



**edtea**

**Department :**

Economic Development, Tourism and  
Environmental Affairs

**PROVINCE OF KWAZULU-NATAL**

# KwaZulu-Natal

## Economic Overview

*“Leading consensus in promoting growth and broad based socio-economic participation  
in KwaZulu-Natal”*

October 2016

# Disclaimer

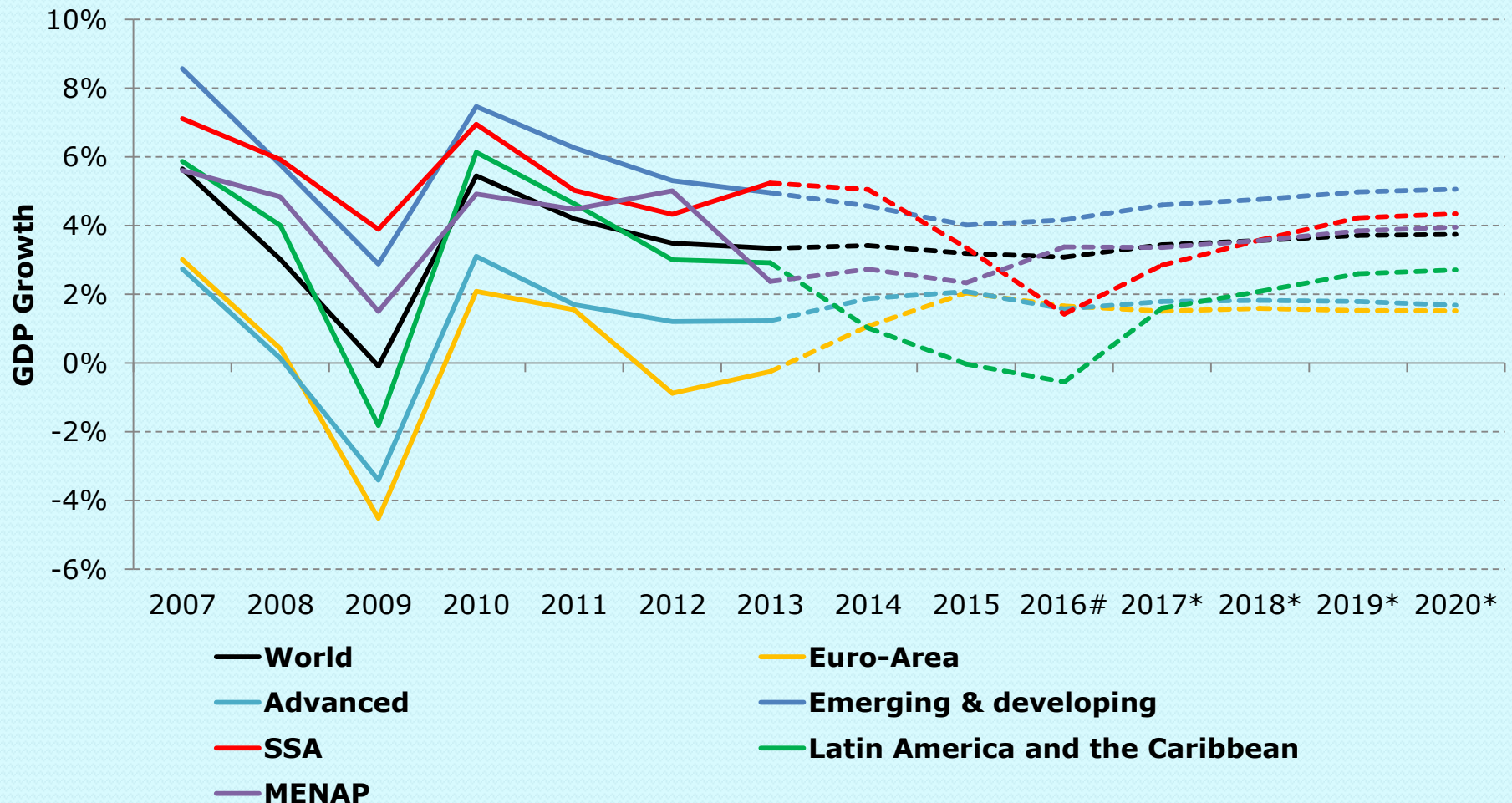
Some of the information and views presented here is not necessarily the view of the Department.

# Risks Facing Provincial Economy

- Slowdown in China's economic growth- trade will diminish
- Brexit- UK leaving European Union
- Steep depreciation of the Exchange rate (volatility)
- Low global commodity prices
- Fiscal pressure and increasing costs associated to rising debt
- SA's revenue collections are running way behind budgets
- Credit rating sitting just above "junk status"
- Introduction of Political-economic risks and influence
- Sluggish Provincial economic growth
- High unemployment and poverty
- Low Education Attainment- "No fees" unrest
- Declining trend in manufacturing (need for re-industrialisation)
- Backlog in infrastructure and bulk service requirements
- Severe Drought conditions
- Stagflation makes monetary policy difficult
- IMF expects SA's economic grow to expand by 0.1% in 2016 and 0.8% in 2017
- Sentiment, business and consumer confidence levels are low

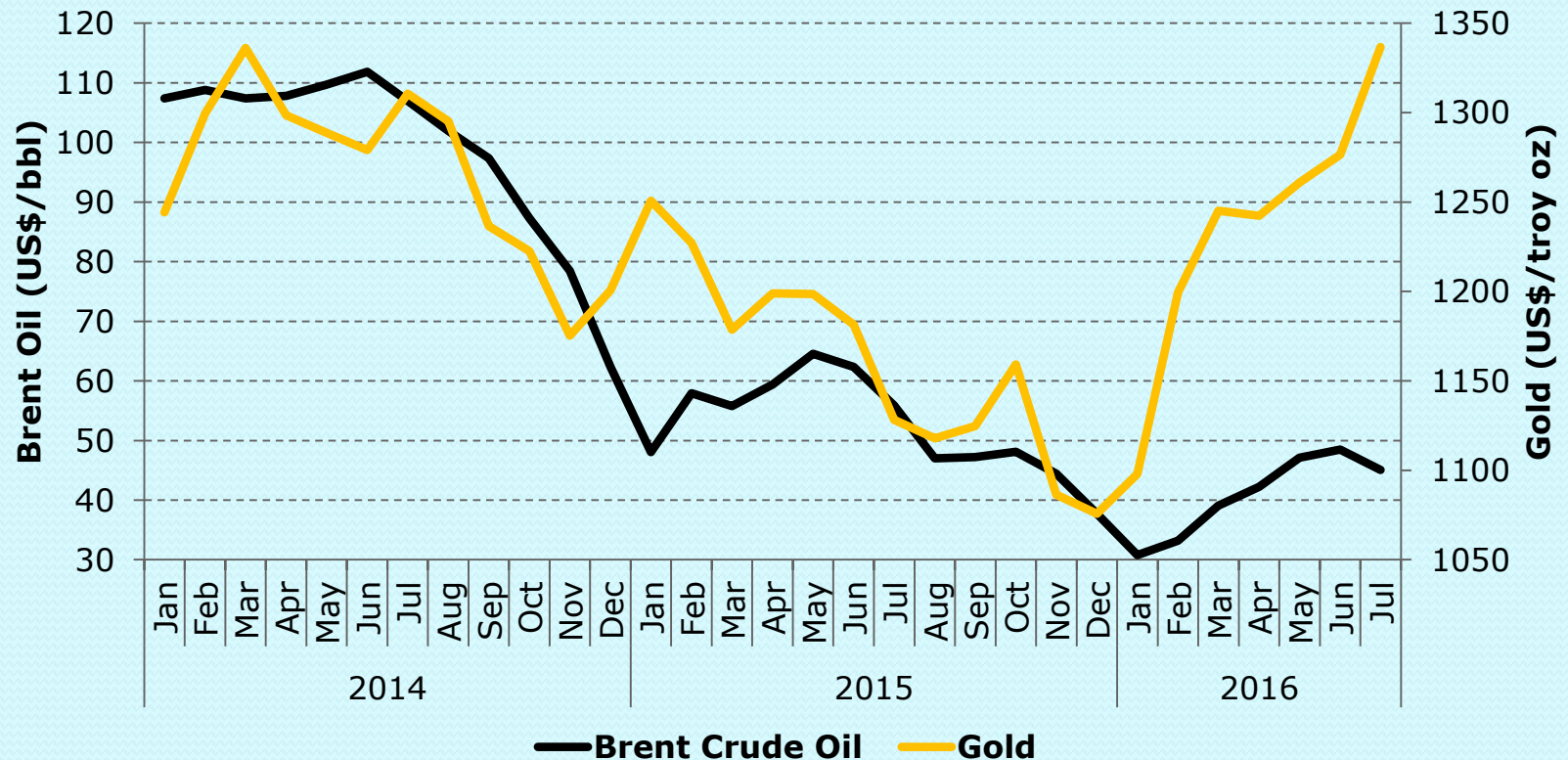
# Global Growth

- Global Growth is expected to be 3.1% for 2016 and 3.4% for 2017
- Sub-Saharan Africa (SSA) is expected to expand by 1.6% while emerging and developing economies by 4.1% in 2016.
- South Africa is expected to grow by 0.1% and 0.8% for 2016 and 2017 respectively.



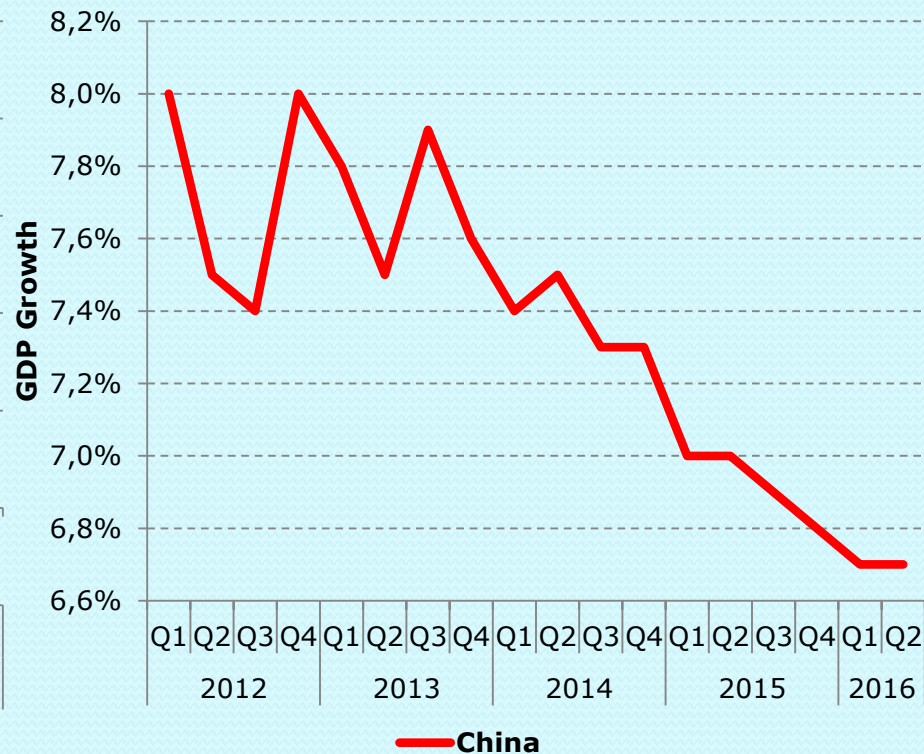
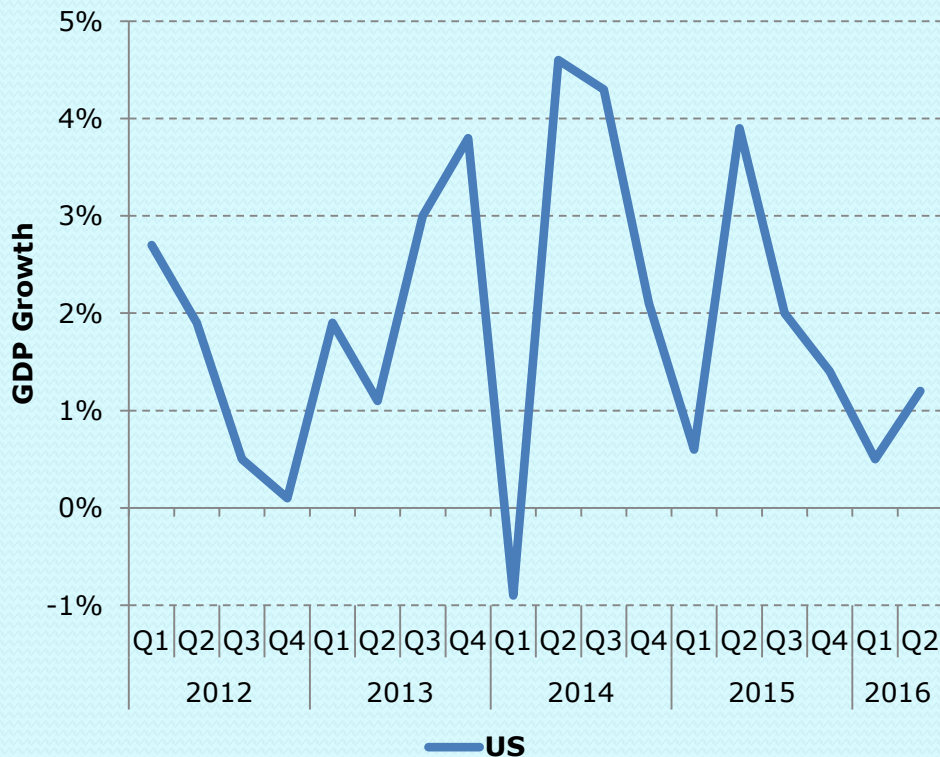
# Commodity Prices

- We have no control over the global commodity cycle and are price-takers, not -setters.
- General Low Commodity prices have negatively affected commodity export-orientated economies.
- Slower economic growth in China, the largest consumer of raw materials, is dampening demand for commodities.
- Increase in gold price recently, an indication of market uncertainty and risk aversion mainly stemming from Brexit.
- OPEC Production Freeze



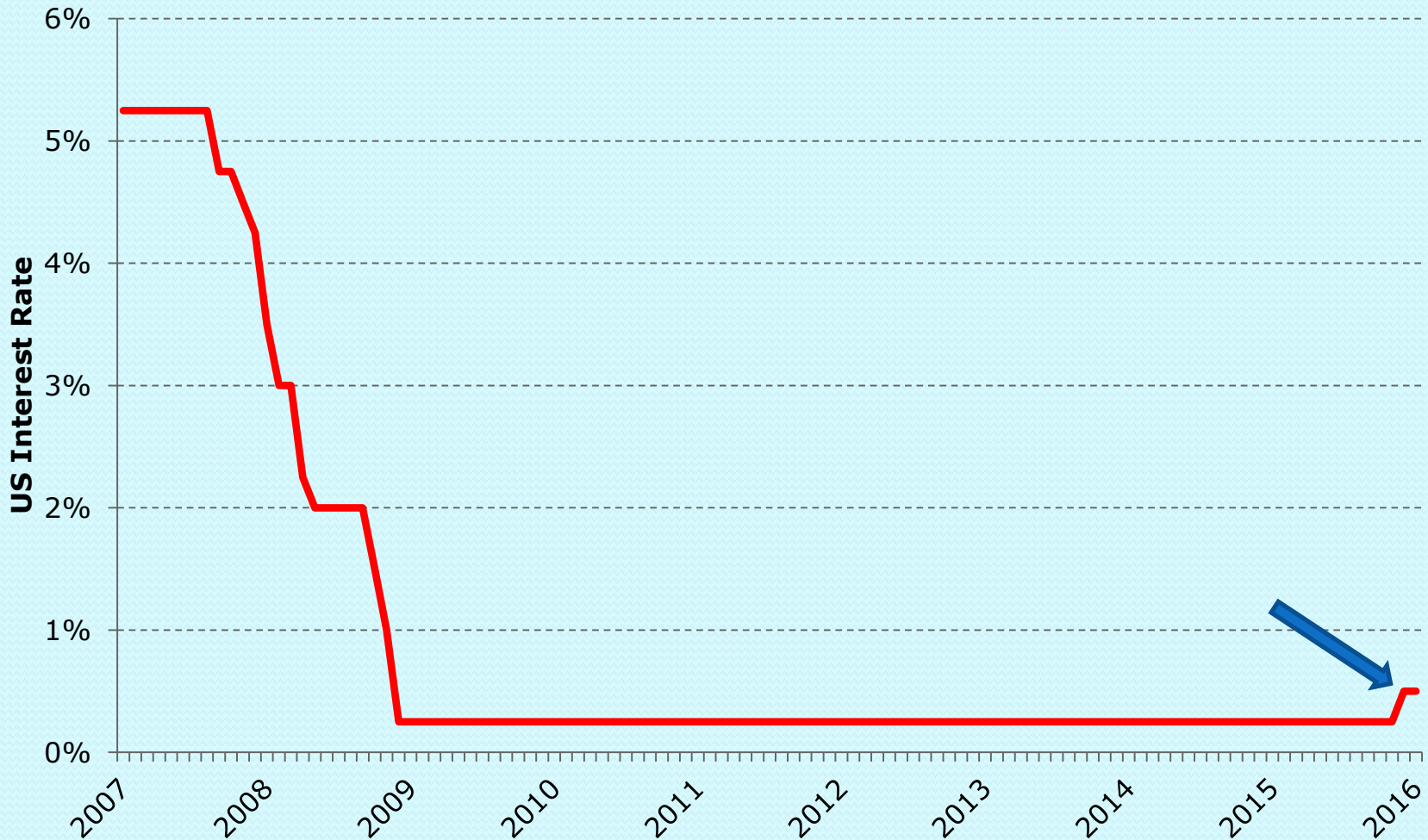
# U.S and China GDP Growth

- Stop-Start affair for US economy- is Quantitative Easing working?
- The US in the first quarter of 2016 recorded a growth rate 0.5%. This was the worst performance in two years and was mainly due to a slowdown in domestic demand as well as a fall in exports.
- Real economic activity in China remains underwhelming and fragile.
- The biggest concern stemming from China and the US economic developments is that from an Africa perspective, fixed asset investment from China may begin to retract and a US economy failing to recover would have dire consequences for the African continent.



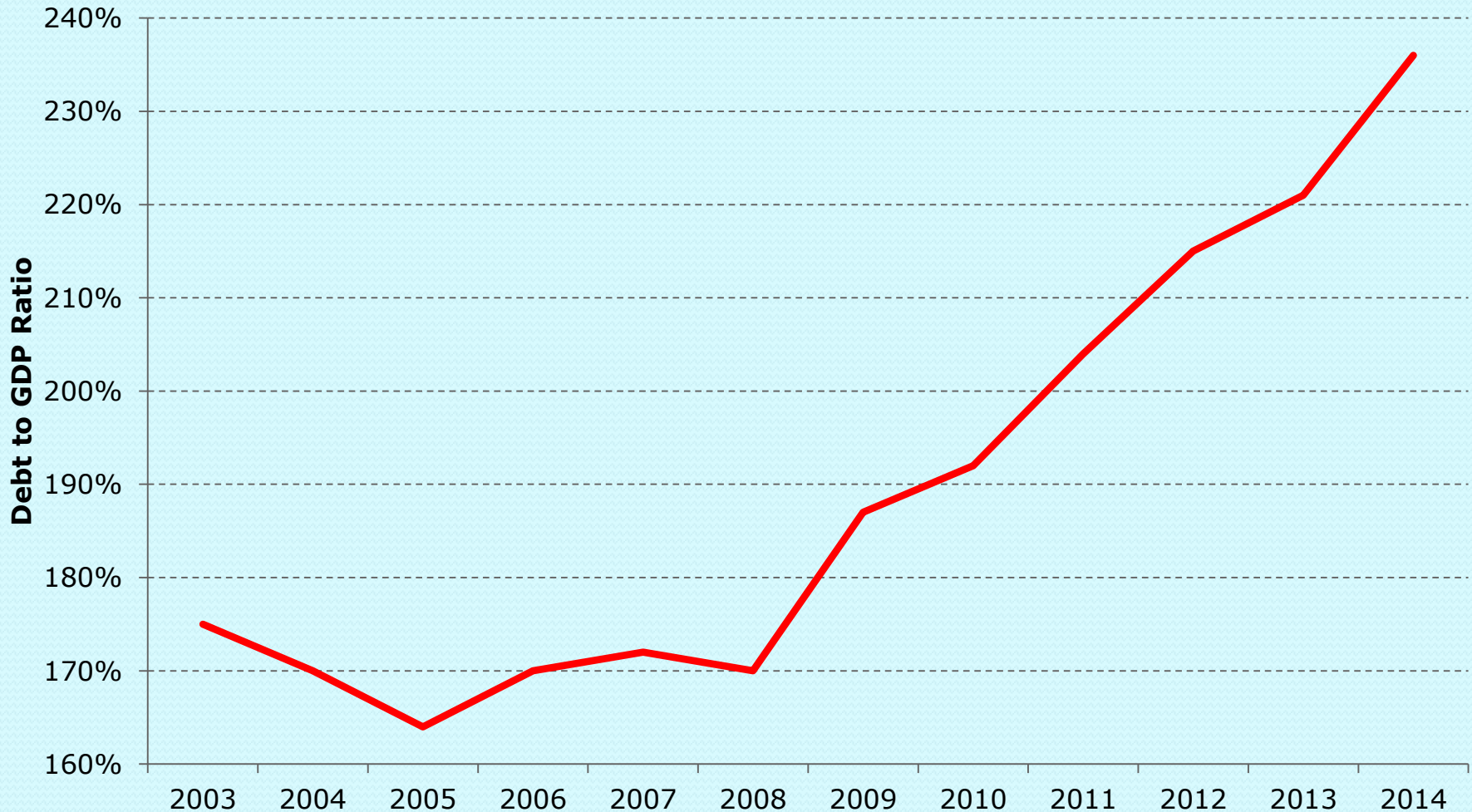
# U.S Fed Rates

- Spells danger for financial markets
- Debt raised in US\$ will increase
- Rewards savers, punishes spenders



# China Total Debt to GDP Ratio

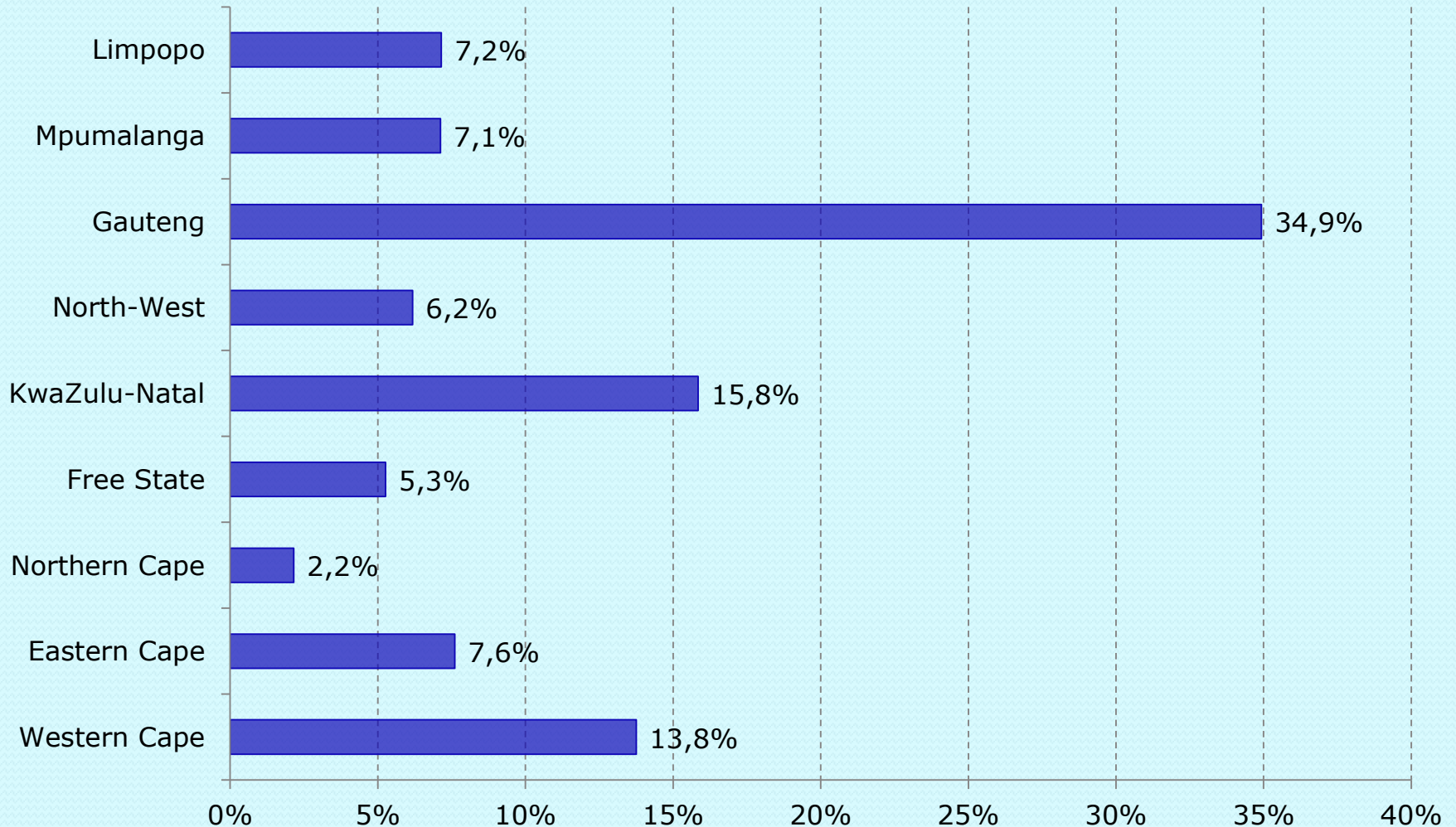
- Total Chinese debt which has exploded higher in the past 10 years
- Previous high economic growth rates in China enabled it to borrow and re-pay its debts, however with lower than normal growth rates in recent times has made it that much more difficult.





# Provincial GDP Contribution

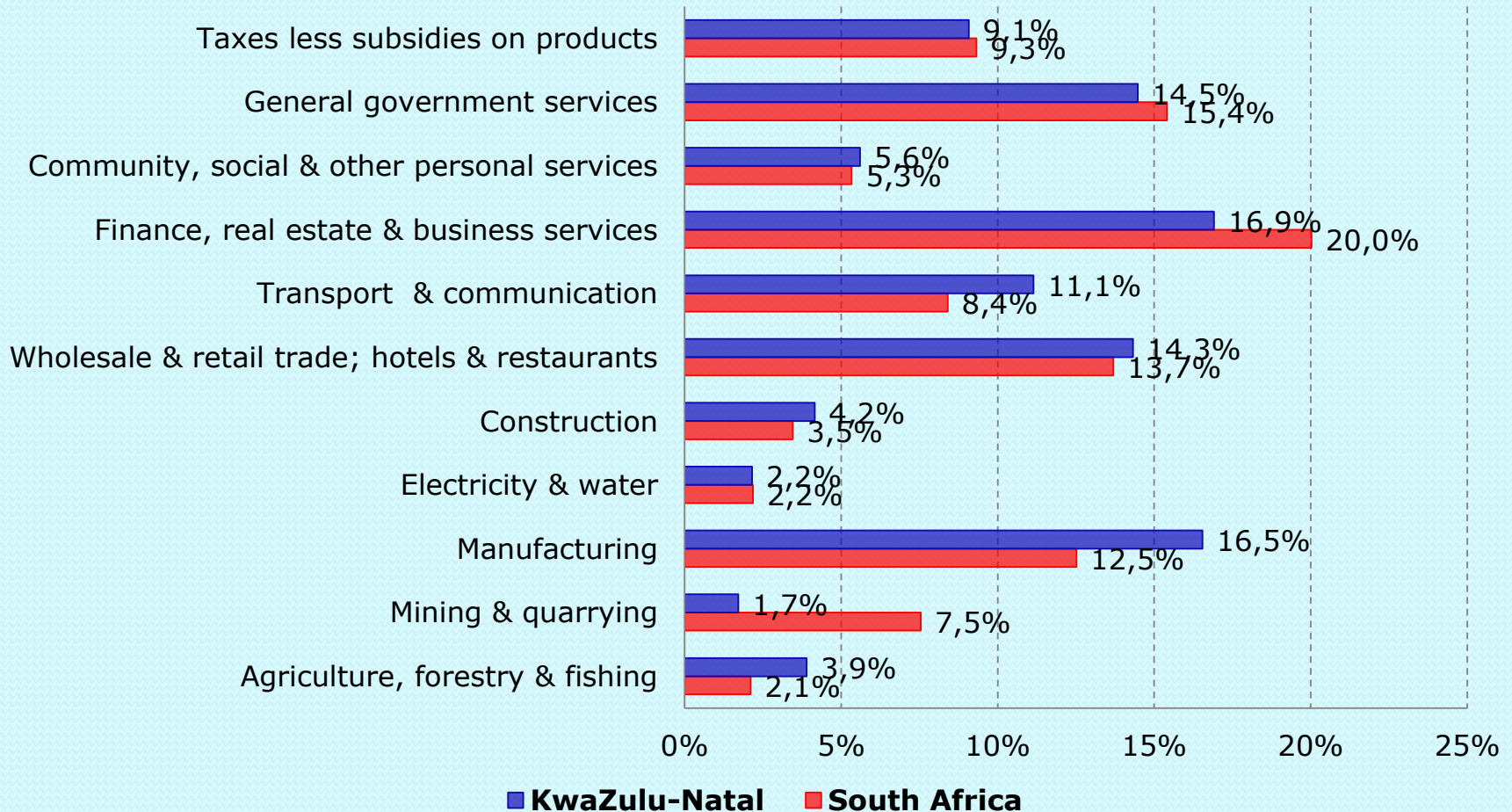
- KwaZulu-Natal is second only to Gauteng in terms of percentage contribution to South Africa's GDP



# Sector GVA Contribution

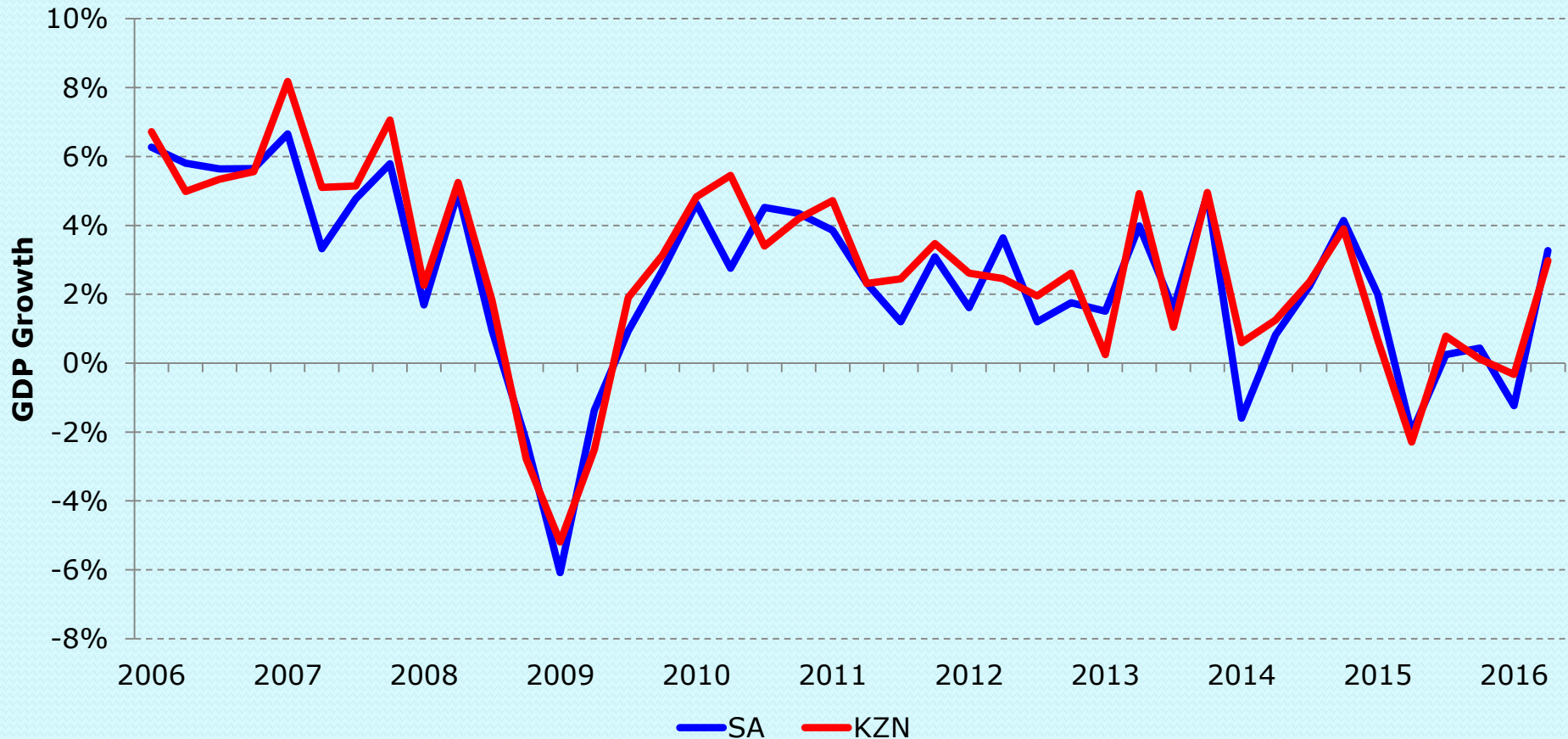
- Finance, real estate & business services contributes the most to the provincial GVA, followed closely by the Manufacturing sub-sector.

Sectoral Share (%) of Gross Value Added



# SA & KZN Growth Trends in Gross Domestic Product (GDP)

- Financial Crises- Artificial Money through credit kept economy alive (credit Based Consumption)
- Cant consume yourself out of problems.
- GDP growth in the first quarter of 2016 for SA contracted by -1.2% and contracted by -0.3% in KZN, however growth in of 3.3% and 3.0% was experienced in second quarter.
- Sectors in KZN that were negatively affected were;
  - Agriculture (-0.4%), (has contracted for six consecutive quarters)
  - Electricity & Water (-1.4%)
- Contraction in Gross Fixed Capital Formation for last three quarters (contracted by -4.6% in SA).
- KZN has a T-Bone Economy



# Exchange Rate

- Rand Depreciation will negatively impact imported goods and services
- Inflation to increase via importation



# SA Credit Rating Status

Fitch	S&P	Moody's	Rating grade description	
AAA	AAA	Aaa	Investment Grade	Minimal Credit Risk
AA+	AA+	Aa1		Very Low Credit Risk
AA	AA	Aa2		
AA-	AA-	Aa3		
A+	A+	A1		Low Credit Risk
A	A	A2		
A-	A-	A3		
BBB+	BBB+	Baa1		Moderate Credit Risk
BBB	BBB	Baa2		
BBB-	BBB-	Baa3		Speculative Grade
BB+	BB+	Ba1		
BB	BB	Ba2		
BB-	BB-	Ba3	High Credit Risk	
B+	B+	B1		
B	B	B2		
B-	B-	B3	Very High Credit Risk	
CCC+	CCC+	Caa1		
CCC	CCC	Caa2		
CCC-	CCC-	Caa3	In or near default, with possibility of recovery	
CC	CC	Ca		
C	C			
DDD	SD	C	In default, with little chance of recovery	
DD	D			
D				

Outlook: Probability of a rating change and the likely direction of such a change

Stable > no Change

Negative > Potential downgrade

Positive > Potential upgrade

Fitch = Stable

S&P = Negative

Moody's = Negative

- Rising Inflation
- Rising Interest rates
- Low economic growth
- Labour unrest
- High current account deficit
- Rising general government debt
- The potential volatility and cost of external financing

South Africa could lose its spot in Citigroup's World Government Bond Index (WGBI) if its credit rating is downgraded below investment grade.

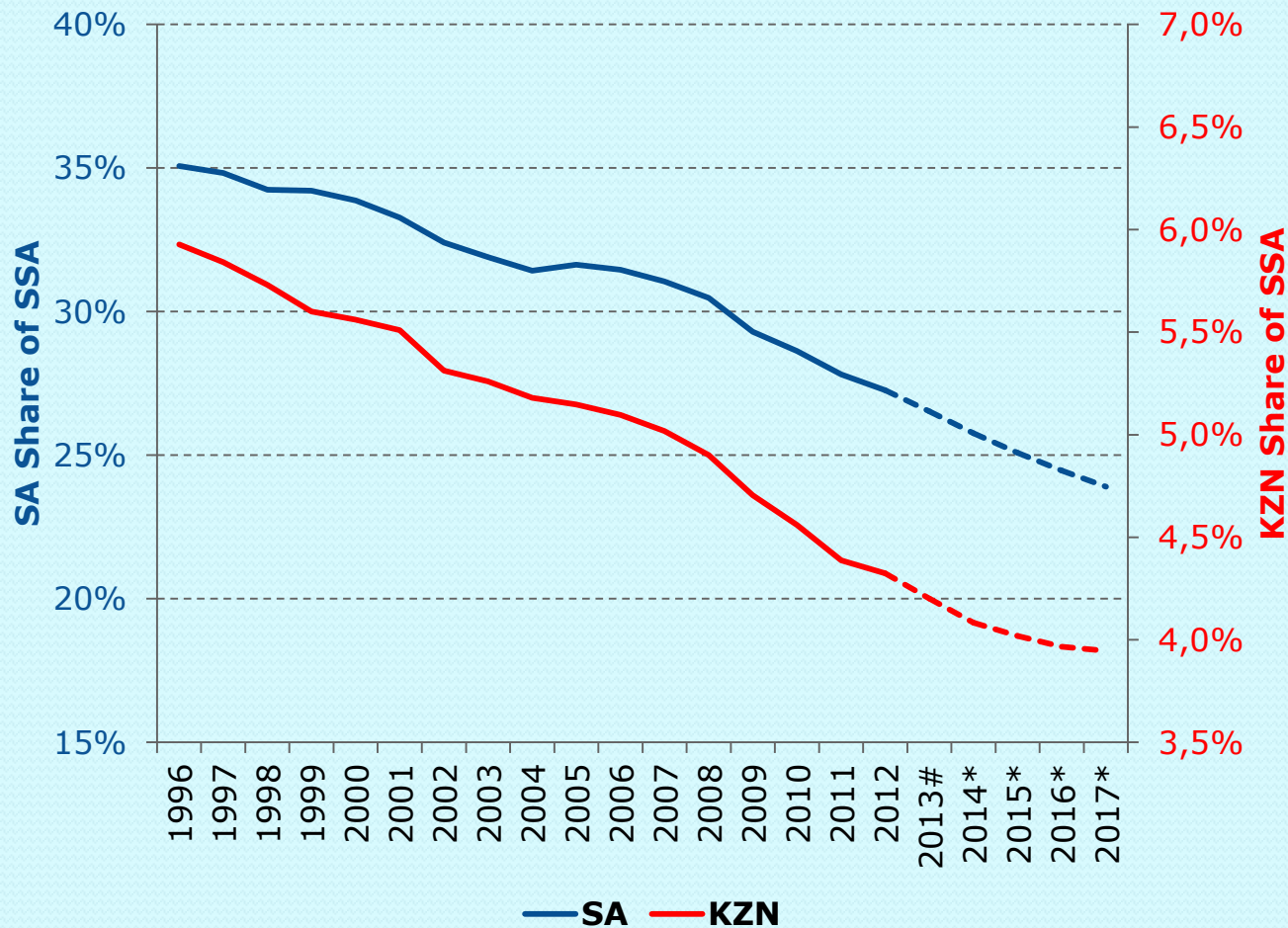
# BRICs Credit Rating Status

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A	A	A2		
A-	A-	A3		
BBB+	BBB+	Baa1	Moderate Credit Risk	
BBB	BBB	Baa2		
BBB-	BBB-	Baa3		
BB+	BB+	Ba1	Speculative Grade	Substantial Credit Risk
BB	BB	Ba2		
BB-	BB-	Ba3		
B+	B+	B1		High Credit Risk
B	B	B2		
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C	C			
DDD	SD	C		
DD	D			In default, with little chance of recovery
D				

	Fitch	S&P	Moody's
Brazil	BB-	BB-	Ba2
Russia	BBB-	BB+	Ba1
India	BBB-	BBB-	Baa3
China	A+	AA-	Aa3

# Sub-Saharan Africa

**Economic Contribution to SSA, SA & KZN, 1996-2017\***



## Rest of Sub-Saharan Africa (SSA):

- Faster Economic Growth Rates
- Stable political and economic environments
- Increased levels of FDI
- Moving towards more secondary and tertiary economic activities
- Possibility South Africa is no longer viewed as the 'spring board' or 'gateway' into Africa
- Increased Competitiveness
- Exploration and abundance of natural resources
- Consumer Paradise
- Increased trade with other SSA countries

# Financial Markets

In the light of the economic challenges presented to South Africa, JSE gives an indication that in many other respects the country is doing fairly well.

- Disjoint between Economic Growth and stock market performance.
- SA listed Companies looking to invest else where. E.G Sub-Saharan Africa



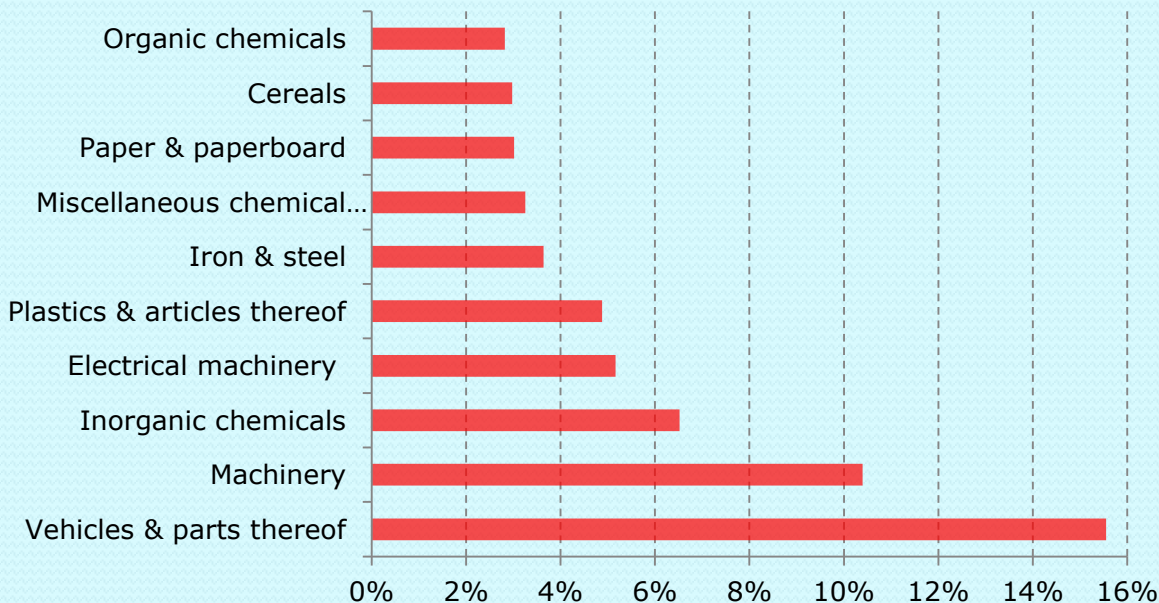


# KZN Trade: Top 10 Import and Export Share by Country

Destination Markets				Source Markets			
2008		2015		2008		2015	
Japan	9.85%	United States	9.09%	Japan	16.46%	<b>China</b>	<b>22.04%</b>
USA	7.60%	<b>China</b>	<b>6.60%</b>	<b>China</b>	<b>14.02%</b>	Japan	14.04%
UK	5.90%	Namibia	6.29%	Germany	8.71%	Australia	5.45%
Germany	3.87%	Japan	4.51%	United States	7.26%	India	5.18%
Nigeria	3.84%	UK	5.12%	Australia	6.27%	US	4.66%
Spain	3.78%	Botswana	3.94%	Argentina	5.99%	Germany	4.47%
Netherlands	3.76%	Netherlands	3.60%	UK	3.72%	Argentina	2.87%
<b>China</b>	<b>3.33%</b>	India	3.53%	Thailand	3.45%	Brazil	2.67%
India	2.84%	Germany	3.13%	Brazil	2.97%	Thailand	2.44%
Zambia	2.79%	Mozambique	3.10%	Malaysia	2.73%	France	2.19%
Top Ten Share of Total							
47.56%		48.91%		71.58%		66.01%	

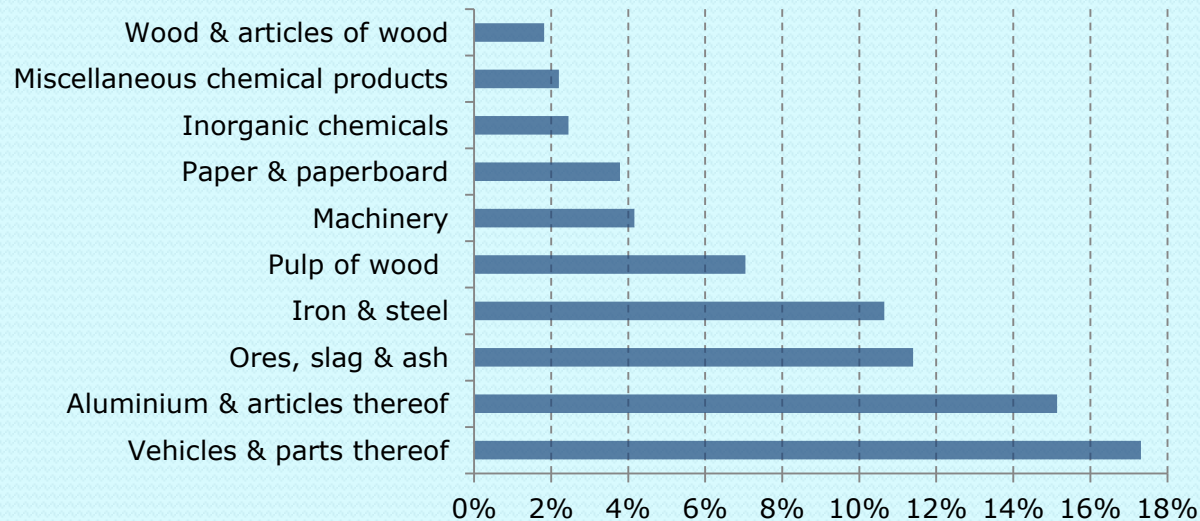
# KZN Trade: Top 10 Import & Export Share by Product

## Imports



KZN imported goods valued at R118.7 billion in 2015, from R104.7 billion in 2014.

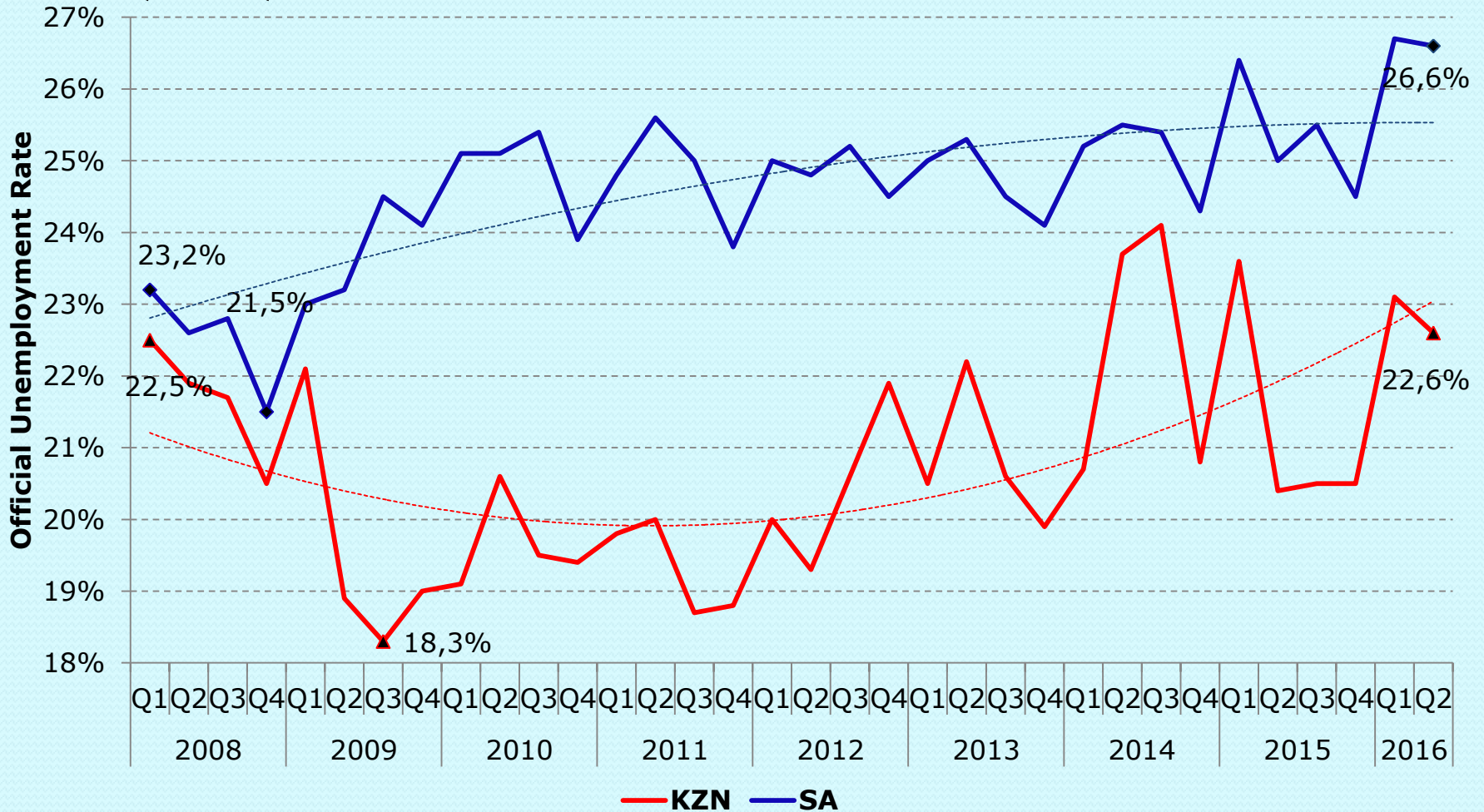
## Exports



KwaZulu-Natal exported goods valued at R116.9 billion last year, from R111 billion in 2014.

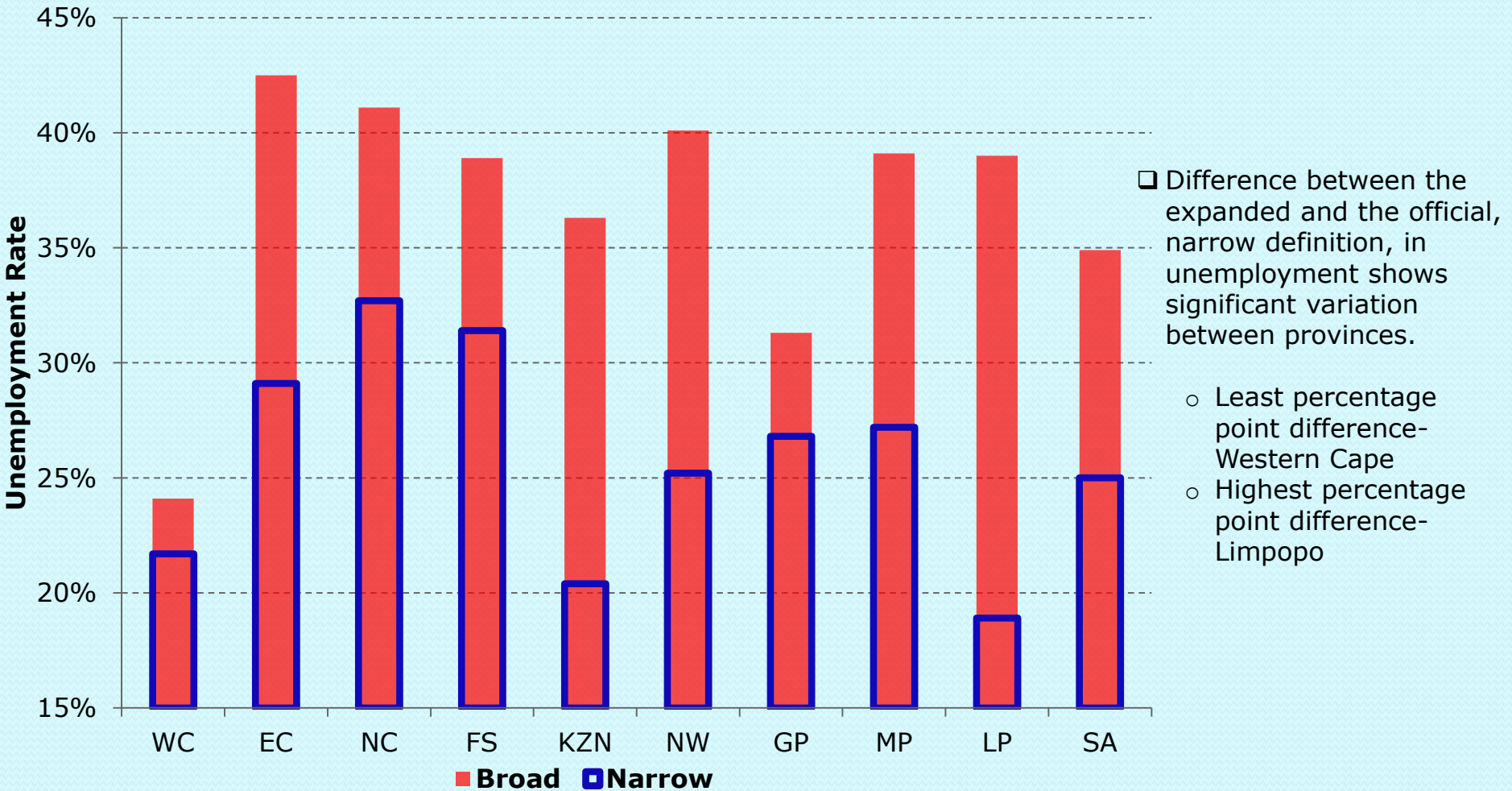
# Comparison of unemployment rates between KZN and SA

- The provincial unemployment rate of 20.5% is below the national rate of 25.5 per cent.
- There has been an increase of 0.1% in the unemployment rate from Q2 to Q3 of 2015.

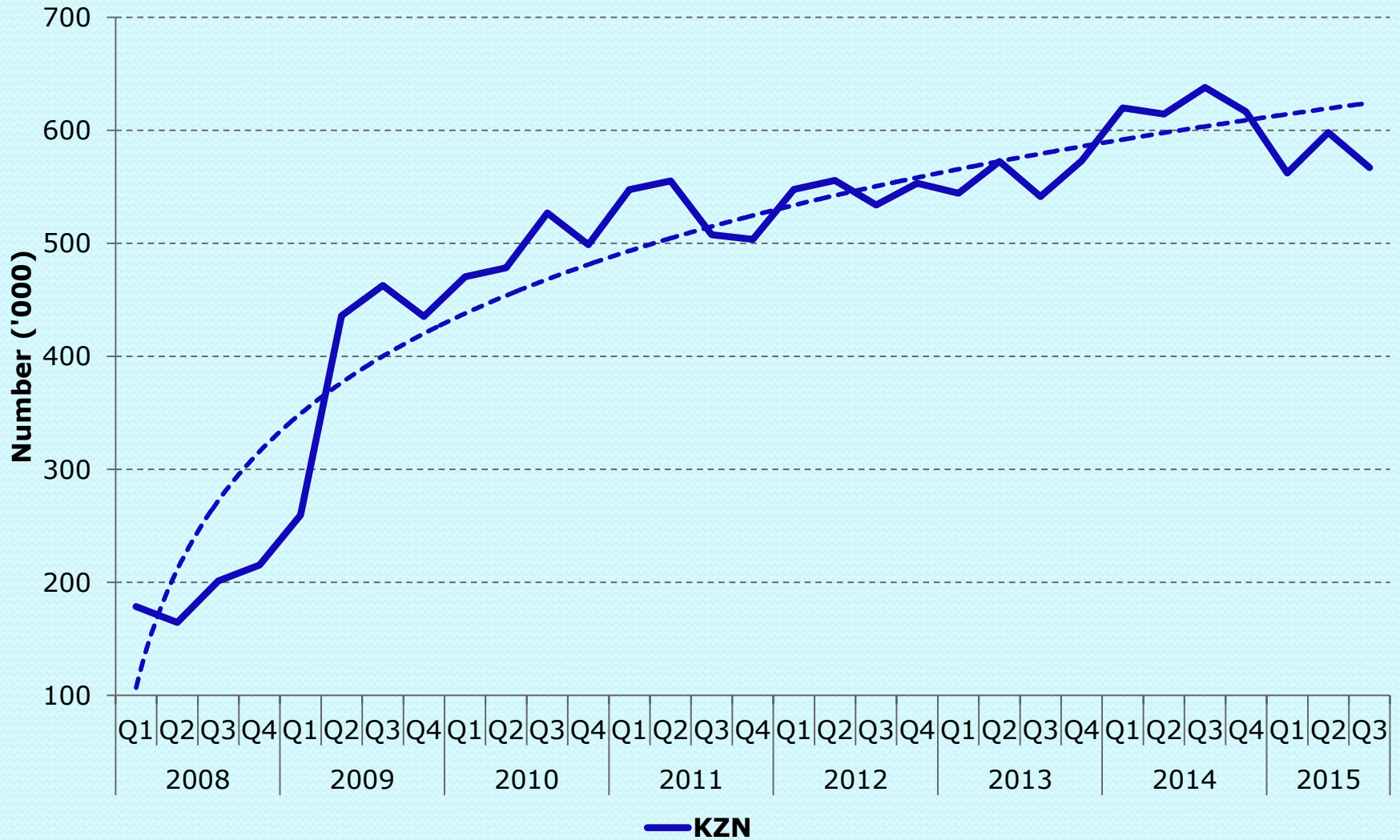


# Comparison of unemployment rates

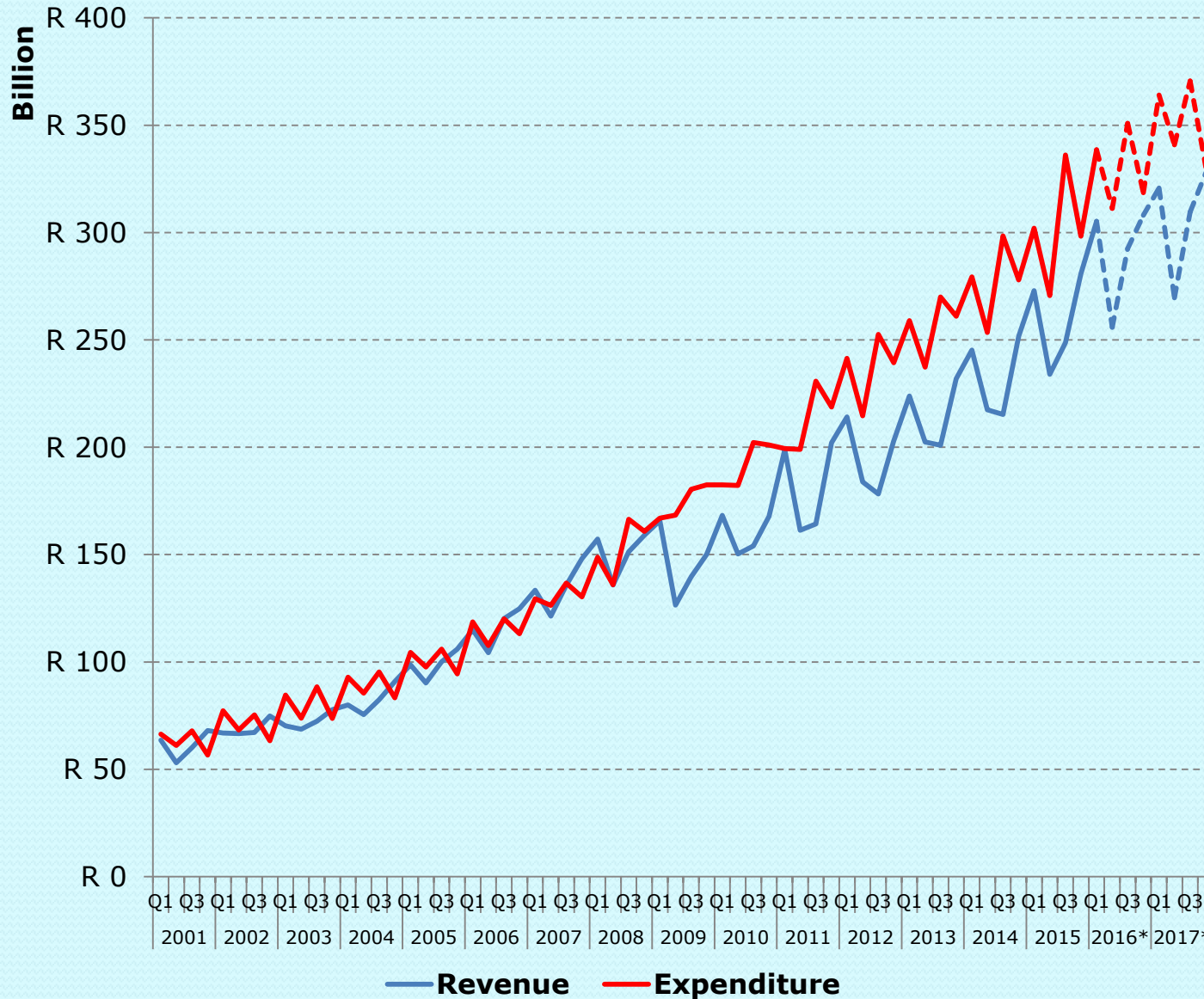
## Narrow Vs Expanded Unemployment Rate



# Discouraged Work Seekers

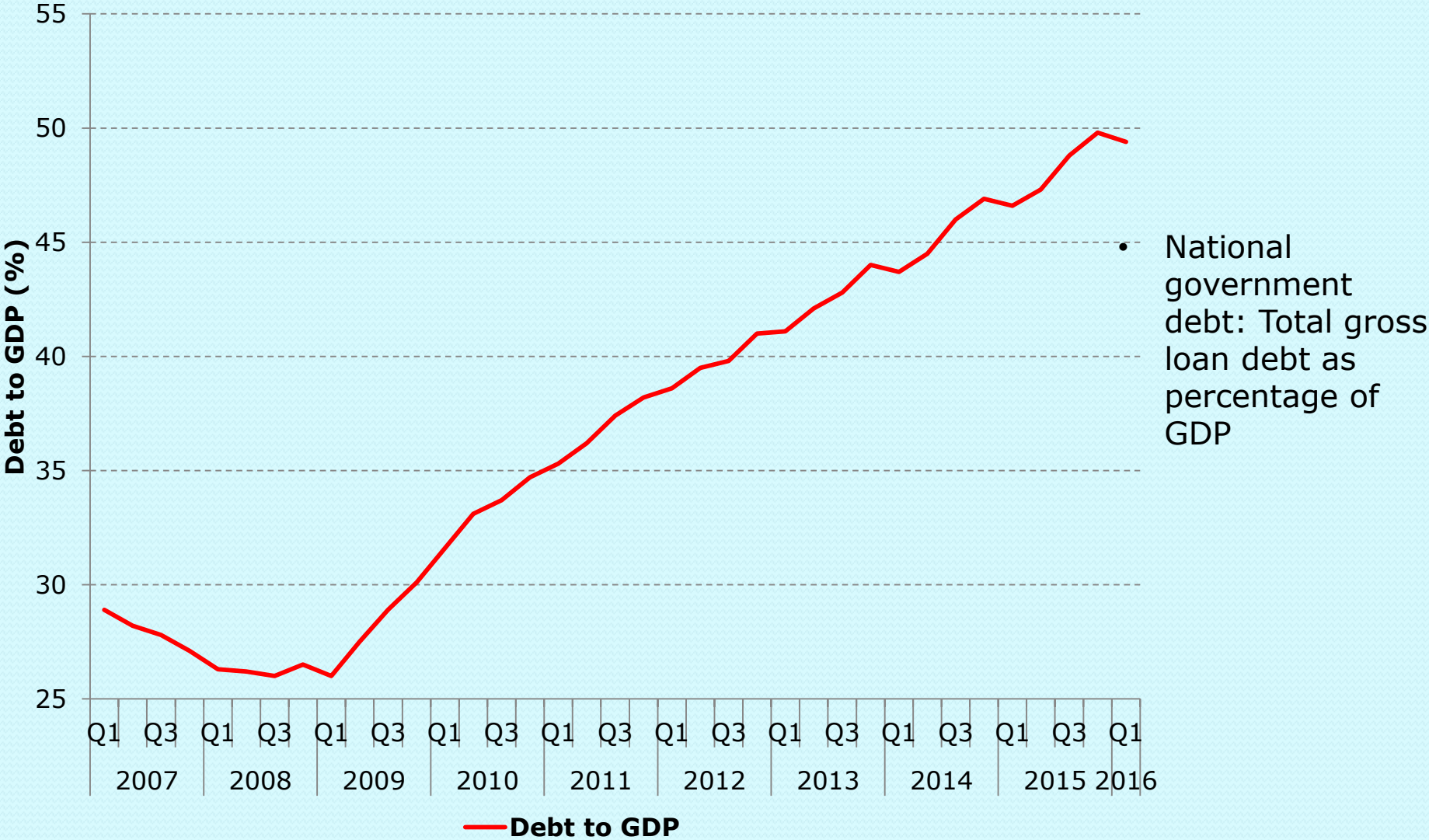


# National Budget



- Total National Government Expenditure (current prices) has continued climbing while revenue since the first quarter of 2009, height of impact from global financial crisis on SA, has dropped and followed a trajectory below expenditure

# National Budget



# Consumption Vs Production

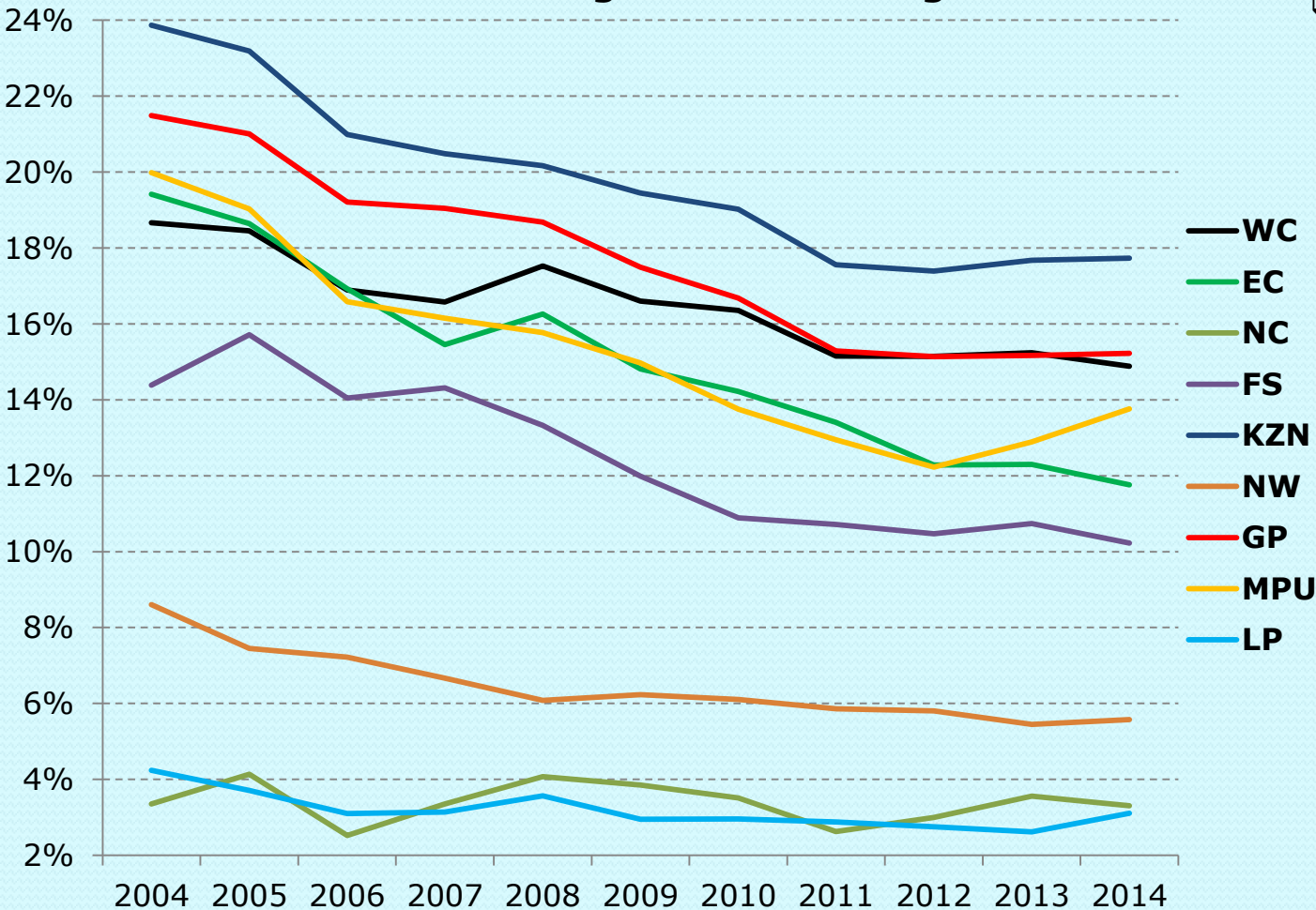
Are we becoming a consumption driven , rather than production driven, economy?

- According to economic strategist Michael Mandel, “The goal of a consumption economy is to provide consumers with low prices and a wide variety, with less concern about jobs and wages. Low prices can presumably bring higher living standards for households, as real wages rise.”
- Cheaper prices enable households to spend their money on other goods and services. However, households may not take into consideration that cheaper imported goods do not benefit local production and also create a downside risk of increased unemployment.
- Consumption fuels the economy in the short term, but savings is necessary for capital formation for long term growth.



# Consumption Vs Production

**GVA-R Manufacturing as Share of Regional Total**



□ Gross Value Added Share contribution by Manufacturing has declined significantly in all provinces.

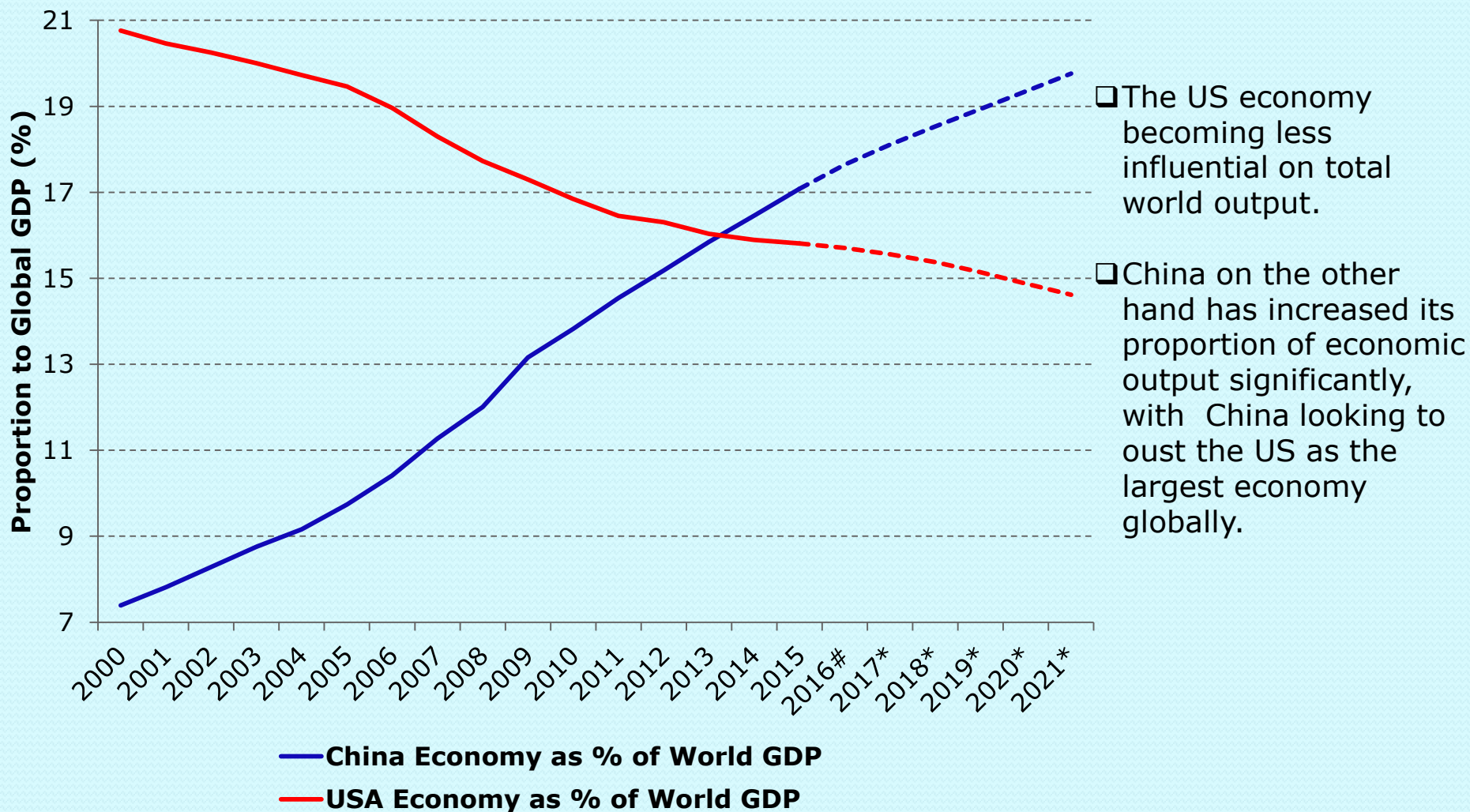
○ Manufacturing plants converted to storage facilities?

○ Skilled labour, capital and resources missing from the factors of production ?



# Productivity Vs Consumption

## Share of World GDP, US & China, 2000-2018\*



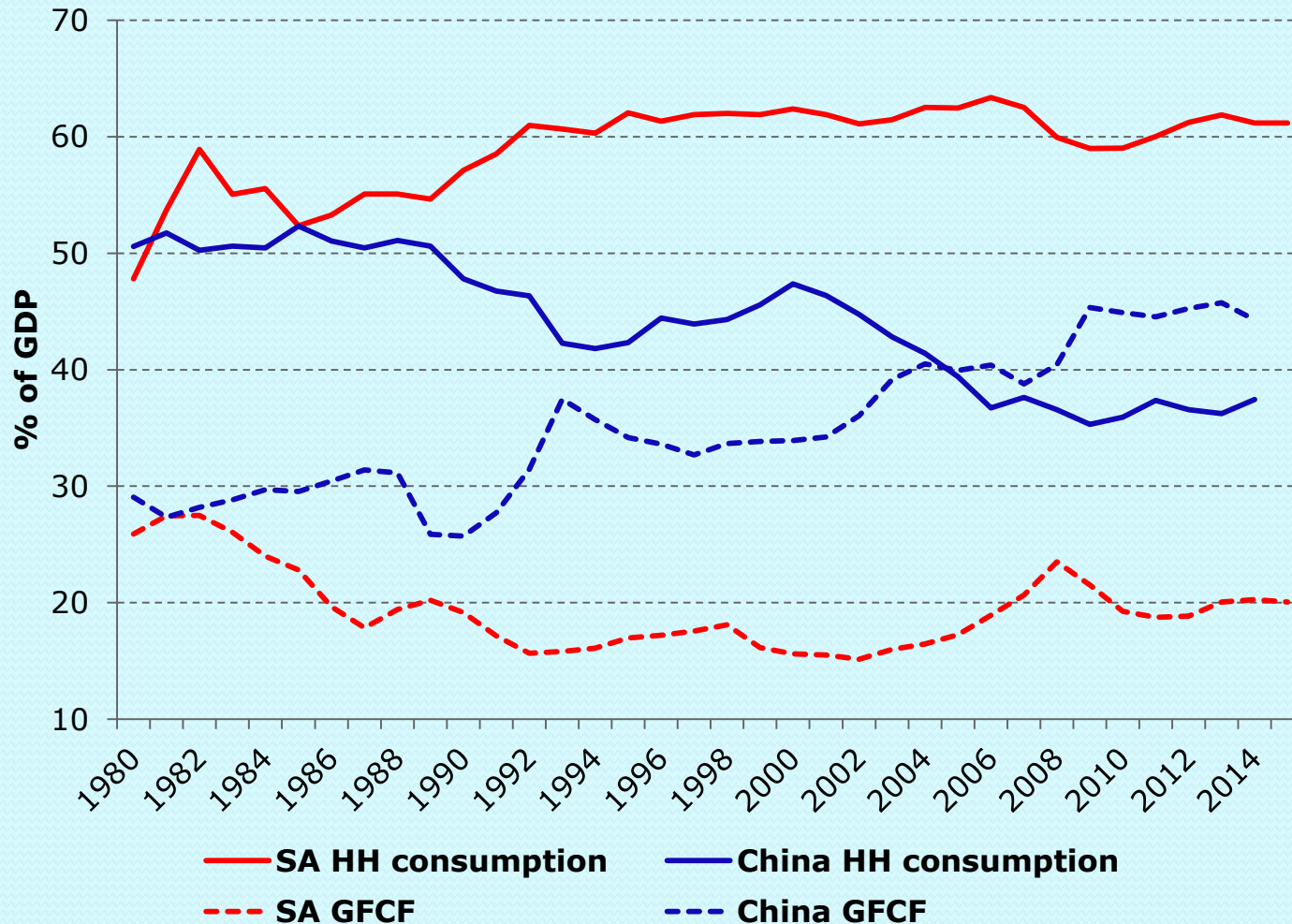
# Consumption Vs Production

Two Paths, same starting block?

- Household (HH) Consumption
- Gross Fixed Capital Formation (GFCF)
- Government Consumption

# Consumption Vs Production

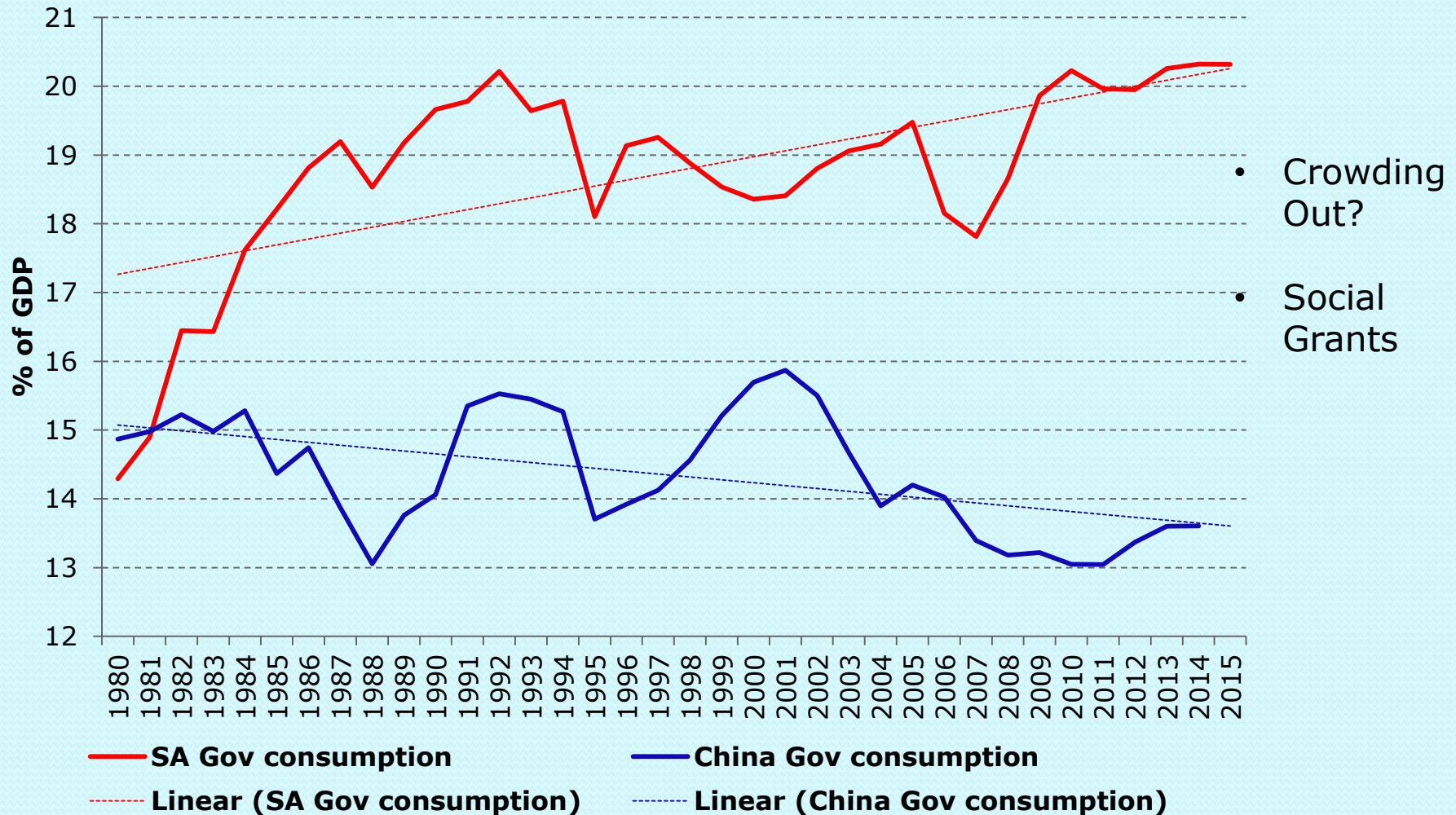
HH Consumption and GFCF as a % of GDP, SA & China, 1980-2013



- Similar positions between two nations in the early 1980s in terms of HH consumption and GFCF position relative to their GDP's
- Will the roll out of NDP result in higher GFCF levels?

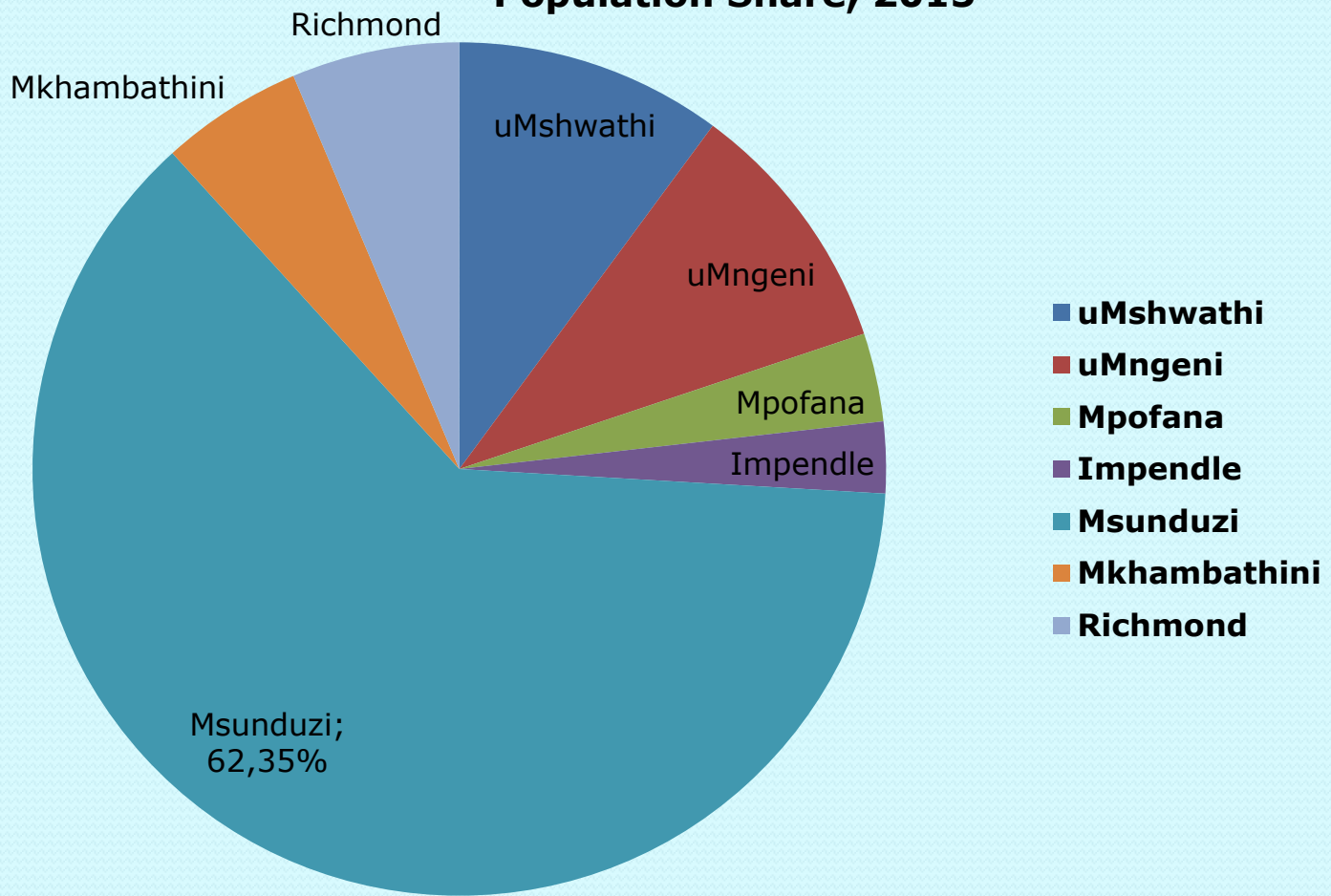
# Consumption Vs Production

Government Consumption as a % of GDP, SA & China, 1980-2013



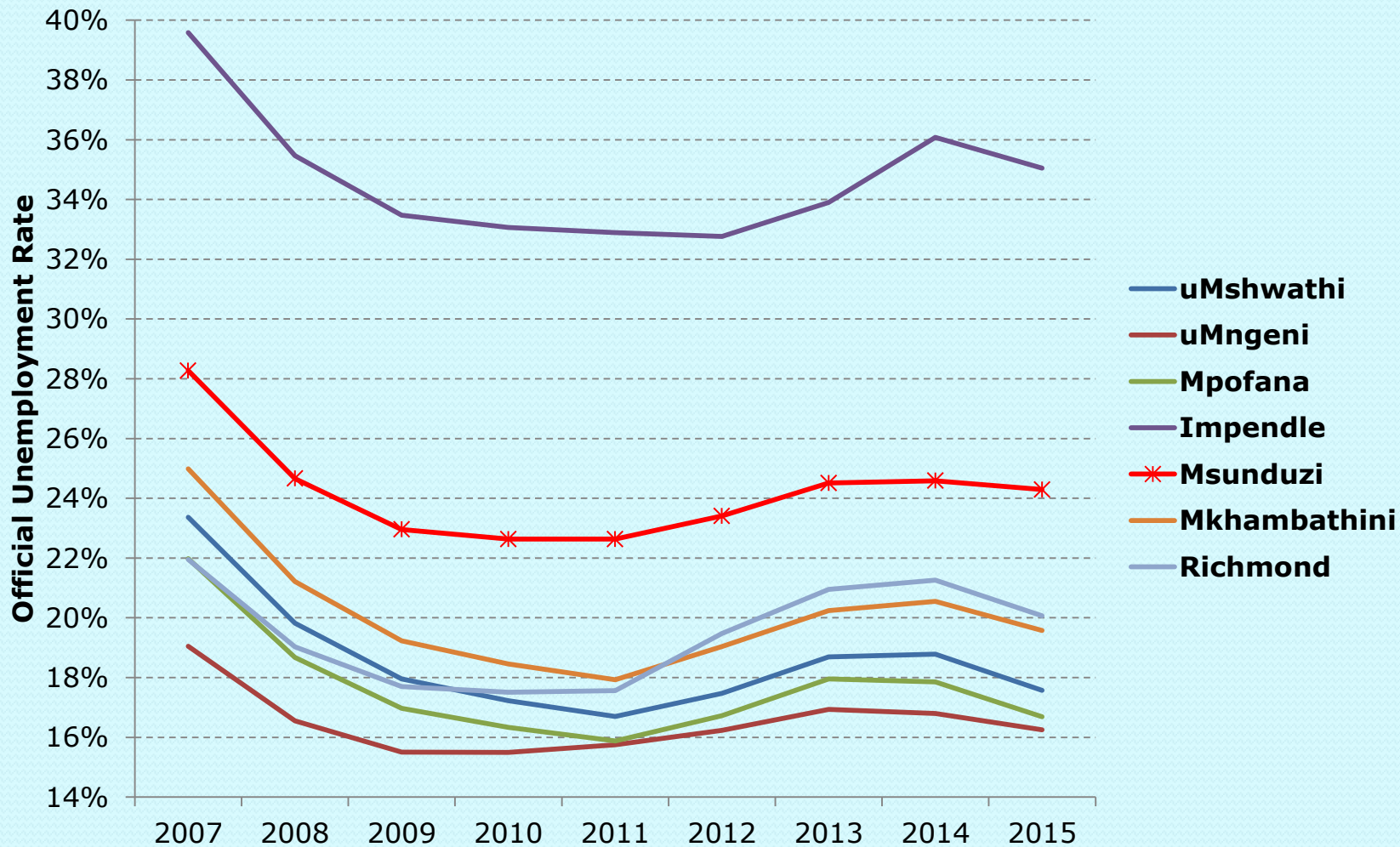
# Msunduzi Municipality

Population Share, 2015



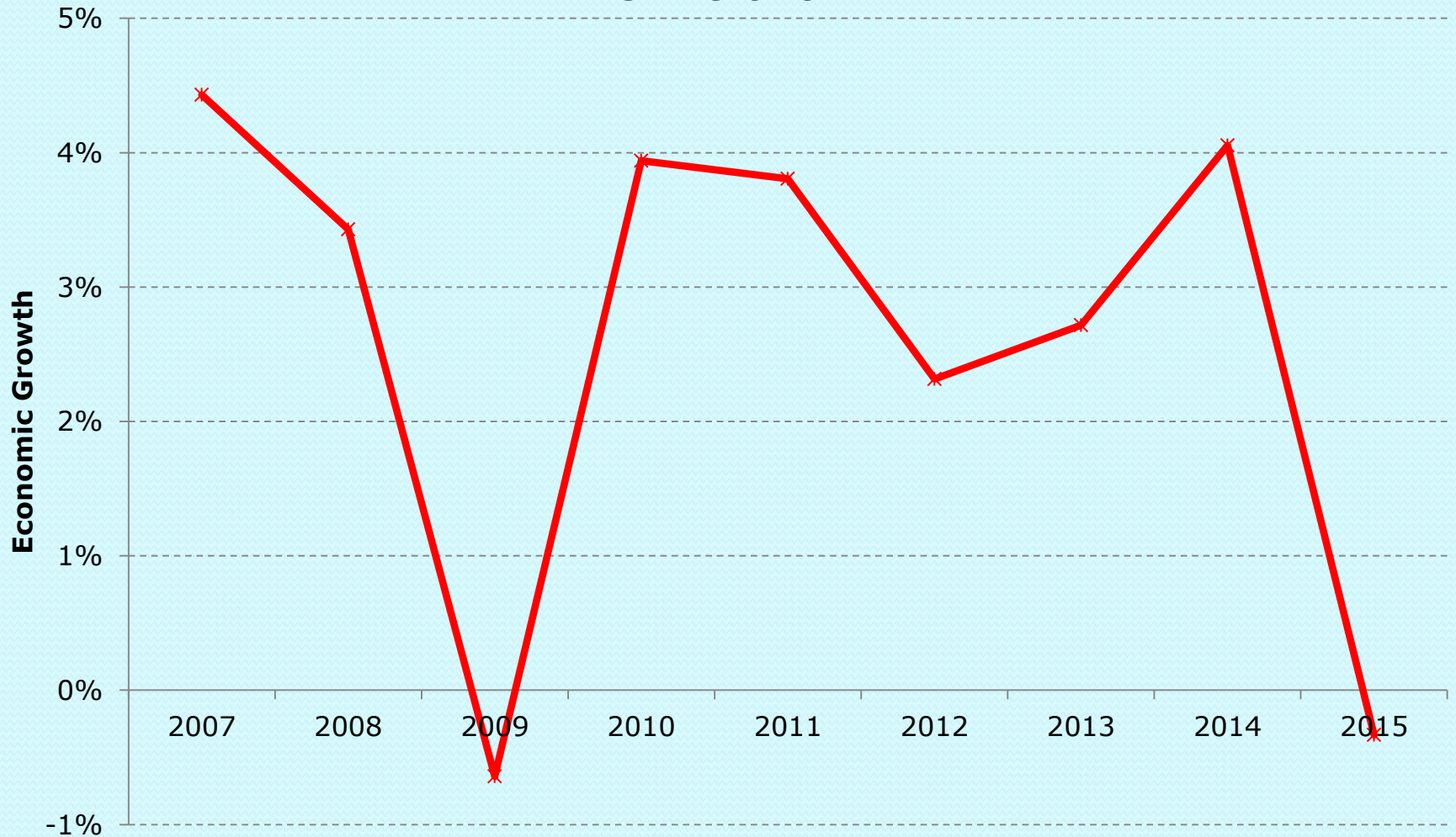
# Msunduzi Municipality

## Level of Unemployment above KZN Average



# Msunduzi Municipality

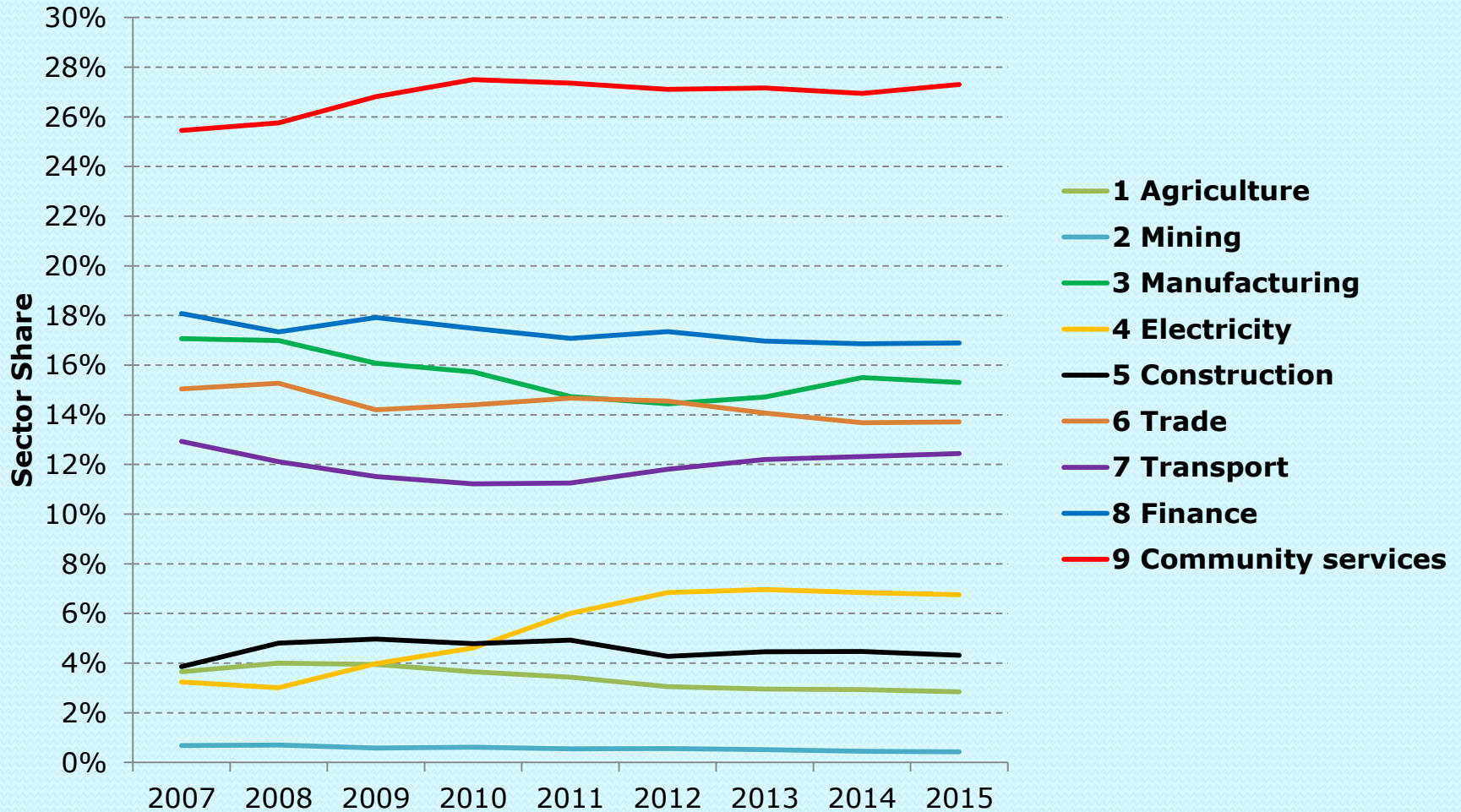
## GDP Growth



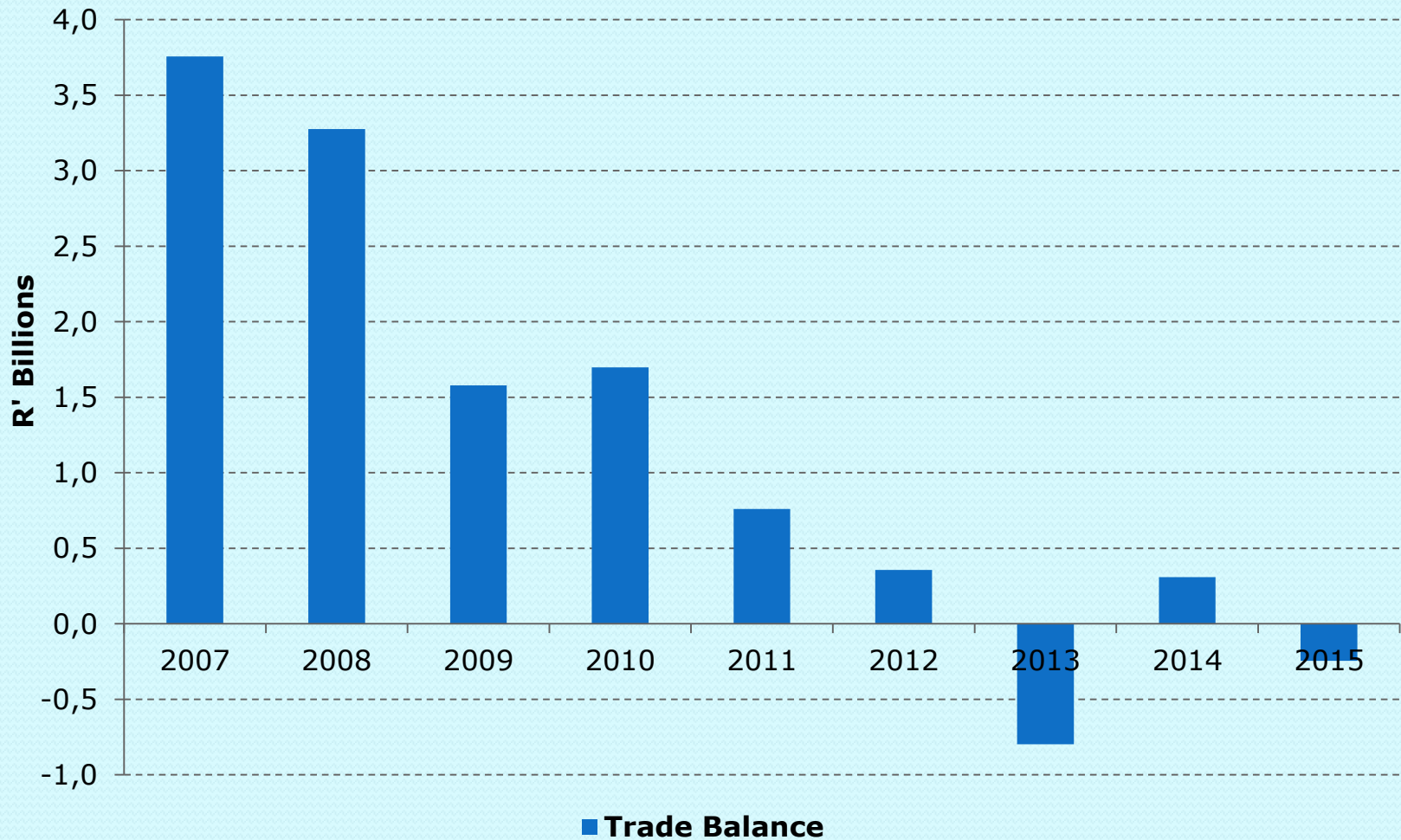


# Msunduzi Municipality

## Gross Value Added

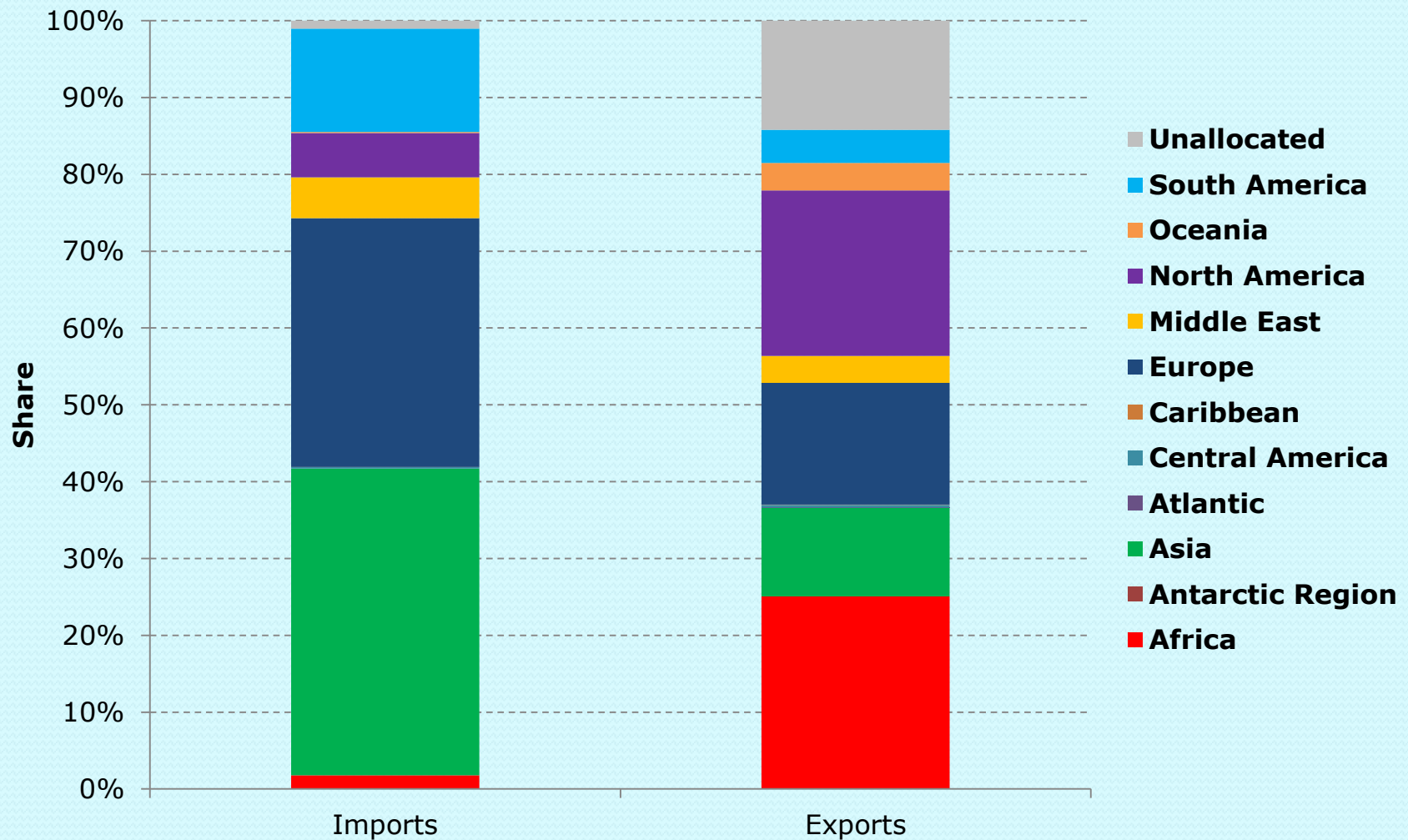


# Msunduzi Municipality



# Msunduzi Municipality

## Trade by Geographic Region, 2015



# Msunduzi Municipality

## Trade by Sector, 2015

	Imports	Exports
Agriculture and hunting	2.03%	1.43%
Forestry and logging	0.02%	1.13%
Fishing, operation of fish farms	0.00%	0.00%
Mining of coal and lignite	0.00%	0.00%
Mining of gold and uranium ore	0.00%	0.00%
Mining of metal ores	0.02%	0.00%
Other mining and quarrying (incl 22)	0.41%	0.01%
<b>Food, beverages and tobacco products</b>	<b>22.06%</b>	<b>5.98%</b>
Textiles, clothing and leather goods	4.63%	2.26%
Wood and wood products	5.29%	4.19%
Fuel, petroleum, chemical and rubber products	14.16%	8.52%
Other non-metallic mineral products	0.71%	0.95%
<b>Metal products, machinery and household appliances</b>	<b>43.58%</b>	<b>65.56%</b>
Electrical machinery and apparatus	1.07%	3.99%
Electronic, sound/vision, medical & other appliances	1.53%	0.47%
Transport equipment	2.88%	1.81%
Furniture and other items NEC and recycling	1.62%	3.71%
Electricity, gas, steam and hot water supply	0.00%	0.00%
Other unclassified goods	0.00%	0.00%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>



Thank You