KWAZULU-NATAL PROVINCE

ECONOMIC DEVELOPMENT, TOURISM AND ENVIRONMENTAL AFFAIRS

REPUBLIC OF SOUTH AFRICA

EZOMNOTHO

THE KWAZULU-NATAL QUARTERLY ECONOMIC AND STATISTICAL OVERVIEW

June 2020

Trade & Investment KwaZulu-Natal
YOUR KNOWLEDGE PARTNER IN BUSINESS

South Africa
KWAZULU-NATAL
Zulu Kingdom. Exceptional

For enquiries about this publication please contact the following:

Department of Economic Development, Tourism and Environmental Affairs

Office of the Head of Department
270 Jabu Ndlovu Street, Pietermaritzburg, 3201
Tel: +27 (33) 264 2515, Fax: 033 264 2680
Private Bag X 9152
Pietermaritzburg, 3200
www.kznedtea.gov.za

CONTENTS:

LIST OF TABLES:

LIST OF FIGURES:

1. INTRODUCTION

1.1 Foreword

Ms Nomusa Dube-Ncube, MPL
MEC for KZN Department of Economic Development, Tourism and Environmental Affairs

The COVID-19 pandemic has delivered the largest economic shock the global economy has witnessed in decades. Countries around the world have resorted to unprecedented restrictions and shutdown measures to contain the spread of COVID-19 disease – triggering deep economic recessions in many countries. The World Bank forecasts a 5.2% contraction in global GDP in 2020, representing the deepest global recession since World War II – despite the extraordinary efforts of governments to alleviate the economic impact of the pandemic with unprecedented fiscal and monetary policy support. In addition, per capita incomes in most emerging and developing economies are expected to shrink this year, tipping millions back into poverty. The global recession triggered by the pandemic is expected to leave lasting scars through weakened investment, an erosion of human capital (through unemployment and lost education), and the disintegration of global trade and supply chains.

June's Supplementary Budget Review shows that the country is expected to begin this decade with a tremendous slump in the health of government finances, with a fiscal deficit of -14.6% of GDP and a ballooning debt at 81.8% of GDP for 2020. On the back of this budget, rating agencies downgraded the country's credit rating further. As expected, the country's Gross Domestic Product (GDP) contracted by -2% in the first quarter of 2020 – marking the economy's third consecutive quarter of economic decline. This decline happened even before the great lockdown was implemented in South Africa.

Reliable and easily accessible information enables policy makers, researchers, parliamentarians, civil society and other stakeholders to debate and evaluate policy choices and service delivery performance. Ezomnotho is a quarterly publication that gives more insight about the global, national and provincial economic developments which are essential for economic development and policy implementation both in the country and province. This publication serves as a reference in tracking development progress and status of economic performance.

As the KwaZulu-Natal Department of Economic Development, Tourism and Environmental Affairs, we are delighted to present the June 2020 edition of Ezomnotho quarterly publication. It is our hope that, through this publication, policy makers can design economic strategies to mitigate social and economic challenges affecting the people of KwaZulu-Natal.

Ms Nomusa Dube-Ncube, MPL
MEC for KZN Department of Economic Development, Tourism and Environmental Affairs

1.2 About this Publication

The publication provides in-depth analyses of macroeconomic developments in the global, national and local economies. The publication focuses on the performance of the real or productive economy, services, labour market, inflation and international trade developments.

A great portion of the information contained in the report has been sourced from Statistics South Africa (Stats SA), the South African Reserve Bank (SARB), the International Monetary Fund (IMF), the Department of Trade and Industry (DTI) and National Treasury and other private data sources. In cases where such information is unavailable, economic modelling tools such econometrics and STATA have been used.

1.3 KwaZulu-Natal at a Glance

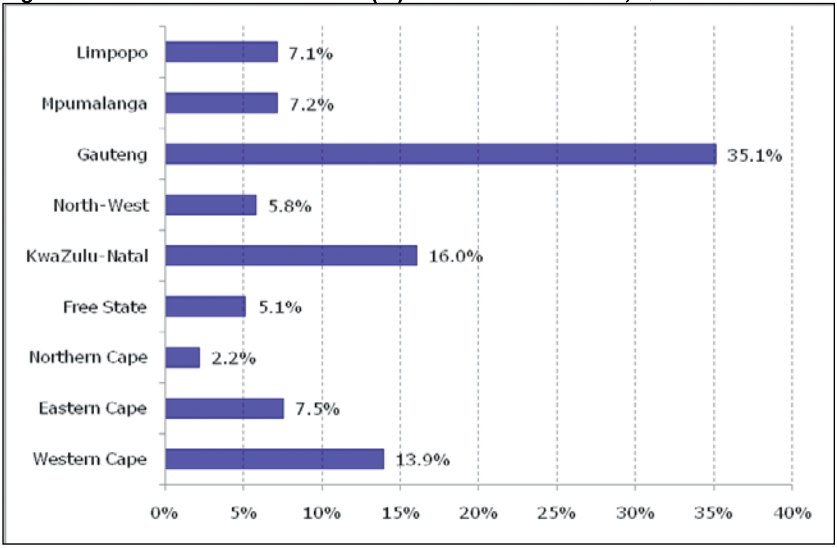
The table presented below shows a summary of the key provincial economic indicators in comparison with national figures. This is followed by information on the provincial economic size and its key sectoral contributors relative to South Africa.

Table 1.3.1: Various Economic Indicators

Indicator	KwaZulu-Natal	South Africa
GDP (R'000s) at 2010 constant prices Seasonally Adjusted & Annualised (R' mil) (1stquarter 2020)	501 619	3 128 058
GDP Growth (1st quarter 2020)	-0.6	-2.0
Population (000s) (2019)	11 531	59 622
Working Age Population (000s) (15-64 years) (QLFS, 1st quarter 2020)	7 188	38 874
Unemployed (000s) (QLFS, 1st quarter 2020)	984	7 070
Unemployment Rate (1st quarter 2020)	26.9%	30.1%
Labour Force (000's) (1st quarter 2020)	3 656	23 452
Absorption Rate (employed/population ratio) (1st quarter 2020)	37.2%	42.1%
Gini Coefficient (2019)	0.63	0.63
Human development Index (HDI) (2019)	0.62	0.66
Functional literacy (2019)	83.4%	85.4%
Inflation (May 2020)	2.2%	2.1%
Foreign tourists per annum (2018)	817 388	10 472 105
Total Air Passenger Movements at International Airports (1st quarter 2020)	1 326 948	9 188 092
Cargo tonnage handled at ports (000s) (1st quarter 2020)	34 596 519	57 788 822
Number of containers handled at ports (1st quarter 2020)	672 227	1 068 989

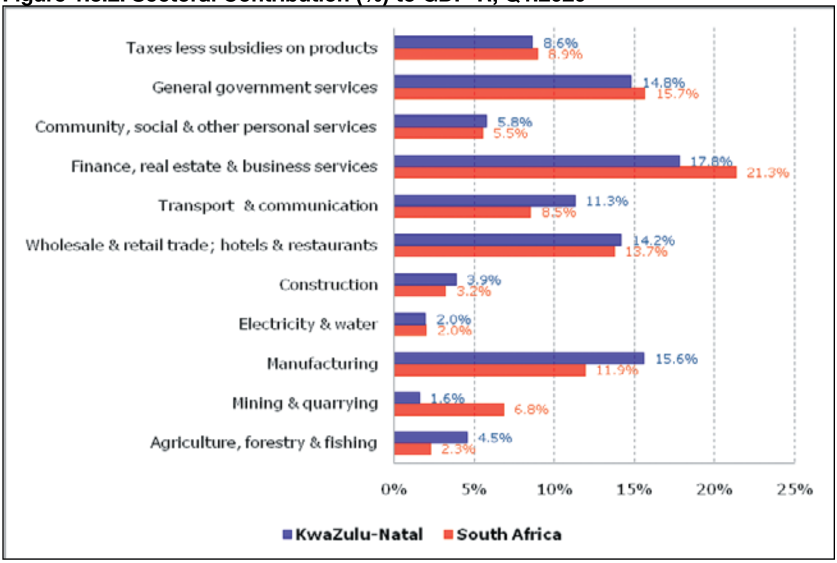
Source: Stats SA, IHS Global Insight, Quantec Research, ACSA, Transnet, 2020

Figure 1.3.1: Provincial Contribution (%) to South African GDP, Q1:2020



Source: Quantec Research, 2020

Figure 1.3.2: Sectoral Contribution (%) to GDP-R, Q1:2020



Source: Quantec Research, 2020

KwaZulu-Natal's comparative advantage

- KwaZulu-Natal (KZN) is the third smallest province by land size in the country, but is the second largest (approximately 16%) contributor to South African GDP after Gauteng.
- KZN is home to the Durban and Richards Bay ports which handle almost 60% of SA's cargo tonnage. Most bulk export operations occur in Richards Bay which produces over 4% of the global exports of aluminium. One of the world's largest sand mining operations also resides in the province.
- The province consists of a highly diversified agricultural sector. KZN is the country's main producer of timber as it produces over 50% of all timber used in the country and accounts for a significant percentage of the country's wood exports, as well as sugar cane (0.84% of SA GDP), with some of the country's largest sugar processing plants.
- KZN also has the highest export propensity in the country and has a fairly high level of industrialization (measured by the relative size of manufacturing output). The municipal areas that have the highest exports in terms of percentage contribution of exports in KZN include eThekwini, King Cetshwayo and uMgungundlovu.
- KwaZulu-Natal is also home to King Shaka International Airport (KSIA) which is the third largest airport in the country. King Shaka International Airport is directly connected to more than eight (8) international destinations.
- The province has a number of regional airports and air strips.
- KwaZulu-Natal boasts of two industrial zones, namely, Dube Trade Port and Richard's Bay Industrial Development Zone. Dube Trade Port SEZ since inception has attracted investment with a value of R1.8 billion. There are currently 41 operational investors which have created a total of 3,300 job opportunities.
- The development of an automotive supply park in the South of Durban is envisaged to stimulate the automotive sector and work is underway to develop a Clothing & Textile SEZ in the province.
- KZN has many natural advantages including the scenic beauty, biodiversity and the unique cultural diversity. It is a key tourist destination with potential to grow further.
- The province boasts the iconic Moses Mabhida Stadium and the two World Heritage Sites in the form of the Drakensberg Mountains and the Isimangaliso Wetland Park.

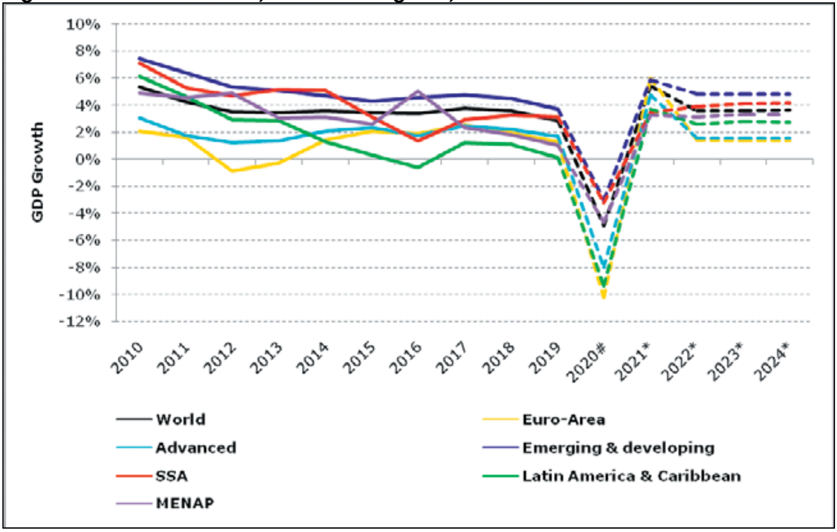
2. GLOBAL ECONOMIC DEVELOPMENTS AND OUTLOOK

2.1 World Economic Growth

The outbreak of the Coronavirus disease 2019 (abbreviated COVID-19) has continued to send shock waves around the globe and many countries including South Africa have not been spared. Despite being a health catastrophe, the COVID-19 pandemic has become a major downside risk to the economies of the world. It is no doubt that the global economy will shrink during 2020. Given the interconnectedness and advent of globalisation, the ramifications of this virus will be felt well into the future with many counties resorting to implementing some form of lockdown measures. These measures have significantly impacted the transfer of goods & services internationally and disrupted global value chains. As Governments around the world are battling to contain the crisis, focus on the economy has been relegated to the post-Covid19 era or when the pandemic has been brought under control. Gauging from the obtaining situation the world is likely to go through a fundamental change in terms of the way we live, work and play.

Money is going to be the second biggest loser after human life during covid19 crisis. Over 90 countries have asked for assistance from the International Monetary Fund (IMF) which gives an indication of the scale of the crisis and the sheer number of unprecedented requests which hasn't happened in history of IMF. The crisis is described as being different from other global catastrophes experienced before, there was the Great Depression and the Great Recession (Global Financial Crisis) and now this is the Great 'Lockdown'. This crisis is unique as it is not only an economic but a health crisis. Economic Policy is not going to determine the spread of the virus or how intense it's going to be or how many deaths there will be. Unlike in previous economic crises', the injection of money would stimulate activity through spending; however during lockdown it is different as people movement to spend money is limited as they would normally do and they must stay at home. It is more about maintaining the economic system so that when this disease is under control then and only then can one expect for a recovery to gain momentum. Governments are anticipated to run very large fiscal deficits through stimulus packages. Countries run the risk of being in an even worse situation post-COVID-19 due to economic collapse leaving them in a significantly higher debt-GDP situation. Countries are, in a way forced to put their economies into a type of 'coma' or 'moth-balled', not dead but a state of voluntary inactivity. In other words the anticipated economic crisis is not caused by some anomaly or loophole in the market or some commodity/stock/asset being over-bought or under-sold creating inefficiencies or market failure (i.e. Real Estate).

Figure 2.1.1: GDP Growth, Selected Regions, 2010 – 2024*



Source: IMF WEO, 2020
*Note: # Indicates estimates and * projections*

Global growth is projected to contract by –4.9% in 2020. The COVID-19 pandemic has had a more negative impact on activity in the first half of 2020 than anticipated, and the recovery is projected to be more gradual than previously thought. The Euro Area is expected to be hardest hit contracting by -10.2% while economic blocks in Asia (i.e. ASEAN) are estimated to have smaller contraction at approximately -2.0%. The world's second biggest economy, China, saw a sharp decline in the first three months of the year during coronavirus lockdowns contracting by -6.8% before returning to positive territory in the second quarter expanding by 3.2%. The unprecedented decline in global activity has seen consumption and services output dropped markedly, while mobility and travel has picked up in some areas, it remains low compared to pre-virus levels. International trade has contracted reflecting weak demand, the collapse in cross-border tourism, and supply dislocations related to shutdowns.

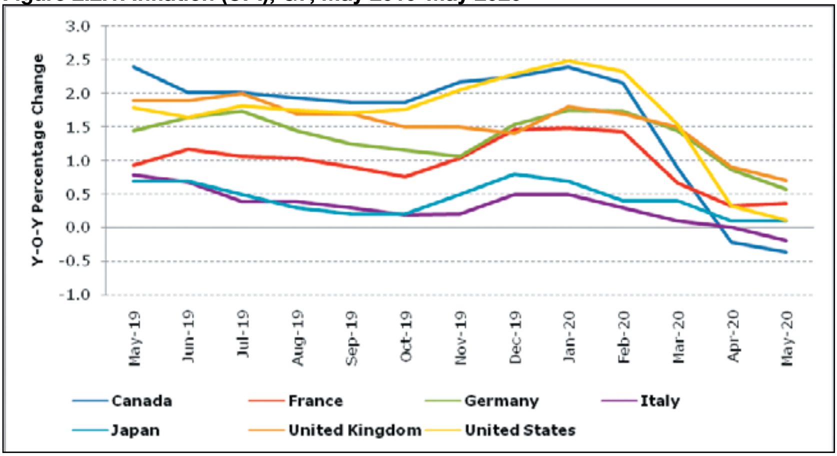
It is expected that travel criteria, requirements and change at Ports of entry are expected to change globally to prevent future pandemics of this nature. For example, take the changes implemented at airport security following the September 11 attacks in 2001 on the World Trade Centre and U.S Pentagon. Sweeping changes and possibly health restrictions would be reviewed. As many governments around the globe have been forced to lockdown their countries in an attempt to curb the spread of the COVID-19 pandemic, each country right now needs to hastily implement economic recovery programmes to bring about economic stability to the country, not all will be saved but many will. The limitation of the movement of people while still allowing goods and services to continue to move freely to keep economic activity churning will mean many economies will adopt some form of technology or transition to a digital platform to keep afloat i.e. use of drones technology, 3D Printers, ecommerce and online tools.

2.2 Global Inflation

COVID-19 nationwide lockdowns have crippled economies across the globe and in efforts to counteract the impact of the pandemic, central banks around the world are massively easing monetary policy. This is expected to be inflationary over time; however, the fall in demand – as a result of the pandemic – has been extremely disinflationary in the short term. Food prices may have risen in the past few months, but the price of most goods and services (e.g.: oil, electricity, clothing, accommodation and travel bookings) fell significantly – resulting in lower inflation across the globe. The International Monetary Fund (IMF) reported that average inflation in advanced economies dropped about 1.3 percentage points since the end of 2019, to 0.4% (year-over-year) as of April 2020; while in emerging economies, it dropped 1.2 percentage points (to 4.2%). Apart from a fall in demand, the extraordinary level of job losses is another factor that is likely to continue to suppress inflation.

With increased government spending and reduced tax receipts, a substantial increase in government debt levels is expected to be one of the lasting legacies of the pandemic. Several economists estimate that the average G7 government debt to GDP ratio will rise to approximately 140%, before stabilising.

Figure 2.2.1: Inflation (CPI), G7, May 2019-May 2020



Source: OECD, 2020

As businesses that were closed due to the COVID-19 pandemic began to slowly open, Canada's annual pace of inflation fell for a second consecutive month in May. Inflation declined 0.4% in May, defying market expectations of inflation remaining unchanged. This decline is on the back of demand-driven decreases in the prices of gas, traveller accommodation, and clothing & footwear. Italy also slipped into deflation in May – for the first time since October 2016.

Inflation in the United States slowed to 0.1% in May; this is mainly due to a drop in the price of gas – which dropped 3.5% in May. Other factors include decreases in the prices of clothing, car insurance, airfare, hotel rooms and used vehicles. Germany's inflation slowed for the third consecutive month – to 0.6%. This is on the back of lower energy prices (crude oil prices were almost 60% lower than a year ago). The United Kingdom recorded the lowest inflation rate since June 2016 (0.7%), owing to falling petrol and diesel prices as well as falling costs of toys and games.

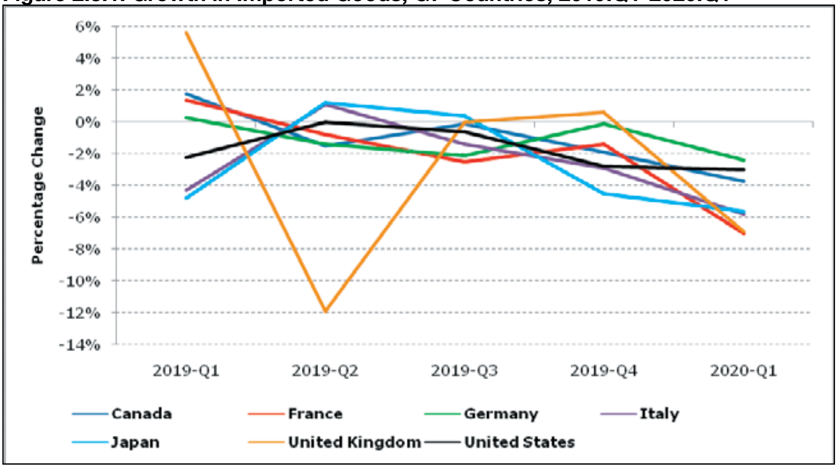
Inflation in France increased slightly in May, to 0.4% after a 0.3% rate in April. This slight increase in inflation came from higher prices of services and tobacco. On the other hand, Japan's inflation rate remained unchanged.

2.3 International Trade

The spread of the coronavirus, to every part of the world, has changed everything about how we interact with each other and the world; hitting global trade and investment on an unparalleled scale. Multinational corporations faced an initial supply shock, then a demand shock as more and more countries shut their borders and went under lockdown. The sudden struggle for consumers to procure basic products and materials highlighted the fragility of the modern supply chain and the urgent need to design stronger, more adverse supply chains.

The global supply chain had begun responding to US-China tensions and we can expect the disruption caused by COVID-19 to accelerate the pace of this response. Trade analytics show China lost global export market share at an accelerated pace in 2019, as companies moved to other countries. Low-cost production has since moved, mainly, to Mexico and Vietnam. Together, the two countries have grown their market across the consumer goods and Technology, Media, & Telecoms (TMT) sectors to 12% and 9% by 2019, largely at the expense of China.

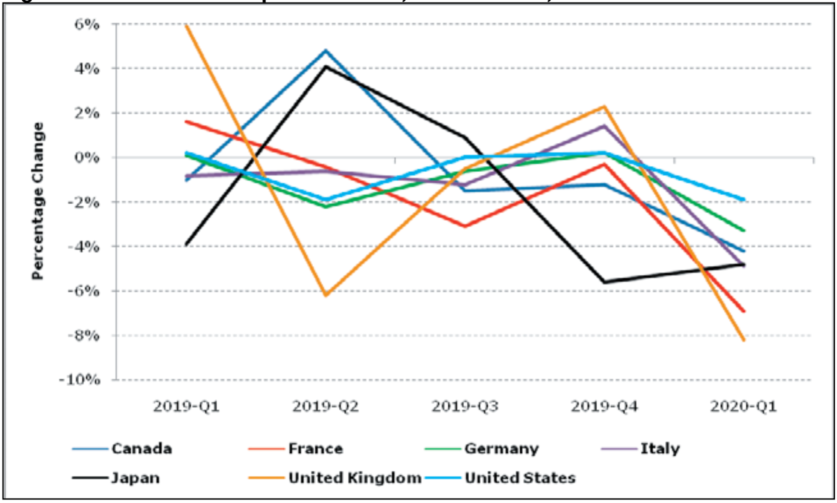
Figure 2.3.1: Growth in Imported Goods, G7 Countries, 2019:Q1-2020:Q1



Source: OECD, 2020

As expected, growth in imported goods was negative for all G7 countries. France and the United Kingdom experienced the highest decline – 7% and 6.9% respectively. In the fourth quarter of 2019, the United Kingdom was the only country that recorded positive growth (0.6%); this comes after the country experienced a sharp decline (-11.9%) in the second quarter of 2019. Overall, the growth of imported goods has been declining over the past 5 quarters.

Figure 2.3.2: Growth in Exported Goods, G7 Countries, 2019:Q1-2020:Q1



Source: OECD, 2020

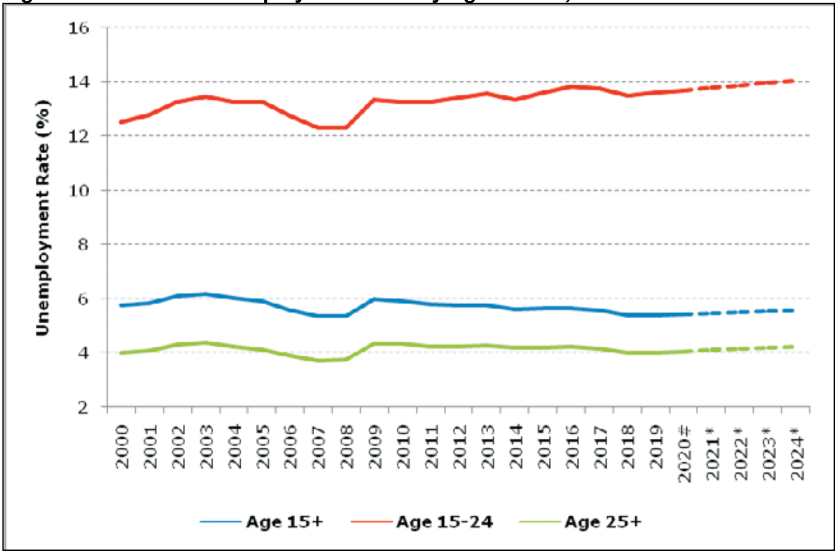
The growth of exported goods mirrored that of imported goods in the first quarter of the year. All countries realised negative growth, with the United Kingdom and France experiencing the highest decline – 8.2% and 6.9% respectively. Japan is the only country showing an upward trend in exports growth, in the first quarter. This means that Japan's exports declined at a slower rate in the first quarter, which could imply that demand is picking up.

The overall impact of the pandemic on international trade remains to be seen, however, it is evident that businesses have been faced with substantial business and operational disruptions.

2.4 International Labour Markets

The Covid19 crisis is having a substantial impact on all aspects of our lives. The immediate focus and ongoing priority is public health, and this is likely to remain in the coming weeks and months. For the labour market, many millions of workers across a large number of countries have been directly impacted by lockdowns. Some are able to continue their work through some form of digital platform or through remote working arrangements. Many others have seen a reduction or complete loss of their livelihood.

Figure 2.4.1: Global Unemployment Rate By Age Cohort, 2000-2024*



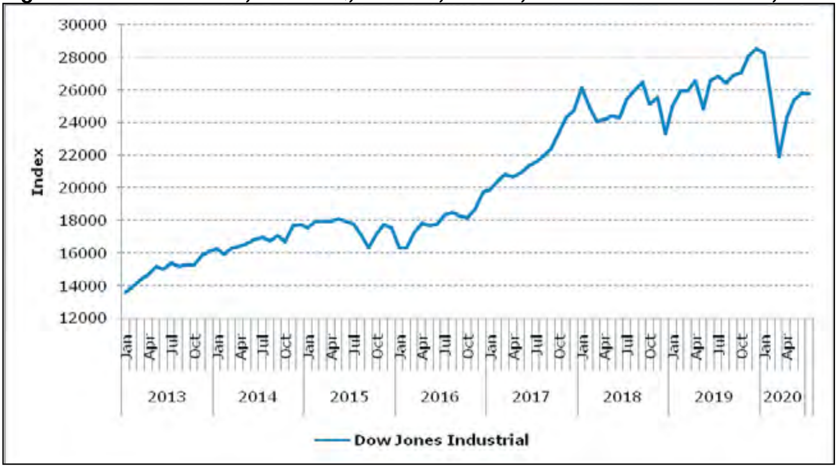
Source: ILO, 2020
*Note: * indicates forecasts and # Estimates*

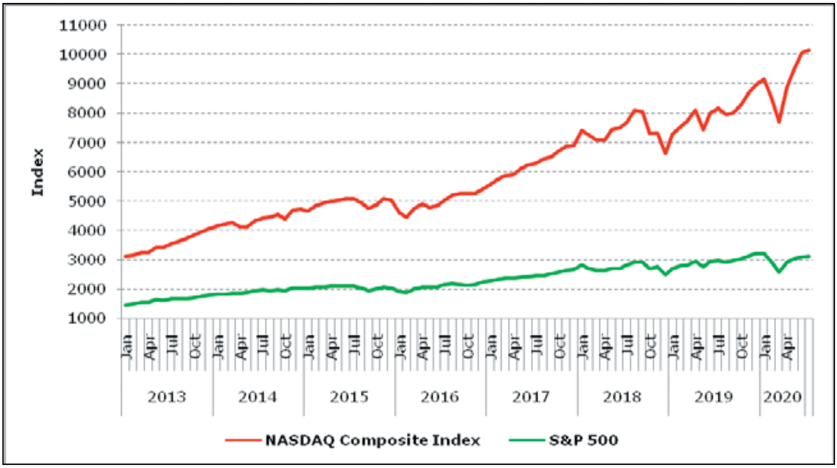
The unemployment rate is probably the best-known labour market measure and is certainly one of the most widely quoted. Since the pandemic emerged, claims for unemployment benefits have soared, albeit at different rates across various countries. The global labour market outlook is not positive with the International Labour Organization (ILO) predicting that 1.6 billion informal economy workers could suffer significant loss of income to their livelihoods. They estimate that Covid19 may cost the globe an equivalent of 305 million full-time jobs.

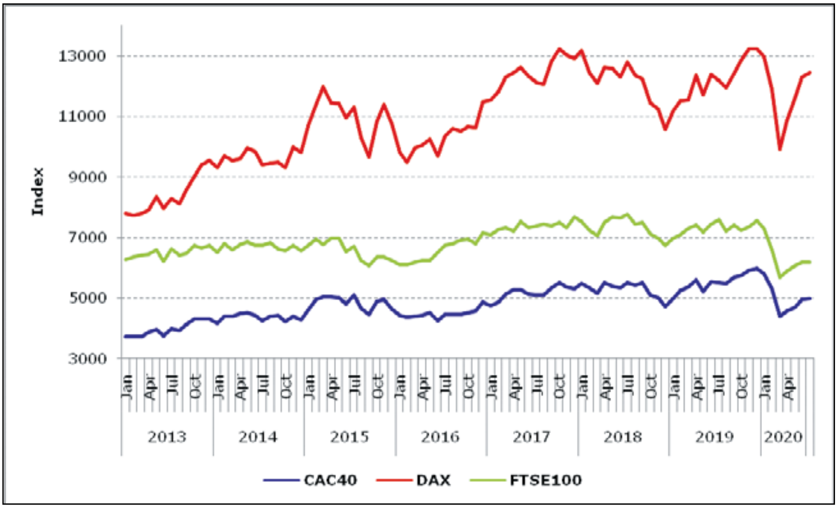
2.5 International Financial Markets

While it is still early to fully know what the impact of Covid19 will have on global financial markets, following the volatility leading up to the pandemic has shown to be optimistic with equities rebounding somewhat after the significant dip in March 2020 considering there is little indication of what Covi19 means economically for individual companies. While large international corporations and global governments have been the first to respond to the pandemic in providing support packages worth trillions to keep the economy going, smaller corporates will look for funding opportunities and financing options keeping markets occupied. It is likely investor appetite will gravitate towards the debt/bond markets as an investment opportunity as government around the globe undertake heavy borrowing on their balance sheets as the rise of socially responsible type “Covid19 Bonds” arise.

Figure 2.5.1: Dow Jones, NASDAQ, S&P500, CAC40, DAX & FTSE100 Indices,Jan 2013 – Jun 2020





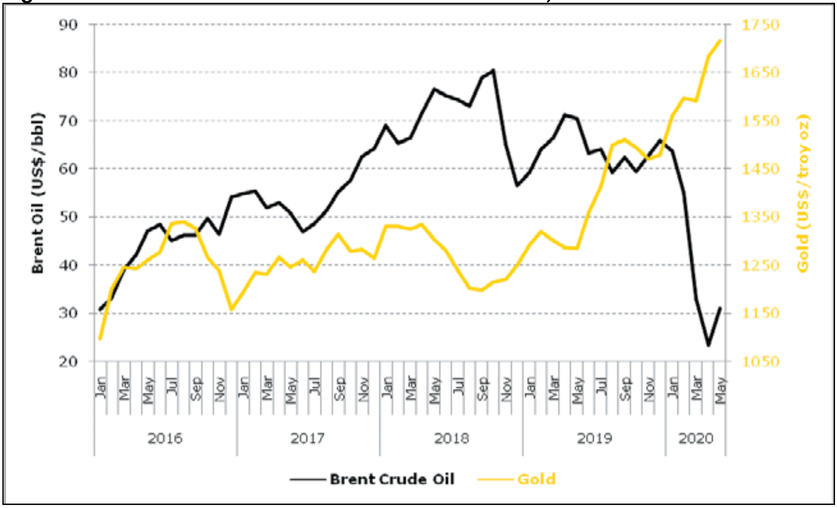


Source: Investing.com, 2020

Initial signs show a positive trend following declines in many of the world stock exchanges, month-to-month from December 2019 to March 2020, the Dow Jones contracted by -23.2%, the NASDAQ by -14.2%, the S&P500 by -20.0%, the CAC40 by -26.5%, the DAX by -25% and the FTSE100 by -24.8%. Going into June, following pronouncements by many global Governments in form of support packages, markets saw significant growth with the likes of the NASDAQ seeing even higher levels in June 2020 than December 2019.

While equity markets remain functioning and liquid enough, many asset classes have been more volatile than others to a point of being 'reset' with Brent Crude Oil falling to almost US$0 while gold has rallied to record high levels. The markets will depend on how quickly the economy can regain momentum through positive news and positive trends even though the state of economy might not be at same level prior to Covid19. It is expected that post covid19 there will be a new composition of companies as many will be swallowed up and while others will fall away.

Figure 2.5.3: International Brent Crude and Gold Price, Jan 2016 – Feb 2020



Source: World Bank, 2020

The abrupt decline in goods & services caused by the Covid19 pandemic saw significant decline in demand for oil thus driving up inventory levels creating a global crude oil surplus. Oil tankers were often left idling offshore as on-shore facilities ran out of space. In December Brent Crude averaged US$65.9 a barrel, dropping by 182% to average US$23.3 In April 2020. In the coming months, production capacity will limit upward price pressures, but as inventories decline into 2021, those upward price pressures will increase.

Gold on the other hand has surged to record high going above US$1700 an ounce, last seen in 2011 during the Euro-debt crisis. It is believed gold will maintain a level above US$1800 fuelled by lower international interest rates and as Covid19 cases rise.

2.6 International Tourism Developments

Accounting for 330 million jobs, or 10.4% of total employment in 2019, the Travel and Tourism (T&T) sector remains an important driver for job creation around the globe. The sector's GDP growth (3.5%) surpassed the overall economy GDP growth (2.5%) for the ninth consecutive year, in 2019. With respect to regional T&T GDP growth, Asia Pacific was the fastest growing region (5.5%), followed by the Middle East (5.3%).

Table 2.6.1: Travel & Tourism Job & GDP Loss Predictions, Regions, 2020

Total T&T Job Loss Projections for 2020, Millions				Total T&T GDP Loss Projections for 2020, US$BN		
Region	Best Scenario	Baseline Scenario	Worst-Case Scenario	Best Scenario	Baseline Scenario	Worst-Case Scenario
Asia Pacific	-59.7	-69.3	-115	-980	-1 137	-1888
Europe	-14.2	-18.4	-29.5	-771	-1 000	-1 608

Total T&T Job Loss Projections for 2020, Millions				Total T&T GDP Loss Projections for 2020, US$BN		
Region	Best Scenario	Baseline Scenario	Worst-Case Scenario	Best Scenario	Baseline Scenario	Worst-Case Scenario
EU	-8.8	-11.4	-18.3	-568	-739	-1 187
Africa	-7.6	-10.9	-17.4	-53	-75	-120
Americas	-14	-19.2	-30.7	-781	-1 098	-1750
Middle East	-2.7	-3.4	-4.9	-99	-125	-179
World	**-98.2**	**-121.1**	**-197.5**	**-2686**	**-3 435**	**-5543**

Source: WTTC, 2020

Amidst Covid19, countries around the world have had to close their borders and impose lockdowns in order to contain the spread of the virus; this has wreaked havoc across the T&T sector. New research from the World Travel and Tourism (WTTC) reveals that, if restrictions on global travel remain in place until September, more than 197 million jobs could be lost in the global T&T sector – causing a loss of more than US$5.5 trillion to global T&T GDP. The analysis came up with three possible outcomes for the sector: the worst-case scenario (if travel restrictions are eased from September), the baseline scenario (if travel restrictions are eased from June for regional travel), and the best scenario (if travel restrictions are eased from June for short-haul and regional travel).

Table 2.6.2: Air Travel Bookings (% Annual Growth), Feb 2020

Region	International Inbound		International Outbound		Domestic Travel	
	Feb 2020	Mar-May 2020	Feb 2020	Mar-May 2020	Feb 2020	Mar-May 2020
Europe	2.8	-7.5	1.8	-8.2	-1.4	-7.7
Americas	-2.3	-9.3	-3.2	-12.4	3.6	2.5
Asia Pacific	-18	-42.4	-18	-41.6	-13.8	-9.9
Middle East	-2	-13.9	-6	-21	-3	-17.6
Africa	2.5	-6.1	1	-10.5	4.4	-7.8
World	**-4.7**	**-16.4**	**-4.7**	**-16.4**	**-1.2**	**-4.5**

Source: WTTC (ForwardKeys), 2020
Note: Data relate to air travel bookings for visitors staying at least one night, expressed as % change compared to the same period last year. Domestic data relate to air travel within the same country.

Based on ForwardKeys (a flights industry analysis firm), air travel bookings data shows that global international inbound bookings fell by -4.7% in the first two months of 2020, compared to the same period last year. As expected, the decline has been most severe in the Asia Pacific region (-18%), with smaller declines recorded in the Middle East and the Americas. Africa and Europe experienced positive bookings growth in February 2020. However, sharp declines are expected across all regions as COVID19 infections are on the rise; making it extremely difficult to lift bans on global travel. The outbound travel bookings pattern highly correlates with the trends observed on inbound travel bookings. Domestic air travel bookings were more resilient than international air travel bookings, with global growth down by -1.2%.

3. DOMESTIC AND REGIONAL ECONOMIC DEVELOPMENT AND OUTLOOK

3.1 Economic Growth

3.1.1 Gross Domestic Product Growth Trends

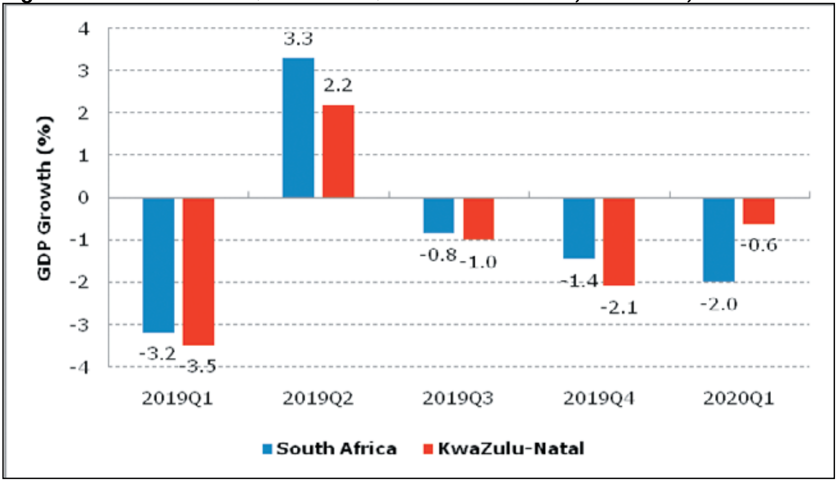
South Africa recorded a decline in Gross Domestic Product (GDP) in the first quarter of 2020, deepening the recession it entered into at the beginning of the year. GDP growth for the first quarter was recorded at -2%, a third straight quarter of economic decline after GDP contracted by -1.4% and -0.84% in the fourth and third quarter of 2019 respectively. This is the first time that the country's recession lasted longer than two quarters since the financial crisis in 2009, which increases the probability for the country to enter into a state of depression amidst covid19 lockdown restrictions, renewed electricity load shedding and downgrading to below investment grade by global ratings agencies which is likely to constrain both domestic and foreign direct investment (FDI) further.

After the strict lockdown was implemented on the 27th of March to curb the spread of the corona virus, for five weeks, almost all activity except essential services was halted. As a result, most South African Industries and business sectors suffered an economic turmoil. While this is not represented in the latest data,the South African Reserve Bank (SARB) sees GDP shrinking by -32.6% in the second quarter- when the impact of the lockdown on the economy has been reflected and accounted for.

Economic contractions are expected to be deepest in the second quarter of 2020, with gradual recoveries in the third and fourth quarters of the year. Easing of the lockdown will support growth in the near term and some high frequency activity indicators show a pickup in spending from extremely low levels. However, getting back to pre-pandemic activity levels are not imminent in the short term.

The SARB expects the economy to expand on a quarterly basis in the third quarter of 2020. The bank further predicts the economy to contract by -7% this year down from their April 2020 expectation of -6.1%. National treasury projects a -7.2% decline in output, the most since the great depression when GDP fell by -6.2% in 1931. GDP is expected to grow by 3.8% in 2021 and by 2.9% in 2022.

Figure 3.1.1:Annualised Quarter-on-Quarter GDP Growth, SA & KZN, 2019-2020



Source: Quantec Research,2020

On the other hand, KwaZulu-Natal's economy also contracted, albeit by lesser extent at -0.6% than the country. The province's performance has also been affected by the decline in the secondary sector, especially the manufacturing sector which plays a critical role in terms of contributing to the GDP growth and employment. The sector has already declined for three consecutive quarters since the third quarter in 2019. The provincial GDP is expected to contract by approximately -8.5% in 2020.

3.1.2 Sectoral Drivers of GDP Growth

The biggest decline was seen in mining and quarrying industry which decreased by -21.5% and contributed 1.7% points to the GDP decline. Decreased production was reported for iron ore, manganese ore, other metallic minerals and chromium.

The manufacturing industry contracted by -8.5% with seven of the 10 manufacturing divisions reporting negative growth rates in the first quarter. The divisions that made the largest contributions to the decrease were petroleum, chemical products, rubber and plastic products; basic iron and steel, non-ferrous metal products, metal products and machinery, and motor vehicles, parts and accessories and other transport equipment.

The electricity, gas & water industry contracted by -5.6%, this was largely due to decreases in electricity distribution and water consumption. Likewise, the construction industry decreased by -4.7%. Decreases were reported for residential buildings, non-residential buildings and construction works.

The agriculture, forestry and fishing industry increased by 27.8% and contributed 0.5 of a percentage point to GDP growth. The increase was mainly due to increases in the production of field crops, horticultural products and animal products.

Table 3.1.1: Sector Annual Growth to GDP, SA and KZN, 2019-2020

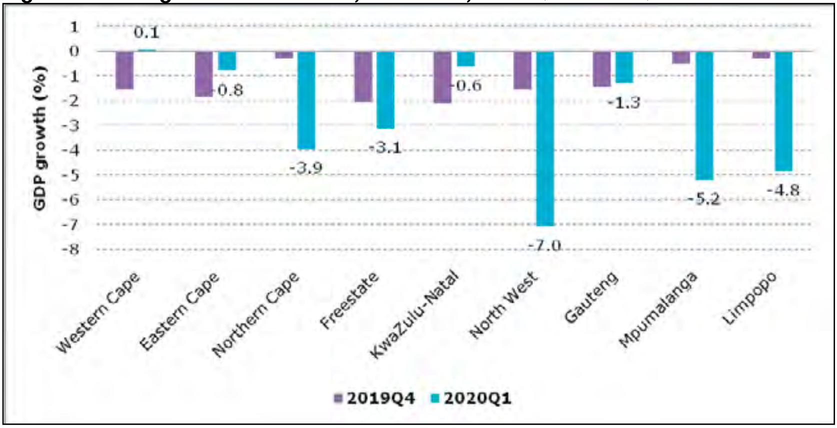
Industry	South Africa			KwaZulu-Natal		
	2019:Q3	2019:Q4	2020:Q1	2019:Q3	2019:Q4	2020:Q1
General government services prices	2.4	-0.4	1.0	2.4	-0.4	1.0
Agriculture, forestry and fishing	-4.5	-7.6	27.8	-4.5	-7.6	28.0
Mining and quarrying	-6.1	1.8	-21.5	-6.7	1.0	-22.3
Manufacturing	-4.4	-1.8	-8.5	-4.5	-1.9	-8.6
Electricity and water	-4.9	-4.0	-5.6	-4.1	-3.2	-4.8
Construction	-6.9	-5.9	-4.7	-6.4	-5.4	-4.1
Wholesale & retail trade; hotels & restaurants	2.6	-3.8	-1.2	2.7	-3.7	-1.2
Transport and communication	-5.4	-7.2	0.5	-5.3	-7.1	0.7
Finance, real estate and business services	1.6	2.7	3.7	1.6	2.7	3.7
Community, social and other personal services	0.4	0.7	0.5	0.4	0.7	0.5
Taxes less subsidies on products prices	0.1	-3.0	-3.7	0.1	-3.0	-3.8
Gross domestic product at market prices	**-0.8**	**-1.4**	**-2.0**	**-1.0**	**-2.1**	**-0.6**

Source: Quantec Research, 2020

Finance, real estate & business services increased by 3.7% in the first quarter. Increased economic activity was reported for financial intermediation, insurance and pension funding, auxiliary activities, and other business services. General government services increased by 1.0% mainly attributed to increased employment in provincial government and higher education institutions. Many sectors mirrored in the province to that of the country in terms of industry growth and direction.

3.1.3 Regional Growth Comparison

Figure 3.1.2: Regional GDP Growth, Provincial, 2019:Q4 &2020:Q1



Source: Quantec Research,2020

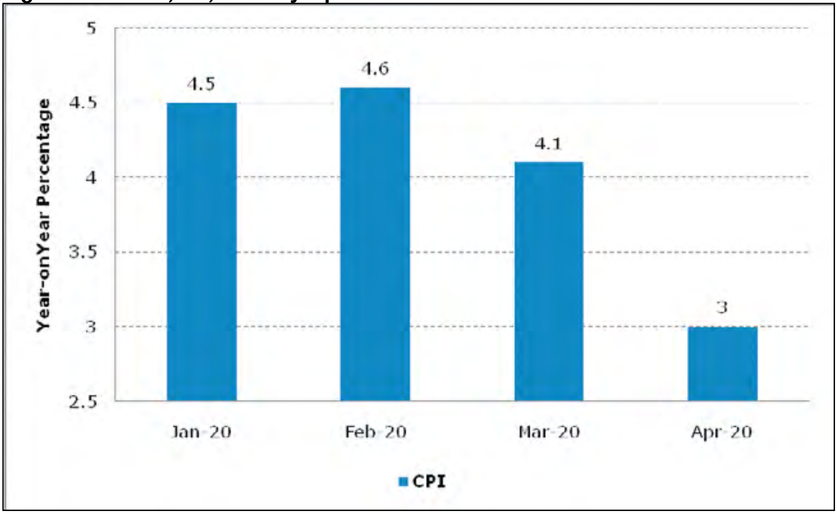
A decline in the economic growth across all provinces, except Western Cape province, was experienced. The Western Cape saw a slight increase of 0.1% in GDP growth with North West recording the highest decline of -7.0%. A negative economic growth in all provinces is expected considering the country's contraction of -2% in GDP growth in the first quarter. KwaZulu-Natal recorded the lowest contraction of -0.6%.

3.2 Inflation

Annual inflation rate dropped to the bottom of the South African Reserve Bank's (SARB) target range of 3% to 6%. The headline inflation rate hit a near 15 year low of 3% in April falling from 4.1% in March 2020 as the hard lockdown lowered the demand for consumer goods. This is the lowest rate since June 2005 when the inflation rate was recorded at 2.8%.The contributors to the 1.1% slowing are: decrease in transport prices from 3.4% in March to -3.5% and a decrease in fuels to -12.8% from 5.5% in March, prompted by the Covid19 crisis and subsequent lockdown restrictions.

There was a slowdown in costs of housing & utilities (from 4.8% to 4.6%), alcoholic beverages & tobacco (from 3.7% to 2.3%), clothing & footwear (from 2.3% to 1.4%), recreation & culture (from 0.9% to 0.4%), and restaurants & hotels (from 1.4% to 1%). In the meantime inflation quickened for food & non-alcoholic beverages (from 4.4% to 4.6%) and health (from 4.6% to 4.8%).

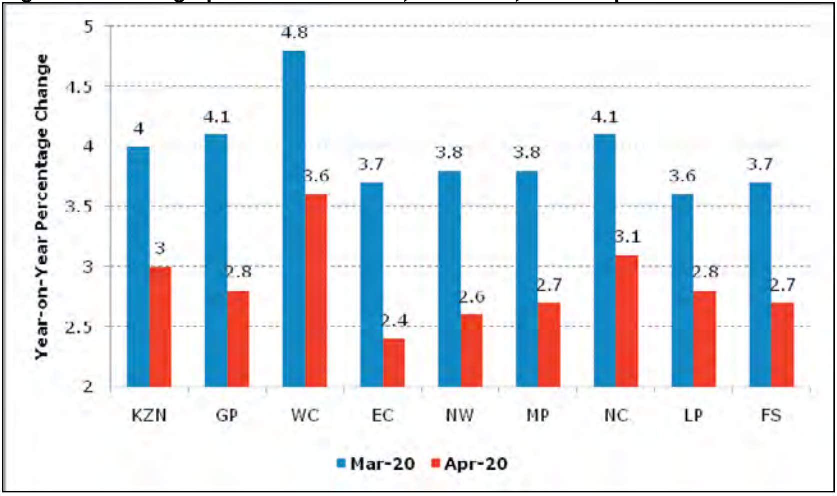
Figure 3.2.1: CPI, SA, January-April 2020



Source: Stats SA, 2020

KwaZulu-Natal continues to have the same inflation trend as South Africa. The province recorded an inflation rate of 4.0% in March and 3.0% in April 2020. All provinces recorded an inflation that is within the SARB's target range in April, with Eastern Cape recording the lowest rate of 2.4% and Western Cape recording the highest rate of 3.6%. Additionaly, out of the 9 provinces; 7 recorded an inflation rate that is below the national headline rate and the SARB's lower target.

Figure 3.2.2: Geographical Inflation rate, Provincial, March-April 2020



Source: Stats SA, 2020

Inflation is expected to be well contained over the medium-term, remaining close to the midpoint of the SARB's target range of 3% to 6% in 2021 and 2022. The Monetary Policy Committee (MPC) notes that the economic contraction and slow recovery will keep inflation well below the midpoint of the target range for this year. Within this context, the MPC decided to cut the repo rate by 50 basis points, taking it to 3.75% per annum, with effect from 22 May 2020. The Bank's headline consumer price inflation forecast averages 3.4% for 2020 and 4.4% in 2021 and 2022.

3.3 Trade

In May 2020, South Africa imported R85.9 billion worth of goods, a decrease from R87.8 billion worth of imports in April 2020. On the other hand, R101.8 billion worth of goods were exported in May 2020 which represented almost double the value of exports compared to R51.9 billion realised in April 2020.

Table 3.3.1: Trade Balance, 2019:Q4 & 2020:Q1

	Q4 (2019)	Q1(2020)
Import	R319 437 815 510	R293 565 579 471
Export	**R342 467 789 646**	**R268 583 566 637**
Trade Balance	**R23 Billion (Trade Surplus)**	**R24.9 Billion (Trade Deficit)**

Source: SARS, 2020

A trade deficit was realised for the first quarter of 2020 amounting to almost R25 billion compared to a trade surplus of R23 billion for the previous quarter. This indicates the significant decline in SA exports which was brought about but the impact of Covid-19 on outward trade flows and global consumption in general. In May 2020 we started to see the improvement in exports where a trade surplus of R15.9 Billion was realised due to the easing on the restriction on the movement of goods and the reopening of boarders. The supply and demand of oils also play a role on trade flows. Oil prices were also declining in the past few months brought on by the Russia–Saudi Arabia oil price war of 2020 which was triggered in March 2020 by Saudi Arabia in response to Russia's refusal to reduce oil production in order to keep prices for oil at moderate level. The reduced consumption in oil due to Covid-19 exacerbated the demand and this further eroded the price and also added complexity to trade flows since oil is one of the biggest imported commodities.

Table 3.3.2: Major Trade Partners, SA, May 2020

Exports	Imports
R 101,845,233,410	R 85,905,945,414
Trade Surplus = R 15,939,287,996	
Top 5 countries we exported to:	**Top 5 countries we imported from:**
China (12.2%)	China (26.6%)
United States (6.3%)	Germany (8.3%)
Netherlands (5.2%)	United States (6.5%)
United Kingdom (4.5%)	India (3.9%)
Germany (4.5%)	Japan (3.8%

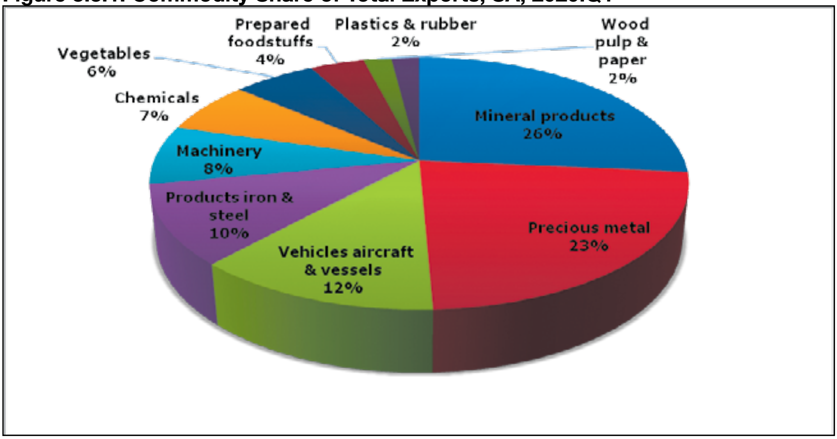
Source: SARS, 2020

It is interesting to note that China is South Africa's top trading partner, for both import and exports. While trade links to Europe and Americas remain strong.

3.3.1 Exports

The country's leading exported commodities in the first quarter of 2020 were Mineral Products, Precious metals and vehicle aircrafts which together accounted for about 61% of the top ten commodities.

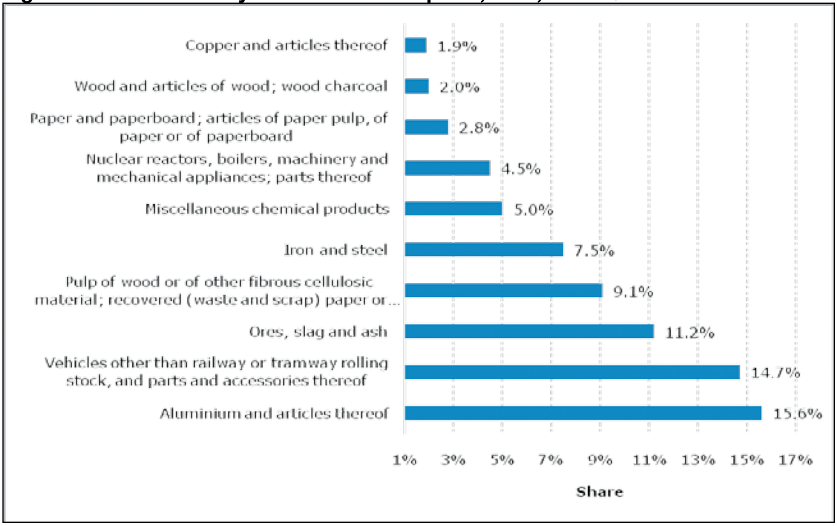
Figure 3.3.1: Commodity Share of Total Exports, SA, 2020:Q1



Source: Quantec Research, 2020

The least contributors were: Plastics and rubber, Wood pulp& paper as well as Prepared food stuffs, these commodities each contributed less than 5% of the export bill.

Figure 3.3.2: Commodity Share of Total Exports, KZN, 2020:Q1

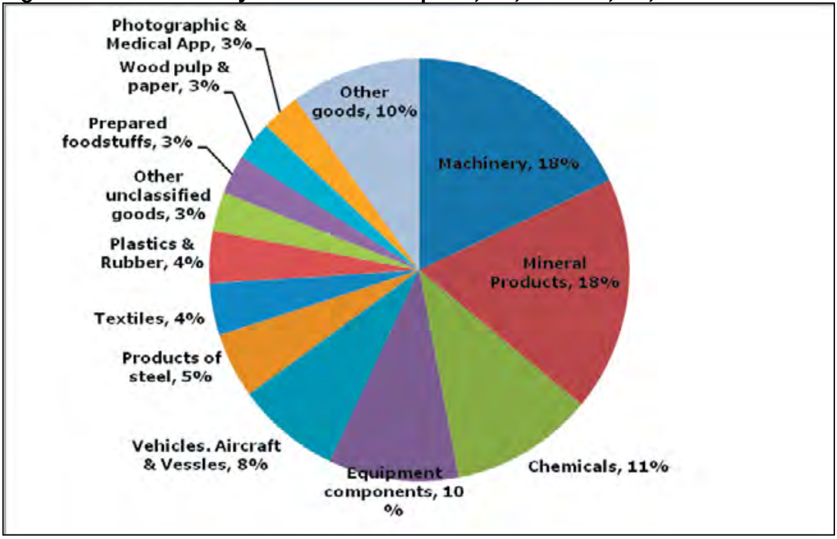


Source: Quantec Research, 2020

Looking at the export composition of the Province, of the main products sent abroad, one may see that Aluminium, Vehicles, Ores, Pulp of Wood as well as Iron & Steel, were the main commodities within the top ten exports. Together, these accounted for approximately 60% of the province's top ten exports. Copper, wood, paper & paper board were amongst the least contributing commodities in the top ten, each contributing less than 3%, while machinery & mechanical appliances accounted for 4.5%.

3.3.2 Imports

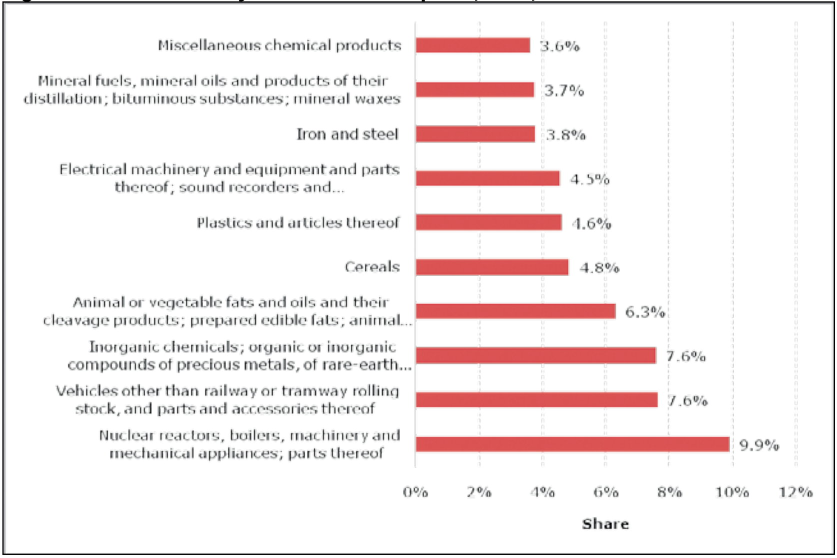
Figure 3.3.3: CommodityShare of Total Imports, SA, 2020:Q1, SA, 2020:Q1



Source: Quantec Research, 2020

On the Import side, Machinery, Mineral products, Chemicals and Equipment components were the main contributing import commodities, together accounting for more than 50% of the total export commodities. Photographic & medical equipment, Wood pulp & paper, prepared foodstuffs and other unclassified good were the least contributors, each contributing 3% to the total value of imported commodities.

Figure 3.3.4: CommodityShare of Total Imports, KZN, 2020:Q1



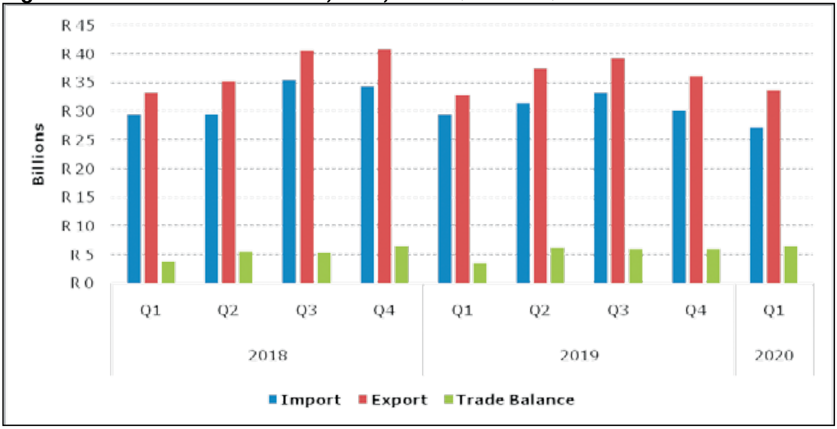
Source: Quantec Research, 2020

In terms of imports; Machinery & mechanical appliances, Vehicles, Inorganic Chemicals, and Animal or Vegetable Fats and Oils, were the biggest contributors in the top ten import commodities. These main four compositions contributed roughly 31% of the total import bill in the first quarter.

3.3.3 Trade Balance in KZN

KwaZulu-Natal's Imports and Exports have been gradually decreasing since the third quarter of the previous year.

Figure 3.3.5: Merchandise Trade, KZN, 2018:Q1-2020:Q1



Source: Quantec Research, 2020

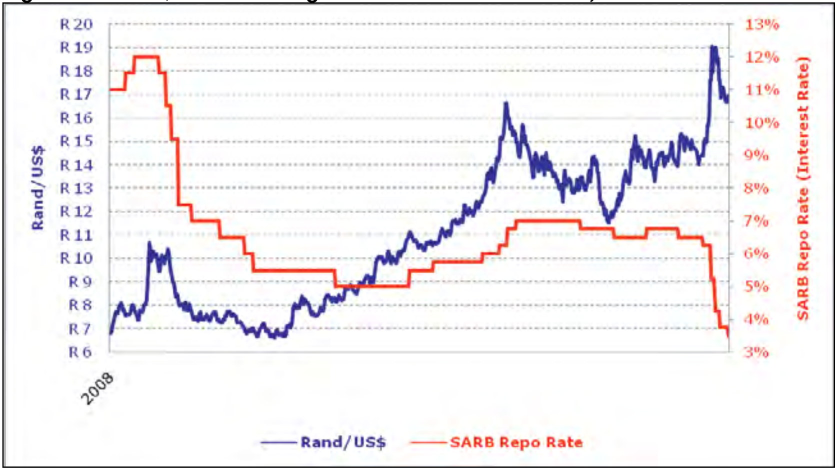
Exports declined from R39 billion in the third quarter of 2019, to R34 billion in the first quarter of year 2020 for the KwaZulu-Natal province. Imports also slowed, from R33 billion in the third quarter of the same year to R27 billion in the first quarter of 2020, which has started to see the impact of Covid-19 on global value chains.

A large decrease in imports has resulted in an improved trade surplus despite a recorded fall in exports. The trade surplus increased from R6 billion in the third quarter of 2019 to R7 billion in the first quarter of 2020. The province has continuously recorded a positive trade balance from the year 2018 to the year under review and one of the contributing factors has been the weak Rand to the US Dollar currency exchange rate and also the exportation of raw materials floating at higher global prices.

3.4 Exchange Rates

The imminent National lockdown implemented towards end of March 2020 sent the Rand to over US$/R19. Subsequently as discussed in section 3.6, global credit rating's agencies cut the country's credit score in April sending South Africa to below Investment Grade by all three ratings agencies. It is suspected that markets had already anticipated this thus sending the Rand on a depreciating trend since the beginning of 2020. While the Rand has recovered somewhat, reaching peak levels of over US$/R19 in the last week of March 2020 to easing to below US$R17 in July 2020, this is still valued lower than pre-covid-19 following measures taken by National Government where the Rand was at approximately US$/R14.50. Risk appetite in financial markets has led to the strengthening of the Rand and investor optimism, however the resumption of load shedding in July 2020 might halt investor sentiment coupled by surge in Covid19 infections and extended lockdown could see Rand remaining weaker. On the other end, the US dollar has been under pressure for some time amid concerns about the infection rate of coronavirus and how this will impact the US economy and the current very low interest rates making the US$ less appealing.

Figure 3.4.1: US$/ZAR Exchange Rate & SARB REPO Rate, Jan 2008 - Jul 2020



Source: Investing.com, 2020

The South African Reserve Bank (SARB) reduced its Repurchase Rate (Repo) by 50 basis points (bps) to 3.75% following its May 2020 meeting and then again by 25 bps to 3.5% in July 2020. These moves follow a 100 bps rate cut in April's emergency meeting, bringing borrowing costs to its lowest level on record, amid the coronavirus crisis. Since the beginning of 2020, the central bank has cut its key repo rate by a total of 300 bps. The easing of monetary policy can relieve financial conditions and improve the resilience of households and firms to the economic implications of the coronavirus outbreak. The MPC also relaxed regulatory requirements on banks to ensure adequate liquidity in domestic markets.

3.5 Domestic Labour Markets

Table 3.5.1: Summary of Key Labour Indicators, SA & KZN, 2019:Q4 & 2020:Q1

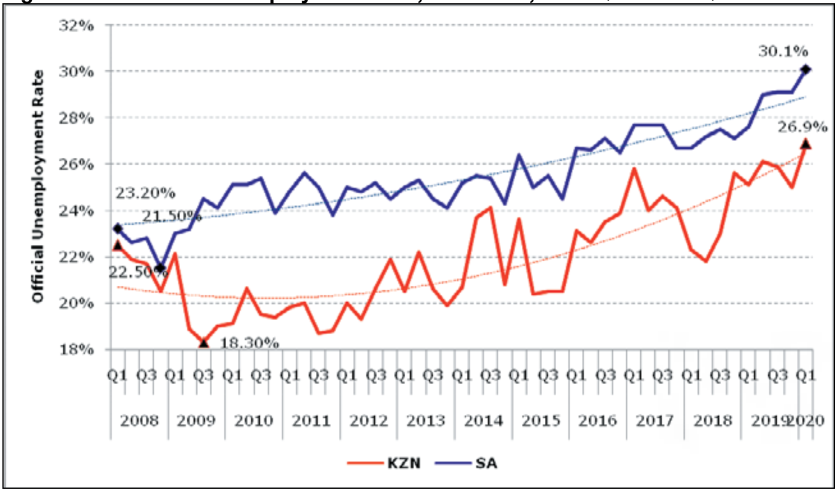
	South Africa		KwaZulu-Natal	
	019:Q4	2020:Q1	2019:Q4	2020:Q1
Population 15-64 yrs	**38 727**	**38 874**	**7 161**	**7 188**
Labour Force	**23 146**	**23 452**	**3 554**	**3 656**
Employed	16 420	16 383	2 664	2 672
Unemployed	6 726	7 070	890	984
Not economically active	15 581	15 422	3 608	3 532
Discouraged work-seekers	2 855	2 918	824	821
Other	12 726	12 504	2 784	2 711
Rates (%)				
Unemployment rate	29.1	30.1	25.0	26.9

	South Africa		KwaZulu-Natal	
	019:Q4	2020:Q1	2019:Q4	2020:Q1
Employed / population ratio (Absorption)	42.4	42.1	37.2	37.2
Labour force participation rate	59.8	60.3	49.6	50.9

Source: Stats SA, 2020

Prior to the implementation of the National Lockdown to curb the spread by the Covid19 pandemic, South Africa's unemployment rate hit a record high in the first quarter of 2020 (January to March) as key sectors shed jobs to an already fractured economy. This was evident from the recession experienced in the last two quarters of 2019, where the county's economy contracted by -0.8% and -1.4% in the third and fourth quarter respectively. The official unemployment rate increased to 30.1% in the first quarter of 2020, up from 29.1% in the final quarter of last year.

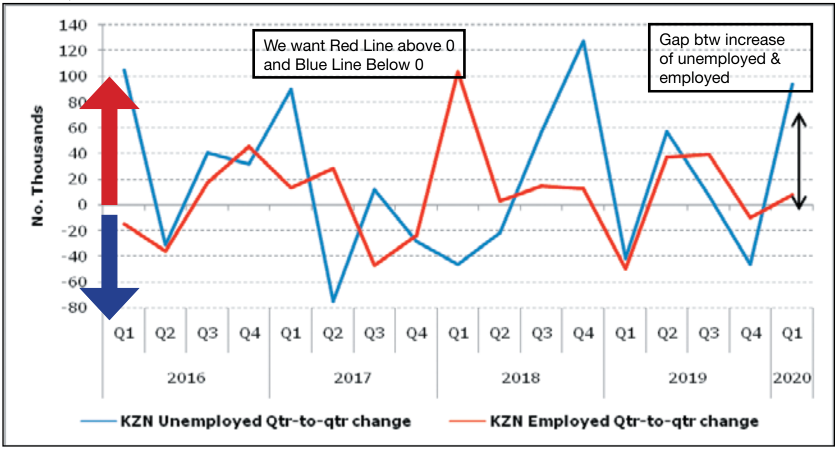
Figure 3.5.1: Official Unemployment Rate, SA & KZN, 2008:Q1 – 2020:Q1



Source: Stats SA, 2020

According to Stats SA, this is the first time South Africa has hit the 30% mark. KwaZulu-Natal also reached its highest level of unemployment (26.9%), climbing by 1.9 percentage points. It is anticipated that this unemployment will be significantly worse when the numbers for the second quarter are released. The dire situation reminds us of the movie 'Titanic' in the scene where the band is still playing music while the ship begins to topple and panic sets in before all is lost. Predictions are that the lockdown will have a huge impact on job losses for the rest of the year.

Figure 3.5.2: Quarter on Quarter Change of Employed & Unemployed (Thousands), KZN, 2016:Q1 – 2020:Q1



Source: Stats SA, 2020

In South Africa, the number of employed persons decreased by 38,000 to 16.4 million and the number of unemployed persons increased by 344,000 to 7.1 million in first quarter of 2020 compared to the fourth quarter of 2019, resulting in an increase of 306,000 in the labour force. Figure 2 shows the difference in the change from previous quarter of employed and unemployed in KwaZulu-Natal by numbers highlighting large spikes in unemployed and low difference of employed to counteract this giving rise to increased unemployment rate. For the first quarter of 2020 in KZN the number of unemployed increased by 94,000 while employment only increased by 8,000 leaving a net deficit of unemployed.

Table 3.5.2: Employment by Sector Change, SA & KZN, 2019:Q4 & 2020:Q1

Sector	South Africa			KwaZulu-Natal		
	2019:Q4	2020:Q1	Qtr Change ('000)	2019:Q4	2020:Q1	Qtr Change ('000)
Agriculture	885	865	**-21**	162	133	**-29**
Mining	430	436	**6**	5	7	**2**
Manufacturing	1 720	1 706	**-15**	338	324	**-14**
Utilities	120	116	**-4**	11	14	**2**
Construction	1 350	1 343	**-7**	229	222	**-6**
Trade	3 249	3 320	**71**	559	585	**26**
Transport	1 011	995	**-17**	180	189	**9**
Finance	2 568	2 517	**-50**	343	338	**-5**
Community and social services	3 792	3 759	**-33**	624	626	**2**

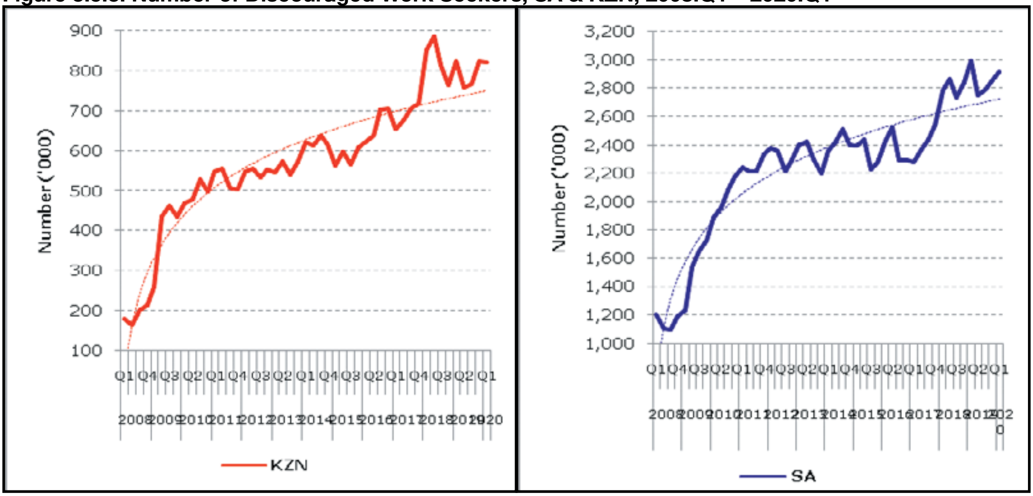
Sector	South Africa			KwaZulu-Natal		
	2019:Q4	2020:Q1	Qtr Change ('000)	2019:Q4	2020:Q1	Qtr Change ('000)
Private households	1 286	1 316	**30**	212	233	**21**

Source: Stats SA, 2020

The largest employment decreases were observed in the formal sector (non-agricultural) where 50,000 jobs were shredded. In future, we should see a move towards more informality type of employment. The key sectors in South Africa which shed jobs include Agriculture losing 21,000 jobs, manufacturing losing 15,000 jobs, Construction losing 7,000 jobs, Transport losing 17,000 jobs, finance losing 50,000 jobs and community & social services losing 33,000 jobs. In KZN, the biggest sectors to cut jobs were Agriculture (-29,000) and Manufacturing (-14,000).

The expanded definition of unemployment if discouraged workers are included as being 39.7% compared to 38.7% from previous quarter and for KZN increasing to 43% from 41.9%. For South Africa, the number of discouraged work-seekers increased by 63,000 amplifying the social-economic challenges faced by the country. These people typically have low education attainment and move between looking for employment to a state of giving up hope.

Figure 3.5.3: Number of Discouraged Work Seekers, SA & KZN, 2008:Q1 – 2020:Q1



Source: Stats SA, 2020

The outlook for the labour market remains gloomy, with some of the country's big firms such as Edcon Group, SAA, Comair, BidAir, Sasol, Cell C, Massmart, Tongaat Hulett, Standard Bank and Absa amongst others already announcing plans to cut jobs. National Treasury has projected that between 690,000 and 1.79 million job losses countrywide following the National Lockdown. In KZN, the proportion of total employment as share to the country's total employment is approximately 16%, therefore taking into consideration National Treasuries estimation, this equates to an approximate job loss of between 110,400 and 286,400 for the province in 2020. This represents a loss of 4 to 11 percentage points from KwaZulu-Natal's total employment. This will push KwaZulu-Natal's unemployment to approximately 32%.

3.6 Financial Markets

In the mayhem of the COVID-19 pandemic, many in the public domain would have been preoccupied by the information on the virus, thereby may have missed the credit rating downgrades by International Credit Ratings Agencies Moody's, Fitch and S&P. This comes at a time when South Africa is facing one of its most challenging times. S&P lowered South Africa's sovereign credit rating further into non-investment grade to BB-, and Fitch to BB pointing to the impact of the coronavirus on the country's already struggling economy which was already phase of persistent contraction prior to Covid19 and will face a further sharp COVID-19-related downturn in 2020. Credit ratings are concerned by the country's increasing fiscal deficit and net debt levels. National Treasury (Supplementary 2020/21 Budget) expects the Fiscal deficit to widen to 15.7% of GDP in 2020, leading to gross national debt levels rising to over 81% of GDP by the end of this year. This translates into R3.97 trillion total gross debt and the debt-service costs associated to borrowing will increase from R204.8 billion in 2019/20 to R236.4 billion in 2020/21, amounting to 4.9% of GDP. In 2022/23, debt-service costs are expected to reach R301.1 billion, or 5.4% of GDP.

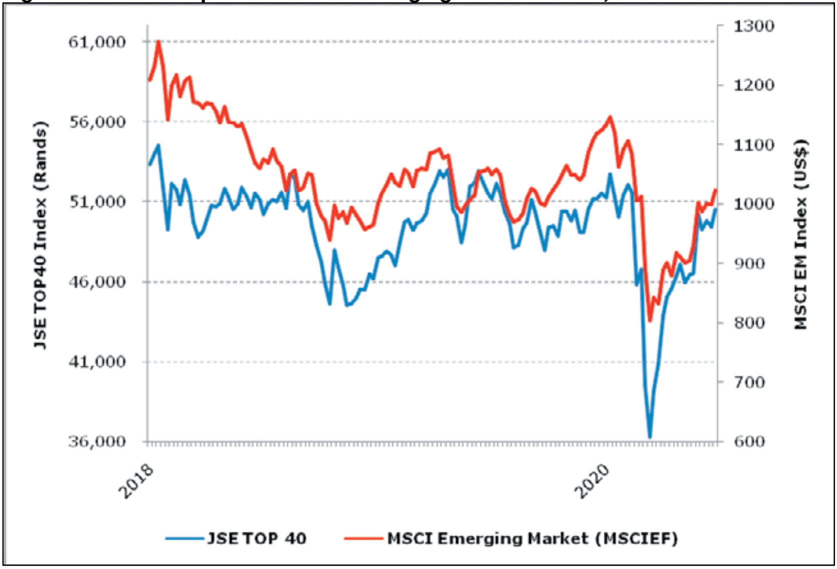
Table 3.6.1: South Africa's Credit Rating, March 2019

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

Source: Moody's, S&P & Fitch, 2020

The decision by Credit Ratings Agencies could not have come at a worse time as South Africa along with many other countries, is seized with containing the outbreak of Covid19. The impact of the virus would be felt across various sectors of the economy including the financial markets which experienced a significant sell-off in equities, bonds and exchange rates as investors retreated to safe haven securities amid the uncertainty. This means Foreign Direct Investment (FDI) will become constrained and borrowing costs more expensive through debt servicing costs. In addition international pension funds will be barred from investing in South Africa.

Figure 3.6.1: JSE Top 40 and MSCI Emerging Markets Index, Jan 2018 – Jun 2020



Source: Investing.com, 2020

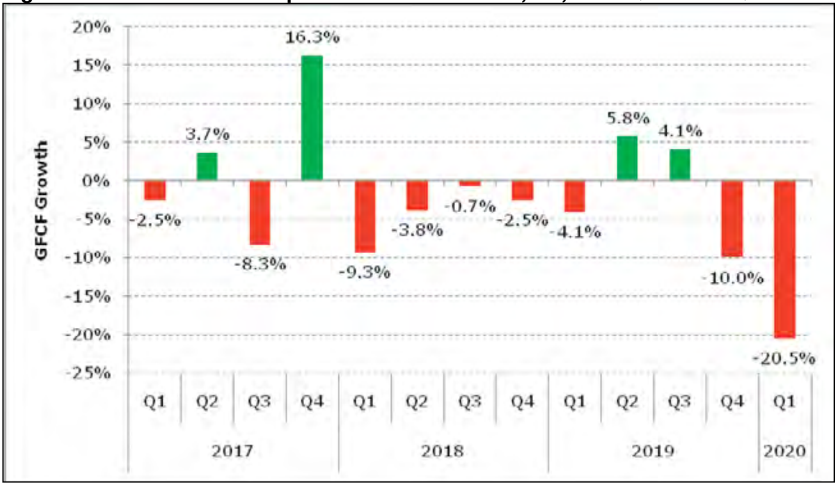
The Top 40 companies retracted by -31.2% between January and March 2020. This would mean if an investor had a portfolio value of R100,000 in January, it would only be worth R68,000 in March. While there has to a degree been a recovery following global trends it is expected that any dividend pay-out will be limited and companies will cut costs and take precautionary steps as economic activity resumes.

3.7 Investment Developments

3.7.1 Gross Fixed Capital Formation

In the first quarter of 2020, Gross Fixed Capital Formation (GFCF) contracted by -20.5%. The main contributors to the decrease were machinery and other equipment, transport equipment and other assets. Weak imports of machinery and other equipment and transport equipment contributed to the decrease in gross fixed capital formation.

Figure 3.7.1: Gross Fixed Capital Formation Growth, SA, 2018:Q1 – 2020:Q1



Source: Stats SA, 2019

The weak performance in GFCF can also be reflected by poor performance for construction companies listed on the Johannesburg Stock Market. Large construction projects are required to further catalyse economic activity and create new opportunities. The shortage of electricity is one reason projects are also being delayed and further stifled by the Covid-19 pandemic and subsequent national lockdown. It is expected GFCF will not improve in the short to medium term.

3.7.2 KwaZulu-Natal Trade and Investment Development

COVID-19 pandemic is not only a global health crisis but has triggered the global economy into the most severe economic recession in nearly a century and which continues to cause enormous damage to people's health, jobs and well-being. The lockdown measures brought in by most governments including South Africa, has impacted negatively on business activity in many sectors, widened inequality, disrupted education and undermined confidence in the future. As restrictions begin to ease, the path to economic recovery remains highly uncertain and vulnerable. With many changes happening on the global stage during the current COVID-19 crisis and the adverse effects this poses on existing businesses, the world is adapting and finding new ways of engaging in order to promote trade and investment in a more targeted way.

Compared to prior years, Trade & Investment KwaZulu-Natal (TIKZN) usually supported companies to participate in various local exhibitions, international missions and the rollout of various enterprise development activities but not so this year. Despite the COVID-19 challenges, TIKZN managed to reorganise and initiate a wide range of online meetings, webinars, online training, online mentorship, online market access opportunities, support to companies to access essential operating permits, access to relief funding, information on workplace readiness and a number of on-line platforms to communicate the Province's Economic Recovery Plans and opportunities.

Some of the ‘Doing Business Seminars’ conducted in partnership with strategic partners viz:

- Spanish Chamber and business,
- South African German Chamber,
- South African Portuguese Chamber of Commerce,
- Nordic-South African Business Association and Nordic trade offices,
- Botswana Investment and Trade Centre and
- Business to business matching with the Zelenograd Development Corporation, Russia

Some of the investment opportunity leads generated include potential projects in biogas, logistics, cold storage, water treatment. TIKZN is very excited to work with Huhtamaki, Finland. Huhtamäki, the Finnish global specialists in food packaging, which acquired a 70% majority of the South African Everest Flexibles (Pty) Limited, a privately-owned flexible packaging manufacturer based in Durban. The sellers of Everest will also enter into a 30% joint venture with Huhtamäki’s Foodservice and Fiber Packaging operations in South Africa. Everest’s manufacturing unit and an adjacent cylinder making facility are strategically located in Durban and employs approximately 450 local staff. Huhtamäki’s manufacturing unit in Springs, Gauteng, employs approximately 300 staff. Its unit in Atlantis, Western Cape, which manufactures packaging for the egg and fruit industry, employs 100 local staff. With this acquisition, Huhtamäki will develop its flexible packaging manufacturing footprint in South Africa and become a major player in the supply of Flexible Packaging in Southern Africa.

TIKZN has prioritized company visitation programme to KZN High Valued ‘Crown Jewel Business’. The organisation embarked on these visits with representatives from EDTEA, Department of Labour (DOL) and South African Police Services (SAPS) to support KZN businesses during COVID-19 difficult period (New Normal). The physical and virtual meetings were held for companies located in eThekwini, uMgungundlovu and King Cetshwayo Municipalities. More engagements are planned for in the near future. This will cover areas such Amajuba, iLembe, Umzinyathi, uGu and uThukela Districts. In summary the following areas of interventions have been identified:

- TIKZN with economic development partners needs to implement productivity enhancing programmes, to improve competitiveness and future economic growth.
- Revitalisation of Industrial Parks - Manufacturing parks located in townships.
- Programs to support exporters (EXIM Bank).
- Expedite support to industries – ITAC tariff applications.
- Fast track rolling out of funded projects - Streamline regulatory approvals/ Insulate catalytic industrial development projects from stringent regulatory approvals.
- The need for Long-term Electricity Pricing Policy available to strategic KZN industries with ESKOM.
- The unlocking of Downstream Localisation Opportunities in the value chain.
- Implementation of a But Local Campaign and the need for Government to broaden designated products e.g. to include yellow metal products manufactured in South Africa.
- Supply Chains particularly SOE’s (Transnet / PRASA / SANRAL) to ramp up efficiencies and effectiveness of systems, processes and services for Logistics and Transport as there are concerns on the cost of doing business is too high.

3.8 Domestic Tourism

The lockdown announced on the 26th of March by the South African President - to contain the spread of the virus has, unfortunately, reduced both the supply and demand side of the tourism market and has rendered the tourism sector totally inactive. It is, therefore, anticipated that the sector's contribution to the GDP for 2020 to be very low with severe job losses.

South African tourism was already falling short of high expectations before the hard national lockdown. International arrivals fell in 2018 (by -1.3%) and then dropped again in 2019 (-2%) for January to August. The number of tourists continued to decrease in the fourth quarter of 2019 to the first quarter of 2020. The number of tourists from overseas decreased by -20.2%, from 752,605 in fourth quarter of 2019 to 600,828 in the first quarter of 2020.

Table 3.8.1: Number of Tourists,Q 4, 2019 – Q1, 2020 Changes by Country of Residence and Month of Travel

Quarter 4, 2019 -Quarter 1 2020						
Country of residence	**Qtr 4 2019**	**Jan**	**Feb**	**Mar**	**Qtr1 2020**	**% change Qrt 4, 2019 – Qrt 1, 2020**
Overseas	752 605	242 550	248 207	110 241	600 828	-20.20%
Europe	486 371	157 808	173 962	73 142	404 912	-16.70%
North America	107 247	31 594	32 806	17 773	82 173	-23.40%
Central and South America	33 133	12 567	11 120	5 674	29 361	-11.40%
Australasia	34 877	9 584	8 607	5 329	23 520	-32.60%
Middle East	14 771	5 234	4 261	1 364	10 859	-26.50%
Asia	76 206	25 763	17 281	6 959	50 003	-34.40%
Africa	1 908 827	849 698	551 376	424 280	1 825 354	-4.40%
SADC	1 870 326	837 035	538 349	417 826	1 793 210	-4.10%

Source: Stats SA, 2020

In March 2020, a total of 2,397,151 travellers passed through South Africa's ports of entry/exit. These travellers were made up of 598,205 South African residents and 1,798,946 foreign travellers. Of the Foreign arrivals (863,232), 57,790 were non-visitors and 805,442 were visitors. The visitors consisted of 270,348 same-day visitors and 535,094 overnight visitors (tourists). The majority of tourists consisting of 522,288 (or 97.6%) were in South Africa for holiday compared to 9,768 (1.8%); 2,706 (0.5%) and 332 (0.1%) who were in South Africa for business, study and for medical treatment respectively.

For overseas countries, the number of tourists who come to South Africa is generally highest in the first quarter (January to March) and the fourth quarter (October to December) of each year. The second quarter (April to June) is characterised by a large decrease in the number of tourists, reaching its lowest in June, followed by a gradual increase into the third quarter. As the country has reached its tourism low season (winter), it is clear that too many tourism-reliant individuals and companies will find it very difficult to survive due to travel restrictions amidst Covid19 and many were unable to create a buffer due to an already underperforming sector based on last summer poor season.

KwaZulu-Natal

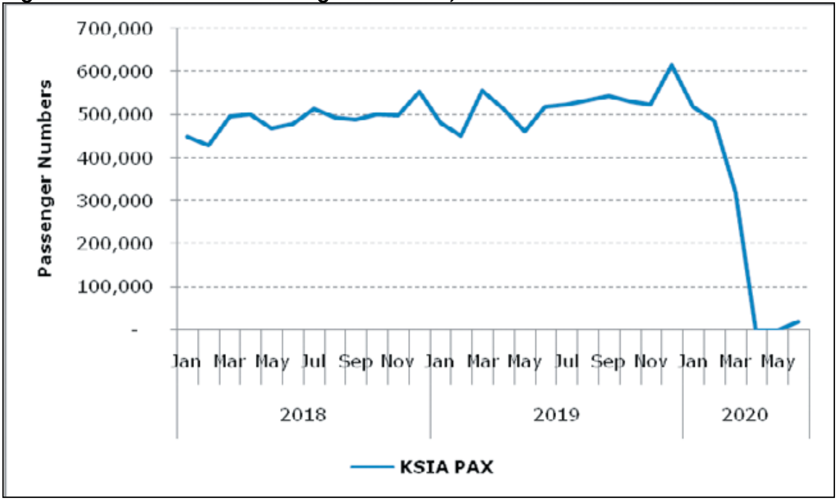
Following the gazetting of the state of emergency and the subsequent international travel restrictions, the KwaZulu-Natal Province has had to cancel or postpone a number of events. It is believed that the province lost more than a billion worth of events across the province. The scrapping of the annual African Tourism Indaba saw more than 10,000 visitors cancelling their booking in the province and the postponements of the Royal Show, the Comrades Marathon and Art in the Park which constitute more than a R400 million loss to the regional economy. Some of the other events that have been cancelled or postponed include the 8th Biennial Eco Health Conference; Smart Procurement World (KwaZulu-Natal Conference & Expo) and the 6th South African TB Conference. The postponement of the aQuelle Tour Durban 2020 is estimated to have an economic impact of R8.8 million (total spending), whereas the economic impact of postponing the Splashy Fen is estimated at R20.5 million (total spending).

Passenger numbers arriving and departing from King Shaka International Airport dropped from over 600,000 in December 2019 to only 163 in April 2020 as shown in section 3.9. KwaZulu-Natal MEC for Economic Development, Tourism and Environmental Affairs (EDTEA), Nomusa Dube-Ncube, released details of the Covid-19 economic and business impact assessment report mid-June, which indicated that 57% of business would shut down within three months should regulations not be lifted.

3.9 Strategic Infrastructure

Infrastructure is important for faster economic growth and acts as a catalyst for investment and trade. The adequate infrastructure in the form of road, railway, ports, power, airports and their efficient working is also needed for integration with other economies of the world.

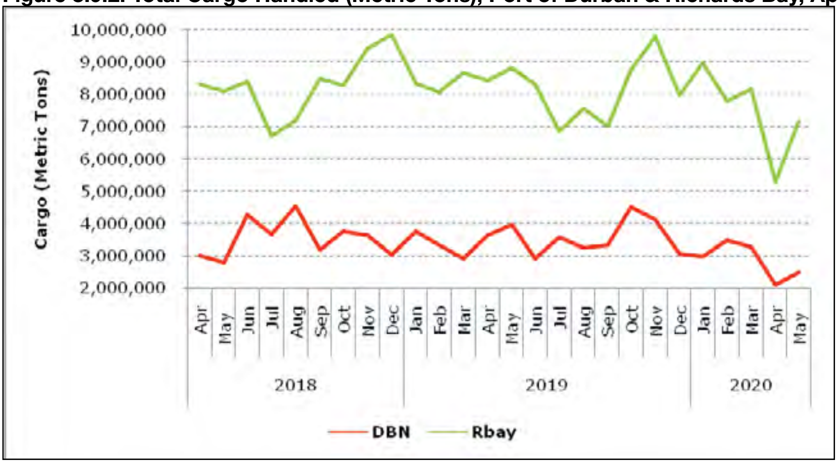
Figure 3.9.1: KSIA Total Passenger Numbers, Jan 2018 – June 2020



Source: ACSA, 2020

The National lockdown halted operations in the aviation sector and other transport networks. King Shaka International Airport (KSIA) passenger numbers plummeted from over 600,000 passengers processed in December 2019 and over 500,000 in January 2020 to 163 in April and 78 in May 2020 against a backdrop of COVID-19 lockdown. KSIA resumed limited domestic flights in July.

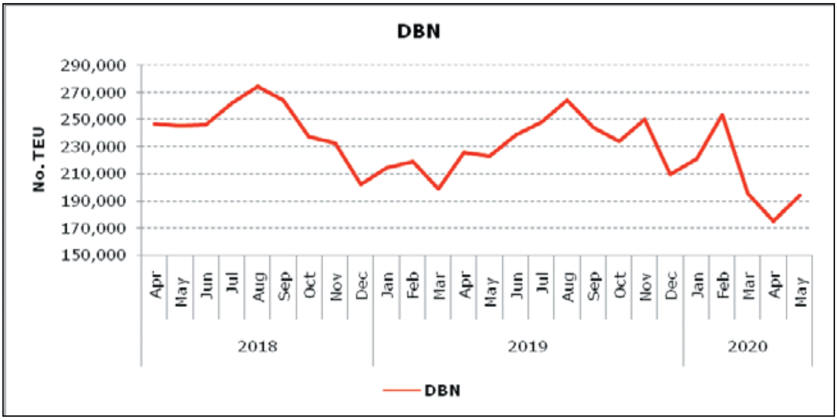
Figure 3.9.2: Total Cargo Handled (Metric Tons), Port of Durban & Richards Bay, April 2018 – May 2020

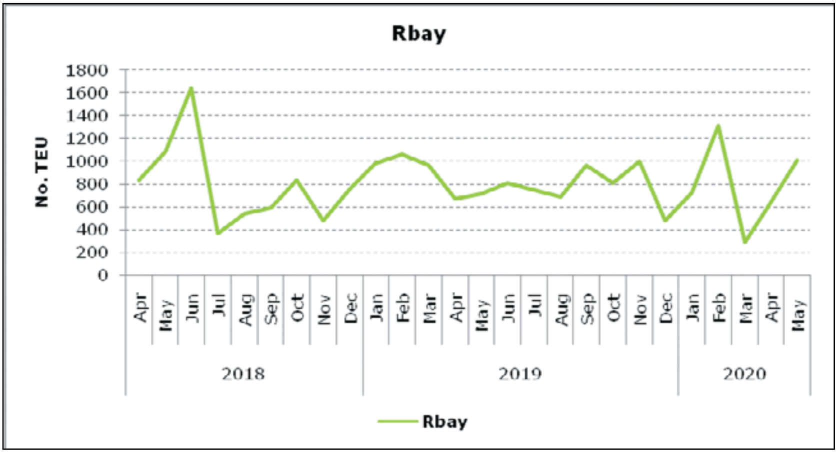


Source: Transnet, 2020

The port of Richards Bay contains a dry bulk terminal, a multi-purpose terminal and the privately operated coal terminal. Other private operators within the port include several wood chip export terminals and a bulk liquid terminal. The port has extensive rail and conveyor belt systems servicing the berths from nearby factories and plants. Hence it moves over 40% of total tonnage through country's sea ports compared to 16% at Port of Durban. Prior to covid19, the Port processed over 8 million metric tons. In April 2020 only 5.3 million tons were handled.

Figure 3.9.3: Total Number of Containers Handled, Port of Durban & Richards Bay, April 2018 – May 2020





Source: Transnet, 2020

The total number of containers handled at Port of Durban sharply declined from 253,317 in February 2020 to 175,472 in April 2020 amidst the National lockdown. Durban typically handles 64% of all containers in South Africa. The Port of Richards Bay is designated to handle mainly bulk, only processes approximately 0.25% of all containers and thus its movements in numbers is insignificant within the context of the country.

3.10 ENVIRONMENTAL AFFAIRS

Environmental concerns must be carefully considered and planned for when undertaking new developments and economic endeavours to ensure that sustainable development is realised. As such, the Environmental Impact Assessment (EIA) process was formally introduced in 1998 as part of the National Environmental Management Act 107 of 1998. EIAs are effective decision-making tools which seek to identify the negative environmental impacts of proposed projects and developments and work to avoid and negate them through carefully considered alternatives which spoke to prevention, mitigation and impact control.

Table 3.10.1: Environmental Authorisation Applications Finalized: Q1, 2020

District Municipality	Number of EIA applications finalised (authorisation granted).	Total estimated capital value (R million) of all EIA applications finalised.	Total expected number of construction phase jobs created for EIA applications finalised.	Total expected number of operational phase jobs created for EIA applications finalised.
Ugu	1	2.0	10	0
uMgungundlovu	3	107.0	110	4
uThukela	0	0.0	0	0
uMzinyathi	0	0.0	0	0
Amajuba	1	40.0	175	50
Zululand	0	0.0	0	0
uMkhanyakude	1	40.0	44	0
King Cetshwayo	1	1.0	25	4
ILembe	1	34.0	165	20
Harry Gwala	2	8.0	100	8
EThekwini	6	9.0	50	0
Total	**16**	**241.0**	**679**	**86**

Source: EDTEA,2020

Based on previous EIA performance, the slow economic activity is evident in the number of EIA applications submitted for approval. In the fourth quarter of 2019, a total of 39 applications were finalised; providing a capital value of R662 million. In the first quarter of 2020, fewer applications were received; with 16 applications finalised, yielding an estimated capital value of R241 million. The highest estimated value was recorded for the ILembe district (R107 million) and Amajuba and uMkhanyakude Districts at R40 million each. The highest job potential would be created in Amajuba for both construction and operational purposes.

REFERENCES:

1. Airports Company South Africa, Airport Passenger and Aircraft Statistical Worksheet, 2020
2. Johannesburg Stock Exchange (JSE), Index Classification and Codes Items Monthly ALSI, 2020
3. IHS REX, 2020
4. KwaZulu-Natal Department of Economic Development, Tourism and Environmental Management, Environmental Impact Assessments Unit, 2020
5. International Labour Organisation, Data Finder and Statistical Database, 2020
6. International Monetary Fund, World Economic Outlook, 2020June Update. "A Crisis Like No Other, An Uncertain Recovery"
7. Organisation for Economic Co-operation and Development (OECD), Online Statistical Database, 2020
8. Quantec Research, 2020
9. South African Reserve Bank, 2020
10. Statistics South Africa, 2020
11. Transnet TPA, 2020
12. World Bank, 2020, Monthly Commodity Price Pink Sheet
13. World Tourism Organisation, 2020
14. World Travel & Tourism, 2020. Monthly Economic Impact.

NOTES:

NOTES:

edtea

Department : Economic Development, Tourism and Environmental Affairs

PROVINCE OF KWAZULU-NATAL

Trade & Investment KwaZulu-Natal

YOUR KNOWLEDGE PARTNER IN BUSINESS

South Africa KWAZULU-NATAL

Zulu Kingdom. *Exceptional*

Head Office

270 Jabu Ndlovu Street, Pietermaritzburg | Tel: +27 (33) 264 2515 | Fax: 033 264 2630

www.kzndedt.gov.za | info@kznded.gov.za