KZN Department of Economic Development & Tourism

Department of Economic Development and Tourism
Umnyango Wezokuthuthukiswa Komnotho Nezokuvakasha
KWAZULU-NATAL PROVINCIAL GOVERNMENT

ECONOMIC DEVELOPMENTS IN BRIEF

1st Quarter 2010

INSIDE THIS ISSUE:

IMF forecasts a 4.4% global growth rate

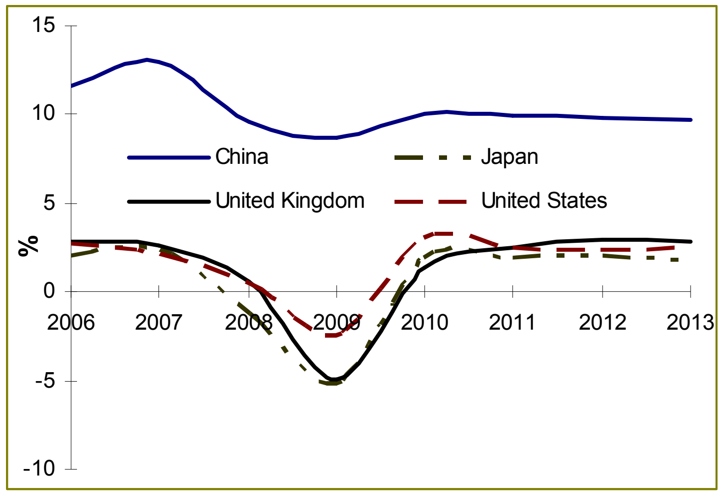
GLOBAL ECONOMIC DEVELOPMENTS: FIRST QUARTER 2010

The latest victim of the financial chaos is the European Union. Its markets have been on a decline owing to the debt crisis in Greece. The contagion effect has left Spain and Portugal with unemployment levels around 20%. European policy makers agreed to a loan package worth €750 billion and a program of central bank bond purchases to support the currency. Two thirds of this support is to be provided by the Euro Zone and a third by the IMF.

Overall, the world's growth surpassed previous analyst estimates. The IMF forecast the world growth rates around 4.4% for 2010. Box 1 shows the growth rates of advanced economies and China. The U.S. economy expanded at a 3.2% annual rate in Q1:2010 as consumer spending rebound, the strongest sign yet that a sustainable recovery is taking hold. While growth slowed from Q4:2009 rapid growth of 5.6% (revised from 5.7%) pace and was weaker than the general market consensus. Consumer spending, which normally accounts for about 70% of U.S. economic activity, added nearly 2.6% to U.S. GDP last quarter, the biggest contribution since the fourth quarter of 2006.

The German economy, the largest in the Euro Zone, unexpectedly grew in Q1:2010 compared with the Q4:2009. According to the German Federal Statistics Office, *Destatis*, GDP, adjusted for seasonal effects, rose 0.2% from the Q4:2009. In France GDP grew by 0.1% following a 0.5% growth during Q4:2009. In the UK, GDP increased 0.2% in Q1:2010,

Box 1: Real GDP Growth for Select Advanced Countries & China



***Source**: Calculations from the IMF Database*

***NB:** Projections are from 2008 for SA and Chile and 2009 for Argentina & Brazil*

Continued on Page 2

MAY THE GAMES BEGIN!!

It is only a matter of days to go before official opening of the world's greatest sporting showcase. South Africa was widely under-rated by critics on its ability to host a successful soccer world cup. In KZN, the various infrastructure erected for this global spectacle is ready. The beautification of the Durban beach-front is among the latest completions.

In addition, to the FIFA Fan parks, DEDT will be setting up a number of public viewing areas (PVAs) which will screen some games in selected areas in the province. The transport and built-infrastructure will position the province for future high profile events such as the Olympics. Even in the aftermath, KZN will leverage the 2010 World Cup to accelerate economic growth and lower unemployment through the more job creation and sustaining those already created. Tourism is among the sectors that will benefit the most.

For more information contact us:
General Manager:
Sihle Mkhize
MkhizeSi@kznded.gov.za
Economists
Cosmas Hamadziripi
HamadziripiC@kznded.gov.za
Thulani Mandiriza
MandirizaT@kznded.gov.za
Eddie Musasiwa
MusasiwaE@kznded.gov.za
Layout & Design:
Eddie Musasiwa

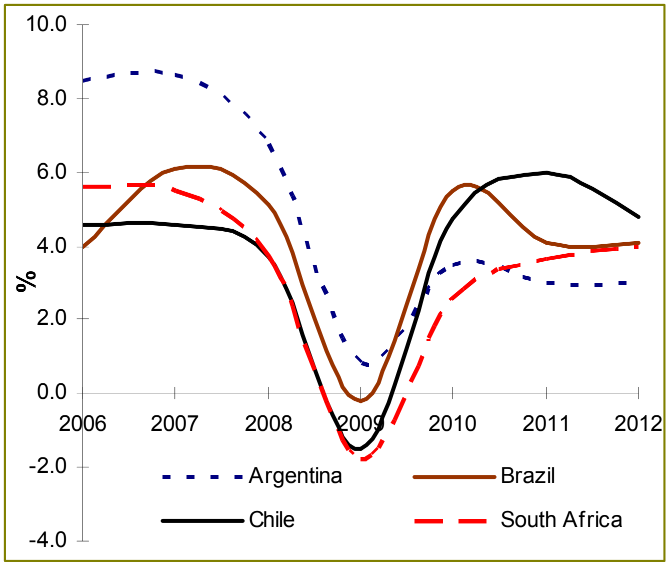
Visit our website for more details:
http://www.kznded.gov.za/

Global Economic Developments: First Quarter 2010

GDP in China grew by 11.9%

Financial sector restructuring important for sustained growth

Box 2: GDP Growth for Selected Emerging Economies



***Source**: Calculations from the IMF Database*

***NB:** Projections are from 2008 for SA and Chile and 2009 for Argentina & Brazil*

Continued from Page 1

compared with an increase of 0.4% in the previous quarter. The decrease in the growth rate was due to weaker growth in services. The IMF expects the economy to grow by 1.3% in 2010 and 2.5% in 2011 as domestic demand rebounds.

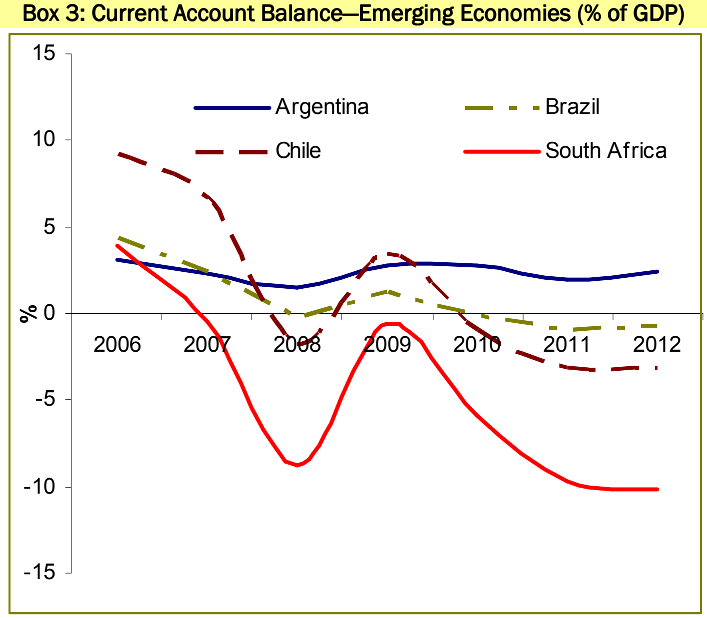
In emerging markets, China's GDP expanded at a rapid rate of 11.9% in Q1:2010 following a 10.7% growth during the Q4:2009. The increase is 5.7% higher than the same period in 2009 when economic growth slowed to 6.2%, the lowest in a decade. India's GDP grew by 7.2% during Q1:2010 against a background of rising exports and buoyant domestic demand.

Economic growth in India is expected to average 8.8% and 8.4% in 2010 and 2011 respectively. In Brazil, GDP expanded at an annual rate of 2.0% in the last quarter. IMF expects economic growth to average 5.5% in 2010 and 4.1% in 2011 as inflation stays within the central bank's target of 4.5%. Russia's GDP grew by 2.9% in Q1:2010 against a backdrop of surging energy price, various stimulus programs and low interest rate. Highly dependent on oil prices, Russia was extremely vulnerable during the recent global economic downturn.

Growth for selected emerging economies is shown in **Box 2.** GDP growth in Africa declined from 4.9% in 2008 to 1.6% in 2009 and is expected to rise to 4.3% in 2010. The volume of export growth is expected to recover from -4.9 % in 2009 to 4.2% in 2010; the current account and fiscal balance and savings and investment rates all declined. Unemployment rates remained in double digits in 2009 as in previous years, and are expected to remain high in 2010.

Box 3 shows the current account balances for selected emerging economies. The IMF argues that economies that had trade deficits prior to the financial crises will need to consolidate their public finance so as to stimulate and sustain growth. In addition, those that ran excessive current account surpluses will need to increase demand to sustain growth whilst those that ran excessive deficits should scale back their demand. To further enhance economic growth, financial sector restructuring must be priori-

Box 3: Current Account Balance—Emerging Economies (% of GDP)



***Source**: Calculations from the IMF Database*

***NB:** Projections are from 2008 for SA and Chile and 2009 for Argentina & Brazil*

INSIDE KWAZULU-NATAL

The KwaZulu-Natal economy grew by 4% in Q1:2010 following another positive growth of 3.7% in Q4:2009 **(see Box 5)**. The growth of 4% was below the national growth of 4.6%. The sectors that contributed to growth in Q1:2010 were manufacturing which registered +8.6%; wholesale & retail; hotels & restaurant (+3.8%); electricity & water (+3.7%); general government services (+2.7%); and community, social & other personal services (+2%). On the other hand, the mining and quarrying sector retreated by −8.9%.

The agricultural sector managed to register positive growth of 2.5% in Q1:2010 after being negative for the whole of 2009. Innovative projects and programmes to stimulate this sector will augur well for provincial developmental initiatives. The move away from traditional crops such as sugarcane by small holder farmers remains a challenge as well as the rezoning of agricultural land.

All regional economies managed to drift to positive growth in Q1:2010 with Limpopo achieving peak growth of 7.6%; Mpumalanga (6.5%) and North West (6%). On the other hand Eastern Cape had the lowest growth (3.5%) followed by Western Cape (3.8%). It seems that the smaller regional economies grew much faster as compared to the bigger economies such as Gauteng and KwaZulu-Natal **(see Box 4)**.

KZN economy grew by 4%

The manufacturing sector remains the largest sector in KZN

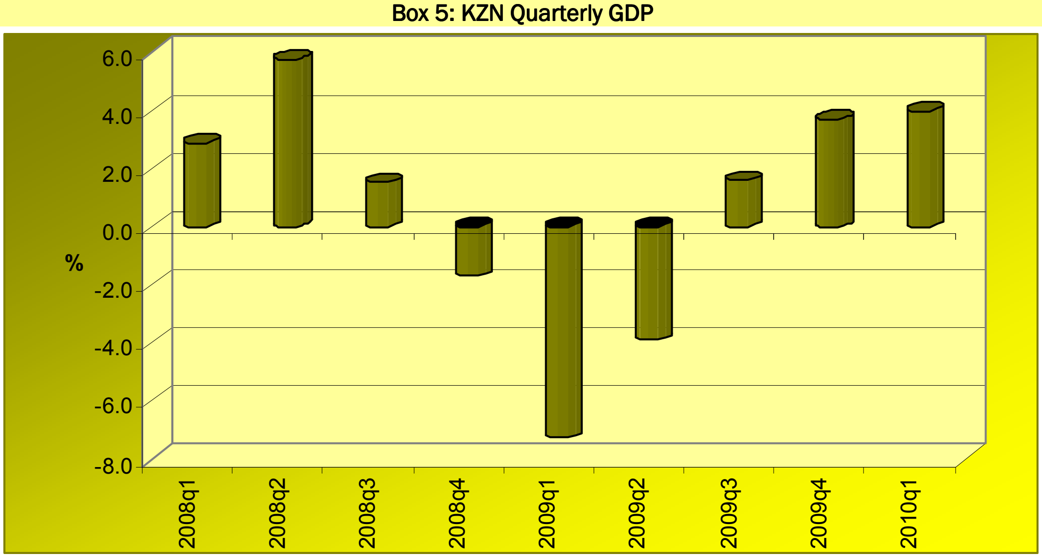
Agriculture sector registers positive growth

Box 4: Annualized Regional Growth Rates per Quarter

Province	2009				2010
	Q1	Q2	Q3	Q4	Q1
Western Cape	-5.6	-3.7	1.5	3.8	3.8
Eastern Cape	-5.2	-3	1.9	3.9	3.5
Northern Cape	-8.5	1.7	0.4	4.5	4.7
Free State	-7.6	-2.4	0	2.3	4.9
KwaZulu-Natal	**-7.3**	**-3.9**	**1.6**	**3.7**	**4.0**
North West	-10.8	-0.1	-1.7	1.5	6
Gauteng	-6.5	-2.8	2.2	4.3	4.3
Mpumalanga	-12.7	-2.9	-1.8	0.6	6.5
Limpopo	-10.6	-2.6	-4.4	-2.3	7.6
South Africa	**-7.4**	**-2.8**	**0.9**	**3.2**	**4.6**

Source: *StatsSA*

Box 5: KZN Quarterly GDP



Source: *StatsSA*

Economic Trends In SA

SA growth rises to 4.6%

Manufacturing expands to 8.4% in SA

Box 6 : GDP Revisions, 2009 –% Change Seasonally Adjusted

Industry	2009				2010
	Q1	Q2	Q3	Q4	Q1
Agriculture, forestry & fishing	-5.6	-15.8	-11.8	-7.6	3.0
Mining & Quarrying	-30.7	15.8	-5.8	4.6	15.4
Manufacturing	-25.5	-11.1	7.6	10.1	8.4
Electricity, Gas and Water	-8.1	1.9	4.2	0.9	4.9
Construction	10.7	8.7	6.1	3.6	2.1
Wholesale & retail trade, hotels, & restaurants	-2.4	-5.9	-1.1	-0.7	3.3
Transport, storage & Communication	-2.1	-1.0	1.2	1.9	2.4
Finance, real estate & business services	-2.3	-3.8	-1.5	1.1	2.5
General government services	2.1	3.1	4.9	7.0	2.8
Personal Services	2.7	3.3	3.5	3.1	2.0
Total Value Added	-7.6	-2.4	1.4	3.5	4.4
Taxes less Subsidies on products	-6.4	-6.9	-3.4	0.7	6.5
GDP at market prices	**-7.4**	**-2.8**	**0.9**	**3.2**	**4.6**

Source: *Stats SA*

Real GDP at market prices for Q1:2010 increased to 4.6% *(quarter-on-quarter)* from 3.2% in Q4:2009 (see Box 6). This is further substantiation that the economic recovery in South Africa is gaining momentum.

The largest contributions to the quarter-on-quarter growth of 4.6% were manufacturing sector which expanded to 8.4% (contributing 1.3% of the 4.6% growth); mining and quarrying industry (15.4% growth and contributing 0.8%); finance, real estate and business services (2.5% growth and contributing 0.5%) and wholesale, retail, motor trade and accommodation grew by 3.3% (contributing to 0.4%) and general government sector (2.8% and contributing 0.4%).

All sectors in the economy registered positive growth in Q1:2010 thereby reaffirming the potency of the economic recovery and 5.8% respectively.

The impressive growth in mining and quarrying sector was mainly due to increases reflected by coal mining and favourable commodity prices in the international market. Growth in the manufacturing sector was largely driven by strong growth in the basic iron and steel, non–ferrous metal products, metal products and machinery the petroleum, and chemical products sub-sectors.

Tourism Accomodation Developments

Total income for the Accommodation Industry fell by 0.3%

Total income for the accommodation industry for Q1:2010 decreased by 0.3% compared to Q1:2009. Total income for the accommodation industry in March 2010 amounted to R1.77 billion. This represents an increase of 1.6% compared with March 2009. Income from accommodation for Q1:2010 decreased by 0.9% compared with Q1:2009. This was mainly due to a decrease of 5.0% in the number of stay unit nights sold during the same period. Income from accommodation in March 2010 increased by 2.1% compared with March 2009. The number of stay units available for Q1:2010 increased by 2.4% compared with Q1:2009.

The main contributor to the income within the accommodation industry is hotels, accounting for 68.1% followed by other accommodation (includes lodges, bed and breakfast establishments, self-catering establishments) accounting for 23.5%. Caravan Parks and guest houses account for 0.8% and 7.7% respectively.

Hotel income declined by 4.6% between Q1:2009 and Q1:2010 due to the severe economic conditions. Following the same trend was guest houses and guest farms which declined by 9.5% during the period under review. Positive income gains were achieved in caravan parks and camping sites (8.4%) and other accommodation (12.4%).

Labour Market Trends

Box 7 : Labour Market Indicators in KwaZulu-Natal and Comparative Regions

	South Africa		Gauteng		KwaZulu-Natal		Western Cape	
	Q4:09	Q1:10	Q4:09	Q1:10	Q4:09	Q1:10	Q4:09	Q1:10
Working Age Population (000s) (15-64 years)	31,261	31,350	7,184	7,201	6,405	6,426	3,516	3,527
Labour Force (000s)	17,138	17,113	5,046	5,081	2,983	2,998	2,413	2,404
Employed (000s)	12,974	12,803	3,749	3,703	2,409	2,418	1,894	1,915
Unemployed (000s)	4,165	4,310	1,297	1,378	574	580	518	489
Not Economically Active (000s)	14,123	14,237	2,138	2,120	3,422	3,428	1,103	1,122
Discouraged Work Seekers	1,686	1,686	231	236	452	484	42	51
Other	12,437	12,437	1,907	1,885	2,970	2,944	1,061	1,072
Unemployment Rate (%)	24.3	24.3	25.7	27.1	19.2	19.3	16.9	20.3
Absorption Rate (%)	41.5	41.5	52.2	51.4	37.6	37.6	55.6	54.3
Labour force participation (%)	54.8	54.8	70.2	70.6	46.6	46.7	66.9	68.2

Source: *Stats SA*

Unemployment remained flat in SA

Stats SA reports that 171,000 were lost in Q1:2010 compared to the 89,000 jobs that were added in the formal and informal non-agricultural sectors of the economy in Q4:2009. The overall unemployment rate rose to 25.2% in Q1:2010 compared to 24.3 in Q4:2009.

KZN's unemployment increased by 0.1 percentage points

Box 7 summarises the various labour market indicators of SA, KZN vis-à-vis comparable provinces. Whilst Gauteng recorded a decrease in unemployment, the KZN and Western Cape recorded a surge in unemployment. KZN saw a 0.1 percentage points increase whilst Western Cape posted the largest jump of 3.4 percentage points.

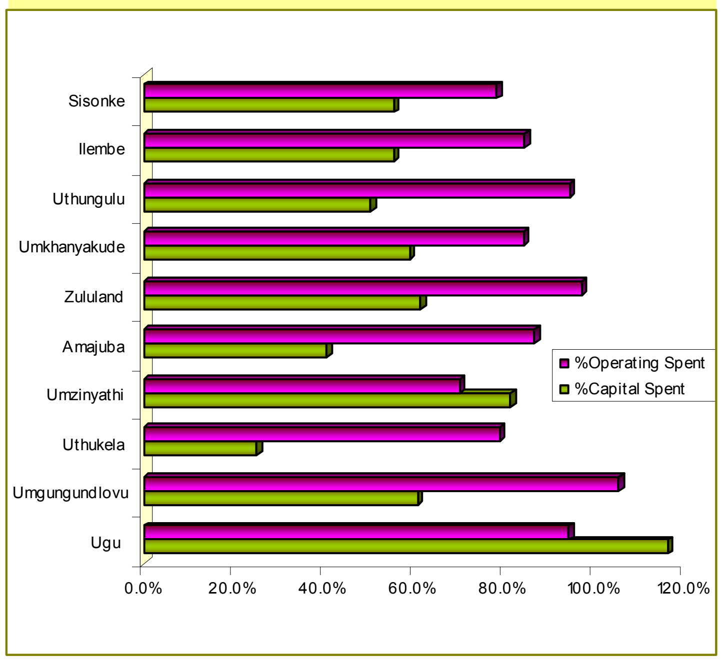
Capital and Operating Expenditure

Liquidations fell by 7.9%

The KZN government remains committed to achieving sustained economic growth and poverty reduction. In line with this focus, provincial public spending in infrastructure has increased considerably over the past decade. Between 2000 and 2009 the provincial government has invested a total of R59.0 billion into infrastructure, accounting for 13.8% of the total provincial expenditure and growing on average by 22.9% over the same period.

During this period there was a significant improvement in the quality of lives of the KZN community though a number of challenges are still ubiquitous. Of grave concern is the slow pace of service delivery. Sporadic service delivery protests around the country are symptoms of this slow pace. The levels of service delivery are closely related to capital and operating expenditure. Box 8 summarizes the capital and operating expenditure by district.

Box 8 : Capital & Operating Expenditure (% of GDPR)



Source: *Municipal Finance 4th Quarter Review*

INFLATION TRENDS IN SA

Box 9 : Geographical Headline Inflation

Geographical Area	2010		
	January	**February**	**March**
Western Cape	6.8	6.2	5.7
Eastern Cape	5.4	4.8	4.3
Northern Cape	5.6	4.9	4.4
Free State	5.8	5.4	4.7
KwaZulu-Natal	4.8	4.4	3.9
North West	5.6	5.2	3.9
Gauteng	6.4	5.8	5.2
Mpumalanga	6	5	4.5
Limpopo	4.4	4.2	4
South Africa	6.2	5.7	5.1

Source: *Stats SA*

SA Inflation within the 3-6% band

The first quarter of 2010 was characterized by noticeable deceleration in the inflation rate to within the target range (3%-6%), its lowest level since March 2007 when it breached the target level and rising close to 13.7% in August 2008.

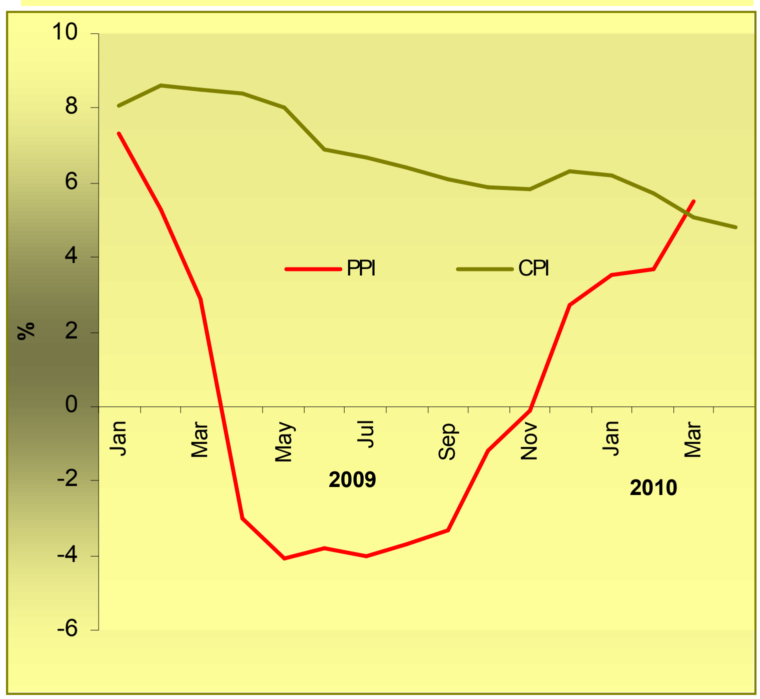
Inflation fell for the third month in a row as consumer demand remain subdued. After declining to 6.2% in January 2010, inflation declined eased further to 5.1% year-on-year (y/y) in March from 5.7% y/y in February, registering below market consensus of 5.2% y/y. Consumer prices rose by 0.8% m/m, with alcoholic beverages and tobacco, and education the largest contributors, having risen by 5.7% m/m and 9.2% m/m, respectively.

KZN inflation slowed down to 3.9% in March 2010

These components accounted for 0.5% of the m/m increase in the CPI, while prices of housing and utilities, transport and miscellaneous goods and services each contributed 0.1%. On the other hand, disinflation in food and vehicle prices continues to bolster the decline in the inflation rate. Consumer goods inflation eased further to 4% y/y compared to elevated administered price inflation of 12.3% y/y.

Geographical consumer price inflation in the majority of provinces continued to decline throughout the third quarter in line with developments at national level. KZN recorded an inflation rate of 3.9% and remains one of the provinces with the lowest inflation well below the national average. During the period under review, prices in Western Cape and Gauteng rose faster as compared to other regions and the inflation rates were above the national average of 5.1%. In most cases food and transport remain the major drivers of inflation.

Box 10: South Africa CPI and PPI



Source: *StatsSA*