STATE OF THE ECONOMY
MID-TERM ASSESSMENT

"Make better informed decisions with cutting-edge economic insight"

AS AT FEBRUARY 2020

Spotlight on Construction, Investment and Infrastructure Development

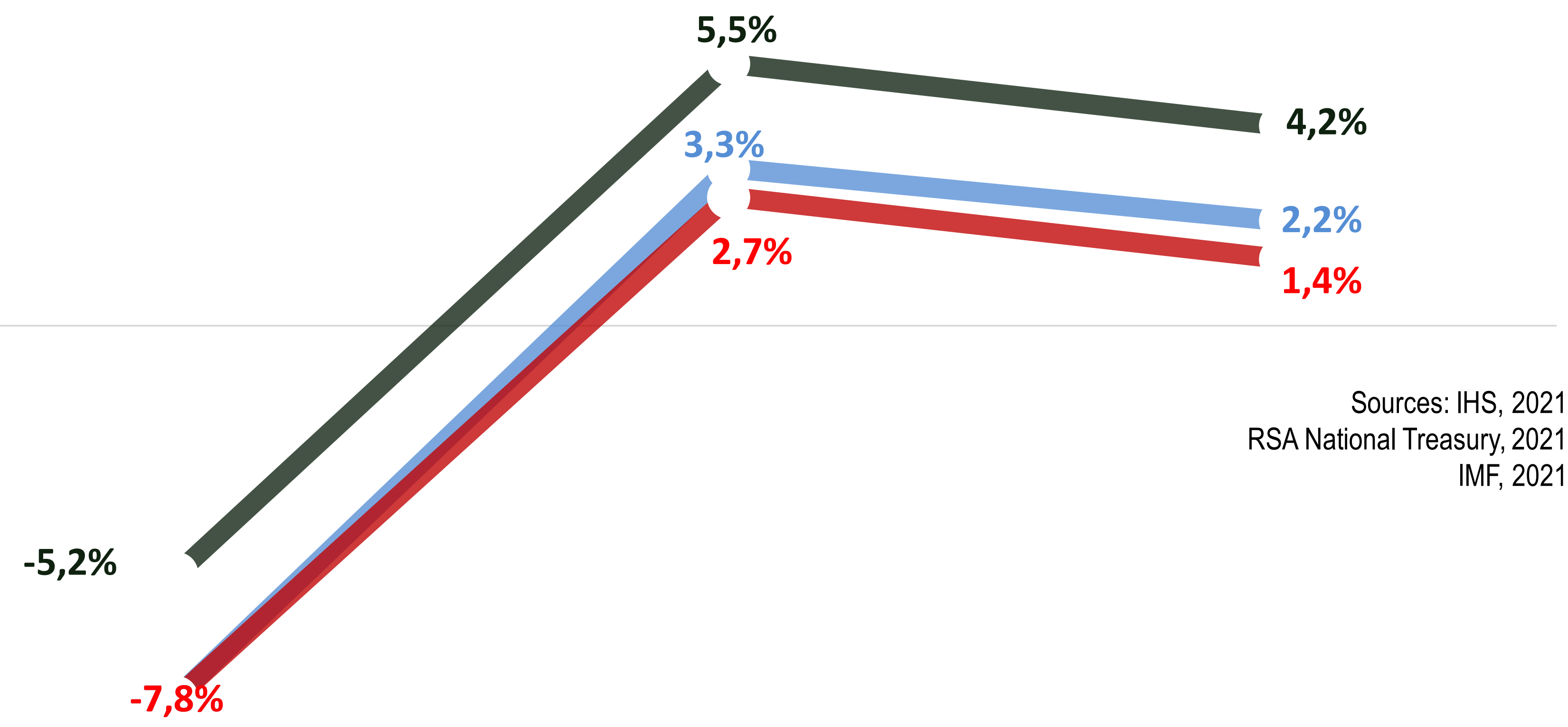
GDP PROJECTIONS

WORLD, SA & DURBAN (2020-2022)

THE DURBAN EDGE

GDP growth forecast has been revised down due to multiple global waves (World Bank 4,2% to 4,0%),

and revised up due to vaccinations (IMF 5,2% to 5,5%). This is testament to general uncertainty in global markets.

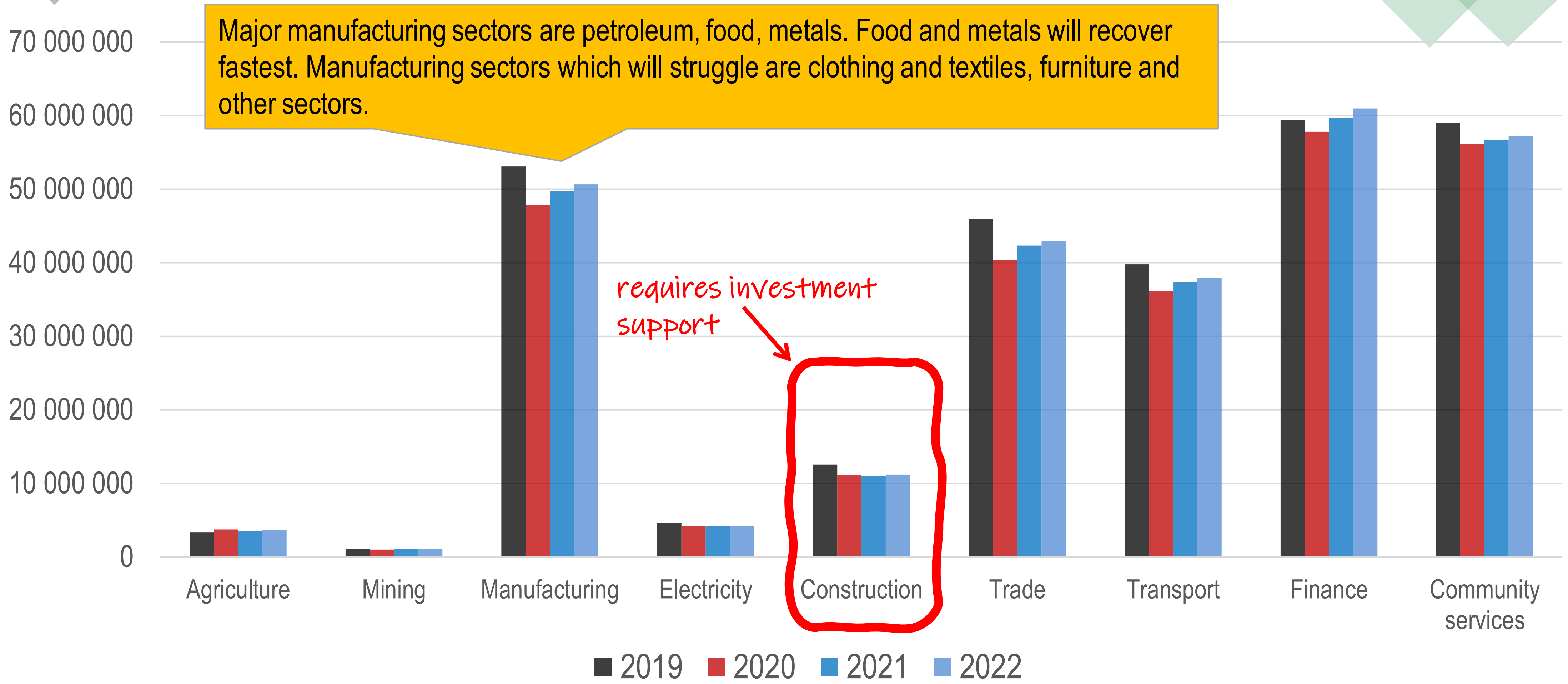


Sources: IHS, 2021
RSA National Treasury, 2021
IMF, 2021

	2020	2021	2022
World	-5,2%	5,5%	4,2%
South Africa	-7,8%	3,3%	2,2%
Durban	-7,8%	2,7%	1,4%

GDP PROJECTIONS OF DURBAN'S BROAD SECTORS
2020-2022 (CONSTANT, 2010 PRICES, R1000)

THE DURBAN EDGE

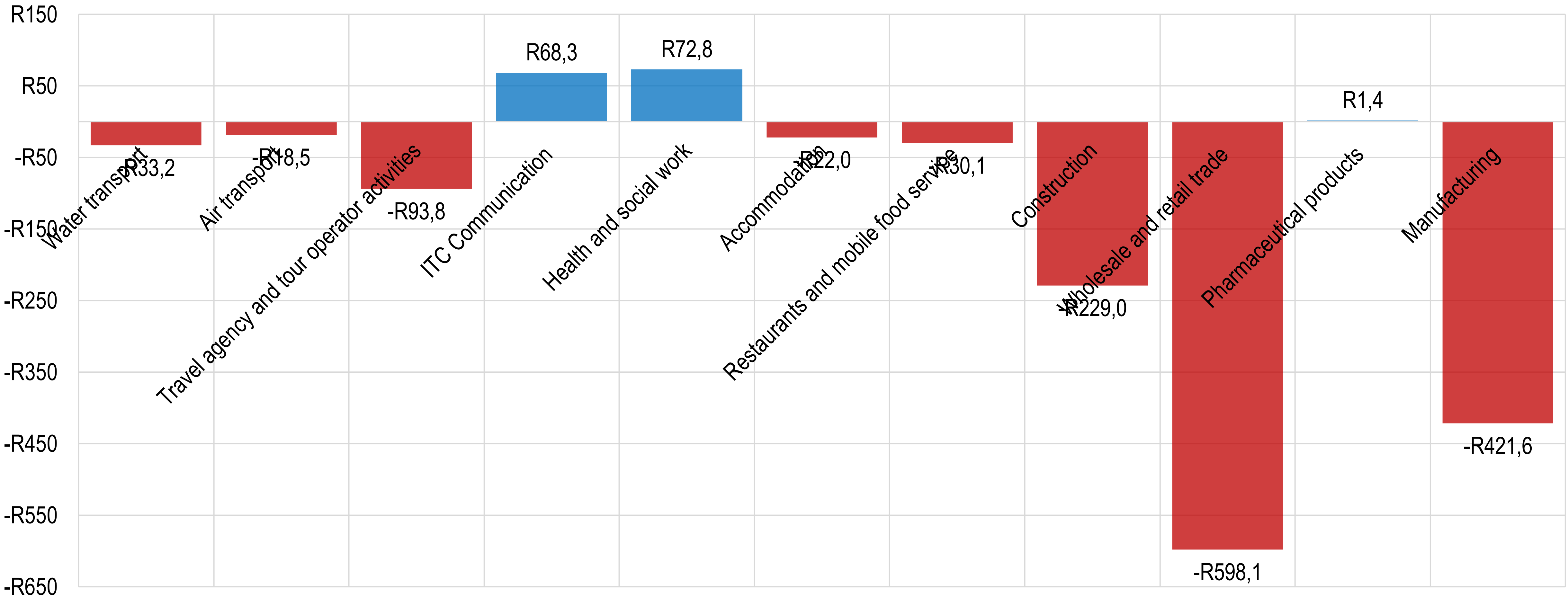


Source: IHS, 2021

Manufacturing, trade and business/ finance are the fastest recovering sectors. Construction, energy and agriculture will struggle to recover and require more assistance.

SECOND WAVE GDP LOSSES AND GAINS PER SECTOR

EXTENDED LEVEL 3 FROM DEC 2020 TO JAN 2021



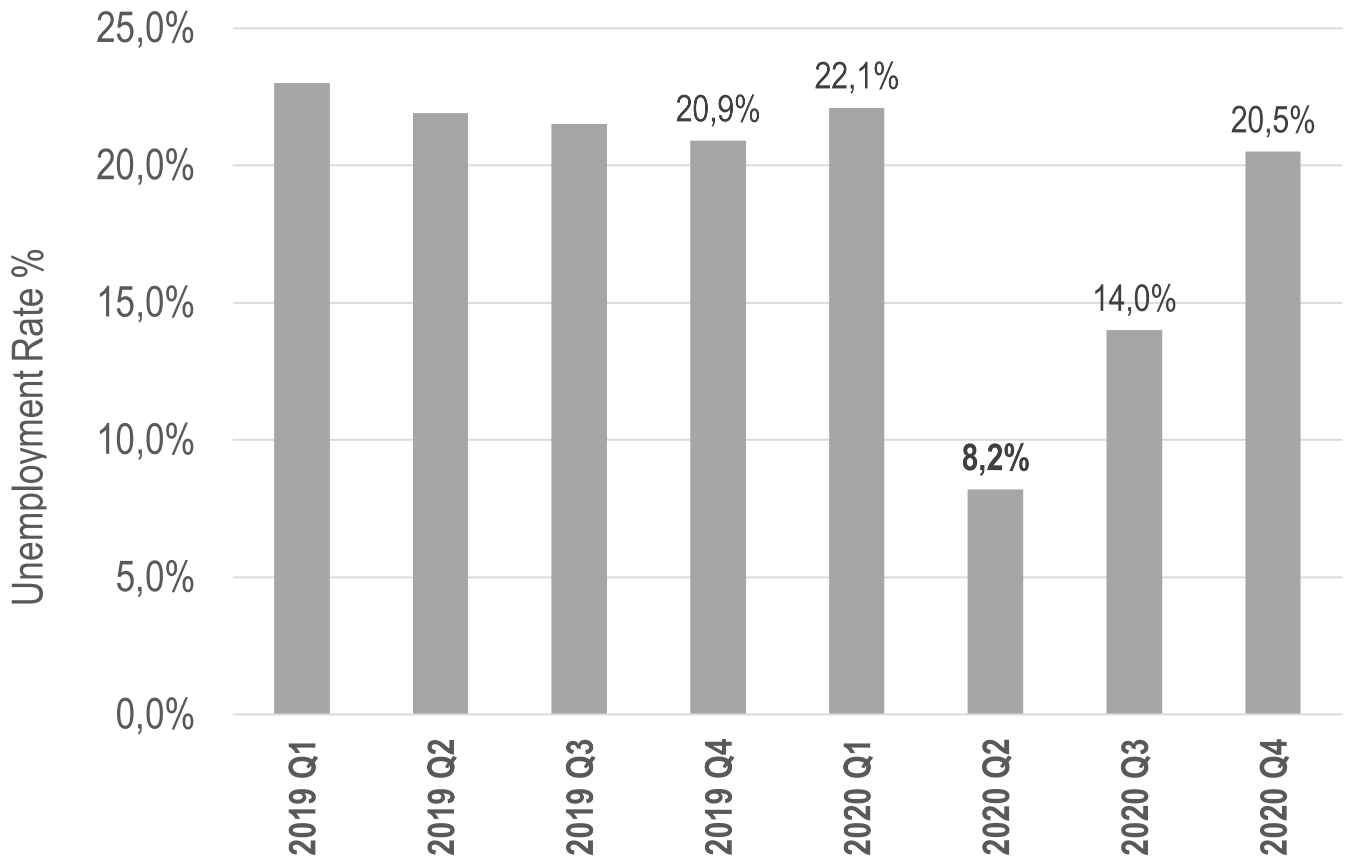
Source: The Durban EDGE, 2021

Durban's economy is expected to **lose approximately R3,59 billion** in GDP during the second wave/ extended level 3.

UNEMPLOYMENT

Durbanites more determined to look for work, but there are still not enough jobs

115 000 MORE UNEMPLOYED, BUT ONLY 49 000 MORE JOBS



The Durban **unemployment rate has risen sharply from 14% in 2020 Q3 to 20,5% in 2020 Q4**, which translates to 115 000 more people looking for work. This is drastic and suggests **that Durbanites are now more determined to find work**.

Nonetheless, the **chances of finding a job have risen slightly** as the employment absorption rate has increased from 42,6% to 44,6%.

Source: StatsSA QLFS, 2021

SONA 2021 UPDATE

KEY POINTS OF INTEREST FOR DURBAN (4 MAIN PRIORITY AREAS)

1. a massive rollout of **infrastructure** throughout the country:

- Need to tap into infrastructure investment project pipeline worth R340 billion in network industries such as energy, water, transport and telecommunications.
- This includes the uMkhomazi Water Project, rehabilitation of the N3,
- and other projects which will contribute to the revival of the infrastructure sector.

2. a massive increase in **local production**:

- Agreement to **reduce reliance on imports** by 20% places renewed impetus to the City's Buy Local Invest Local Campaign.
- **SMME Focused Localisation Policy Framework**: 1000 locally produced products have been identified which must be procured form SMMEs. Includes incentives for import replacement.
- **Masterplans**: Poultry (1million more chicken pa), sugar (85000 more workers employed), clothing, textile, footwear and leather and automotive completed.
- **Toyota** investment flagged as first production line of hybrid vehicles in SA.
- **AFCTA** Johannesburg Declaration
- R773 billion in investment commitments have been made towards 5-year target of R1.2 trillion

3. an **employment stimulus** to create jobs and support livelihoods,

Presidential Employment Stimulus- the City's proposals were deprioritised but new applications will be made this year.

- The City must advocate for Durban to be equally represented in national efforts to support 15,000 start-ups by 2024.

4. the rapid expansion of our **energy generation** capacity.

- Eskom estimates shortfall of 4000-6000MGW over next 5 years, so new (wind and solar) energy sources are being sought through a bid process. This is significant for the negative impact of loadshedding on the City's economy.
- Implementation of the City's Energy Policy is underway (public participation/ finalisation still underway). First IPP contract in Durban likely in March 2022.

5. Other:

- **Tourism**: eVisas from China, Nigeria, India, Kenya and 10 other countries should boost tourism in Durban, albeit slightly
- R350 grants will continue for 3 more months, which will provide relief for poor households in the City
- Durban is being repositioned as a **hub port** for the southern hemisphere

ETHEKWINI MUNICIPALITY

2021 NATIONAL BUDGET

DIRECTING THE BUDGET TO GROW THE ECONOMY

While the 2021 budget speech largely pins its hopes of SA recovery on the efficacy of the vaccine, the it places much expenditure priority on **job creation**, **infrastructure** and **economic development**.

THE GOOD

More money being put in the pockets of consumers

- No additional taxes
- 5% shift in tax brackets- benefits mostly felt by low/ middle income
- Corporate taxes reduced by 1% to 27%
- Support for small business and black business
- Increased expenditure on employment stimulus
- ***However*** the fuel levy coupled with fuel increases will effectively increase cost burdens on ALL consumers (66c increase in fuel price, incl. increases in food prices)

THE BAD

Debt out of control

- Budget deficit ⬆ from -6.3% of GDP to -14% of GDP.
- Gross debt ⬆ from 65.6 per cent to 80.3 per cent of GDP.
- Gross borrowing ⬆ from R432.7 billion to R670.3 billion, or from 8 to 13.6 per cent of GDP.
- Tax revenues R213.2 bn than projected in the 2020 Budget.
- Rising debt-service costs consume R269.7 billion, or 13.4 per cent of the budget.

THE GREEN SHOOTS:

ECONOMIC DEVELOPMENT

Economic development and infrastructure are critical

- The fastest budget growth is general public services and economic development
- And reductions on economic development are kept to a minimum

(However, even they haven't escaped downward revisions compared to the 2020/21 forecasted budget.)

BUDGET 2021 GREEN SHOOTS CONTD..

Job creation and labour affairs

40,6%

R33,4 billion

+ (including) R11 Billion Presidential Youth Employment Initiative.

Infrastructure

Road, water and env. programmes

7,7%

R93,1 billion

+ R4 billion Infrastructure Fund
(but non fiscal support STILL necessary!)

Industrialisation and Exports

9,3%

R36.2 billion

**AFCTA JHB declaration signed

Sector Support

DTI Business Incentives, SEZ, sector development

8,2%- R17.1 billion

Investment

No budget allocation but budget makes reference to increasing competitiveness, cost and ease of doing business

Neighbourhood Partnership Development Grant

EThekwini is allocated the highest NPD grant of all metros at **R61.7m**

New

Small Business

The Small Enterprise Finance Agency

R885.3 million

loans and grants for SMMEs

Township and Rural Entrepreneurship Fund

R2.9 billion

SMMEs in rural areas and townships.

New

Innovation

Department of Science and Innovation

R5.3 billion

New

Tourism

The Tourism Equity Fund

R540 million

black business in tourism businesses

New

Climate Resilience

DEFF **R1.2 billion** over the MTEF period (3 years)

to support climate resilience initiatives

TOP 100 CUSTOMER DATA INSIGHTS *GDP GROWTH IS A MAJOR DETERMINENT IN CONSUMPTION, RETAINING LARGE SCALE MAUFACTURING AND RETAIL IS CRITICAL FOR CITY FINANCES*

TOP CLIENTS

- **Water top clients:** Engen Petroleum Ltd, Shell and B.P., SAB, RCL Foods, Prince Mshiyeni Hospital, Transnet, Westville Prison, Wilbat Projects
- **Electricity top clients:** Shell & BP, Engen, Mondi, Toyota, A E C I Chlor-alkali & Plastics, Gateway, Pavilion, Metro Rail
- **Rates top clients:** Transnet, Gateway, ACSA, Pavilion, JT Ross, Growth Point Properties, Tsogo Sun, KZN Housing.

TOP SECTORS FOR CLIENTS

- Manufacturing
- Retail (shopping centres)
- National and Provincial gvt

AVERAGE MONTHLY CONSUMPTION*

- **Water top 100 clients:** R33,9 million +/-
- **Electricity top 100 clients:** R340 million +/-
- **Rates top 100 clients:** R1,5 billion +/-

** Based on selected months in 2020*

WHAT HAPPENS WHEN ONE OF OUR TOP CLIENTS FAIL?

THE CASE FOR INTERVENTION

Averages accrued from top manufacturing firms in a selected sector in the City

- **Electricity charges: R35 million pm**
- **Rates charges: R550 000 pm**
- **Water charges: R260 000 pm**

(R429,7 million on average per annum)

Average top firm's payments in one year is approx. = **the City's capital expenditure in 2 months**

(R420 million for July and August 2020).

Source: EThekwini Revenue Management System Customer Data (June 2020), 2021

ETHEKWINI MUNICIPALITY

A RESPONSE TO THE CURRENT STATE OF THE ECONOMY:

FOCUS ON INVESTMENT, CONSTRUCTION AND INFRASTRUCTURE DEVELOPMENT

"Breaking ground on key infrastructure projects would be 'immune booster' for ailing economy"

Engineering News, 03/02/2021

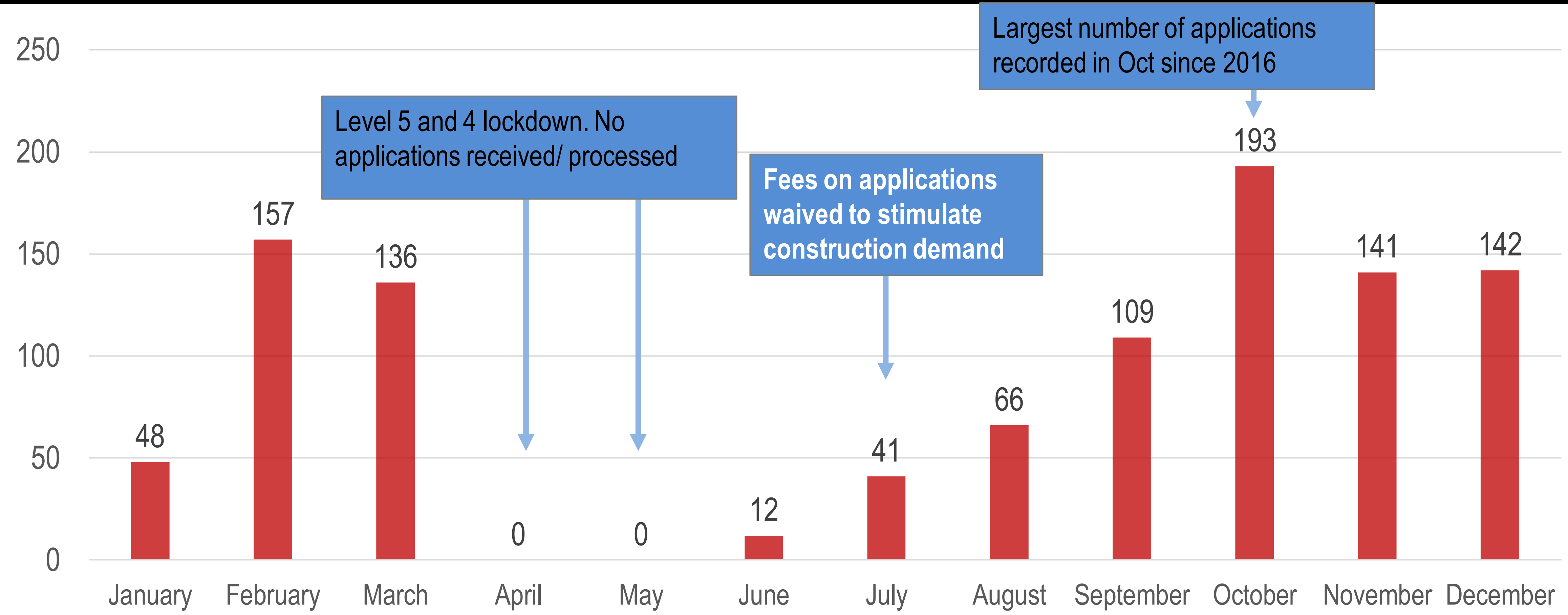
1. INCENTIVISED CONSTRUCTION AND INVESTMENT

INCREASED INVESTMENTS DUE TO WAIVED CONSTRUCTION FEES

(As recommended by eThekwini's Economic Recovery Plan)

TRENDS IN NEW CONSTRUCTION APPLICATIONS

R3,4 BILLION IN INVESTMENT PLANNED



MAJOR/STRATEGIC DEVELOPMENTS APPROVED

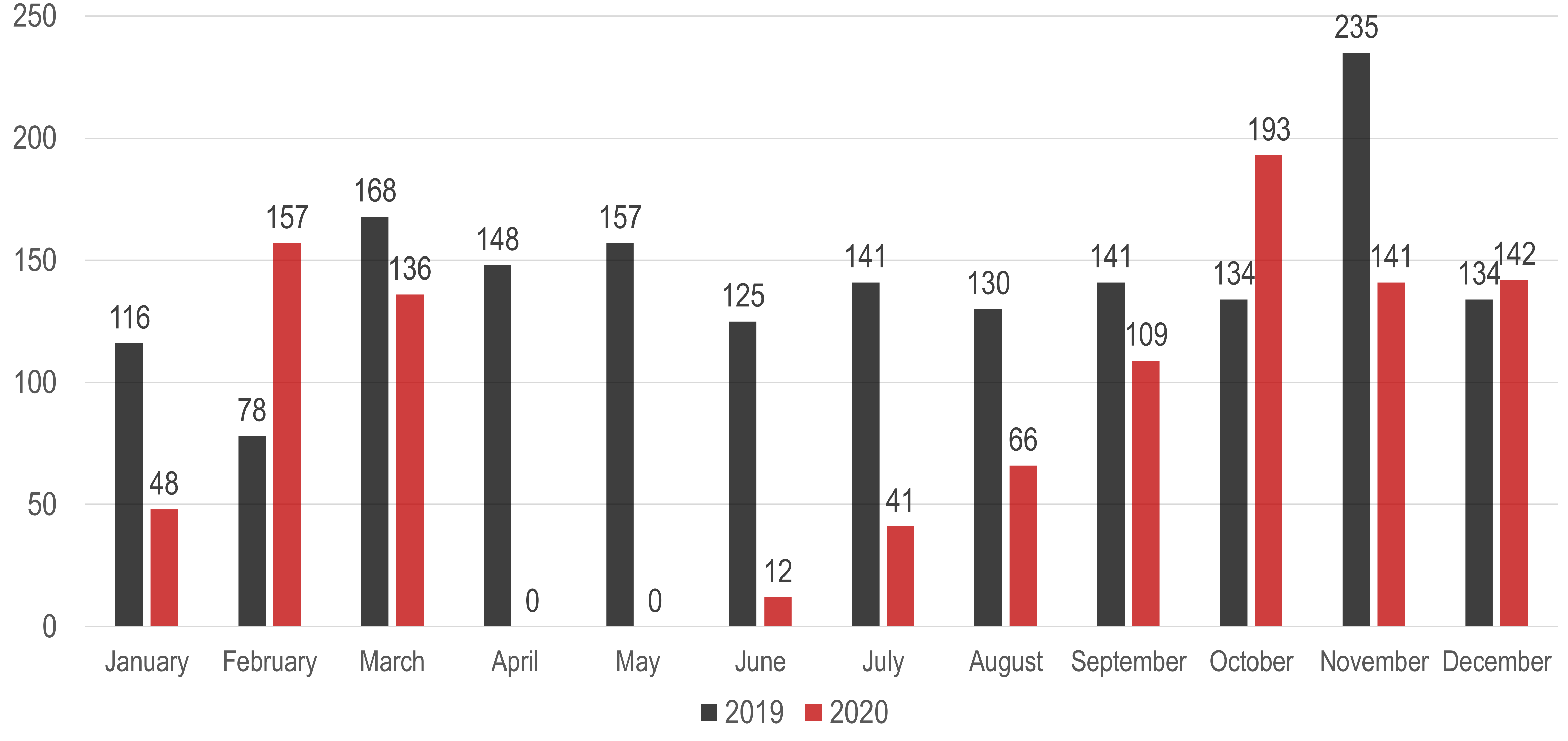
RESIDENTIAL	17 008m²	R150 mn
WAREHOUSING	76 884m²	R384 mn
FACTORY EXPANSIONS	7 408m²	R107 mn
TOTAL	**101 300m²**	**R642 mn**

1251

completion certificates issued

IMPACTS OF WAIVED APPLICATION FEES FOR CONSTRUCTION SECTOR

R3,4 BILLION IN INVESTMENT PLANNED



2. PUBLIC PRIVATE PARTNERSHIPS

CONTINUED FACILITATION OF CATALYTIC PROJECTS

HIGH IMPACT CATALYTIC PROJECTS FOR IMPLEMENTATION DURING ECONOMIC RECOVERY (2020 to 2026)

Aerotropolis North Corridor
(iNyaninga, DTP, Whetstone)
Investment Value = R54.1 billion
Jobs Created to date = 12 000
Total Jobs = 214 100

M4 & Umhlanga North Corridor
(Cornubia, Sibaya, Oceans, Beachwood, Virginia Airport)
Investment Value = R94 billion
Jobs Created to date = 15 819
Total Jobs = 209 500

Central/North Corridor
(Midway Crossing, Brickworks)
Investment Value = R10.8 billion
Jobs Created to date = 637
Total Jobs = 71 300

TOTAL ESTIMATED INVESTMENT VALUE: R217 BILLION

TOTAL ESTIMATED JOBS: 625 400

***Over 60 year multi project duration*

Inner City Central Corridor
(Point Precinct, Centrum, Dbn Film City)
Investment Value = R22.5 billion
Jobs Created to date = 1 647
Total Jobs = 97 700

N3 West Corridor
(Keystone, Cato Ridge, Ntshongweni)
Investment Value = R32.5 billion
Jobs Created to date = 3 000
Total Jobs = 25 000

N2 South Corridor
(Automotive Supply Park)
Investment Value = R3 billion
Total Jobs = 7 800

‘QUICK WIN’** CATALYTIC PROJECTS AWAITING INTERVENTION

1. NTSHONGWENI PHASE 1

Investor	Investment Value	City Contribution	Developer Contribution	Start & Finish Date
Fundamentum/THD	R8bn	R328m	R0 to bulk infra	2021-2030

ESTIMATED PROJECT IMPACT ONCE IMPLEMENTED
(over total project duration)

- **Annual Rates: R500m**
- **GDP contribution: R8,9bn**
- **Jobs: 8,500**

***A selection of projects which can be reasonably implemented within the remainder of the 2020/21 financial year.*

‘QUICK WIN’ CATALYTIC PROJECTS REQUIRING INTERVENTION

2. OCEANS UMHLANGA

Investor	Investment Value	City Contribution	Developer Contribution	Start & Finish Date
Oceans uMhlanga Pty (Ltd)	R4,2bn	*Still being finalised through Sec 116 of MFMA*	Upgrades to transport infrastructure	2008 - 2068

ESTIMATED PROJECT IMPACT ONCE IMPLEMENTED

(over total project duration)

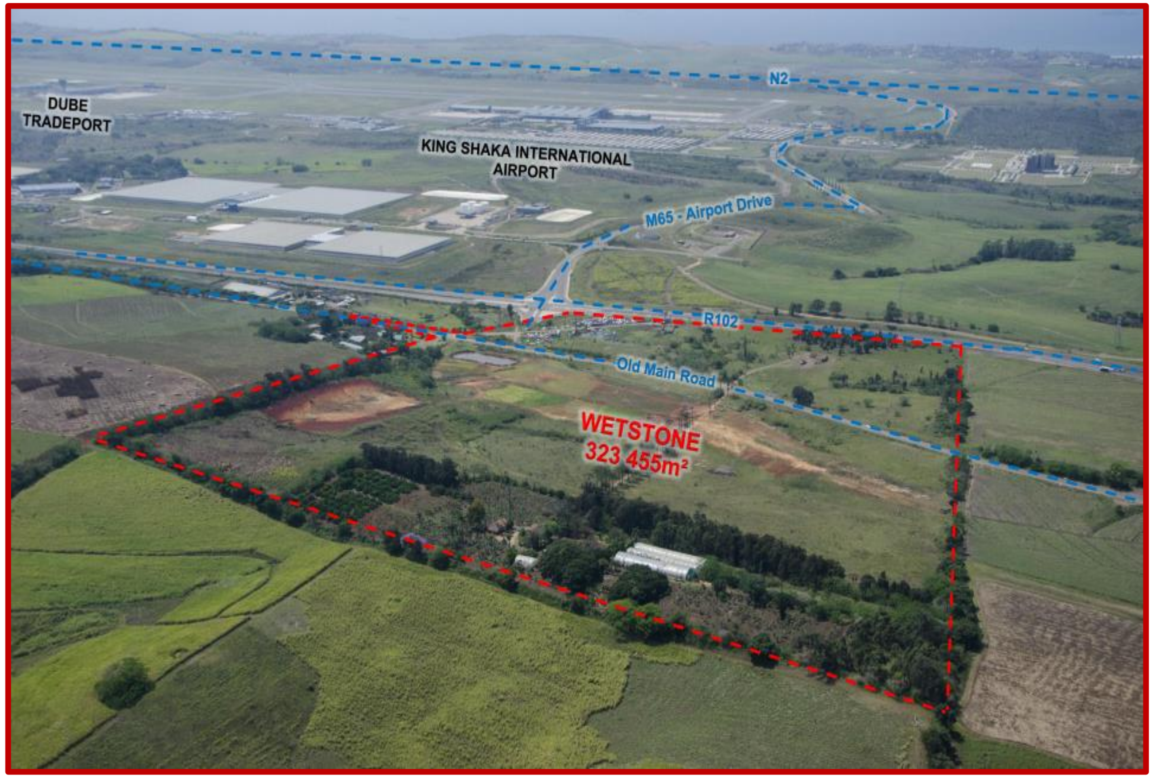
- **Annual Rates: R34,4m**
- **GDP contribution: R4,7bn**
- **Jobs: 21,000 construction**

: 10,300 permanent

‘QUICK WIN’ CATALYTIC PROJECTS REQUIRING INTERVENTION

3. WHETSTONE

Investor	Investment Value	City Contribution	Developer Contribution	Start & Finish Date
Cedar Point Trading	R2,1bn	R5,5m	Electricity link infrastructure	2020 - 2030



ESTIMATED PROJECT IMPACT ONCE IMPLEMENTED
(over total project duration)

- **Annual Rates: R45m**
- **GDP contribution: R779 mn**
- **Jobs: 1,650 construction**

: 1,000 permanent

‘QUICK WIN’ CATALYTIC PROJECTS REQUIRING INTERVENTION

4. KEYSTONE

Investor	Investment Value	City Contribution	Developer Contribution	Start & Finish Date
Rokwil	R6,5 billion	R0m	Est. R480m	2015 - 2023

ESTIMATED PROJECT IMPACT ONCE IMPLEMENTED

(over total project duration)

- **Annual Rates: R179m**
- **GDP contribution: R7,2 bn**
- **Jobs: 6,500**

3. OTHER MAJOR INVESTMENTS

ATTRACTING FOREIGN DIRECT INVESTMENTS

"R3,5 billion in FDI attracted in 2020/2021"

$ ₹ ₿ €

FOREIGN DIRECT INVESTMENT(FDI) GAINS IN DURBAN'S ECONOMY

South Africa
DURBAN
INVESTDURBAN

Despite COVID,
R3,5 bn in FDI attracted
in 2020/2021 financial year

- **Toyota is Durban's main investment** attracted in 2020 (R2,43 bn).
- Number of announced projects: In 2020, Durban experienced a **significant decline of 71%** compared to the previous year

Sector	Company	Value	Project Type
Automotive	**Toyota South Africa Motors**	**R2.43b**	**Expansion underway; COVID linked FDI Aftercare**
Agri-processing	**Kerry Foods**	**R800m**	**Expansion underway; COVID linked FDI Aftercare**
Chemicals	**H&R Africa**	**R200m**	**Expansion underway; COVID linked FDI Aftercare**
Property Development	**JK Props UK**	**R100m**	**New - still a WIP**
Agri-processing	SAPPI	R7bn	Expansion underway; COVID linked FDI Aftercare
ICT	ONDO Smart Farming Solutions	TBA	New - still a WIP
Property Development	Anchor Properties	R150m	Expansion underway; COVID linked FDI Aftercare
Global Business Services	Ignition, Capability BPO, Outworx, Blake, Synergy, CCI, Miracle Communications	R800m	Expansion - Still a WIP
ICT/Electronics	Conlog	R250m	Expansion completed; COVID linked FDI Aftercare
Property Development	Gap Prop Inner City JV/PPP	TBA	Expansion - Still a WIP
Agri-Tech	Crop Data India	TBA	Expansion - Still a WIP
	Sub Total	R12.43bn	

TOYOTA

4. MUNICIPAL CAPITAL EXPENDITURE

SPENDING ADJUSTED CAPITAL BUDGET FOR ETHEKWINI MUNICIPALITY IN 2020/2021 FINANCIAL YEAR (R5,42bn)

ESTIMATED IMPACT OF MID-TERM CAPITAL EXPENDITURE:

R1,9billion contribution to GDP | 2,100 operational jobs | 1,800 construction jobs

THE ECONOMIC IMPORTANCE OF THE CITY'S CAPITAL EXPENDITURE

ECONOMIC IMPACT AT MID –TERM *[July to December 2020]*

EThekwini Municipality's mid term capital expenditure of R1.6 billion was mainly spent through infrastructure projects, and contributed:

- **R1.9 billion to the Durban's GDP** (this is an additional increase of 0.5% to the City's annual GDP, although this was offset by production losses encountered during lockdown levels) and **3 900 jobs** (2100 operational and 1800 construction).

Operational Impact

2020 GDP losses offset by R997mn

- Counts **0,33%** of annual GDP
- **92%** is derived from financial & business services, trade, transport & manufacturing sectors

2 071 operational jobs.
This would have expanded the annual labour market by **0.2%** however expansions were offset by job losses due to lockdown levels

Distribution of skill levels:

- High - **20%**
- Middle – **49%**
- Low - **31%**

Construction Impact

2020 GDP losses offset by R941mn

- Counts **0,31%** of annual GDP
- Almost **60%** is derived from construction and manufacturing

1 835 temporary jobs.
This would have expanded the annual labour market by **0.17%** however expansions were offset by job losses due to lockdown levels

Distribution of skill levels:

- High - **20%**
- Middle– **44%**
- Low - **36%**

CONTD… DETAILED ECONOMIC IMPACT

THE DURBAN EDGE

Construction phase impact

Impact per sector	GDP Impact	Jobs created
Agriculture	1%	2%
Mining	0%	0%
Manufacturing	21%	16%
Electricity & water	0%	0%
Construction	36%	51%
Trade & accommodation	7%	9%
Transport & communication	10%	3%
Financial & business services	18%	6%
Community services	6%	12%

High impact - Moderate impact- Low impact

Operational phase impact

Impact per sector	GDP Impact	Jobs created
Agriculture	2%	3%
Mining	0%	0%
Manufacturing	11%	8%
Electricity & water	2%	1%
Construction	3%	8%
Trade & accommodation	21%	22%
Transport & communication	19%	4%
Financial & business services	41%	53%
Community services	0%	0%

Household income in R' millions

- Construction phase = R383 increase
- Income levels: H=R242 M=R80 L=R61 increase
- Operational phase = R367 increase
- Income levels: H=R226 M=R82 L=R59 increase

NOTE: All impacts are captured in gross values and must be interpreted as one contributor to final GDP/ jobs/ household income. E.g. GDP would have declined by an estimated 8,3% in 2020. However, this was offset by the City's capital expenditure contribution 0,5% to GDP, resulting in an estimated GDP growth of -7,8%.

CONCLUSIONS

THE DURBAN EDGE

- eThekwini economy is expected to have **declined by 7.8% in 2020**
- Durban's economy is expected to **lose approximately R3,59 billion** in GDP during the second wave/ extended level3.
- Biggest losses have been in manufacturing, trade, construction and travel and tourism respectively
- 115 000 more people were unemployed in the final quarter of 2020; while only 49 000 were able to find work.
- eThekwini economy is expected to **grow by 2.7% in 2021 and 1.4% in 2022**

- **The municipality's main revenue generators are:**
  - Manufacturing,
  - Retail and
  - National Govt/SOEs
- **Fast tracking the implementation of Catalytic Projects is biggest programme in the Municipality's control to grow its revenue and create jobs**
- FDI and Investment is an important contributor to development
- Despite COVID, R3,5 bn in FDI attracted in 2020/2021 financial year

Support required by top political and executive leadership

- Engagement with key stakeholders like **Transnet, DOL, SARS, DTIC** to accelerate practical economic recovery measures
- **More frequent engagement with a greater number of "Anchor Investors"** in key sectors
- Public support on **"Business" Forums,** & swift responses to SOS calls where necessary
- A more strategic & impactful budget allocation to "**Economic Profit Centre Units**" who secure investment

AREAS OF SUPPORT FROM OTHER SPHERES OF GOVERNMENT

WHICH WILL ASSIST IN DURBAN'S ECONOMIC RECOVERY

1. **Second access** to the port is required urgently
2. Provide **simpler framework for private sector partnerships** in bulk infrastructure provision
3. Assistance in developing a **best practice model to move to electricity security** for the City
4. **Housing subsidy model** - realigned and directed towards higher density settlement (**higher densities** create thresholds for economic activity)
5. Simpler compliance and government interaction environment for **small business**
6. **Disjuncture between port operations and head office** creates breakdown in communication
7. Assistance from NT and DTIC to develop and implement a plan **to grow alternate industries amid a declining petrochemical sector**.
8. **Unlocking red tape** related to regulatory processes (e.g. EIA, TIA, WULA, Act 70 of 70, etc) and **budget commitment** to accelerate implementation of **Catalytic Projects**. N3 West Corridor (Keystone, Cato Ridge and Ntshongweni), N2 South Corridor (ASP), and M4 North (Sibaya, Whetstone, Dube Trade Port)
9. **Review mandates and functions of metro cities** to factor in global good practice

"Make better informed decisions with cutting-edge economic insight"

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