



# ECONOMIC DEVELOPMENTS IN BRIEF

4th Quarter 2009

## INSIDE THIS ISSUE:

<i>Global Economic Developments: Fourth Quarter '09</i>	<b>1</b>
<i>International Trade</i>	<b>1</b>
<i>Inside KwaZulu-Natal</i>	<b>3</b>
<i>Economic Trends in SA</i>	<b>4</b>
<i>Investment Developments in KZN</i>	<b>4</b>
<i>Labour Market Trends</i>	<b>5</b>
<i>Inflation Trends in SA</i>	<b>6</b>

*Global economic activity has improved*

*"Growth is driven by resurgence in financial markets confidence" IMF*

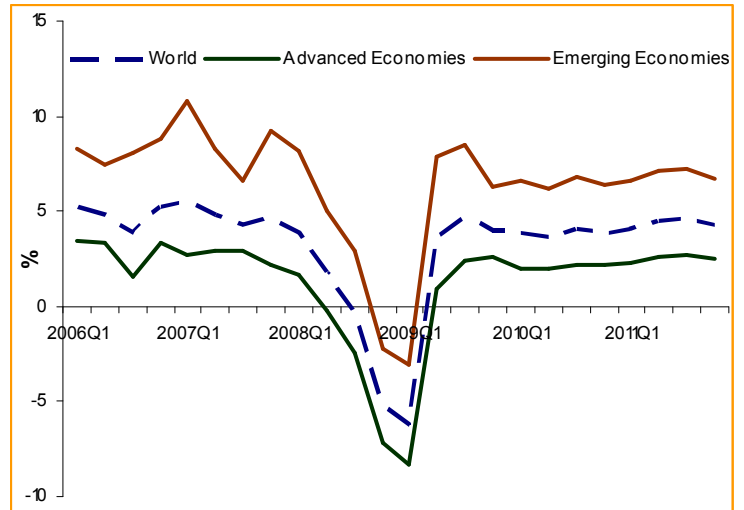
*Increase in SA Exports*

## GLOBAL ECONOMIC DEVELOPMENTS: 4TH QUARTER 2009

Economic activity has improved somewhat during the fourth quarter of 2009, though global economic activity was largely subdued during the year. This negative development indicates that the financial crisis aftermath will remain in global economic history for a long time. The world's real GDP is estimated to have contracted by 1.1% in 2009, compared to a 3.0% growth in 2008. Most countries including advanced economies began exhibiting some nascent recovery signs as early as the second quarter of 2009 (see **Box 1**).

The IMF argue that the rebound in global growth and trade is due to a resurgence in confidence in world financial markets. In addition, government policy support and a myriad of policy stimuli have helped the world slip out of the recession sooner than anticipated. Notably, monetary policies in most advanced countries, were expansionary

**Box 1: Global GDP Growth**



Source: IMF

NB: Estimates are from 2009Q3

with interest rates rate being lowered to their all-time lows.

The US real GDP increased at an annual rate of 5.7% year-on-year (y/y) in the fourth quarter of 2009 comparing positively to the revised 2.2% posted in the third quarter. The principal drivers of this

buoyant growth were the change in non-farm inventories and exports. The US economy is estimated to have contracted by 2.8% in 2009 after registering a growth of 1.1% in 2008. This is largely due to the severe recession emanating from the credit crisis, falling housing and

Continued on Page 2

## INTERNATIONAL TRADE

South African exports increased, while the upward trend in the international prices of natural export commodities boosted export earnings in third quarter of 2009. However, the strengthening of the rand and the average rand price of gold decline, led to increased demand for domestic gold by

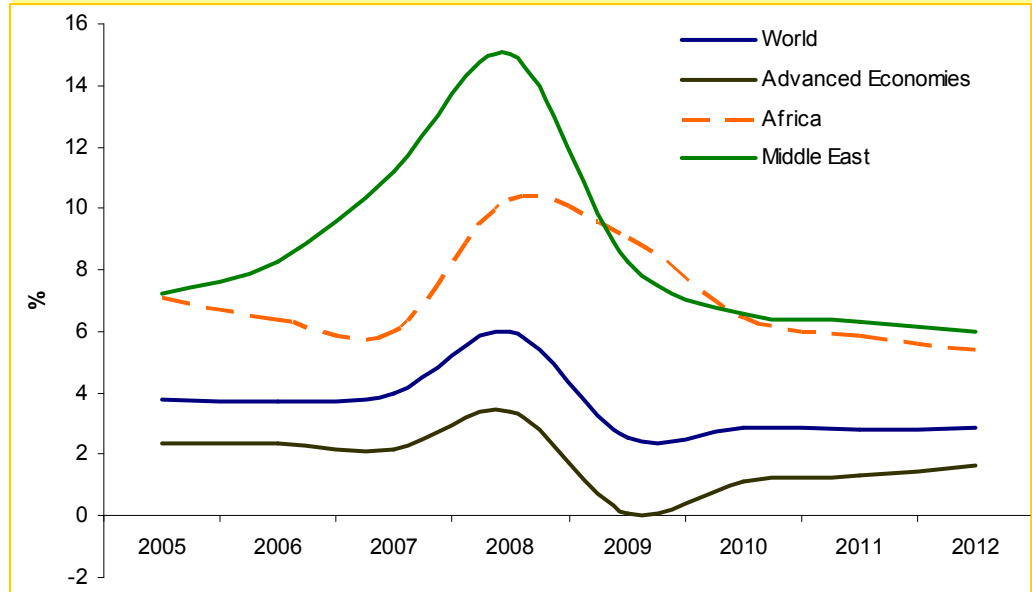
international investors seeking safe custody for their wealth.

The positive impact of the economic stimulus packages introduced at the onset of the global economic turmoil yielded results as many economies are showing signs of recovery. The results of these interventions were re-

flected in moderate international trade activity which led to a modest increase in the volume of merchandise exports and a positive impact on South Africa's trade account. In addition, the volume of coal exports also grew significantly ahead of the winter season in the northern hemisphere.

## GLOBAL ECONOMIC DEVELOPMENTS: FOURTH QUARTER 2009

Box 2: Global Inflation Trends



Source: IMF

### Continued from Page 1

equity prices, weak aggregate demand and loss of confidence.

Japan's GDP grew an annualized 4.6% in fourth quarter, bolstered by exports to Asia and a rise in domestic demand supported by government stimulus measures. On a quarterly basis, the economy grew 1.1% in absolute terms from the third quarter, when the economy recorded zero growth. The figures were better than the expected average forecasts of an annualized 3.5% increase and 0.9% quarterly growth.

In the UK, real GDP increased 0.1% in the fourth quarter, compared to a decrease of 0.2% in the third quarter. This marks the end of Britain's worst recession since the Great Depression which saw GDP shrink by 6.2%. However, the rise in output was due to growths in services and production.

The global financial crisis spread quickly to Latin American and Caribbean markets

after mid-September 2008. Depressed external demand and low revenues from commodity exports, tourism, and remittances, impacted negatively on the region. Some of the countries affected were Argentina, Brazil, Chile, Mexico, and Venezuela, which are among the world's major exporters of primary products.

Surprisingly, the impact of the global crisis on Asian economies has been limited. This is because the region was not heavily exposed to US securitized assets. Improved macroeconomic fundamentals and relatively sound bank and corporate balance sheets provided some buffers to the financial sector. Growth projections for Asia have been marked down to varying degrees, in line with weaker global demand and tight external financial conditions.

China's GDP expanded at a rapid rate of 10.7% in the fourth quarter from the prior

year. As a result, the full-year economic growth rate rose to a better-than-expected 8.7% which is slightly about half the 13% growth rate recorded during the pre-crisis era in 2007.

In India, economic growth is expected to decline sharply from more than 9% recorded in the pre-crisis era in 2007 to 4.5% in 2009. The slowdown is primarily a result of weaker investment, reflecting tighter global financing conditions and a turn in the domestic credit cycle.

**Box 2** shows the trends in global inflation. The subdued demand, synonymous to a recession, shows the sharp fall in world inflation. Weaker demand that the world experienced is reflected by the inflation trends. In advanced economies inflation fell to zero in the midst of the crisis. In the Middle East, inflation had risen so rapidly but it also sharply trended downwards. World inflation is forecast to moderate around 3% in the medium term.

*Japan grew by an annualized 4.6%*

*GDP in the UK increased by 0.1%*

## INSIDE KWAZULU-NATAL

**Box 3 : Annualized Provincial Growth Rates**

Province	2008			2009			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Western Cape	5.0	2.3	-0.2	-5.6	-3.7	1.5	3.8
Eastern Cape	4.6	1.9	-0.4	-5.2	-3.0	1.9	3.9
Northern Cape	4.9	0.9	2.0	-8.5	1.7	0.4	4.5
Free state	4.8	1.1	-0.5	-7.6	-2.4	0.0	2.3
<b>KwaZulu-Natal</b>	<b>5.8</b>	<b>1.5</b>	<b>-1.7</b>	<b>-7.3</b>	<b>-3.9</b>	<b>1.6</b>	<b>3.7</b>
North West	5.7	-0.3	0.3	-10.8	-0.1	-1.7	1.5
Gauteng	5.8	1.7	-0.7	-6.5	-2.8	2.2	4.3
Mpumalanga	6.7	-0.8	-2.7	-12.7	-2.9	-1.8	0.6
Limpopo	4.7	-0.2	0.1	-10.6	-2.6	-4.4	-2.3
<b>South Africa</b>	<b>5.5</b>	<b>1.3</b>	<b>-0.7</b>	<b>-7.4</b>	<b>-2.8</b>	<b>0.9</b>	<b>3.2</b>

Source: Stats SA

*KZN grew by 3.7%*

*KZN Mining contributed by 67.5%*

The KwaZulu-Natal economy is estimated to have grown by 3.7% in the fourth quarter of 2009. The growth of 3.7% was above the national growth of 3.2%. The major sectors that contributed to positive growth in the fourth quarter were manufacturing which grew by 9.5%; mining, 67.5%; and general government services, 6.7%. On the other hand, agriculture, construction and wholesale & retail retreated by 4.9%, 0.9%, and 1.4 % respectively.

The agricultural sector in KwaZulu-Natal remains under pressure with negative growth in the four quarters of 2009. This is due to declining investment in the sector, and diminished returns on investment—farmers preferring to sell to agricultural land for rezoning purposes among others. The revised estimates indicates that the sector deteriorated to -4.4% in the first quarter. Innovative projects and programmes to stimulate this sector will augur well with provincial developmental efforts.

*KZN Agriculture sector still in the red*

**Box 3** shows provincial annualised growth rates on a quarter-on-quarter basis. Most of the regional economies managed to migrate to

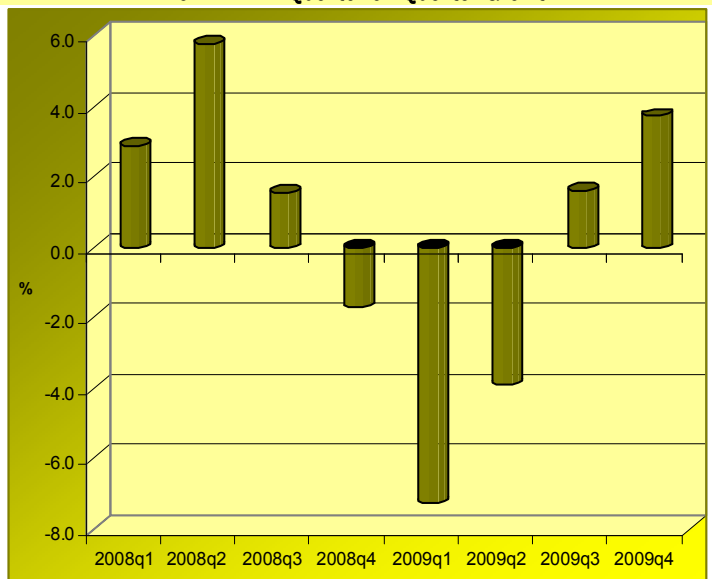
positive territory in the third quarter of 2009 except Mpumalanga, North West and Limpopo.

In the fourth quarter of 2009, Northern Cape grew rapidly by 4.5% followed by Gauteng with 4.3%; Eastern Cape 3.9%; Western Cape, 3.8%; and KwaZulu-Natal, 3.7%. Unfortunately, Limpopo is the only regional economy that is still in recession. In 2009, the deepest slump of 7.3% for KZN growth was registered in the first quarter whilst the largest growth posted in the fourth quarter. The economic decline was marginal better than

the national decline of 7.4%.

The quarterly growth trends in KwaZulu-Natal are depicted in **Box 4**. Growth started slowing in the third quarter of 2008 eventually resulting in a recession in the ensuing quarter. Growth in the first quarter 2010 is expected to rise more significantly buoyed by the increased demand from the oncoming 2010 World Cup. The tourism sector is forecast to be the major driver of the growth. Strategies to maintain this growth after the games will be critical.

**Box 4 : KZN Quarter-on-Quarter Growth**



Source: StatsSA and Quantec

## ECONOMIC TRENDS IN SA

Box 5 : 2009 GDP Growth Revisions

Industry	Qtr 1		Qtr 2		Qtr 3	Qtr 4
	Rebased	Revised	Rebased	Revised	Rebased	Rebased
Agriculture, forestry & fishing	-5.6	-3.7	-15.8	-13.1	-9.8	-7.6
Mining & Quarrying	-30.7	-30.7	15.8	15.8	-5.8	4.6
Manufacturing	-25.5	-25.5	-11.1	-11.1	7.6	10.1
Electricity, Gas and Water	-8.1	-8.1	1.9	1.9	4.2	0.9
Construction	10.7	10.7	8.7	8.7	6.1	3.6
Wholesale & retail trade, hotels, & restaurants	-2.4	-2.4	-5.9	-5.9	-1.1	-0.7
Transport, storage & Communication	-2.1	-2.1	-1.0	-1.0	1.2	1.9
Finance, real estate & business services	-2.3	-2.3	-3.8	-3.8	-1.5	1.1
General government services	2.1	2.1	3.1	3.1	4.9	7.0
Personal Services	2.7	2.7	3.3	3.3	3.5	3.1
Total Value Added	-7.6	-7.5	-2.4	-2.3	1.5	3.5
Taxes less subsidies on products	-6.4	-6.4	-6.9	-6.9	-3.4	0.7
<b>GDP at market prices</b>	<b>-7.4</b>	<b>-7.4</b>	<b>-2.8</b>	<b>-2.8</b>	<b>0.9</b>	<b>3.2</b>

Source: Stats SA

*SA GDP rose by 3.2%*

*Manufacturing contributed 1.5%*

Real GDP at market prices for the fourth quarter of 2009 increased to 3.2% [quarter-on-quarter (q/q), seasonally adjusted and annualised] from 0.9% in the third quarter (see **Box 5**). This is confirmation that the recovery in South Africa is gaining momentum. The largest contribution to the q/q growth of 3.2% were manufacturing sector which grew by 10.1% and general government sector which grew by 7.0%.

The manufacturing sector contributed 1.5% to the 3.2% growth in the fourth quarter followed by general government sector which contributed 1.0%. The mining and quarrying industry, transport, finance, real estate and business services industry each contributed 0.2% to the 3.2% growth. The q/q growth of 3.2% was well above market consensus of 2.5%.

The 10.1% growth in the manufacturing sector was buoyed by

the following sub-sectors: motor vehicles sales; basic iron and steel; non-ferrous metal products; metal products and machinery; chemical products, rubber and plastic products. The construction sector, personal services and government services were positive all year round. Relative to the rest of the economy, the construction industry has remained buoyant, boosted largely by construction works of government-related projects.

## INVESTMENT DEVELOPMENTS IN KZN

*R3.1 billion Moses Mabhida stadium complete*

The province has in the recent past embarked on extensive infrastructure-related investment projects. A majority of the projects directly linked to the 2010 Soccer World Cup have been completed and ready for the event. The proposed pipeline linking Durban Port and Gauteng is expected to boost economic activity.

The R3.1bn Moses Mabhida stadium has been completed and has hosted a handful of games in preparation for host-

ing eight of the 2010 FIFA World Cup (WC) matches. The stadium has a total area façade of 15,000m<sup>2</sup> and used 245,141 tons of concrete and 9,978 tons of reinforcing steel—more than the quantities used on the Eiffel Tower. The 106m high grand central arch will become a world-class tourist attraction, thanks to a high-tech funicular designed to take visitors up to its highest point, with a 360°-view of the city.

The R15m project, which entailed modernisation of the interior and exterior of the 42,200m<sup>2</sup>

Game City shopping centre building, was completed in December 2009. The building was erected in 1985, with its last upgrade in 1996.

Other projects due to be completed in 2010 include the Richards Bay Coal Terminal Phase 5 expansion, Empanjeni bulk water pipeline phase 2 upgrade, Dube Trade Port and King Shaka International Airport, the eThekweni water pipes replacement project.

## LABOUR MARKET TRENDS

**Box 6 : Labour Market Indicators in KwaZulu-Natal and Comparative Regions**

Indicator	South Africa		Gauteng		KwaZulu-Natal		Western Cape	
	Q3	Q4	Q3	Q4	Q3	Q4	Q3	Q4
Working Age Population (000s) (15-64 years)	31,172	31,261	7,167	7,184	6,384	6,405	3,506	3,516
Labour Force (000s)	17,077	17,138	5,013	5,046	3,024	2,983	2,409	2,413
Employed (000s)	12,885	12,974	3,719	3,749	2,458	2,409	1,868	1,894
Unemployed (000s)	4,192	4,165	1,294	1,297	566	574	542	518
Not Economically Active (000s)	14,095	14,123	2,154	2,138	3,360	3,422	1,096	1,103
Discouraged Work Seekers	1,632	1,686	187	231	481	452	38	42
Other	12,463	12,437	1,967	1,907	2,878	2,970	1,058	1,061
<b>Unemployment Rate (%)</b>	24.5	24.3	25.8	25.7	18.7	19.2	22.5	16.9
Absorption Rate (%)	41.3	41.5	51.9	52.2	38.5	37.6	53.3	55.6
Labour force participation (%)	54.8	54.8	69.9	70.2	47.4	46.6	68.7	66.9

Source: Stats SA

*89 000 Jobs created in SA*

According to the latest Statistics South Africa (Stats SA) Quarterly Labour Force Survey, South Africa created a total of 89,000 jobs on a net basis in the fourth quarter of 2009. This compares buoyantly to 484,000 jobs lost in the third quarter of 2009. The increase in employment is derived from 41,000 jobs created by the formal sector and 116,000 jobs created by the informal sector vis-à-vis 38,000 and 31,000 job losses in the agriculture and private house holds sectors respectively. On a year-on-year (y/y) basis, South Africa lost a cumulative total of 870,000 jobs between the fourth quarter of 2008 quarter four and the fourth quarter of 2009.

*SA Unemployment down by 0.8%*

Unemployment on the other hand marginally decreased by 27,000 from 4.192 million in the third quarter to 4.165 million in the fourth quarter. Worryingly, there was an increase of 54,000 people to the pool of discouraged job seekers in the fourth quarter of 2009 as job opportunities shrank. Consequently, the unemployment rate decreased to 24.3% in the fourth quarter from 24.5% in the third quarter.

Interestingly, if discouraged work seekers are included amongst the unemployed, then the unemployment rate would have risen from 31.1% in the third quarter to about 34% in the fourth quarter.

Box 6 presents the results of the Quarterly Labour Force Survey for the fourth quarter 2009 for KwaZulu-Natal and comparative provinces of Gauteng and Western Cape. The unemployment rate marginally decreased by 0.8% for South Africa. A similar trend is observed in Gauteng and Western Cape provinces with the exception of KwaZulu-Natal where the rate increased by 2.7% in the fourth quarter 2009. Accordingly, the number of unemployed persons in KZN increased from 566 000 in the third quarter to 574 000 in the

fourth quarter 2009 and the number of discouraged work seekers decreased by 29,000 for the period under review.

KZN unemployment rate still remains below the national average (see Box 7). However, in the fourth quarter, KZN lost 49,000 jobs and was the worst affected regional economy in South Africa. This compares pessimistically to the 1,000 jobs generated during the previous quarter. All the other provinces generated employment except North West province where employment declined marginally by 3,000 jobs. As a result, total employment in KZN decreased from 2.458 million in the third quarter to 2,409 million in the fourth quarter.

**Box 7 : Unemployment Rate per Province**

Province	2008 Q4	2009 Q3	2009 Q4	Change (q/q)	Change (y/y)
Western Cape	17	23	22	-1.0	4.6
Eastern Cape	25	27	27	0.2	1.8
Northern Cape	22	30	25	-5.0	3.3
Free State	23	29	25	-3.3	2.7
<b>KwaZulu-Natal</b>	<b>21</b>	<b>19</b>	<b>19</b>	<b>0.5</b>	<b>-1.6</b>
North West	26	28	27	-0.9	1.3
Gauteng	21	26	26	-0.1	5.0
Mpumalanga	23	26	27	0.9	3.5
Limpopo	29	26	27	1.4	-2.0
<b>South Africa</b>	<b>22</b>	<b>25</b>	<b>24</b>	<b>-0.2</b>	<b>2.4</b>

Source: Stats SA

## INFLATION TRENDS IN SA

Box 8 : Geographical Headline Inflation

Geographical Area	2009			2010
	October	November	December	January
Western Cape	5.3	5.9	5.8	6.8
Eastern Cape	5.2	5.5	5.5	5.4
Northern Cape	4.8	5.3	5.8	5.6
Free State	5	5.5	5.6	5.8
KwaZulu-Natal	5	5.2	5.3	4.8
North West	4.6	5.1	5.1	5.6
Gauteng	5.9	5.9	6.5	6.4
Mpumalanga	6.3	6.6	6.1	6
Limpopo	4.1	4.7	4.5	4.4
South Africa	5.9	5.8	6.3	6.2

Source: Stats SA

*KZN Inflation down to  
4.8%*

Geographical consumer price inflation in the majority of provinces continued to decline throughout the third quarter in line with developments at national level (see **Box 8**). KZN remains one of the provinces with the lowest inflation well below the national average. During the period under review, generally prices in Western Cape, Gauteng and Mpumalanga were rising faster as compared to other regions. In most cases food and transport remain the major drives of inflation.

In the last quarter of 2009 inflation decelerated to within the target range (3%-6%), its lowest level since March 2007 when it breached the target level. During the period under review inflation declined from 5.9% in October to 5.8% in November before rising to 6.3% in December.

Inflation decelerated marginally to 6.2% in January 2010 owing to a number of factors such as the marginal decline in fuel prices in January. On an annual basis, inflation declined markedly from 8.1% in January 2009 to the current 6.2% for January 2010 (see **Box 9**). The decline in the

January inflation was largely contained in the transport component, with vehicle prices (accounting for 11.25% of CPI) falling by 0.4% month-on-month (m/m), driven by a 1.2% m/m decline in used vehicle prices.

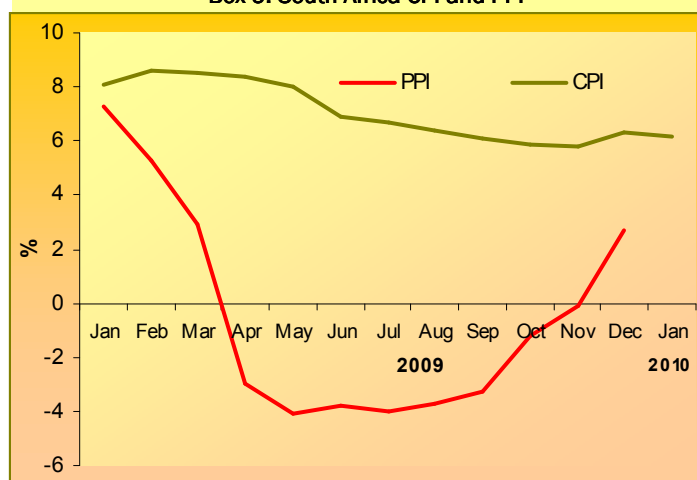
Fuel prices also declined, as expected, however, more downward pressure arose from public transport costs which also declined by 0.4% m/m. Since the fuel price only declined by 6c/l in January compared to a larger decline of R1.63/l in January 2009, fuel prices rose by 31.7% y/y up from 8% y/y in December. This is the chief reason for an above 6%

inflation, which also caused consumer goods inflation to rise to 5.8% y/y in January. This negative inflation base is generally expected to wear out in February, and suggests that inflation could ease back into the target band during the year.

Encouragingly, inflation in all other consumer goods continued to moderate. Food inflation eased to 1.6% y/y in January from 2.7% y/y in December and will continue to hover at these low levels for a large part of the year, but upward pressure is seen building from the World Cup through to year end.

*SA Inflation almost  
within the target range*

Box 9: South Africa CPI and PPI



Source: StatsSA