KWAZULU-NATAL PROVINCE

ECONOMIC DEVELOPMENT, TOURISM AND ENVIRONMENTAL AFFAIRS

REPUBLIC OF SOUTH AFRICA

EZOMNOTHO

THE KWAZULU-NATAL QUARTERLY ECONOMIC AND STATISTICAL OVERVIEW

September 2020

KWAZULU-NATAL PROVINCE
TREASURY
REPUBLIC OF SOUTH AFRICA

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1. INTRODUCTION

1.1 Foreword

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Although the number of COVID-19 related deaths and new infections in the country has slowed significantly, the economic impact of the COVID-19 pandemic continues to have devastating effects on all sectors of the economy. The business environment has been depressing with companies battling to keep trading, agonizing to retain their workforce and to prevent complete shutting down. The social and economic shocks of the COVID-19 pandemic have threatened to erase almost all the progress made towards achieving the Sustainable Development Goals, of the 2020 Goalkeepers Report,as the world's poorest and most vulnerable were affected the most. The pandemic has pushed millions into chronic hunger and unequal access to remote learning threatens to leave the poorest children behind. Among the most sobering statistics, of the 2020 Goalkeepers Report, are that extreme poverty has increased by 7% and vaccine coverage has dropped to levels last seen in the 1990s.

The KwaZulu-Natal's Seasonally Adjusted Annualised quarter-on-quarter Gross Domestic Product (GDP) contracted for the fourth consecutive quarter, putting the Province in a severe recession. Annualised Seasonally Adjusted quarter-on-quarter GDP for the country contracted by 51%, equating to a loss of R511 billion, which is larger than expected by both the National Treasury and the Reserve Bank. The easing of restrictions in the country, by the president, is welcomed as this will further assist in rebuilding the economy.

To keep abreast of the challenging economic environment, it is important to track the extent to which the economy is affected due to the number of measures implemented to stem the COVID-19 pandemic. 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, therefore, a quarterly publication that provides in-depth insight on the global, national and provincial economic developments.

As the KwaZulu-Natal Department of Economic Development, Tourism and Environmental Affairs, we are delighted to present the September 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

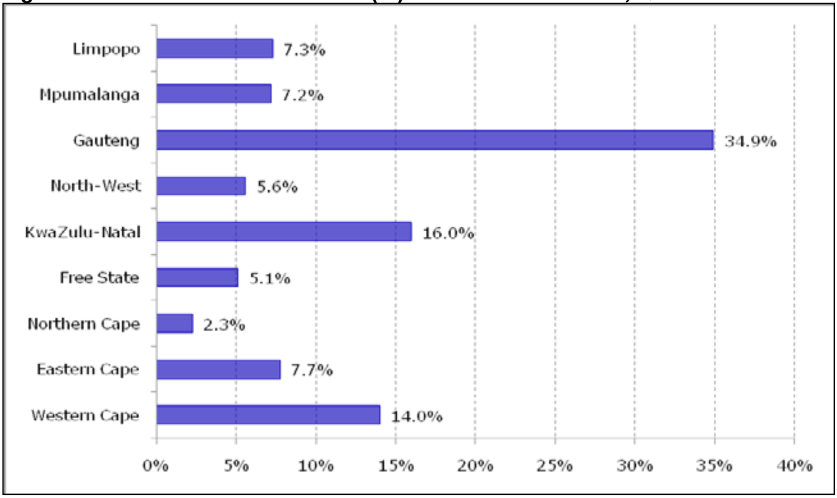
The table presented below shows a summary of the key provincial economic indicators in comparison with national figures. This is followed by information on the KwaZulu-Natal economic contribution to South African output versus other provinces and key sectoral GDP contributions to the provincial and national economies.

Table 1.3.1: Various Economic Indicators

Indicator	KwaZulu-Natal	South Africa
GDP (R'000s) at 2010 constant prices Seasonally Adjusted & Annualised (R' mil) (2ndquarter 2020)	418 061	2 617 664
Annualised Quarter-on-Quarter Seasonally Adjusted GDP Growth (2nd quarter 2020)	-51.6	-51.0
Population (2020)	11 531 628	59 622 350
Working Age Population (000s) (15-64 years) (QLFS, 2nd quarter 2020)	7 214	39 021
Unemployed (000s) (QLFS, 2nd quarter 2020)	535	4 295
Unemployment Rate (2nd quarter 2020)	18.9%	23.3%
Labour Force (000's) (2nd quarter 2020)	2 832	18 443
Absorption Rate (employed/population ratio) (2nd quarter 2020)	39.3%	47.3%
Gini Coefficient (2019)	0.63	0.63
Human development Index (HDI) (2019)	0.62	0.66
Functional literacy (2019)	83.4%	85.4%
Inflation (August 2020)	2.9%	3.1%
Foreign tourists per annum (2018)	817 388	10 472 105
Total Air Passenger Movements at International Airports (2nd quarter 2020)	20 304	128 039
Cargo tonnage handled at ports (000s) (2nd quarter 2020)	28 421 515	47 159 671
Number of containers handled at ports (2nd quarter 2020)	584 970	910 190

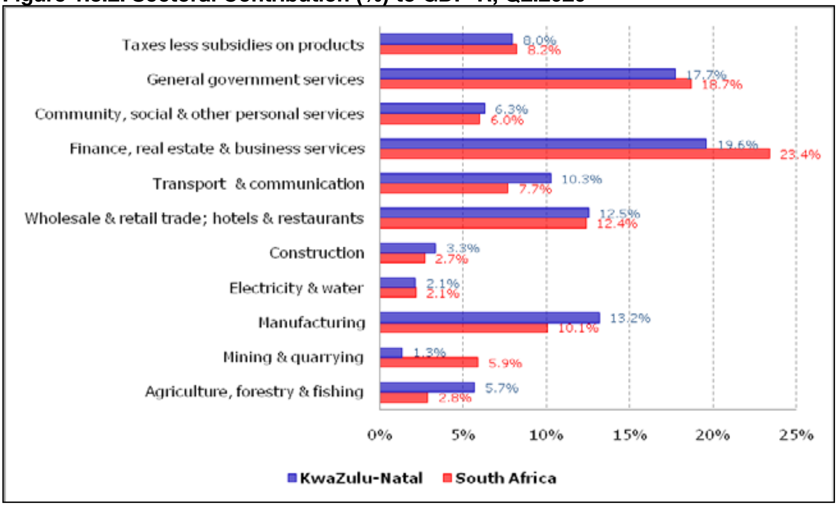
Source: Stats SA, IHS Global Insight, Quantec Research, ACSA, Transnet, 2020

Figure 1.3.1: Provincial Contribution (%) to South African GDP, Q2:2020



Source: Quantec Research, 2020

Figure 1.3.2: Sectoral Contribution (%) to GDP-R, Q2:2020



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 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 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

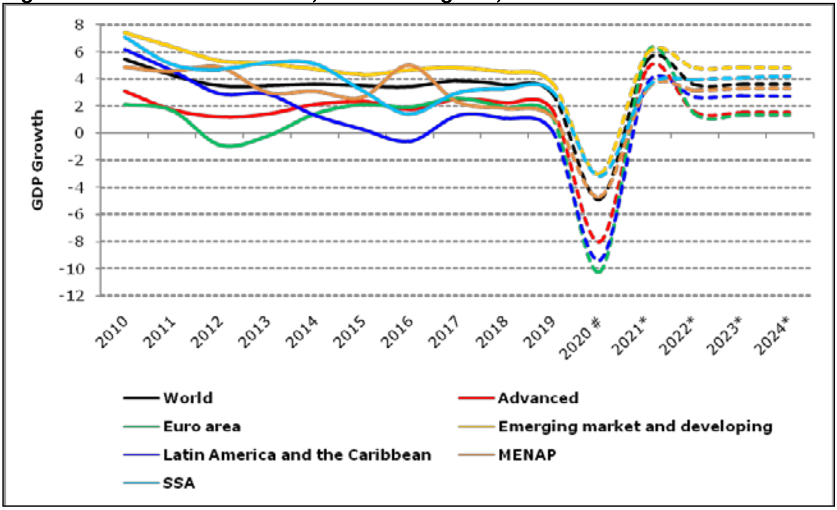
The unprecedented global health crisis of coronavirus disease 2019 “COVID-19” brought the global economic activity to a near-standstill, largely in the first half of 2020. The rapid spread of the COVID-19 global pandemic necessitated stringent lockdown regulations to slow transmission and allow health care systems to handle rapidly rising caseloads. This spread hampered various economic activities, particularly global supply chains. Consumption and services output also dropped markedly owing to voluntary social distancing, steep income losses, and weaker consumer confidence.

The precipitous decline in demand, coupled with supply interruptions and tentative future earnings prospects caused firms to cut back on investment. Thus, the pandemic lockdowns have triggered a broad-based aggregate demand shock, compounding near-term supply disruptions. The economic implications of the crisis have been extensive, with many economies projected to report substantial economic recessions, which have never been seen in nearly a century. The recovery to pre-pandemic levels could take several years. The global pandemic also caused enormous damage to people’s health, jobs and well-being.

Although a range of countries continues to realise a rapid spread of COVID-19, lockdown restrictions are easing gradually in many parts of the world and businesses are resuming operations. Similarly, mobility has picked up modestly in most areas as economies steadily re-open, but it generally remains low compared to pre-virus levels. Thus, economic activity is expected to recover moderately in the third and final quarters of the year, following a severe contraction in the second quarter prompted largely by the “hard” lockdown restrictions from mid-March to mid-May. China is an exception to the severe contraction as it re-opened most of the country in April.

Overall, the global economic growthis projected to contract by 4.9% in 2020, before strengthening to 5.4% in 2021. Consumption growth, in particular, has been downgraded for most economies, reflecting the larger-than-anticipated disruption to domestic activity. Moreover, investment is expected to be subdued as firms defer capital expenditures amid high uncertainty. Policy support partially offsets the deterioration in private domestic demand. The uncertainty in the global outlook is to a large extent due to the length of the pandemic and required lockdowns, voluntary social distancing, which will affect spending, and displaced workers’ ability to secure employment, possibly in different sectors; among others.

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



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

Advanced economies are expected to shrink by 8% in 2020, reflecting a deeper hit to economic activity in the first half of the year than anticipated, with signs of voluntary distancing even before lockdowns were imposed. The main contributors to the forecast contraction in the region synchronised deep downturns expected in the United States (-8.0%); Japan (-5.8%); the United Kingdom (-10.2%); Germany (-7.8%); France (-12.5%); Italy and Spain (-12.8%). The region is, however, projected to gain momentum and grow by 4.8% in 2021.

In the Euro Area, output is also projected to suffer a negative growth rate of 10.2% in 2020. All major member countries in this economic bloc are forecast to rebound to 4.5% in 2021, reflecting possible fading pandemic-related drag, and the eventual effects of accommodative fiscal and monetary policy. Over the same period, the economic activity in Japan is expected to contract by 5.8%, before gaining momentum and register a projected 2.4%.

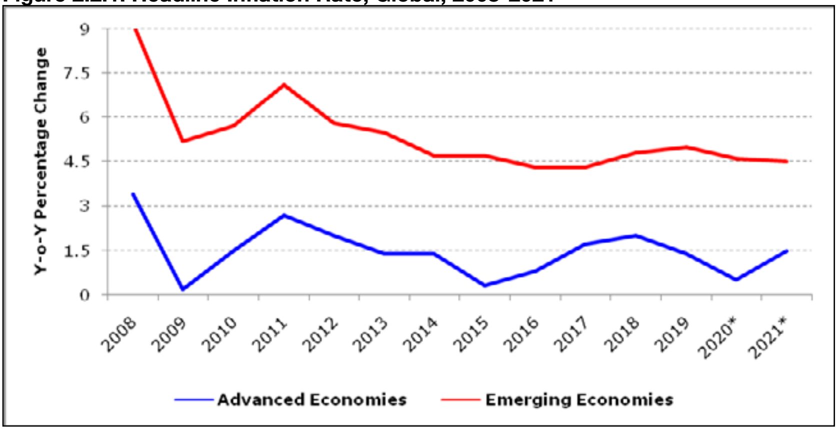
Overall, economic growth in the group of Emerging Market and Developing Economies (EMDEs) is forecast to decline markedly to -3% in 2020; but is expected to pick up significantly to 5.9% in 2021. For the first time, all regions are projected to experience negative growth in 2020. There are, however, substantial differences across economies within EMDEs, reflecting the evolution of the pandemic and the effectiveness of containment strategies; variation in economic structure. Typical examples of these differences depend on the severity of the affected sectors, such as tourism and oil; reliance on external financial flows, including remittances; and pre-crisis growth trends. China is the only country expected to report a positive growth rate of 1% in 2020. This is the lowest growth China has registered in more than four decades. The country's projection is dependent on the assumption that the outbreak remains under control and economic activity recovers. Nevertheless, China's GDP is expected to expand to 8.2% in 2021.

Before the pandemic, 72 million people across 35 countries in Sub-Saharan Africa were already in food crisis, with millions on the verge of falling into acute food insecurity. Real GDP in Sub-Saharan Africa is projected to contract by 3.2% in 2020, the lowest level of growth on record. The sharp contraction largely reflects the fall-out from the spread of COVID-19 and lower-than-expected commodity prices. This lacklustre growth is, however, expected to recover moderately to 3.4% in 2021. However, the volatile and high oil prices have supported the outlook for Angola, Nigeria, and other oil-exporting countries in the region.

2.2 Global Inflation

Headline Consumer Price Index (CPI) inflation has dropped in most regions, approaching or falling into negative territory in many cases. This is partly due to the collapse in oil and other commodity prices, escalated by falling prices on services such as air travel, hotels, restaurants and leisure activities, which were severely affected by the COVID-19 lockdowns. These deflationary forces have been the dominant factors in an acutely recessionary environment, outstripping upward price pressure on some components, including food and medical material, and from supply chain disruptions. While inflation is still falling, inflation expectations have partially recovered, as policy actions have been profound and lockdowns appear to have been successful in containing the virus, though the risk of a second wave remains.

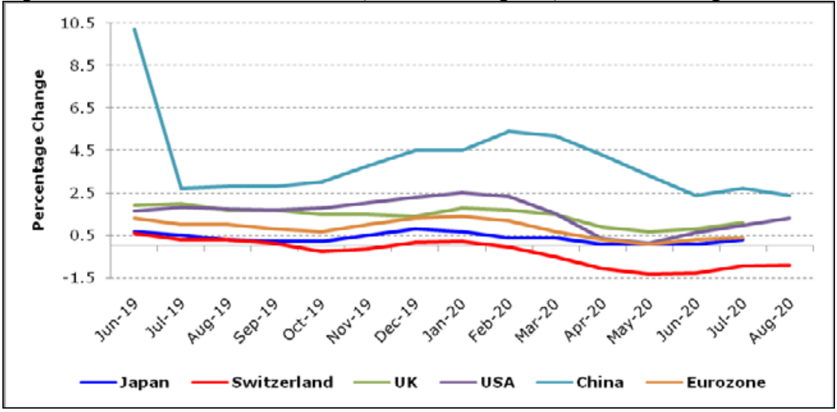
Figure 2.2.1: Headline Inflation Rate, Global, 2008-2021*



Source: IMF, 2020
*Note: * Indicates Estimates/Forecasts*

In both advanced economies inflation has fallen in early 2020 due to lower energy prices and despite some increase in food prices, according to OECD (2020). The consumer prices are expected to remain low and below 2019 prices in 2020 and then rise up in 2021. In most emerging countries inflation rate is expected to remain low and steady.

Figure 2.2.2: Headline Inflation Rate, Selected Regions, June 2019- August 2020



Source: OECD, 2020

United States of America (USA) annual inflation rate increased to 1.3% in August of 2020 from 1% in July, beating market forecasts of 1.2%. It is the highest rate since March. The headline inflation fell by 0.8% month-on-month in April, pushing down the annual rate to 0.3%, the lowest since 2015. Energy prices were a major drag given the steep fall in the oil price while transportation services, hotel and apparel prices also fell substantially. In the United Kingdom (UK), annual inflation rate jumped to 1% in July of 2020 from 0.6% in June, beating market forecasts of 0.6%. It is also the highest reading since March, as the restrictions caused by the coronavirus pandemic have been eased. Japan's consumer price inflation climbed to 0.3% in July from an over 3-year low of 0.1% year-on-year in June 2020, as the pandemic continued to hamper consumption excluding food.

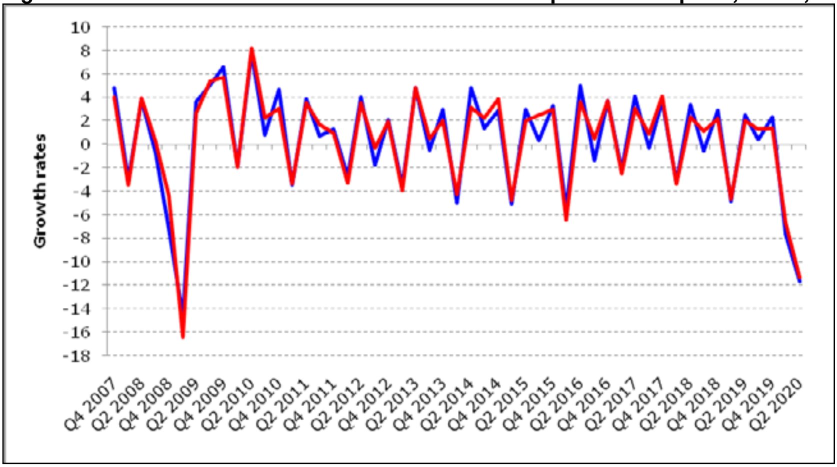
On the other hand, China's annual inflation rate eased to 2.4% in August 2020 from 2.7% in the previous month and in line with market expectations. This was the lowest figure since May as food inflation slowed. Headline inflation in the Eurozone is currently close to zero, well below the European Central Bank's 2% target. Though the weakness in headline inflation is in part due to lower energy prices, the fear is that the large amount of excess capacity opened up by the COVID-19 pandemic and the deep recession it has caused will lead to deflation.

Switzerland's consumer prices also fell 0.9% from a year earlier in August 2020, still the smallest decline since March and compared with market expectations of a 0.8% drop. Monthly price changes turned deeply negative from March as the lockdown gripped the economy but recovered somewhat in July as conditions started to normalise. Given persistent weakness, annual CPI inflation slipped to -1.3% Year-on-Year, down from +0.2% in the beginning of the year. Consumer prices are being dragged down by deflationary import prices, amplified by falling prices in services components that were severely impacted by the lockdown, including restaurants, hotels, transportation and leisure services. Going forward, annual inflation rates are expected to fall further into negative territory.

2.3 International Trade

World trade started to slow down before the COVID-19 pandemic due to trade tension between the world's two biggest economies, the USA and China. The trade tension has affected consumers and producers in the respective countries and the rest of the world. The adverse impact of COVID-19 was felt in the second quarter of 2020,when most of the countries implemented stringent COVID-19 containment measures. During the second quarter of 2020 the volume of merchandise traderecorded a year-on-year contraction of 18.5%. The decline is attributed to supply chain related logistics challenges and closure of international borders for commercial flights which reduced international cargo uplift by 74% for nearly three quarters. Both exports and imports globally declined by 17.7% and 16.7% respectively. It was only China which increased its exports by 9.1% in second quarter of 2020.

Figure 2.3.1: Volume Growth Rates Of Merchandise Exports and Imports, World, 2007Q4- 2020Q2



Source: UNCTAD, 2020

Merchandise exports declined deeply in the North America by 24.5%, South & Central America by 5.3% and Asia declined by 6.1%. In Europe,imports declined markedly by 19.3%.

2.4 International Labour Markets

International Labour Organisation (ILO), 2020 reported that the impact of the crisis has proved to be much greater than previously estimated, particularly in developing countries. The estimated decline in global working hours in the second quarter of 2020, relative to the fourth quarter of 2019, has been further revised upward to 17.3% (up from the previous estimate of 14.0%), which is equivalent to a loss of 495 million full-time jobs. The Americas suffered a reduction in working hours of 28.0% in the second quarter of 2020, while North America, including Canada and the United States of America, experienced a smaller, yet still substantial, decline of 18.4% in working hours. In Africa, the total working-hour loss in the second quarter of the year was at 15.6%.

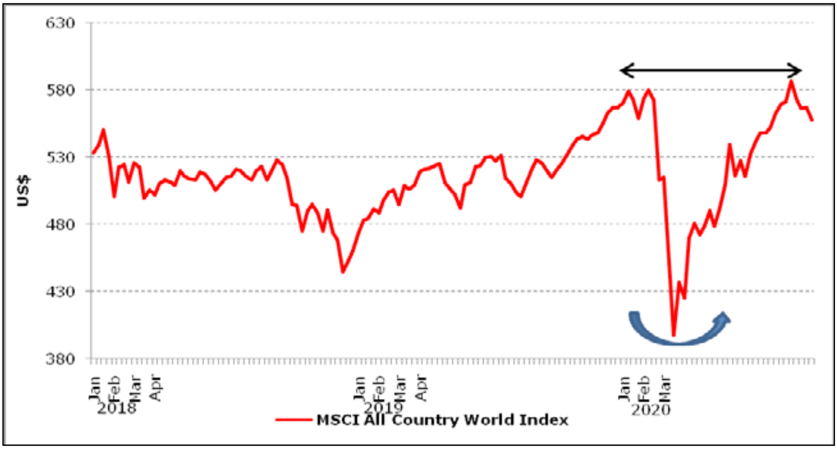
Unemployment is a hot debate across many of the world's economies, and many governments use unemployment rates to determine gross national happiness. This however could be misleading as it has been noticed that a decline in unemployment rate, does not necessitate that more people are working, but rather due to COVID-19 pandemic, many people were not economically active and actively looking for work. A decline in employment, accompanied by a larger increase in inactivity other than in unemployment has been observed in most countries across the world, except Canada and the United States of America as highlighted in the recent ILO monitor report, Sixth Edition.

In addition to the threat to public health, the economic and social disruption threatens the long-term livelihoods and wellbeing of millions. The number of unemployed people in the OECD area increased by 18.4 million to 55 million in April 2020. The United States accounted for the main part of this increase, with a rise in unemployed of 15.9 million.

2.5 International Financial Markets

A growing number of key indicators are pointing to a fairly swift economic recovery from the coronavirus pandemic. The oil price is on the rise and real GDP growth is beginning to hit positive territory. The demand for goods and services is increasing as businesses are returning to full production. Further indication of a V-shaped recovery is illustrated by Retail Trade sales in the United States (US), which increased by an all-time record of 18.3% in May, after declining by almost 15% in April 2020. However, much of the destruction still persists. Sporting Stadiums remain empty, half-empty restaurants and airports in the midst of the threat the virus holds and public awareness to realise the world is still far off from a full recovery. Accelerated digitization is going to play a central role in the recovery of the economy which, from a global investment perspective, is already quite entrenched along many international market platforms.

Figure 2.5.1: Morgan Stanley Capital International (MSCI) All Country Equity Index, Jan 2018 – Sep 2020

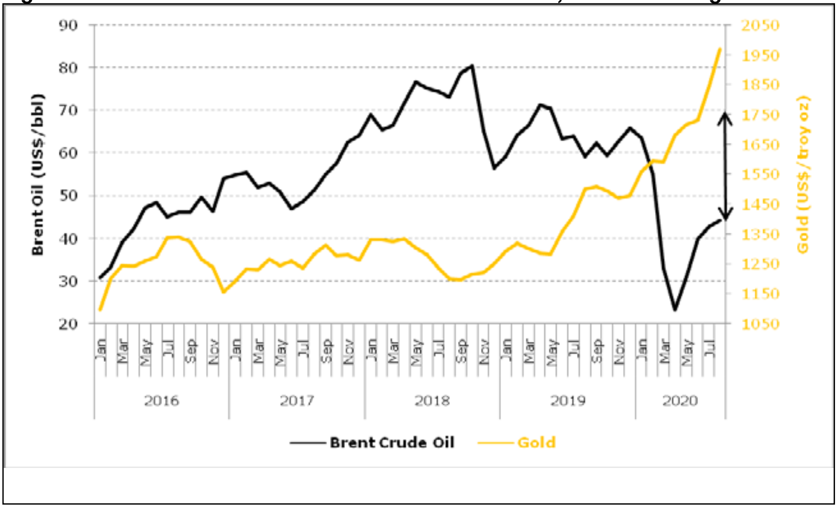


Source: Investing.com, 2020

Global Equity Markets have leaped to pre-COVID19 levels hitting its ceiling. August 2020 saw some of the best monthly equity returns in more than two decades as corporate earnings were better than feared, and news of a potential COVID-19 vaccine spurred positive sentiment through global markets. Emerging markets also outperformed as investors began taking more risk in their portfolios.

Risk is however definitely not off the table. Precious metal prices, especially gold and silver, continue to rise, indicating uncertainty. At the same time developed market interest rates stay close to zero and governments continue to commit ongoing capital to support markets.

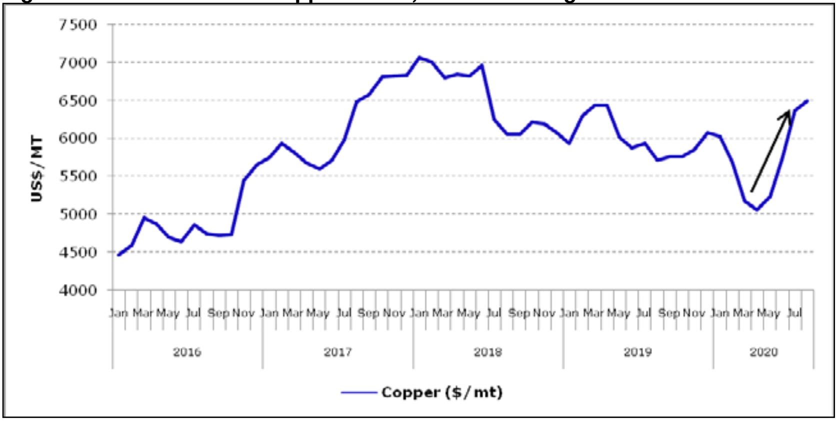
Figure 2.5.2: International Brent Crude and Gold Prices, Jan 2016 – Aug 2020



Source: World Bank, 2020

Both energy and non-energy commodity prices continued to surge in August 2020. However risk aversion and some uncertainty still remains strong keeping gold price on its tippy toes. As the Global economic recovery gains momentum and gaining US dollar strength it is expected the precious metal will retrace. This recovery is likely to be driven by commodity-intensive infrastructure investment.

Figure 2.5.3: International Copper Prices, Jan 2016 – Aug 2020



Source: World Bank, 2020

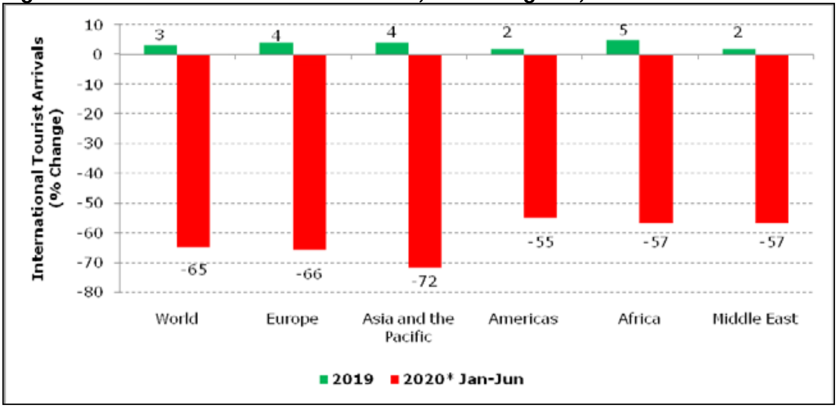
Copper is considered a barometer of global economic performance due to its widespread use in many sectors such as, including without limitation, infrastructure development, manufacturing, and construction to aid economic expansion. Prices have been gaining momentum amidst strong demand from China which accounts for approximately 50% of global demand for the red metal.

2.6 International Tourism Developments

Nationwide lockdowns introduced during the first half of the year have had an immense impact on international tourism; with international tourist arrivals plunging 65% in the first six months of the year. This tremendous decline in international travel demand during the first half of 2020 translates into a loss of 440 million international arrivals and about US$ 460 billion in export revenues from international tourism - representing about five times the loss in international tourism receipts recorded in 2009 amid the global economic and financial crisis. The sharp and sudden decline in international travel demand has devastated the tourism sector, putting millions of jobs and businesses at risk.

According to preliminary estimates, international travel demand fell in July and August 2020 by 85% and 80% respectively with a decline of 70% estimated for January – August 2020. This decline translates into a loss of 705 million international arrivals and some US$730 billion in export revenues – 8 times the income loss of 2009. Despite the gradual reopening of numerous destinations since the second half of May, ahead of the Northern Hemisphere summer season, the expected improvement in international tourism numbers did not transpire.

Figure 2.6.1: International Tourist Arrivals, World Regions, 2019 & 2020* Jan-Jun



Source: UNWTO, 2020
*Note: * Indicates provisional data*

Asia and the Pacific was the first region to be impacted by COVID-19 and the massive drop of international demand was already felt in February. In the first half of the year, this region was impacted the most, with a 72% decrease in arrivals. Europe, the world's most visited destination, was the second highest to be impacted – tourist arrivals declined by 66% in the first half of the year.

More than half (53%) of destinations around the world have eased travel restrictions introduced in response to the COVID-19 pandemic, as of early September. While the recovery of international tourism remains sluggish, demand for domestic tourism is rising in many large markets such as China, where air capacity in July rebounded to around 90% the level of 2019. In Russia, air capacity has also been underpinned by rising domestic travel.

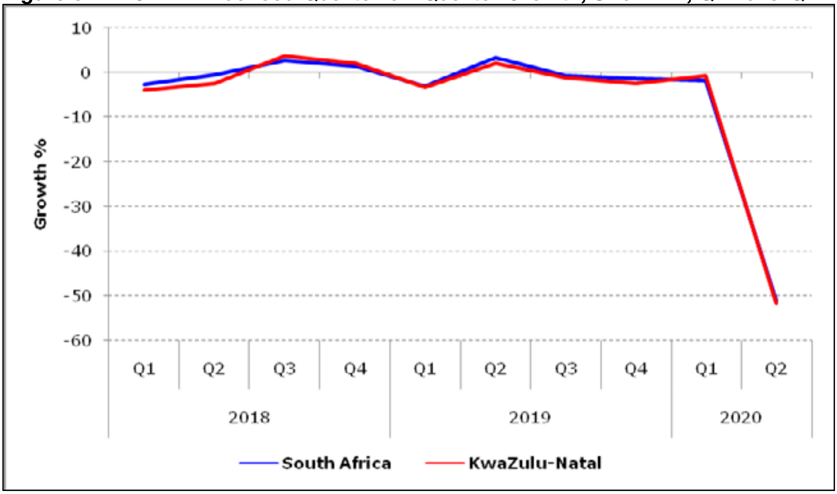
3. DOMESTIC AND REGIONAL ECONOMIC DEVELOPMENT AND OUTLOOK

3.1 Economic Growth

3.1.1 Gross Domestic Product Growth Trends

In response to COVID-19, the country operated under extensive lockdown restrictions and on the back of this, the South African economy faced the worst contraction ever recorded between April 2020 and June 2020. COVID-19 pandemic and the associated drastic measures undertaken by Government around the world was an exogenous shock to the South African economy that was already in recession after output contracted in three consecutive quarters.

Figure 3.1.1: GDP Annualised Quarter-on-Quarter Growth, SA& KZN, Q1:2018-Q2:2020



Source: Quantec Research, 2020

Gross Domestic Product (GDP) contracted by 51% on a quarterly Annualised[1] and Seasonally Adjusted rate in the second quarter of 2020 after shrinking by 1.8% in the first quarter of 2020. This translates in into a quarterly rate of -16.4%. This is the largest quarterly decline in GDP on record, as the South African Reserve Bank indicated that the second quarter of 2020 was the highest drop in GDP since 1960. Year-on-year, the economy contracted by 17.1%, following a revised 0.1% growth in the previous period and compared with market expectations of a 16.5% slump.

In comparison to the first quarter of 2020, the country generated Goods & Services as measured by GDP approximately R654 billion (not annualised) in constant 2010 prices. This was the lowest level of production since the first quarter of 2009 when the economy generated R649 billion.

1 *GDP change is shown as if it continued and compounded at same rate for a year*

The KwaZulu-Natal Annualised quarter-on-quarter economic growth contracted by -51.6% in the second quarter of 2020 after declining by -0.7% in the first quarter of 2020. The downward trend of economic performance as measured by the GDP growth does not bode well for the country and the province against a backdrop of high levels of unemployment, poverty and inequality during this time.

3.1.2 Sectoral Drivers of GDP Growth

All sectors, except Agriculture (which by most parts was considered an essential service), were greatly affected by the pandemic and massive output declines were recorded across the board in the second quarter of 2020. The COVID-19 lockdown measures resulted in falling aggregate demand in almost all the sectors including those that were classified as essential services as local and global value chains were disrupted.

Table 3.1.1: Sectorial GDP Annualised Quarter-on-Quarter Growth Contribution, SA & KZN, 2020:Q1-2020:Q2

Industry	South Africa		KwaZulu-Natal	
	2020Q1	2020Q2	2020Q1	2020Q2
Agriculture, forestry and fishing	28.6	15.1	28.8	15.4
Mining and quarrying	-21.5	-73.1	-26.5	-75.5
Manufacturing	-8.5	-74.9	-9.2	-75.1
Electricity and water	-5.6	-36.4	-2.3	-33.5
Construction	-4.7	-76.6	-1.0	-75.3
Wholesale & retail trade; hotels & restaurants	-0.7	-67.6	-3.6	-68.9
Transport and communication	0.5	-67.9	1.7	-67.4
Finance, real estate and business services	3.7	-28.9	3.8	-28.8
Community, social and other personal services	0.5	-32.5	0.4	-32.5
General government services	1.2	-0.6	1.2	-0.6
All industries at basic prices	**-1.7**	**-49.4**	**-0.5**	**-50.1**
Taxes less subsidies on products	-3.0	-65.3	-3.3	-65.5
GDPR at market prices	**-1.8**	**-51.0**	**-0.7**	**-51.6**

Source: Quantec Research, 2020

The global lockdown restrictions caused the demand for mineral products to fall which is one of South Africa's main export commodities. Production decreased in platinum group metals (PGMs): gold, iron ore, chromium ore and coal all shrank significantly. As such, the mining sector contracted by 73.1%. The other largest negative contributors to the country's economic growth in the second quarter of 2020 were construction, which contracted by 76.6%; manufacturing by 74.9%; transport, storage & communication by 67.9%; and trade, catering & accommodation which contracted by 67.6%.

On the other hand, agriculture, forestry and fishing recorded a positive growth of 15.1% in the second quarter of 2020: due to minimal disruptions as the sector was 'classified essential services' and the increased demand for food as people spent most of their time at home.

In the Province, the second quarter steep contraction was recorded in mining & quarrying by 75.5% while it was greatly affected by the manufacturing sector which declined and 75.1%. The contraction in manufacturing sector given its sheer contribution to output of 16% meant that it was a major driver to the provincial GDP decline in the second quarter. The sharp decline in output from first to second quarter is indicative of the debilitating effects of the COVID-19 pandemic on the economy of the province. Restrictions in sectors such as automotive, clothing and textiles, metals fabrication, consumer goods manufacturing during levels 5 and 4 of the lockdown appeared to have had a detrimental effect on the manufacturing sector. Limited restrictions in other manufacturing sectors such as agro processing, petrochemicals did not outweigh the contraction in output due to plummeting domestic and global demand.

3.1.3 Regional Growth Comparison

All provinces recorded negative growth during the second quarter.

Table 3.1.2: Regional Economic Growth, Provincial, 2019Q3 - 2020Q2

Provinces	2019		2020	
	Q3	Q4	Q1	Q2
Western Cape	-0.7	-1.7	0.0	-50.1
Eastern Cape	0.7	-0.4	1.5	-47.4
Northern Cape	1.3	3.8	1.9	-49.2
Free State	-1.0	-1.6	-2.2	-51.6
KwaZulu-Natal	-1.1	-2.3	-0.7	-51.6
North West	-3.0	-2.7	-8.3	-56.1
Gauteng	-1.3	-2.8	-3.0	-50.5
Mpumalanga	0.3	2.4	-1.0	-54.6
Limpopo	0.5	2.2	-1.3	-50.3

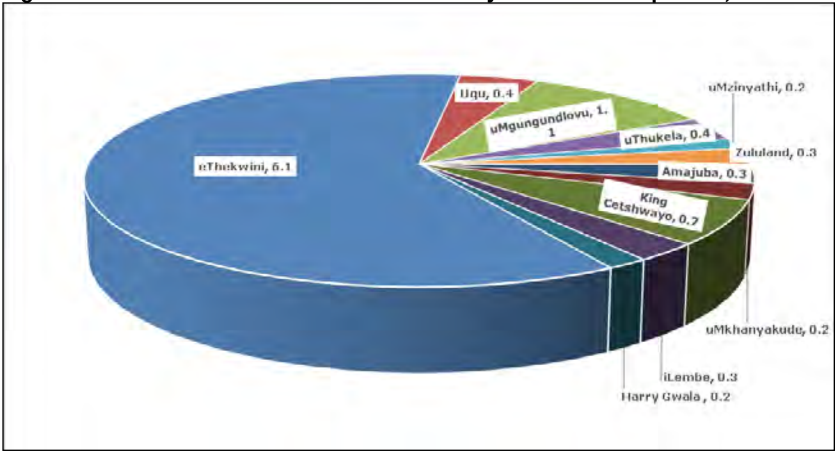
Source: Quantec Research, 2020

Some of the biggest losers in economic activity include North West has been recording a negative economic growth since the third quarter of 2019 and the implementation of the national lockdown restrictions greatly affected economic growth in this province due to a higher exposure to Mining & Quarrying. As such that it recorded the highest contraction of -56.1% in the second quarter of 2020 compared to other provinces, however this province only contributes approximately 5.8% to the overall economy of the country. While Gauteng and the Western Cape are highly exposed to the Finance & Business Services sector, it only contracted by 29.9% and 28.8% respectively as opposed to other sectors which were impacted more heavily.

3.1.4 KZN Municipal Economic Performance

Of KwaZulu-Natal's provincial GDP contribution by its ten district municipalities and single eThekwini Metropolitan in 2019,it is evident that the total provincial output is concentrated mainly in the eThekwini Metro at 60.5%.This makes it the economic hub of the province. This substantial contribution is driven by various economic activities that include motor vehicle manufacturing, oil refining and chemical plants, transport and logistics, tourism, and property development.

Figure 3.1.2: KZN Provincial GDP Contribution by District Municipalities, 2020



Source: IHS Markit, 2020

The Metro is also host to the port of Durban and acknowledged to be the county's primary sea port. In this capacity, the region hosts a plethora of logistical support services truck staging, freight and courier service. At 10.6%, the second largest contributor to provincial GDP is uMgungundlovu, the home of the provincial government. Primary economic activities include agricultural support services, general manufacturing, aluminium production, footwear, government logistic support and tourism.

Table 3.1.3: KZN District Municipality Sector Share of Local GVA, KZN, 2019

	eThekwini	Ugu	uMgungundlovu	uThukela	uMzinyathi	Amajuba	Zululand	uMkhanyakude	King Cetshwayo	iLembe	Harry Gwala
Primary sector	1.5%	11.5%	9.2%	10.1%	15.5%	15.2%	15.7%	19.6%	16.7%	14.1%	19.4%
Agriculture	1.1%	10.9%	8.6%	8.5%	12.4%	4.4%	9.3%	18.0%	6.8%	13.2%	19.1%
Mining	0.4%	0.6%	0.5%	1.7%	3.1%	10.8%	6.4%	1.6%	9.9%	0.9%	0.3%
Secondary sector	22.5%	19.0%	18.2%	22.4%	11.9%	20.7%	11.4%	12.8%	26.6%	26.9%	12.9%
Manufacturing	16.9%	11.7%	11.8%	14.2%	6.6%	15.7%	5.0%	6.5%	22.0%	22.4%	7.1%
Electricity	1.6%	2.1%	2.7%	4.8%	2.6%	2.0%	3.3%	3.0%	1.1%	1.1%	2.5%
Construction	4.0%	5.1%	3.6%	3.4%	2.7%	3.0%	3.0%	3.3%	3.5%	3.4%	3.3%
Tertiary sector	67.1%	61.3%	64.7%	58.6%	65.3%	56.9%	66.8%	61.0%	48.6%	47.3%	60.6%
Trade	15.0%	17.4%	13.4%	13.6%	13.2%	10.8%	11.1%	12.8%	9.7%	10.4%	18.6%
Transport	12.8%	8.2%	10.1%	10.1%	7.7%	8.2%	8.0%	7.0%	10.6%	6.9%	7.2%
Finance	19.7%	15.2%	16.1%	13.8%	17.5%	15.5%	19.1%	13.8%	11.7%	15.3%	8.0%
Community services	19.6%	20.4%	25.1%	21.1%	27.0%	22.4%	28.5%	27.4%	16.6%	14.7%	26.8%

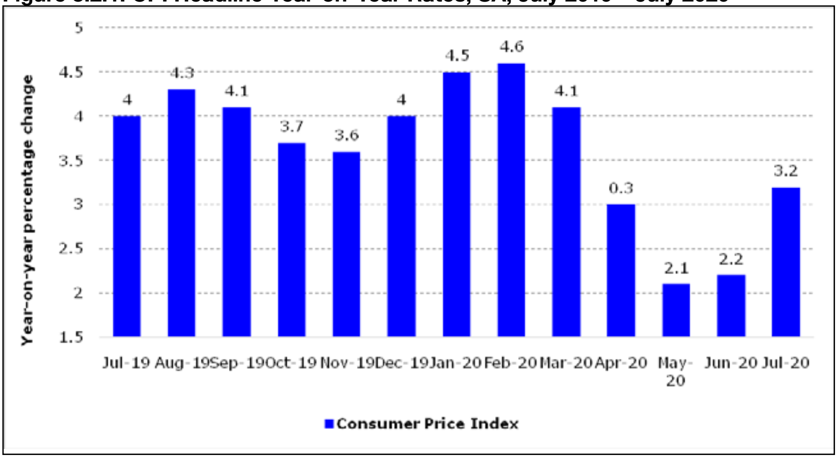
Source: IHS Markit, 2020

In terms of sectoral composition by each district, there are unique sectoral economic drivers of each municipality providing clues to its competitive and comparative advantage. For example, the share of Manufacturing is found to be higher in Ethekwini, Ilembe and King Cetshwayo while the proportion of Agriculture as a contribution to its local economy tends to be higher in uMkhanyakude and Harry Gwala Districts. This does not mean the share in Rand terms is higher than another districts, but proportional to the sectors driving that districts internal economy.

3.2 Inflation

The level of inflation rate decelerated significantly and reached 2.1% in May 2020, the lowest rate since the adoption of inflation targeting monetary policy system in 2000. This sharp drop in inflation was primarily due to the stringent lockdown restrictions that diminished the demand for consumer goods and services. The headline inflation rate picked-up modestly as the restrictions gradually eased to the lower COVID-19 alert levels[2]. It eventually reverted to the South African Reserve Bank's (SARB) target range (3% to 6%) in July 2020 with 3.2%, a percentage point higher than 2.2% reported in June 2020.Stats SA attributes the rise in the headline inflation rate to an increase in transport prices from 3% in June to 4.8% in July 2020.

Figure 3.2.1: CPI Headline Year-on-Year Rates, SA, July 2019 – July 2020

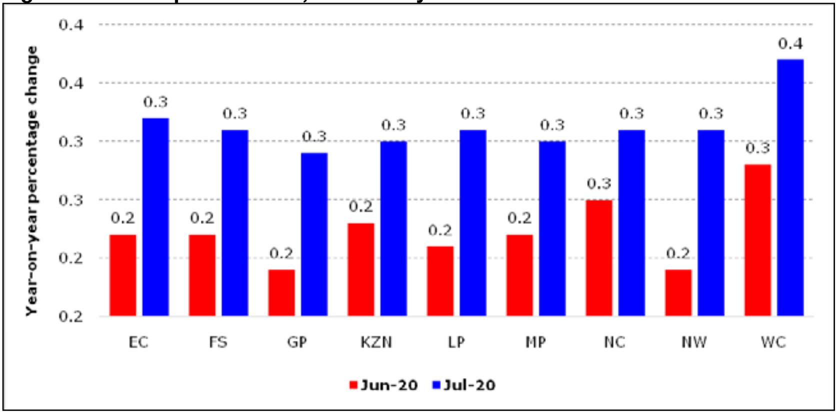


Source: Stats SA, 2020

The notable increase in transport prices was driven largely by fuels, which accelerated from 7.5% to 12.6%, and private transport operations increasing from 6.5% to 9.7%. The costs of housing and utilities increased from 0.1% in June to 1.7% in July. The main factors resulting in the rise in household utilities were the costs of electricity and other fuels, which grew by 6.2%, and water and other services with 5.2% in July 2020. Over the same period, there was a moderate increase in the costs of alcohol beverages and tobacco, from 0.5% to 1.2%.

2 *Nationwide lockdown 'Alert Level 1' indicates a low Covid-19 spread with a high health system readiness; 'Alert Level 2' indicates a moderate Covid-19 spread with a high health system readiness; 'Alert Level 3' indicates a moderate Covid-19 spread with a moderate health system readiness; 'Alert Level 4' indicates a moderate to a high Covid-19 spread with a low to moderate health system readiness; 'Alert Level 5' indicates a high Covid-19 spread with a low health system readiness.*

Figure 3.2.2: CPI per Province, June – July 2020



Source: Stats SA 2020

Regional inflation rate reveals a trend similar to that of the country. Except for the Western Cape, all provinces recorded headline inflation rate close or equal to the national average. Thus, the inflation outcome for July remained within the SARB's target band, yet significantly below the mid-point of the target, for all provinces. Gauteng recorded the lowest inflation rate of 2.9%, followed by KwaZulu-Natal and Mpumalanga at 3% while Western Cape had the highest inflation rate at 3.7%. The headline inflation rate for KwaZulu-Natal increased by 0.7percentage points,accelerating to 2.3% in June 2020. All provinces showed a significant increase in inflation outcome for July when compared to June 2020.

The inflation is expected to remain within the target range over the medium-term, thereby averaging at 3.3% in 2020 well below the mid-point of the targeted band. It is, however, projected to improve moderately to 4% and 4.4% in 2021 and 2022, respectively. The contributors to the forecast average inflation include the subdued oil prices, expected lower local food price inflation, and muted inflationary risks of rand exchange rate depreciation, among others.

Despite the lower expected inflation rate, the Monetary Policy Committee (MPC) of the SARB, opted to hold repurchase rate (Repo) [3] unchanged at 3.5% per annum in its September meeting. This follows a cut of 25 basis points in July, resulting in a total cumulative reduction of 300 points since January 2020. The Central Bank reduced policy rates up to this magnitude as the Monetary Policy Authorities try to ease financial conditions and improve the resilience of households and firms to the economic implications of COVID-19.

3 *Repo is the rate at which the central bank of a country (SARB) lends money to commercial banks. Repo rate is used by monetary authorities to control inflation.*

3.3 Trade

3.3.1 South African Trade

South Africa exported goods to the value of R273.9 billion for the second quarter of 2020, which is a decrease of R52.1 billion from the first quarter which was valued at R326.0 billion. The country's goods exports contracted by 72.9% between the second and first quarter of 2020, the decrease was largely influenced by the trade decrease of vehicles and other transport equipment, precious metals and stones, base metals and machinery & equipment.

Table 3.3.1: Trade Balance, SA, 2020:Q2

Exports	Imports
R273 857 113 593	R243 477 585 686
Trade Balance: Surplus	
R30 379 527 907	

Source: SARS, 2020

While imports were R243.5 billion versus the R293.3 billion experienced in the first quarter of 2020. The imports of goods decreased by 54.2%; the decrease was driven largely by decreased in imports of vehicles and other transport equipment, machinery and electrical equipment, mineral products base metals and services.

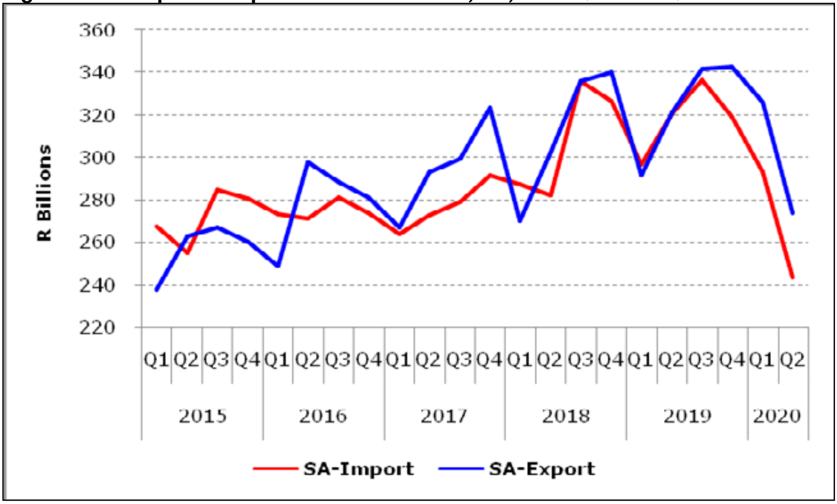
Table 3.3.2: Major Trade Partners, SA, 2020:Q2

Top 5 South African Export Countries	Top 5 South African Import Countries
China (11.8%)	China (20.9%)
United States (9.5%)	Germany (9.5%)
Germany (8.2%)	United States (6.3%)
Japan (5.2%)	India (5.5%)
United Kingdom (4.8%)	Saudi Arabia (4.8%)

Source: SARS, 2020

The top 5 trading countries with South Africa were China and the United States of America. Germany also features strongly for both exports and imports. The global pandemic has increased the demand for Vitamin C and Agricultural production and also chemicals and pharmaceutical products. The export of farm produce could continue through-out the COVID-19 lockdown period. Therefore there was a high demand for citrus products curtailing into higher exports in fruits.

Figure 3.3.1: Import & Exports of Merchandise, SA, 2015:Q1-2020:Q2



Source: Quantec Research, 2020

The top ten products which were **exported** during second quarter of 2020 at a Harmonized System (HS) level 2 are: natural or clustered pearls, precious or semi-precious stones, precious metals (28%), ores, slag & ash (21%), mineral fuels, mineral oils & products of their distillation; bituminous substance; mineral waxes (14%), edible fruit & nuts; peel of citrus fruit or melons (9%), vehicle other than railway or tramway rolling stock, & parts and accessories thereof (8%), iron & steel (7%), boilers, machinery & mechanical appliances; parts thereof (6%), aluminium & articles thereof (3%), and organic and plastics &articles (2%) respectively.

Products which contributed to **imports** are minerals fuels, mineral oils and products of their distillations (20%), nuclear reactors, boilers, machinery and mechanical appliances (19%), electrical machinery and equipment and parts thereof (16%), original equipment and parts thereof (9%), vehicles other than railway (8%), pharmaceutical products (7%), unclassified products (6%) and plastics and articles thereof, other made-up textile articles; sets; worm clothing and worm textile and optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof (5%) respectively.

3.3.2 KZN Trade

KwaZulu-Natal total exports for second quarter of 2020 amounted to R32.4 billion, which decreased by R1.2 billion from the first quarter which was valued at R33.6 billion.

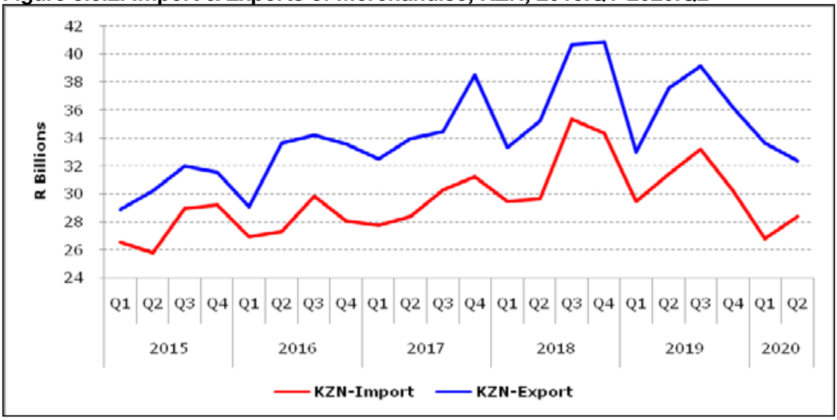
Table 3.3.3: Trade Balance, KZN, 2020:Q2

Exports	Imports
R32 377 474 796	R28 361 209 645
Trade Balance: Surplus	
R4 016 265 151	

Source: SARS, 2020

The top ten sectors that have contributed to the exports are; aluminium & articles thereof (24%), ores, slag & ash (17%), vehicles other than railway or tramway (16%), pulp of wood (10%), iron & steel (10%), sugar & sugar confectionery (7%), miscellaneous chemical products and boilers, machinery & mechanical appliances; parts thereof (5%) respectively, paper & paperboard; articles of paper pulp, of paper or of paperboard (4%) and copper & articles thereof (2%).

Figure 3.3.2: Import & Exports of Merchandise, KZN, 2015:Q1-2020:Q2



Source: Quantec Research, 2020

The province's **exports** in second quarter of 2020 at HS level 2 was dominated by: aluminium & articles thereof (24%); while at the national level the exports were dominated by natural or clustered pearls, precious or semi-precious stones, precious metals (28%).

KwaZulu-Natal **imported** goods and service amounting R28.4 billion for second quarter of 2020 which increased by R1.6 billion from first quarter of 2020 valued at R26.8 billion. The most imported products were boilers, machinery & mechanical appliances; parts thereof (15%), inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals of radioactive elements or of isotopes (13%), cereals (11%), other made-up textile articles; sets; worm clothing & worn textile articles; rags (11%), vehicles other than railway or tramway rolling, stock & parts & accessories thereof (10%), plastics & plastics thereof (9%), iron & steel, organic chemicals and electrical machinery & equipment and parts thereof (8%) respectively and animal or vegetable fats & oils and their cleavage products (7%).

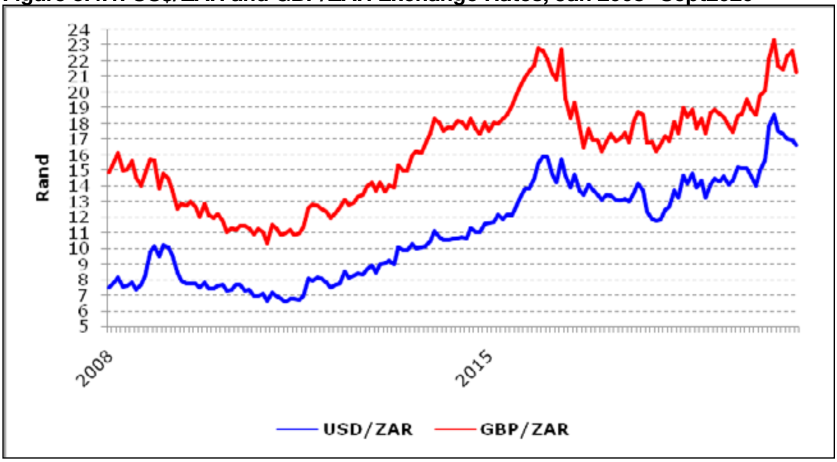
The imports trend for the province is different from the national imports which decreased in second quarter of 2020. The province imports weighed more towards the category of boilers, machinery and mechanical appliances; parts thereof, while at the national level imports were more towards minerals fuels, mineral oils and products of their distillations.

3.4 Exchange Rates

The Rand was hard hit at the beginning of September 2020 after the news of the economy shrinking by more than market expectations, while an increased interest in global stocks and commodity markets gave investors further reason to sell. On the 8th of September at 14:30 GMT, the Pound-to-Rand exchange rate rose 0.40% to reach R22.08 while the U.S. Dollar-to-Rand exchange rate rose 1.60% to trade at R16.96. Most of the losses came after Statistics SA announced that South Africa's GDP shrank by 51% in the second quarter, its fourth consecutive quarterly contraction.

This comes after the Rand scored new highs of depreciation against the US Dollar and Pound in August. The Rand depreciated against all major developed and emerging world counterparts as stock & equities markets climbed further and the US Dollar remained strong causing the USD/ZAR and GBP/ZAR to fall to their lowest levels since late July. Investor sentiment and currency movements will be driven by possible release of a vaccine to bring some relief to Rand's understrength.

Figure 3.4.1: US$/ZAR and GBP/ZAR Exchange Rates, Jan 2008- Sept2020



Source: Investing.com, 2020

However, the latest forecasts from Commerzbank (a major German bank operating as a universal bank), suggest the Rand won't fall far from current levels in the short-term and that a further shallow recovery could be seen in the early months of next year, although the projections require on-going weakness in the U.S. Dollar, healthy investor appetite for emerging market currencies and stable U.S-China relations.

Commerzbank forecasts the Rand will weaken a touch into year-end, enabling USD/ZAR to lift to R16.70, which is an upgrade from an earlier year-end USD/ZAR forecast of R17.00. The Pound-to-Rand rate on the other hand, is expected to rise to R22.07, which is a downgrade for Sterling and upgrade for the Rand from an earlier forecast of R22.44. The Rand is expected to peak mid-2021 after pushing USD/ZAR down to R16.30 although the Pound-to-Rand rate is seen rising further to R22.18 in that time.

Impact of COVID-19 on the Rand

Initially, the COVID-19 pandemic and the subsequent lockdown had a massive impact on the value of the South African Rand, to such an extent that the Rand depreciated by 14.11% against the US dollar at the end of March 2020. After Moody's downgraded South Africa to a speculative investment grade on March 29, Fitch downgraded the country to a lower level of junk status on the 7April 2020. The effect of these downgrades was clearly evident in the decline of the Rand in April 2020. During trading, early April, the Rand traded at R19.35 at one stage, an all-time high. This was the weakest closing price yet, a depreciation of R5.06 (36.12%) since the start of 2020.

The Rand weakened R0.69 (3.86%) from the end of March to the end of April. The Rand strengthened R0.20 (1.14%) from the end of May to the end of June. The currency appreciated by R0.28 (1.61%) during July. On August 31, the rand was R0.13 (0.76%) stronger than it was on July 31.The ZAR appreciated a further R0.22 (1.30%) during September. The long-term effect was, however, not as severe as initially expected and the Rand has since recovered considerably. The currency has appreciated by 13.16% since the lowest closing price yet of R19.07 on 23rdApril.

3.5 Domestic Labour Markets

South Africa's Unemployment Rate dropped to 23.3% in the second quarter of 2020, from the previously reported rate of 30.1% in the first quarter of 2020. This is the lowest jobless rate since the second quarter of 2009. The country's strict lockdown regulations distorted labour force numbers with fewer people actively looking for employment. The staggering decline in the unemployment rate is the indication of how the labour force indicators have affected by the COVID-19 pandemic. This significant unemployment decline was as a result of lockdown due to COVID-19 pandemic which shuttered all but essential economic activities. This prevented people to search for jobs thus distorting the official definition of what is deemed as 'unemployed' (those who are actively looking for work). These very same people who used to actively search for jobs were now discouraged work-seekers/not economically active, this then decreased the official unemployment rate. However; according to the expanded definition of unemployment which includes discouraged workers, the unemployment rate increased to 42% in quarter 2 of 2020 from 39.7% in the previous quarter. Similar decline effect is shown in the province of KwaZulu-Natal, where unemployment rate declined from 26.9% to 18.9% from the first and second quarter of 2020.

Table 3.5.1: Summary of Key Labour Market Indicators, SA&KZN, Q1:2020 & Q2:2020

	South Africa			KwaZulu-Natal		
	Q1:2020 ('000)	Q2:2020 ('000)	Qrt Change ('000)	Q1:2020 ('000)	Q2:2020 ('000)	Qrt Change ('000)
Population 15–64 yrs	38 874	39 021	147	7 188	7 214	26
Labour force	23 452	18 443	-5 009	3 656	2 832	-824
Employed	16 383	14 148	-2 234	2 672	2 297	-375
Unemployed	7 070	4 295	-2 775	984	535	-449
Not economically active	15 422	20 578	5 156	3 532	4 382	850
Discouraged work-seekers	2 918	2 471	-447	821	611	-210
Other (not economically active)	12 504	18 107	5 603	2 711	3 770	1 060
Rates (%)						
Unemployment rate	30.1%	23.3%	-6.8%	26.9%	18.9%	-8.0%
Employed/population ratio (absorption)	42.1%	36.3%	-5.8%	37.2%	31.8%	-5.4%
Labour force participation rate	60.3%	47.3%	-13.0%	50.9%	39.3%	-11.6%

**Due to rounding, numbers do not necessarily add up to totals.*
Source: StatsSA, QLFS, Q2 2020

Due to restricted-economic activities that were allowed in the second quarter of 2020, the number of job seekers also dropped which subsequently decreased country's labour force (labour force definition does not include discouraged workers and not economically active). For the country, the labour force decreased by 5 million to 18.4 million and the number of unemployed declined by 2.8 million to 4.3 million in the second quarter of 2020. However, the overall working-age population increased by 147,000 (0.4%) while in KwaZulu-Natal, working-age population increased by 26,000.

Table 3.5.2: Employment by Sector, SA & KZN, 2020:Q1 & 2020:Q2

Sector	South Africa			KwaZulu-Natal		
	Q1:2020 ('000)	Q2:2020 ('000)	Qrt Change ('000)	Q1:2020 ('000)	Q2:2020 ('000)	Qrt Change ('000)
Total Employed	16 383	14148	-2 234	2672	2297	-542
Agriculture	865	799	-66	133	126	-7
Mining	436	373	-63	7	4	-3
Manufacturing	1706	1456	-250	324	249	-75
Utilities	116	113	-3	14	16	2
Construction	1343	1066	-278	222	189	-33
Trade	3320	2946	-373	585	519	-66

Sector	South Africa			KwaZulu-Natal		
	Q1:2020 ('000)	Q2:2020 ('000)	Qrt Change ('000)	Q1:2020 ('000)	Q2:2020 ('000)	Qrt Change ('000)
Transport	995	885	-110	189	161	-28
Finance	2517	2234	-283	338	304	-34
Community and Services	3759	3244	-515	626	561	-65
Private Household	1316	1005	-311	233	164	-69
Other	11	27	16		4	

**Due to rounding, numbers do not necessarily add up to totals.*
Source: StatsSA, QLFS, Q2 2020

Comparing the first and second quarters of 2020, the number of employed persons decreased in all ten industries, with the largest decline recorded in Community and social services (515,000), followed by Trade (373,000), Private households (311,000), Finance (283,000), Construction (278,000) and Manufacturing (250,000). A similar effect is seen in KwaZulu-Natal where almost all sectors experienced a decline in the number of persons employed, except in the utility sector which increased by about 2,000.

Table 3.5.3: Labour force Characteristics by Non-Metro Vs Metro, KZN & eThekwini

	KwaZulu-Natal – Non-metro			KwaZulu-Natal – eThekwini		
	Q1:2020 ('000)	Q2:2020 ('000)	Qrt Change ('000)	Q1:2020 ('000)	Q2:2020 ('000)	Qrt Change ('000)
Population 15–64 yrs	4714	4734	20	2473	2480	7
Labour force	2124	1758	-366	1531	1074	-457
Employed	1479	1311	-168	1193	986	-207
Unemployed	646	447	-199	338	88	-250
Not economically active	2590	2976	386	942	1406	464
Discouraged work-seekers	687	432	-255	134	179	45
Other	1903	2544	641	808	1227	419
Rates (%)						
Unemployment rate	30.4%	25.4%	-5%	22.1%	8.2%	-13.9%
Employed/population ratio (absorption)	31.4%	27.7%	-3.7%	48.2%	39.8%	-8.4%
Labour force participation rate	45.1%	37.1%	-8%	61.9%	43.3%	-18.6%

**Due to rounding, numbers do not necessarily add up to totals.*
Source: StatsSA, QLFS, Q2 2020

Comparing labour force in KwaZulu-Natal Metro (EThekwini) and Non-Metros shows that there was an increase in working-age population of 20,000 in non-metro; while eThekwini metro increase by 7,000 for the second quarter of 2020.Following a significant decline of the national unemployment rate, eThekwini Metro unemployment decline to 8.2% in the second quarter from 22.1% in the first quarter of 2020. This is still attributed to the fact that under COVID-19 regulations, there was a decline in the number of people who were actively looking and even able to look for employment.

KZN Municipal Labour Market Overview

The eThekwini Metro dominated the municipal labour market with an estimated 991,697 persons employed in 2019. The total number of people employed within the Metro was higher than that of ten District Municipalities combined which stood at 834,507. A range of economic activities is predominantly taking place in eThekwini, thus contributing significantly to economic growth and employment. Among the economic activities concentrated in the Metro is the busiest harbour port in South Africa, which is the second-largest container port in the African continent after Egypt.

Other District Municipalities that have a high number of persons employed include uMgungundlovu (204,187) and King Cetshwayo (129,473). These Municipalities are also among the largest contributors toward provincial economic growth. On the contrast, the small District Municipalities within the province such as uMzinyathi and Harry Gwala have lower employment with 32,700 and 43,654 people employed.

Despite being the largest employment source in the province, the Metro also has the largest number of people unemployed compared to District Municipalities. In 2019, eThekwini metro had about 281,428 persons unemployed, followed by uMgungundlovu and King Cetshwayo with 108,256 and 85,377, respectively. The vast majority of the workforce is not economically active as evidenced by a substantial number of inactive economic population for all District Municipalities, including the Metro. This could be attributed to the difficulty to find employment which ultimately discouraged work-seekers, thereby causing them to be voluntarily unemployed.

Table 3.1.3: KZN District Municipality Sector Share of Local GVA, KZN, 2019

	eThe-kwini	Ugu	uMgun-gundlovu	uThuke-la	uMzin-yathi	Amajuba	Zululand	uMkha-nyakude	King Cetsh-wayo	iLembe	Harry Gwala
Population (15-64 yrs)	**2 799 188**	**458 528**	**766 394**	**422 497**	**310 234**	**339 890**	**483 086**	**387 591**	**602 817**	**420 023**	**292 758**
Labour Force	**1 623 171**	**216 554**	**431 091**	**180 781**	**102 318**	**162 615**	**172 381**	**126 156**	**278 125**	**209 072**	**119 597**
Employed	991 697	90 246	204 187	76 812	32 700	66 694	62 078	45 526	129 473	83 135	43 654
Unem-ployed	281 428	66 417	108 256	64 876	34 310	62 968	63 830	47 528	85 377	55 751	38 234
Not-eco-nomically active	1 176 017	241 974	335 304	241 716	207 916	177 275	310 706	261 435	324 692	210 951	173 161
Rates											
Unemploy-ment rate	17.3%	30.7%	25.1%	35.9%	33.5%	38.7%	37.0%	37.7%	30.7%	26.7%	32.0%
LAR	47.9%	32.7%	42.1%	27.4%	21.9%	29.3%	22.5%	20.3%	32.0%	36.5%	27.8%
LFPR	58.0%	47.2%	56.2%	42.8%	33.0%	47.8%	35.7%	32.5%	46.1%	49.8%	40.9%

Source: IHS Markit, 2020
Note: LAR- Labour Absorption Rate and LFPR – Labour Force Participation Rate

As the economic hub of KZN, eThekwini has the lowest unemployment rate at 17.3%, which is bolstered by a robust labour absorption rate and labour force participation rate at 47.9% and 58% respectively. Most District Municipalities have a higher rate of unemployment, with the largest unemployment rate reported in Amajuba at 38.7%, followed by uMkhanyakude at 37.7% and Zululand at 37%. In terms of labour absorption rate and labour force participation rate, uMkhanyakude had the lowest rate at 20.3% and 32.5% respectively, which is closely followed by uMzinyathi at 21.9% and 33%.

3.6 Financial Markets

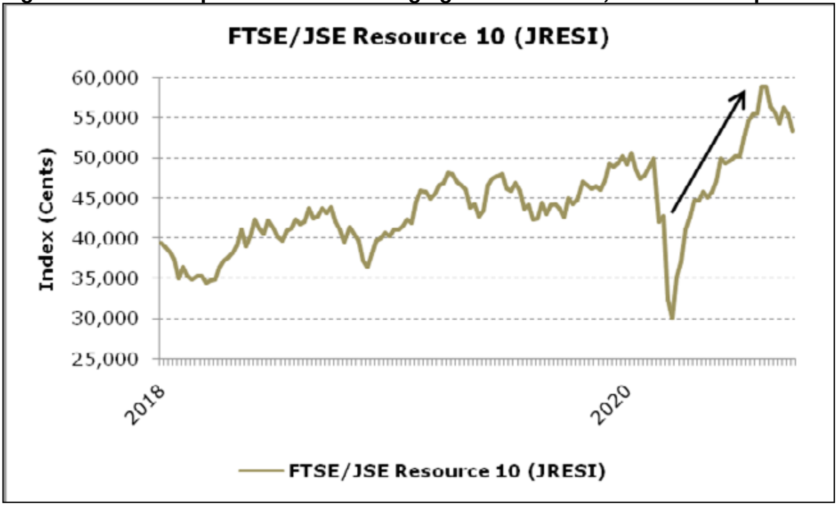
Six months ago on 27th March 2020, a National Lockdown was implemented to minimise the spread of COVID-19. Equity markets have shown a massive drop (-29.4%) between January and end of March 2020 followed by a subsequent recovery by 40% in June 2020. Markets in the past few months were being driven by two main sectors, Technology and Gold; driven by global demand and sentiment. While many local companies were trying to endure the abrupt restriction to normal economic activity, many have opted not to pay out dividends this year as a means to retain their workforce. The current low interest rates serve as an opportunity for investors to invest in infrastructure,also providing opportunities in the property market.

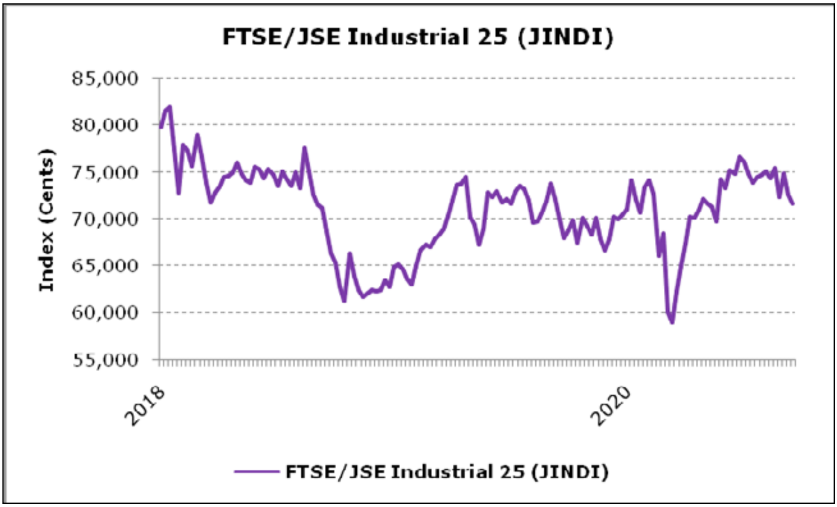
Figure 3.6.1: JSE Top 40 and MSCI Emerging Markets Index, Jan 2018 – Sep 2020

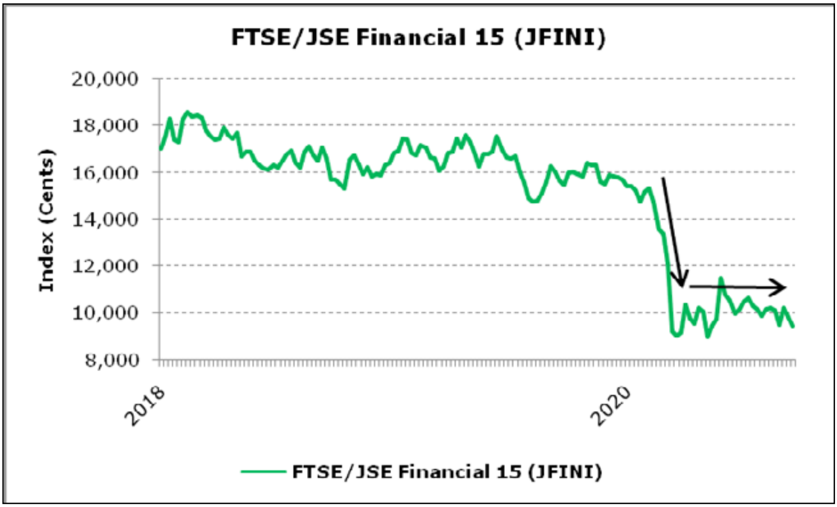
Source: Investing.com, 2020

Investors have returned to Emerging Markets (EM) after the coronavirus shock, however, the appetite is in the Bond market as many central banks try to provide liquidity to global markets; this represents the financing needs by EM governments needed to respond to the economic damage caused by the virus. The economic recovery in many EM excluding China however still remains weak due to structural challenges. The Johannesburg Stock Exchange (JSE) Top 40 index has returned somewhat to pre-lockdown levels tapering off towards end of September 2020 due to increased COVID-19 cases in Europe and less probable chance for another stimulus package in the US (coronavirus relief package). The first relief package supplied US$2.2 trillion in the form of one-time cash payments, paycheck protection, unemployment benefits and loan holidays and aid for large corporations.

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







Source: Investing.com, 2020

The JSE has bounced back far quicker because of the dual listed companies and the performance of companies which are invested in high tech multinationals and resources which tend to follow a different trend to what we see in the real economy. With the uptick in Global Recovery and surging precious metal prices, resources have seen significant growth. The JSE has shown better signs of resilience in the midst of the pandemic due to it being more geared/capitalised towards resources than its European partners who tend to invest more heavily in airlines, motor manufacturing and other industrials.

Although lockdown restrictions are easing and the economy is opening up lifting investor sentiment, the gains in resources are offset by sharp declines in the Property and Financial sectors. While the South African Reserve Bank (SARB) has kept interest rates to record low after 5 repo rate cuts and Repo Rate at 3.5%, consumer and business confidence still remain low. Residential Property market are seeing some positive signs, especially with first time buyers, however commercial property sector remains subdued. With COVID-19 infections receding, a subsequent move to level 1 will likely see the opening of international borders and the tourism and hospitality sectors getting back into operating again.

3.7 Fiscal Environment & Policy Developments

3.7.1 Fiscal Policy Framework

Similar to most countries across the globe, the South African Government's fiscal policy seeks to support structural reforms of the country's economy consistent with long-term growth, employment creation and equitable distribution of income. The primary aim of fiscal policy is to promote investment and export expansion while enabling the government to finance public services, redistribution and development in an affordable and sustainable budget framework.

Following the ongoing and stringent lockdown that commenced towards the end of March 2020, South Africa (SA) tabled a special adjustments budget in June. The Special Adjustments Budget outlined massive budget reprioritisation undertaken by the national and provincial governments to fund the government's response to the COVID-19 pandemic. The purpose of the national special adjustments budget is twofold. It reports on the COVID-19 fiscal measures and the resulting adjustments to the division of revenue and departmental allocations. It also sets out the government's commitment to strengthen public finances and to position the economy for faster and inclusive growth.

3.7.2 Fiscal Policy Framework for 2020/21

The South African government committed funds amounting to about R145 billion from the existing allocations for 2020/21 budget to finance its response to the COVID-19 global pandemic. This includes R109 billion in a temporary suspension of baseline allocations and adjustments to the skills development levy. The balance of R36 billion is financed through an increase in the main budget deficit.

Table 3.7.1: Revised Budget Framework, SA, 2020/21

R billion	2019/20	2020/21	
Percentage of GDP	**Preliminary**	**Budget 2020**	**Revised**
Main budget revenue	**1345.3**	**1398**	**1099.5**
	26.2%	25.8%	22.6%
Main budget expenditure	**1690.6**	**1766**	**1809.2**
	32.9%	32.5%	37.2%
Non-interest expenditure	1485.8	1536.7	1572.7
	28.9%	28.3%	32.4%
Debt-service costs	204.8	229.3	236.4
	4.0%	4.2%	4.9%
Main budget balance	**-345.3**	**-368**	**-709.7**
	-6.7%	-6.8%	-14.6%

Source: National Treasury, 2020

Table 3.7.1 summarises the national government unaudited spending for 2019/21 and the revised estimates for 2020/21. The main budget revenue as a share of gross domestic product (GDP) is projected to decline from 26.2% in 2019/20 to a revised estimate of 22.6% in 2020/21. Yet, the revised budget expenditure as a percentage of GDP is projected to increase from 32.9% in 2019/20 to 37.2% of GDP in 2020/21; reflecting support provided to State-Owned Companies (SOCs), COVID-19 spending, and higher debt service costs.

The projected tax revenue shortfalls, lower GDP and higher spending as a result of the COVID-19 pandemic will lead to a significant increase in the main budget deficit in 2020/21. The National Treasury estimated the main budget at R368 billion (6.8%) of GDP in February, but it has since been revised upward and is now projected to reach R709.7 billion (14.6%) of GDP.

As tax revenue falls and government expenditure increases, the national debts accumulate. From 1996, the government took measures that prevented a further increase in the debt level from around 45% of GDP. In 2000, the debt level started to decline and reached around 24% in 2008 as a result of government surpluses and low budget deficits over the years. However, the emergence of the global financial crisis in 2008 caused many countries, including South Africa (SA), to adopt expansionary fiscal policies to offset the negative economic impact of weaker growth. Instead of higher sustainable economic growth rate, what followed post the financial crisis was a decade of lacklustre GDP growth coupled with a persistent increase in the debt burden.

During the tabling of the 2020 Budget, National Treasury indicated that gross government debt in SA was projected to increase from 65.6% in 2020 to 71.6% of GDP by 2022/23. However, due to the recent effects of COVID-19 pandemic, fiscal stance has deteriorated even further. The gross national debt is now projected to reach 81.8% of GDP in 2020. Rising debt level and the possibility that government will be unable to repay it leads bondholders to require higher returns, thus pushing up debt-service costs. The debt-service costs are expected to increase from R204.8 billion in 2019/20 to R301.1 billion by 2022/23. Inability to contain the ballooning debt level and debt-service costs and narrow the budget deficit would damage SA's long-term economic prospects.

3.7.3 Revisions to Main Budget Spending Plans for 2020/21

In preparing for the special adjustments budget, the National Treasury and the national departments recognised that certain spending commitments planned for 2020 budget could no longer be accommodated in the budget tabled earlier in February. As a result, a decision was taken to postpone certain projects and programmes.

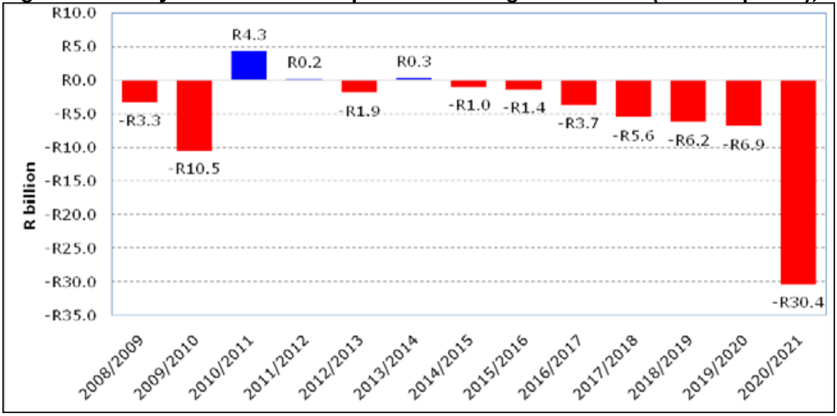
It was, therefore, deemed necessary to cut funds underspent due to delays caused by the lockdown from the baselines of the affected departments. The National Government suspended the allocations for capital and other departmental projects that could be delayed or rescheduled to 2021/22 or later. Meanwhile, the allocations to programmes with a history of poor performance and/or slow spending were suspended. Most importantly, funds were redirected towards government fiscal relief packages within functions in response to COVID-19.

The bulk amount of suspensions was identified within conditional grants for COVID-19 interventions. The largest reprioritisation was redirected to education infrastructure grants to provide water, sanitation and personal protective equipment (PPEs) to schools, and construct temporary classrooms and fund continual deep cleaning of facilities. This amount was further redirected to the municipal infrastructure grant to provide water to households and sanitise public transport facilities in municipalities that do not receive the public transport network grant. The net in-year suspension of R10.8 billion to the grants is temporary and only to provide emergency funds for the COVID-19 pandemic response.

3.7.4 In-Year Revenue Outlook

Since the tabling of the 2020 Budget, the fall-out from the COVID-19 pandemic has caused an unprecedented reduction of the in-year revenue projection. Revenue collection for 2020/21 is now expected to be R304.1 billion, lower than the 2020 Budget estimate. This is a significant decline from the negative R69.0 billion realised in 2019/20. Revenue shortfalls include tax relief measures amounting to R26 billion in foregone revenue implemented as part of the COVID-19 relief package. More significantly, the shortfall reflects the expectation that the tax base will temporarily shrink as businesses close and the number of job losses increases.

Figure 3.7.1: In-year Revenue Compared with Budget Forecasts (2020/21 prices), SA



Source: National Treasury, 2020

Personal income taxes are under significant pressure resulting from job losses, labour unavailability and employers' inability to pay full salaries. Corporate tax collections are also negatively affected by service and production closures during the lockdown, uncertainty concerning the pace at which normal activity can resume, and weak business and consumer sentiment. Value-added tax (VAT) and customs revenue estimates have been revised down in response to lower confidence, lockdown-related sales restrictions and a much weaker trade outlook.

3.7.5 Changes to the Division of Revenue

The proposed adjustments to the division of revenue address the immediate health, social and economic implications of COVID-19, as reflected in the government's relief packages. As a result, relative to the shares tabled in the February Budget Review, the national share for 2020/21 increases from 49.2% to 50.1%, the provincial share decreases from 42.2% to 41%, and the local government share increases from 8.6% to 8.9%.

Provinces and municipalities are reallocating their own budgets to complement these national adjustments budget. The changes in budgets emanate from the adjustments to transfers from the national government in the Division of Revenue Amendment Bill, significant declines in own revenue collections and new expenditure priorities.

3.7.6 Reprioritisations by Provinces

Provincial governments are responsible for most of the public health system that provides care for COVID-19 patients. Provinces are also compelled to manage the re-opening of schools and the provision of social welfare services. Therefore, funding for provincial activities directed to health and education is primarily through reprioritisations of about R20 billion within their own budgets. A large amount of these reprioritised funds came from the cancellation of activities that could not be undertaken, while economic activity is restricted (including travel and venue hire) and postponing the implementation of early-stage projects until 2021/22.

The bulk amount of funds that were reprioritised came from the public works, roads and transport sectors, and the postponement of planned sports, arts and culture events. An estimated R15 billion of the reprioritised amount is expected to be used to increase capacity in the public health system. At the same time, R5 billion is budgeted to augment the education catch-up plan, social welfare support for communities, provision of quarantine sites by public works departments and responses in other sectors.

3.7.7 Local Government Support

As the lower sphere of government, municipalities are responsible for implementing several interventions in response to the COVID-19 pandemic. These interventions include but not limited to the provision of improved access to water and sanitation in informal settlements and rural areas, temporary shelter for homeless people, and sanitising public transport facilities. For 2020/21, municipalities have been allocated an additional

R20 billion in the form of both local government equitable share formula and conditional grants. About R11 billion of this amount is for the municipalities to respond to the local needs of the communities, including the provision of temporary homeless shelters.

About two-thirds of the additional budget is allocated through the basic services component of the formula, providing for a temporary increase in the number of households funded for free basic services. The remaining balance is allocated through the community services component to support the additional costs for municipalities to maintain service delivery during the prolonged pandemic safely. Most of the funds in this component are allocated to poorer municipalities.

3.7.8 KZN's Special Adjustments Estimate

As part of Special Adjustments Budget in response to the devastating effects of COVID-19, KZN was directed by National Treasury to source R6.210 billion from within the provincial resources. The prioritisation process, however, excluded the Departments of Health and Education. Both these departments were excluded from this process primarily as they are at the forefront of the government's response to COVID-19. Despite the budget cuts, the national lockdown restrictions, the projected collection of own provincial revenue was also severely affected; especially Casino and Horse racing taxes, as well as revenue collected by the Ezemvelo KZN Wildlife (EKZNW) from tourism-related activities.

The revenue shortfall was slightly mitigated by interest revenue expected to be collected by Provincial Treasury, which was adjusted upward due to slow spending by departments in the first half of the year, as well as based on a history of over-collection against this category in prior years. This meant that the total amount the province was required to source from within its resources was R6.312 billion.

The Provincial Executive Council (PEC), at the recommendation of the Ministers Committee on Budget (MinComBud), took a decision to fund this amount through suspending funds of R3.941 billion from departments and public entities. An amount of R190 million was sourced from the Contingency Reserve. A further R2.181 billion that was in the provincial cash resources due to departments' under-spending in 2019/20 was also utilised. Other funds came from the recalled into the Provincial Revenue Fund from the Department of Arts and Culture for projects such as the provincial Archives Repository, where these projects had not yet commenced.

The PEC also decided to deal with the shortfalls in revenue of EKZNW in the Special Adjustments Budget, while delaying dealing with the lower revenue expected from Casino and Horse racing taxes to the November 2020 Adjustments Estimate. On a positive note, it is expected that other revenue sources will over-collect. This will be used to offset the amount the fiscal framework has been cut back by. As such, the province is left with R500 million in its financial position and, of this amount, R300 million is earmarked to fund the provincial economic recovery plan. The funding identified was mainly allocated to Health, followed by Education, with some funds allocated to Transport (for learner transport and infrastructure).

3.7.9 Provincial Expenditure by Vote

Table 3.7.2 presents a summary of the adjusted appropriation by Vote and economic classification. Further to the budget cuts against most departments and additional allocations received by Health, Education and Transport, departments moved funds between programmes, sub-programmes and economic classifications to fund COVID-19 related expenditure.

Table 3.7.2: Expenditure summary by Vote, 2020/21

R thousands	Main appropriation	Special adjustments appropriation				Total special adjustments appropriation	Adjusted appropriation
		Virements	Significant and unavoidable		Sect. 16 of the PMFA (use of funds in emergency)		
			Suspension of funds	Allocation of funds			
1. Office of the Premier	800 198	-	-119 346	-	-	-119 346	680 852
2. Provincial Legislature	556 397	-	-	-	-	-	556 397
3. Agriculture and Rural Development	2 548 157	-	-112 419	-	-61 658	-174 077	2 374 080
4. Economic Dev. Tourism and Enviro Affairs	3 346 813	-	-619 349	201 691	-	-417 658	2 929 155
5. Education	57 246 803	-	-	1 000 000	-517 375	482 625	57 729 428
6. Provincial Treasury	718 763	-	-114 354	-	-	-114 354	604 409
7. Health	48 057 681	-	-	4 496 347	585 682	5 082 029	53 139 710
8. Human Settlements	3 929 897	-	-11 443	-	-427 700	-439 143	3 490 754
9. Community Safety and Liaison	249 103	-	-38 908	-	-	-38 908	210 195
10. Sport and Recreation	481 217	-	-126 445	-	-48 878	-175 323	305 894
11. Co-operative Governance and Traditional Affairs	1 879 146	-	-408 164	-	-	-408 164	1 470 982
12. Transport	11 635 486	-	-2 071 002	414 000	-314 503	-1 971 505	9 663 981
13. Social Development	3 836 327	-	-64 202	-	-	-64 202	3 772 125
14. Public Works	1 778 409	-	-76 563	-	-	-76 563	1 701 846
15. Arts and Culture	1 021 062	-	-178 963	-	-34 700	-213 663	807 399
Sub-total	**138 085 459**	**-**	**-3 941 158**	**6 112 038**	**-819 132**	**1 351 748**	**139 437 207**
Statutory payments	96 705	-	-	-	-	-	96 705
Total	**138 182 164**	**-**	**-3 941 158**	**6 112 038**	**-819 132**	**1 351 748**	**139 533 912**

Source: KZN Treasury, 2020

The table shows that the ***Department of Transport*** suffered the largest cut amounting R2.071 billion. The cuts were effected against all programmes and mainly against infrastructure projects that were at initiation, concept or pre-feasibility, design and design documentation and tender stages. There was also a reduction against the Provincial Roads Maintenance Grant of R314.503 million. On the other hand, the Department was allocated R414 million to fund the provincial response towards the COVID-19 pandemic in respect of learner transport services. The Department needed to consider COVID-19 hygiene and social distancing requirements. Included in the additional allocation is R200 million allocated for infrastructure projects that have been affected by the nationwide lockdown, increasing the cost of construction.

Considering cuts from both the equitable share and the conditional grants, the ***Economic Development, Tourism and Environmental Affairs (EDTEA)*** was the second-largest affected Department. EDTEA's budget was reduced by R619.349 million. The budget cuts were effected against all programmes and across various economic categories, as well as against most of the Department's public entities. Mitigating this budget cut to some extent is an additional allocation of R201.691 million from provincial cash resources to compensate some of the Department's public entities who suffered own revenue losses as a result of the national lockdown. Of this amount, R190.160 million was allocated for transfer to EKZNW to assist the entity with revenue losses suffered as a result of the impact that the national lockdown restrictions have had on the tourism sector.

The balance of R11.531 million was allocated for transfer to the KZN Gaming and Betting Board (KZNGBB) to assist with the revenue losses suffered. These losses were as a result of the impact that the national lockdown restrictions have had on the gambling sector in as far as revenue from licence renewals, applications for new licences, and so forth are concerned. The ***Provincial Legislature*** was the only Department which its budget remained unchanged during the rationalisation process.

Education and Health are the only two departments which received additional funding in response to the impact of COVID-19. The equitable share budget for the Department of Education was increased by R1 billion to fund various aspects of the provincial COVID-19 response. The funds were allocated to three programmes, largely to provide for the purchase of PPE, provision of water, desk shields, as well as the broadcasting of curriculum in various media platforms during the nationwide lockdown. The Department's conditional grant allocation was decreased by R517.375 million.

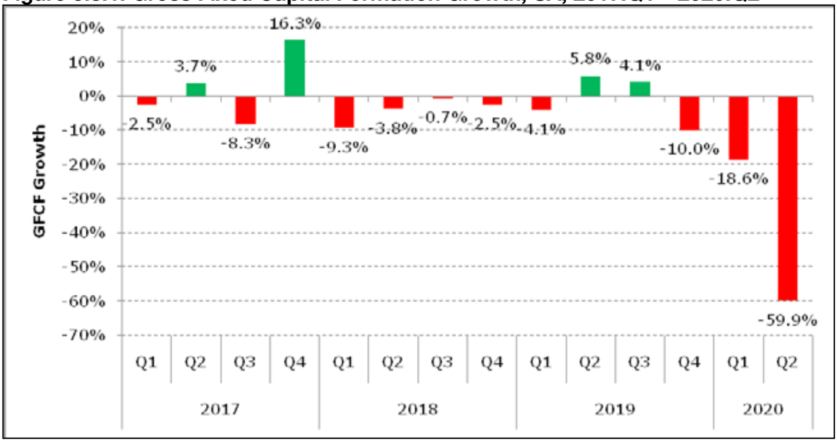
As for the Department of Health, its equitable share allocation was increased by R4.496 billion across all programmes, as well as against Compensation of employees, goods and services, buildings and other fixed structures, and machinery and equipment. These funds were allocated for additional staff (ICU staff, nurses, tracer teams, Cuban doctors, and so forth), to provide the infrastructure required for the COVID-19 response, as well as equipment, linen, ICU beds, among others. The Department's conditional grant allocation was increased by R585.682 million.

3.8 Trade & Investment Developments

3.8.1 Gross Fixed Capital Formation

Infrastructure engenders social mobility and access to economic opportunities through access to good basic schooling, clean water, sanitation, waste management, health facilities, electricity and transport. Thus infrastructure is key to inclusive growth, as it facilitates broader participation in the economy through generating economic growth and creating jobs as well as creating a well-functioning economy. However, while the country has some of the best infrastructure on the African continent, the sector is at risk of failure according to the South African Institute of Civil Engineering (SAICE) in its report card for South Africa. It grades [4] the country's infrastructure as not coping with demand and is poorly maintained and it is likely that the public will be subjected to severe inconvenience and even danger without prompt action. Each infrastructure component was graded, water, sanitation, solid waste, rail, electricity, roads, airports, ports, health care and education.

Figure 3.8.1: Gross Fixed Capital Formation Growth, SA, 2017:Q1 – 2020:Q2



Source: Stats SA, 2020

Gross Fixed Capital Formation [5] (GFCF), which measures the total new investments into fixed assets (namely infrastructural assets) and is used as a component in measuring GDP provides valuable information into new infrastructure projects. In the second quarter of 2020 GFCF decreased by 59.9% amidst the negative impact by National lockdown. The main contributors to the decrease were construction works (-26.1%), machinery and other equipment (includes computers & related equipment) (-12.7%), residential buildings (-8.1%), transport equipment (-7.7%) and non-residential buildings (-7.5%). Weak imports of machinery and other equipment as well as transport equipment contributed to the decrease. Other assets (R&D and Computer Software etc.) contributed positively to growth in GFCF at 3.6%, owing to increased expenditure on computer software.

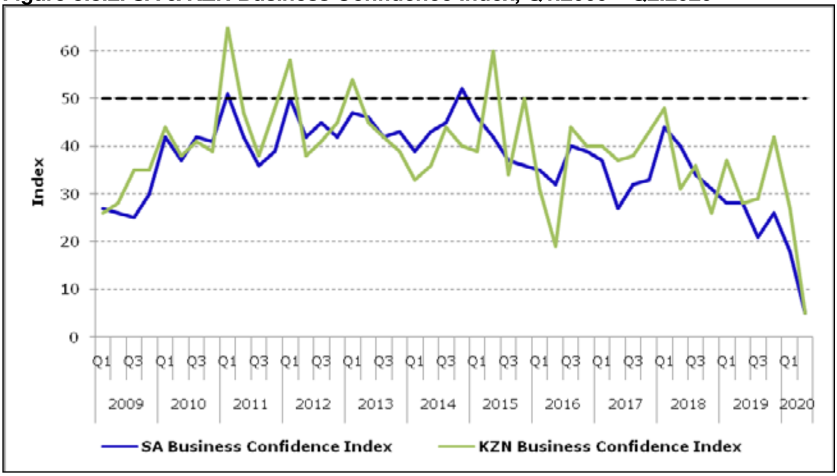
4 *Grades are categorized into an A (World Glass), B (Fit for the Future), C (Satisfactory for now), D (At Risk of Failure) and E (Unfit for purpose) category.*

5 *Resident producers' investments, deducting disposals, in fixed assets during a given period*

3.8.2 State of KZN Business Environment

The COVID-19 pandemic continues to spread, but the world is adapting. As a result of eased lockdowns and rapid deployment of both monetary and fiscal policy support, the world is coming back from the depths of its collapse in the peak of the crisis, which was the first half of 2020. The crisis is far from over as the pandemic continues to impact negatively on the movement of goods and people which adversely influenced enterprise development support for KwaZulu-Natal companies as well as on the participation of KwaZulu-Natal companies in trade events. KwaZulu-Natal companies were found to be in survival mode with many industries reluctant on taking on any capacity building opportunities as they were focusing on getting their business back on track.

Figure 3.8.2: SA & KZN Business Confidence Index, Q1:2009 – Q2:2020



Source: BER, 2020

The South African and KwaZulu-Natal Business confidence index, where the index can vary between 0 and 100, where 0 indicates an extreme lack of confidence, 50 neutrality and 100 extreme confidence, shows the stubbornly low business confidence which is adding to the risk that the faltering economy will lead to increased social ills. Current levels show the index is significantly below to where they were during the global financial crisis 10 years ago.

3.8.3. KZN Project Developments

Trade and Investment KwaZulu-Natal (TIKZN) continues to engage and collaborate with economic development partners and stakeholders to promote trade and investment in a more targeted way, accordingly during the period from 1stJuly to 30thSeptember 2020, TIKZN prioritized business retention and investor support in the New Normal.

Some of the online activities carried out during this period included consultations, webinars, online training, online mentorship, and online market access opportunities. There are a number of online trade platform that are being explored and which will be facilitated in the coming months as companies become more familiar with the use of these online platforms to access markets versus the conventional physical trade events.

TIKZN collaborated with strategic partners to showcase trade and investment opportunities in the following platforms:

Table 3.8.1: TIKZN Collaboration Platforms

Country	Partner	Objective	Audience
South Africa	Richards Bay Industrial Development Zone	International Women in trade and investment. Megatrends and production patterns and trade and investment opportunities showcased	International and local audience of 81 trade and investment practitioners and Special Economic Zone practitioners
South Africa	Growthmap	Highlighting of opportunities post COVID. Localisation opportunities presented.	55 Gauteng and KwaZulu-Natal businesses seeking opportunities for trade and investment
115 countries	International Trade Centre and International Labour organisation	Showcasing of SME linkages and development and best practice to international audience.	115 trade and investment practitioners globally

*Note: *Qualified leads for further development handed over from Portugal, Australia, Bulgaria, United Kingdom, Denmark and Sweden.*

Trade and Investment KwaZulu-Natal facilitated the following on-line international and project marketing initiatives and business to business engagements during this quarter:

Table 3.8.2: TIKZN Facilitation Business Engagements

Country	Partner	Outcome
Portugal	South African Portuguese Chamber of Commerce. 66 Portuguese companies.	• SA Portuguese chamber has opened a branch in KwaZulu-Natal. • Projects referred to KwaZulu-Natal include Leroy Merlin KZN Expansion, SA Paper Products, Fofa Fashions, Cold storage expansion project and also chips manufacturer. • SA Portuguese chamber keen to setup MOU between TIKZN and AED aviation cluster for maintenance and overhaul facility investment in KwaZulu-Natal.

Country	Partner	Outcome
Russia	Zelenograd Development Corporation. 57 Healthcare companies from Russia and KwaZulu-Natal	Showcasing of medical diagnostics and pharmaceutical opportunities in KZN.
Germany	German Chamber. 42 companies from KwaZulu-Natal and Germany.	Incubation programmes and opportunities for collaboration discussed.
China	China Centre for Promotion of International Trade. 50 large manufacturers from China seeking to expand.	Showcasing of services and opportunities provided in hardware, footwear and furniture.
Australia	Australian High Commission, Austrade, Ausaid. 88 companies from Australia and KwaZulu-Natal in variety of sectors.	Showcasing of successful investments from Australia in KwaZulu-Natal. KZN Education Project (Health for Social Change) inquired on linkages with Australian potential partners and investors. Australian company keen to engage with Establishment of rail maintenance facility at one of KZN's Special Economic Zones. Inquiries from companies on KZN Special Economic Zone incentives and information. Possible collaborative events between Austrade and TIKZN and Australian Chamber in the future as well as re-looking at hosting of Women's Cricket Tour reception in KZN post COVID. Linkage request between Australian Business Chamber and Tech companies.

Country	Partner	Outcome
United States of America	South African Embassy US Commercial service US Trade and Development Agency. 164 US Companies and KwaZulu-Natal companies.	Potential lead on USA incubation programme for KZN on skills development. KZN Education Project (Health for Social Change) inquired on linkages with USA potential partners and investors. Lead on potential renewable energy components manufacturing plant at one of KZN's SEZs. Linkages on purchase of American Tyre Fitment Centre Franchise for Northern KZN. Advanced self-loading trailer manufacturing business require assistance with linkages to US investors; • Inquiries from KZN companies on Clean-Tech, Water-Tech and Circular Economy Tech partners from the US to link up. Potential interest in funding feasibility for Royal Drakensberg hotel facility through US Trade and Development Agency.
Switzerland	Swiss Business Hub and Swiss Embassy	Linkages with Durban Innovate and SmartXChange.
South Africa	Thukela Lifestyle Resort.	Follow-up engagement with US Trade and Development Agency and World Bank.

3.9 Environmental Affairs

Environmental impact assessments (EIAs)is a process to ensure that environmental issues are raised when a project or plan is proposed and that all the concerns are addressed prior the implementation. EIA is a process of evaluating the likely environmental impacts of a proposed project or development, considering inter-related socio-economic, cultural and human health impacts both beneficial and adverse.

Table 3.9.1: Environmental Authorisation Applications Finalized: Q2, 2020

District Municipality	Number of EIA applications finalised (ATHORISATION 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
Amajuba	1	65.0	45.0	2.0
EThekwini	6	335.6	2 140.0	574.0
Harry Gwala	4	20.0	247.0	233.0
ILembe	6	545.0	340.0	30.0
King Cetshwayo	1	150.0	60.0	50.0
Ugu	1	75.0	100.0	20.0
UMgungundlovu	3	6.5	10.0	-
Umkhanyakude	0	-	-	-
Umzinyathi	0	-	-	-
Uthukela	3	125.0	184.0	45.0
Zululand	2	9.0	70.0	58.0
Total	**27**	**1 256.1**	**3 196.0**	**1 012.0**

Source: EDTEA, 2020

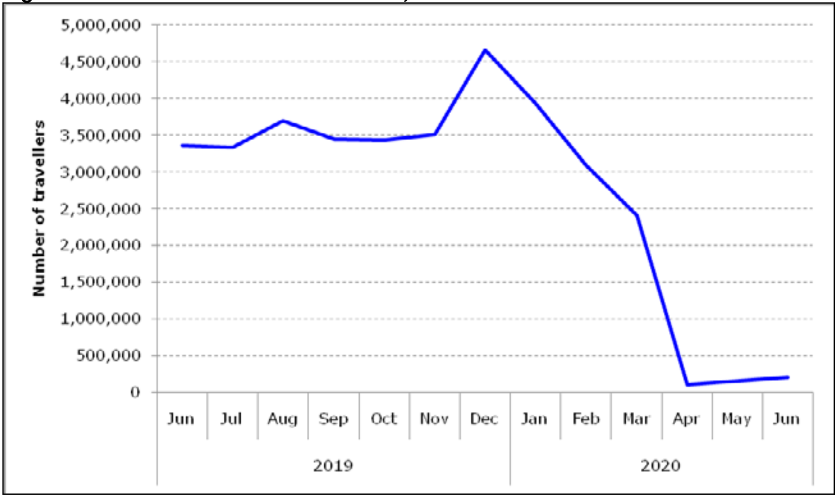
In second quarter of 2020, a total of 27 EIAs have been granted in the province. The projects have approved total capital value of R1.2 billion after the procurement of necessary environmental authorisation from the department. The ILembe district has the highest capital value of (R 545 million) approved and cleared for 2020 second quarter. Combined the projects will create 4,280 jobs. ILembe is followed by EThekwini with R335 Million capital value. UMkhanyakude and UMzinyathi districts have no EIAs applications finalised in the second quarter of 2020.

3.10 Other Economic Indicators

3.10.1 Tourism

The total number of travellers (departure, arrival and transit) increased by 4.4% from June 2019 to November 2019, it continued to increase by 32.9% in December 2019 recording 4,657,450 total number of travellers. Thereafter, the numbers declined sharply by 97.9% from December 2019 to April 2020, this was due to the hard lockdown level 5 which was introduced on the 27th of March 2020 which introduce both inter-provincial and international travel restrictions. As a result, there were fewer tourists coming and leaving the country and also fewer South Africans travelling abroad.

Figure 3.10.1: Total number of travellers, June 2019- June 2020



Source: Stats SA, 2020

The easing of lockdown restrictions helped the tourism sector to pick up as the total number of travellers increased by 97.5% between April 2020 and June 2020, recording 192,376 in June 2020. These travellers were made up of 127,702 foreign travellers and 64,674 South African residents. A further breakdown of the figures for foreign travellers indicates that there were 62,841 arrivals, 64,721 departures and 140 transit; and for South African residents were 31,245 arrivals, 33,429 departures and no travellers in transit.

Table 3.10.1: Number of Tourists by Region of Residence and Mode of Travel, May & June 2020

Country of residence	May 2020			June 2020		
	Air	Road	Sea	Air	Road	Sea
Overseas	86	195	34	181	266	102
Europe	27	76	12	96	115	65
North America	15	16	-	4	22	-
Central and South America	4	-	-	10	12	6
Australasia	1	16	2	8	3	-
Middle East	-	-	-	2	1	-
Asia	39	87	20	61	113	31
Africa	46	49 105	2	128	62115	10
SADC	43	49 090	1	111	62085	8

Source: Stats SA, 2020

For overseas countries, the number of tourists that came to South Africa increased from 315 in May 2020 to 549 in June 2020. A further breakdown for overseas tourists indicates that 181 (33.0%) of the 549 overseas foreign travellers that came to South Africa in June 2020 used air transport, whilst 266 (48.5%) came in by road transport and 102 (18.6%) arrived by sea transport. On the other hand, tourists from the Southern African Development Community (SADC) countries, 62,085 (99.8%) used air transport, 111 (0.2%) came by air travel and 8 (less than 0.1%) came by sea.

KwaZulu-Natal

The Department of Economic Development, Tourism and Environmental Affairs (EDTEA), UKZN Graduate School of Business and KZN Business Chambers conducted a survey between May 15 and June 15 for KwaZulu-Natal businesses. Tourism, personal services and catering businesses made up 37% of the survey's respondents. The compiled report of a survey showed that during level 5 and level 4 of the national lockdown, there was a 90% decline in demand for products and services across businesses. It further indicated that the temporary closure of businesses scaled down operations by more than 50% and affected 77.9% of KZN businesses during the survey period.

Figure 3.10.2: Pictures of Infrastructure Improvements at Margate Airport

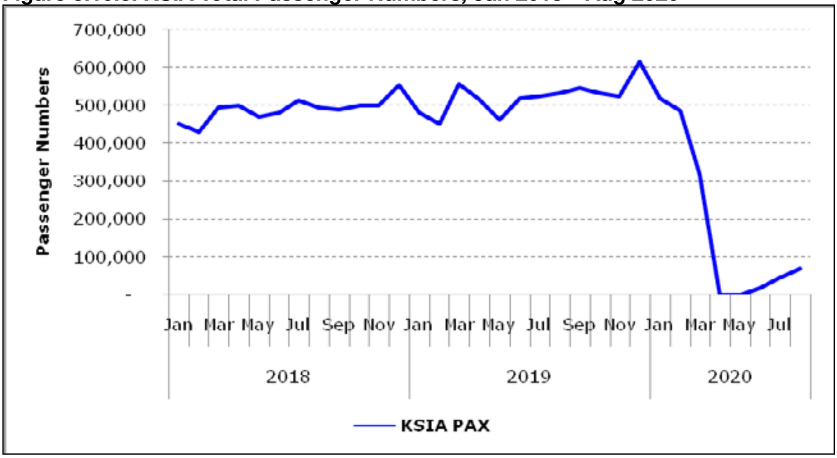
Source: EDTEA, 2020

Tourism Month is celebrated annually in September, and provides a heightened month-long focus on the importance of the sector to the South African and Provincial economy. Tourism KwaZulu-Natal (TKZN) ran a series of online workshops for small tourism enterprises on recovery strategies as part of government interventions to support strained tourism businesses. As part of the Tourism and Heritage Month activations, the MEC for EDTEA, Ms Nomusa Dube-Ncube, visited local tourism sites including the KwaXolo Caves and Beaver Creek Coffee Estate as well as infrastructure improvements at Margate Airport.

3.10.2 Strategic Infrastructure

Infrastructure is important for faster economic growth, providing an enablement for goods and services to flow efficiently and effectively; while can also be used to alleviate of poverty and social ills. 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.

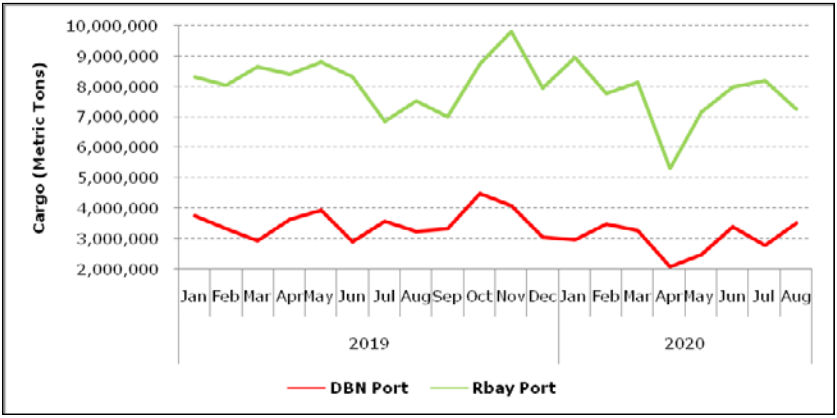
Figure 3.10.3: KSIA Total Passenger Numbers, Jan 2018 – Aug 2020



Source: ACSA, 2020

As the country moves to level 1 in the National lockdown, OR Tambo, King Shaka and Cape Town international airports are expected to resume international flights subject to certain overseas countries. 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, dropping further to 78 in May in an effort to contain the spread of COVID-19. As restrictions began to ease passenger numbers began to creep upwards. Numbers jumped to 20,063 in June, more than doubling in July to 47,018 and reaching 70,011 in August 2020. As the tourism sector opens up, it is expected that passenger numbers will increase rapidly. However a number of airlines have filed for business rescue limiting travel options for tourists and business travellers.

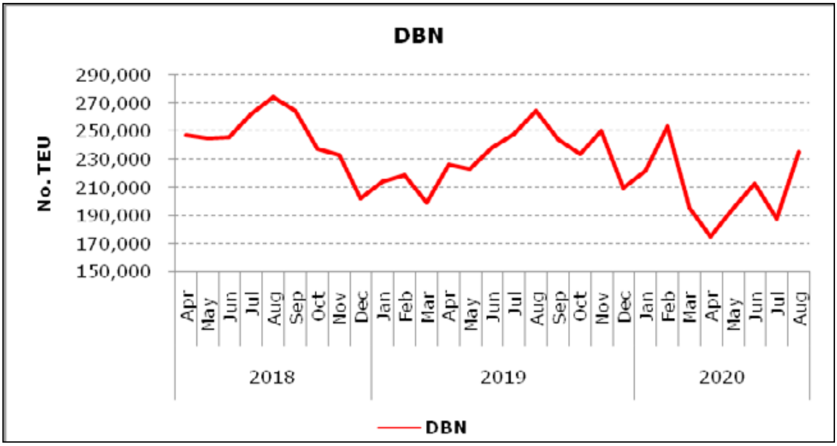
Figure 3.10.4: Total Cargo Handled (Metric Tons), Port of Durban & Richards Bay, April 2018 – Aug 2020

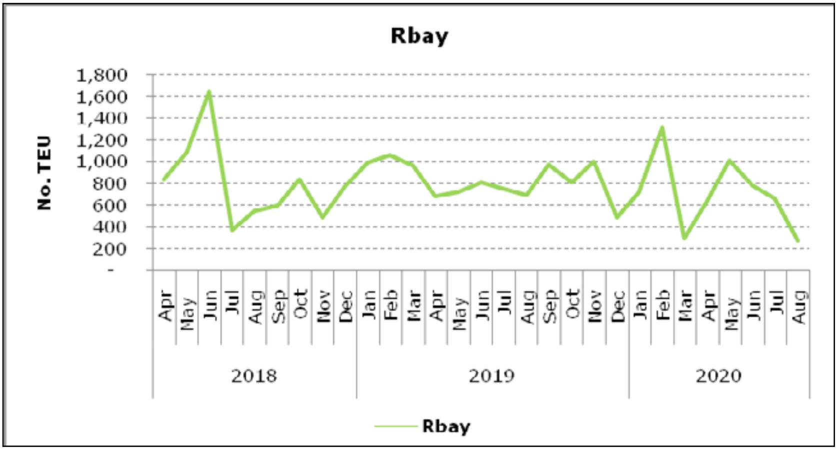


Source: Transnet, 2020

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 COVID-19, the Port processed over 8 million metric tons. In April 2020 only 5.3 million tons were handled, however this picked up to pre-COVID19 levels to over 8.2 million tons in July. The direction of cargo handled was counter opposite between the two commercial ports in the province for August. Richards Bay slanted downwards handling one million ton less than previous month, while Durban increased it handling by 800,000 tons.

Figure 3.10.5: Total Number of Containers Handled, Port of Durban & Richards Bay, April 2018 – Aug 2020





Source: Transnet, 2020

The total number of containers handled at Port of Durban dropped drastically in April 2020 but has subsequently started picking up in August to 235,477 Twenty Foot Equivalent Unit (TEU) handled. It however must be noted that approximately 18% of these TEU's are empty compared to the total of 20% empty containers for the country who handled 354,015 containers in August. Handling of empty containers is significantly higher for Richards Bay Port, of the 273 containers handled in August 45% were empty. Handling of empty containers is owing to the difference in exports versus imports via containerisation. Importing more means more containers are entering the country than leaving causing high percentage of empty TEU's which then carries its own cost (storage/manoeuvring). 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 it movements in numbers is insignificant within the context of the country.

3.10.3 Energy

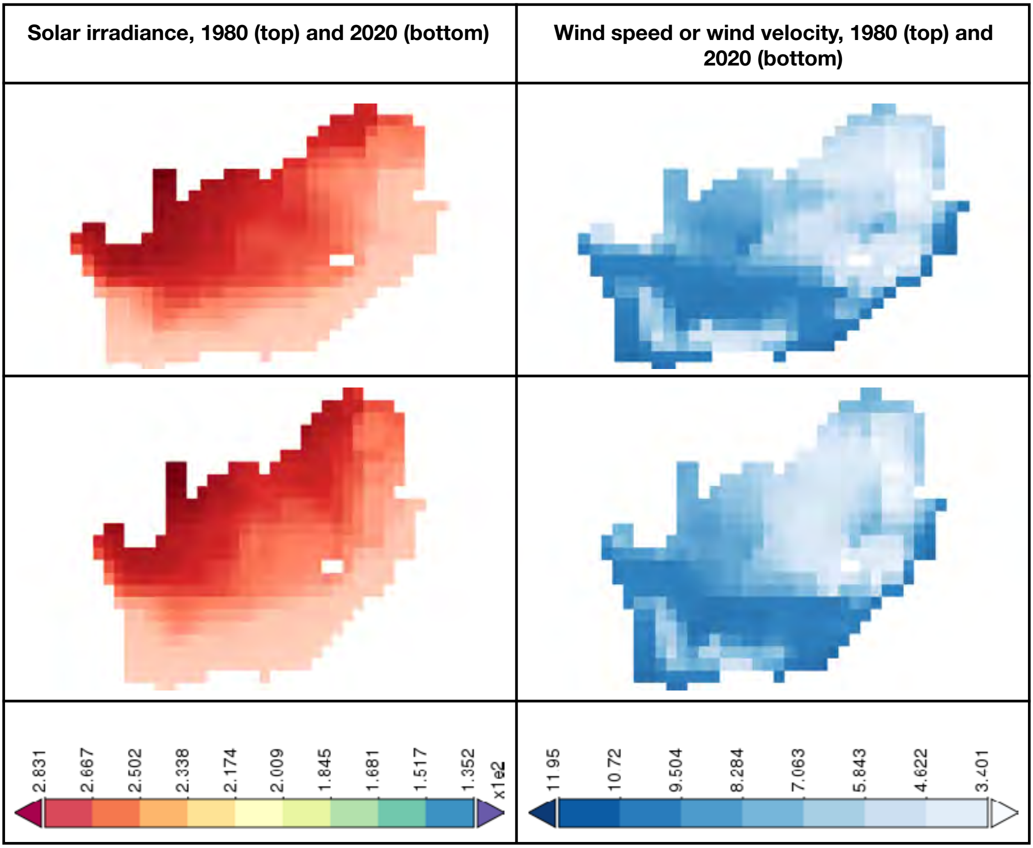
South Africa (SA) generates the vast majority of its energy needs from coal and oil. According to Our World in Data based on BP Statistical Review of World Energy 2020, the share of primary energy from coal decreased modestly from around 80% in 1965 to 70% in 2019. Energy from gas increased from 0% to around 3% over the same period. Hydroelectric power increased its share from 0% to a high of 0.8% in 1990. Its share then collapsed to 0.2% in 2019.

Nuclear power contributed around 2.5% in 2019. Energy from oil is the second-largest contributor, contribution on average around 22% over the period 1996 to 2019. Wind and solar energy started contribution to the energy needs in 2010, contributing around 1.5% and 0.8% in 2019, respectively.

It stands to reason that the statistics for the Province of KwaZulu-Natal (KZN) will be similar than those listed above. The share of energy consumption of KZN has stayed fairly constant between 20% and 18% of SA since 2000. The Gigawatt-hours Electricity distributed to KZN by Eskom increased from 3 000 in 2,000 to a peak of 4 000 in 2007, thereafter it has steadily decreased to around 3 300 in 2019. The decrease is most probably not because of a significant substitution to alternative energy (although it may have contributed somewhat), but rather related to the steady decrease in economic growth.

Satellite images reveal that KZN may not be in a very favourable position (location) to locate large solar and wind farms. The images suggest that the Northern Cape holds both an absolute and comparative advantage in terms of alternative energies in SA. The images below displays both the solar irradiance and the winds speed for SA as measured by the National Aeronautics and Space Administration (NASA) Space Test Program Satellite-3 (STPSat-3). Solar irradiance (SI) is a measure of the power of radiation emitted by the Sun that reaches the Earth. It is measured in SI units of a watt per square metre (W/m2). Wind speed or wind velocity is a measure of the speed of air movement relative to a fixed point on the Earth. It expresses the strength of the horizontal movement of the air.

Figure 3.10.6: Solar Irradiance and Wind Speed Images,SA, 1980 and 2020



The images suggest solar irradiance and wind speed levels in KZN is fairly low compared to the Northern Cape, for example. It also suggests that both solar irradiance and wind speed levels have not changed much over the 40 years. The wind speed images, however, do suggest some potential of off-shore wind farming. However, off-shore wind farming is notoriously very expensive, and thus questions about financial sustainability become very relevant.

3.10.4 Manufacturing

The largest manufacturing industries in KZN are the automobile sector, pulp and paper products, rubber and plastics, chemicals and petro-chemicals, food and beverages, as well as textiles and clothing. The mining sector, which includes titanium dioxide and zircon, iron, steel and ferroalloys,are also considered very important.

The vehicle-manufacturing industry has created a considerable multiplier effect in component and service providers. The automotive leather industry has grown rapidly, with exports significantly increasing foreign exchange earnings as a result of rapid industrialisation particularly in Newcastle, Ladysmith, Dundee, Richards Bay, Durban, Hammarsdale, Richmond, Pietermaritzburg and Mandeni.

During the second quarter of 2020, the manufacturing sector contracted by 32.3% year-on-year, and 75.1% quarter-on-quarter. This negative implication was felt across all provinces by the manufacturing sector as the national averages for this sector were marginally lower than those of the province with a contraction of 31.8% year-on-year and 74.9% quarter-on-quarter.

3.10.5 Development Indicators

The COVID-19 pandemic has pushed millions into dire poverty. Among the most sobering statistics, of the 2020 Goalkeepers Report, are that extreme poverty has increased by 7% and vaccine coverage has dropped to levels last seen in the 1990s.

Poverty is a consequence of unemployment, and to address this issue, one of the primary intentions of the NDP is to create new jobs; the target being 11 million. Being multi-dimensional, poverty is dependent on access to adequate health care, education facilities and decent living standards.

Table 3.10.2: Various Development Indicators, SA & KZN, 2019

Indicator	KwaZulu-Natal	South Africa
Gini Coefficient (2019)	0.63	0.63
Human Development Index (HDI) (2019)	0.62	0.66
Functional literacy (2019)	83.4%	85.4%
Poverty (Food Poverty Line)[6]	38.0%	29.4%
Poverty (Lower Bound Poverty Line)[7]	53.6%	44.1%
Poverty (Upper Bound Poverty Line)[8]	68.0%	59.2%

Source: IHS Markit, 2020

In a country like South Africa, where unemployment levels are high, and rampant inequality, social grants play an important role in supporting households to attain a minimum standard of living. Thus, social grants have made a substantial contribution towards reducing food poverty in the country.

6 *NPL (2019): Food poverty line – R561 (in April 2019 prices) per person per month, available online: http://www.statssa.gov.za/publications/P03101/P031012019.pdf, accessed on 20/09/2020*

7 *NPL (2019): Lower-bound poverty line – R810 (in April 2019 prices) per person per month, available online: http://www.statssa.gov.za/publications/P03101/P031012019.pdf, accessed on 20/09/2020*

8 *NPL (2019): Upper-bound poverty line – R1 227 (in April 2019 prices) per person per month, available online: http://www.statssa.gov.za/publications/P03101/P031012019.pdf, accessed on 20/09/2020*

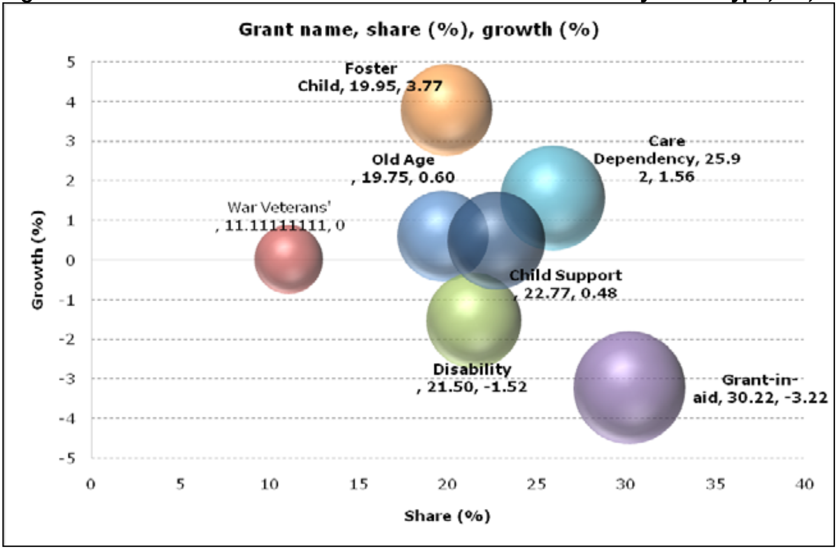
Table 3.10.3: Grant beneficiaries in SA by province

	Old Age		War Veterans'		Disability		Grant-in-aid		Care Dependency		Foster Child		Child Support		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
EC	596 260	16.1	10	18.5	178 054	17.1	31 486	11.9	24 259	15.4	62 352	17.9	1 942 828	15.1	2 835 249	15.4
FS	213 951	5.8		0.0	73 696	7.1	9 504	3.6	9 018	5.7	27 182	7.8	708 993	5.5	1 042 344	5.7
GP	665 219	18.0	18	33.3	118 474	11.4	8 794	3.3	21 119	13.4	45 733	13.2	1 955 410	15.2	2 814 767	15.3
KZN	731 373	19.8	6	11.1	223 485	21.5	80 197	30.2	40 743	25.9	69 339	19.9	2 926 973	22.8	4 072 116	22.2
LP	488 378	13.2	2	3.7	97 142	9.3	54 938	20.7	16 798	10.7	43 875	12.6	1 919 495	14.9	2 620 628	14.3
MP	266 710	7.2	1	1.9	77 913	7.5	23 214	8.7	12 025	7.7	25 912	7.5	1 143 886	8.9	1 549 661	8.4
NC	276 647	7.5	1	1.9	64 334	6.2	16 136	6.1	10 201	6.5	29 410	8.5	888 469	6.9	1 285 198	7.0
NW	92 305	2.5	1	1.9	48 438	4.7	16 866	6.4	6 156	3.9	11 499	3.3	323 664	2.5	498 929	2.7
WC	372 075	10.0	15	27.8	158 031	15.2	24 261	9.1	16 853	10.7	32 340	9.3	1 047 510	8.1	1 651 085	9.0
SA	3 702 918	100.0	54	100.0	1 039 567	100.0	265 396	100.0	157 172	100.0	347 642	100.0	12 857 228	100.0	15 555 210	100.0

Source: SASSA, 2020

Table 3.10.3 shows the number and percentage of grant beneficiaries in SA by provinces as at the end of July 2020. KZN continued to have the highest number of social grant beneficiaries in the country at 4.07 million, followed by EC at 2.83 million and Gauteng at 2.81 million people.

Figure 3.10.7: KZN's Share and Growth of Grant Beneficiaries by Grant Type, SA, July 2020



Source: Transnet, 2020

Figure 3.10.7 further demonstrates the growth rates of grant beneficiary numbers between 31 March 2020 and 31 July 2020. There was an increase in the percentage of grant beneficiaries in the Foster care (3.8%), Care dependency (1.6%), Old age grant (0.6%) and Child support grant (0.5%). However, the province experienced a decrease in the number of beneficiaries for the Disability Grant (-1.5%) and the Grant-in-aid (-3.2%).

3.10.6 Crime

As it is outlined in the National Development Plan [NDP] (2030), crime and violence are not just security issues but have deep social and economic consequences. Therefore, addressing these challenges cannot be seen as the mandate of criminal justice system alone, but requires the intervention of all government departments as well as other stakeholders, particularly those within social and economic clusters.

Table 3.10.4: Crime Incidence per 100,000 People in KZN

CRIME CATEGORY	April to June 2018_19	April to June 2019_20	April to June 2020_21	Case Diff	% Change
CONTACT CRIMES (CRIMES AGAINST THE PERSON)					
Murder	977	1 237	856	-381	-30.8%
Sexual Offences	2 045	2 368	1 417	-951	-40.2%
Attempted murder	973	1 003	792	-211	-21.0%
Assault with the intent to inflict grievous bodily harm	6 042	6 082	3 934	-2 148	-35.3%
Common assault	5 370	5 686	4 009	-1 677	-29.5%
Common robbery	1 723	1 834	953	-881	-48.0%
Robbery with aggravating circumstances	5 271	5 751	3 803	-1 948	-33.9%
Total Contact Crimes (Crimes Against The Person)	22 401	23 961	15 764	-8 197	-34.2%
Total Sexual Offences					
Rape	1 684	1 930	1 160	-770	-39.9%
Sexual Assault	276	348	206	-142	-40.8%
Attempted Sexual Offences	53	67	31	-36	-53.7%
Contact Sexual Offences	32	23	20	-3	-13.0%
Total Sexual Offences	2 045	2 368	1 417	-951	-40.2%
SOME SUBCATEGORIES OF AGGRAVATED ROBBERY					
Carjacking	605	781	391	-390	-49.9%
Robbery at residential premises	1 041	1 098	918	-180	-16.4%
Robbery at non-residential premises	690	819	606	-213	-26.0%
Bank Robbery	0	0	0	0	0 Cases
Robbery of cash in transit	1	7	0	-7	-100.0%
Truck hijacking	23	14	13	-1	-7.1%
CONTACT-RELATED CRIMES					
Arson	149	188	138	-50	-26.6%
Malicious damage to property	3 221	3 205	2 469	-736	-23.0%
Total Contact-Related Crimes	3 370	3 393	2 607	-786	-23.2%
PROPERTY-RELATED CRIMES					
Burglary at non-residential premises	2 561	2 563	3 306	743	29.0%
Burglary at residential premises	9 586	9 117	7 141	-1 976	-21.7%
Theft of motor vehicle and motorcycle	2 048	2 083	922	-1 161	-55.7%
Theft out of or from motor vehicle	3 854	3 829	2 319	-1 510	-39.4%
Stock-theft	1 707	1 670	1 679	9	0.5%
Total Property-Related Crimes	19 756	19 262	15 367	-3 895	-20.2%
OTHER SERIOUS CRIMES					
All theft not mentioned elsewhere	9 660	10 081	7 053	-3 028	-30.0%
Commercial crime	3 575	3 838	2 643	-1 195	-31.1%
Shoplifting	2 649	2 629	1 471	-1 158	-44.0%
Total Other Serious Crimes	15 884	16 548	11 167	-5 381	-32.5%
Total 17 Community Reported Serious Crime	61 411	63 164	44 905	-18 259	-28.9%

CRIME CATEGORY	April to June 2018_19	April to June 2019_20	April to June 2020_21	Case Diff	% Change
CRIME DETECTED AS A RESULT OF POLICE ACTION					
Illegal possession of firearms and ammunition	946	768	807	39	5.1%
Drug-related crime	12 415	5 720	2 661	-3 059	-53.5%
Driving under the influence of alcohol or drugs	3 965	4 502	653	-3 849	-85.5%
Sexual Offences detected as a result of police action	795	897	116	-781	-87.1%
Total Crime Detected As A Result Of Police Action	18 121	11 887	4 237	-7 650	-64.4%

Source: SASSA, 2020

The stakeholders will try to execute their respective legal mandates jointly to contribute to a safe and secure environment for all South Africans. It is against this backdrop that the Department of Community Safety and Liaison has introduced several strategies to prevent the escalation of crime in the province. These crime strategies include, among other things; establishment of community safety structures such as community policing forums, ward safety committees, community crime prevention associations and community safety forums.During the second quarter of 2020, there was a decline in the prevalence of crime across all categories bar one (stock theft) when compared to the same period the previous year. This decline can be attributed to the nationwide lockdown which was instituted to slow down the spread of COVID-19.

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