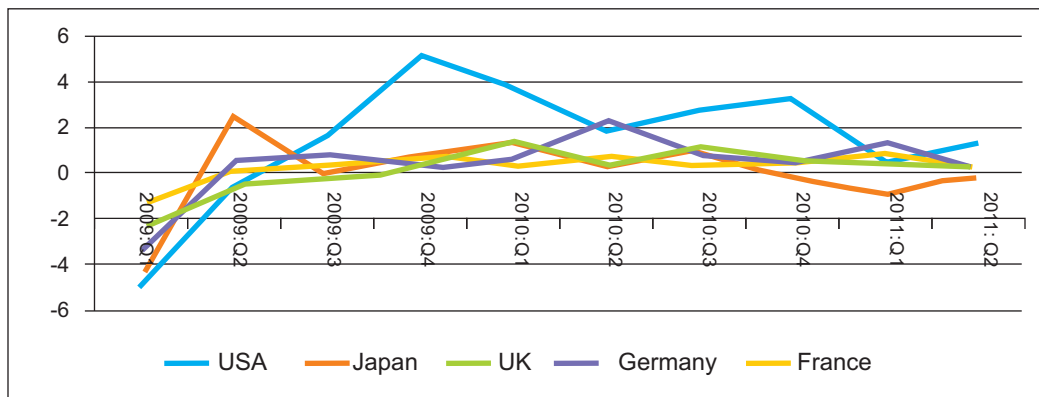
²The Euro Area (EA16) consists of Belgium, Germany, Ireland, Greece, Spain, France, Italy, Cyprus, Luxembourg, Malta, the Netherlands, Austria, Portugal, Slovenia, Slovakia and Finland.

³ The EU27 includes Belgium, Bulgaria, the Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, the Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland, Sweden and the United Kingdom.

France

Economic growth in France stalled at 0.0% in the 2nd quarter following an expansion of 0.9% (revised from 1.0%) in the 1st quarter of 2011, on the back of slowing demand for exports as the global recovery remains subdued (**Figure 3**). According to INSEE (Institut National de la Statistique et des Études Économiques), France's national statistics office, households' consumption expenditure retreated (-0.7% after 0.4% in the 1st quarter), while gross fixed capital formation (GFCF) slightly decelerated (0.9% after 1.2%). Overall, total domestic demand (excluding inventory changes) drove GDP down (-0.2% after 0.5%). The IMF expects the French economy to grow by 2.1% in 2011 and by 1.9% in 2012 (**Table 1**).

Figure 3: Growth trends in major advanced countries (quarter-on-quarter)



Source: Trading Economics, August (2011)

2.3.2 Emerging Economies

IMF growth forecast for emerging and developing economies is 6.6% growth for 2011 and 6.4% for 2012, up by 0.1% for 2011, and down by 0.1% for 2012. Since the end of the global recession in the 4th quarter of 2009, emerging and developing countries have shown strong economic growth. Among emerging markets China and India have been the major drivers of economic growth with GDP growth rates of close to 10%. Developing economies, particularly in sub-Saharan Africa, have also resumed fast and sustainable growth. Notably, high economic growth rates have been observed in oil producing countries such as Angola and Nigeria during the post-recession era. Robust economic growth in most emerging and developing countries continue to be a force behind buoyant global economic growth in the 2nd quarter. Among emerging and developing economies, those in Asia are in the lead, followed by those in sub-Saharan Africa, whereas those in Eastern Europe are only just beginning to enjoy significant growth.

China

Economic growth in China remained very strong during the 2nd quarter. China's GDP expanded by 9.5% compared to 9.8% recorded in the previous quarter (**Figure 4**). Overall, China's economy has cooled significantly since the 1st quarter of 2010 when a double digit growth rate of 11.9% was recorded. The major drivers of economic growth in China are generally high consumer spending which accounts for 35% of GDP and exports. Maintaining high rates of economic growth in China has proven to be unsustainable given the challenges of overheating that characterised the Chinese economy since 2010. The government has hiked interest rates five times since October 2010, in an attempt to tame rapidly rising prices. Nevertheless, inflation recently soared to its fastest rate in three years (6.4% in June up from 5.5% in May 2011), mostly due to rising food prices. High Inflation coupled with bursting residential property prices provided signs of an overheating Chinese economy. Overheating is generally characterised by an above-trend rate of economic growth, where growth is occurring at an unsustainable rate. In China, high levels of aggregate demand, resulting in inflation tend to be the cause of overheating. Forecasts by IMF show China's economy growing at 9.6% and 9.5% in 2011

and 2012 respectively (**Table 1**).

India

India's economy expanded 7.7% in the 2nd quarter following a growth rate of 7.8% in the previous quarter. The 2nd quarter GDP growth rate is India's weakest growth for six quarters, but still better than had been expected. The slowdown is expected to continue as India's central bank continues to raise interest rates to control inflation. The IMF expects India's growth rate to average 8.2% in 2011 and 7.8% in 2012 (**Table 1**).

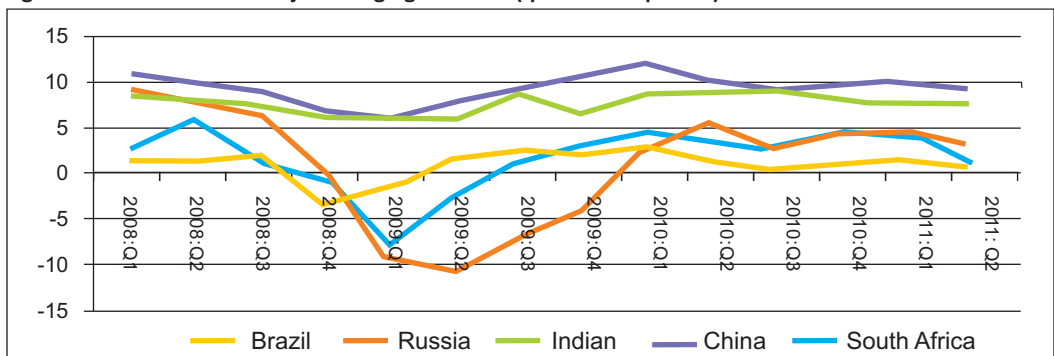
Brazil

Economic growth in Brazil accelerated at 0.8% in the 2nd quarter compared to 1.3% recorded in the 1st quarter (**Figure 4**). The softer pace in Brazil's economic growth is attributed particularly to a strong currency that fuelled a flood of cheap imports to the detriment of the industrial activity. IMF expects economic growth in Brazil to average 4.1% (revised from 4.5% in April) in 2011 and 3.6% (revised from 4.1% in April) in 2012 (**Table 1**).

Russia

Russia's economy continued to stagnate in the 2nd quarter as economic growth decelerated to 3.4% after 4.1% in the 1st quarter (**Figure 4**). Russia is struggling to return to pre-crisis growth rates as a slowing global recovery curbs demand for its commodity exports. Russia is targeting annual growth of 8% within five years to keep pace with BRIC peers Brazil, India and China. The expected growth forecasts for 2011 and 2012 are 4.2% and 4.5% respectively (**Table 1**).

Figure 4: Growth trends in major emerging countries (quarter-on-quarter)



Source: Trading Economics (August 2011)

Sub-Saharan Africa

Economic growth in sub-Saharan Africa is projected to stay high, reflecting sustained strength in domestic demand and rising global demand for commodities. There is, however, some variation among country groupings. In most of the region's 29 low-income countries and 7 oil exporters, the recovery to pre-crisis growth rates is near complete. The picture is less favourable in the region's middle-income countries, a grouping dominated by South Africa. Here, growth is recovering more gradually. IMF projects a growth rate of 5.5% in 2011 and 5.9% in 2012 for Sub-Saharan countries in general while predicting a growth rate of 3.4% in 2011 and 3.8% in 2012 for South Africa (**Table 1**).

Table 1: World economic growth (%) outlook projections (June vis-à-vis April 2011)

Region	Projections				Projections	
			April		June	
	2009	2010	2011	2012	2011	2012
World Output	-0.5	5.0	4.4	4.5	4.3	4.5
Advanced Economies	-3.4	3.0	2.4	2.6	2.2	2.6

United States	-2.6	2.8	2.8	2.9	2.5	2.7
Euro Area	-4.1	1.7	1.6	1.8	2.0	1.7
Germany	-4.7	3.5	2.5	2.1	3.2	2.0
France	-2.5	1.5	1.6	1.8	2.1	1.9
Italy	-5.2	1.3	1.1	1.3	1.0	1.3
Spain	-3.7	-0.1	0.8	1.6	0.8	1.6
Japan	-6.3	3.9	1.4	2.1	-0.7	2.9
United Kingdom	-4.9	1.3	1.7	2.3	1.5	2.3
Canada	-2.5	3.1	2.8	2.6	2.9	2.6
Other Advanced Economies	-1.2	5.7	3.9	3.8	4.0	3.8
Newly Industrialised Asian Economies	-0.8	8.4	4.9	4.5	5.1	4.5
Emerging and developing countries	2.7	7.3	6.5	6.5	6.6	6.4
Central and Eastern Europe	-3.6	4.2	3.7	4.0	5.3	3.2
Common Wealth of Independent States	-6.4	4.6	5.0	4.7	5.1	4.7
Russia	-7.8	4.0	4.8	4.5	4.8	4.5
Excluding Russia	-3.1	6.0	5.5	5.1	5.6	5.1
Developing Asia	7.2	9.5	8.4	8.4	8.4	8.4
China	9.2	10.3	9.6	9.5	9.6	9.5
India	5.7	10.3	8.2	7.8	8.2	7.8
ASEAN ⁴	1.7	6.9	5.4	5.7	5.4	5.7
Middle East and North Africa	1.8	3.8	4.1	4.2	4.2	4.4
Sub - Saharan Africa	2.8	5.0	5.5	5.9	5.5	5.9
South Africa	-1.7	2.8	3.4	3.8	3.4	3.8
Latin America and the Caribbean	-1.7	6.1	4.7	4.2	4.6	4.1
Brazil	-0.6	7.5	4.5	4.1	4.1	3.6
Mexico	-6.1	5.5	4.6	4.0	4.7	4.0
World Trade Volume (goods and services)	-10.9	12.4	7.4	6.9	8.2	6.7
Import						
Advanced Economies	-12.6	11.2	5.8	5.5	6.0	5.1
Emerging and Developing Countries	-8.3	13.5	10.2	9.4	12.1	9.0
Exports						
Advanced Economies	-12.2	12.0	6.8	5.9	11.2	8.3
Emerging and developing countries	-7.5	14.5	8.8	8.7	6.8	6.1

Source: IMF-World Economic Outlook, June 2011

2.4 Commodities

In commodity markets, risks are smaller than IMF projection in the 1st quarter, yet still point down for growth. Civil unrest in the Middle East may raise oil prices, which have remained relatively high, compared to a year earlier. Although pressures in food markets have eased somewhat, low inventories and weather related supply disruptions present significant near-term upside risk for prices. At the height of the US debt ceiling discussions

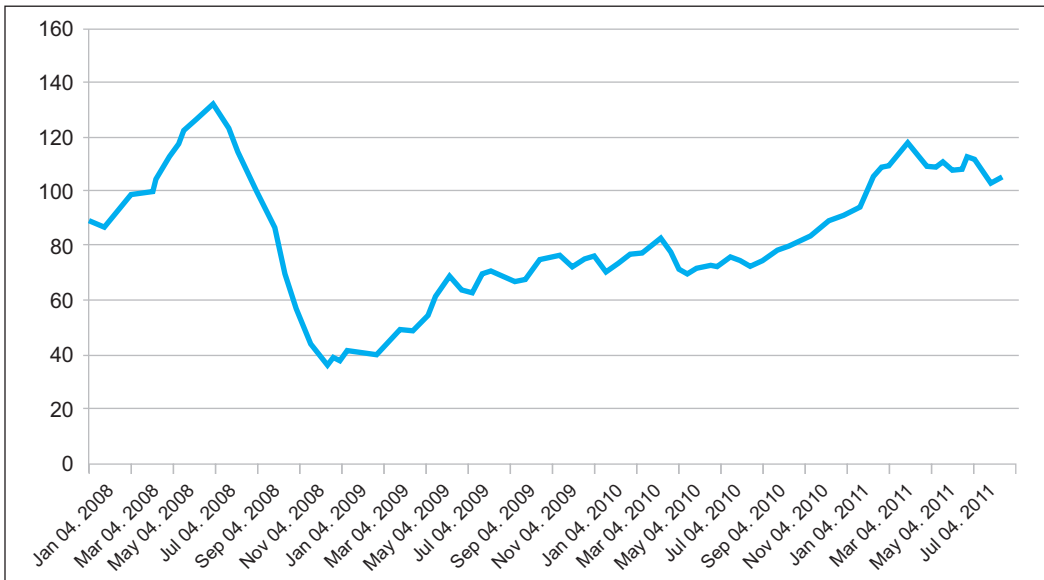
⁴ Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

commodity prices soared, particularly gold and platinum. Rising commodity prices especially metals and agriculture products bode well for developing countries where income from the export of commodities is a major driver of economic growth. Conversely, the rise of commodities such as oil and food prices in non-oil producing countries is a threat to global economic recovery.

2.4.1 Brent crude oil

Oil prices continued to surge during 2nd quarter of 2011 with a peak being reached in April. High prices in excess of US\$115.00 per barrel were observed in international markets (**Figure 5**). Since May 2011, oil prices eased on the back of increased production in other oil producing countries which covered lost production in Libya. As a result, the oil prices have fallen to about US\$105.00 per barrel in August 2011 (**Figure 5**).

Figure 5: Weekly moving averages crude oil prices (US\$) - (January 2008- August 2011)



Source: US Energy Information Administration (August 2011)

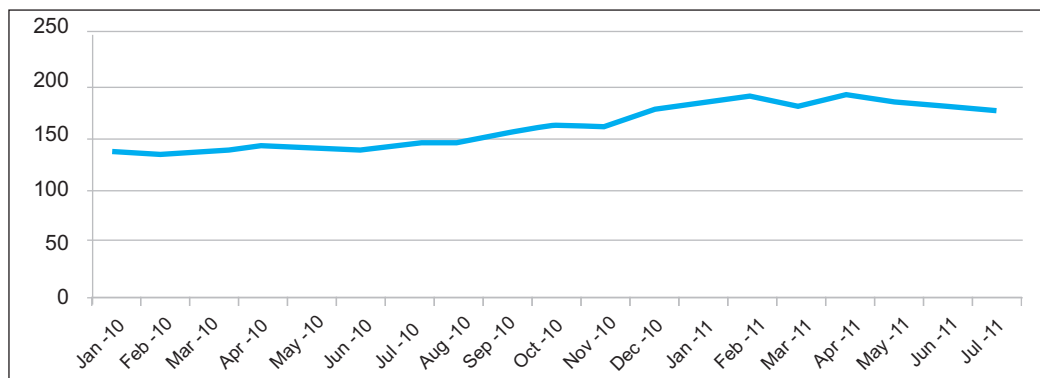
Implications to South African Economy

Continued rise in oil prices bodes ill for the South African economy. As a result of the recent surge in international oil prices, South African consumers have generally borne an excess burden in terms of high prices of fuel products in the domestic market. In recent times, we have also seen costs of food rising to unprecedented levels mainly due to increased transport costs brought about by rising oil prices. As a result consumer inflation has continued its rising trend during the period under review. Rising fuel and food prices coupled with global market fiscal imbalances and sovereign debt pose considerable risks to the recovery of the South African economy, which is a necessary condition for the creation of the much needed jobs.

2.4.2 Food

Although pressures in food markets have eased somewhat, low inventories and weather related supply disruptions present significant near-term upside risk for prices. Droughts in countries such as Somalia have caused untold human suffering. According to IMF, there has been a surge in global food prices since June 2010 (**Figure 6**).

Figure 6: IMF Food Index (January 2010-July 2011)

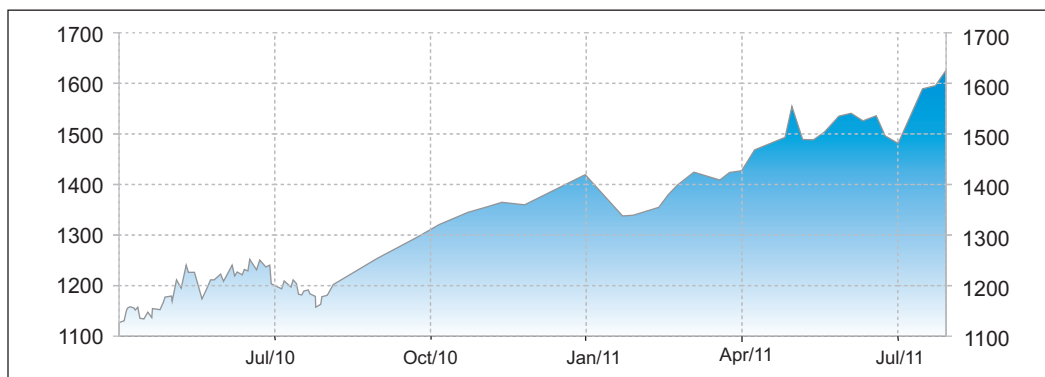


Source: IMF, August 2011

2.4.3 Gold

The surge in gold prices in futures markets continued during the 2nd quarter with all-time highs being reached in July/August 2011. The price of an ounce of gold rose from about US\$1200 in June 2010 to more than US\$1600 at the end of July 2011 (Figure 7). This comes at a time when global appetite for metals as safe investment havens increased following the US debt debacle and the Euro area debt crisis. Between the 1st and 2nd quarters of 2011, gold prices rose from an average of US\$1372.02 in February 2011 to the current levels above US\$1800. South Africa is one of the world's major producers of gold. The increase in gold prices is therefore critical to increased economic growth prospects in the 2nd quarter. Surprisingly, South Africa's mining sector shrank during the 2nd quarter, with a growth rate of -4.2% being recorded during this period. The recent surge in prices of gold and platinum did not however boost mining sector economic activity. These gains are likely to be more pronounced during the 3rd quarter.

Figure 7: Global Futures markets-Price of gold (US\$) - (March 2009 – February 2011)



Source: Trading Economics, August 2011



3.1 Economic performance in South Africa

3.1.1 Quarter-on-quarter Gross Domestic Product (GDP) growth rates

Gross Domestic Product decreased dramatically in the 2nd quarter of 2011, dropping from a real and seasonally adjusted growth rate of 4.5% in the previous quarter to 1.3% in the current quarter (**Figure 8**). This is the lowest growth rate achieved since the 4th quarter of 2009. While GDP grew annually by 3%, the sharpness of the decline between the 1st and 2nd quarters of 2011, would suggest that South Africa continues to struggle to shrug off the legacy of the 2009 recession, particularly in the context of fears that the world economy will experience a double dip global recession. The European debt crises as well as uncertainty in US lending markets, has had a negative impact on South Africa's GDP growth in the 2nd quarter. This negative impact is a result of lower international demand for exports (excluding commodities) declining competitiveness as well as declining levels of foreign investment in South Africa. On the domestic front, expectations of a possible double dip global recession, may result in businesses behaving more conservatively, the proverbial tightening of the belt, and holding off on planned investments until such time as these fears are allayed. Rising inflation at the same time as decreasing economic growth may also be sending negative signals to prospective investors.

South Africa's average GDP growth rate for the first two quarters of 2011, is below the IMF's 2011 forecast for South Africa of 3.4%, and would suggest that the economy has performed unexpectedly poorly in the 2nd quarter of 2011 (**Figure 8**). China, a member of the BRICS group, experienced an economic growth rate of 9.5% in the 2nd quarter just 0.1% below the IMF's forecast for China for 2011. Low GDP growth, also significantly constrains the country's prospects of creating 5 million new jobs by 2020 as the New Growth Path specifies that a growth rate of 4-7% is required to meet this target.

Figure 8 : Annualised and seasonally adjusted quarterly growth in GDP in South Africa (%)



Source: Stats SA, August 2011

3.1.2 2nd Quarter sectoral drivers of GDP growth

The relatively poor GDP growth rate in the 2nd quarter is largely underpinned by strong negative growth (-7%) in the Manufacturing sector, a sector which typically contributes 15.3% to the South African economy. This is partly as a result of the failure of the manufacturing sector to sustain the high rate of production achieved in the 1st quarter. In particular, production of motor vehicles, parts and accessories as well as processed food fell in the 2nd quarter and contributed significantly to decreased growth in the sector. This may reflect increasing uncertainty in the world economy, resulting in lower levels of investment in the private sector, as well as depressed demand for manufactured products. The primary sector, comprising of Agriculture and Mining, similarly experienced a decrease in GDP growth in the 2nd quarter, although this forms part of a negative trend

which started at the beginning of the year. Reasons for the decline in these sectors must largely be sought from supply side factors (such as droughts), because the demand for these primary goods, as reflected in increasing prices of food and commodities, is rising. The strongest performing sector was Government which is indicative of the commitment of the South African government to generate increased employment opportunities within South Africa through targeted spending. It is, however, also indicative of the weak performance of the private sector, and the dependence of the South African economy on the public sector. Wholesale and Retail trade as well as Transport and Communication grew at 4.1%. Of interest is the fact that the construction industry recorded positive growth in the 2nd quarter after no growth in the previous quarter.

Table 2: Annualised Quarter-on-quarter change in GDP (seasonally adjusted) per sector at constant 2005 prices for South Africa (%)

Industry	2009			2010				2011	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Agriculture, forestry and fishing	-18.7	-13.7	-11	4.9	13.6	16.3	12.5	-3.7	-7.8
Mining and quarrying	16.9	-3.7	7.7	18.7	-24.5	33.7	17.1	-4	-4.2
Manufacturing	-10.7	8.2	10.8	8.3	5.7	-4.9	4.1	14.5	-7
Electricity, gas and water	1.7	3.6	2.7	4.9	-1.7	-2.2	5.6	3.3	0.9
Construction	5.5	2.9	1.2	1.3	1	0.8	0.2	0	0.5
Wholesale and retail trade, hotels, and restaurants	-4.6	-0.3	-0.1	3.1	6	3.3	3.5	4.4	4.1
Transport, storage and Communication	-0.4	2.4	3	2.4	4.5	3	4.2	3.6	4.1
Finance, real estate and business services	-3.4	-0.6	1.8	3.2	4	1.4	1.7	4.8	2.9
General government services	4.1	2	5.2	1.2	4.6	0.5	5.7	1.8	5.7
Personal services	-1.5	-4.2	-4.4	3.5	3.6	3.1	3.3	2.7	2.8
Total value added	-2.3	1	3.2	4.6	2.7	2.6	4.5	4.6	1
Taxes less subsidies	-7.6	0.2	1.9	6.5	4	3.9	4.5	3.4	3.6
GDP at market prices	-2.8	0.9	3.1	4.8	2.8	2.7	4.5	4.5	1.3

Source: Stats SA, August 2011

South African economic expansion is being undermined by slower growth in Europe, which buys about a third of South African manufactured exports, as well as fears of a possible second world recession. The recession in Japan following the earthquake and Tsunami is likely to have also affected South African's automotive sector. Other factors that continue to constrain economic growth include inter-alia:

- High dependence on imported goods especially finished goods, apparels, luxuries
- High dependence on commodity exports
- Failure to attract new investments (expansionary and start-up capital)
- High rate of company liquidations
- External competition
- External Shocks (Oil prices, recession, Japanese Crisis, EU debt crisis), and.
- Low buying power, and savings rate due to unemployment-related poverty
- Structural rigidities (shortage of raw materials e.g. cotton, infrastructural bottlenecks, primary commodity dependence, skills shortages).
- High cost of labour

Addressing the challenges remains a priority to place the economy on a sustainable growth trajectory. In this

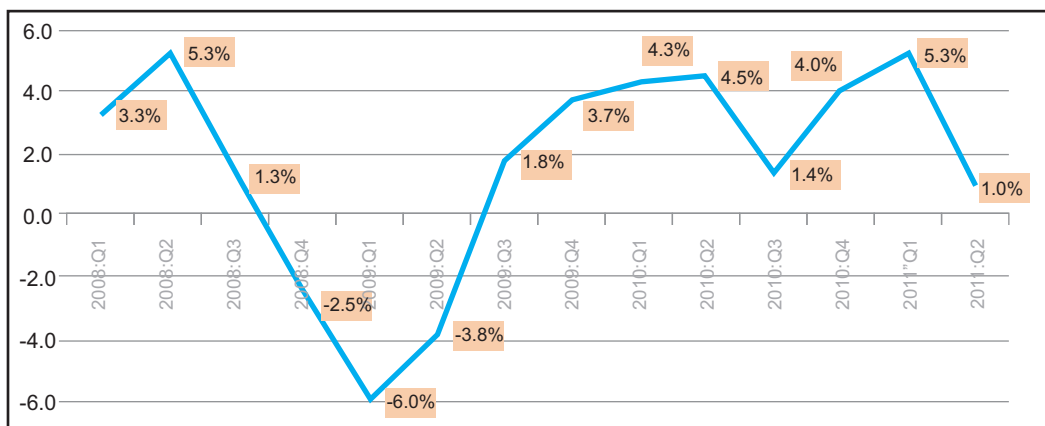
regard, the government needs to move with speed to implement programmes identified in the New Growth Path (NGP) and other policy frameworks.

3.2 Regional growth developments: 2nd quarter 2011

3.2.1 Quarter-on-quarter GDP growth rates

The general sluggish rate of economic growth that characterised the South African economy during the 2nd quarter was also felt at a provincial level. Against this background, KwaZulu-Natal posted an estimated meagre growth rate of 1% in the 2nd quarter following a growth rate of 5.3% in the 1st quarter (**Figure 9**). The decline in the pace of economic growth in KwaZulu-Natal and South Africa in general is linked to the trend observed in many developing and industrialised economies where lethargic growth trends were observed during the period under review. It is evident from Figure 10 below that economic growth in KwaZulu-Natal remained very volatile post the recession period. This largely explains why employment creation remained below government expectations (**see Chapter 4 below**). Gloomy economic climate is expected to linger against a background of poor showing in developed countries and the sovereign debt quagmire bedevilling the Euro area. The high degree of openness of both the provincial and national economies to the global economy implies high susceptibility to the global economic woes. Decisive action and commitment in the implementation of government programmes such as infrastructure development, job creation fund and other interventions are critical to avert the volatile economic growth trajectory.

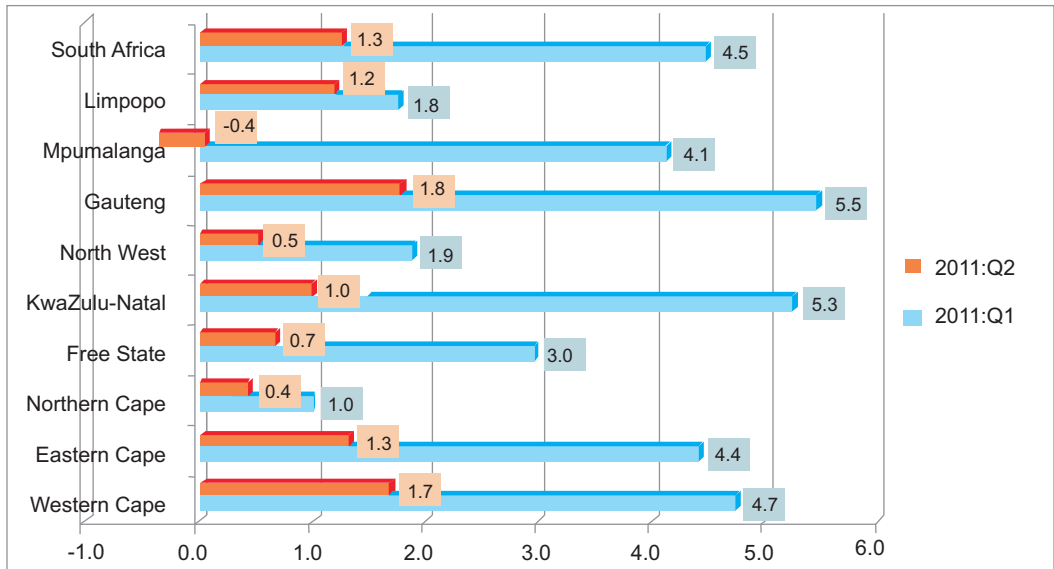
Figure 9: KZN annualised quarterly real GDP (seasonally adjusted) growth rate (1st Quarter 2008 - 1st Quarter 2011)



Source: DEDT formulation based on Quantec database

Figure 10 juxtaposes provincial 2nd quarter growth rates vis-à-vis the 1st quarter. All the regional economies recorded low economic growth rates with Gauteng (1.8%) and the Western Cape (1.7%) recording the highest. Mpumalanga was the only province that registered a negative growth rate during the period under review. The negative growth rate in Mpumalanga province is attributable to steeper declines in manufacturing (-7.9%), agriculture (-6.0%) and mining (-3.0%), which are the mainstay of the regional economy. The decline in the manufacturing sector, the backbone of the South African economy is worrying. This decline was further exacerbated by negative growths in mining and agriculture which traditionally have high linkages with the manufacturing sector. It is evident from this trend that policies and strategies that encourage manufacturing growth augur well for rapid economic expansion and employment generation in South Africa. The spatial implementation of the IPAP2 and the New Growth Path (NGP) becomes paramount in this regard.

Figure 10: 2nd Quarter 2011 national and regional GDP (seasonally adjusted) quarter-on-quarter growth rates (%)



Source: Authors formulation based on Quantec database

3.2.2 KwaZulu-Natal Quarter-on-quarter sectoral growth trends

On a sectoral basis, KwaZulu-Natal's 2nd quarter economic growth was undermined predominantly by contraction in three sectors, namely agriculture, forestry and fisheries (-6.5%), mining and quarrying (-2.9%) and manufacturing (-7.1%) - (Table 3). Factors that continue to weigh down activity in the agriculture remain uncertainty of land tenure, rezoning of agricultural land, commodity prices volatility and lack of competitiveness. Factors that explain the poor showing in the manufacturing sector include subdued global consumer demand, declining competitiveness, infrastructural bottlenecks and labour rigidities. The decline in the mining sector in South Africa in general, is against expectations as high commodity prices especially of metals (mainly gold and platinum) were expected to anchor activity in the sector. KwaZulu-Natal is not an exporter of gold and platinum and hence the buoyant prices of gold and platinum were not expected to cushion economic activity in the sector. Coal is, however, KwaZulu-Natal's major mining product. Coal production in KwaZulu-Natal is encumbered by mainly logistical challenges and the closure of many mines over the years. Growth prospects in the manufacturing sector depend primarily on improvement in global consumer confidence and the implementation of government programmes that are aimed at revitalising ailing subsectors

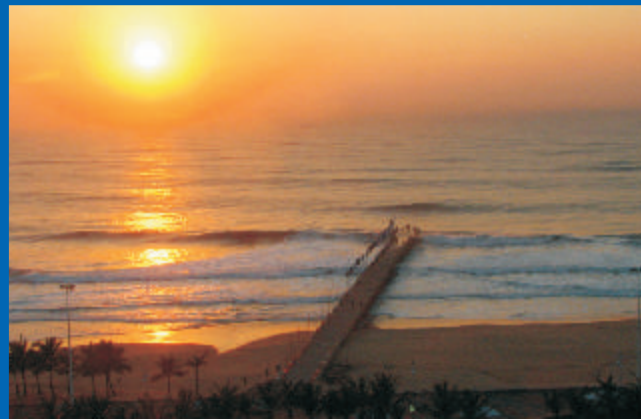


and increase job creation. Other downside risks to manufacturing growth outlook remain exchange rate volatility, rising energy prices (oil and electricity) and labour costs.

Table 3: KZN quarter-on-quarter real GDP (seasonally adjusted) growth rate per sector

Industry/Sector	2009				2010				2011	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Agriculture, forestry and fishing	-8.3	-18.7	-13.5	-10.5	4.1	11.2	13.4	10.2	-3.0	-6.5
Mining and quarrying	-17.1	28.2	7.6	22.5	12.6	-17.6	22.1	11.5	-2.8	-2.9
Manufacturing	-24.5	-11.0	7.7	10.2	8.5	5.9	-5.0	4.2	14.8	-7.1
Electricity and water	-3.4	3.5	6.0	5.6	3.6	-1.2	-1.6	4.1	2.4	0.6
Construction	11.9	1.4	-1.8	-4.2	1.0	0.7	0.6	0.1	0.0	0.4
Wholesale and retail trade; hotels and restaurants	-0.2	-2.9	1.9	2.6	3.5	6.8	3.8	3.9	5.0	4.7
Transport and communication	-1.1	0.3	3.2	3.8	2.3	4.2	2.7	3.9	3.3	3.8
Finance, real estate and business services	0.5	-2.6	0.4	3.0	3.1	3.9	1.4	1.7	4.7	2.9
Community, social and other personal services	0.2	-1.1	-3.7	-3.7	3.4	3.5	3.1	3.2	2.6	2.8
General government services	3.8	4.4	2.3	5.5	1.2	4.7	0.5	5.8	1.8	5.8
All industries at basic prices	-6.1	-3.4	2.0	3.9	4.1	4.6	1.1	4.0	5.5	0.7
Taxes less subsidies on products	-5.1	-7.3	0.7	2.4	6.2	3.8	3.7	4.3	3.2	3.4
GDPR at market prices	-6.0	-3.8	1.8	3.7	4.3	4.5	1.4	4.0	5.3	1.0

Source: Quantec, September 2011

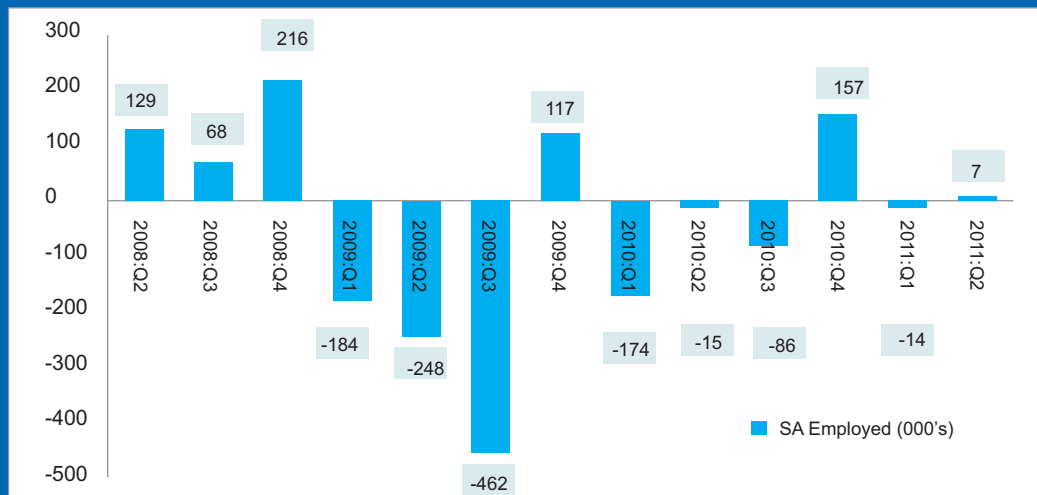


4.1 Labour market indicators—South Africa

4.1.1 Labour Force and Employment Trends in South Africa

Employment in South Africa grew by **7,000 jobs** to 13.12 million jobs in the second quarter of 2011 with a 64,000 year-on-year increase (Figure 11). The increase in employment in the 2nd quarter is underpinned by strong employment growth in the informal sector which increased by 34,000 jobs. In contrast, formal employment (-21,000), agriculture (-5,000) and private households (-1,000) all experienced employment declines. The 7,000 jobs created in the 2nd quarter come against the backdrop of an increase in the labour force of 181,000 economically active individuals in the same period. This would indicate that employment growth in South Africa has failed to keep pace with increasing labour force participation, as more and more individuals enter the ranks of the economically active and start looking for work. With only 7,000 new jobs being created in the 2nd quarter, but 181,000 additional people entering the labour force, the overwhelming majority of these individuals have become unemployed. It is evident that if South Africa is to create an additional 5 million jobs by 2020, as targeted by the New Growth Plan, specific, sectoral job creation strategies need to be implemented immediately.

Figure 11: Employment trends in South Africa (2nd quarter of 2008 to 2nd quarter of 2011)

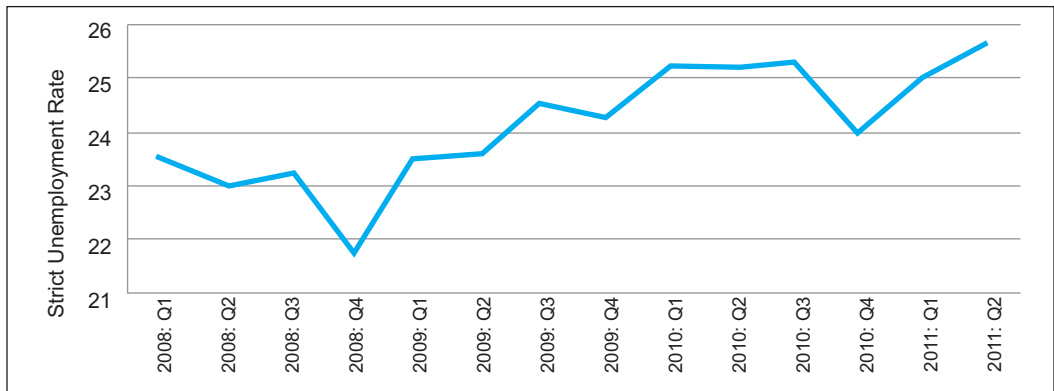


Source: StatsSA, August 2011

4.1.2 Unemployment trends in South Africa

Unemployment increased by 174,000 in the 2nd quarter rising to a total of 4.538 million. This in turn has resulted in an increase in the unemployment rate (Figure 12) to 25.7%, the highest it has been since StatsSA started reporting labour statistics by quarter in 2008, and 0.5% higher than it was at the same time last year. The inability of the economy to generate sufficient employment to absorb the increasing labour force, spurred on by population growth and an increased inclination to work, is the major contributing factor to increasing unemployment in the country.

The expanded rate of unemployment which takes into account discouraged work-seekers, by categorising them as unemployed, reveals a higher unemployment rate of 36.9%, which is probably more reflective of the ability of the economy to absorb all those who are willing and able to work. The expanded rate increased by 0.4% in the 2nd quarter and by 1.1% year on year. The number of discouraged work-seekers decreased in the 2nd quarter by 16,000, but reflected a 269,000 increase on the same period last year, attesting to the negative impact of long-term unemployment on the work-search activities of individuals.

Figure 12: Trends in South African unemployment rate (%) - (2nd quarter of 2008 to 2nd quarter of 2011)

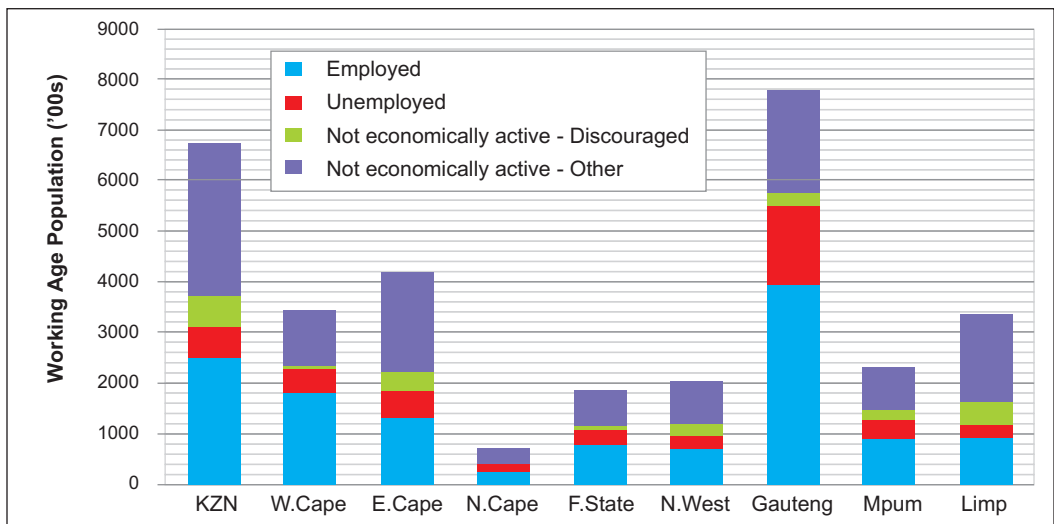
Source: Stats SA, August 2011

4.2 KwaZulu-Natal Labour Market Indicators

4.2.1 Level of economic activity among the working age population

After Gauteng, KwaZulu-Natal has the largest working age population in the province, at 6.748 million individuals. KwaZulu-Natal also has the second largest number of employed people in the country, at 2.5 million. This said, however, the number of employed people relative to the size of the working age population in the province, is low with a labour absorption rate of only 37%, as compared to 50.9% for Gauteng and 52.6% for the Western Cape. This is not so much as a result of a disproportional number of strictly unemployed people, in-fact, the province has the lowest strict unemployment rate (20.3%), but rather because of the large number of economically inactive people. **53.5% of KwaZulu-Natal's working age population are categorised as economically inactive.** This need not be a concern, if the reason for economic activity is that these people do not wish to work. If, on the other hand people in this category wish to work but have stopped searching for work, then this should be seen as a reflective of the impact of persistent long-term unemployment in the provincial economy. **In this respect KwaZulu-Natal is observed to have the highest number of discouraged work-seekers in the country, amounting to 604,000.**

Figure 13: Composition of working age population



Source: DEDT formulation based on status A, August 2011

4.2.2 Unemployment in KwaZulu-Natal

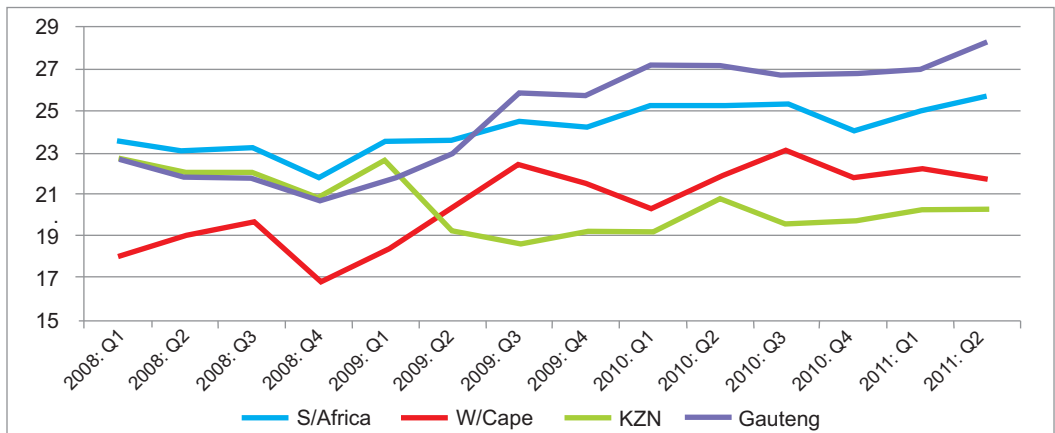
Table 4: Unemployment Rates (Official and Expanded)

Province	Official/Strict			Expanded		
	Q2:2010	Q1:2011	Q2:2011	Q2:2010	Q1:2011	Q2:2011
Western Cape	21.8	22.2	21.8	24.7	23.8	23.6
Eastern Cape	27.9	26.9	28.9	42.6	41	42.6
Northern Cape	29.9	31.3	28.8	39.1	40.7	37.3
Free State	27.8	27.9	28.2	36.2	36.2	37
KwaZulu-Natal	20.9	20.3	20.3	38.4	39	39.1
North West	27.9	25.0	27.3	41.3	42.4	46.3
Gauteng	26.9	26.9	28.2	31	31.8	31.9
Mpumalanga	27.7	30.8	30.4	41.7	45.2	43.8
Limpopo	22.4	19.3	21.1	41.9	44.7	46.0
South Africa	25.2	25.0	25.7	35.8	36.5	36.9

Source: StatsSA, August 2011

The number of unemployed people in KwaZulu-Natal has risen in the 2nd quarter by 18,000, although a year on year decrease of 7,000 was observed. Following the national trend but to a lesser extent, growth in employment in KwaZulu-Natal has not been able to keep up with growth in the labour force. The strict unemployment rate, however, has remained unchanged in the 2nd quarter, at 20.3%, but reflects a decrease of 0.6% on the same period last year. KwaZulu-Natal continues to have the lowest strict unemployment rate in the country, significantly lower than the Western Cape and Gauteng as indicated in Figure 14. While unemployment rose by 1.3% in Gauteng in the 2nd quarter, it decreased by 0.4% in the Western Cape. Mpumalanga was the only other province to reflect a 2nd quarter decrease in its unemployment rate.

Figure 14: Trends in comparative unemployment rates (2nd quarter 2008 to 2nd quarter 2011)

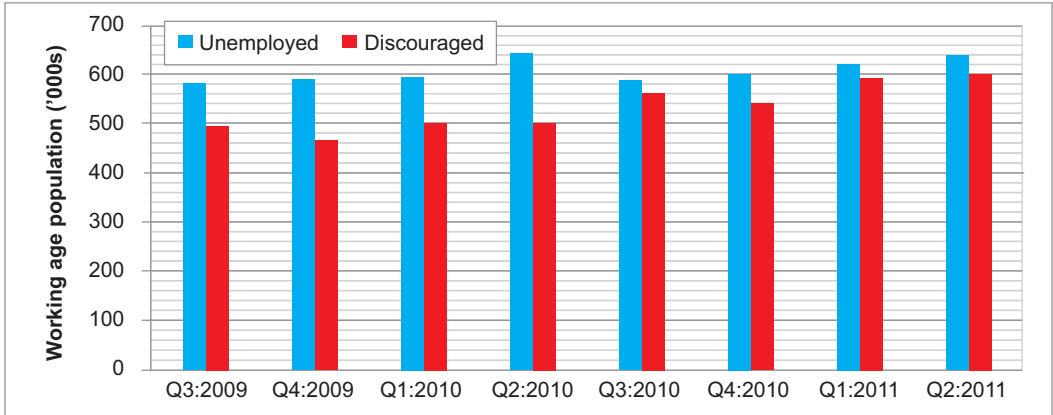


Source: StatsSA, August 2011

While KwaZulu-Natal's strict unemployment rate has remained unchanged in the 2nd quarter, its broad unemployment rate has increased by 0.1%. The increase in the broad unemployment rate comes on the back of an increase of 16,000 people in the discouraged work-seeker category. Figure 14 depicts the increase in the strictly unemployed and the discouraged work-seekers over an 8-quarter period. It is evident from the figure that both strict unemployment and discouraged work-seeking have been on an upward trend for the last four

quarters. The upward trend in discouraged work-seekers is more prominent, however, having risen by 100,000 since the 2nd quarter of 2010. It is concerning that the number of discouraged work-seekers is becoming roughly equivalent to the number of strictly (searching) unemployed in the province. It would appear that previously searching unemployed individuals are becoming discouraged at their prospects of finding work and subsequently moving to the discouraged category by ceasing regular job search.

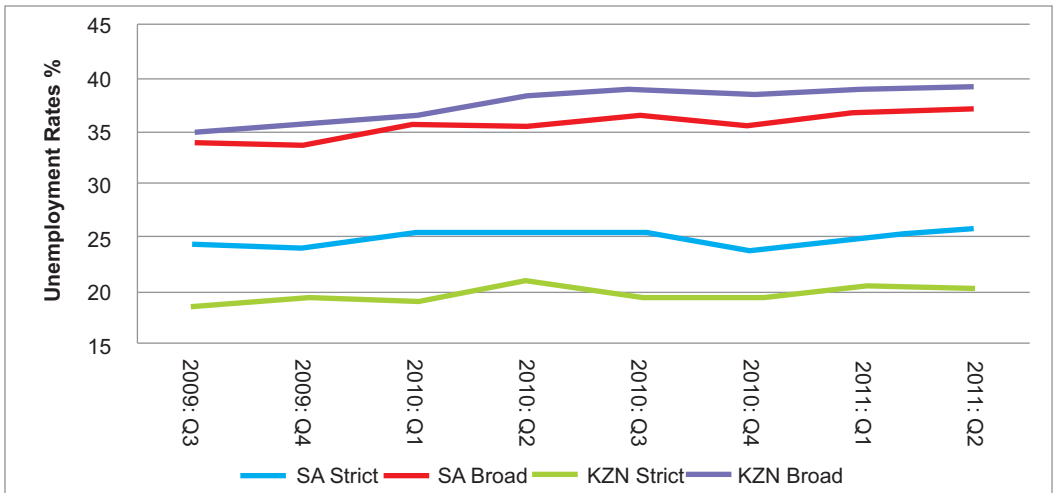
Figure 15: Unemployed and discouraged in KZN (3rd quarter 2009 to 2nd quarter 2011)



Source: StatsSA, August 2011

Figure 16 compares KwaZulu-Natal's strict and expanded unemployment rates to those at national level. According to the strict definition of unemployment, the province has an unemployment rate which is significantly lower than the national average and one which has remained relatively constant over the period. The expanded rate of unemployment presents a different picture, with KwaZulu-Natal's expanded unemployment rate being higher than the national average and being on a distinctive upward trend. KwaZulu-Natal's expanded unemployment rate is 7.2% higher than Gauteng's rate, and 15.5% higher than the Western Cape's rate.

Figure 16: Comparison of strict and broad unemployment rates for SA and KZN



Source: DEDT calculations based on StatsSA, August 2011

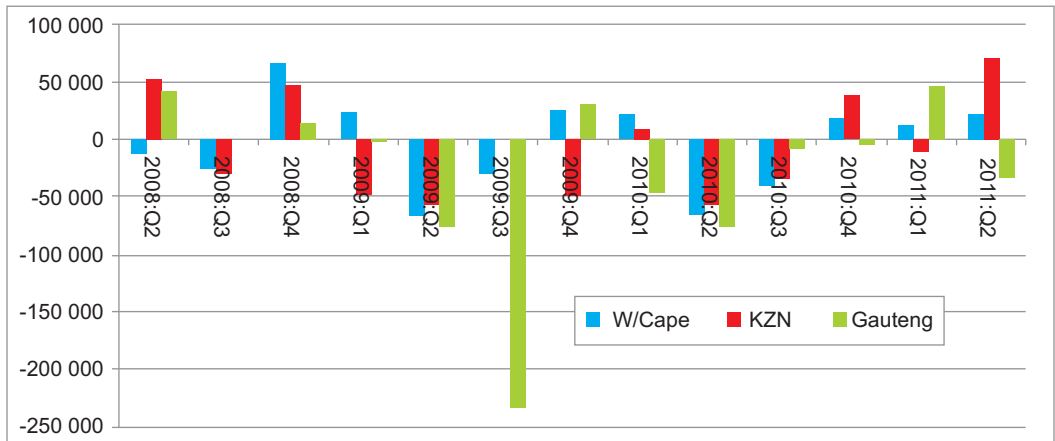
It is evident that discouragement among KwaZulu-Natal's working-age population is a growing concern for the province and is underpinning a high expanded unemployment rate. Job creation strategies, as imbedded in

the New Growth Path, must also look to re-absorb individuals who have ceased searching for work back into the economy, and not merely concentrate on those who regularly and actively search for work. Significant constraints to job search, many of which, like spatial isolation of communities, are products of skewed development in the past, exist and need to be addressed by job creation strategies at a provincial level.

4.2.3 Provincial employment

KwaZulu-Natal has performed strongly in the area of creating employment, having created 71,000 new jobs in the 2nd quarter. In contrast, Gauteng experienced a decline of 34,000 jobs, while the Western Cape created a relatively modest 21,000 jobs (Figure 17). Quarterly employment growth in Kwazulu-Natal is actually the highest it has been for at least three years.

Figure17: Comparative Employment (2nd quarter 2008 to 1st quarter 2011)



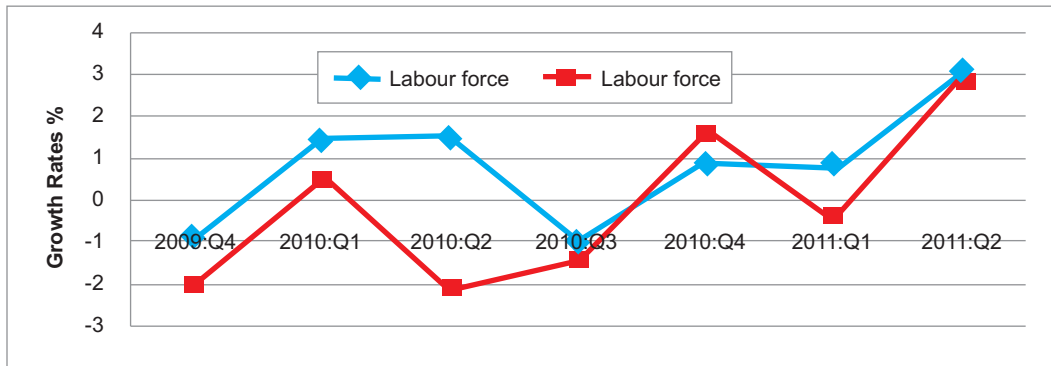
Source: StatsSA, August 2011

4.2.4 Labour Force and Employment

The persistence of a high rate of unemployment despite a large increase in the number of employed individuals in the provincial economy can be explained by Figure 18. Over a 7 quarter period the growth rate of employment has been consistently below the growth rate of the broad labour force, resulting in increasing unemployment over the period. In the 4th quarter of 2010, employment growth was higher than broad labour force growth and as a result the unemployment rate dropped in that quarter. In the 2nd quarter of 2011, the labour force growth rate is only slightly higher than the employment growth rate and thus the unemployment rate increased very slightly. If employment creation is to significantly reduce the incidence of unemployment in the provincial economy, then the growth rate of employment must consistently be above the growth rate of the broad labour force. Simply accommodating increased labour participation will only serve to preserve the status quo of high unemployment rates.



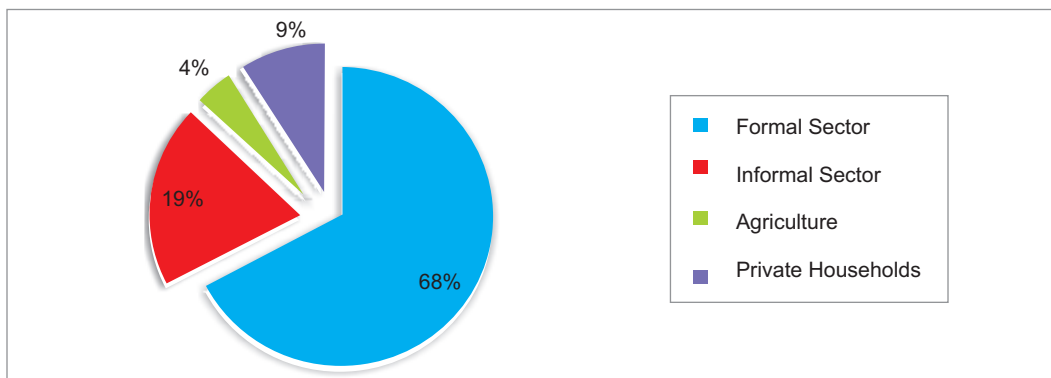
Figure 18: Comparison of the broad labour force and employment growth rates



Source: DEDT calculations based on StatsSA, August 2011 figures

4.2.5 KZN Employment Levels by Sector

Figure 19: Sectoral distribution of employment (absolute level)



Source: StatsSA, August 2011

The majority of the increase in employment within KwaZulu-Natal in the 2nd quarter has taken place within the informal sector (25,000) and private households (38,000). Formal sector employment only grew by 16,000 jobs, while agriculture continued its long-term decline shedding 9,000 jobs. The growth in informal sector employment in the 2nd quarter in KwaZulu-Natal mirrors the national trend and has grown by 66,000 jobs since the same period last year.

Table 5: KZN Quarterly sectoral employment performance

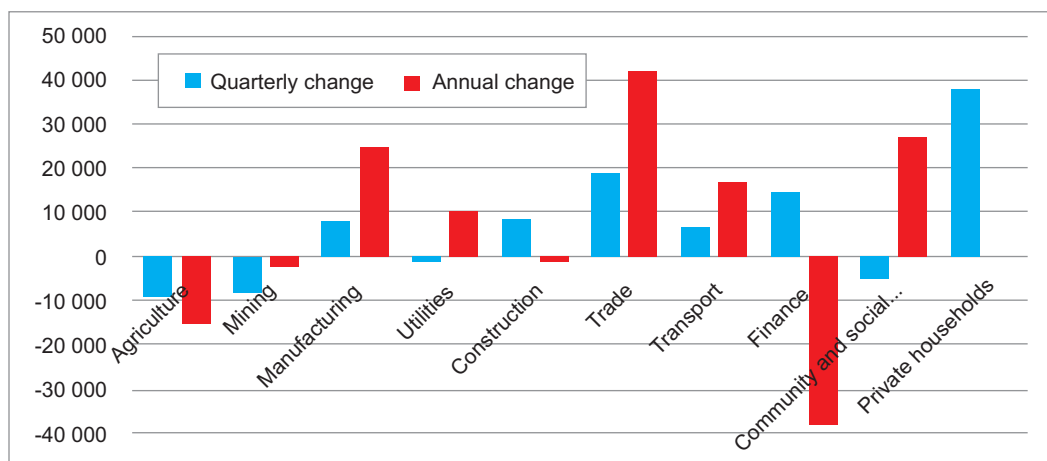
Sector	2010:Q2	2011:Q1	2011:Q2	Quarterly change	Annual change
Agriculture	114,000	108,000	99,000	-9,000	-15,000
Mining	8,000	14,000	6,000	-8,000	-2,000
Manufacturing	372,000	389,000	397,000	8,000	25,000
Utilities	8,000	19,000	18,000	-1,000	10,000
Construction	236,000	226,000	235,000	9,000	-1,000
Trade	513,000	536,000	555,000	19,000	42,000
Transport	164,000	174,000	181,000	7,000	17,000

Finance	312,000	259,000	274,000	15,000	-38,000
Community and social services	482,000	514,000	509,000	-5,000	27,000
Private households	226,000	188,000	226,000	38,000	0
Total	2,435,000	2,427,000	2,500,000	71,000	65,000

Source: StatsSA, August 2011

Table 5 and Figure 20 depict the level of employment and changes therein for each industry/sector in the province. The strongest employment growth sector for the second quarter is private households, as already mentioned above. Other growth sectors include Manufacturing (8,000); Construction (9,000); Trade (19,000); Transport (7,000) and Finance (15,000). While Construction and Finance recorded annual job losses, the other three sectors experienced annual job gains. Particularly heartening is the growth in Manufacturing as it is highlighted in the National Industrial Framework and The New Growth Path as a sector to prioritise for employment growth. Sectors in which jobs were lost in the 2nd quarter include Agriculture (-9,000); Mining (-8,000); Utilities (-1,000) and Community and Social (-5,000). Both Agriculture and Mining experienced annual employment declines as well. This is not just a provincial trend but is also reflected at the national level and is typical of a country moving away from the primary sector as it furthers its development.

Figure 20: Quarterly and annual employment changes per sector



Source: StatsSA, August 2011

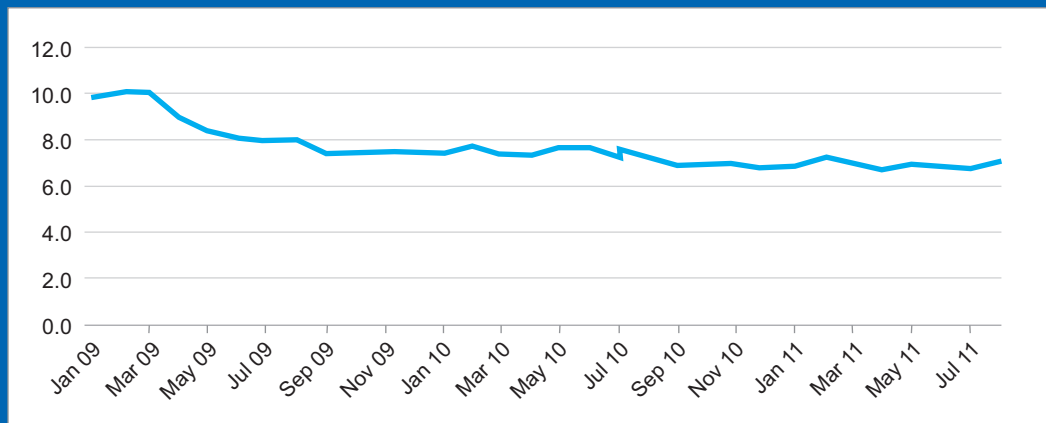
4.3. Labour market outlook

The South African labour market is under strain to create sufficient jobs to meet the needs of a rapidly increasing labour force. For the most part, employment growth is simply insufficient to accommodate increases in the size of the labour force, let alone to begin to erode the current high level of unemployment. KwaZulu-Natal has performed admirably in creating new jobs in the 2nd quarter and is one of the biggest contributors to positive employment growth in the country. Furthermore, the province has held both indicators of unemployment relatively constant in the 2nd quarter. However, in the context of a particularly high expanded unemployment rate, employment growth which outstrips labour force growth is needed to make a meaningful impact. The persistence of unemployment within KwaZulu-Natal has resulted in a rapidly increasing number of discouraged work-seekers, who have been marginalised by the labour force. The New Growth Path and associated policies must urgently address the shortage of employment in the province. Increased employment opportunities, by improving the probability of successful job search, will not just bring down the strict unemployment rate but will also re-encourage the discouraged and bring down the expanded rate as well.

5. Exchange Rate

South Africa's currency has remained relatively stable at around ZAR7.00 throughout the 1st half of the year (Figure 21). When observed over time, the Rand has relatively gained traction bolstered mainly by financial turmoil in the EU (SA's major trade partners in terms of regions), strong international reserves and buoyant commodity prices, mainly gold and platinum. In the recent past, the volatility of the exchange rate has been a major concern among exporters and investors. A generally firm exchange rate is a disincentive for exporters, since the rand value of exports diminishes with a strong exchange rate.

Figure 21: Monthly nominal exchange rate trends in South Africa (Jan 2009 – Jul 2011)



Source: Fxtop, June 2011

South Africa boasts one of the best monetary policy regimes in the world. A sound exchange rate regime is an ingredient of such a monetary policy. This to a large extent has cushioned the economy from the recent global financial turbulence. The country's flexible exchange rate policy remains critical for boosting investor's confidence. Downside risks to the exchange rate are factors such as rising international oil and energy prices which will have a tendency of increasing the import bill. Going forward, authorities need to be wary about high exchange rate volatility which has a tendency of increasing uncertainties among exporters and investors.



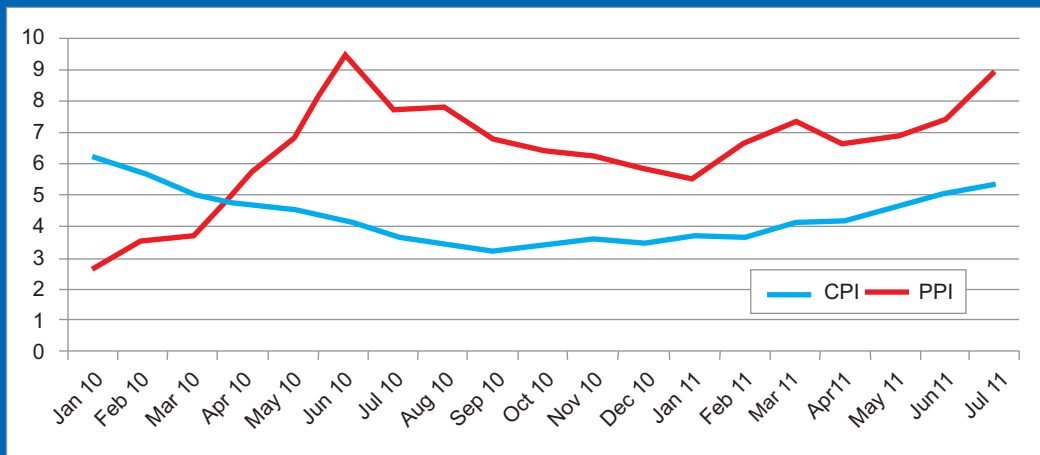
6.1 Inflation trends in South Africa

The Consumer Price Index (CPI) stood at 5.3% for July 2011 compared to 5% in the previous month (**Figure 22**). The 0.3% increase is primarily due to the housing and utilities index increase of 3.1%, caused by electricity and fuel increases. July's inflation rate of 5.3% remains within the target range of 3-6% and close to the United States' rate of 4.4%. This said, however, July's inflation rate is 1.6% higher than the rate of 3.7% recorded in the same period last year. This is alarming as there are no signs of any future decreases in the inflation rate, which is nearing the ceiling of the target range.

From the 400 Items in the CPI basket, housing costs based on rentals account for the largest proportion, however, electricity has the highest inflationary increase rate of 20% in the 2nd quarter. Inflation increased steadily by 0.9% in the 2nd quarter of 2011 compared to the previous quarter. This year's increase is attributed mainly to higher housing costs. Looking forward, higher inflation rates are expected if domestic demand allows retailers to regain price power. However, factors such as a strong rand and disinflation abroad will assist in stabilising inflation.

Producer price Index (PPI) for domestic output has been on an upward trend since the 1st quarter 2010, rising from 5.5% in Jan 2010 to 8.9% in July 2011 (**Figure 22**). Before that, the PPI experienced a steep incline to a record high of 9.4% in June 2010 (**Figure 22**). Since then, a decrease was exhibited until reaching 5.5% in Jan 2011, after which it started to climb again. The PPI in June 2011 was recorded at 7.4%, which is 0.5% higher than May 2011. This increase is primarily due to electricity increases of 27.6%, mining and quarrying increase of 7.1% and food manufacturing at 5.9% (Stats SA, June 2011). In the short run, the PPI is expected to increase due to factors such as electricity and transport cost increases. In July, the PPI increased to 8.9%, primarily due to the 18.4% increase in water and gas rates.

Figure 22: Monthly inflation trends (Jan 2010 – Jul 2011)

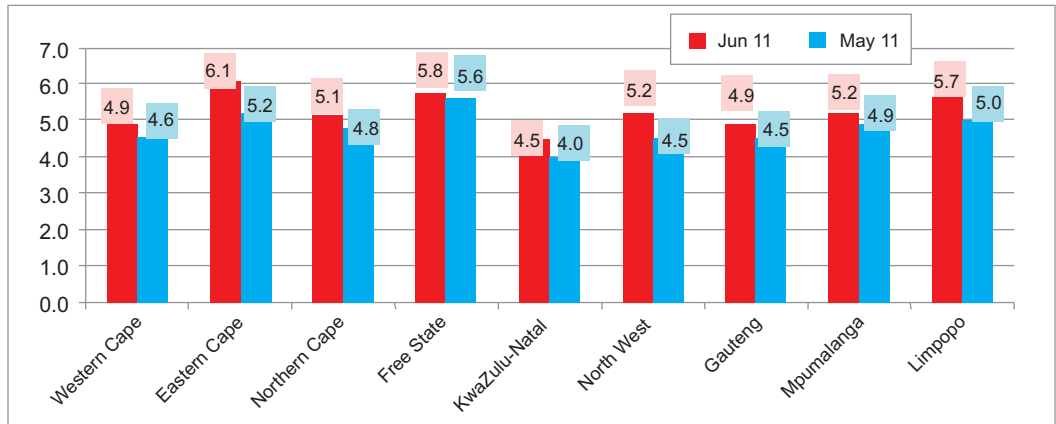


Source: Stats SA, August 2011

6.2 Geographical inflation

Geographical consumer price inflation increased throughout all provinces compared to the previous month and quarter. Eastern Cape recorded the highest monthly increase of 0.9% from 5.2% in May to 6.1% in June 2011 (**Figure 23**). The second highest monthly increase of 0.7% was recorded in both Limpopo and the North West. The Free State had the lowest increase of 0.2%. KwaZulu-Natal recorded an increase in its inflation rate by 0.5% but retains the lowest inflation rate of all the provinces.

Figure 23 :Geographical Headline Inflation (%): (May – June 2011)



Source: Stats SA, June 2011



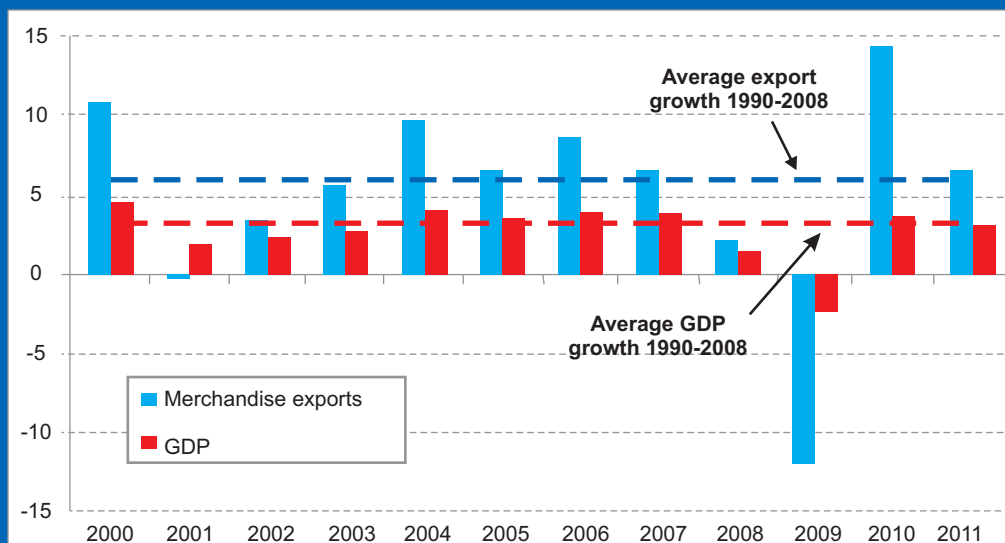
7.1 KwaZulu-Natal trade performance, 2010

7.1 KwaZulu-Natal trade performance, 2010

Following the sharpest decline in more than 70 years (12.7%) (Figure 24), the WTO estimated that the volume of exports in world trade rebounded to a record-breaking 14.5% surge in 2010. This was 5% higher than predicted. Trade growth is forecast to settle to a more modest 6.5% expansion in 2011. However, WTO economists believe the recent series of important events around the world lend a greater degree of uncertainty to any forecast. The 14.5% rise in the volume of exports was the largest annual figure in the present data series which began in 1950 and was buoyed by a 3.6% recovery in global output. Nevertheless, the financial crisis and global recession are said to continue to have an impact.

The short-term outlook is clouded by a number of significant risks factors in addition to the catastrophes in Japan. These include rising prices for food and other primary products, and unrest in major oil exporting countries. Adverse developments in any of these areas could potentially set back the economic recovery and limit the expansion of trade in the coming year. Higher prices of primary commodities and the extraordinary growth of trade in developing Asia helped boost the combined share of developing economies and the Commonwealth of Independent States (CIS) in world exports to 45% in 2010, its highest ever. Developed economies recorded export growth of nearly 13% in 2010, compared to a 16.5% average increase in the rest of the world. China's exports increased in 2010 by a massive 28% in volume terms.

Figure 24: Growth (Annual % change) in volume of world merchandise trade and GDP, 2000-11a,



Source: WTO Secretariat (2011); Figures for 2011 are projections

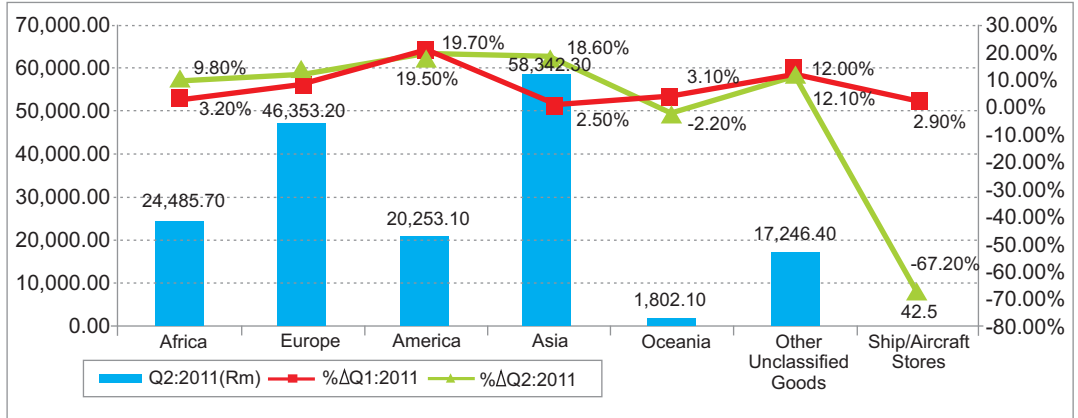
South Africa's trade position- 1st Quarter 2011

Figure 24 above (and Table 6) shows South Africa's preliminary exports for the 2nd quarter of 2011 (Q2:2011), by destination, as published by the South African Revenue Services (SARS). The country exported merchandise worth R168.5 billion during that period. R58.3 billion was destined for Asia, while Europe purchased goods worth R46.4 billion (or 27.5%).

In terms of growth, export expansion was largely higher in the 2nd quarter compared to the same quarter in 2010, ranging from 9.8% (goods into Africa) to 19.7% to the Americas. There was 2.2% decline in exports destined for Oceania, and a 67.2% decrease in goods stored in ships and aircraft stores. The latter figure could be indicative of increased efficiencies at the country's ports of exit, and not a decline in exports, as total

outward trade for the period expanded by 14.7%. In relation to the 1st quarter, outward trade increased by 7.2%, with the largest regional increase recorded for Americas at 19.5%, followed by Asia at 18.6%. Overall, no decline was recorded between the two quarters of 2011.

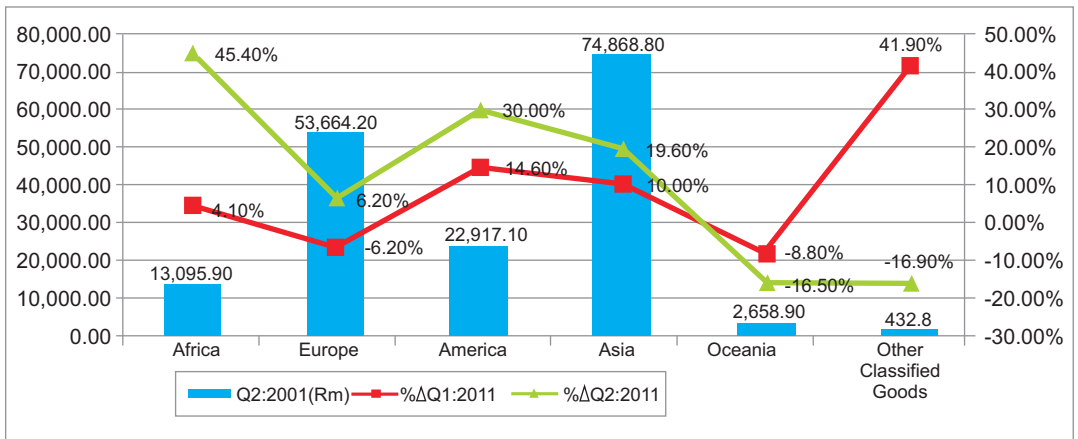
Figure 25: South African exports by region, 2nd quarter 2011



Source: SARS (August 2011), preliminary trade statistics (Jan – Jun 2011)

In terms of imports, South Africa traded R167.6 billion in the 2nd quarter 2011 a 3.8% increase from the 1st quarter and 16.8% increase over the 2nd quarter 2010 (Figure 26 and Table 6). Asia (44.7%) and Europe (32%) remained the country's main trading partners, followed at a distance by the Americas (13.7%) and Africa (7.8%). High rates of import growth were recorded for goods coming from the Americas (14.6%), Asia (10%) and Africa (4.1%), while imports from Europe shrank by 7%. Interestingly though, the increase in imports for the 2nd quarter 2011 compared to the 2nd quarter 2010 was high, ranging from 6.2% for European imports to 45.4% in goods imported from other parts of Africa.

Figure 26: South African imports by region, 2nd quarter 2011



Source: SARS (August 2011), preliminary trade statistics (Jan – Jun 2011)



Table 6: South African international trade by region, 2nd quarter 2011

REGION	EXPORTS			IMPORTS		
	Q2:2011 (Rm)	Change (%) Q1:2011	Change (%) Q2:2010	Q2:2011 (Rm)	Change (%) Q1:2011	Change (%) Q2:2010
AFRICA	24,486	3.2	9.8	13,096	4.1	45.4
EUROPE	46,353	9.2	12.7	53,664	-6.9	6.2
AMERICA	20,253	19.5	19.7	22,917	14.6	30.0
ASIA	58,342	2.5	18.6	74,869	10.0	19.6
OCEANIA	1,802	3.1	-2.2	2,659	-8.8	-16.5
OTHER UNCLASSIFIED GOODS	17,246	12.0	12.1	433	41.9	-16.9
SHIP/AIRCRAFT STORES	43	2.9	-67.2			
GRAND TOTAL	168,525	7.2	14.7	167,638	3.8	16.8

Source: SARS (August 2011), preliminary trade statistics (Jan – Jun 2011)



8.1 World investment performance 2010

8.1.1 Foreign direct investment (FDI) performance in 2010

According to UNCTAD (2011) World Investment Report 2011 (WIR2011), global foreign direct investment (FDI) inflows rose modestly by 5%, to reach \$1.24 trillion in 2010. While global industrial output and world trade are already back to their pre-crisis levels, FDI flows in 2010 remained some 15% below their pre-crisis average, and nearly 37% below their 2007 peak. The report predicts FDI flows will continue their recovery to reach the pre-crisis level (\$1.4–1.6 trillion) in 2011. The flows are expected to rise further to \$1.7 trillion in 2012 and reach \$1.9 trillion in 2013, the peak achieved in 2007. The record cash holdings of transnational companies (TNCs), ongoing corporate and industrial restructuring, rising stock market valuations and gradual exits by States from financial and non-financial firms' shareholdings, built up as supporting measures during the crisis, are reportedly creating new investment opportunities for companies across the globe.

8.1.2 Emerging economies

Developing economies increased further in importance in 2010, both as recipients of FDI and as sources of outward investments. For the first time, developing and transition economies together attracted more than half of global FDI flows (51.6%). Outward FDI from those countries also reached record highs, with most of their investment directed towards other countries in the South. Half of the top-20 host economies for FDI in 2010 were developing or transition economies. TNCs are seen to be increasingly investing in both efficiency- and market-seeking projects in these countries.

8.1.3 Services

FDI in services, which accounted for the bulk of the decline in FDI flows due to the crisis, continued on its downward path in 2010. All the main service industries (business services, finance, transport and communications and utilities) fell, although at different speeds. FDI flows in the financial industry experienced one of the sharpest declines. The share of manufacturing rose to almost half of all FDI projects. Within manufacturing, however, investments fell in business-cycle-sensitive industries such as metal and electronics. The chemical industry (including pharmaceuticals) remained resilient through the crisis, while industries such as food, beverages and tobacco, textiles and garments, and automobiles, recovered in 2010. FDI in extractive industries (which did not suffer during the crisis) declined in 2010.

The value of cross-border merger and acquisition (M&A) deals increased by 36% in 2010 (\$338.8 billion), but was still only around one-third of the previous peak in 2007 (\$1 trillion). The value of cross-border M&As into developing economies doubled. Equity investment flows and intra-company loans fell in 2010, while non-equity modes (NEMs) of production – such as contract manufacturing, services outsourcing, contract farming, franchising, licensing, management contracts and other types of contractual relationship through which TNCs coordinate the activities of host firms without owning a stake in those firms – have increased their importance footprint.

State-owned TNCs also proved to be an important emerging source of FDI. There are at least 650 State-owned TNCs, with 8,500 foreign affiliates across the globe. While they represent less than 1% of TNCs, their outward investment accounted for 11% of global FDI in 2010.

UNCTAD's 2011 Global Investment Trends Monitor shows that FDI inflows into emerging markets rose by 10% in 2010 compared to 2009. FDI inflows into South Africa fell by a material 77.9% over the same period. The fall, which represented less than a quarter of the country's 2009 flows, also contributed to a large fall in the figures for the sub-Saharan region as a whole.

8.1.4 Regional FDI flows

FDI flows to Africa fell by 9% in 2010. At \$55 billion, the share of Africa in total global FDI inflows was 4.4% in 2010, down from 5.1% in 2009. FDI to the primary sector, especially in the oil industry, continued to dominate

FDI flows to the continent. It accounted for the rise of Ghana as a major host country, as well as for the declines of inflows to Angola and Nigeria.

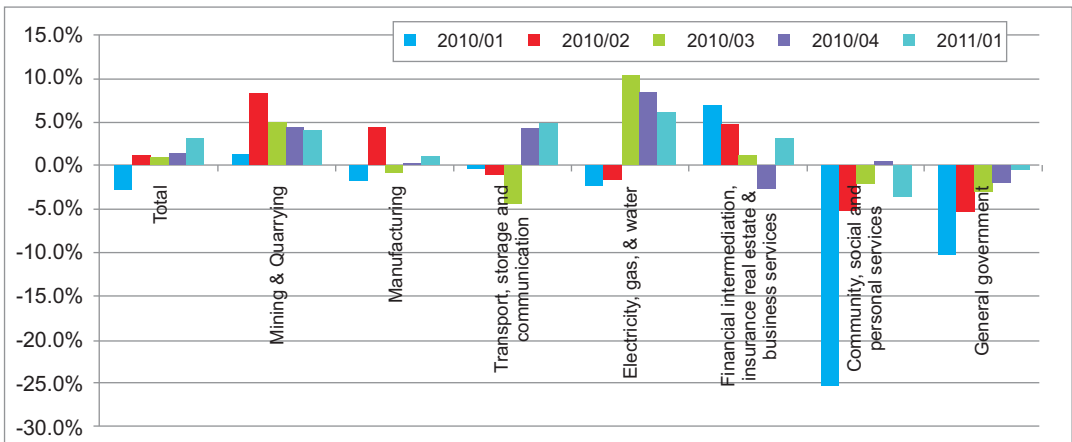
Inflows to East Asia, South-East Asia and South Asians a whole rose by 24% in 2010, reaching \$300 billion. However, the three sub-regions experienced very different trends: inflows to ASEAN more than doubled; those to East Asia saw a 17% rise; FDI to South Asia declined by one-fourth. Inflows to China - the largest recipient of FDI in the developing world - increased by 11%, to \$106 billion.

In 2010, FDI inflows in developed countries declined marginally. The restructuring of the banking industry in these countries, driven by regulatory authorities, is believed to have resulted in a series of significant divestments of foreign assets. The global efforts towards the reform of the financial system and the exit strategy of governments are expected to have a large bearing on FDI flows in the financial industry in coming years.

8.2 South Africa domestic investment

The most recent data on gross fixed capital formation (GFCF) from the South African Reserve Bank (SARB) indicate that during the 1st quarter of 2011, total GFCF expanded at an annualized 3.1% compared to the 4th quarter of 2010 (Figure 27).

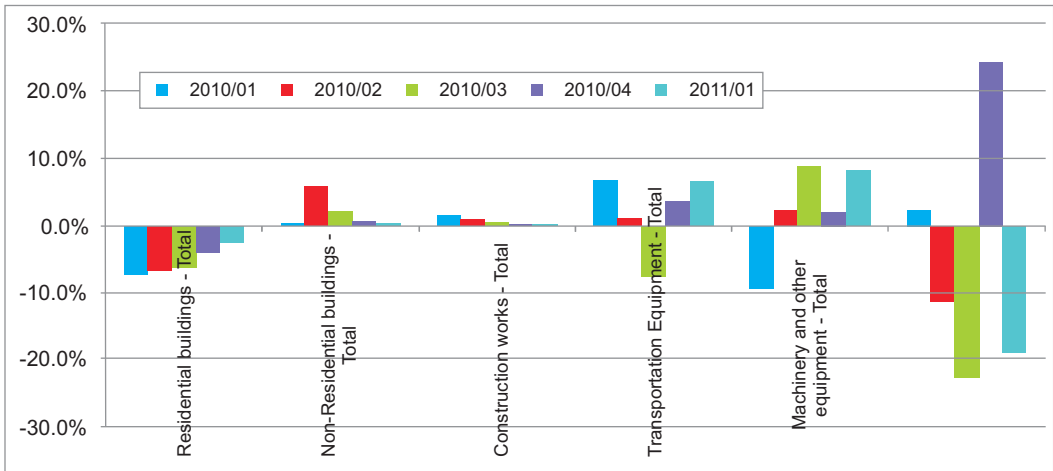
Figure 27: Quarterly growth in gross fixed capital formation by economic sector (SAA*), Q1:2010—Q1:2011



Source: TIKZN calculations using South Africa Reserve Bank (2011) gross fixed capital formation time series; * seasonally adjusted and annualised

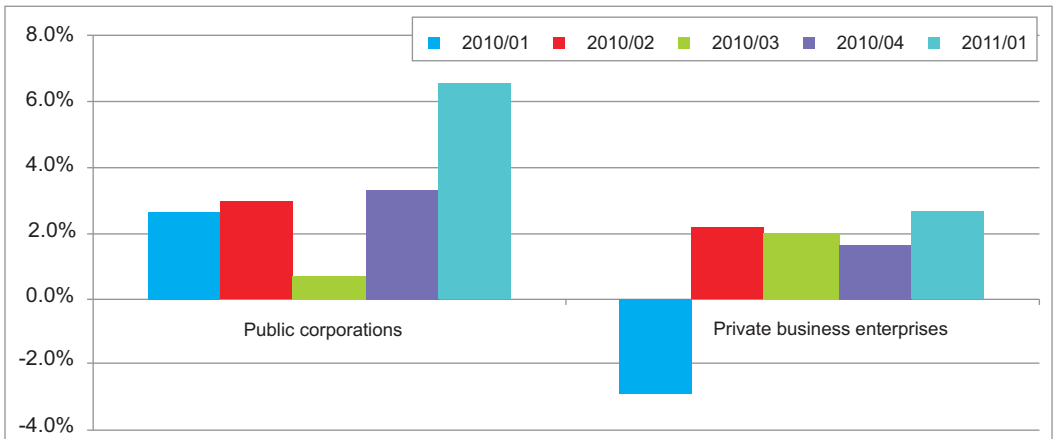


Figure 28: Quarterly growth in gross fixed capital formation by investment type (SAA*), Q1:2010—Q1:2011



Source: TIKZN calculations using South Africa Reserve Bank (2011) gross fixed capital formation time series; * seasonally adjusted and annualised

Figure 29: Quarterly growth in gross fixed capital formation by source (SAA*), Q1:2010—Q4:2010



Source: TIKZN calculations using South Africa Reserve Bank (2011) gross fixed capital formation time series; * seasonally adjusted and annualised

Most of the 1st quarter growth was contributed by the utilities sector (6.1%), followed by Logistics (4.9%) and Mining and Quarrying (4.1%), the only sector where investment expanded throughout 2010. After a sluggish



growth, and eventually a decline in 4th quarter 2010, investment in the Finance sector grew at a bold 3.1% during the period under review. This sector was also one of the few that created employment in 2nd quarter 2011. Except for Logistics and Finance, investment growth in all the other sectors exhibited a declining trend

8.2.1 GFCF by type

During the 1st quarter 2011, the most sturdy investment item – although also weak by historical terms – was machinery and equipment. This sector remained resistant since the 2nd quarter 2010. The transport equipment also exhibited strong growth and very weak investment growth in non-residential buildings and construction works.

8.2.2 GFCF by source

Figure 29 shows that public corporations have been on the fore, growing the capital outlay by more than 6% in the 1st quarter 2011. On the contrary, private business enterprises have been reluctant; although, the condition improved in 2nd quarter 2011 when there was accelerated growth, albeit still lower than their counterparts. It cannot be forgotten, though, that the latter category is the largest contributor to South African investment stock, accounting for at least 70%.

8.3 KwaZulu-Natal investment performance, 1st Quarter 2011

After months of robust growth, some categories of fixed investment in KwaZulu-Natal started to slow down in May, despite the strong exchange rate and record-low interest rates creating a good environment for fixed investment spending. The latest KwaZulu-Natal investment monitor grew by only 4.4% year-on-year after three months of double-digit growth. The investment monitor's total investment index also contracted on a quarter-on-quarter basis. This was the first quarter-on-quarter decline in four months, as four of the investment monitor's six sub-indices were negative quarter-on-quarter.

8.3.1 Transport equipment in major slump

The biggest disappointment was the performance of fixed investment in transport equipment. This index fell by 39.4% year-on-year compared to growth of 30.9% and 27.6% in the two preceding months. This was the biggest decline in transport equipment investment since January last year. On a quarter-on-quarter basis, investment in transport equipment fell by 19.5% after growth of 35.8% the month before. The R1.1 billion spent on airplanes in May was 32.6% down on a year ago, but that was compared with the very high base of R1.6 billion's worth of investment in May last year.

The decline in transport equipment investment was mainly due to a 13% fall in land transport equipment, like trucks. The investment decline could be because many businesses have already taken full advantage of the strong exchange rate and low interest rates. Gloomy global economic conditions remain a threat to local investment. The declining rate of investment in transport equipment can also be linked to the decline in the civil construction sector. Fixed investment in civil construction sowed a rapid decline from April's 8.7% to 9.3% year-on-year. After two months of double-digit quarter-on-quarter growth, civil construction investment grew by only 6.1% quarter-on-quarter in May.

8.3.2 Buildings investment coming to a halt

Investment in buildings in KwaZulu-Natal fell by 23.3% year-on-year as investment in residential and non-residential buildings continued to fall. Investment in this sector also continued to contract on a quarter-on-quarter basis. This is in line with the broad lagging trend in the property market seen across most provinces, and it also reflects in the house price indices of the major retail banks. Transfers barely grew on a year-on-year basis and was down 11% quarter-on-quarter. The slowdown in the property sector is expected to have a negative effect, at least in the short term, on the construction of new residential buildings, office parks and shopping centres in KwaZulu-Natal. New residential buildings will not be built while residential buildings in the

province are not selling.

8.3.4 Machinery investment still boasts year-on-year growth

Investment in machinery, which accounts for the largest proportion, 36% of fixed investment in KwaZulu-Natal, still grew strong year-on-year at 36.6%, but recorded its second consecutive quarter-on-quarter decline.

8.3.5 ICT equipment investment still on upward trend

Investment in ICT equipment grew strongly year-on-year, as well as on a quarter-on-quarter basis. Imported ICT equipment grew by 19%, while investment in locally produced goods grew by only 4%. Investment in ICT equipment in the province already reflects the shift in the way consumers and businesses use cell phones and data, as well as the equipment and infrastructure required for that.

8.4 KwaZulu-Natal, and South African foreign investment projects, 2nd quarter 2011

This section gives a summary of Foreign Direct Investment (FDI) projects and signals for the first part of 2011 (leading to July), as provided by the FDI markets branch of Financial Times (**Table 7**). These are only announcements that match the criteria/settings of our FDI into South Africa (All investments) Investment filter; they do not necessarily indicate the implementation stage of the project. During this period, KwaZulu-Natal recorded only one investment announcement. **Daewoo Shipbuilding and Marine Engineering**, from South Korea, indicated their intention to invest in Richard's Bay. The company intends to provide sales, marketing and support services in the IT & Software sector. The rest of the projects announced went to other provinces, with the majority going to Gauteng and Western Cape provinces. It is concerning to observe that the trend of FDI still tends to favour two of the three 'Golden Triangle' cities (Johannesburg and Cape Town) at the expense of the third one (Durban). This calls for more aggressive activity in FDI attraction into the province, to counteract the sluggishness in economic recovery. Nonetheless, an encouraging observation is the large investment recorded exclusively for Free State, for the first time since 2003 when FDI markets started consolidating the investment data. The immediate implementation of the recently launched KwaZulu-Natal investment strategy is, therefore, critical.

Table 7: June and July 2011 FDI Projects

Investing company	Country of origin	Destination city in SA	Sector	Activity
China Motor Corporation (CMC) (2,500 jobs)	China	Harrismith	Automotives OEM	Manufacturing
Vodafone (US\$3.49m)	UK	Midrand	Communication	Design, Development & Testing
Unilever	UK	-	Consumer products	Manufacturing
NetApp (Network Appliance)	US	-	Software & IT	Sales, Marketing & Support
Commins	US	Johannesburg	Engines & Turbines	Headquarters
Hankook	South Korea	-	Rubber	Manufacturing
Larsen & Toubro (L&T)	India	-	Industrial machinery, equipment & tools	Sales, Marketing & Support
Coca-cola	United States	Heidelberg	Beverages	Manufacturing
Daewoo Shipbuilding & Marine Engineering	South Korea	Richard's Bay	Software & IT services	Sales, Marketing & Support

Toshiba	Japan	-	Business Machines & Equipment	Sales, Marketing & Support
Clyde Blowers - [David Brown Group]	UK	Middleburg	Industrial machinery, equipment & tools	Maintenance & Servicing
Goldwind Science & Technology Co Ltd	China	Cape Town	Engines & Turbines	Sales, Marketing & Support
Fabric	UK	Johannesburg	Business Services	Business Services
Noble Group Limited (150 jobs)	Hong Kong	-	Food and Tobacco	Manufacturing
Associated British Foods [AB Foods]	UK	-	Food and Tobacco	Manufacturing
BCause	UK	-	Business Services	Business Services
Great Western Minerals	Canada	-	Minerals	Manufacturing
Lonrho [Oceanfresh Seafoods]	UK	-	Food and Tobacco	Manufacturing
Vodafone	UK	Cape Town	Software & IT Services	ICT & Internet Infrastructure
Computer Sciences Corporation (CSC) (1000 jobs)	US	Johannesburg	Software & IT services	Business Services
Fluidra [Aquaria Groups]	Spain	Cape Town	Leisure & Entertainment	Sales, Marketing & Support
CMA CGM	France	Port Elizabeth	Transportation	Sales, Marketing & Support

Source: Financial Times (2011), FDI markets

On a positive note, an interesting FDI transaction is the hard-to-ignore United States' WalMart merger with South Africa's MassMart. This project is envisaged to have positive spinoffs for the domestic consumers. Already, we have witnessed the level of effort being put in by main players in the retail market, for the fear that WalMart might eat into their market share.

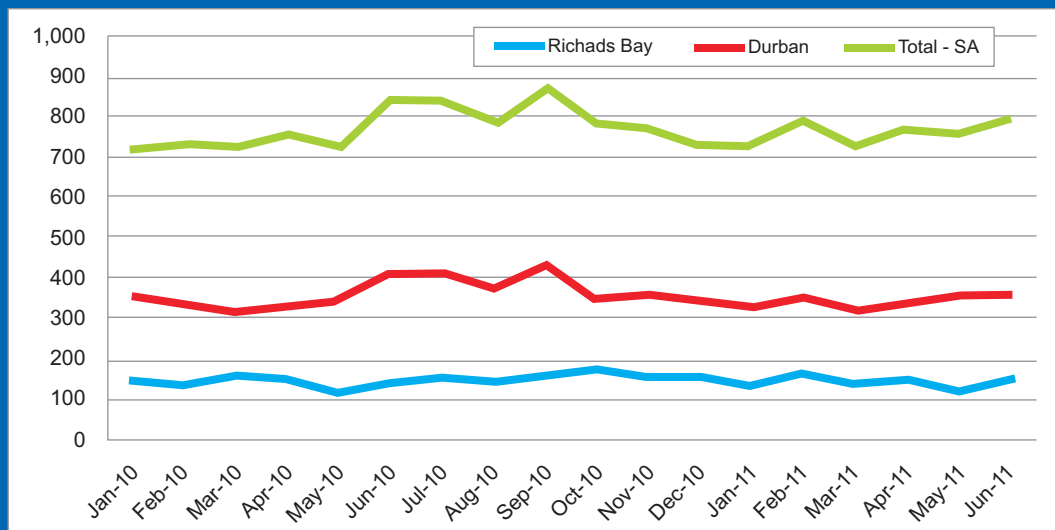


9.1 KwaZulu-Natal Port Movements

9.1.1 Volume of Vessels

The total number of vessels handled at South African ports during the 2nd quarter was 2,134 compared to 2,235 in the 1st quarter and 2,311 in the corresponding period last year (**Figure 30**). Durban's contribution of these vessels during the 2nd quarter of 2011 was 45.1% compared to 46.6% during the 2nd quarter of 2010. Richards Bay's contribution increased slightly from 16.9% during the 2nd quarter of 2010 to 17.4% during the period under review. Durban's declining share during the period under review can be explained in two ways. Firstly the relatively new Port of Ngqura is accounting for a greater share of the total vessels handled in South Africa, recording a 38% increase in number of vessels handled year-on-year. Secondly the growth in number of vessels handled at the Port of Durban is constrained by increasingly limited infrastructural capacity resulting in congestion at the port. This is further exacerbated by high port costs, with Durban recently being identified as one of the most expensive ports in the world. These factors are undermining the competitiveness of the Port of Durban compared to other South African ports. Against this backdrop, South African's exports are relatively less competitive compared to other emerging markets.

Figure 30: Total Number of Vessels for the 2nd quarter 2011



Source: KZN Provincial treasury, August 2011

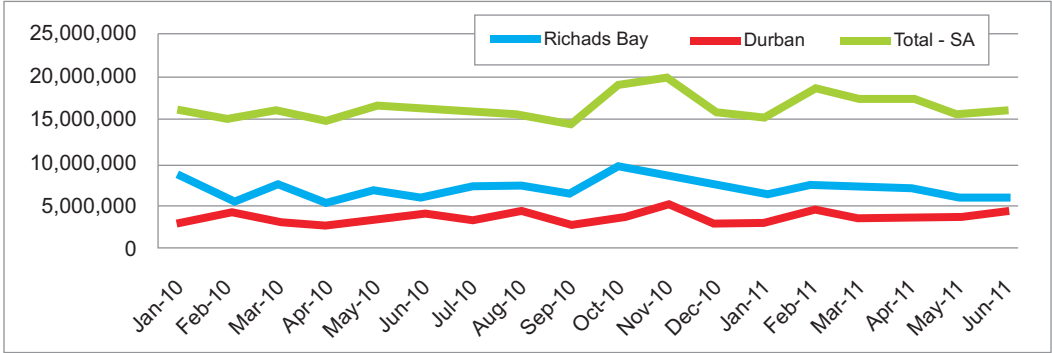
9.1.2 Cargo⁵ handling (metric tonnes)

In terms of cargo handling, Richards's Bay is the country's premier port for heavy cargo as shown in Figure 31. During the 2nd quarter of 2011, total cargo tonnage handled at South African ports amounted to 48.8 million metric tonnes compared to 47.2 million metric tonnes during the same period in 2010. Cargo tonnage handled at the Port of Richards Bay amounted to 18.4 million metric tonnes during the period under review compared to 17.7 million metric tonnes during the 2nd quarter of 2010. This masks however, the more recent trend which has seen cargo tonnage decline at the Port of Richards Bay, month-on-month since February. This might signal declining coal throughput at the Richards Bay port. Coal is the commodity that is exported through the port of Richards Bay among other products. Although the volume of vessels at the Port of Durban declined during the 2nd quarter, it is somewhat encouraging to note that cargo tonnage increased from 9.9 million metric tonnes during the 2nd quarter of 2010 to 10.9 million metric tonnes during the 2nd quarter 2011 (**Figure 31**). The decline in cargo handled at the Port of Richards Bay together with the increase in cargo handled at the Port of Durban is resulting in a convergence of total cargo handled at the two ports, as seen in figure 31, and may result in the Port

⁵ Cargo excludes containers

of Durban overtaking Richards Bay in the near future. Overall the contribution of Durban and Richards bay cargo handling (metric tonnes) increased from 58.6% during the 2nd quarter of 2010 to 60.1% during the 2nd quarter of 2011.

Figure 31: Total Cargo Handled (metric tonnes)



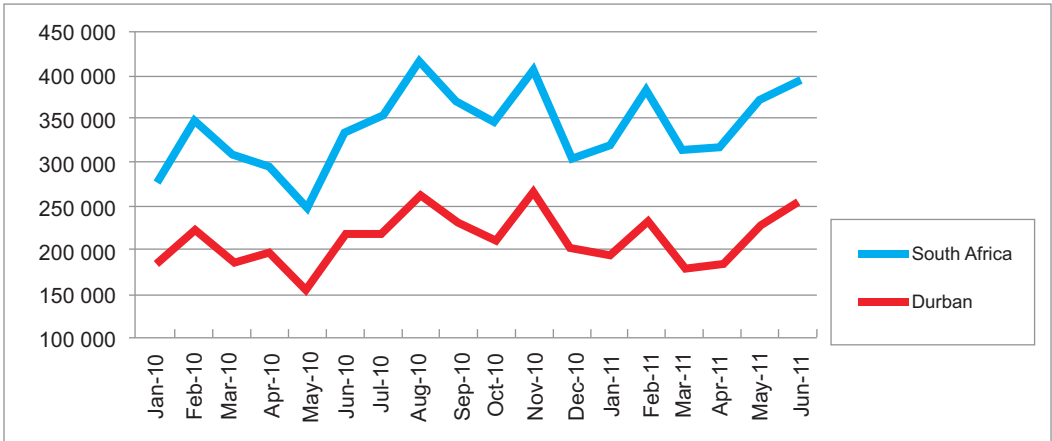
Source: KZN provincial treasury, August 2011

9.1.3 Container Handling

The Port of Durban is South Africa's major container handling port, constituting 62% of the country's total number of containers handled. Richards Bay is only a very minor container handling destination accounting for only 0.8% of the country's total containers handled. Container traffic is very seasonal as Figure 32 indicates, so it is therefore more meaningful to compare total containers handled over a period of a year. In this respect the Port of Durban showed an increase from 568,186 containers handled in the 2nd quarter of 2010 to 668,196 in the 2nd quarter of 2011. While the absolute number of containers handled in the Port of Durban has increased compared with last year the relative contribution of Durban to total containers handled in South Africa has dropped by 2%. As discussed earlier this may be as a result of congestion, leading to container vessels preferring other South African ports.

The large increases in the absolute number of containers at the Port of Durban is placing strain on the port's capacity to accommodate such high levels of container growth. This is further exacerbated by the increasing tonnage of cargo being handled at the Port of Durban, and lends impetus to the proposal to develop a second dug-out port at the old Durban International airport site.

Figure 32: Total Number of Containers Handled



Source: DEDT calculations based on data from the National Ports Authority

9.2 Construction Sector Developments

9.2.1 Building Plans – South Africa

The performance of the South African construction industry has improved in 2011, as the first half of the year reported an annual increase of R1.5 billion (current prices) based on recorded building plans passed by larger municipalities. Residential buildings and non-residential buildings contributed positively with each contributing 8.9% and 7.9% when compared to the first half of 2010. Additions and alterations recorded a decrease in value of R191 million during the same period at current prices. There was a 36.1% year-on-year increase in the demand for flats and townhouses during the 1st half of 2011 which translated to an increase in value of R895 million.

A total of four provinces reported a decrease in the value of building plans passed by larger municipalities. Gauteng province was affected the most in terms of value as it lost R358 million year-on-year at current prices. However, Limpopo experienced the highest percentage decline, as the total plans passed in 2011 decreased by 16.9% year-on-year. In Limpopo the demand for residential property increased by 17.3% year-on-year while the non-residential buildings category experienced a decrease of almost 80% followed by a drop in additions and alterations of 27.2%. The Northern Cape, Mpumalanga and North West were the top three performing provinces, reporting an increase in passed building plans of 80.8%, 65.8% and 24.8% respectively. KwaZulu-Natal contributed almost a third of the total increase in value of South Africa's passed building plans. Notably the year-on-year percentage change for KZN (8.4%) in passed building plans was higher than the country's average of 4.9%.

According to the reported statistics for completed buildings by larger municipalities only an increase of R27 million was noted (0.1%) during the 1st half of 2011. When looking at the spatial distribution of the completed buildings only two provinces reported year-on-year increases in completed buildings. The two provinces are Gauteng (1.2 billion) and the Western Cape (R91 million). KZN recorded a 5% decrease in completed buildings, which amounted to a decline of R211 million at current prices.

From the selected building stats of the private sector report by StatsSA it can be noted that the increase in the value of the buildings passed for the 1st half of 2011 was due to an increase in demand for residential buildings. Residential buildings contributed over R1.1 billion of the R1.5 billion increase in the industry. These findings are consistent with the improved GDP growth (0.5%) of the construction sector in the second quarter. This shows that consumers still have confidence in the South African property market as the repo rate and the prime lending rate remain unchanged. However the persistent increase in CPI may have a negative impact on the sector in the long run as it may lead to an increase in the lending rates, and a subsequent drop in the purchase of residential properties.

9.3 Retail Sector Developments

9.3.1 Retail performance in the 2nd quarter

Retail sales (constant at 2008 prices) picked up during the 2nd quarter of 2011 by R3.4 billion when compared to the 1st quarter of 2011. A real increase of 4.1% was noted in sales year-on-year, which amounted to almost R5 billion. The major contributors were retailers in pharmaceutical and medical goods, cosmetics and toiletries, retailers in household furniture, appliances and equipment, retailers in textiles, clothing, footwear and leather goods and general dealers. The demand for food, beverage and tobacco dropped by 2.2% year-on-year, this may be as a result of rising global food prices. In addition the demand for hardware, paint and glass dropped by 1.5% in the 2nd quarter of 2011 compared to the previous year.

Table 8: Contribution of each type of retailer to the percentage change in retail trade sales at constant 2008 prices

Type of Retailer	Q2:2010 (R million)	Q1:2011 (R million)	Q2:2011 (R million)	% change Q2:2010 and Q2:2011
General dealers	46,242	48,085	48,784	5.5
Retailers of food, beverage and tobacco in specialised stores	11,275	10,573	11,024	-2.2
Retailers in pharmaceutical and medical goods, cosmetics and toiletries	7,841	8,372	8,490	8.3
Retailers in textiles, clothing, footwear and leather goods	25,540	23,605	26,969	5.6
Retailers in household furniture, appliances and equipment	7,593	7,585	8,154	7.4
Retailers in hardware, paint and glass	7,655	7,832	7,540	-1.5
All other retailers	15,338	17,021	15,480	0.9
Total	121,484	123,073	126,441	4.1

Source: Stats SA; Retail Trade Sales August 2011

9.4 Motor sales developments: South Africa

9.4.1 Quarterly change in motor sales

Motor trade sales recorded an annual increase of 13.0% during the 2nd quarter 2011 when compared to the 2nd quarter 2010. The total sales increased by R10.8 billion year-on-year. In 2011 total sales have increased steadily from R94.4 billion in the 1st quarter to R94.6 billion in the 2nd quarter. The two major contributors to the growth were used vehicle sales and fuel sales with each contributing R15.8 million and 26.2 million respectively. Three categories experienced a decrease during the same period, these were new vehicle sales, accessory sales and convenience store sales (**Table 9**). When comparing the performance of the sector with the same period last year, all activities experienced growth, contributing to overall annual growth of R10.8 billion.

Table 9: Contribution of each type of activity to motor trade sales for Q2:2011

Type of Activity	Q2:2010 (R million)	Q1:2011 (R million)	Q2:2011 (R million)	% change Q2:2010 and Q2:2011	Contr. to the % change in total sales
New vehicle sales	21,855	27,405	25,322	15.9	4.1
Used vehicle sales	14,261	10,307	15,762	10.5	1.8
Workshop Income	6,578	6,692	6,816	3.6	0.3
Income from accessory sales	14,965	15,793	15,573	4.1	0.7
Income from fuel sales	21,354	23,248	26,232	22.8	5.8
Income from convenience store sales	4,691	4,936	4,844	3.3	0.2
Total	83,702	94,380	94,548	13.0	13.0

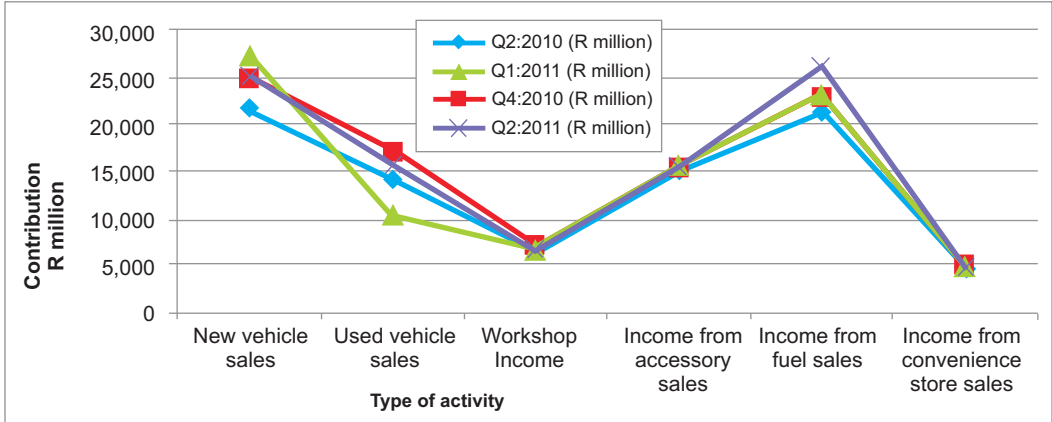
Source: Statistics SA; Moto Trade Sales reports for May 2011

The prime lending rate and the repo rate remained unchanged at the relatively low rates of 9% and 5.5%

respectively. However consumers were not motivated to buy new vehicles as reflected in the quarterly decline in new vehicle sales. Consumers seem to have opted instead for used vehicles. Used vehicle sales increased by over R5 billion in the 2nd quarter of 2011. CPI has gradually increased from 4.2% in April 2011 to 5.0% in June 2011 and 5.3% in July 2011. This increase has put strain on consumer buying power.

9.4.2 Motor Trade Sales Outlook

Figure 33: Yearly trends in motor trade sales



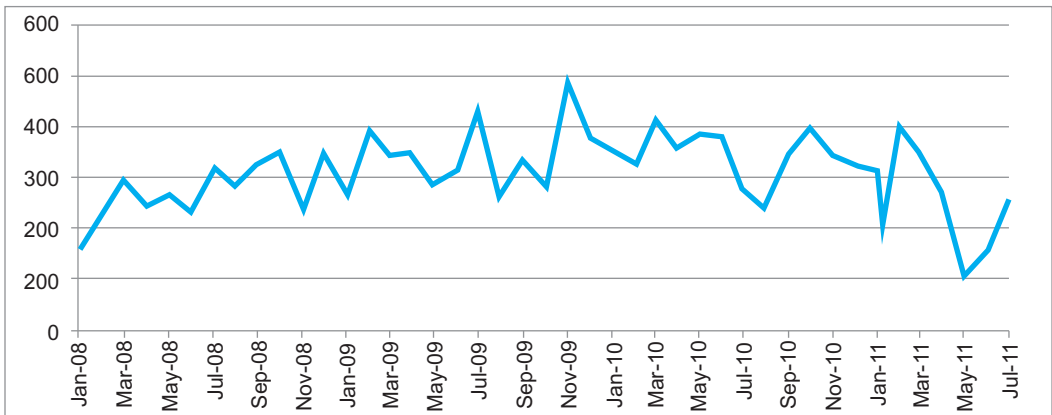
Growth in motor trade sales has followed the same trend over time however a noticeably sharp drop in the amount contributed by the used vehicle sales in the 1st quarter of 2011 was noted. A drop of 3.3% was apparent in the utilisation of production capacity for the motor vehicles, parts and accessories and other transport equipment. This follows a decrease in the demand for new vehicles and accessories.

9.5 Liquidations and insolvency

9.5.1 Liquidations

The number of liquidations is volatile from year to year, but reflects an upward trend. In the 2nd quarter, April had the highest liquidations reaching 267, May decreased to 107 and June increased to 156 (Figure 34). This year so far, liquidations on average are decreasing, with the first three months showing figures in excess of 300 but subsequently declining to under 200 in the last two months of the 2nd quarter.

Figure 34: Number of liquidations in South Africa (Jan 2008 – June 2011)



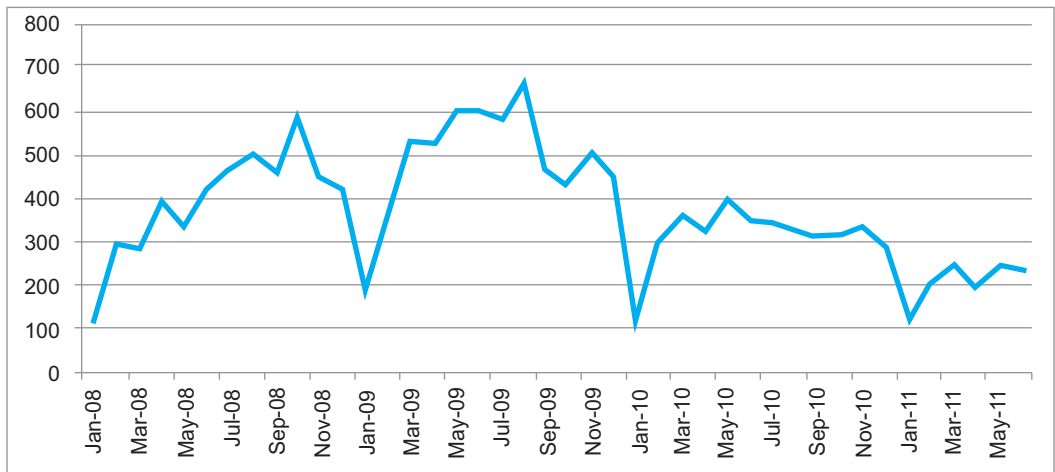
Source: Stats SA, June 2011

Figure 34 above shows that in July the total number of liquidations reached 251, which is 37.8% higher compared to the previous month (156 June 2011), although it must be noted that the number of liquidations in May 2011 was at a three year low and has been climbing since. The volatility of liquidations is dependent on factors such as interest rates, national economic conditions and input costs. Voluntary liquidations decreased by 213 contributing strongly to the decrease in the 2nd quarter's total figure. Community, social, personal services recorded the highest number of liquidations reaching 61, followed by financing, insurance, real estate and business services, wherein liquidations decreased by 80.5% from 186 to 36 in the 2nd quarter of 2011. Company liquidations decreased by 32% while close corporations decreased by only 14.3%. The number of liquidations is expected to increase in correspondence with rising interest rates, commodity prices and slow consumer spending.

9.5.2 Insolvencies

The total number of insolvencies recorded for May 2011 declined to 239, which is lower than the previous month's total by 3.8% (Figure 35). Insolvencies for May 2011 were recorded at 248, which is 27% (53 more liquidations) higher than the previous month. The difference between May 2010 (397) and May 2011(248) is 149 (37, 5%) fewer insolvencies. When comparing the first six months of 2010 (1558) and 2011(1024), there is a 34.3% decrease in the number of insolvencies. There is a descending trend of insolvencies on average, however, there is great volatility within this average.

Figure 35: Insolvency trend in South Africa (Jan 2008 – May 2011)



Source: Stats SA, June 2011



9.6 Civil Debt

Table 10 shows that during June 2011 45,128 civil judgments were recorded and debt amounted to R478.9 million, which is lower by 12% compared to May 2011. This decrease owes to decreases in money lent, other debt and goods sold. Notably there was a 24.7% decrease in civil summons between 2nd quarter 2011 and the 2nd quarter 2010, and a 21% year on year decrease in June (**Table 10**). On average there is a downward trend for debt determined from the monthly and yearly decline of cases recorded. In general the number of civil judgments is on a downward trend due to factors such as low interest rates.

Table 10: Civil cases for debt

	May 2011	June 2011	%change June 2010 & June 2011	% Change April-June 2010 to April - June 2011
Number of civil summonses issued for debt	90,174	85,745	-21	-24.7
Number of civil judgments recorded for debt	50,578	45,128	-27.3	-28
Value of civil judgments recorded for debt (R million)	463,6	478,9	-17.9	-17.9

Source: Stats SA, August 2011

Table 11 depicts that the highest (17,514) number of civil cases for June 2011 was recorded in Johannesburg, due the relative volume of economic activities taking place within this region. Pretoria followed second with 8,132 cases and the Cape Peninsula tailed with 7,480 cases (**Table 11**). Kimberly registered the lowest number of civil cases of 374, due to its' relatively small size and economic isolation. Notably, Johannesburg had the largest decrease from February to June 2011 of 11,226 (28740 - 17514). Kimberly had the lowest increase in debt judgments of 30 cases, while all the other regions had modest decline of cases fluctuating around 2000.

Table 11: Number of civil cases recorded for selected regions

Province	Feb 2011	Mar 2011	Apr 2011	May 2011	June 2011	Average Jul 2010 May 2011	Apr 2011 to May 2011 % increase
Cape Peninsula	5379	6907	5317	5999	7480	7067.7	11.4
Port Elizabeth	3184	4548	3823	6607	5207	3364.7	42.1
East London	1197	1301	1423	1430	975	1137.2	0.5
Kimberly	344	419	290	351	374	340.9	17.4
Pietermaritzburg	1805	826	1581	1469	1325	1591.5	-7.6
Durban	6343	6034	6031	6728	5738	6909.5	10.4
Johannesburg	28740	24728	19902	20293	17514	22630.1	1.9
East Rand	4472	4818	3398	3590	3829	4084.7	5.3
West Rand	3473	2831	2711	2599	2459	2812	-4.3
Pretoria	9927	8569	7212	9172	8132	9763.5	21.4
Meyerton	1563	1405	1016	1098	1368	1239.3	7.5
Bloemfontein	2946	4354	4428	4520	3855	4622.3	2.0

Source: Stats SA, August 2011

9.7 Tourism developments

9.7.1 International tourism developments

The UNWTO reports that international tourist arrivals in the first four months of 2011 continued to 'consolidate the 2010 recovery', despite a number of factors which had the potential to threaten this recovery. Global tourist arrivals for January to April 2011 were estimated at 268 million, 4.5% up on the 256 million recorded in the same period last year. All regions with the exception of the Middle East and North Africa experienced positive growth. Particularly strong performers were South America (17%); South Asia (14%) and South-East Asia (10%), while Europe, for a developed country, boasted impressive growth of 6%. Europe's growth however, must be seen in the light of tourist arrivals working off a relatively low base as a result of the volcanic ash cloud which had limited air travel in a number of European countries in the comparable period in 2010. Africa grew at 2%, but this was skewed by negative growth in North Africa (-11%). This can be attributed to the impact of the civil uprisings and revolutions in Tunisia; Egypt and Libya. Sub-Saharan Africa however, continued along its healthy growth trajectory, recording an 8% growth in tourist arrivals. The UNWTO report that, although the impact of continued political instability in the middle East and North Africa as well as the tsunami in Japan have led to decreasing tourist arrivals in these areas, these factors are relatively isolated and have tended to result in tourist diversion to other countries rather than an absolute decline in tourist arrivals. As such the UNWTO maintain its', slightly higher than long-term average, forecast of 4-5% growth in global tourist arrivals for 2011.

9.7.2 South African Tourism Developments – Tourist Arrivals in South Africa

South Africa is the premier tourist destination in Sub-Saharan Africa and indeed Africa as a whole, particularly in the wake of unrest in popular North African tourist countries like Egypt and Tunisia. Tourist arrivals in South Africa grew by 8.8% year on year, to 698,399 arrivals in April 2011. The major market for tourist arrivals remains the rest of Africa, contributing 75% to total arrivals in South Africa. The majority of these tourists arrive in South Africa by road. The main contributor to tourist arrival growth in April 2011, however, has been the overseas market which recorded an impressive 33% annual growth as compared to only 3% for the Rest of Africa. This dramatic increase in overseas tourists is heartening for tourism development in South Africa and perhaps suggests that the country is reaping the rewards of the international exposure provided by hosting the Soccer World Cup in 2010. These notions must, however, be tempered with the understanding that tourist arrivals in April 2010 were somewhat depressed by the economic recession. Nevertheless such a high growth rate bodes well for South Africa's tourism performance in 2011.

Table 12: International Tourist Arrivals in South Africa

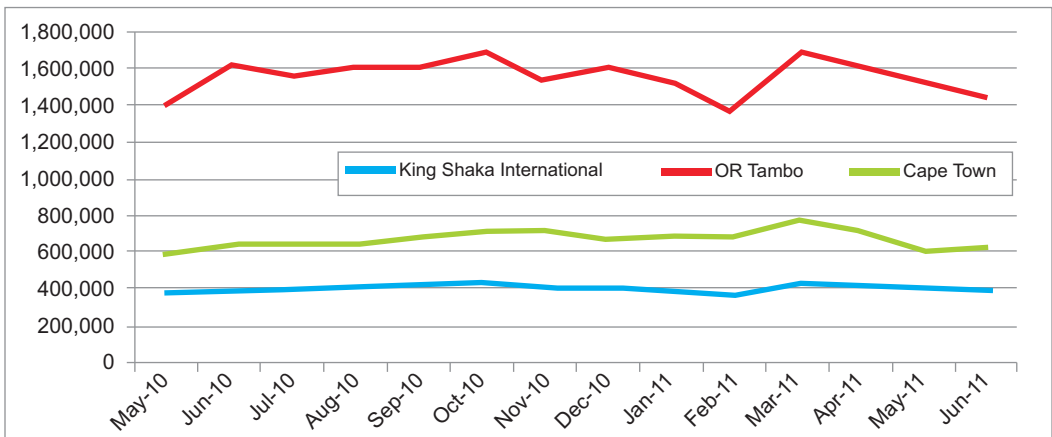
Region	Total Arrivals			Type of Arrival		
	Apr-11	Apr-10	%change	Air	Road	Sea
Europe	106,581	78,014	36.3%	92,751	13,652	177
North America	24,232	20,227	19.8%	21,233	2,990	9
Central & South America	5,909	4,293	37.6%	5,345	561	3
Australasia	10,709	8,917	20.1%	9,993	716	-
Middle East	2,938	2,279	38.3%	2,712	225	
Asia	21,776	15,043	44.8%	7,987	3,320	460
Africa	524,223	508,501	3.1%	43,874	480,320	22
Total	698,399	642,171	8.8%	195,126	502,584	671

Source: South Africa Tourism, July 2011

9.7.3 KwaZulu-Natal Tourist Arrivals

Tourist arrival data at the provincial level is hampered by a lack of information on tourists travelling by road into the province. The province does not have border posts at which entry into the province can be monitored and as such the only data readily available at a provincial level is the number of arrivals by air at the province's major airports. StatsSA report in the April 2011 Tourism and Migration Publication that King Shaka international, KwaZulu-Natal's only international airport, recorded 2,505 foreign tourists in April 2011. This figure is very misleading, however, as it only takes into account tourists who have flown straight into King Shaka International from abroad. As a relatively new international destination and as a secondary international flight hub to OR Tambo's primary international flight hub, these low numbers are to be expected. The figures do not imply that only 2,505 foreign tourists visited KwaZulu-Natal in April 2011 because they do not take into account those foreign tourists who first fly to Johannesburg and either drive or catch a domestic flight to the province. A better indication of the number of tourists both foreign and domestic who utilised the province's airports is shown in Figure 36 which compares total passenger movements for the country's three main airports.

Figure 36: Total Passenger Movements at South Africa's Busiest Airports



Source: Provincial Treasury, 2011

King Shaka International is the third busiest airport in the country, after OR Tambo and Cape Town International airports, and recorded 1.2 million total passenger movements in the 2nd quarter of 2011. Pietermaritzburg and Richards Bay are relatively minor destinations averaging only 18,000-25,000 total passenger movements per quarter. While King Shaka does not enjoy the same volumes as OR Tambo or Cape Town International, its' total passenger movements are significantly more stable than the former two airports. Total passenger movements at King Shaka for the 2nd quarter 2011 increased by 16% on the same period last year.

Total passenger arrivals (615,923) at King Shaka represent roughly half of total passenger movements at the airport in the 2nd quarter. This figure gives a better indication of the overall number of tourists (domestic and foreign) arriving in the province per quarter, although it must be acknowledged that not all the arrivals will be tourists, with day-visitors and returning residents included in the arrival figures. It is clear that while King Shaka International continues to increase its number of arrivals it lags a long way behind OR Tambo and even Cape Town as a destination for tourists travelling by air. While KwaZulu-Natal will struggle to compete with Gauteng as an air travel hub, due to the latter's centrality and prominence, the province should look to close the gap on Cape Town by attracting more direct flights and by making the province a more favourable destination for overseas tourists in particular.

9.7.4 Tourism Accommodation

Table 13: Income Derived from tourist accommodation – South Africa

Indicator	June 2011	% change from June 2010 to June 2011	% change between Q2:2010 & Q2:2011
Stay Units Available (000)- Average	108.8	-1.5	-1.2
Stay Unit Night Sold (000)- Average	1245.8	-23.9	-11.3
Average income per stay unit sold (Rand)	606	-36.6	-16.0
Income from Accommodation (R million)	755	-51.7	-25.4
Total Income [R'mil]- Average	1335.8	-39.7	-17.5

Source: StatsSA, June 2011

Accommodation is one of the main areas of tourist spend, and is a good indicator for the performance of tourism within the country. The total number of stay units available in South Africa decreased by 1.2% between the 2nd quarter 2010 and the 2nd quarter 2011. This can in part be explained by a large once-off expansion in the number of rooms which were available in the country in June and July 2010 as a result of the hosting of the Soccer World Cup. The broader impact of the Soccer World Cup can, indeed, be seen in a decrease of all the indicators presented in Table 13. Most notably total income declined by 17.5% as compared to the 2nd quarter of 2010. This impact was even greater for June itself, which was one of the World Cup host months. The decline in total income comes on the back of a decline in total units sold and an even greater decline in average income per stay unit sold. The decline in the average income per unit sold is indicative of the return of accommodation prices to long-term average levels as compared to the relatively exorbitant prices charged during the World Cup.

Table 14: Hotel occupancy rates for selected regions

Region	April		May		June		Q2 Average	
	2011	2010	2011	2010	2011	2010	2011	2010
South Africa	52.1	53.7	50.3	52.8	51.7	66.6	51.4	57.7
Western Cape	55.9	52.6	45.3	45.4	41.5	53.5	47.6	50.5
Gauteng	47.4	54.8	52.6	58.3	55.4	82.4	51.8	65.2
KwaZulu-Natal	55.8	54.9	55.0	52.5	56.7	59.2	55.8	55.6
Durban and surroundings	57.8	60.0	57.7	57.7	59.0	63.9	58.2	60.5
Durban City Centre	56.4	57.8	56.7	56.7	59.0	63.6	57.3	59.4
Cape Town	55.5	51.3	44.0	43.9	42.4	58.0	47.3	51.1
Eastern Cape	55.7	51.2	49.5	52.2	57.0	62.6	54.1	55.3

Source: STR Global, 2011

The hotel occupancy rates presented in Table 14 above share some valuable insights with regard to both the seasonal nature of tourism in KwaZulu-Natal and its' performance as compared to the other major tourist destinations in the province. KwaZulu-Natal, on average enjoyed slightly higher occupancy rates (55.8%) than in the comparable period in the previous year (55.6%), despite a significant drop in the occupancy rate at a national level (57.7% to 51.4%). While KwaZulu-Natal predictably experienced a lower occupancy rate in June, the province enjoyed higher occupancy rates in April and May. The lower rate in June can be explained by the World Cup, while the higher rates in April and May are likely to be attributable to the extended Easter holidays this year as many people took the opportunity provided by the spate of public holidays to take an extended break from work.

When compared to the hotel occupancy rates of Gauteng and the Western Cape, KwaZulu-Natal would appear to be performing particularly strongly, registering an occupancy rate of 4% higher than Gauteng and 11% higher than the Western Cape. It is particularly interesting to note that Durban enjoys substantially higher hotel occupancy rates than Cape Town.

Possible reasons for KZN's superior hotel occupancy rate

- There may be an oversupply of accommodation in the other provinces. Gauteng, in particular, enjoyed much higher occupancy rates (up to 82.4%) during the World Cup. This may have sent positive signals to establishment owners to provide more rooms. Subsequent to the World Cup, when visitor numbers dropped, the number of rooms available may have remained 'sticky', not adjusting for decreased demand and thereby resulting in lower occupancy rates.
- May and June represent the onset of winter in South Africa. KwaZulu-Natal's milder climate may make the province a more appealing holiday destination in this period than the colder Western Cape or Gauteng.
- KwaZulu-Natal is a more affordable destination than Gauteng or the Western Cape, with an average room rate of R758 as compared to R824 for Gauteng and R804 for the Western Cape.
- Large scale events, such as the Midmar Mile; Comrades Marathon, Duzi Canoeing; Splashy Fen etc., held in the province are attracting a greater number of overnight visitors.

9.7.5 Tourism Event Impact Assessment – Splashy Fen Music Festival

This section, which is new to Ezomnotho, is aimed at providing an understanding of the important impact that organised events have in growing tourism and contributing to local economic development within KwaZulu-Natal. Each quarter a different event will be presented in this section. These event impact assessments are conducted by Tourism KZN on an annual basis.

Splashy Fen is South Africa's longest-running music festival, having been established in 1990. It takes place every Easter at a farm near Underberg and offers a four day line-up of musical performances including some of the country's top acts. Being located in the beautiful Drakensberg region on a spacious farm, the majority of visitors to the event tend to camp in order to absorb the majestic scenery. Despite a lack of accommodation spend at surrounding tourist establishments visitors to Splashy Fen contribute a substantial amount to the local economy.

Interviews of 292 randomly sampled festival attendees between the 22nd and 24th April at the event, form the basis of the Impact Assessment methodology. The questions asked of the attendees aim to provide information relating to the spectator profile; the reasons for attendance; the activities of spectators while in the area; and the economic impact of the event.

Findings of the survey

Demographic

- 53% of the spectators were male
- 78% of all spectators were aged between 21-40 years old, with the '21-30' age category being the most well represented (51%).
- The vast majority of spectators were from KZN (79%), while Gauteng was the second most popular source of spectators (18%)

Activities and behavior

- Average group size was 4.8 individuals
- 42% of spectators stayed for 3 nights, while 32% stayed for 4 nights
- 94% of spectators camped, 4% used local Bed and Breakfasts
- 98% of spectators arrived by private vehicles

Table 15: Estimated Economic Impact

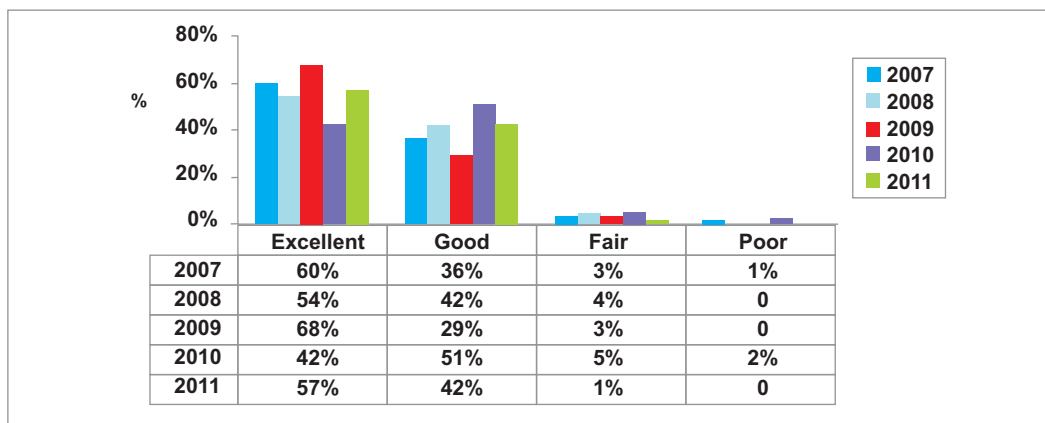
Year	Spectators	Average per person spend at the festival	Estimated Direct Tourism Spend	Total Impact (Direct Spend with a multiplier of 1.42)
2008	6 000	R1 372	R11.71mn	R16.63mn
2009	5838	R1740	R10.2mn	R14.6mn
2010	6 480	R1 860	R12.12mn	R17.22mn
2011	6 937	R2 174	R15.08mn	R21.4mn

Source: TKZN, 2011

The number of spectators attending the festival increased by 7% in 2011, this could have been as a result of the increased length of the Easter Holidays this year. A greater number of spectators together with an increase of nearly 17% in average spend per person at the festival, resulted in a direct spend by spectators of R15 million, almost R3 million more than in the previous year. The total impact, which includes the direct and indirect impact of spending at the festival, is estimated at R21.4 million for the economy. The majority of this amount will be captured at a local level.

Events are not just important revenue generators in the current period but are also important promotional tools for attracting more tourists to the region in the next period. As such it is important for events to leave visitors with a good impression both of the event and of the province in general. As indicated by Figure 37 spectators attending Splashy Fen report an overwhelmingly positive response, with 99% rating their experience at the event as 'Good' to 'Excellent'. This represents an improvement on previous years, where the results were more varied. The satisfaction of spectators with their experience is reflected in the finding that 100% of interviewed spectators said that they would recommend the event to others. Furthermore 97% of interviewed spectators said that they would recommend KZN as a tourist destination. In order to maximize the positive benefits of this type of marketing for the province the festival should try and attract more visitors from outside of the province, as well as internationally. There is evidence, however that the Gauteng market for the event is growing.

Figure 37: Spectator Experience Rating (Source: TKZN, 2011)



Source:

9.8 Manufacturing Developments

9.8.1 Utilisation of production capacity by large enterprises

There are a number of factors which cause manufacturing companies to operate under full capacity. Most of these factors relate to the prevailing economic conditions in the environment in which the company operates. Achieving an understanding of the constraints to full utilisation of production capacity by manufacturing companies as well as the degree to which these change over time, is critical to facilitating an environment which is conducive to increasing manufacturing output. This section looks at the utilisation of production capacity in the manufacturing sectors as well as the reasons for under-utilisation.

The utilisation of production capacity by large companies improved during the 2nd quarter of 2011 from 79.3% in February to 81.1% in May 2011. This indicates a 0.7% annual change when compared to the same period in 2010. In May 2011 the supply of raw material improved by 0.8% annually and 0.2% quarterly. The main factor cited by manufacturing companies for an under-utilisation is insufficient demand for their goods. This comes against a backdrop of a decrease in demand for South African manufactured goods. The shortage of labour, however, has not shown an improvement on the previous quarter (Table 16).

Table 16: Utilisation of production capacity by large enterprises in the manufacturing industry for May 2011 compared with the previous year and the February 2011

Estimates		May 2010 (%)	February 2011 (%)	May 2011 (%)	Annual percentage change	% change from Feb to May 2011
Utilisation of production capacity		80.4	79.3	81.1	0.7	1.8
Under-utilisation of production capacity		19.6	20.7	18.9	-0.7	-1.8
Reasons for under-utilisation:	Shortage of raw materials	2.7	2.1	1.9	-0.8	-0.2
	Shortage of labour	1.2	1.5	1.5	0.3	0.0
	Insufficient Demand	11.5	12.2	11.1	-0.4	-1.1
	Other reasons	4.2	4.9	4.4	0.2	-0.5
	Total reasons	19.6	20.7	18.9	-0.7	-1.8

Source: Stats SA; August 2011

9.8.2 Capacity Utilisation by Manufacturing Division

According to the results released by Stats SA, there was an increase of 4.1% in the utilisation of production capacity for petroleum, chemical products, rubber and plastic products in May 2011 and this division was the highest contributor to the quarterly change in total utilisation of manufacturing production capacity. A year-on-year increase in the utilisation of production capacity for petroleum, chemical products, rubber and plastic products was also noted. A total of 5 divisions recorded negative growth in the 2nd quarter 2011 on a quarterly basis. The utilisation of production capacity for glass and non-metallic mineral products decreased by 0.4% both annually and quarterly. Underutilisation of production capacity increased in 6 manufacturing division between May 2011 and May 2010 (Table 17).

Table 17: Utilisation of production capacity by large enterprises in the manufacturing industry

Manufacturing Divisions	May 2010 (%)	February 2011 (%)	May 2011 (%)	Annual % change	Quarterly % change
Food and beverages	80.7	79.8	81.7	1.0	1.9
Textiles, clothing, leather and footwear	76.3	75.7	75.9	-0.4	0.2

Wood and wood products and paper, publishing and printing	82.6	81.1	80.9	-1.7	-0.2
Petroleum, chemical products, rubber and plastic products	81.6	79.5	83.6	2.0	4.1
Glass and non-metallic mineral products	79.2	79.2	78.8	-0.4	-0.4
Basic iron and steel, non-ferrous metal and metal products and machinery	78.6	77.7	81.0	2.4	3.3
Electrical machinery	81.0	83.3	82.4	1.4	-0.9
Radio, television and communication apparatus and professional equipment	83.4	82.5	82.9	-0.5	0.4
Motor vehicles, parts and accessories and other transport equipment	78.3	80.7	77.4	-0.9	-3.3
Furniture and 'other' manufacturing division	86.1	82.7	82.6	-3.5	-0.1
Total Manufacturing	80.4	79.4	81.1	0.7	1.7

9.9 Detailed analysis for the first quarter of the 2011/12 financial year

9.9.1 Total provincial budgets and expenditure

Table 18: Provincial Aggregated Budgets and Expenditure as at 30 June 2011

Rthousand	Main Budget 2011/12				Total	Actual spending as at 30 June 2011					Actual spending as % of main budget	2010/11: Outcome as at 30 June 2010	Year-on-year growth
	Current payments	Transfers and Subsidies	Payments for capital assets	Payments for financial assets		Current Payments	Transfers and subsidies	Payments for capital assets	Payments for financial assets	Total			
Eastern Cape	41 895 602	6 994 646	3 753 288	-	52 643 536	10 269 722	1 863 679	594 019	20	12 727 440	24.2%	11 950 827	6.5%
Free State	17 763 296	3 143 542	2 281 235	-	23 188 073	4 012 054	1 072 043	396 602	68	5 480 767	23.6%	4 532 457	20.9%
Gauteng	53 208 048	12 080 590	2 356 707	-	67 645 345	12 790 776	3 130 973	418 088	1 841	16 341 378	24.2%	15 404 590	6.1%
KwaZulu-Natal	60 813 457	9 262 713	7 210 771	13 070	77 300 011	13 801 940	2 246 748	1 317 035	65 033	17 430 756	22.5%	15 292 866	14.0%
Limpopo	35 692 481	4 947 712	3 292 005	-	43 932 198	8 100 731	1 018 590	748 788	2	9 868 111	22.5%	8 622 571	14.4%
Mpumalanga	22 704 232	3 741 590	2 752 133	-	29 197 955	5 326 291	905 178	465 621	5	6 697 095	22.9%	5 990 164	11.8%
Northern Cape	8 030 506	1 158 961	1 095 770	-	10 285 237	1 839 018	303 555	331 389	6	2 473 968	24.1%	2 026 247	22.1%
North West	18 720 628	3 925 001	1 818 790	280	24 464 699	4 032 133	771 840	320 644	-	5 124 617	20.9%	4 412 428	16.1%
Western Cape	27 768 175	6 038 026	3 028 839	3 912	36 838 952	5 901 726	1 304 916	477 067	828	7 684 537	20.9%	7 448 064	3.2%
Total	286 596 425	51 292 781	27 589 538	17 262	365 496 006	66 074 391	12 617 522	5 069 263	67 803	83 828 537	22.9%	75 680 214	10.8%

Source: National Treasury, 2011

Table 20 indicates that in the 1st quarter⁶ of the fiscal year 2011/12 the provinces spent R83.8 billion (22.9% of the combined budgeted expenditure of R365.5 billion for the year). Total quarter spending is 10.8% higher than the same period last year where provinces spent R75.7 billion.

9.9.2 Social services expenditure

Table 19: Provincial Social Services Expenditure as at 30 June 2011

Rthousand	Main Budget	Actual spending as at 30 June 2011	Actual spending as % of main budget	% share of total provincial expenditure	% share of total Social Services expenditure	2010/11: Outcome as at 30 June 2010	Year-on-year growth
Education	154 181 048	37 924 570	24.6%	45.2%	57.9%	33 183 268	14.3%
Health	109 996 770	25 136 153	22.9%	30.0%	38.4%	23 341 160	7.7%
Social Development	11 740 060	2 404 884	20.5%	2.9%	3.7%	2 065 408	16.4%
Total	275 917 878	65 465 607	23.7%	78.1%	100.0%	58 589 836	11.7%

Source: National Treasury, 2011

⁶ The 1st quarter of the fiscal year is equivalent to the 2nd quarter of the calendar year

The total annual budget for social services (including education, health and social development) is R275.9 billion. The total expenditure for the 1st quarter of the fiscal year 2011/12 is recorded at R65.5 billion (23.7% of the total provincial social services budgets for 2011/12). There has been growth of 11.7% compared with the same period last year.

R154.2 billion of the total budget is allocated to education (45.2%). Education expenditure for the 1st quarter of the fiscal year 2011/12 is R37.9 billion or 24.6% of the total education budget and has grown by R4.7 billion (14.3%) on last year's expenditure.

Table 20: Provincial Health Expenditure as at 30 June 2011

Rthousand	Main Budget	Actual spending as at 30 June 2011	Actual spending as % of main budget	% share of Health to total provincial expenditure	% share of Health to total Social Services expenditure	2010/11: Outcome as at 30 June 2010	Year-on-year growth
Eastern Cape	14 237 249	3 518 584	24.7%	27.6%	34.5%	3 723 675	-5.5%
Free State	6 820 708	1 513 278	22.2%	27.6%	38.0%	1 242 702	21.8%
Gauteng	22 837 577	5 667 047	24.8%	34.7%	44.4%	5 241 927	8.1%
KwaZulu-Natal	24 484 855	5 439 445	22.2%	31.2%	39.4%	4 777 815	13.8%
Limpopo	11 587 901	2 571 608	22.2%	26.1%	32.4%	2 175 004	18.2%
Mpumalanga	7 365 135	1 552 816	21.1%	23.2%	30.8%	1 569 213	-1.0%
Northern Cape	2 946 839	671 052	22.8%	27.1%	39.2%	605 924	10.7%
North West	6 321 446	1 405 793	22.2%	27.4%	36.8%	1 222 533	15.0%
Western Cape	13 395 060	2 796 530	20.9%	36.4%	45.0%	2 782 367	0.5%
Total	109 996 770	25 136 153	22.9%	30.0%	38.4%	23 341 160	7.7%

Source: National Treasury, 2011

Table 22 indicates the expenditure by provincial health departments in the 1st quarter of 2011/12 fiscal year. KwaZulu Natal is in line with most of the provinces at 22.2% in actual spending as a percentage of the main budget. This said, however, Gauteng, KwaZulu-Natal and the Western Cape's provincial percentage share of health expenditure as a percentage of total provincial expenditure is above the national average of 30%. KwaZulu-Natal spent 22.2% of the total budget of the province on health, while year-on-year growth in health expenditure in the province was 13.8%.

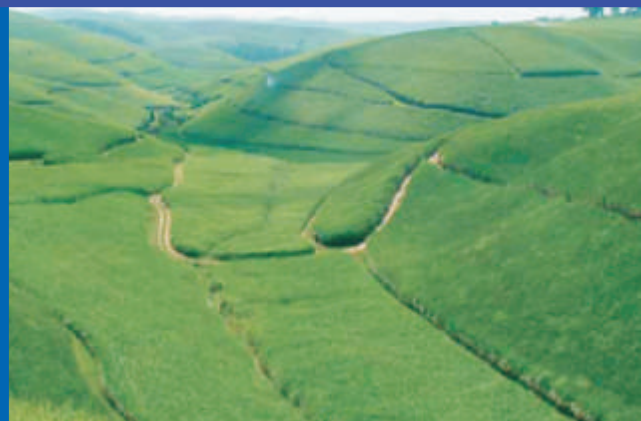
Table 21: Provincial Social Development Expenditure as at 30 June 2011

Rthousand	Main Budget	Actual spending as at 30 June 2011	Actual spending as % of main budget	% share of Soc. Dev to total provincial expenditure	% share of Soc. Dev to total Social Services expenditure	2010/11: Outcome as at 30 June 2010	Year-on-year growth
Eastern Cape	1 711 206	349 749	20.4%	2.7%	3.4%	348 068	0.5%
Free State	801 787	173 322	21.6%	3.2%	4.4%	180 972	-4.2%
Gauteng	2 424 792	533 865	22.0%	3.3%	4.2%	410 365	30.1%
KwaZulu-Natal	1 952 956	344 321	17.6%	2.0%	2.5%	286 414	20.2%
Limpopo	1 159 184	301 823	26.0%	3.1%	3.8%	216 759	39.2%
Mpumalanga	856 057	211 935	22.2%	3.2%	4.2%	159 870	32.6%
Northern Cape	520 271	122 260	23.5%	4.9%	7.1%	102 412	19.4%
North West	882 196	170 882	19.4%	3.3%	4.5%	124 700	37.0%
Western Cape	1 331 611	196 727	14.8%	2.6%	3.2%	235 848	-16.6%
Total	11 740 060	2 404 884	20.5%	2.9%	3.7%	2 065 408	16.4%

Source: National Treasury Report

The social development budget comprises 3.2% (R11.7 billion) of the total provincial budgets. Provinces have spent R2.4 billion (20.5%) of this amount in the 1st fiscal quarter. KwaZulu-Natal has spent 17.6% of the main budget given to the province. This constitutes an increase of 20.2% of social development expenditure in KwaZulu-Natal compared to the same period in the previous year.

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Department of Economic Development and Tourism

Umnyango Wezokuthu thu kiswa
Komnotho Nezokuvakasha

KWAZULU-NATAL PROVINCIAL GOVERNMENT

Phone: 033 264 2500 • Email: info@kznded.gov.za

Website: <http://www.kznded.gov.za>



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