



Province of KwaZulu-Natal
Provincial Treasury
IMES Unit

THE KWAZULU NATAL ECONOMY – A RISK AND
CONDITIONS MONITOR¹
Update 2

Clive Coetzee

General Manager: IMES Unit

Economist

clive.coetzee@kzntreasury.gov.za

033 8974538

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KZN RISK AND CONDITIONS MONITOR - June 2012

Economic Risk/Conditions Variables

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

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

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

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

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

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

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

Behaviour of the Economic Risk/Conditions Variables

The behaviour or movement of the economic risk/conditions variables over the last 25 months are displayed in the below table.

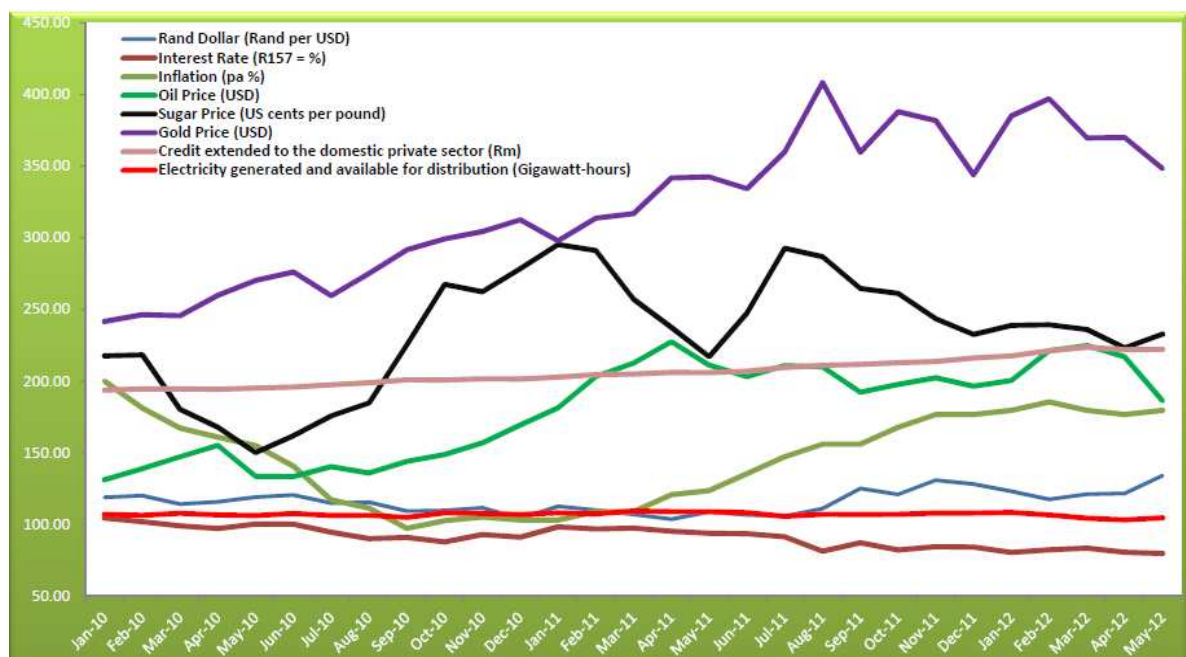
Table 3: Behaviour of the Economic Risk/Conditions Variables

	Rand Dollar (Rand per USD)	Interest Rate (R157 = %)	Inflation (pa %)	Oil Price (USD)	Sugar Price (US cents per pound)	Gold Price (USD)	Credit extended to the domestic private sector (Rm)	Electricity generated and available for distribution (Gig watt-hours)
May-10	7.58	8.04	5.26	74	15.11	1,215	1,880,871	19,757
Jun-10	7.67	8.03	4.78	74	16.30	1,242	1,888,631	20,028
Jul-10	7.31	7.58	3.98	77	17.69	1,168	1,903,532	19,761
Aug-10	7.35	7.23	3.78	75	18.60	1,237	1,917,768	19,785
Sep-10	6.96	7.30	3.30	79	22.67	1,311	1,936,914	19,507
Oct-10	6.99	7.04	3.48	82	26.94	1,345	1,935,498	20,112
Nov-10	7.10	7.46	3.57	86	26.42	1,368	1,943,218	20,022
Dec-10	6.62	7.31	3.50	93	28.04	1,405	1,941,730	19,888

Jan-11	7.17	7.88	3.50	100	29.74	1,339	1,955,015	20,114
Feb-11	7.00	7.77	3.70	112	29.31	1,411	1,971,557	19,970
Mar-11	6.81	7.82	3.70	117	25.90	1,425	1,975,168	20,341
Apr-11	6.60	7.64	4.10	125	23.91	1,537	1,986,284	20,266
May-11	6.92	7.53	4.20	116	21.85	1,540	1,984,829	20,276
Jun-11	6.79	7.50	4.60	112	24.92	1,503	1,994,629	20,139
Jul-11	6.73	7.33	5.00	116	29.47	1,618	2,019,970	19,666
Aug-11	7.07	6.52	5.30	116	28.88	1,836	2,033,242	19,924
Sep-11	7.97	6.99	5.30	106	26.64	1,617	2,039,996	19,905
Oct-11	7.70	6.59	5.70	109	26.30	1,744	2,052,317	19,920
Nov-11	8.33	6.77	6.00	112	24.52	1,716	2,060,174	20,080
Dec-11	8.16	6.75	6.00	108	23.42	1,547	2,083,795	20,090
Jan-12	7.83	6.45	6.10	110	24.05	1,731	2,096,914	20,150
Feb-12	7.48	6.60	6.30	122	24.10	1,785	2,131,911	19,832
Mar-12	7.71	6.69	6.10	124	23.77	1,662	2,156,036	19,414
Apr-12	7.75	6.46	6.00	120	22.48	1,664	2,138,557	19,190
May-12	8.53	6.39	6.10	103	23.45	1,566	2,142,168	19,479

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

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



From the table and graph it seems that during the 1st quarter of 2012:

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

Therefore there have been some variables (4) that have increased the economic risk or decreased the economic conditions in the provincial economy and vice versa.

Calculating the Monitor

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

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

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

Where:

er_t = the different economic risk/conditions variables

i = time in months

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

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

Where:

W_{si} = relative weight of each economic sector

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

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

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

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

Where:

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

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

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

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

Where:

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

Economic risk/conditions monitor for the province and regions

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

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

Graph 2: Economic Risk/Conditions Monitor

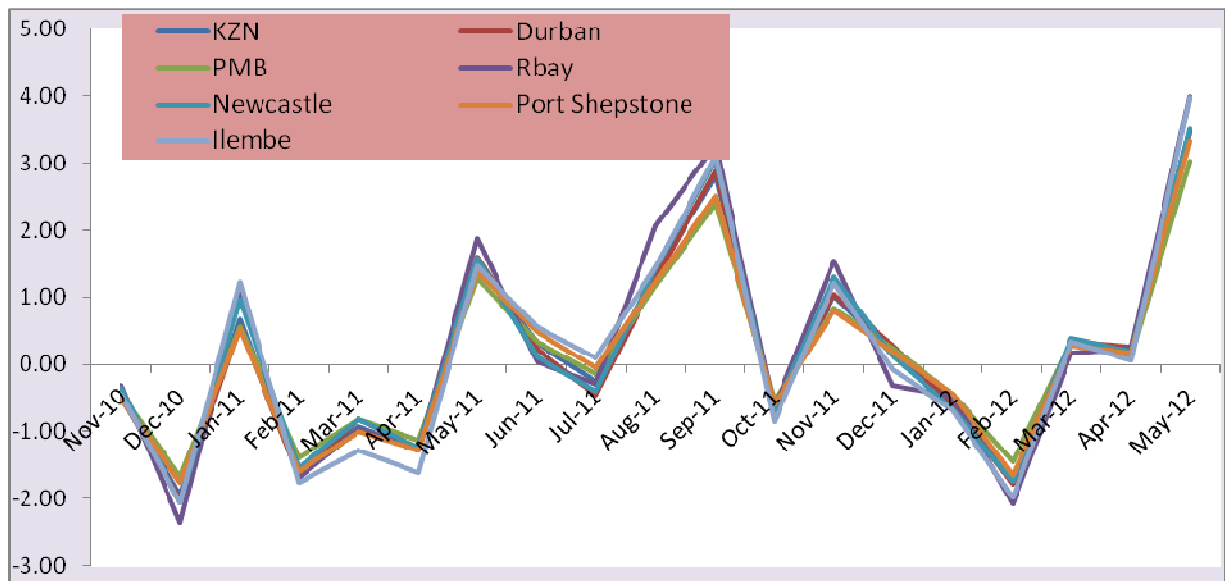


Table 4: Economic Risk/Conditions Monitor

	<u>KZN</u>	<u>Durban</u>	<u>PMB</u>	<u>RBay</u>	<u>Newcastle</u>	<u>Port Shepstone</u>	<u>Ilembe</u>
Nov-10	-0.46	-0.49	-0.44	-0.32	-0.35	-0.51	-0.44
Dec-10	-1.95	-2.01	-1.67	-2.37	-2.06	-1.77	-2.06
Jan-11	0.68	0.55	0.56	1.06	0.96	0.52	1.23
Feb-11	-1.63	-1.67	-1.40	-1.69	-1.53	-1.60	-1.76
Mar-11	-0.92	-0.82	-0.82	-0.97	-0.82	-1.00	-1.28
Apr-11	-1.28	-1.25	-1.12	-1.26	-1.24	-1.29	-1.62
May-11	1.52	1.60	1.29	1.88	1.59	1.37	1.47
Jun-11	0.31	0.22	0.34	0.03	0.11	0.49	0.56
Jul-11	-0.26	-0.46	-0.15	-0.29	-0.41	-0.05	0.09
Aug-11	1.35	1.29	1.17	2.07	1.44	1.22	1.45
Sep-11	2.80	2.88	2.39	3.27	3.06	2.51	3.11
Oct-11	-0.65	-0.66	-0.54	-0.66	-0.71	-0.59	-0.85
Nov-11	1.03	1.04	0.84	1.54	1.31	0.79	1.21
Dec-11	0.15	0.28	0.24	-0.31	0.13	0.18	-0.07
Jan-12	-0.54	-0.60	-0.44	-0.48	-0.67	-0.45	-0.68
Feb-12	-1.76	-1.78	-1.45	-2.08	-1.75	-1.65	-1.98
Mar-12	0.31	0.33	0.33	0.16	0.40	0.29	0.34
Apr-12	0.20	0.26	0.14	0.24	0.18	0.17	0.07
May-12	3.48	3.47	3.03	3.99	3.52	3.33	3.98

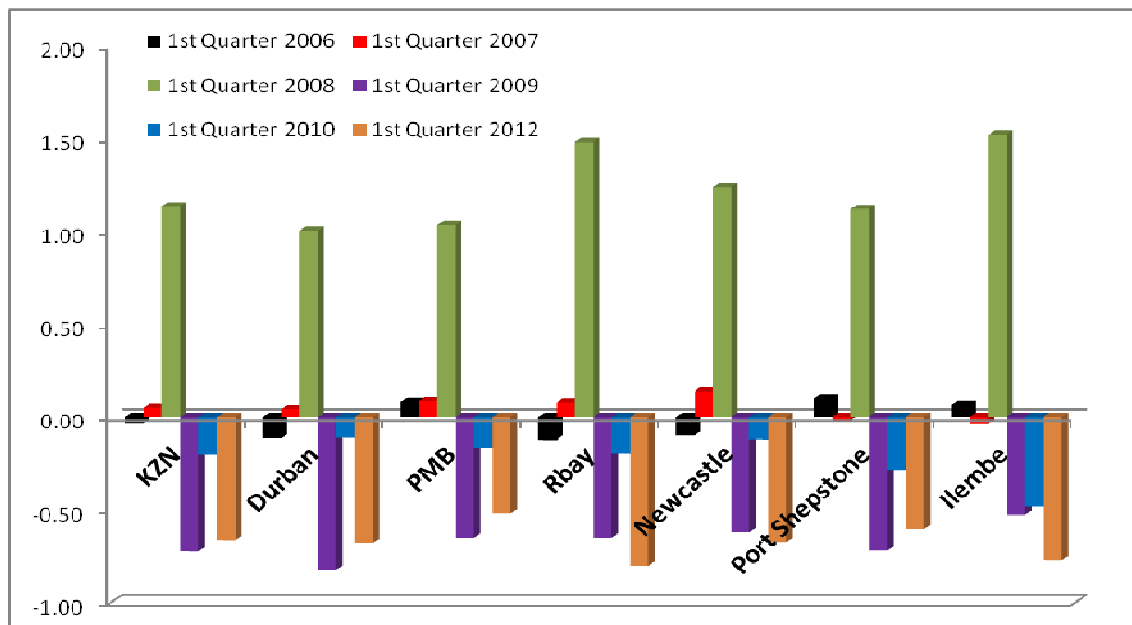
The average risk value for province and each of the regions for the 1st quarter of 2012 are displayed in the table below. The table also includes the average risk values for the 1st quarter of the indicated years.

Table 5: Average 1st Quarter Economic Risk/Conditions Monitor

	KZN	Durban	PMB	RBay	Newcastle	Port Shepstone	Ilembe
1st Quarter 2006	-0.03	-0.11	0.08	-0.12	-0.10	0.10	0.07
1st Quarter 2007	0.05	0.04	0.09	0.08	0.14	-0.02	-0.03
1st Quarter 2008	1.14	1.01	1.04	1.48	1.24	1.12	1.52
1st Quarter 2009	-0.73	-0.82	-0.65	-0.65	-0.62	-0.72	-0.53
1st Quarter 2010	-0.20	-0.11	-0.17	-0.20	-0.12	-0.28	-0.48
1st Quarter 2012	-0.66	-0.68	-0.52	-0.80	-0.67	-0.60	-0.77

Table 5 can be graphically illustrated through graph 3.

Graph 3: Average 1st Quarter Economic Risk/Conditions Monitor



Interpretation of the Monitor

The results suggest that the economic risk in the province during the 1st quarter 2012 was consistently fairly high and that the economic conditions in the province was not “conducive”. However the picture changed significantly during April and May 2012 with risk deteriorating and conditions improving substantially, mostly because of the sharp depreciation of the currency and fall in oil prices. This should support the economic outlook for the province during the 2nd quarter of 2012, but only marginally since 4 variables still poses significant risks to the economy of the province.

The results also suggest that economic risk during the 1st quarter of 2012 was the lowest in the Pietermaritzburg economy and the highest in the Richards Bay economy.

The monitor also suggests that the behaviour of the included economic variables during the 2nd quarter of 2012 will in general be supportive of economic growth during the 2nd quarter of 2012.