



## Economic impact of flooding in KwaZulu-Natal

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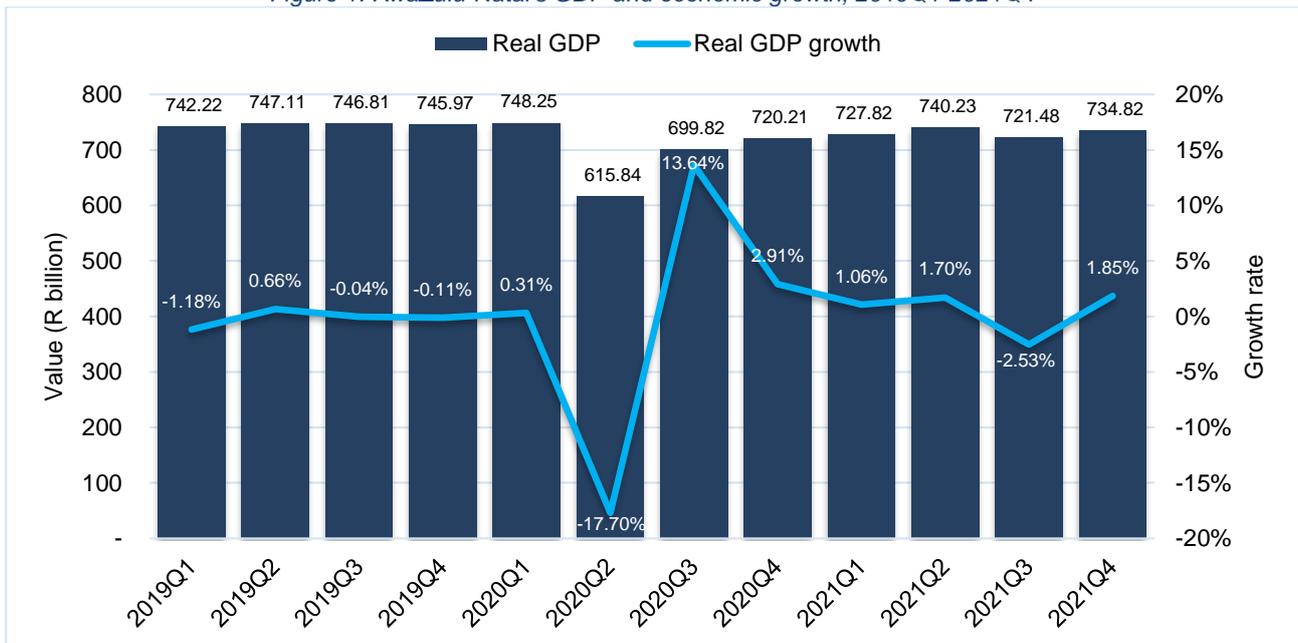
## 1. Introduction

Floods are accompanied by social, economic, and environmental consequences. Flooding leads to destruction to property and the environment, which present enormous costs to society. It negatively affects business operations and productivity as well as gross domestic product (GDP) as resources are directed towards recovery efforts. The direct impact of flood includes non-functioning infrastructure; insurable losses; loss of human lives; destruction of crops; and loss of business and income. Furthermore, ineffective flood responses and relief measures can lead to public discontent, which could result in social unrest. On the contrary, businesses located outside the flood impacted area may indirectly benefit from increased business activities.

## 2. Direct economic impact

The recent floods in KwaZulu-Natal have had a severe impact on economic activity in the province as it brought business operations to a halt in several industries. The floods came at a time when the province was recovering from the effects of last year's riots. As shown in Figure 1, the province recorded a GDP growth of 1.85% in the last quarter of 2021, following a decline of 2.53% in the previous quarter (the period in which the riots occurred). According to preliminary estimates, the eThekweni Municipality will incur over R700 million in operational losses beside the cost of damages to infrastructure and property. The floods have caused major destruction to both private and public infrastructure, with an infrastructure repair bill of R17 billion estimated by the provincial government (PwC, 2022). Moreover, the floods will cost the city of Durban an estimated loss of around 1.8% of annual GDP (Comins, 2022). It is projected that it will take about three months for the city's GDP to recover to the pre-flood level. Being South Africa's second largest provincial economy in terms of the level of economic activity, the disruptive effects of flooding in KwaZulu-Natal will have a notable impact on the country as a whole.

Figure 1: KwaZulu-Natal's GDP and economic growth, 2019Q1-2021Q4

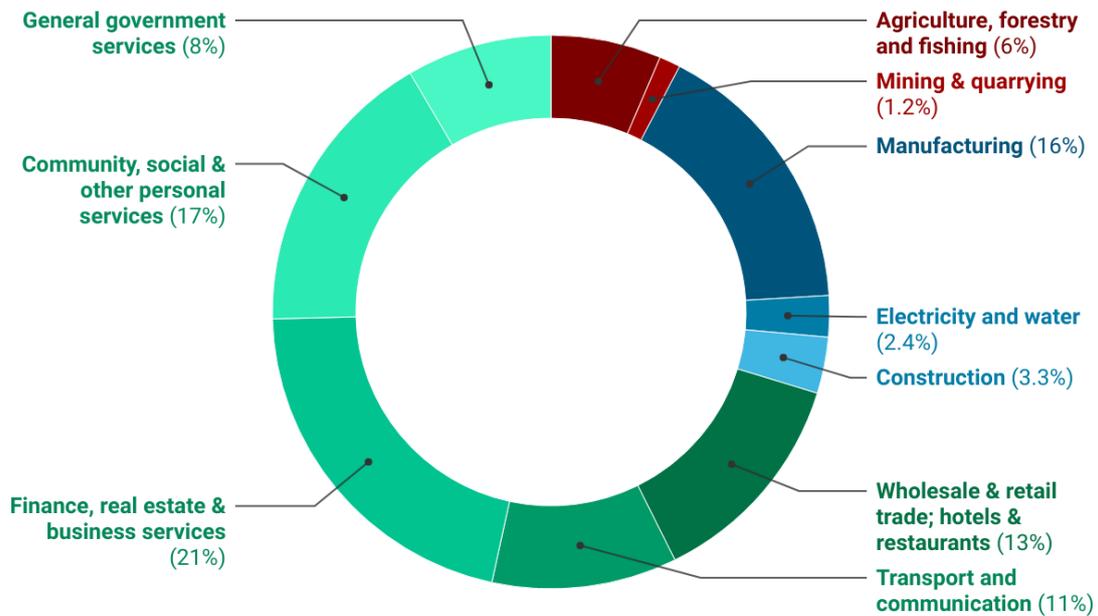


Source: Quantec (2022)

Manufacturing, trade, business services, and transport and communication are the sectors that drive economic growth in KwaZulu-Natal. The top five industries with the largest contribution to the province's gross value added (GVA) in 2021 were finance, real estate, and business services (21%); community, social and other personal services (17%); manufacturing (16%); wholesale and retail trade, hotels, and restaurants (13%); and transport and communication (11%) as shown in Figure 2. The province's strong manufacturing base includes paper products, automobile and components, food, and beverages among others.

Most businesses located in the floodplain areas do not have any insurance as insurers are reluctant to cover them because of their high level of exposure. This means that some businesses may struggle to reopen due to the lack of funds.

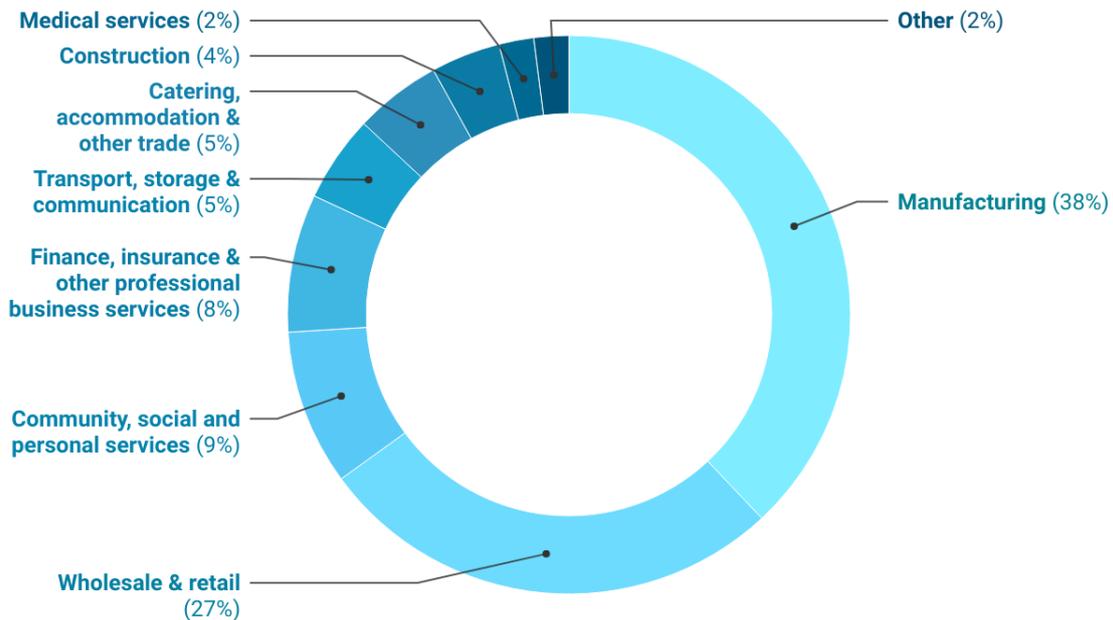
Figure 2: Contribution to GVA, 2021



Source: Quantec (2022)

The flooding has had a negative impact on business activity in KwaZulu-Natal. Workplace activity in the province, on April 13, was 6% below the pre-pandemic level according to data from the Google Community Mobility initiative (PwC, 2022). The majority of the over 1000 businesses located within the flood plains of the eThekweni Municipality were impacted by the recent flooding. About 38% of these businesses are in the manufacturing industry, whereas wholesale and retail trade account for approximately 27% as shown in Figure 3. Some companies in the affected areas (including the likes of Toyota, Sappi, Pioneer Foods, and Mondi) had to temporarily shut down operations.

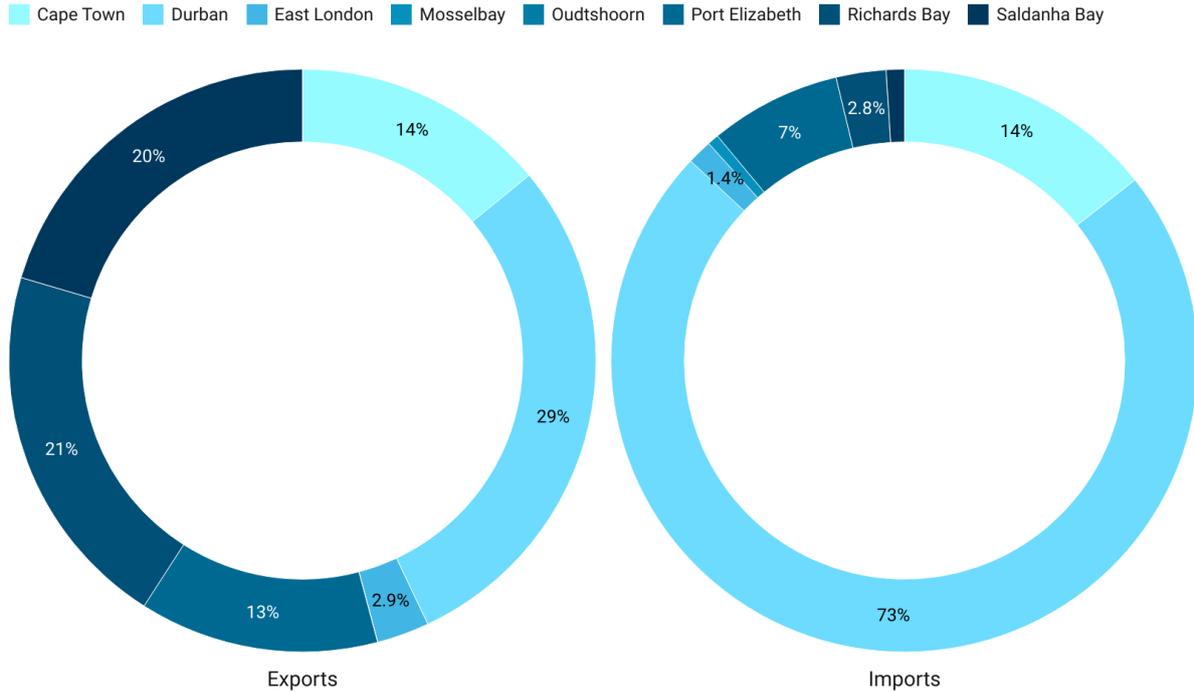
Figure 3: eThekweni businesses at risk per industry



Source: eThekweni Metropolitan Municipality (2022)

The port of Durban is the largest and busiest port in the country and handles three-fifths of container traffic to and from South Africa (PwC, 2022). The port, which accounted for 29% and 73% of exports and imports through the country's sea ports, lost some hours of operation due to the floods. Moreover, the movement of trucks into the port was impacted by the damage to Bayhead Road. The slowdown in port and road traffic will cause supply disruptions. Severe damage to critical railway lines used to transport key commodities including automotives, fuel and grain from Durban to Gauteng will further strain economic activity.

Figure 4: Trade per seaport, 2021



Source: Quantec (2022)

According to PwC (2022), it will take much longer for agriculture, government services and infrastructure to return to normal. The province is an important producer of agricultural products, with the second highest average number of dairy cattle in 2020 (BFAP, 2021). Agricultural production may take longer to return to normal because crops that were destroyed by floods will take another season to be reproduced. Communication, financial services and retail trade, on the other hand, will take two months or less to return to normal, whereas manufacturing, tourism and transport could take between three and six months to return their pre-flood levels. The damage to key transport hubs will have a significant impact on the provincial economy.

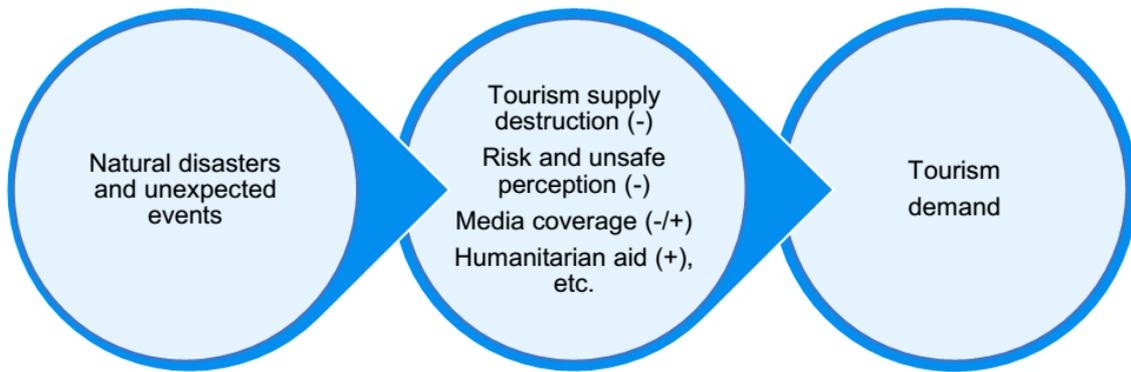
Table 1: Time needed for economic activity to return to normal

	0-2 months	3-6 months	>6 months
Agriculture	Lost crops will take another season to be reproduced.		
Communication			
Financial services			
Government services	Many services continue but education in particular will take a long time to recover.		
Infrastructure	Extensive damage to large public and private infrastructure could take years to fix.		
Manufacturing	Many factories are operational again; full capacity will take time.		
Retail			
Tourism	Many cancellations are expected for near-term bookings.		
Transport	Road and port activity to recover first, rail will take longer.		

Source: PwC (2022)

The province may experience short-term downturns in tourism as images and news of the flooding may lead to bookings being cancelled and a significant reduction in tourist numbers. As shown in Figure 5, natural disasters, such as floods, can have negative impacts of international tourism demand through the destruction to tourism infrastructure, perception of risk and unsafe environment and negative media reportage.

Figure 5: Effects of natural disasters on international tourism



Source: Rosselló, Becken and Santana-Gallego (2020)

### 3. Indirect impact

While the flood is having a direct negative impact on the KwaZulu-Natal economy, businesses outside of the floods zone could have an indirect positive impact resulting from increase in business. As flood affected businesses temporarily shut down their operations, and were thus unable to provide goods and services, business in other parts of the country, such as those in the Western Cape, can seize the opportunity to provide these goods and services. Tourism and agriculture are two industries that can present opportunities for the Western Cape.

**Tourism:** In 2020, KwaZulu-Natal was the second largest contributor to the country's GVA pertaining to the catering and accommodation industry. The province's tourism industry will undoubtedly feel the effects of the floods in the short to medium term. This is because certain aspects of the global tourism industry are highly vulnerable to natural disasters, which leads to declines in tourists' influx and hotel occupancy. The tourism industry in the Western Cape can position itself to attract tourist who may have cancelled or intend to cancel their bookings or trips to KwaZulu-Natal as a result of the recent flooding. Moreover, the frequent flooding in KwaZulu-Natal can, in the long-run, cause changes in tourist behaviour and destination choice. If such a situation should arise, the Western Cape can attract such tourists so that they do not choose another country altogether.

**Agriculture:** The destruction to crops and loss of livestock due to the recent floods will have a damaging effect on KwaZulu-Natal's agriculture industry. The province is strong in agriculture, accounting for over a one third of the country's agriculture GVA. Given the fact that it will take another season for destroyed crops to be reproduced and even longer in the case of lost livestock, the Western Cape's agriculture industry can take advantage of the possible shortfall in agricultural production in the short to medium term.

### 4. Conclusion

While it will take some time to quantify the full extent of the damage and cost caused by the recent floods, there is no denying the fact that the provincial economy and, to some extent, the national economy, will be significantly impacted. The estimated high cost of recovery and relief measures could potentially have an adverse impact on economic development in the province. Manufacturing, trade and transport are some of the sectors that will experience the biggest negative impact in the short to medium term. It may be difficult for some businesses to fully recover due to the lack of insurance and other financial support. This could lead to temporary or permanent loss of business and wages. The loss of livelihoods will have spill over effects on business and commercial activities in the province and beyond.

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