



KwaZulu-Natal Business Barometer

July 2014

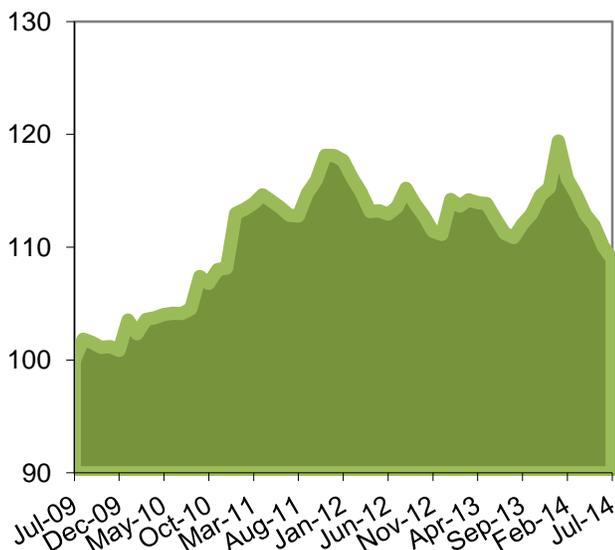
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KwaZulu-Natal economy remains negative amid weak national growth



The strain that the South African economy is under continues to show in KwaZulu-Natal. Prolonged labour strife, rising inflation and higher interest rates hamper business and consumer confidence. The July 2014 KwaZulu-Natal barometer, as compiled by Economists.co.za, decreased 2.1% year-on-year, the fourth consecutive month of year-on-year decline, and fell 1% month-on-month. The growth index was up 1% from a year ago and economic stress increased substantially.

Unemployment driving stress

The economic stress index, which measures indicators like interest rates, inflation and unemployment, increased 3.2% year-on-year, the same increase as the previous month and the fifth consecutive month of growing stress. Economic stress in KwaZulu-Natal also increased on a month-on-month and quarter-on-quarter basis and is 7.1% higher than three years ago. Aside from inflation and interest rates, which are up from a year ago, the main driver of economic stress in KwaZulu-Natal is the 23.7% unemployment rate, the highest in more than six years. This is not helped by flat economic growth which continues to disappoint.

Agriculture goes against the grain but at a slower pace

The growth of agriculture in KwaZulu-Natal slowed down on a year-on-year basis and turned negative over the shorter term, pointing to a possible end in the good run the sector had in the last year. The agriculture index's year-on-year growth of 3.4% was the slowest in five months. Month-on-month the index was down 0.6% and quarter-on-quarter it lost 0.2%. The index was 1.8% up from three years ago. Agriculture follows its own cycle and is more dependent on weather conditions and commodity prices than the state of the economy. The year-on-year growth was driven by a 7.7% increase in sugarcane crushed and a 10.6% increase in field crops. There was a 2.6% year-on-year decline in meat production as consumers cut back on more expensive foodstuff and as the meat price rose.

Mining in KwaZulu-Natal declined

The mining index decreased 0.6% year-on-year, but increased 1.7% month-on-month and 3.4% quarter-on-quarter, which shows that longer-term growth may return as the last effects of the five-month platinum strike subside. Coal mining accounts for more than two-thirds of mining in KwaZulu-Natal and was down 1% year-on-year as electricity demand has slowed in recent months due to Eskom's tariff increases. There is also uncertainty in the industry because of how coal will be regulated as a strategic mineral. The mining of building materials increase 0.3% year-on-year after the construction sector picked up slightly. Non-metallic mineral mining production was down 5.8% on a year ago.

Manufacturing remains negative

Manufacturing in KwaZulu-Natal declined for the second month in a row and the 2.3% year-on-year decrease was

sharper than June's 1.6% fall. Manufacturing decreased on a quarter-on-quarter basis and grew a marginal 0.4% on the month before. Negative sentiment and lack of confidence still prevail among businesses and consumers due to increased prices, higher interest rates and the four-week strike in the metals and engineering sector led by the National Union of Metalworkers in South Africa. The strike led to the temporary closure of some car manufacturers' plants and the manufacturing of vehicles and parts fell 11.3% from a year ago. Textiles and clothing declined by 8.4%.

Electricity usage up

Electricity usage increased 1.3% from a year ago. However, it was down 1.1% month-on-month and 2.1% quarter-on-quarter due to electricity tariff increases by which Eskom attempts to address its funding shortfall. Electricity usage is still down 2% on three years ago and the availability of power is a major capacity constraint on the South African economy.

Construction sector sees slight pick-up

A recent pick-up in the building sector led to a 1.1% year-on-year increase in the construction index. The index was 2.3% up on a month ago and 2% higher than the previous quarter. This is a major positive given the recent months of decline. However, the construction index is still down a substantial 20% from three years ago and has not grown meaningfully since late in 2009. Residential buildings, by square metres completed, increased 48%, which could be a good indicator that the worst is over in the construction sector.

Lumber sales continued to increase, rising 7.1% year-on-year. Small building projects and improvements may be taking place without official planning permission. There are also increased exports of lumber due to the weaker exchange rate.

Transport and communications a major positive

The KwaZulu-Natal transport and communications index grew 11% year-on-year, driven for the most part by the 20.5% increase in data and communications due to the continued increase in the use of smartphones and tablets.

The transport side of the index was also positive. The volume of cargo handled by the two main ports in KwaZulu-Natal increased by 3.3% and land transport was up by 3.4% from a year ago. Airlines are, however, still struggling and passenger arrivals at King Shaka International Airport dropped by 0.5% year-on-year. While this was the smallest decline in 27 months, the negative trend in passenger air transport continues as businesses and consumers try to reduce costs and choose land transport as the cheaper alternative.

Trade index relatively flat

The index increased 0.1% year-on-year, but was down on a month-on-month and quarter-on-quarter basis. The index again showed that consumers are holding back on purchasing durable goods due to uncertainty in the economy. Retail sales declined by 0.2% year-on-year. Vehicles sales were down 9% year-on-year, compared to the nationwide decline of 1.7%. This indicates that consumers in KwaZulu-Natal probably pay a greater percentage of their monthly incomes to vehicles and now that consumers are struggling, car sales are struggling. Vehicle sales have now been negative for 11 consecutive months.

Petrol sales again declined, by 3.6% year-on-year. Petrol sales have been down for the whole of South Africa for the past year, an indicator of consumer stress. The combined effects of higher petrol prices and better fuel efficiency lead to less petrol sales, which show that consumers are still very cautious about how they spend their money.

Wholesale sales grew by 5.2%. Wholesale is faring better because businesses substitute with domestic purchases due to the weak rand. Wholesale sales include sales to other countries, which have become more competitive with the rand's weakening, and pre-arranged contract sales which are difficult to capture. The consumer in KwaZulu-Natal and South Africa is still under tremendous pressure and the trade index continues to be driven down by declines in luxury and big-ticket durable items.

Government spending up, but constrained by municipal spending

The government index increased 1.7% year-on-year in July and was up by 3.9% on a quarter ago. Government spending in KwaZulu-Natal is held back by underspending by the province's municipalities. It may be that municipalities are not managing to collect payments from households and businesses and hence do not have the budgets to spend. Both national and provincial government expenditure increased as these spheres of governments try to stimulate growth in the economy.

Finance, real estate and business services still struggling

The finance, real estate and business services index in KwaZulu-Natal declined 2.9% on a year ago, but increased 2.1% month-on-month and 2.4% quarter-on-quarter. Property transfers increased 6.6% on a year ago and mortgages decreased by 3% over the same period which would continue to indicate a combination of buyers paying larger deposits on their properties and banks demanding larger deposits from buyers.

Growth in instalment sales slowed to 4% year-on-year as banks cut back on unsecured lending.

Advertising spend increased 3.2% on a year ago, which is a positive for the print and media industry. Civil debt cases were down by 39.6% from a year ago, which means less debt stress, but also results in less work for law and accounting firms.

Results Table: July 2014

Main and sub indices of Kwazulu-Natal Barometer	% Change on a year ago	% Change on a month ago	% Change on a Quarter ago	% change on 3 years ago
Agriculture Index	3.4%	-0.6%	-0.2%	1.8%
Mining Index	-0.6%	1.7%	3.4%	7.5%
Manufacturing Index	-2.3%	0.4%	-1.3%	3.6%
Electricity Index	1.3%	-1.1%	-2.1%	-2.0%
Construction Index	1.1%	2.3%	2.0%	-20.0%
Transport Index	11.0%	0.7%	2.9%	24.1%
Trade Index	0.1%	-0.1%	-1.8%	16.3%
Government	1.7%	-0.2%	3.9%	8.0%
Finance, Real Estate and Business Services Index	-2.9%	2.1%	2.4%	-20.0%
Kwa-Zulu Natal Growth Index	1.0%	0.5%	0.8%	3.4%
Kwa-Zulu Natal Stress Index	3.2%	1.6%	4.5%	7.1%
Kwa-Zulu Natal Barometer	-2.1%	-1.0%	-3.5%	-3.4%

Source: Economists.coza