

THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

PROVINCIAL REVIEW 2016

Provincial Review 2016: KwaZulu-Natal

KwaZulu-Natal

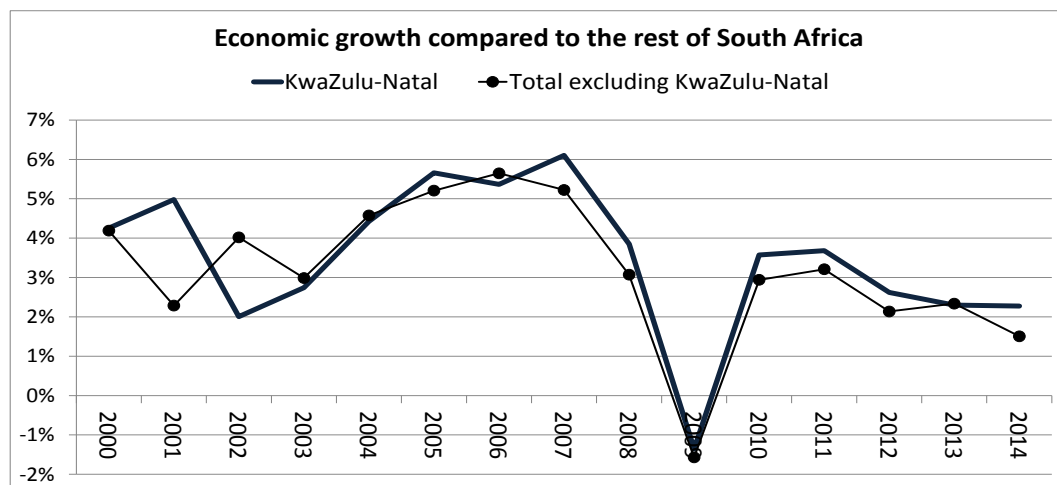
KwaZulu-Natal has a strong role in South Africa's manufacturing and agriculture, and has its largest port and main North-South freight corridor. Its manufacturing industry has been diverse, combining strong light and heavy industries. But half the population lives in impoverished former "homeland" regions, compared to the national average of 30% (and virtually none in the other major manufacturing regions of Gauteng and the Western Cape). These areas have limited employment opportunities and substantial infrastructure backlogs. As a result, while the province mirrors national economic growth, it lags in employment levels, wages, household incomes and municipal services.

The real economy in KwaZulu-Natal: Structure and growth

While KwaZulu-Natal, with 10,9 million residents, accounted for 20% of South Africa's population in 2014/2015, it contributed just 16% of the GDP. In 2014 – the latest available data – the real economy (represented here by agriculture, mining, manufacturing and construction) made up 25% of KwaZulu-Natal's output.

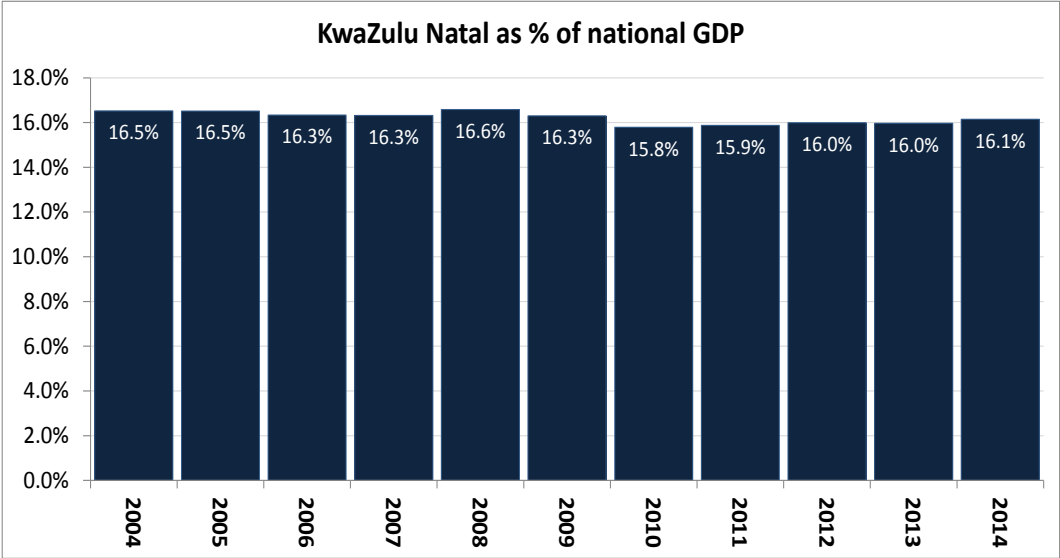
The largest real-economy sector was manufacturing, at 16% of the provincial economy, followed by agriculture at 3%, construction at 4%, and mining at 2%. KwaZulu-Natal contributed 22% of national manufacturing, 25% of national agriculture, 19% of national construction, but only 3% of national mining.

KwaZulu-Natal was hard hit by the 2008/2009 global financial crisis, but recovered and since then has grown somewhat faster than the rest of the economy. It has, however, been affected by the general slowdown since the end of the commodity boom in 2011. From 2003 to 2011, its growth averaged 4% a year; from 2011 to 2014, it fell to 2,4% a year.



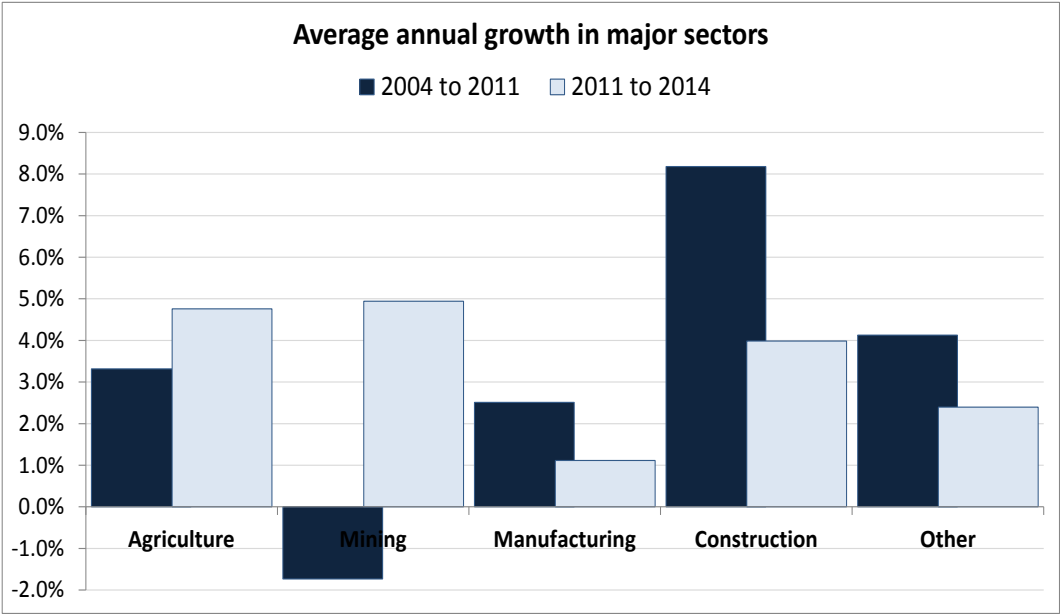
Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

Overall, the share of KwaZulu-Natal in the national economy (in current rand) decreased from 2003 to the end of the commodity boom in 2011, then climbed. Soaring prices for metals effectively meant that mining provinces displaced non-mining provinces during the boom in purchasing power, but then lost ground after prices fell from 2011.



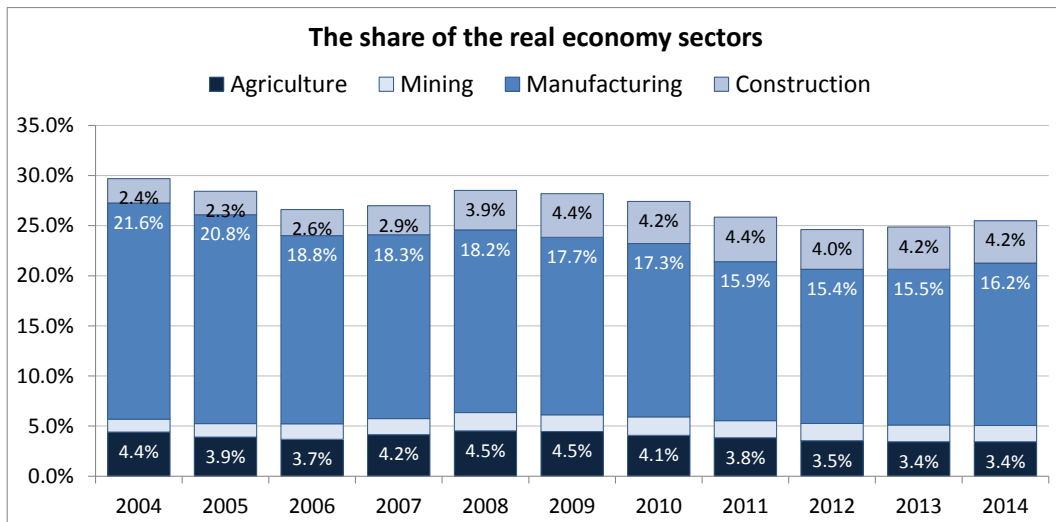
Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

Of the main real economy sectors, the fastest growing in KwaZulu-Natal was construction. The province benefited from major rail, road and port projects under the National Infrastructure Plan. In contrast, manufacturing saw particularly slow growth from 2011 to 2014, at just over 1% a year.



Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

These growth trends meant that manufacturing generally declined as a share of the provincial economy over the past decade. Still, it remained easily the dominant sector in the real economy of the province.



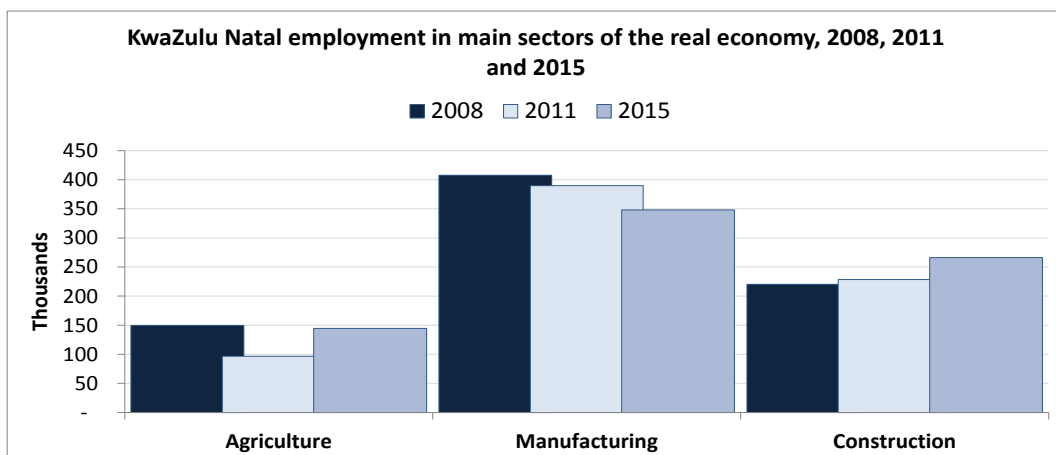
Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

The employment data shed further light on the structure of the economy.

Of employed people in the real economy in KwaZulu-Natal in 2015:

- 348 000 were in manufacturing
- 145 000 were in agriculture
- 266 000 were in construction
- 12 000 were in mining (in 2014)

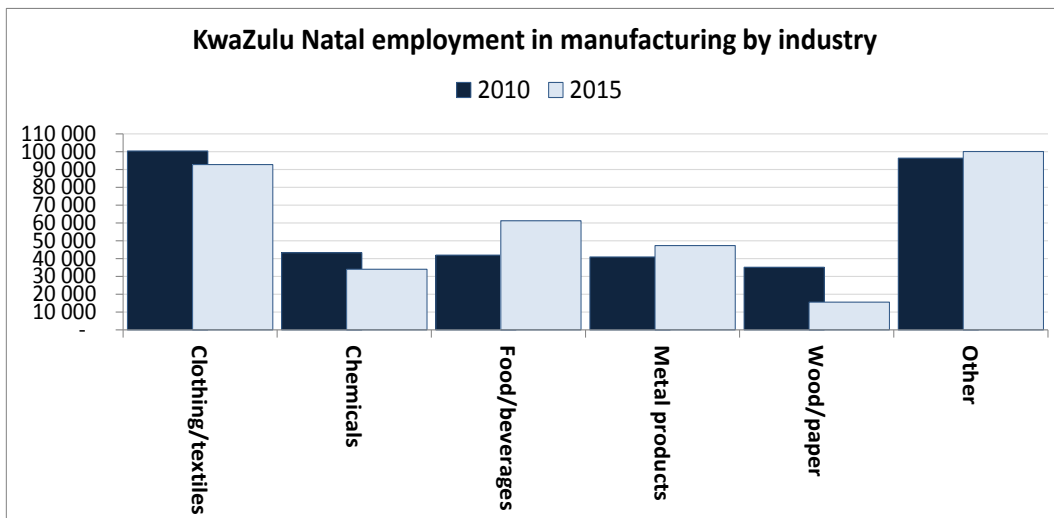
The following chart shows the change in employment by major sector in the real economy in 2008, 2011 and 2015, using the average of quarterly figures for each year. Employment in manufacturing declined steadily over the period, while construction increased. The number of farmworkers fluctuated, and has likely declined more recently due to the drought.



Source: Statistics South Africa, QLFS Trends 2008-2016. Excel spreadsheet. Average of four quarters for the year.

KwaZulu-Natal accounted for 20% of South African manufacturing employment. The top five manufacturing industries in the province, in terms of employment, were clothing, textiles and footwear; food and beverages; basic iron and steel and metal products; chemicals and plastic; and paper and publishing. The province accounted for 41% of

employment in clothing, textiles and footwear, its largest manufacturing industry. But the main growth in manufacturing jobs came from food and beverages.



Source: For 2010, Statistics South Africa, Labour Market Dynamics 2010. Electronic database. For 2015, average of four quarters, Statistics South Africa, QLFS for relevant quarters. Electronic database.

Coal dominated mining in KwaZulu-Natal, but it accounted for only around 2% of national mining sales.

Major public and private projects announced for the real economy of KwaZulu-Natal over the past three years included the following.

Large recent public and private real-economy projects in KwaZulu-Natal

Project Name	Company	Value	Sector	Industry
Cornubia Mixed Use Development	Tongaat Hulett Developments and eThekweni Municipality	R20 billion	Mixed	Construction
Clairwood Logistics Park and Distribution Centre	Fortress Income Fund	R3,5 billion	Private	Construction
Tyre manufacturing plant upgrade and expansion	Sumitomo Rubber South Africa	R2 billion	Private	Manufacturing

Employment and unemployment

KwaZulu-Natal has relatively high levels of joblessness. Just 38% of the working-age population was employed in 2015, compared to a national average of over 40%. The international norm is around 60%. The province gained 200 000 jobs from 2010, when national employment hit a low point following the 2008/2009 global financial crisis. Still, because of population growth, the share of working-age people with employment had remained virtually unchanged from that year.

In 2014, the median formal wage in KwaZulu-Natal was R3 050 and the median wage for domestic, informal and agricultural workers was R1 300. That compared to R4 000

nationally for formal workers, and R1 500 for other employees. Some 63% of total employment in the province was in the non-agricultural formal sector, compared to the national average of 69%.

Relatively high joblessness and poor pay explain a degree of out-migration from KwaZulu-Natal. Its population grew 27% from 1996 to 2015, compared to a national average of 35%.

The KwaZulu-Natal economy and the national spatial economy

Apartheid geography has a significant impact on economic structures, and especially on access to economic opportunities for ordinary South Africans. This was particularly true of KwaZulu-Natal, with its rich coastal areas co-existing with extensive historically deprived former so-called “homeland” and “border” areas. KwaZulu-Natal has:

- A relatively high share of former “homeland” areas within its borders. In 2015, 37% of the population lived in former “homeland” regions, compared to 27% for the country as a whole.
- One metro area and three secondary cities, out of a total of 61 municipalities. Metros and secondary cities account for 44% of the province’s population. That was slightly above the national average of 40%.
- A relatively small share of non-Africans in the total population, at 11% compared to 20% nationally.

These factors help explain the province's economic structure and key constraints on growth. Under apartheid, African areas and especially the former “homeland” regions typically excluded natural resources, and for decades were largely deprived of infrastructure and government services.

Some indicators of the implications for KwaZulu-Natal are:

- The 2015 General Household Survey found that the median household income was R2 600 a month, compared to R3 260 nationally. In the former “homeland” regions it was R2 160 a month, while it was R3 010 in the rest of the province.
- In 2015, only 24% of working-age people in the former “homeland” regions were employed, compared to 46% in the rest of KwaZulu-Natal. These figures were close to the national averages for both regions.
- According to Census data, the population in the former so-called “homeland” regions in KwaZulu-Natal increased by 12% from 1996 to 2011, while the rest of the province saw population growth of 27%.
- In 2015, matric degrees were held by 31% of the province's working-age population aged over 20, but only by 24% in the former “homeland” regions. For the country as a whole, the figure was 29%. The share of adults in KwaZulu-Natal with matric had climbed from 15% in 1996. Some 10% of KwaZulu-Natal’s adult population had a degree, compared to 13% nationally.
- The 2015 General Household Survey found that 64% of households in KwaZulu-Natal had running water in their houses or yards, compared to 47% in 1996. Some 82% had electricity, up from 53% in 1996. Nationally, 73% of households had running water and 85% electricity.

- Municipal expenditure per person in KwaZulu-Natal came to R5 100 in 2015/2016, compared to R5 900 nationally. The metros and secondary cities were R7 900 per person compared to R2700 per person in the other municipalities in the province. They provided for 44% of the population but raised 84% of all municipal rates and tariffs in the province. They received 38% of current and 46% of capital transfers and subsidies, which came mostly from the national government.

Economic policy initiatives

The main national industrial policy and development initiatives that affected KwaZulu-Natal included the following.

- In terms of Department of Trade and Industry (the dti) support, from 2013/2014 to 2014/2015, a total of 107 projects were approved under the Manufacturing Competitiveness Enhancement Programme (MCEP) in KwaZulu-Natal, for a total value of just over R500 million. A further 74 projects were approved under the Manufacturing Investment Programme (MIP), with a value of R195 million. The province also benefited strongly from sectoral programmes included in the Industrial Policy Action Plan (IPAP), including for clothing and textiles, the aluminium foundries
- The major aluminium smelters near Richards Bay were established with dti support that ensured them of relatively low-cost electricity.
- KwaZulu-Natal has three actual or proposed Industrial Development and Special Economic Zones.

Industrial Development and Special Economic Zones in KwaZulu-Natal

IDZ/SEZs	Focus	Designation
Richards Bay	Aluminium; titanium; dry dock (ship and repair); and furniture	2002
Dube Trade Port	Value niche aquaculture and horticulture; automotive; electronics; and fashion garments	2013
DTP	Agro-processing; and electronics	Proposed

- The Industrial Development Corporation (IDC) invested 7,1% of its total spending in KwaZulu-Natal.
- The following table summarises the major infrastructure projects in KwaZulu-Natal that were included in the 2016/2017 national Budget Review. In addition, the province should benefit from substantial Transnet investments in upgrading the Durban-Gauteng rail line; extensive investments in hospitals, clinics, schools and colleges; and the roll-out of broadband to poor communities.

Major infrastructure projects in KwaZulu-Natal as of 2016/2017

Project name	Implementing agent	Project cost (R billion)	Project description
Ingula pumped-storage scheme	Eskom	29.6	1 332MW pumped-storage scheme
Cornubia integrated human settlement	Housing Development Agency/municipalities	25.8	50 000 mixed-income, mixed-density houses by 2026
Greytown regional bulk scheme	Department of Water and Sanitation	1	New bulk water scheme and upgrade existing scheme
Umgeni Water Board: Lower Thukela bulk water supply scheme	Umgeni Water Board	1	New bulk water scheme

The KwaZulu-Natal budget totalled R90 billion in 2015/2016. Per person, the province spent R8 300, compared to an average for all the provincial budgets of R7 000. In constant 2015 rand (deflated by CPI), the budget had increased by 2,3% from 2014/2015. From 2011/2012, it had risen 6,2%.

Just 83% of KwaZulu-Natal's budget went for education and health. That compared to 90% for provincial budgets as a whole.

In 2015/2016, the provincial budget set aside R7 billion, or 7,7% of the total, for investment in buildings and public works. As a group, the provinces budgeted R35 billion, or 8% of their total expenditure, for these purposes. In addition, transfers to households for housing came to R2,9 billion, or 3,2% of KwaZulu-Natal's 2015/2016 budget. The provinces as a whole expected to provide R18 billion in housing subsidies, or 5% of their spending.

The economic departments in the provincial government in 2015 were Economic Development, Tourism and Environmental Affairs, and Agriculture and Rural Development. In 2015/2016, their combined budgets came to R5 billion, or about 6% of the provincial budget. The provinces as a group spent an average of 5% of their budgets on these functions, with the lowest share of spending, at 3%, in the most industrialised provinces of Gauteng and the Western Cape.