2015 GAUTENG PROVINCIAL ECONOMIC REVIEW AND OUTLOOK

GAUTENG PROVINCE
TREASURY
REPUBLIC OF SOUTH AFRICA

PROVINCIAL ECONOMIC REVIEW AND OUTLOOK 2015

Gauteng Provincial Government

GAUTENG PROVINCE
PROVINCIAL TREASURY
REPUBLIC OF SOUTH AFRICA

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MEC: Finance

Foreword

This year, the Gauteng Provincial Treasury introduces its ninth annual Provincial Economic Review and Outlook (PERO). The 2015 PERO is written during a period of declining economic growth and outlook in South Africa due to both internal and external factors. Although developed economies are stabilising, demand is still weak in those countries, some of which are major trading partners of this country. This has a direct impact on the national and the provincial economies.

This publication provides a detailed review of, and outlook for, the global economy and its impact on the South African economy. There is also an analysis of the labour market, and an outline of the province's Township Economy Revitalisation (TER) strategy. This aims to stimulate economic activity through improved access to markets for township entrepreneurs and an increased commitment to procure from these suppliers.

It has been six years since the world economy felt the 2008/09 recession caused by the global financial crisis, and it has not yet recovered to pre-recession growth levels. In its October 2015 release, the International Monetary Fund (IMF) forecast that growth in world output during the year would be slower than predicted in July. Among the contributors to this is the slowing growth in emerging markets and developing economies (EMDEs).

Demand for commodities is on a downward trend, and this negatively affects commodity-exporting EMDEs. They have also seen depreciation of their currencies and increasing financial market volatility. As an EMDE, South Africa is not an exception to these negative trends.

Gauteng is a significant contributor to the South African economy and its economy is therefore closely linked to that of the country as a whole. The downward risks that affect the country also have an effect on the province. Economic growth was 2.2 per cent in 2013, and 1.5 per cent in 2014, with insufficient electricity supply identified by both the IMF and the National Treasury as one of the major internal factors slowing both the national and provincial economies.

To address the challenges of low growth, the Gauteng Provincial Government (GPG) has committed itself to radically Transform, Modernise and Re-industrialise (TMR) the provincial economy as pronounced by the Premier, Honourable David Makhura, during the 2015 State of the Province address. The Premier, who has brought the TMR to the attention of the public through various other addresses including the launch of Tshepo 500 000 and of the Expanded Public Works Programme (EPWP) Phase III in December 2014, has stated that within the next five to fifteen years he wants to see Gauteng as a socially cohesive and economically inclusive City Region.

Provincial policy initiatives include establishing projects to promote employment. The GPG continues to promote infrastructure projects aimed at increasing economic growth and prosperity. The Tshepo 500 000 programme provides training and placements for young people in jobs offered by identified companies in collaboration with GPG; and Phase 3 of the EPWP has already created 15,000 jobs for young people. The Jozi@Work project focuses on eradicating poverty, inequality and unemployment in the City of Johannesburg (CoJ) by empowering community cooperatives and enterprises. The Kuka Maoto initiative by the City of Tshwane (CoT) is addressing challenges faced by the city's communities by accelerating service delivery and at the same time creating short term employment opportunities.

Key to giving effect to the TMR strategy is the TER, which aims to increase economic participation through training and support offered to township-based entrepreneurs to enable them to benefit from GPG procurement of goods and services. In reaffirming the province's commitment to this initiative, the Premier stated, "We must work towards conditions where every rand generated from the township economy circulates within the township economy and benefits township residents." This will go a long way towards also addressing the issue of external demand.

I wish to extend my sincere gratitude to the Head of the Gauteng Provincial Treasury, Ms Nomfundo Tshabalala, and to the Deputy-Director General of Sustainable Fiscal Resource Management, Mr Jeffrey Mashele, and his team for the successful development and finalisation of this publication.

Honourable B D Creecy
MEC for Finance

TABLE OF CONTENTS

List of Figures

List of Tables

List of Abbreviations

BCI	Business Confidence Index
BRICS	Brazil, Russia, India, China and South Africa
BRT	Bus Rapid Transit
CBD	Central Business District
CCI	Consumer Confidence Index
CoE	City of Ekurhuleni
CoJ	City of Johannesburg
COMESA	Common Market for Eastern and Southern Africa
CoT	City of Tshwane
CPI	Consumer price inflation
DORA	Division of Revenue Act
DTI	Department of Trade and Industry
€	Euro
EAC	East African Community
ECB	European Central Bank
EMDEs	Emerging and developing economies
EPWP	Expanded Public Works Programme
ESM	European Stability Mechanism
ETI	Employment Tax Incentive
EU	European Union
FIFA	Fédération Internationale de Football Association
GBN	Gauteng Broadband Network
GDE	Gauteng Department of Education
GDED	Gauteng Department of Economic Development
GDID	Gauteng Department of Infrastructure Development
GDP	Gross domestic product
GEP	Gauteng Enterprise Propeller
GFCF	Gross fixed capital formation
GIIC	Gauteng Infrastructure Investment Conference
GPG	Gauteng Provincial Government
GVA-R	Gross Value Added by Region
GWH	Gigawatt hour
ICT	Information and communications technology
IDC	Industrial Development Corporation
ILO	International Labour Organisation
IMF	International Monetary Fund
ip	Index point
IPAP	Industrial Policy Action Plan
IPI	Industrial Production Index
IWF	Isivande Women's Fund
JSE	Johannesburg Stock Exchange
LED	Light-emitting diode
MEC	Member of the Executive Council
Metro	Metropolitan district municipality
m-o-m	Month-on-month
MPC	Monetary Policy Committee
MPS	Monetary Policy Statement
MTBPS	Medium Term Budget Policy Statement
MTSF	Medium Term Strategic Framework
NDP	National Development Plan
NEET	Not in education or employment
NGP	New Growth Path
NPC	National Planning Commission
NYDA	National Youth Development Agency
OPEC	Organisation of Petroleum Exporting Countries
PERO	Provincial Economic Review and Outlook

PICC	Presidential Infrastructure Coordinating Commission
PMI	Purchasing Managers Index
PPP	Public-private partnership
PSPP	Public Sector Purchase Programme
QE	Quantitative easing
q-on-q	Quarter-on-quarter
Repo rate	Repurchase rate
SADC	Southern African Development Community
SARB	South African Reserve Bank
SEFA	Small Enterprise Finance Agency
SIP	Strategic Integrated Project
SME	Small or medium enterprise
SMME	Small, medium or micro enterprise
SOE	State-owned enterprise
SOPA	State of the Province Address
Stats SA	Statistics South Africa
T&IS	Townships and informal settlements
TER	Township Economy Revitalisation
TFTA	Tripartite Free Trade Area
TMR	Transformation, Modernisation and Re-industrialisation
tn	trillion
UNDP	United Nations Development Programme
US	United States
VAT	Value-Added Tax
WB	World Bank
WEO	World Economic Outlook
¥	Yen
y-o-y	Year-on-year

Executive Summary

This 9th edition of the Provincial Economic Review and Outlook (PERO), has made an assessment of the Gauteng's economy within the global and national context, and also included township economy revitalisation initiative as a provincial response to challenges of rising levels of inequality, unemployment and poverty. Chapter 1 gives an economic overview of the global economy and of South Africa, whilst Chapter 2 details the economy of Gauteng. Chapter 3 examines the labour market globally, nationally and provincially. Chapter 4 explores the township economy.

Chapter 1 examines several regions of the world that have a significant impact on the economies of the globe and South Africa. Most countries discussed in the chapter are world leading economies and developments in such countries potentially impacting on the economy of South Africa as these countries are our major trading partners. The chapter starts with a discussion on the euro area, where economic growth was recorded at 0.9 per cent in 2014 after contracting by 0.3 per cent in 2013. The effects of the European Central Bank's quantitative easing programme have yet to be felt and the extent of the risk posed by Greece's problems is unclear. Growth is, however, threatened by the possibility that the economy of Greece will continue to underperform.

The United States (US) is predicted to lead growth amongst the advanced economies. The expectation is that the US Federal Reserve Bank would increase interest rates in the near future. US growth has been driven by improved industrial production, particularly oil and gas which contributed to the lower global oil price that has supported growth in the rest of the US economy.

Valued at 10.4 trillion US dollars (US$), China remained the world's second largest economy in 2014. Growth is projected to decline but to remain relatively high at 6.8 per cent in 2015, from 7.3 per cent in 2014. This projection is unchanged from the previous July forecast. The slowing growth rate is attributed to structural changes being undertaken in China including a shift towards a more consumption-based economy and a stance to devalue their currency to enhance appetite for their export market. Other factors include low global demand for the outputs of China's manufacturers. Within the BRICS group, India is the second largest economy after China and in 2005, it made up 2.8 per cent of South African exports and this reached 4.2 per cent in 2014.

The Euro area and China are particularly significant markets for this country as their lower growth has a direct adverse impact on domestic growth. Internal issues are also relevant, most notably a shortage of electricity. South Africa's domestic economic growth was only 1.5 per cent in 2014 and the forecast by the International Monetary Fund (IMF) is for 1.4 per cent in 2015. As indicated in the 2015 Medium Term Budget Policy Statement (MTBPS), National Treasury's projections for GDP growth are for 1.5 per cent in 2015 and 1.7 per cent in 2016. Low growth has translated into poor confidence levels, with consumer confidence at negative 12 index points (ip) in the first quarter of 2015, the second lowest level since 1994, and business confidence at 49ip. This was also lower than the previous level, although to a less extreme extent than the drop in consumer confidence.

The rand has also depreciated, losing 11 per cent of its value against the US$ between the beginning of 2015 and the first week of October 2015. The weakening rand has offset some of the gains that would otherwise have resulted from the lower international oil price, priced in US$. It also makes other imports more expensive. The South African Reserve Bank (SARB) has warned that, with US monetary policy normalisation a significant risk factor, inflation may rise and may force the bank to raise domestic interest rates. The anticipated increase in US interest rates is likely to weaken the rand by drawing financial investment from emerging & developing markets, such as South Africa, to the US.

The economy of the Gauteng province is detailed in Chapter 2. The rate of economic growth fell from 3.5 per cent in 2011 to 1.7 per cent in 2014, but is expected to rise to 2.2 per cent by 2016. National Treasury and the IMF identify electricity supply as one of the primary constraints on local economic growth. The tertiary sector remains dominant, accounting for approximately 75 per cent of the Gauteng economy in 2014. While this is an indication of a relatively modern economy, the industries in this sector are not as labour-intensive as in others, such as manufacturing. This economic concentration also renders the province vulnerable to future events that may negatively affect the tertiary sector

Location quotients calculated for the province indicate that Gauteng has its largest comparative advantage in the finance & business services sub-sector, with a quotient of 1.25. The second largest location quotient, at 1.15, is that of the manufacturing industry, as Gauteng is one of the country's leading industrial hubs. Gauteng contributes approximately 40 per cent of South Africa's manufacturing, finance & business services and government, personal & social services.

In 2014, at 24 per cent, manufacturing accounted for the largest single share of the economy of the City of Ekurhuleni (CoE). In the City of Johannesburg (CoJ), finance & business services contributed the largest share, at 31 per cent. In the City of Tshwane (CoT), at 34 per cent the largest contribution was made by government, personal & social services. Manufacturing made up the largest share of the Sedibeng economy, at 32 per cent. The largest contributor to the West Rand's economy was the mining & quarrying sub-sector, at 34 per cent.

Falling prices of commodities, which account for the majority of the province's exports, contributed to a trade surplus of R24.5 billion in 2011 being followed by trade deficits in 2012 and 2013. At 30.5 per cent of the total rand value, Gauteng's largest export in 2013 was mineral products with precious & semi-precious metals & stones second at 28.7 per cent. Asia was the largest importer of mineral products and Europe the biggest importer of precious & semi-precious metals & stones. Exports of machinery, appliances & electrical equipment and chemical products accounted for 13.3 per cent, combined, and were largely exported to Africa. This suggests that expanding trade with Africa would play an important role in expanding Gauteng's manufacturing. The province's largest single import category was machinery, appliances & electrical equipment, primarily from Asia.

The Radical Transformation, Modernisation and Reindustrialisation (TMR) programme was re-iterated by the Premier of the province, Honourable David Makhura in his February 23rd State of the Province Address (SoPA). The TMR is intended to address low economic growth as it organises the province into five Development Corridors and reinforces their comparative advantages. The programme will also play an important role in addressing the need for investment as it includes both government spending on infrastructure and the encouragement of private sector investment. The TMR gives expression to the goal of an inclusive economy as outlined in the National Development Plan (NDP), through the creation of new economic opportunities by way of encouraging investment and value addition in the production process.

Gauteng Member of the Executive Council (MEC) for Finance portfolio, Honourable Barbara Creecy, has stated that over R94 billion will be spent on economic and social infrastructure in the province over the next three years. Furthermore, alternative funding solutions for Gauteng's infrastructure projects will be explored by the Gauteng Infrastructure Financing Agency (GIFA). The agency will identify projects suitable for alternative financing and seek private partners for such projects while coordinating all strategic infrastructure projects within the province. The manufacturing focus by the TMR should address over-reliance on exports of mining commodities as a source of foreign exchange, supported by the planned expansion of trade with untapped African markets through the Tripartite Free Trade Area (TFTA).

Chapter 3 details the labour market, globally, nationally and in Gauteng. Higher economic growth in most advanced economies is expected to create employment in those countries. A slower growth in the majority of emerging market economies is however being predicted, which is expected to weaken employment growth. The current low commodity prices, particularly of oil, are beneficial for both advanced economies as well as for emerging markets. Unemployment was at 8.5 per cent in the advanced economies in 2013, this is forecast to decrease to 7.3 per cent by 2016. The US in particular, is returning to pre-crisis levels, with its unemployment rate falling from 7.4 per cent in 2013 to an expected 5.5 per cent in 2016. Advanced economies are key drivers of global economic growth, and increased economic activity in these economies is likely to increase global export demand, which in turn presents an opportunity for South Africa as a commodity exporting economy.

In China, unemployment has risen from 4.2 per cent in 2010 to 4.7 in 2014 and it is predicted to reach 4.9 per cent in 2016. In Brazil, investment in preparation for hosting the Fédération Internationale de Football Association (FIFA) Soccer World Cup saw unemployment fall from 7.9 per cent in 2010 to 6.1 per cent in 2012. However, it started rising again and is forecast at 7.3 per cent in 2016. This further illustrates that economic activity, especially in China which is a key trading partner for South Africa, is slowing.

Energy constraints such as shortage of electricity are a bottleneck for economic activities. This in turn has hindered employment creation, with the unemployment rate increasing from 24.3 per cent in the fourth quarter of 2014 to 25 per cent in the second quarter of 2015. Over the same period, the number of unemployed persons increased from 4.9 million to 5.2 million. Employment growth in Gauteng, however, has remained stable, at 3 per cent in both 2013 and 2014. The tertiary sector is Gauteng's biggest employer, with the finance & business services sub-sector accounting for 24.3 per cent of employment, the government, personal & social services accounting for 20.1 and the wholesale & retail trade for 18.3 per cent.

At 25.3 per cent between 2012 and 2014, the province's unemployment rate remains high. In alignment with the New Development Plan (NDP), the New Growth Path (NGP) and the Industrial Policy Action Plan (IPAP), addressing unemployment is therefore a major objective of the TMR programme. Gauteng Provincial Government (GPG) is intensifying its efforts to support small, medium and micro-enterprises (SMMEs) and increase their ability to create employment, especially in townships. It is also assisting entrepreneurs through access to information and communications technology (ICT) and by implementing the Employment Tax Incentive (ETI) which encourages youth unemployment. There are also several projects in the province supported by the Isivande Women's Fund (IWF), a national initiative to assist and empower female entrepreneurs. Provincial policy initiatives have led to establishment of other projects such as the Tshepo 500 000, which is the phase 3 component of the Expanded Public Works Programme (EPWP). This project has already created 15,000 jobs for the youth. Another project is the "Kuka Maoto", established by the CoT. The Jozi@Work project focuses on empowering community cooperatives and enterprises in order to eradicate poverty, inequality, and unemployment in the CoJ.

Chapter 4 examines the township economy in Gauteng as an opportunity for employment creation. The Gauteng Township Economy Revitalisation (TER) is part of the broader TMR and has a specific focus on townships. A World Bank study indicates that 70 per cent of the population in Gauteng lives in townships. Many are unemployed and most of those who have jobs work outside the township. Economic activity within the township is therefore largely limited to consumption. Township businesses tend to be small, informal and survivalist, with their owners lacking formal business training and access to capital or loan financing. Many businesses last no more than 3 years of being established. Even for those entrepreneurs who look to support programmes for assistance, such programmes are often based at a distance from the townships.

In advocacy of the TER initiative, Chapter 4 draws on a World Bank study of Diepsloot, one of the province's fastest growing townships. The study found that almost half of Diepsloot's businesses are retailers selling food. Other retailers make up another 24.1 per cent, with most of the rest being service-oriented enterprises. Out of 450 Diepsloot businesses surveyed, 179 were run by the owner alone and only 23 had 5 or more employees. Ownership of the large retailers is not in the hands of township residents, and money spent in such retailers is therefore taken out of the township economy. An increase in light manufacturing producing goods for township residents could support economic growth and employment within the townships. This finding is supported by the Gauteng Department of Economic Development (GDED).

The TER aims to increase the size of Gauteng's economy by ensuring that areas previously experiencing less economic activity, particularly townships, are offered an opportunity to participate more meaningfully in the main stream economic activity, to reduce rising levels of inequality, poverty and unemployment. A number of activities planned around the TER under custodianship of DED include economic infrastructure support and clustered enterprise development; financing and investing in the township economy; ensuring market access; developing branding and quality standards for a township economy enterprise. Other plans include establishing a high-level Inter-government Working Group to guide the coordination, facilitation, monitoring and evaluation of the strategy implementation. Futhermore the GPG has undertaken procument reforms which encourage township based-suppliers to take part in procurement of goods and services available from GPG departments including provincial entities. In Phase 1, the GPG has commited to spend at least 12 per cent of their procurement budgets for goods and services from township businesses and in Phase 2 support will be provided to existing and new township suppliers, to increase the capacity and quality of services which they provide.

Chapter 1: Global and South African Economic Review and Outlook

1.1. Overview

In its October 2015 World Economic Outlook (WEO), the International Monetary Fund (IMF) expects growth for the year to remain moderate with uneven prospects in different countries and economic regions. Global output growth is forecast to average 3.1 per cent, revised down from the projection of 3.3 per cent in the October WEO. Key to the current year's economic prospects is the fact that some countries are still affected by the legacies of the global financial crisis and developments in the euro area.[1]

The IMF also notes that the effects of decreased oil prices from the last quarter of 2014, and movements in exchange rates, will differ between countries and regions. The decline in the oil price, mainly because of increased supply from the Organisation of Petroleum Exporting Countries (OPEC) and availability from sources such as Iran and the United States (US), is expected to shape growth prospects. For oil importing countries, the result can be an increase in disposable income because of the decline in fuel prices and thus input costs.

Growth in advanced economies is forecast to reach 2 per cent in 2015, down from the projected 2.4 per cent in the April Outlook. Growth in the advanced economies is expected to be led by the US, forecast to grow at 2.6 per cent revised down from 3.1 per cent. Output in emerging and developing economies is forecast to average 4 per cent in 2015, revised down from 4.3 per cent. India is expected to grow at 7.3 per cent and China at 6.8 per cent over the period.

The WEO for October 2015 forecasts South Africa's economic growth for the year at 1.4 per cent, revised down from 2 per cent in July. However, data from Statistics South Africa (Stats SA) show the country's economy contracting by 1.3 per cent in the second quarter of 2015. This raised concerns about recession in the following quarter.[2] Despite these concerns, international ratings agency Moody's expects the country to avoid recession and forecasts its growth at 1.7 per cent for the current year.[3]

This chapter looks at economic performance in the euro area; in the US, Greece and Japan; and in selected BRICS member countries, examining their outlook for 2015. Changes in US monetary policy stance may affect the global economic outlook as well as currency performance of Emerging Market and Developing Economies (EMDEs), while the impact of Greece's bail-outs remain under continuous review by the European Central Bank (ECB). Economic outlook for Japan remains important as it is one of the South Africa's Asian major trading partners. Most countries discussed in the chapter are world leading economies and major developments in such countries affect the economy of South Africa as they are our major trading partners.

In the year 2005, the whole European region accounted for 35.4 per cent of South Africa's total exports and this declined to 22.2 per cent in 2014. South Africa's imports from the region declined from 39.8 per cent to 29.4 per cent in the same period. Exports to the US amounted to 9.5 per cent in 2005 but this has since declined to 7 per cent in 2014. Japan accounted for 10.3 per cent of the country's total exports in 2005 and this decreased to 5.5 per cent in 2014.

China is the biggest economy within the BRICS group and in 2005, it constituted 2.6 per cent of the country's total exports, this reached 9.8 per cent in 2014. Imports grew from 9 per cent to 15.5 per cent between the two years. India is the second biggest economy within the BRICS group and in 2005, made up 2.8 per cent of South African exports and this reached 4.2 per cent in 2014. Brazil, as one of the BRICS country is discussed for comparative reasons. The chapter also highlights country-specific structural changes and challenges to economic growth.

[1] IMF (October 2015). World Economic Outlook: Adjusting to Lower Commodity Prices. Washington DC. IMF (July Updates 2015). World Economic Outlook: 2015. Washington D.C.

[2] Statistics South Africa (2015). Gross Domestic Product Second Quarter 2015. Pretoria.

[3] Moody's (2015). 'South Africa's Growth Curbed by Energy shortages, Lower Commodity Prices and Global Uncertainty': Retrieved from https://www.moodys.com/research/Moodys-South-Africas-growth-curbed-by-energy-shortages-lower-commodity-PR_333795

1.2. Euro Area Economy

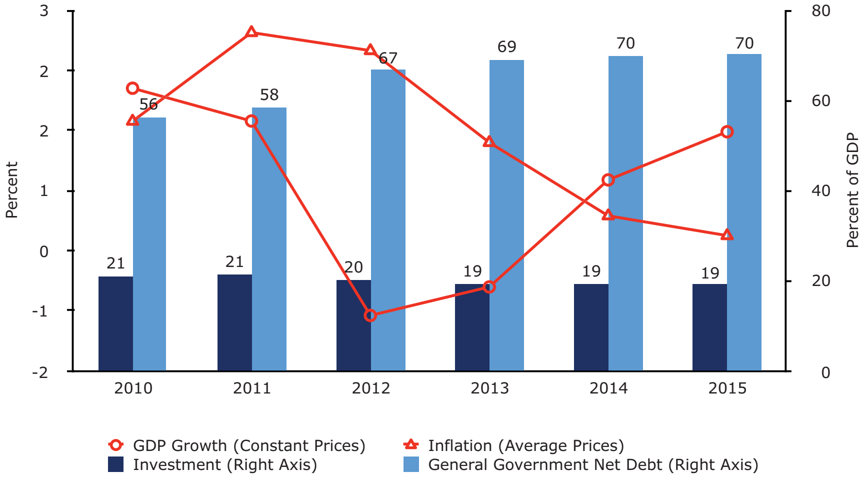
The euro area is an economic region that consists of European Union countries that have adopted the euro as their national currency. The region has 19 countries and a population of about 340 million. Member countries in the region enjoy the benefits of using one common currency and have one monetary policy stance, implemented by the European Central Bank (ECB), Germany and the national central banks of the member countries.[4] The region was affected by the 2008/2009 global financial crisis, with member countries such as Greece still struggling to recover from its effects.

In 2014, the region's economy grew by 0.9 per cent after contracting by 0.3 per cent in 2013. It is forecast to have grown at 1.5 per cent in 2015. The biggest contributor to the region's economy was Germany, accounting for 28.8 per cent of the region's total output in 2014.[5] The following section analyses the region's economic performance using various indicators. The latter parts of the section look specifically at Greece's economic performance.

1.2.1. Economic Growth Continues to be Constrained

The pace of recovery in the European economies remains slow, as the region struggles to overcome the legacies of the financial crisis. While private consumption demand remains the main driver of the current recovery, growth in the region is expected to decline.

Figure 1.1: Economic Performance, 2010-2015*



Source: IMF Database, 2015

Note: * indicates forecasts. Numbers are rounded off to the nearest decimal place.

Figure 1.1 shows the performance from 2010 to 2014 of the euro area's economy in terms of various economic variables, with the forecast for 2015. At negative 0.8 and negative 0.3 per cent respectively in 2012 and 2013, the region's economic growth was negative in two out of the six years shown. It reached 0.9 per cent in 2014 and it is projected to be at 1.5 per cent in 2015.

Despite this slow growth, economic activity has been characterised by increasing government debt austerity measures. The region's net government debt as a percentage of gross domestic product (GDP) increased from 56 per cent in 2010 to 70 per cent in 2014. It is forecast to remain at 70 per cent in 2015.

Average consumer prices for the region fell from 2.7 per cent in 2011 to 0.4 per cent in 2014 and are forecast to be 0.2 per cent in 2015. The region continues to face the risk of deflation, an indication of its low level of economic activity.

[4] European Commission (2015). Retrieved from http://ec.europa.eu/economy_finance/euro/adoption/euro_area/index_en.htm

[5] IMF (2015). World Economic Outlook Data Base. Retrieved from http://www.imf.org/external/pubs/ft/weo/2015/02/weodata/weorept.aspx?pr.x=43&pr.y=12&sy=2013&ey=2020&scsm=1&ssd=1&sort=country&ds=.&br=1&c=122%2C941%2C124%2C946%2C423%2C137%2C939%2C181%2C172%2C138%2C132%2C182%2C134%2C936%2C174%2C961%2C178%2C184%2C136&s=NGDPD&grp=0&a=#download

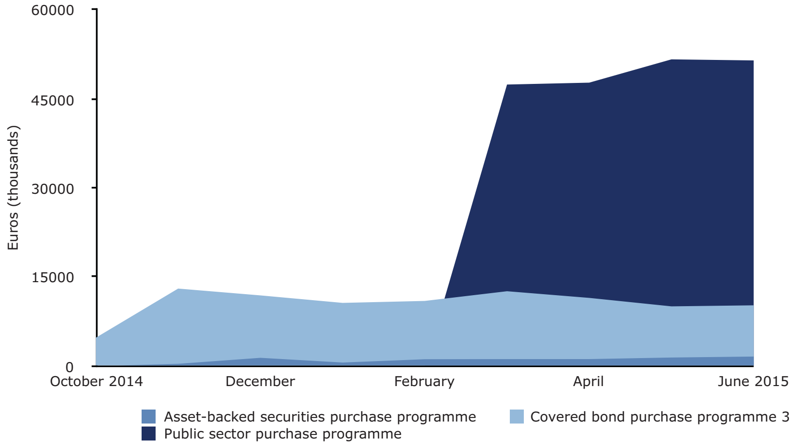
As a percentage of GDP, total investment was 21 per cent in 2010 and 19 per cent in 2013 and 2014, the level at which it is expected to remain in 2015.

1.2.2. The Impact of the European Central Bank's Quantitative Easing (QE) is Yet to be Felt

QE is a policy measure enacted by a central bank where it increases the supply of money by purchasing government and corporate bonds. This is done to increase the rate at which commercial banks lend money to the public; it therefore affects growth in economic activity. Due to low growth and high levels of debt, the ECB opted to introduce QE to stimulate economic activity in the euro area region.

In September 2014, the ECB introduced a Public Sector Purchase Programme (PSPP) through which the euro system would purchase sovereign bonds from governments and securities from state institutions and national agencies. The ECB announced the expansion of its asset purchase programme in January 2015. The asset purchases commenced in March 2015 and are expected to last until mid-2017. The purchases amount to 60 billion euros (€) every month. The impact of these asset purchases has yet to be felt.[6]

Figure 1.2: Types of Asset Purchases, October 2014-June 2015

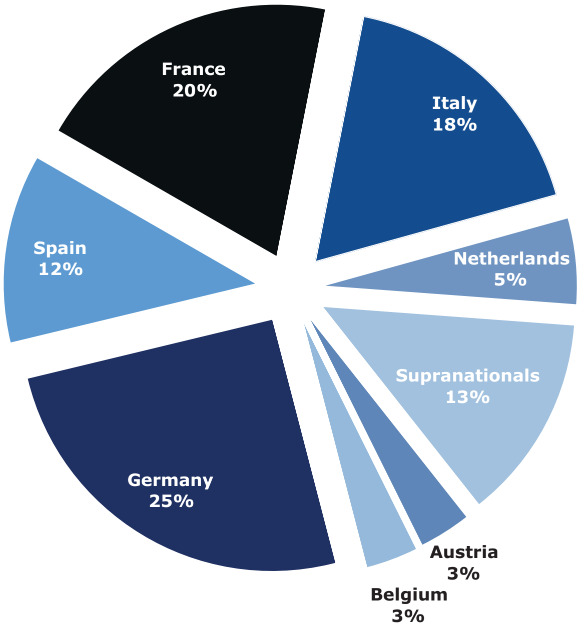


Source: European Central Bank, 2015

Figure 1.2 shows the European Bank's private and public asset purchases from October 2014 to June 2015. It shows that purchases of asset-backed securities have been relatively small, and covered bond purchases at below €15 million over the period. In an effort to revive growth in the region, since February 2015 the ECB has embarked on an aggressive programme of purchasing assets which grew from €12 billion to over €63 billion in June 2015. This indicates the intention of the ECB to bring about stability in the economic activities of the region.

[6] Bruegel Policy Contribution (2015). European Central Bank Quantitative Easing: The Detailed Manual. Brussels.

Figure 1.3: Public Asset Purchases by Country, 2015



Source: European Central Bank, 2015

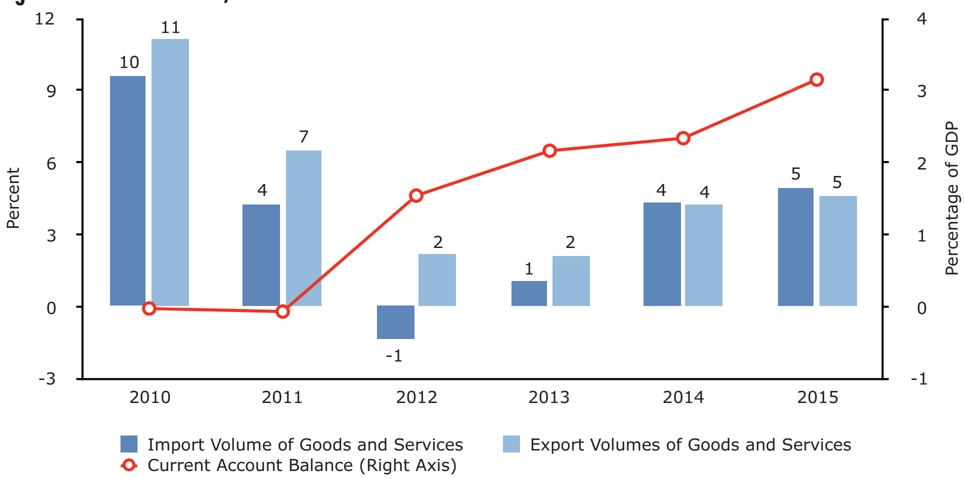
Note: Numbers are rounded off to the nearest decimal in the figure. Certain countries such as Estonia, Lithuania, Malta and Latvia did not have any purchases.

Figure 1.3 is an extension of Figure 1.2 and looks at the proportion of public assets and state entities purchased by major countries as at June 2015. It is worth noting that countries such as Greece, which are receiving the bailout[7], do not form part of this purchasing pattern. Conversely, countries with larger economies, such as Germany, account for the largest share of the asset purchases. Although not indicated in the figure, countries such as Finland and Portugal accounted for the smallest shares of the purchases at 2 per cent each. It is expected that the ECB's asset purchases will continue at the present monthly rate of €60 billion until mid-2017.[8]

1.2.3. The Euro Area's Trade Position

Due to the openness of its trade regime, the euro area is one of the biggest players in global trade. The region is the largest exporter of manufactured goods and remains the biggest export destination for more than 80 countries.

Figure 1.4: Trade Position, 2010-2015*



Source: IMF Data Base, 2015

Note: * indicates forecasts. Numbers are rounded off to the nearest decimal.

7 Bailout refers to a rescue of an economic entity from insolvency or the potential of one by another economic body.

8 The Economist (2015). 'ECB's Programme for QE to Stretch to Mid-2017': Retrieved from http://country.eiu.com/article.aspx?articleid=233473407&Country=France&topic=Economy

Figure 1.4 shows the trade position of the euro area region from 2010 to 2014, with the forecast for 2015. Growth in imported goods and services fell from 9.6 per cent in 2010 to negative 1.3 per cent in 2012. It rose to 1 per cent in 2013 and to 4.3 per cent in 2014, and is projected to be at 4.9 per cent in 2015. Growth in exported goods and services was at 11.1 per cent in 2010, 2.1 per cent in 2012, 2.1 per cent in 2013 and 4.2 per cent in 2014. It is forecast to reach 4.6 per cent by the end of the review period.

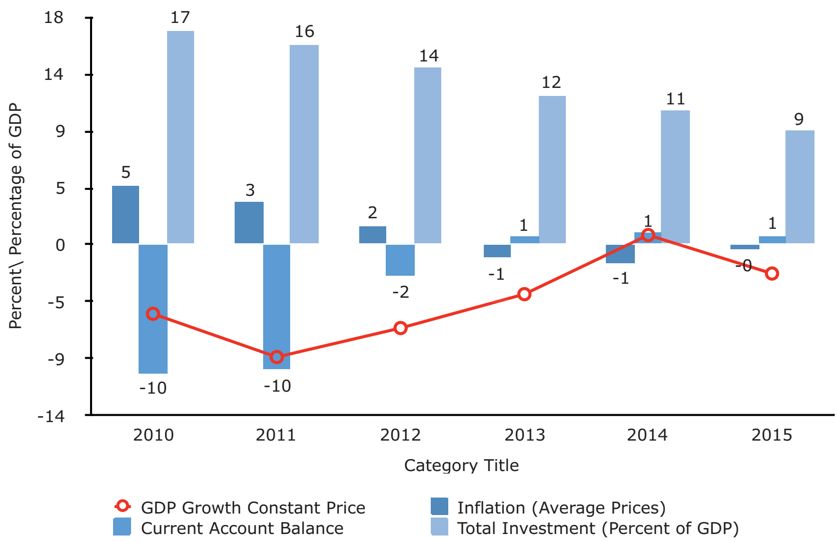
The current account balance as a proportion of GDP commenced the review period in negative territory before rising to 1.5 per cent in 2012 and 2.3 per cent in 2013. It is expected to be at 3.2 per cent by the end of 2015. The improvement in the trade balance may not necessarily be positive as it does not result from increased exports but from a decline in domestic demand for imported goods and services in the region's economy. This has negative implications for the region's trading partners such as South Africa.

1.2.4. Concerns Remain Regarding the Potential Exit of Greece from the Euro Area

Greece remains one of the economies most affected by the global financial crisis. It has struggled to recover to pre-crisis level and its growth rate continues to be negative. Since the start of 2015, euro area member countries have called for much stricter measures in financing the country's debt.

In July 2015, the Greek government applied for financial assistance under the European Stability Mechanism (ESM). This is a strategy aimed at safeguarding financial stability in the euro area. Greece's failure to pay its debts led to the temporary closure of the country's banks. An agreement reached at the beginning of July saw an amount of € 86 billion being made available to the country until August 2018, with €13 billion released on 20 August.[9] However, despite the fact that its economic activity is expected to improve, growth prospects retain downside risks. These increase the risk of further default.

Figure 1.5: Economic Performance, Greece, 2010-2015*



Source: IMF Data Base, 2015

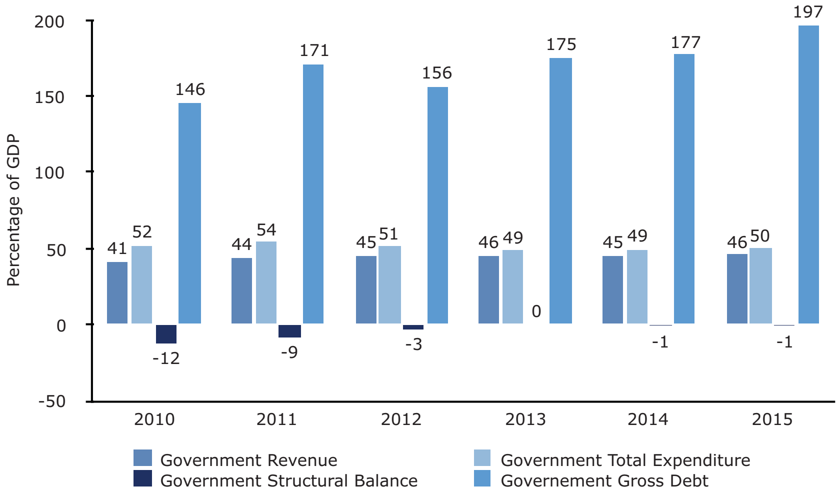
Note: * indicates forecast. Numbers are rounded off to the nearest decimal in the figure.

Using various economic variables, Figure 1.5 shows Greece's economic performance from 2010 to 2014 and the forecast for 2015. It indicates that the country's economic growth was negative for most of the period, although it improved from negative 8.8 per cent in 2011 to 0.7 per cent in 2014. It is expected to grow at 2.3 per cent by 2015. The country's current account balance as a percentage of GDP has also improved and is expected to be positive in 2015.

[9] European Stability Mechanism. (2015). Greece: Retrieved from http://www.esm.europa.eu/assistance/Greece/index.htm

The country's average consumer prices declined from 4.7 per cent in 2010 to 1.5 per cent in 2012. By 2013, consumer price deflation had set in, with growth at negative 1.4 per cent. Price deflation is projected to be negative 0.4 per cent in 2015. Figure 1.5 also indicates that although total investment as a percentage of GDP has remained positive, it declined from 16.9 per cent in 2010 to 10.6 per cent in 2014. It is forecast to reach 9 per cent in 2015.

Figure 1.6: Sovereign Debt Performance, Greece, 2010-2015*



Source: IMF Data Base, 2015
Note: * Indicates Forecast

Figure 1.6 shows Greece's sovereign debt performance from 2010 to 2014, and the forecast for 2015. Due to the slowdown in economic activity, government revenue as a proportion of GDP declined over the period, with total expenditure as a proportion of GDP showing a similar trend. Despite the decline in expenditure, debt as a share of output for the country rose until 2014 but is forecast to decrease in 2015. The slowdown in economic activity has led to a decline in revenue collection, resulting in the country having to borrow to finance its expenditure.

1.3. The US Economy

Bad weather slowed economic activity in the first quarter of 2015, but the US economy is expected to lead growth amongst advanced economies in the year. As a result of improving employment levels and rising growth momentum, the Federal Reserve Bank has been expected to start increasing rates towards the latter part of the year.[10]

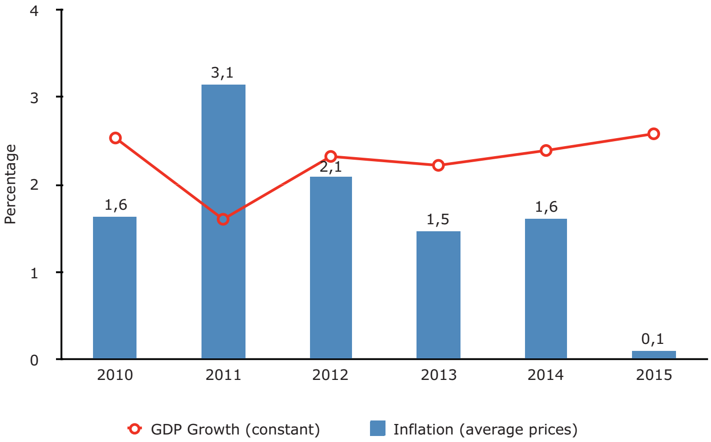
1.3.1. Economic Growth Benefiting from Lower Oil Prices

Economic activity in the US recovered faster than expected in the second half of 2014[11], with growth averaging 4 per cent in the last three quarters of the year. This increase in economic activity was supported by the increase in consumer purchasing power resulting from the decline in the prices of Brent crude oil. The October 2015 WEO indicated that consumption remains the key driver of growth, resulting from a steady growth in jobs and in income creation.

10 Bureau for Economic Research (2015). Economic Prospects: Economic Activity Expected During 2015 and 2016. Stellenbosch.

11 Federal Reserve Bank (2015). Monetary Policy Report. Washington D.C.

Figure 1.7: Economic Growth and Inflation, 2010-2015*



Source: IMF Data Base, 2015
Note: * indicates forecast

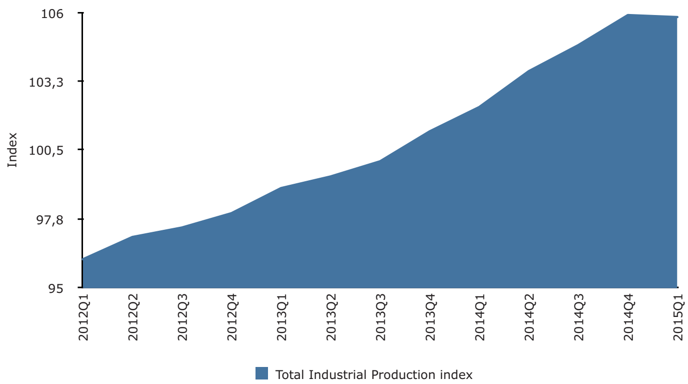
Figure 1.7 shows growth in US output and average price movement from 2010 to 2014, with the forecast for 2015. The figure shows the growth rate at 2.5 per cent in 2010, 1.6 per cent in 2011, 2.3 per cent in 2012, 2.2 per cent in 2013 and 2.4 per cent in 2014. It is forecast to reach 2.6 per cent in 2015.

Growth in average prices also fluctuated, from 3.1 per cent in 2011 to 1.5 per cent in 2013 and 1.6 per cent in 2014. The figure for 2015 is expected to be 0.1 per cent.

1.3.2. Industrial Production Remains Robust

In line with improved economic growth, US industrial production measured by its Industrial Production Index (IPI) continues to rise. The IPI measures the amount of output from the manufacturing, mining, electric and gas industries.[12] The rise is also driven by the US's efficient oil production and reduction in drilling costs. These have contributed to the current decrease in global oil prices.[13]

Figure 1.8: IPI, 2012 Q1-2015 Q1



Source: Federal Reserve Bank, 2015

Figure 1.8 shows US IPI performance from the first quarter of 2012 to the first quarter of 2015, and indicates an increasing trend over the period. Despite uncertainty in global markets, the index rose sharply in 2014 boosted by a rise in household disposable income as a result of the decline in oil prices.

[12] Federal Reserve Bank (2015). Industrial Productivity Index. Accessed from http://www.federalreserve.gov/releases/G17/About.htm

[13] Consumer News and Business Channel (CNBC) (2015). Energy. Retrieved from http://www.cnbc.com/2015/09/02/saudis-to-talk-output-cuts-when-crude-dips-below-44-trader.html

1.4. The Japanese Economy

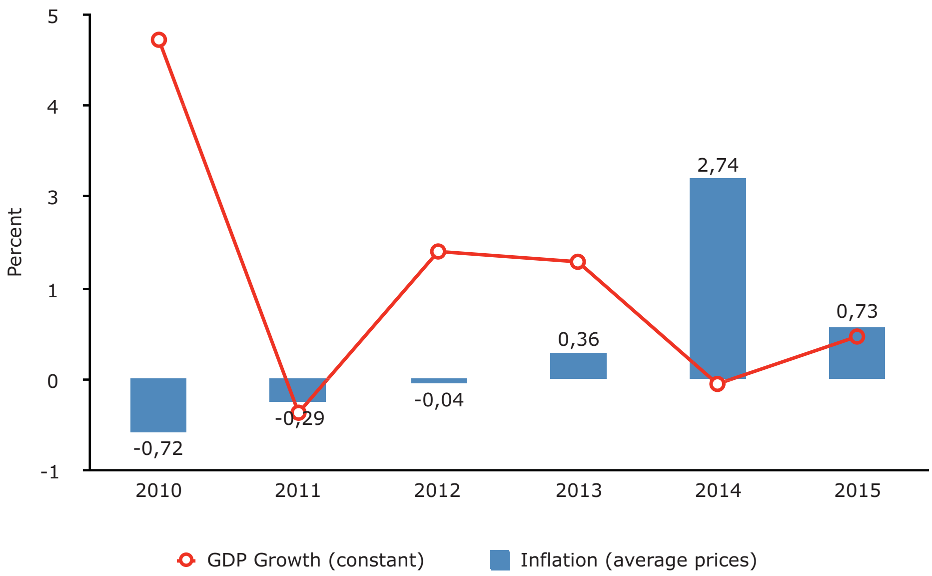
The WEO showed Japanese economic activity contracting by 0.1 per cent in 2014.[14] This was the modest rate compared with the one recorded just after the recession of 2008/2009. In its July 2015 WEO update, the IMF projected the country's economic growth to reach 0.8 per cent by the end of 2015. In October, it revised its projection to 0.6 per cent for the year.[15] This is as a result of continued sluggish consumption and falling residential investment.

1.4.1. Modest Overall Economic Growth in 2014 after the Recession

Introduced in 2012 by the Japan Prime Minister, Shinzo Abe, the concept of Abenomics refers to a set of strategies aimed at taking the country out of spending stagnation, deflation and increasing debt levels. The strategy can be represented by three arrows, representing monetary policy stimulus, robust fiscal policy and structural reform.[16]

Monetary stimulus took the form of QE, with purchases of long term bonds of 80 trillion Yen (¥). The aim was to increase money supply, which would lead to increased prices and rising inflation. Fiscal policy was manifest through increased state spending, which saw the country announce in 2013 an expenditure of ¥10.3 trillion over the short term with the aim of stimulating economic activity. The strategy included an increase in consumption taxes of 2 per cent early in 2013 to push average consumer prices up. Structural reform was carried out by making policy changes which included removing competitive constraints, encouraging greater participation by women in the work force, raising productivity and enhancing labour market flexibility. Despite this, more reform is needed for the Japanese economy to achieve growth.

Figure 1.9: Economic Growth and Inflation, 2010-2015*

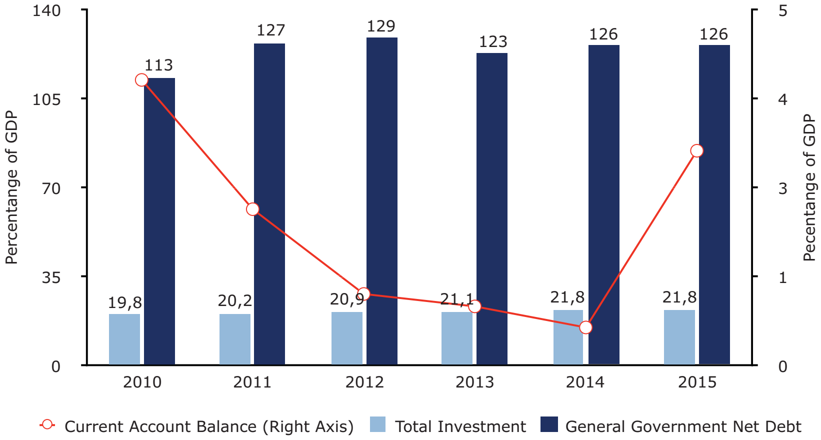


Source: IMF, Data Base, 2015
Note: * indicates forecast

Figure 1.9 shows GDP growth and average price movements for Japan from 2010 to 2014, with projections for 2015. Growth in output fell from 4.6 per cent in 2010 to negative 0.45 per cent in 2011. It recovered to 1.7 per cent in 2012 but fell to 0.1 per cent in 2014. The decline is mainly as a result of sluggish domestic demand and weak residential investment. It is, however, forecast to reach 0.6 per cent in 2015. Growth in average prices remained negative for the first 3 years of the period. It reached a high of 2.74 per cent in 2014, 0.74 percentage points higher than its target of 2 per cent. At 0.7 per cent in 2015, inflation is projected to remain within target.

14 IMF (April 2015). World Economic Outlook 2015: Uneven Growth short-and Long-Term Factors. Washington D.C.
15 IMF (October Updates 2015). World Economic Outlook 2015. Washington D.C.
16 PNC Capital Advisors (2015). The Three Arrows: Abenomics 2.0 An Update on Japan's Bold Pro-Growth Plan: Retrieved from http://www.pnccapitaladvisors.com/resources/docs/PDF/CommentariesArticles/2014Q4/JapanAbenomics1214.pdf?1441292066265

Figure 1.10: Trade and Investment, 2010-2015*



Source: IMF Data Base, 2015

Note: * indicates forecast

Figure 1.10 shows Japan's current account balance, total investment and net government debt as proportions of GDP from 2010 to 2014, and the forecast for 2015. Due to the nature of its economy which produces electronic and other manufactured products, the country's current account remains favourable although declining. The current account balance as a proportion of GDP shows a surplus for the period and this is expected to remain the situation in 2015.

Investment as a share of GDP rose until 2014 and is forecast to reach 21.8 per cent in 2015. At over 100 per cent, Japan has one of the highest debt to GDP ratios. The net government debt ratio was 127.3 per cent in 2014 and is forecast to be 126 per cent for 2015.

1.5. Chinese Economy

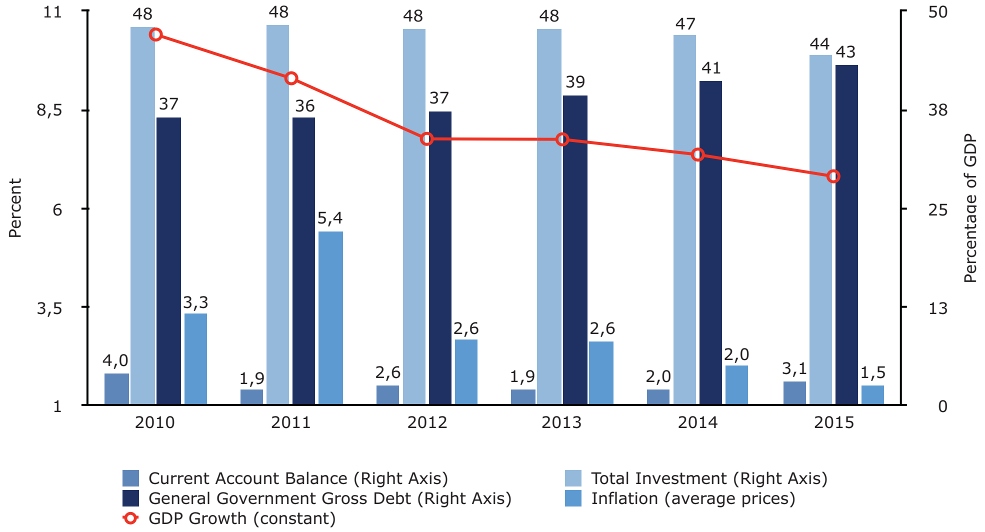
The IMF's country report of July 2015, shows China as the second largest economy in the world in 2014, at $10.4 trillion.[17] Output growth is expected to decline but nevertheless to be at 6.8 per cent for 2015. The decline in economic growth is to some extent regarded as a result of the economic transformation that the country is going through. Among the transformation measures is the intention to have a floating exchange rate within the next two years.

1.5.1. Rebalancing Continues as Growth Slows

China's economic growth declined from 10.6 per cent in 2010 to 7.4 per cent in 2014. This may be as a result of changes to its economic structure that are taking place. The greatest challenge facing the country's policy makers is to maintain 6 to 7 per cent growth while implementing the reforms. These include having a market-based financial system, improving the management of state finances, re-defining the role of state-owned enterprises and the private sector, having a floating exchange rate, shifting to a consumption based economy, lowering the country's savings rate and increasing households' share of national income. The section below looks at China's economic performance over the past decade and at recent developments.

[17] IMF (2015). People's Republic of China: IMF country Report 15/234. Washington, D.C.

Figure 1.11: Economic Performance, 2010-2015*



Source: IMF Data Base, 2015

Note: * indicates forecast. Numbers are rounded off to the nearest decimal in the figure.

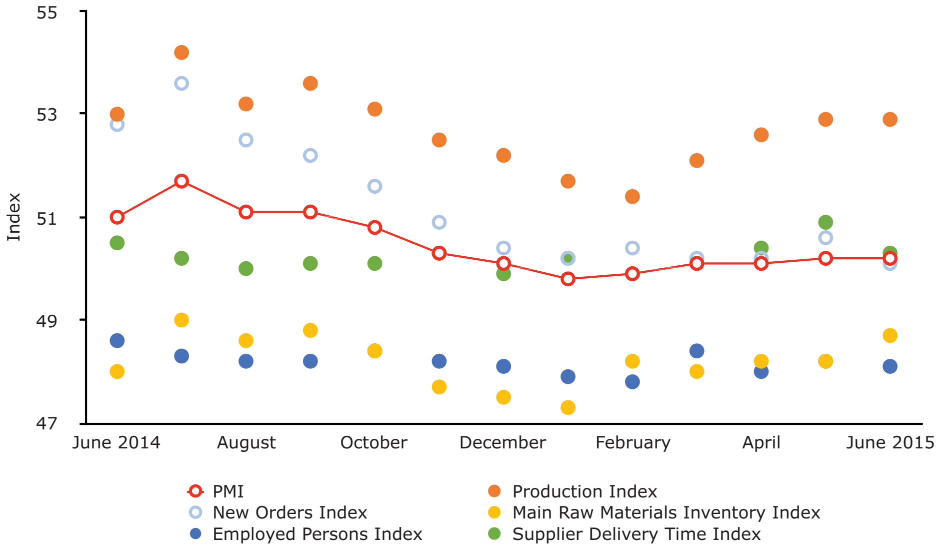
Using a number of variables, Figure 1.11 shows China's economic performance from 2010 to 2014 and the forecast for 2015. Growth in economic activity decreased from 10.4 per cent in 2010 to 7.3 per cent in 2014 and is expected to continue to decline in 2015. The reasons for the decline include the economic reforms being undertaken in the country. Total investment as a proportion of GDP declined slightly from 48 per cent in 2010 to 46.8 per cent in 2014 and is expected to decrease further in 2015. The figure shows that government debt has increased and is projected to reach 43.2 of GDP in 2015. IMF data indicates that, although debt has been supportive of growth since the financial crisis, the transition to a new consumption based growth model may need to slow down over the medium term. The current account balance as a proportion of GDP remained positive over the review period. Inflation has declined since 2011 and was at 2 per cent in 2014, driven by an appreciation in the real exchange rate and falling oil prices. Growth in average consumer prices is projected to fall to 1.5 per cent in 2015.

1.5.2. Growth Remains under Pressure as Industrial Production Decreases

Due to low global demand and a decline in the volume of its exports, the Chinese Purchasing Managers Index (PMI) indicates a decline from the second half of 2014. The PMI measures the performance of the manufacturing sector by conducting surveys of private sector companies and is based on five sub-indices: new orders, output, employment, supplier delivery times and stock items purchased. An index above 50 indicates expansion, an index below 50 shows contraction and 50 indicates no change.[18] The figure below shows the Chinese PMI and its sub-indices.

[18] National Bureau of Statistics of China. (2015). China's Manufacturing Purchasing Managers Index: Retrieved from http://www.stats.gov.cn/english/Statisticaldata/MonthlyData/201307/t20130731_29466.html

Figure 1.12: Performance of PMI and Sub-Indices, June 2014-June 2015



Source: National Bureau of statistics China, 2015

The PMI continued to expand throughout most of the review period, peaking at 51.7 index points in July 2014. This performance was led by the production sub-index, which was at its highest at 54.2 index points in July 2014. The sub-index was at 51.4 points in February 2015 and 52.9 points in June. The employment and raw material inventory indices remained in a contractionary phase for the whole of the review period. The overall performance of the PMI may be regarded as an indicator of slow economic activity in the country.

1.5.3. The Implications for the Chinese Economy of the Normalisation of US Monetary Policy are Uncertain

The decision by the Federal Reserve Bank to normalise US interest rates in the short to medium term has introduced significant uncertainty into financial markets. As a result, emerging markets such as Brazil, China and South Africa have seen significant financial market volatility as investors attempt to anticipate the timing of the permutations of this normalisation. In addition, as global demand remains weak emerging markets such as China are experiencing lower economic growth. To stabilise financial markets, emerging market central banks continue to implement measures such as reducing interest rates and, in the case of China, devaluing the yuan by the People's Bank of China.

1.6. The Indian Economy

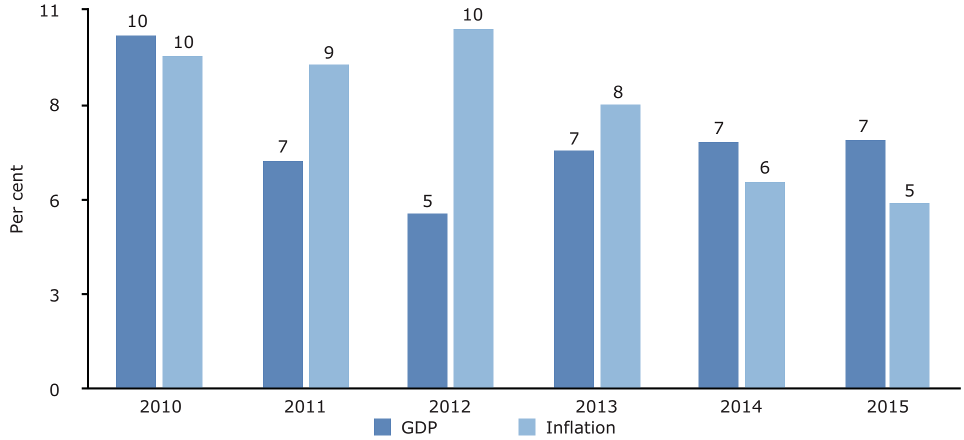
India has the fourth largest economy amongst the BRICS countries and accounted for 9.8 per cent of BRICS output in 2014. The country's economic activity is dominated by the finance and business services sector. This is evidence of the shift of its economy towards knowledge based sectors such as finance and the ICT sectors, a characteristic of most emerging and developing economies (EMDEs). The IMF forecasts that Indian economic growth will average 7.3 per cent in 2015, the same rate as recorded in 2014.[19] This is one of the highest expected output growth rates amongst the BRICS member countries for 2015.

Despite the heavy rains and storms that affected the agricultural sector, supported by a decline in global oil prices the country is expected to have a moderate increase in GDP in 2015. This decline in oil prices is also expected to help slow the country's inflation in 2015.[20]

[19] IMF (October 2015). World Economic Outlook 2015: Adjusting to Lower Commodity Prices. Washington D.C.

[20] Reserve Bank of India (2015). First Bi-monthly Monetary Policy Statement. Retrieved from https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=33628

Figure 1.13: GDP and Inflation, 2010-2015*

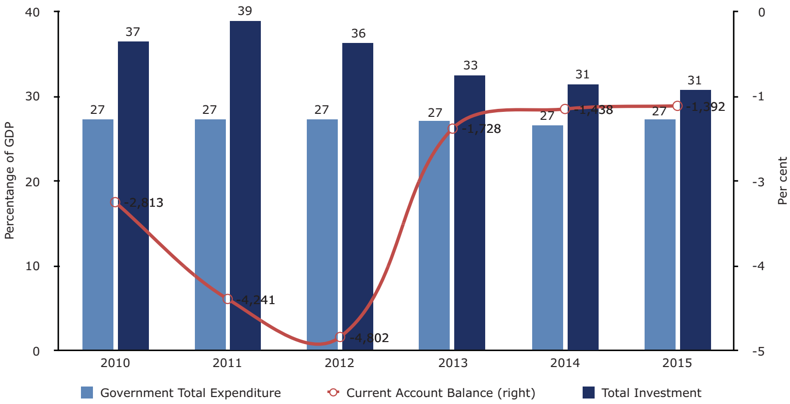


Source: IMF Data Base, 2015

Note: * Indicates forecast. Numbers are rounded off to the nearest decimal in the figure

Figure 1.13 shows GDP growth rate and inflation for India from 2010 to 2014, with projections for 2015. The country's economic rate growth fell from 10.3 per cent in 2010 to 5.1 per cent in 2012, rose in 2013 and is forecast to be at 7.3 per cent in 2015. At 10.2 per cent, growth in average prices reached double digit figures in 2012. This is expected to fall to 5.4 per cent for 2015.

Figure 1.14: Trade and Investment, 2010-2015*



Source: IMF Data Base, 2015

Note: * Indicates forecasts. Numbers are rounded off to the nearest decimal in the figure.

Figure 1.14 gives details of total government expenditure, total investment and the current account balance as a proportion of India's GDP from 2010 to 2014, with a forecast for 2015. Total government expenditure remained relatively flat for the whole period. Total investment as a share of GDP reached a high of 38.9 per cent in 2011, and is expected to decline to 30.7 per cent in 2015. The current account balance was in deficit throughout the review period; it improved to negative 1.3 per cent in 2014 and is expected to be at negative 1.4 per cent by the end of the period. These deficits are the result of increased imports, especially of oil. Reforms in the iron ore mining industry which saw the country reduce its exports of the product to countries such as China also had an impact on trade.[21]

[21] Trading Economics (2015). India: Retrieved from http://www.tradingeconomics.com/india/balance-of-trade

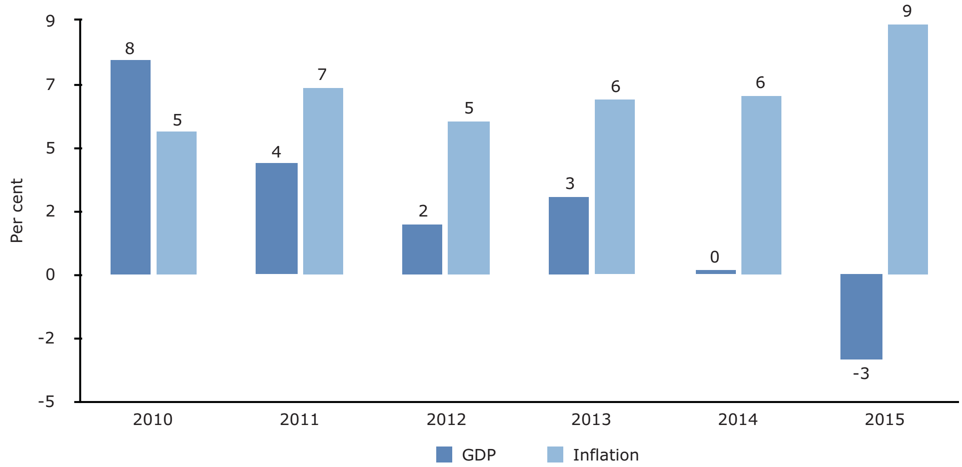
1.7. The Brazilian Economy

Brazil's economy is the second largest among the BRICS member countries and in 2014 accounted for 14.2 per cent of the total. It grew by 1 per cent in 2014 but is projected to contract by 3 per cent in 2015.[22] In its October 2015 WEO, the IMF revised the country's economic growth forecast to negative 3 per cent from negative 1.5 per cent in July.[23] Expanding labour income, which has allowed consumption and credit-led growth, has lost momentum resulting in a slowdown in economic activity. Amid sluggish growth prospects, the Brazilian Development Bank has failed to stimulate investment which has slowed since 2011.[24]

1.7.1. In line With Weak Global Growth, Economic Growth in Brazil Remains under Pressure

The current decline in global commodity prices has had a negative effect on Brazil's economy which depends largely on export of commodities. Currency depreciation in many developing economies has exacerbated the slowdown in output growth. As indicated in Figure 1.16 below, a continued current account deficit can also contribute to contraction of economic activity.[25]

Figure 1.15: GDP and Inflation, 2010-2015*



Source: IMF Data Base, 2015

Note: * indicates forecast. Numbers are rounded off to the nearest decimal in the figure

Figure 1.15 shows GDP growth and average price movement for Brazil from 2010 to 2014, with a forecast for 2015. Growth declined from 7.6 per cent in 2010 to 1.8 per cent in 2012 and to 0.1 in 2014. It is forecast to be at negative 3 per cent in 2015. Average price growth has been relatively high and is expected to reach 8.9 per cent in 2015. This will be above the target range of between 2.5 and 6.5 per cent set by the country's central bank.

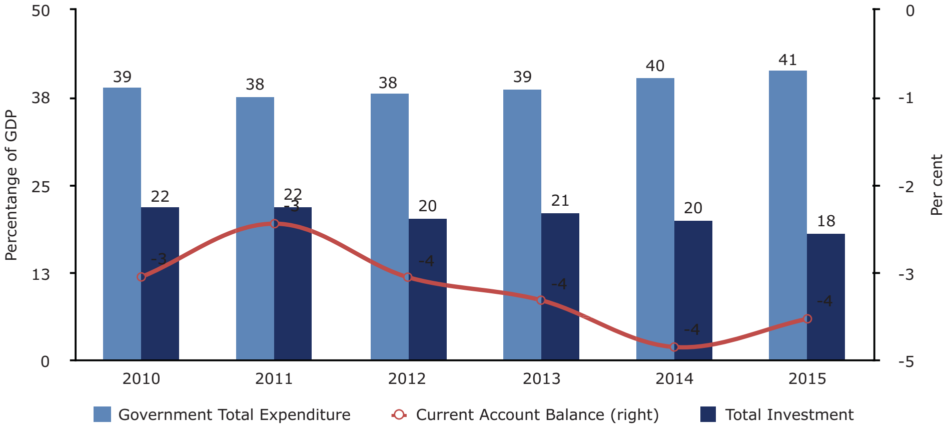
22 IMF. (October 2015). World Economic Outlook 2015: Adjusting to Lower Commodity Prices. Washington D.C.

23 IMF. (July Updates 2015). World Economic Outlook 2015. Washington D.C.

24 IMF. (2015). Brazil IMF Country Report No15/121. Washington D.C.

25 Jayme JR, F.G. (2003). Balance-of-Payment Constrained Economic Growth in Brazil. Brazilian Journal of Political Economy, Vol. 23, January-March 2003.

Figure 1.16: Trade and Investment, 2010-2015*



Source: IMF Data Base, 2015
Note: * Indicates forecast

Figure 1.16 shows Brazil's state spending, total investment and the current account balance as a share of GDP from 2010 to 2014, with a forecast for 2015. Government expenditure as a share of GDP showed a modest change and was highest in 2014, at 40.2 per cent. Total investment decreased over the years shown in the figure. Reasons include a delay in the Brazilian Development Bank's project implementation plans and generally sluggish economic growth. The country had a deficit in its current account for all the years shown, and this is projected to remain the case for 2015.

With the decline in global prices for commodities such as oil and gold, Brazil's economic dependence on natural resources adds to downside risk. This is exacerbated by the strong dollar which makes imports of other products more expensive. As indicated in section 1.7.1, not only has the recent decline in commodity prices worsened the growth outlook for countries that depend on them for revenue, but this is accompanied by depreciation of currencies in many developing economies.

1.8. The South African Economy

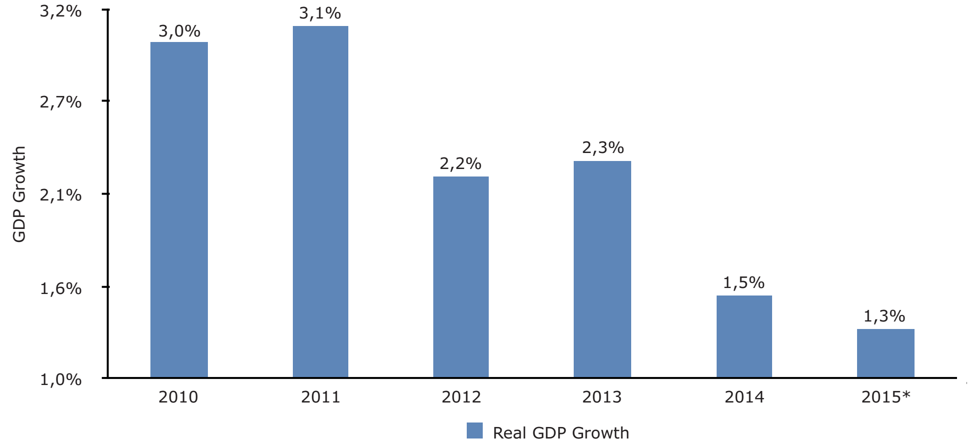
South Africa's economic performance continues to be affected by international and domestic factors. Internationally, the performance of the euro area member countries remains of great importance as they are among the country's major trading partners. Other factors include domestic issues such as the supply of electricity and work stoppages in some sectors of the economy. In 2014, the country recorded a growth rate of 1.5 per cent.[26] The October 2015 WEO forecast a figure of 1.4 per cent.[27] National Treasury has also revised growth downward in the 2015 Medium Term Budget Policy Statement (MTBPS) as presented by the Minister of Finance, Honourable Nhlanhla Nene.[28] Growth for 2015 is estimated at 1.5 per cent and projected to rise marginally to 1.7 per cent in 2016. The section below gives an analysis of the country's economic performance and highlights the effect of energy constraints on the economy. It also deals with inflation and its outlook and with the country's investment and trade performance.

1.8.1. Economic Growth Constrained by Electricity Shortages

Under-performance of the country's economy in 2014 has been attributed to factors which include industrial action in the mining and the manufacturing sectors. In its June 2015 Monetary Policy Report, the South African Reserve Bank (SARB) gave three main reasons for poor economic performance: power outages, weak commodity prices and the fact that the financial cycle was not in a growth accelerating phase. Power outages were first experienced in 2008 but re-emerged late in 2014 and are expected to remain over the medium term. They will be detrimental to the country's economy by slowing down production and affecting future investment.[29]

[26] IMF (April 2015). World Economic Outlook 2015: Uneven Growth Short-and Long-Term Factors. Washington D.C.
[27] IMF (October 2015). World Economic Outlook 2015: Adjusting to Lower Commodity Prices. Washington D.C.
[28] National Treasury (October 2015). www.treasury.gov.za/.../mtbps.../2015/mtbps/speech.pdf
[29] South African Reserve Bank (2015). Monetary Policy Review June 2015. Pretoria

Figure 1.17: GDP Growth Rates, 2010-2015*

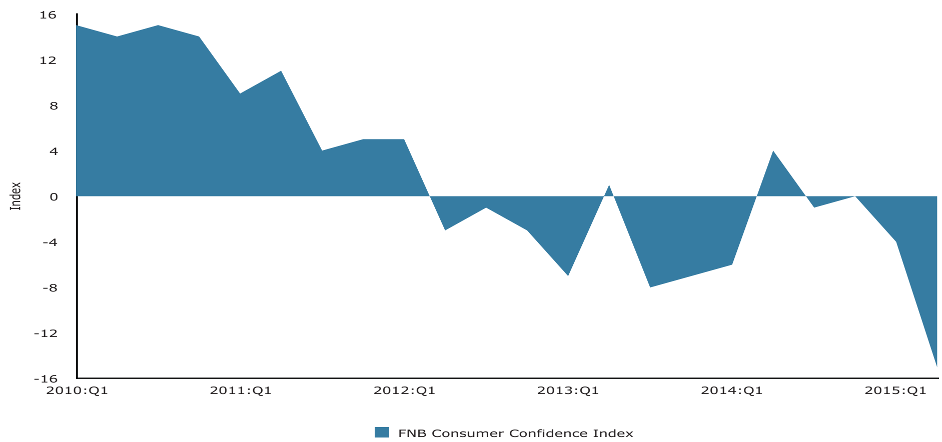


Source: IHS Global Insight, 2015
Note: * Indicates forecast

Figure 1.17 shows GDP growth rates for South Africa from 2010 to 2014, with a forecast for 2015. GDP growth started the period at 3 per cent, reached a high of 3.1 per cent in 2011 and fell to 1.5 per cent in 2014. It is expected to fall to 1.3 per cent in 2015. In its September 2015 Monetary Policy Statement (MPS), the SARB forecast that the country's growth would reach 1.5 per cent for the year.[30]

Using the Consumer Confidence Index (CCI), one of the indicators used to predict future economic activity, the figure below gives information about the country's economic performance. The CCI measures changes in consumer expectations about the performance of the economy. In theory, the index fluctuates between negative 100 and positive 100, but in actuality has fluctuated between negative 36 and plus 13 index points. An index number of zero indicates neutrality; a negative number suggests that consumers expect economic conditions to deteriorate or are pessimistic about future conditions.[31]

Figure 1.18: Consumer Confidence Index, 2010Q1-2015Q1



Source: BER, 2015

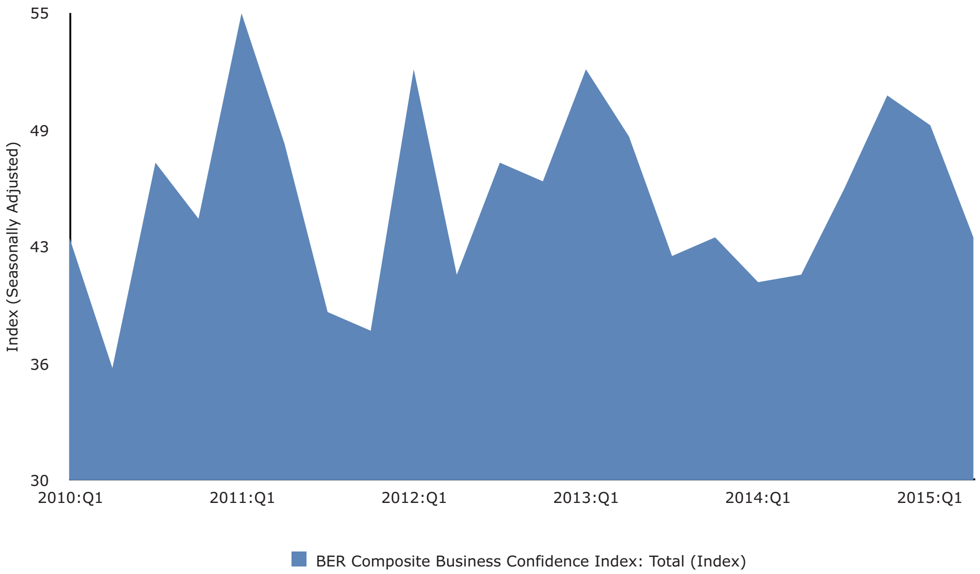
Figure 1.18 shows the CCI for South Africa from the first quarter of 2010 to the first quarter of 2015. It indicates that the index has been volatile, with a declining trend, over the period. At negative 12, the current CCI is not only the lowest since the financial crisis of 2008/09 but it is also only the second time that the index has reached this level since 1994. Labour unrest and power outages were amongst the reasons for the low index in the first quarter of 2015.

30 South African Reserve Bank (2015). Monetary Policy Statement September 2015. Pretoria.

31 Bureau of Economic Research (2000). Measuring Business and Consumer Confidence in South Africa. Stellenbosch.

As well as the CCI, the Business Confidence Index (BCI) is used to gauge future performance of the country's economy. The expectations of business people play a significant role in economic performance, and the BCI measures the views of company executives in the trade, manufacturing and construction sectors about the current and future state of the economy. The BCI is measured on a scale of zero to 100, where zero indicates complete lack of confidence, 50 is neutral and 100 is the highest level of confidence.[32]

Figure 1.19: Business Confidence Index, 2010Q1-2015Q1



Source: BER, 2015

Figure 1.19 shows the BCI for South Africa from the first quarter of 2010 to the first quarter of 2015. It shows the BCI fluctuating throughout the period. At 49 for the first quarter of 2015, the index showed that respondents were almost evenly split between those who were confident and those were not confident about business conditions in the country.[33]

1.8.2. The Rand is Likely to Remain Weak Against Major Currencies

The rand has weakened against major currencies since the May 2015 meeting of the MPC. According to information from the SARB, alongside other currencies, the rand has been sensitive to the global economic outlook and especially to developments in the euro area and particularly in Greece. Other factors affecting the performance of the rand include volatility in the Chinese equities market and declining commodity prices. Due to its vulnerability, the country's currency remains a downside risk factor for inflation.

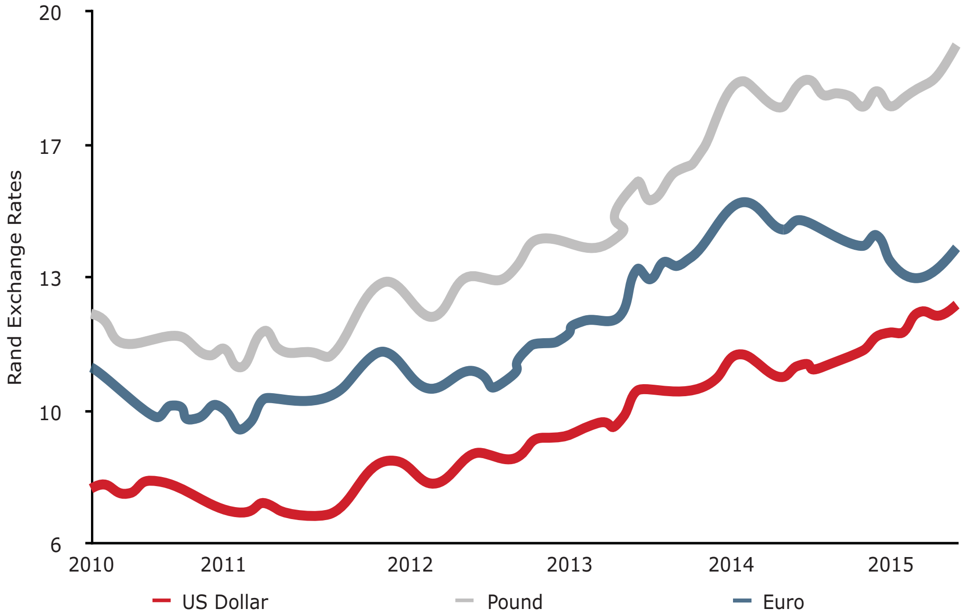
A possible increase in US interest rates towards the end of the year, and deterioration in the country's terms of trade, may worsen the outlook for the domestic currency and inflation.[34] The section below provides an analysis of the performance of the rand against selected major currencies. Since the beginning of 2015, the rand has lost 11 per cent of its value against major currencies, reaching R13.46 to the US$ on the 8th of October. At the same point, it reached R20.62 to the British pound and R15.14 to the euro.

[32] Bureau of Economic Research. (2015). FNB/BER Consumer Confidence Index July 2015. Stellenbosch.

[33] Bureau of Economic Research. (2015). Business Confidence Index first quarter 2015. Retrieved from file:///C:/Users/22405216/Downloads/BCIpr_15Q1.pdf

[34] South African Reserve Bank (2015). Monetary Policy Statement July 2015. Pretoria

Figure 1.20: Rand Value in Terms of Major Currencies, January 2010 - June 2015



Source: Quantec Research, 2015

Figure 1.20 shows the performance of the rand against the US$, British pound and euro from January 2010 to June 2015. The rand was not only volatile but depreciated against these currencies over the period. It is important to note that the factors affecting the rand's performance are largely external.

1.8.3. South African Reserve Bank Warns of Increased Inflationary Pressures Despite Lower Oil Prices

Over the past two years, the country's inflation has remained at the upper end of the target range of between 3 and 6 per cent. It fell to 3.9 per cent in February 2015 but is expected to be above the target band by early 2016.[35] Information from Stats SA shows consumer price inflation at 4.6 and 4.7 per cent for May and June respectively.[36] According to the MPC statement for September 2015, inflation is forecast to average 4.7 per cent in 2015, a decrease of 0.3 of a percentage point from the previous projection of 5 per cent. It is expected to reach 6.7 per cent in the first quarter of 2016.[37]

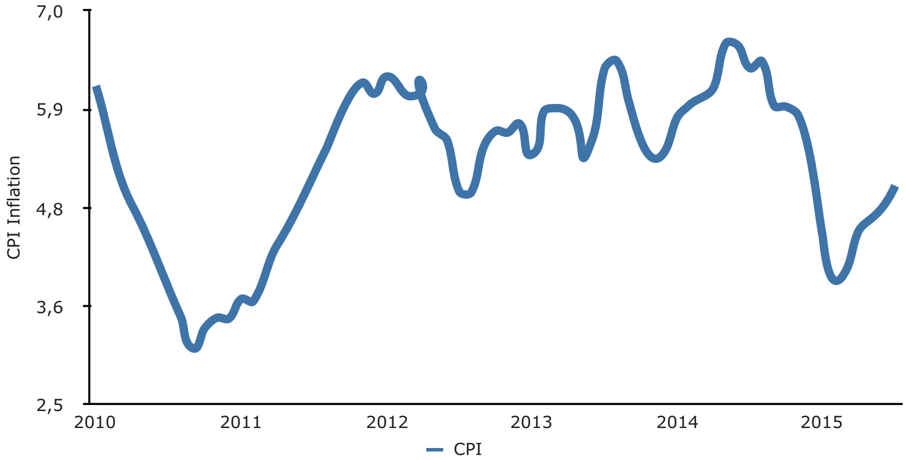
Citing amongst other reasons the risk of inflation driven by rand depreciation, at its July 2015 meeting the MPC decided to raise the repurchase (repo) rate by 25 basis points. Despite the decline in oil prices, the rand/dollar exchange rate makes it more expensive to import oil and puts pressure on domestic fuel prices. A stronger rand could have resulted in a more significant decline in the fuel price. The MPC notes that domestic inflationary pressures are not demand driven but arise from external factors including monetary policy normalisation in the US affecting the rand exchange rate.

[35] South African Reserve Bank (2015). Monetary Policy Report June 2015. Pretoria

[36] Statistics South Africa (2015). Consumer Price Index July 2015. Pretoria

[37] South African Reserve Bank (2015). Monetary Policy Statement September 2015. Pretoria

Figure 1.21: CPI Inflation, January 2010-July 2015



Source: Quantec Research, 2015

Figure 1.21 shows South Africa's consumer price inflation (CPI) from January 2010 to July 2015. It indicates that inflation declined for most of 2010 but breached the target band at the beginning of 2012. The highest rate, at 6.6 per cent, was recorded in mid-2014. Declining oil prices towards the end of that year were followed by a decrease in inflation to 3.9 per cent in early 2015.

1.8.4. The Pace of Investment in Both the Public and Private Sectors Remained Stable

The contraction of total investment levels in 2014 occurred despite growth in investment by public corporations and by general government. The decline in total investment growth resulted from low business confidence, weak demand and a general slowdown in the domestic economy.

Table 1.1: Private and Government Investment, 2010-2014

	2013	2014					2015
	Year	Q1	Q2	Q3	Q4	Year	Q1
Private business enterprises	8.1	-15.4	-9.6	1.2	1.7	-3.4	1.6
Public corporations	3.1	-0.6	-3.4	2.3	2.5	1.6	-0.6
General government	11.6	8.7	9.8	7.4	5.9	10.3	5.1
Total	**7.6**	**-9.2**	**-5.4**	**2.4**	**2.6**	**-0.4**	**1.8**

Source: SARB, 2015

Table 1.1 shows the growth in private, public corporation and government investment for South Africa for 2013, all quarters of 2014 and the first quarter of 2015. At 10.3 per cent in 2014, 1.3 percentage points less than the 11.6 per cent recorded in 2013, it shows positive growth in government investment during the period. Private enterprise investment contracted to 3.4 per cent in 2014, the result of a combination of a decline in capital spending in the first six months of the year, labour unrest and low business confidence which weighed especially on investment in mining and manufacturing.[38] Investment by public corporations grew at 1.6 per cent in 2014.

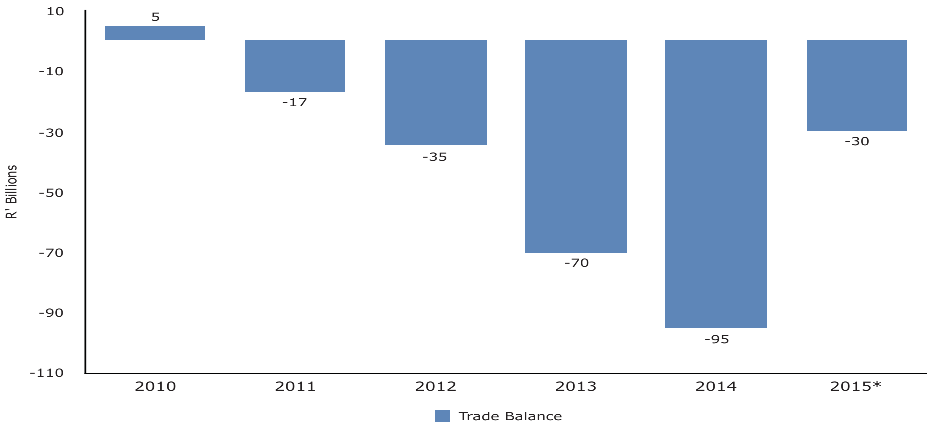
1.8.5. The Trade position Under Pressure as the Weaker Rand Persists

An economy's export and import performance depends on the country's economic performance. In South Africa, high import volumes tend to be related to economic expansion. This is mainly because the country is a net importer of capital and consumption goods during growth periods. Information from the SARB shows the country's trade deficit increasing from R35 billion in the last quarter of 2014 to R71 billion in the first quarter of 2015. This section analyses South Africa's trade balance and looks at the effects on trade of a weaker rand.

[38] Bureau for Economic Research (2015). Economic Prospects: Economic Activity Expected During 2015 and 2016. Second Quarter 2015 Vol. 30 No. 2. Stellenbosch University.

The recent depreciation of the rand against major currencies is a risk factor as it may lead to a decline in revenue from exports. However, it may result in the country's exports becoming more competitive and therefore selling in increasing volumes. A weaker rand also means that imported goods become more expensive; this may result in higher domestic prices for consumer goods and services. For example, as the country is a net importer of oil this may result in higher domestic fuel prices and higher inflation.

Figure 1.22: Trade Balance, 2010-2015*



Source: SARS, 2015
Note: * indicates forecast

Figure 1.22 shows South Africa's trade balance from 2010 to 2014, and the forecast for 2015. It shows that the trade balance has been in deficit for most of the period but that it is expected to improve from R95 billion in 2014 to R30 billion in 2015. Although not shown in the figure, as a percentage of GDP the deficit decreased from 5.8 per cent in 2013 to 5.4 per cent in 2014.[39]

1.9. Conclusion

Despite global growth being expected to be moderate in the next two years, most economies continue to be affected by the legacies of the financial crisis. The monetary stimulus implemented in the euro area is still to show evidence of stimulating the region's economic activity. The region's trade surplus results not from increased exports but from decreased demand for imported goods and services. The region is one of this country's major trading partners and this therefore affects commodity exporters such as South Africa.

It is notable that, compared with the year 2014 when global economic activity was led mainly by EMDEs, growth in 2015 has been led by advanced economies with the US in the fore front, with the decline in oil prices leading to increased disposable household income and thus increased consumption. As a result of the structural changes to its economy, growth in China is expected to slow in 2015 with India forecast to lead EMDE growth for the year.

In its October 2015 WEO, the IMF revised South Africa's growth outlook to 1.4 per cent. Growth in the country's output is expected to be further affected by power outages and possible work stoppages in some sectors of the economy. Inflation is expected to be outside the target range of between 3 and 6 per cent in the first quarter of 2016, increasing the likelihood of increased interest rates in 2015. A further slowdown in China's economy may affect the country's trade position as China is one of the world's largest consumers of steel and other commodities. Policy makers will need to balance a slowing global economy and constrained domestic output with the country's ever pressing socio-economic needs. They will also need to recognise that significant investment in infrastructure continues to place a strain on fiscal resources and on the country's debt position.

[39] South African Reserve Bank (2015). Quarterly Economic Bulletin: June 2015 No 276. Pretoria.

Chapter 2: Gauteng Economy Review and Outlook

2.1. Overview

Economic growth is necessary though not sufficient for improving the lives of a country's citizens. Economic growth can give private businesses an incentive to expand employment and provides the government with increased income, in the form of tax revenues, to fulfil its mission of improving the welfare of the people. A mix of international and domestic factors, such as electricity supply problems and reduced growth in major trading partners, has resulted in a declining economic growth rate for the country and for Gauteng. Growth is, however, forecast to increase slightly in the short-term.

Gauteng's exports lack diversity, with the products of the mining industry remaining an important source of foreign exchange for the province and with Asia and Europe major importers of these goods. The rest of the African continent imports products with more value added, such as manufactured articles, from the province. This suggests that Gauteng would benefit from more trade with Africa as it would support diversification of the products that the province exports and therefore that it produces. Government has measures in place to increase intra-African trade, such as joining the Tripartite Free Trade Area (TFTA).

Other policy initiatives to bolster economic growth are centred on the Radical Transformation, Modernisation and Re-industrialisation (TMR) programme. The TMR was announced by the Premier of Gauteng, Honourable David Makhura, in his 2014 State of the Province Address. It organises the province into five development corridors which will specialise in economic activities in which they have a comparative advantage. The aim is to make Gauteng a preferred investment destination and develop the provincial economy. This will be supported by infrastructure investment in projects such as the Aerotropolis currently planned around O. R. Tambo International Airport.

This chapter begins by analysing economic growth in Gauteng, including a brief examination of the factors constraining that growth. The chapter then looks at consumer inflation, investment and trade. The outlook for the near future of the provincial economy and details of current policy initiatives close the chapter.

2.2. Economic Growth

Economic growth is the core indicator around which all other issues in this chapter revolve, influencing them and being influenced in turn. This section examines Gauteng's economic growth.

2.2.1. Economic Growth Recovering but Constrained by Internal Factors

The economic growth in Gauteng province, shown in Figure 2.1, has been on a decline, however, on average it has been growing slightly faster than the national economy. Both economies have, however, been trending downwards, though Gauteng remains ahead of the national growth rate and is expected to remain so. Growth is forecast to pick up slightly in 2015 and more substantially in 2016 and 2017.

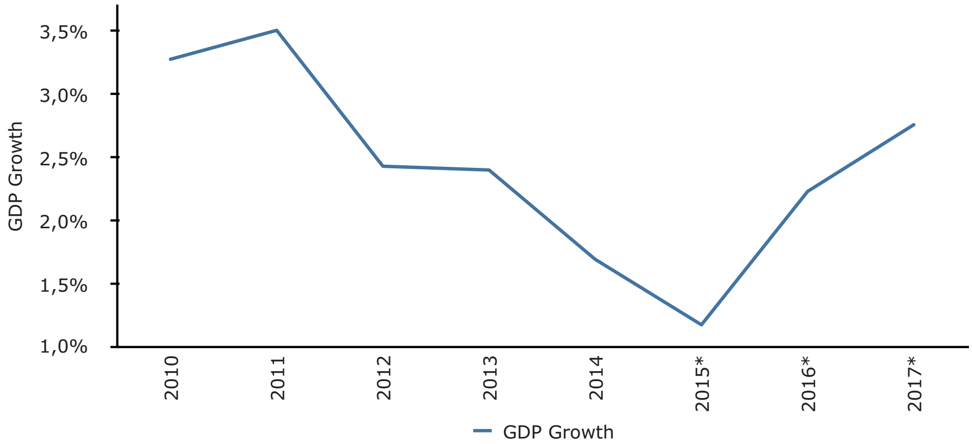
Growth has been limited by internal factors such as electricity supply constraints. If these limitations are not addressed, the predicted accelerated growth may not occur. There was a resurgence of labour action in 2014[40] though milder than in 2012, was coupled with increased load shedding in the fourth quarter of the year.[41] This was particularly significant for Gauteng as many manufacturers are based in the province and, as shown in Table 1, mining output accounts for the bulk of its exports.

[40] Information from www.statssa.gov.za/?p=4445

[41] Information from http://www.ft.com/cms/s/0/69aa4a9e-7f89-11e4-b4f5-00144feabdc0.html#axzz3eAkVPeG1

Economic growth thus remains under pressure, at least in the short-term. External factors playing a role include the recession in the euro area resulting from its sovereign debt crisis. This has had an impact on Gauteng as the euro area is, as shown in Table 1, one of the main destinations for the province's exports. Amongst the worst affected European countries were Portugal, Ireland, Greece and Spain, the so-called PIGS. Of these, the Greek economy still faces serious challenges and these may have negative implications for the euro area and therefore for Gauteng.

Figure 2.1: GDP-R Growth, Gauteng, 2010-2017*

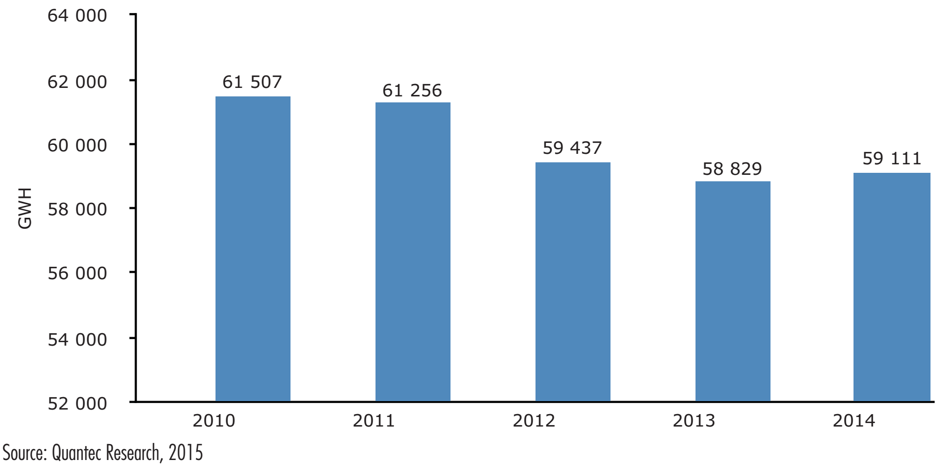


Source: IHS Global Insight, 2015

Notes: * indicates forecasts. Figure 2.1 shows the GDP growth rate of the Gauteng province from 2010 to 2014, with forecasts from 2015 to 2017.

Provincial growth fell from 3.5 per cent in 2011 to 1.7 per cent in 2014 but is expected to rise to 2.8 per cent by 2017. As the province's economic growth has slowed, so has the amount of electricity that it uses. This is shown in Figure 2.2. As National Treasury has noted, the shortage of electricity is a primary constraint to growth with the likely primary direction of causality being that electricity supply issues are holding back economic growth.[42]

Figure 2.2: Electricity Distributed in Gauteng, Gigawatt Hours, 2010-2014



Source: Quantec Research, 2015

Note: Figure 2.2 shows that electricity distributed in Gauteng, in gigawatt hours (GWH), fell from 61 507 GWH in 2010 to 59 111 GWH in 2014.

The IMF has also pointed to the electricity supply as the largest single obstacle to growth in the South African economy[43] and that, when the international oil price decreased, it prevented a possible expansion of domestic production to take advantage of South African consumers' increased disposable income. Such expansion would have been particularly important for Gauteng given the province's comparative advantage in manufacturing, as shown in Figure 2.4.

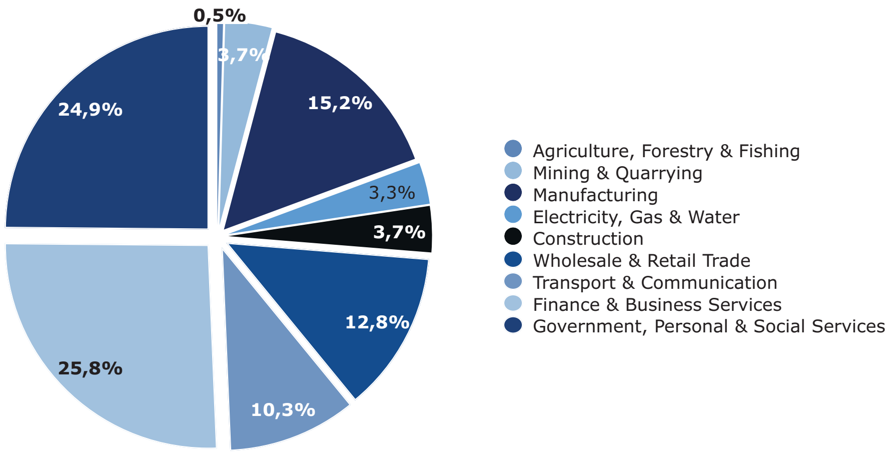
[42] National Treasury 2015. 2014 Medium Term Budget Policy Statement. Available at http://www.treasury.gov.za/documents/mtbps/2014/default.aspx

[43] Information from https://www.imf.org/external/np/ms/2015/062315.htm

2.2.2. Tertiary Sector Continues to Dominate Gauteng's Economy

The tertiary sector consists of the wholesale & retail trade, transport & communication, finance & business services and government, personal & social services. This sector accounts for approximately three-quarters of Gauteng's Gross Value Added by Region (GVA-R). This is a sign of a relatively modern economy. However, these industries are less labour-intensive than others, such as manufacturing. The lack of economic diversity also creates potential vulnerability to future economic events that may negatively impact the tertiary sector.

Figure 2.3: GVA-R by Sub-Sector, % Share of Gauteng Total, 2014

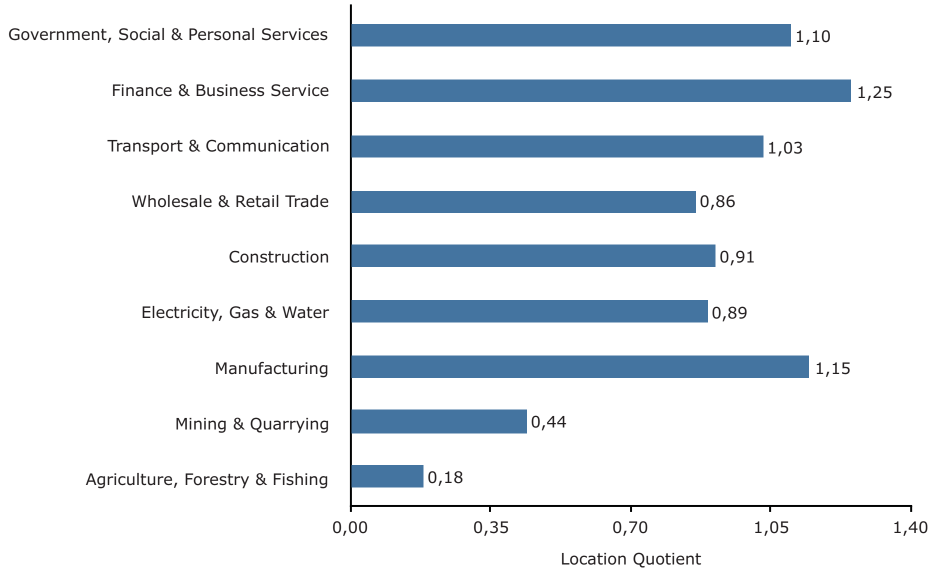


Source: IHS Global Insight, 2015

Note: Figure 2.3 shows the shares of GVA-R accounted for in 2014 by the sub-sectors of the economy.

At 25.8 per cent, the finance & business services sub-sector accounted for the largest single share of the Gauteng economy in 2014. Nationally, as shown in Chapter 1, government, personal & social services was the largest sub-sector. In Gauteng, it was second largest, at 24.9 per cent. In that year, the tertiary sector accounted for almost three-quarters of the Gauteng economy. This illustrates the sophisticated, modern character of much of the province's economy. The secondary sector accounted for most of the rest of the share, with manufacturing making up 15.2 per cent. The basic, extractive activities of the primary sector contributed only 4.1 per cent of the provincial economy, with 3.7 percentage points coming from mining & quarrying. However, as Table 1 shows, mining & quarrying accounted for a disproportionately large share of the province's exports.

Figure 2.4: Location Quotients, Gauteng, 2014



Source: IHS Global Insight, 2015

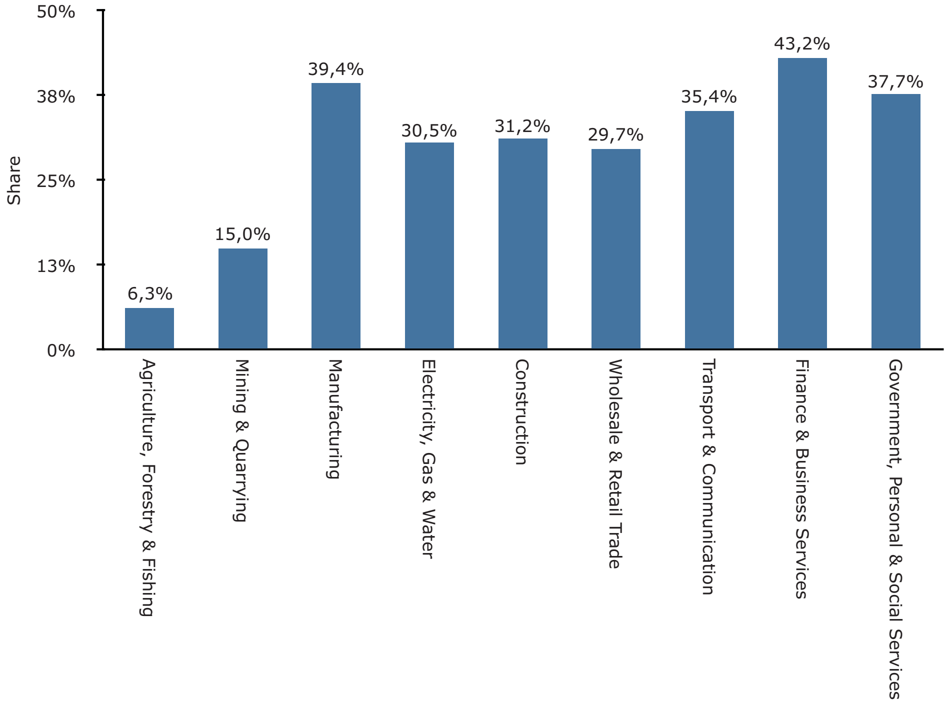
Notes: Figure 2.4 shows the location quotients of Gauteng's industries in 2014.[44]

As might be expected from its large share shown in Figure 2.3, at 1.25 the finance & business services is the sub-sector in which Gauteng has its largest location quotient. This is unsurprising since many financial institutions have their headquarters in the province, as does the Johannesburg Stock Exchange (JSE). Given that the province is home to the country's administrative capital, at first glance it may seem unexpected that Gauteng has only a slight comparative advantage in the government, social & personal services sub-sector. However, some lower-income provinces receive greater service delivery while others have small economies in most respects other than government activity, either of which causes government, social & personal services to make up a larger percentage of the economies, accounting for the apparent anomaly. At 1.15, the second largest location quotient is that of the manufacturing sub-sector. This highlights the fact that Gauteng is one of the country's leading industrial hubs.

The lowest location quotients for the province are in mining & quarrying, at 0.44, and agriculture, forestry & fishing, at 0.18. This suggests that the province is comparatively less efficient at producing these types of goods, or at least that the degree to which it is more efficient is much smaller, and would be better served by acquiring them from other provinces as far as possible and diverting resources from these industries to ones in which it has a larger advantage. However, agriculture is labour-intensive and mining provides valuable foreign exchange. These sub-sectors therefore contribute in other ways. Such factors add complexity to economic policy decision-making.

[44] Location quotients show the economic sub-sectors in which a region has a comparative advantage. A comparative advantage in a sub-sector exists when the share of the region's economy accounted for by a sub-sector is larger than the share that the sub-sector accounts for in the national economy. A location quotient is a good indicator of this comparative advantage, and is calculated by dividing the share of the sector in the regional economy by the share of that same sector in the national economy. IHS Global Insight (2015). Regional eXplorer Help Centre.

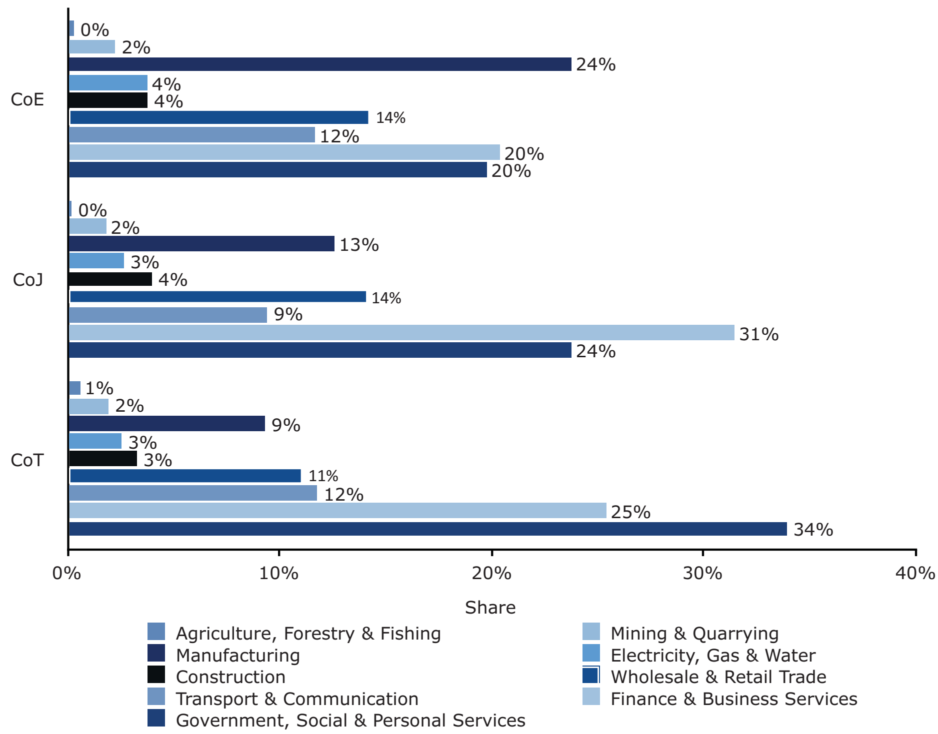
Figure 2.5: GVA-R by Sub-Sector, GP % of SA Total, 2014



Source: IHS Global Insight, 2015
Note: Figure 2.5 shows the shares of national GVA-R that each sub-sector accounted for in Gauteng in 2014.

Gauteng contributes approximately 40 per cent of the country's finance & business services, government, personal & social services and manufacturing. The province's metropolitan (metro) and district municipalities have their own specialities and these are shown below.

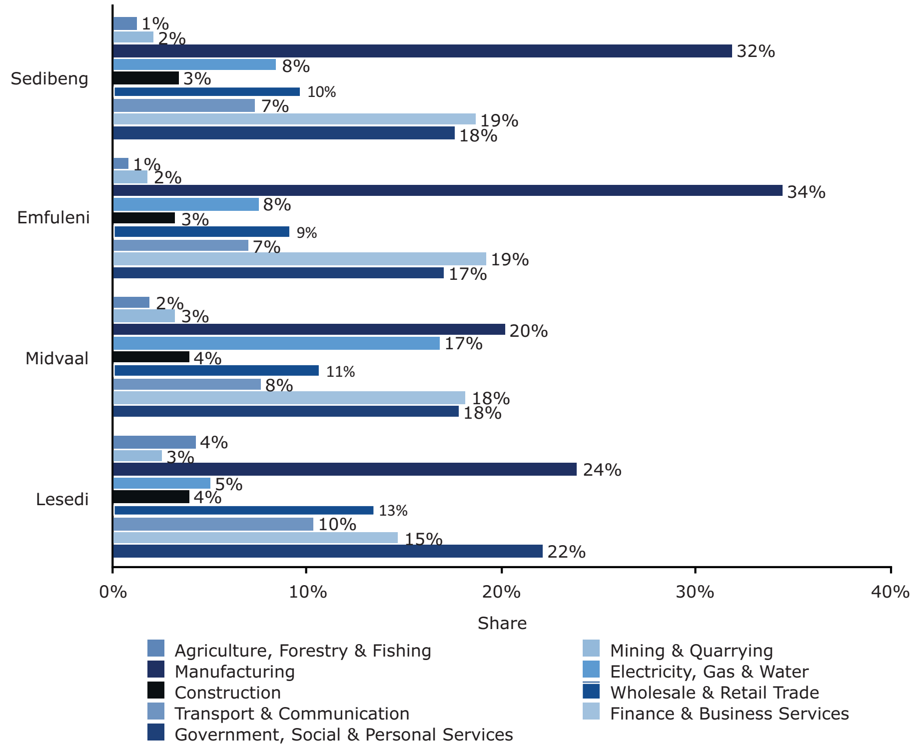
Figure 2.6: GVA-R by Sub-Sector, % Share of Regional Total, Metros, 2014



Source: IHS Global Insight, 2015
Note: Figure 2.6 shows the percentage shares of the economies of the Gauteng metros accounted for by each economic sub-sector in 2014.

The manufacturing sector contributed 23.7 per cent of the GVA-R of the City of Ekurhuleni (CoE) in 2014. At 20.3 and 19.8 per cent respectively, there were also large contributions from finance & business services and from government, social & personal services. At 31.4 per cent, the largest contribution to the GVA-R of the City of Johannesburg (CoJ) was from finance & business services. This was followed by government, social & personal services at 23.9 per cent. The reverse was the case in the City of Tshwane (CoT) where government, social & personal services accounted for 34.1 per cent and finance & business services 25.3 per cent.

Figure 2.7: GVA-R by Sub-Sector, % Share of Regional Total, Sedibeng & Local Municipalities, 2014



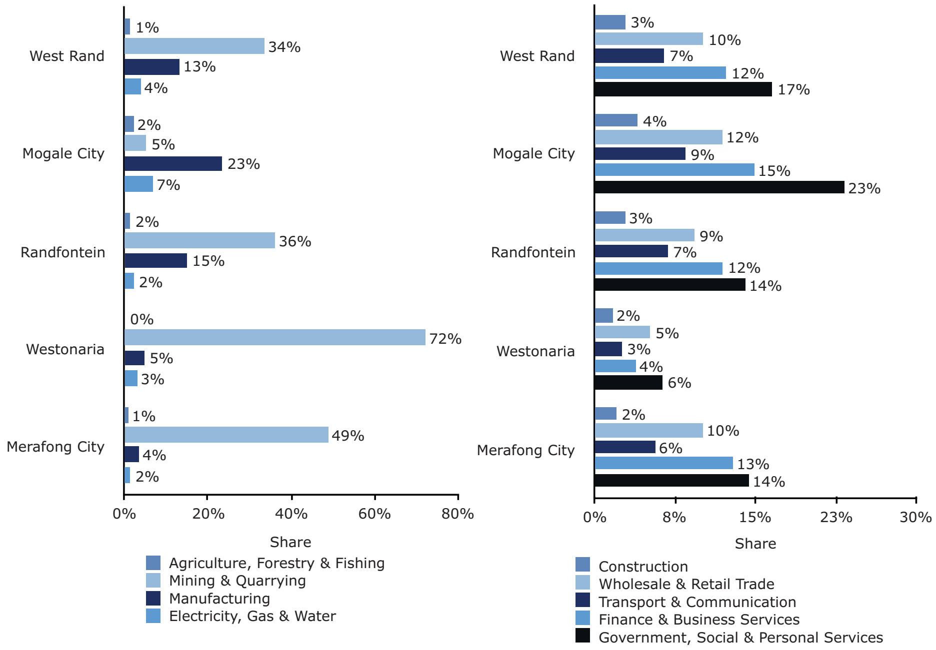
Source: IHS Global Insight, 2015

Note: Figure 2.7 shows the percentage of their respective economies accounted for by each economic sub-sector in the Sedibeng District Municipality and its local municipalities in 2014.

In Sedibeng district and its local municipalities, manufacturing was the largest sub-sector. This was particularly the case in Emfuleni where it accounted for 34.5 per cent of GVA-R. Government, social & personal services and finance & business services made significant contributions throughout the district. In Lesedi, government, social & personal services contributed 22.1 per cent. In Emfuleni, finance & business services contributed 19.1 per cent. Midvaal is unusual in that the electricity, gas & water sub-sector accounts for 16.8 per cent of municipal GVA-R. The latest available data[45] for the municipality shows that in 2013 the value added by water contributed more than two thirds of the municipality's electricity, gas & water GVA-R total. This is likely due to the presence of the Vaal Dam and a number of rivers.

[45] Additional information from Quantec Research.

Figure 2.8: GVA-R by Sub-Sector, % Share of Regional Total, West Rand & Local Municipalities, 2014



Source: IHS Global Insight, 2015

Note: Figure 2.8 shows the shares accounted for by each sub-sector of the economies of the West Rand District Municipality and its component local municipalities in 2014.

The West Rand district is dominated by the mining & quarrying sub-sector, which contributed 33.5 per cent of the district's total in 2014. This makes it vulnerable to fluctuations in the prices of the commodities that it mines. Mogale City contributes much-needed diversification to the district, with manufacturing making up 23.4 per cent of the local municipal economy. The government, social & personal services contributed a further 23.2 per cent. At 72 per cent, Westonaria was the most heavily focussed on mining.

2.3. Provincial Consumer Inflation

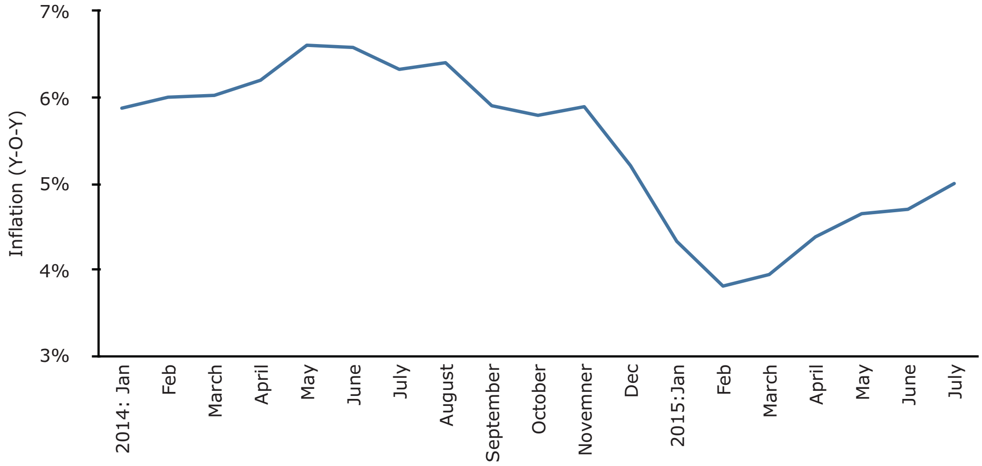
As shown in Chapter 1, the overall decline in inflation has been reversed by the weaker rand combined with a significant moderation in the previously rapid decrease of the US$ price of oil. Rising electricity costs have also placed upward pressure on inflation although the rate of increase has slowed. If inflation continues to rise, it may result in another increase in the repo rate. This section discusses provincial consumer inflation.

2.3.1. Provincial Consumer Inflation is Increasing in Line with National Inflation

Due to the lower petrol price as global fuel supplies expanded dramatically, inflation declined year-on-year (y-o-y) in the second half of 2014 and early 2015. Fuel prices have since then been increasing month-on-month (m-o-m) and, as they approach 2014 levels, y-o-y CPI inflation has been rising again. However, due to investor concerns that Greece might exit the Euro area, the oil price began falling in July 2015; because this could have triggered a small recession and reduced the demand for oil. Unlike the earlier decrease in the oil price, this decrease was accompanied by a general move out of higher-risk investments, including the rand. This means that there may be fewer and smaller decreases in the domestic petrol price when these market forces are translated into the slate levy, than there might otherwise have been.[46] Furthermore, a deal has been reached between Greece and its creditors and this has restored confidence and created the conditions for a possible return to a rising y-o-y oil price.

[46] The slate levy is applied to a new month's fuel prices to correct for under- or over-recovery due to market forces in the previous month. http://www.energy.gov.za/files/esources/petroleum/petroleum_pricestructure .html

Figure 2.9: CPI Inflation, January 2014 – July 2015



Source: Quantec Research and Stats SA, 2015

Note: Figure 2.9 shows the monthly y-o-y inflation rate of Gauteng-specific CPI from January 2014 to July 2015.

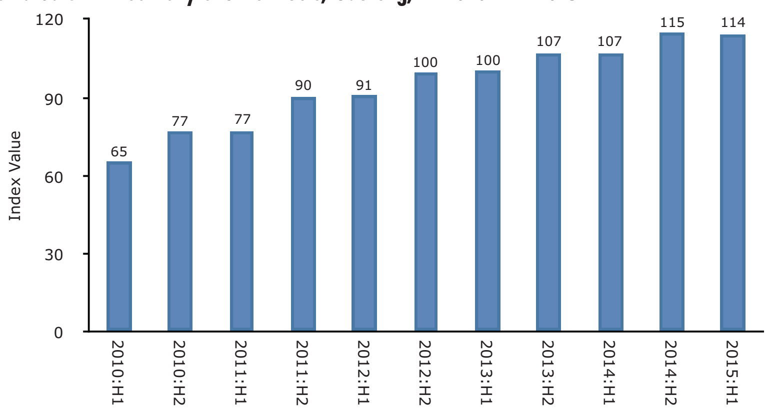
Consumer inflation was steady for most of 2014 before decreasing due to falling oil prices. It is, however, on the rise again. The weaker rand is likely to result in a rise in the costs of imports, including machinery and other inputs needed for domestic production processes. This is particularly relevant for Gauteng given its comparatively large manufacturing sector. Another factor is the rising cost of electricity. Although it was not as high as the parastatal had initially requested, Eskom's latest tariff increase is only just beginning to take effect.

If the weaker rand and rising electricity prices are joined by a higher oil price, this will put even greater upward pressure on inflation and threaten to raise it above the SARB target band of 3 to 6 per. SARB's MPC has already increased the repo rate this year[47] and upswings beyond those already predicted in inflation may prompt it to raise interest rates further with the potential for a negative impact on economic growth.

2.3.2. Electricity Tariffs Placing Upward Pressure on Inflation and Likely to Continue

Eskom has been applying for historically large tariff increases to fund its expanded generation-capacity building programme, although it was not granted the tariff increase most recently requested from the National Energy Regulator of South Africa (NERSA).[48] However, the parastatal will almost inevitably receive another increase at some future time as it requires resources to maintain and expand power generation capacity. Higher electricity costs affect the consumer directly and indirectly as higher costs for producers of goods and services are passed on to their customers.

Figure 2.10: CPI - Electricity & Other Fuels, Gauteng, 1H2010 – 1H2015



Source: Quantec Research, 2015

Note: Figure 2.10 shows the CPI for the electricity & other fuels sub-category of the household utilities category from the first half of 2010 to the first half of 2015.

47 Information from www.resbank.co.za/Lists/News%20and%20Publications/Attachments/6817/MPC%20statement%20July%202015.pdf

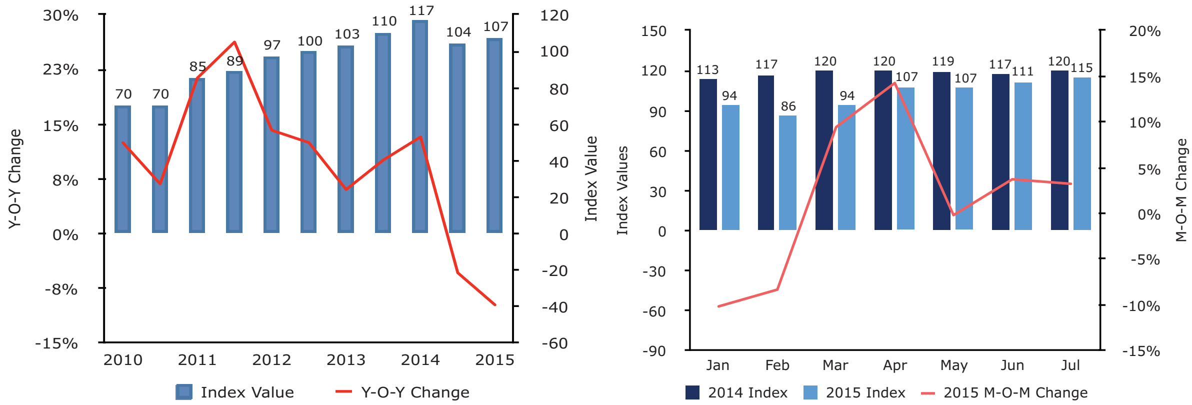
48 Information from http://www.eskom.co.za/news/Pages/NoteNersa.aspx

While the CPI electricity & other fuels sub-index includes other elements in addition to electricity, the large growth spikes when a tariff increase is granted to Eskom indicate that it is an acceptable proxy for electricity prices.[49] Between the first half of 2010 and the first half of 2015, the price index for electricity & other fuels in Gauteng almost doubled, from 65.2 to 114.5 index points (ip). However, the rate of increase slowed from the 18.8 per cent increase between the first half of 2010 and the first half of 2011 to the 6.9 per cent y-o-y increase in the first half of 2015.

2.3.3. The Significant Overall Decline in the Fuel Price is Likely to be Temporary

The price of fuel is important to overall consumer inflation. It is both a part of the basket of goods used to determine the index and a factor in other prices, as other goods must be transported in order to be processed or sold.

Figure 2.11: CPI, Petrol Sub-Index, 1H2010-1H2015



Source:Quantec Research, 2015

Note: Figure 2.11 shows the petrol sub-index of the CPI for Gauteng, and the y-o-y percentage change, from the first half of 2010 to the first half of 2015; and from January to July, with m-o-m change for 2014 and 2015.

The y-o-y rate of increase in the petrol sub-index has been falling since the second half of 2011 and the rate was negative in the second half of 2014 when the index itself fell for the first time in the period under review. Y-o-y inflation continued to be negative in the first half of 2015 because the index was lower than in the first half of 2014. However, it was higher than in the second half of 2014 and, despite a slowdown from May to June, is likely to increase further in the second half of 2015 and may possibly rise higher than in 2014. This would return the index's y-o-y inflation to positive and would have serious implications for overall CPI inflation. The negative y-o-y inflation in the price of petrol has been offsetting positive inflation in other CPI sub-indices. If the petrol sub-index inflation turns positive, this will, ceteris paribus, cause a significant increase in total y-o-y CPI inflation. This could push CPI inflation above the SARB's 3 to 6 per cent target band and prompt the central bank to raise interest rates further.

2.4. Investment

Investment is important for future economic growth as it expands productive capacity for that future. It is also an acceptable indicator of confidence as, when committing to long-term investment, business and financial agents direct money where they particularly expect returns.

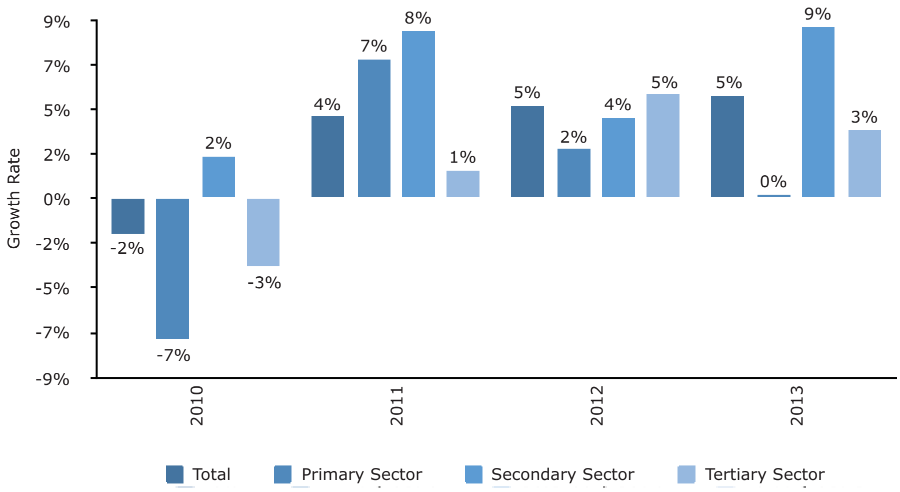
2.4.1. Investment Growth Remains Moderate

Despite several years of economic recovery, a lack of confidence is still visible in the business sector. The construction industry has been particularly reserved. Before the crisis from 2008 and in the run-up to the Fédération Internationale de Football Association (FIFA) Soccer World Cup, investment growth in the construction

[49] Additional information from Quantec Research.

industry was at a high of 24.3 per cent. It fell to a low of 1.1 per cent in 2011 and by 2013 had only recovered to 7.5 per cent. The construction industry is a strong indicator of confidence as it can show that businesses are unwilling to commit to long-term projects, such as construction, when they are uncertain about the future.

Figure 2.12: GFCF, Growth Rate, Total and Sectors, 2010-2013



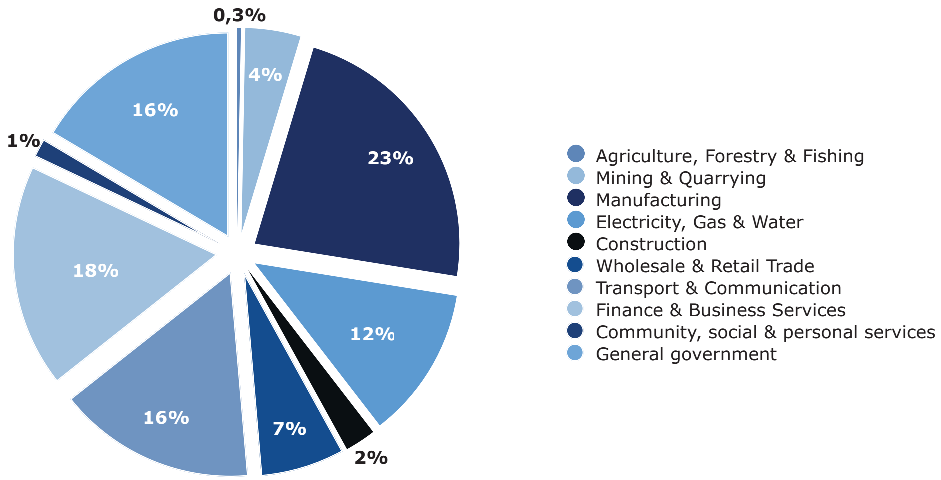
Source: Quantec Research, 2015

Note: Figure 2.12 shows the growth rates of Gross Fixed Capital Formation (GFCF), by economic sector, in Gauteng for the years 2010 to 2013.

The comparative resilience of commodities during the global financial crisis may have played a role in primary sector investment turning negative one year later than the rest of the economy. After a recovery in 2011, rising labour unrest and falling platinum prices contributed to a falling investment rate in 2012 and 2013.

However, primary sector investment accounts for a comparatively small share of total investment in Gauteng's economy. The growth rates of the secondary and, particularly, the tertiary sectors have more of an impact on overall investment growth. Growth rates in both of those sectors have remained positive since 2011.

Figure 2.13: GFCF, Percentage Share, By Sub-Sector, 2013



Source: Quantec Research, 2015

Note: Figure 2.13 shows the percentage share of GFCF in Gauteng accounted for by each economic sub-sector in 2013.

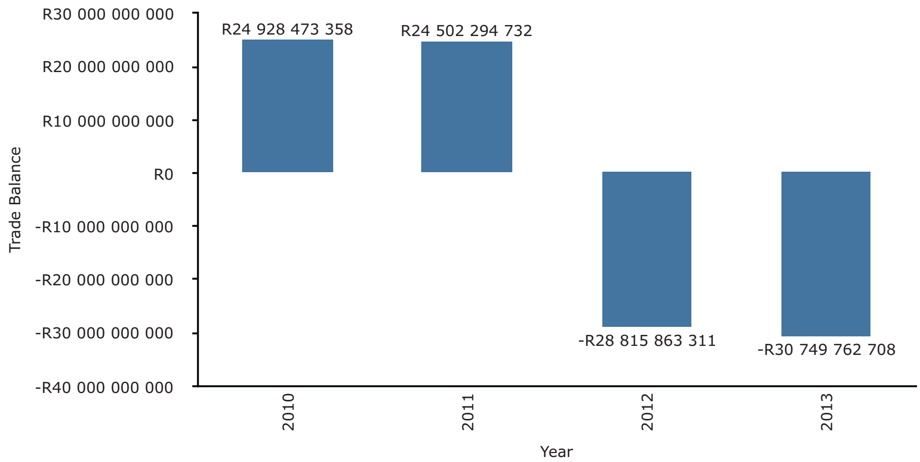
At 23 per cent, the manufacturing industry had the largest single share of Gauteng GFCF in 2013. While the industry is relatively labour-intensive, it also requires a large amount of capital to produce its products. At 18 per cent each, finance & business services, and government, personal & social services accounted for the next largest shares. General government accounted for 17 per cent and community, social & personal services for one per cent.

2.5. Trade

South Africa exports a great many raw materials while importing value-added manufactured goods. Gauteng contains much of the country's manufacturing industry, with mining contributing only a small percentage of the province's GDP-R. However, mining accounts for a large share of its exports. This is sub-optimal for the country and the province as exporting often minimally-processed raw materials places limits on the income that can be earned through trade and on the jobs that can be created. Increased beneficiation of minerals would benefit South Africa, and particularly Gauteng, since much of the country's capacity to turn raw materials into finished products is found in the province.

The focus on mining exports also creates vulnerability to fluctuations in the demand for and prices of a relatively tight range of products: in this case, commodities. Currently, low commodity prices are a problem for the mining industry, threatening employment and export earnings. Increased manufacturing could help to counter this risk through diversification. The manufactured goods already exported by Gauteng are sold in large part to the rest of Africa. Increased trade with Africa is therefore likely to support diversification into manufacturing.

Figure 2.14: Trade Balance, 2004-2013



Source: Quantec Research, 2015

Note: Figure 2.14 shows Gauteng's trade balance from 2010 to 2013. Data after 2013 is not available.

As the majority of Gauteng's exports are commodities, as shown in Table 1, the province's trade balance is affected by commodity prices. Reduced imports as trade atrophied in the early part of the 2008/2009 recession, and the commodity price super-cycle that began later in the recession increased Gauteng's trade balance from negative R8.6 billion in 2008 to R24.9 billion in 2010. However, with labour action in the mining industry, which produces the bulk of these export commodities, and falling commodity prices, in 2013 the province had a trade deficit of R30.7 billion.

2.5.1. Gauteng Exports Some Manufactured Goods to Africa, Still Imports them from Asia

At 30.5 per cent of total rand value, Gauteng's largest export in 2013 was mineral products with Asia the largest importer continent. Iron ore accounted for almost half of the province's mineral products exported to Asia. At almost one-third of the total, coal was the next largest category. This reliance on the export of raw materials to Asia means that Gauteng's economy is vulnerable to the slowdown in the Chinese economy and the devaluation of the yuan.

Exports of precious & semi-precious metals & stones[50] accounted for 28.7 per cent of the value of all exports from Gauteng in 2013, with Europe the largest importer continent. Platinum accounted for more than two-thirds of the province's precious & semi-precious metals & stones exports to Europe, and coins approximately one-fifth.

[50] The full name of this category is natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal & articles thereof; imitation jewellery; coin.

These exports, most of which are minimally processed, account for more than half of the province's exports whereas machinery, appliances & electrical equipment and chemical products exports to the rest of Africa account for 13.3 per cent. These exports have more value added and therefore proportionally contribute more to employment in the province. This suggests that expanding trade into Africa could have significant benefits for the province.

Table 1: Major Exports and Destinations, % Share of Rand Value, 2013

Category	Share of GP Exports	Largest Importer
Mineral Products	30.5%	Asia
Precious & Semi-Precious Metals & Stones	28.7%	Europe
Base Metals	11.0%	Asia
Vehicles & Transport Equipment	8.1%	Americas
Machinery, Appliances & Electrical Equipment	7.9%	Africa
Chemical Products	5.4%	Africa

Source: Quantec Research, 2015

Note: Table 1 shows the six categories of goods that account for the largest shares of Gauteng's exports, and the continent that imports the most of each category from Gauteng.

At almost one tenth of the province's total, Gauteng's largest contribution to machinery exports to the rest of Africa consisted of machinery to sort, screen, wash and similarly process mineral products. Pumps for liquids were the next highest contributor. Africa also imported a significant amount of electronics and electrical equipment from the province; this was fairly evenly spread across a number of sub-categories. At more than one tenth, nitrogenous mineral or chemical fertilisers was the largest contributor to chemical product exports. Insecticides, fungicides & herbicides for retail was the next largest, at over 8 per cent. Cleaning products, soaps and cosmetics were also significant exports from Gauteng to Africa.

Table 2: Major Imports and Sources, % Share of Rand Value GP, 2013

Category	Share of GP Imports	Largest Exporter
Machinery, Appliances & Electrical Equipment	34.6%	Asia
Mineral Products	13.4%	Asia
Vehicles & Transport Equipment	12.3%	Europe
Chemical Products	9.6%	Europe
Original Components/Parts for Motor Vehicles	5.9%	Europe
Base Metals	4.9%	Asia

Source: Quantec Research, 2015

Note: Table 2 shows the six goods categories that account for the largest shares of Gauteng's imports, and the continent that exports the most of this category to the province.

At 34.6 per cent, more than one third of the value of all imports entering Gauteng in 2013 came from the machinery, appliances & electrical equipment category. The largest share of these imports came from Asia. A little over one quarter of machinery, appliances & electrical equipment imports from Asia consisted of electric apparatus for line telephony & telegraphy. The next largest sub-category was computers. Mineral products accounted for 13.4 per cent of Gauteng's imports with, again, Asia the largest source. Over 99 per cent of Gauteng's imports from Asia were made up of oil, primarily crude but also blends of complex petroleum hydrocarbons used in manufacturing tyres. Vehicles & transport equipment was another large import category for the province; in this case Europe was the largest source. These imports consisted mainly of passenger vehicles with mid-sized engines, and spare parts.

2.6. Current Policy Initiatives

While the Gauteng economy faces a number of difficulties, national and provincial government have plans, projects and programmes which aim to address these difficulties and to improve economic growth and the welfare of the province's citizens. The TMR programme is intended to address low economic growth as it focuses the province's municipalities on their comparative advantages. Infrastructure spending and investment in the TMR programme will play an important part in tackling the need for increased investment. The economic diversification of the TMR is intended to address over-reliance on exports of mining commodities as a source of foreign exchange, as is the planned expansion into untapped markets through the TFTA.

2.6.1. Catalyst to Provincial Economic Growth Vested in the TMR Programme

> *"We are here to inspire our youth to seize training and entrepreneurship opportunities that will be created through Tshepo 500 000 and EPWP. We are the carriers of Hope… Through the TMR initiatives, we will, over the next five years, change the face of Gauteng province,"* The Premier of Gauteng, Honourable David Makhura expressed these sentiments during the , Launch Of Tshepo 500 000 on the 11th December 2014 and EPWP Phase III)[51]

In his State of the Province Address (SOPA) on 23 February 2015, Premier of Gauteng the Honourable David Makhura outlined plans to configure the province into five developmental corridors according to each region's comparative advantages. They are:

- The Central Development Corridor, which is centred on the CoJ as the hub of the ICT, finance, services and pharmaceutical industries
- The Northern Development Corridor, anchored around the CoT as the administrative capital and the hub of the automotive sector, research, development, innovation and the knowledge-based economy
- The Eastern Development Corridor, centred around the economy of the CoE as the hub of the manufacturing, logistics and transport industries
- The Southern Corridor, which includes the Sedibeng district and is aimed at creating new industries, new economic nodes and new cities
- The Western Corridor, consisting of the current West Rand district and focussing on the creation of new industries, new economic nodes and new cities.

Plans for the Central Development Corridor include revitalising the CoJ central business district, establishing the African regional centre of the BRICS Development Bank in the CoJ[52] and building 140,000 housing units as part of a larger spatial reorganisation. In the Northern Corridor, there will be continued support for the automotive industry; a housing development that will include office and commercial space; and a Business Process Outsourcing Park that will provide training and technical support for SMMEs. The Eastern Corridor will see 29 industrial initiatives as part of the Aerotropolis[53] project, extended coverage by the Bus Rapid Transit (BRT) system and the construction of over 100,000 houses.

There will be diversification of the economy of the Southern Corridor towards tourism, logistics and agro-processing. There will also be 14 new schools, and 120,000 new houses will be built in the corridor. In the Western Corridor, there will also be economic diversification into the same sub-sectors as in the Southern Corridor. The Western Corridor will include the proposed site of a new solar power manufacturing plant or a solar farm.

The Development Corridor initiative was introduced by the Premier as part of the Ten Pillars of the TMR programme.[54] The TMR project seeks to develop Gauteng as a preferred destination for investment, business growth and economic development. The Ten Pillars are:

- Transformations
    - Radical economic transformation
    - Decisive spatial transformation
    - Accelerated social transformation
    - Transformation of the state and governance

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[51] Information from http://www.gov.za/premier-david-makhura-launch-tshepo-500-000-and-epwp-phase-iii

[52] Information from http://thebricspost.com/launch-of-johannesburg-center-of-brics-bank-soon-zuma/

[53] "An Aerotropolis is a city that is built around an airport offering its businesses speedy connectivity to their suppliers, customers and enterprise partners both nationally and internationally. It is a new urban format currently developing around many large airports." http://www.ekurhuleni.gov.za/ekurhuleni-business-facilitation-network/eapo

[54] Information from http://www.gautengonline.gov.za/Pages/Transformation,-Modernisation,-Re-Industrialisation.aspx

- Modernisations
  - Modernisation of the economy
  - Modernisation of the public service and the state
  - Modernisation of human settlements and urban development
  - Modernisation of public transport and other infrastructure

- Industrialisations
  - Re-industrialising Gauteng as the country's economic hub
  - Taking a lead in Africa's new industrial revolution.

The TMR is a provincial application of national government's National Development Plan (NDP). The NDP was approved at the Cabinet Lekgotla of 6 September 2012 as the primary framework for government economic policy. It was the result of collaboration between leading thinkers within South Africa and aims to eliminate poverty and reduce inequality by 2030. The plan asserts that South Africa can achieve these goals by drawing on the energies of its people, growing an inclusive economy, building capabilities, enhancing the capacity of the state and promoting leadership and partnerships throughout society.[55]

2.6.2. Sub-Saharan Africa to Implement the Tripartite Free Trade Area

On 12 June 2011, representatives of the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Southern African Development Community (SADC) signed an agreement to start negotiations intended to lead to a three-way free trade agreement among themselves.[56] The goal of the agreement was to improve the economic and social welfare of the citizens of the COMESA-EAC-SADC region through trade and infrastructure development. The region's markets will integrate through the reduction of tariff and non-tariff barriers to trade and there will be investment in infrastructure that supports trade.

This should stimulate economic growth in the member countries by encouraging them to purchase more goods and services from each other. This would particularly benefit Gauteng as the province accounts for much of South Africa's current trade in commodities and has manufacturers who can take advantage of any increase in the export of manufactured goods. Also, South African financial institutions, primarily based in Gauteng, would have the opportunity to service new businesses arising from this process, whether domestic or in other African countries.

The leaders of the three trading blocs launched the COMESA-EAC-SADC TFTA on 10 June 2015 in Sharm el-Sheikh, Egypt.[57] The Minister in the Department of Trade and Industry (DTI), Honourable Rob Davies, led the South African delegation. The TFTA covers 26 countries making up a market with a combined GDP of US$ 1.6 trillion (tn). Minister Davies stated that this large combined market would support economic diversification and industrialisation in member countries and reduce the cost of doing business. The Minister also mentioned plans to begin negotiations to extend the free-trade area to the rest of the continent. This would increase the combined GDP to US$ 2tn. He emphasised Africa's importance to South Africa as a market for value-added exports and therefore job creation.

2.6.3. Government Continues to Implement its Infrastructure Plans

"Redirecting scarce government resources towards infrastructure investment is more urgent than ever before, because such an investment will contribute to economic growth by lowering transaction costs, creation of jobs, concentrating economic activity, improving productive capacities of firms and households as well as creating economic linkages" - Gauteng Member of the Executive Council (MEC) for Finance, Honourable Barbara Creecy (29 January 2015, Global Fund for Cities Development Workshop and Funding Symposium)[58]

The MEC has stated that over R94 billion will be spent on economic and social infrastructure in the province from 2016 to 2018.[59] The nature of these infrastructure projects will be based on the Premier's Economic Corridors initiative, such as plans for agro-processing in the Southern Corridor.

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55 National Planning Commission (2012). Our Future – Make It Work: National Development Plan 2030.

56 Information from http://www.sadc.int/about-sadc/continental-interregional-integration/tripartite-cooperation

57 Information from www.thedti.gov.za/editmedia.jsp?id=3353

58 Information from www.gautengonline.gov.za/News/Pages/Infrastructure-development-key-to-unlocking-the-economy.aspx

59 Information from www.gautengonline.gov.za/News/Pages/Infrastructure-development-key-to-unlocking-the-economy.aspx

The inaugural Gauteng Infrastructure Investment Conference (GIIC) was held on 16 and 17 July 2015.[60] Delegates were welcomed by the MEC for Economic Development, Honourable Lebogang Maile, who stated that investment in infrastructure was very important to the future of the African continent. The Minister of Economic Development, Honourable Ebrahim Patel, commended the GIIC, stating that infrastructure is critical for Gauteng's economic growth and particularly for its role as a potential leader in the expansion of trade with the rest of Africa.[61] He said, "Infrastructure investment is the driver of economic growth and it also supports industrialisation, innovation, investment, inclusion and integration".

The Minister also stated that the Presidential Infrastructure Coordinating Commission (PICC) had been established to fast-track important infrastructure projects. The PICC has already assisted with building 24 schools in the province and with the production of components for Gauteng's public transport system. Following on from the GIIC, Infrastructure Development MEC, Honourable Nandi Mayathula Khoza, announced the Kopanong Precinct, a R5 billion project to revitalise the CoJ inner city.[62] It will involve three to five years of construction and the installation of green technologies to make use of solar energy, and will aim to attract investment into new businesses.

The Gauteng Department of Infrastructure Development (GDID) was established when the Department of Public Transport, Roads and Works was split into two departments to better focus on their core objectives. Over the period of the 2015 Medium-Term Expenditure Framework, the GDID has budgeted R750.5 million for infrastructure projects. In the 2013/14 financial year, the GDID has built seven schools and two hospitals. It also engaged in many maintenance projects, as existing infrastructure must be maintained at the same time as new infrastructure is put in place where it is needed. In the 2014/15 financial year, R16 million was allocated for the construction and completion of projects at heritage sites, while R94.7 million was allocated to the rehabilitation and refurbishment of GPG precinct buildings. The allocation for maintenance was R31.5 million.

As part of the National Youth Service initiative, a sub-programme of the Expanded Public Works Programme (EPWP), there was a particular focus on employing young people in the department's projects. This initiative is part of government's plans to address youth unemployment. This is examined in greater detail in Chapter 3. Alternative funding solutions for Gauteng infrastructure projects will be explored by the Gauteng Infrastructure Financing Agency (GIFA). GIFA will identify projects suitable for alternative financing and seek private partners for them while coordinating all strategic infrastructure projects within the province and providing advisory, technical and operational support.

National government initiatives include the Strategic Integrated Projects (SIPs). These include projects to create or improve logistics corridors between Gauteng and other provinces, such as KwaZulu-Natal and its seaports. It is expected that these projects will create thousands of jobs. Implementation has already begun on some projects, such as the purchase of trains for the rail route between Johannesburg and Durban. Future SIPs include support for the Aerotropolis project around O. R. Tambo International Airport, and increased electricity generation and expanded transmission.

There will also be a focus on social infrastructure with the building of new hospitals and schools; two new universities also being planned. These new public facilities will be connected for e-government as part of the effort to expand access to and use of ICT. This will involve encouraging the private ICT sector to broaden its services in urban centres and to other businesses, while government will focus on access in rural areas and townships.

Hospitals to be re-built or refurbished over the next five years include Jubilee, Sebokeng, O.R. Tambo Memorial, Kalafong, Dr Yusuf Dadoo and Khayalami.[63] Refurbishment at Chris Hani Baragwanath and Dr George Mukhari hospitals, through public-private partnerships (PPPs), will include maternity and neonatal lift replacements. In the 2014/15 financial year, the following schools were completed: Magaliesburg Secondary School, Slovoville Primary School, Impendulo Primary School, Freedom Park Secondary School, Fochville Secondary School, Oosrand Secondary School, Rosslyn Primary School and Iketleng Primary School.[64] The Gauteng Department of Education (GDE) has also distributed 84,320 tablets to schools as part of its e-learning initiative.

60 Information from www.gautengonline.gov.za/News/Pages/Gauteng-infrastructure-investment-comes-under-spotlight-.aspx

61 Information from www.gautengonline.gov.za/News/Pages/Infrastructure-is-lead-to-economic-growth-%E2%80%93-Patel.aspx

62 Information from http://www.gautengonline.gov.za/News/Pages/Gauteng-City-Region-to-fast-track-infrastructure-rollout.aspx

63 Gauteng Provincial Government (2015). Estimates of Provincial Revenue and Expenditure 2015/16.

64 Gauteng Provincial Government (2015). Estimates of Capital Expenditure.

2.7. Conclusion

The economy of the province has declined alongside the national one due to financial crisis of 2009 resulting in a low commodity demand from major trading partners. Recovery, remains sluggish on the overall and Gauteng growth has also fallen despite the 2010 recovery but remains above the national rate and is forecast to increase in future, with 2.8 percent predicted for 2017. International and domestic factors, including limited growth in major trading partners and problems of domestic electricity supply, have created barriers to growth. Inflation poses a potential risk to future domestic growth. While the rate of inflation is rising, it has been lower than expected. However, significant upside risks remain. The rand has weakened and may weaken further if the US tightens money supply through raised interest rates.

The oil price was generally lower in early- to mid-2015 than in the equivalent period in 2014. However, growing stability in Greece may avert fears of an economic downturn and cause demand for oil to rebound. Rising inflation would erode consumer buying power and could prompt further repo rate increases by the SARB, further limiting spending. These factors would put downward pressure on economic growth.

Government intervention is also needed to bolster investment as, throughout the South African economic recovery to date, the economic growth rate has remained at approximately half of that recorded before the recession.

Mining industry output remains an important source of foreign exchange for Gauteng, with its products primarily sent outside Africa. The province's exports to the rest of Africa largely consist of goods that are further down the supply chain, such as manufacturing output. Producing such goods can increase income and labour-absorption more than can exporting raw materials. Increased trade with Africa could thus benefit the province's economy and people. As a way of promoting such trade, government has made South Africa a member of the TFTA.

Domestic-focussed policy initiatives to support economic growth have been formed around the TMR programme. Its five development corridors will align the regions of Gauteng with the economic sectors in which they have a comparative advantage. The objective is to make the province a preferred investment destination and thereby develop the provincial economy. Additional support for Gauteng's economy will be provided through investment of more than R94 billion over the next three years in economic and social infrastructure. These plans are aligned with the NDP's goals of eliminating poverty and reducing inequality. The government of Gauteng is committed to supporting the province's economy and, by doing this, to improve the lives of its citizens. This commitment is shown in policies and projects such as the TMR and the development of the Kopanong Precinct.

Chapter 3: Labour Market Review and Outlook

3.1. Overview

As indicated in Chapter 1, emerging market economies' growth is expected to decrease from 4.6 per cent in 2014 to 4 percent in 2015. This can mainly be attributed to the impact of low commodity prices, negative fiscal outlooks in oil exporters due to a lower oil price, and the rebalancing of the Chinese economy. Global labour market prospects are therefore expected to be weaker. However, advanced economies are showing signs of economic recovery after the financial crisis, and this is improving global economic prospects and creating employment.

As an emerging market economy, South Africa is facing challenges as the rate of growth of its economy continues to slow, contracting by 1.3 per cent in the second quarter of 2015. According to the latest World Economic Outlook (WEO), economic growth is expected to be 1.4 per cent for 2015 as a whole and 1.3 per cent in 2016.[65] Electricity shortages combined with labour unrest and lower global demand, have resulted in job losses in sectors such as mining and manufacturing. Unemployment remains a pressing issue for the country, with youth unemployment at 35.5 per cent in the second quarter of 2015.

The National Development Plan (NDP) estimates that, to address the problem of unemployment, the country needs an economic growth level at least equal to the growing labour force.[66] The economy also needs a more dynamic and inclusive labour market, with employment being created through increased exports, and improved skills development. Particularly for young people, access to jobs needs to become easier and the labour force as a whole needs to be equipped with skills that are in demand. Through the Medium Term Strategic Framework (MTSF), government is implementing the NDP in order to address the triple challenges of unemployment, poverty and inequality.

This chapter provides an overview of the global labour market, labour migration and women's labour market participation as a pressing global issue. It also includes an analysis of the South African labour market and describes government's current policies (including the promotion of small to medium enterprises) on job creation. The last part of the chapter discusses the Gauteng labour market.

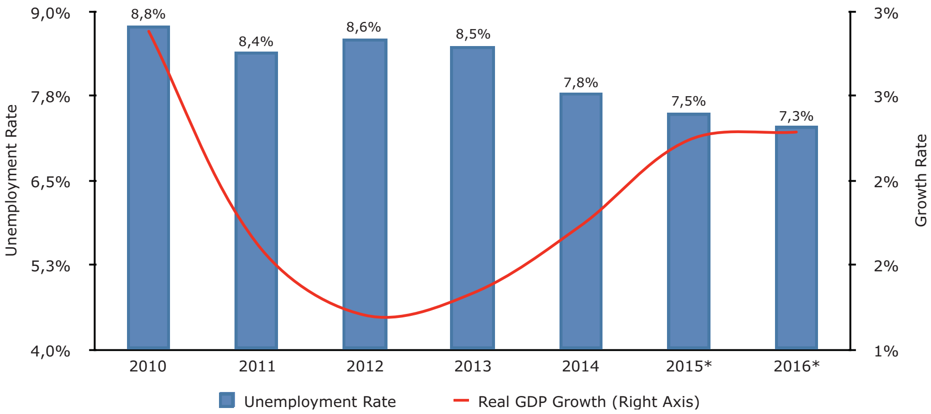
[65] International Monetary Fund (2015). World Economic Outlook: Adjusting to Lower Commodity Prices (October). Washington

[66] South African Government Information (2012). Our future – make it work: National Development Plan 2030. Pretoria.

3.2. Global Labour Market Review

As advanced economies show signs of recovery in their economic growth, their labour markets are also improving. The rate of growth in these economies is forecast to increase to 2.4 percent in both 2015 and 2016 compared with 1.8 pe rcent in 2014.

Figure 3.1: Unemployment & Economic Growth, Advanced Economies, 2010-2016



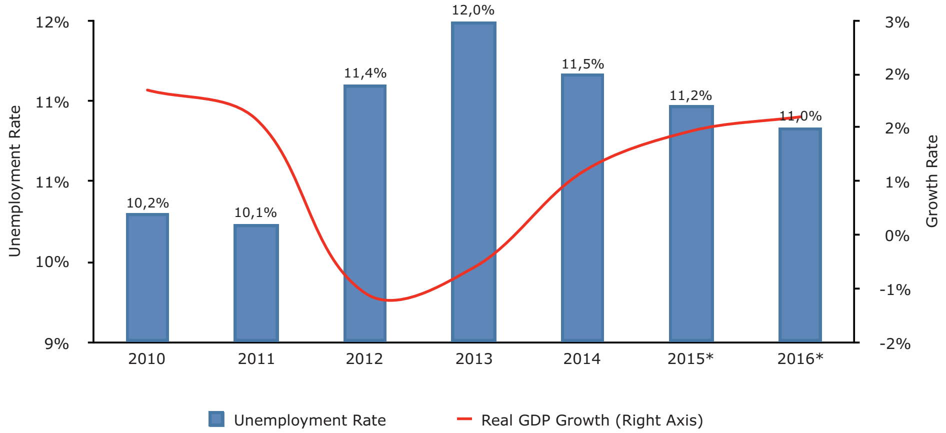
Source: ILO (2015) and IMF (2015).
Note: * indicates forecasts

The unemployment rate in advanced economies was 8.8 per cent in 2010 and 8.4 per cent in 2011. Following a decline in the rate of economic growth from 3.1 per cent in 2010 to 1.7 per cent in 2011 and 1.2 per cent in 2012, the unemployment rate increased to 8.6 per cent in 2012. As economic growth recovered to 1.4 per cent in 2013 and 1.8 per cent in 2014, the unemployment rate fell to 8.5 per cent and 7.8 per cent respectively. GDP growth is expected to reach 2.4 per cent in 2015 and 2.4 per cent in 2016 with the unemployment rate expected to fall to 7.5 per cent and 7.3 per cent in the respective years.

3.2.1. The Euro Area Shows Signs of Recovery

As euro area member countries such as Greece continued to face fiscal problems related to the 2008 financial crisis, the region's economy remained on a low to negative growth path. In 2013, the unemployment rate increased to its highest level since 2010. The ECB introduced QE in 2014, which is expected to boost economic growth and employment.

Figure 3.2: Unemployment & Economic Growth, 2010-2016



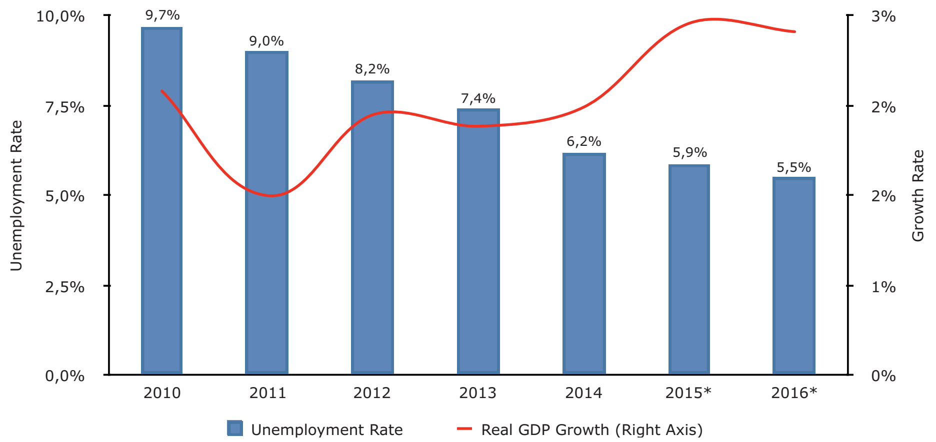
Source: ILO (2015) and IMF (2015).
Note: * indicates forecasts.

The euro area's economic growth rate was 2 per cent in 2010 and 1.8 in 2011. In the same years, the unemployment rate decreased slightly, from 10.2 per cent to 10.1 per cent. The unemployment rate was 11.4 per cent in 2012 and 12.0 per cent in 2013. In line with the anticipated effect of QE, economic growth is expected to reach 1.4 per cent in 2015 and 1.9 per cent in 2016, with the unemployment rate expected to fall to 11.2 per cent and 11 per cent over the same period. There are signs of improvement in the labour and economic prospects of the euro area.

3.2.2. US Unemployment Returning to Pre-Financial Crisis Levels

The US economy is well into recovery as the Federal Reserve's QE stimulus measures take effect. The unemployment rate has fallen every year since 2010, with the rate of economic growth increasing steadily through the period. The unemployment rate is expected to return to pre-financial crisis levels in the short to medium term, with the US economy expected to benefit from lower commodity and oil prices.

Figure 3.3: Unemployment & Economic Growth, 2010-2016



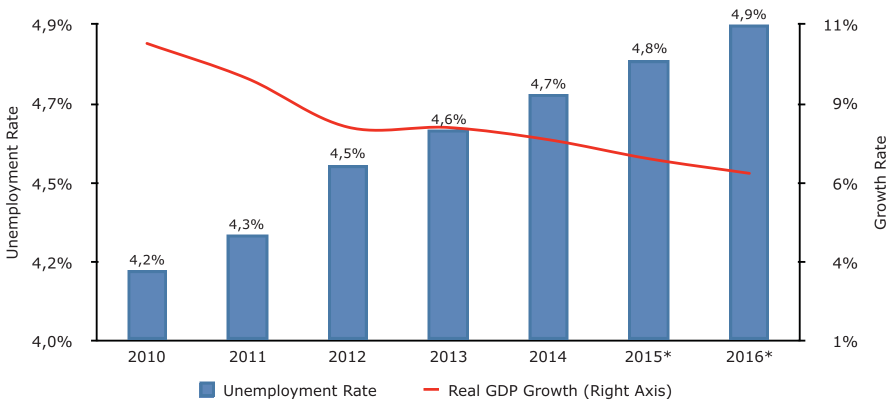
Source: ILO (2015) and IMF (2015).
Note: * indicates forecasts.

The unemployment rate in the US declined to 9 per cent in 2011 from 9.7 per cent in 2010. The rate of economic growth in 2011 was 2.5 per cent compared with 1.6 per cent in 2010. Economic growth in 2012 increased to 2.3 per cent, and the unemployment rate fell to 8.2 per cent. The economic growth rate in 2013 was 2.2 per cent and 2.3 per cent in 2014, and is expected to reach 3.1 per cent in 2015. By 2016, the unemployment rate is expected to have fallen to 5.5 per cent. The recovery in the US is therefore well underway. However, as highlighted in Chapter 1, questions remain regarding the normalisation of interest rates.

3.2.3. Emerging Markets Such as China and India are Showing Signs of a Labour Market Slow Down

As shown in Section 1.5, economic growth in China is expected to decline in the short to medium term due to lower global demand for its exports. The country's unemployment rate increased between 2010 and 2015, and is forecast to reach 4.9 per cent in 2016. China's economy is adversely affected by global economic uncertainty, which includes financial market volatility and the impact of the normalisation of US interest rates.

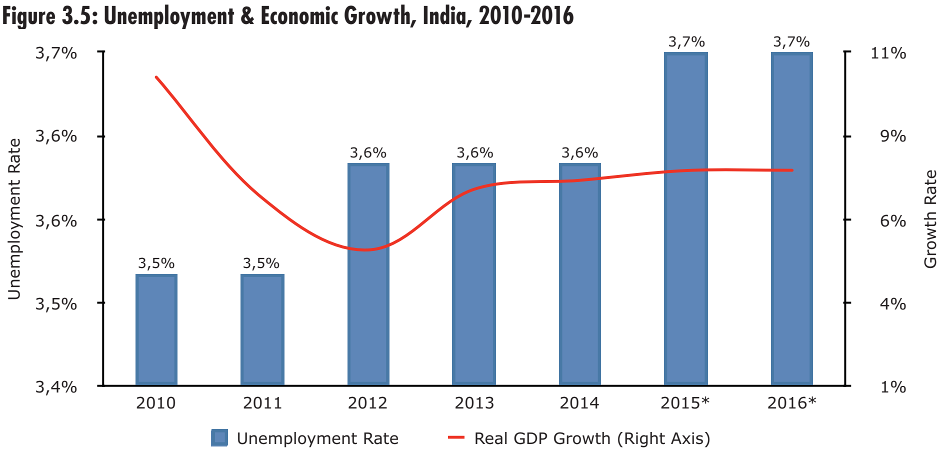
Figure 3.4: Unemployment & Economic Growth, China, 2010-2016



Source: ILO (2015) and IMF (2015).
Note: * indicates forecasts.

Between 2010 and 2014, China's unemployment rate increased from 4.2 per cent to 4.7 per cent, with the rate of economic growth also declining during the same period.[67] This trend is expected to continue as economic growth further declines.

Figure 3.5: Unemployment & Economic Growth, India, 2010-2016



Source: ILO (2015) and IMF (2015).
Note: * indicates forecasts.

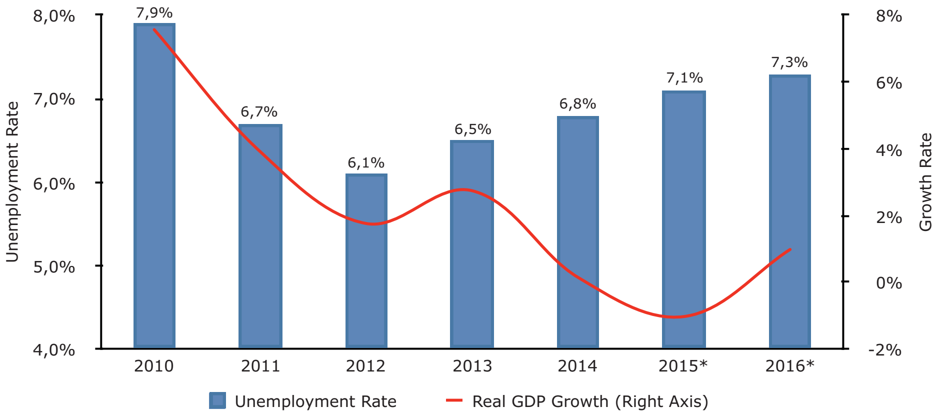
Figure 3.5 shows that India's unemployment rate rose from 3.5 per cent in 2012 to 3.6 per cent in 2014. This was accompanied by a decline in the economic growth rate between 2010 and 2012 and a stagnant rate from 2012 to 2014. The decline in economic growth can be attributed to the low demand for India's exports, with its current account in deficit for the past six years as shown in Figure 1.14 in Chapter 1.

The unemployment rate stabilised in 2013, as the rate of economic growth increased. India's economy is increasingly one of knowledge-based economic activities as evidenced by the increase of 34.4 per cent in exports of financial services in 2013-2014.[68] The change in the core focus of the economy likely has a bearing on the expected increase in the unemployment rate in 2015, despite a steady GDP growth rate.

[67] IMF (2015). People's Republic of China: IMF Country Report 15/234. Washington D.C.
[68] Information from: http://www.thehindu.com/business/budget/india-has-second-fastest-growing-services-sector/article6193500.ece

The Brazilian economy performed well in 2010 despite a relatively high unemployment rate. In the two years before the Brazil 2014 FIFA World Cup, unemployment fell as a result of investment which surged prior to the soccer event. However, the current decline in global commodity prices, described in Chapter 1, has seen unemployment increase and economic growth decline.

Figure 3.6: Unemployment & Economic Growth, Brazil, 2010-2016



Source: ILO (2015) and IMF (2015).
Note: * indicates forecasts.

In 2010, as Brazil recovered from the global economic crisis, the unemployment rate declined to 7.9 per cent, whilst GDP growth increased to 8 per cent. The unemployment rate fell to 6.7 per cent in 2011 and 6.1 per cent in 2012. GDP growth fell in 2012 before marginally increasing in 2013 and falling again in 2014. Against this background of the decline in the rate of economic growth, the unemployment rate is expected to reach 7.1 per cent in 2015 and 7.3 per cent in 2016.

3.2.4. Labour Mobility and Migration Likely to Increase as Economic Prospects Improve in Advanced Economies

Workers tend to earn varying wages depending on their geographical location[69]. Moving from a poor country to a rich country can enable the migrant worker to earn a significantly higher income. For an example, it is estimated that low-skilled employees may be able to earn between 3.5 and 3.8 times more in the US than in Philippines, even taking the cost of living into account.[70]

The 2008 economic crises exposed the vulnerability of migrant jobs to economic conditions in the destination country, with migration to European Union (EU) countries from the rest of the world decreasing by 60 per cent between 2008 and 2009. Almost all immigration inflows to the US in legal temporary work categories have decreased, as evidenced by a 50 per cent decline in visas issued to low-skilled seasonal workers.[71] However, as economic prospects improve in advanced economies this trend is expected to reverse.

Migrant workers support the global economy, particularly in developed economies, as these tend to have shortages of low skilled labour as a result of lower fertility rates.[72] Significant attention to migration policies is therefore needed, particularly in destination countries where swift integration of migrants can potentially expand economic growth.[73] Destination countries such as South Africa therefore need to have policies in place that improve the integration and legalisation of migrants, and to eradicate xenophobia and other forms of discrimination towards migrants.

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69 D McKenzie, C Theoharides, D Yang (2014). Distortions in the International Migrant Labor Market: Evidence from Filipino Migration and Wage Responses to Destination Country Economic Shocks. Development Research Group, World Bank

70 Ibid.

71 Ibid.

72 International Labour Organisation (2014). World of Work Report 2014.

73 Information from: http://www.europeanfinancialreview.com/?p=2157

3.2.5. Gender Based Inequality and Wage Discrimination a Concern in the Global Labour Market

Women contribute a significant amount to economic welfare through child-rearing and household tasks, work which is in the main excluded from calculations of GDP.[74] Limitations on women's participation in the labour market result in lower levels of measured economic activity. On average, women spend twice the amount of time on household duties as do men and four times as much on childcare.[75] The ability of women to participate in the labour market tends to be hindered by the time they spend on such unpaid work. Conversely, men are freer to participate in the formal labour force.

In some countries, this costs up to 34 per cent of potential economic activity with a lack of opportunities and rights limiting women's potential to join the formal labour market or become entrepreneurs.[76] In some developing countries, women's independent mobility is restricted and this prevents them from achieving their economic potential. An inability to easily access the formal labour market results in women dominating the informal sector. This offers limited protection, is mostly low-skilled and generates unstable earnings.

Although educational attainment generally increases women's earnings, it does not solve income inequality and in most countries gender based income inequality exists regardless of education attainment. In the US, for example, women earn 69.1 per cent of what men with comparable education earn. Furthermore, women may earn the same as or less than male counterparts who have lower levels of educational attainment.[77]

Limited access to credit by women is a key factor excluding them from asset ownership. Particularly in African agriculture, they tend to work smaller plots and therefore earning less than their male counterparts. Globally, female representation in leadership roles and entrepreneurship remains low. Between 2008 and 2012, only 4 per cent of CEOs of 500 companies surveyed by Standard and Poor's were women.[78]

In the EU's 27 countries, only 25 per cent of business owners with employees are women and therefore create employment for other people. In 2015, only 25.5 per cent of national parliament seats in the EU region are held by women and in Sub-Saharan Africa only 24.4 per cent[79]; and those who are in high public positions tend to be in areas relating to socio-cultural matters rather than key strategic functions.[80]

Women face discrimination in the labour market due to numerous reasons including socio-economic constraints, culture and cultural stigmas and the responsibilities of child rearing. In some countries, gender discrimination against women is perpetuated by legislation. Sudan, for instance, is ranked at number 10 among economies[81] with legislation that restricts women and hinders them from doing work similar to that done by men.[82]

3.3. South African Labour Market Review

As indicated in Chapter 1, the rate of growth of the South African economy slowed to negative 1.3 per cent in the second quarter of 2015.[83] According to the latest WEO, economic growth is expected to reach 1.4 per cent in 2015 and 1.3 per cent in 2016.[84] Slow growth in South Africa is due to a range of factors including the effects of the 2008/2009 financial crisis, weak domestic and global demand, electricity supply constraints and labour unrest. Slow economic growth affects job creation. Electricity shortages resulted in job losses in the agriculture

74 K Elborgh-Woytek, M Newiak, K Kochhar, S Fabrizio, K Kpodar, P Wingender, B Clements, and G Schwartz. (2013). Women, Work, and the Economy: Macroeconomic Gains from Gender Equity. International Monetary Fund

75 Ibid.

76 Ibid.

77 Institute for Women's Policy Research (2015).The Status of Women in the States: 2015 Employment and Earnings. Washington DC

78 World Bank (2015). Women, Business and the Law 2016. Washington, DC

79 Information from: http://www.unwomen.org/en/what-we-do/leadership-and-political-participation/facts-and-figures

80 K Elborgh-Woytek, M Newiak, K Kochhar, S Fabrizio, K Kpodar, P Wingender, B Clements, and G Schwartz (2013). Women, Work, and the Economy: Macroeconomic Gains from Gender Equity. International Monetary Fund

81 173 economies surveyed in Women, Business and the Law.

82 Women, Business and the Law.

83 Information from http://www.statssa.gov.za/publications/P0441/P04412ndQuarter2015.pdf

84 International Monetary Fund (2015). World Economic Outlook: Adjusting to Lower Commodity Prices (October). Washington

and manufacturing sectors in the first quarter of 2015, with the sectors contracting by 16.6 per cent and 2.4 per cent respectively.[85] The country thus continues to struggle with high unemployment, as shown in Table 3.1 below.

Table 3.1: Labour Force Profile, 2014Q4-2015Q2

	2014Q4 (,000)	**2015Q1 (,000)**	**2015Q2 (,000)**
Working age population	35,643	35,799	35,955
Labour force	20,228	20,994	20,887
Employed	15,320	15,459	15,657
Formal sector	10,911	10,798	10,835
Informal sector	2,448	2,483	2,661
Agriculture	742	891	869
Private households	1,219	1,288	1,292
Unemployed	4,909	5,535	5,230
Not economically active	15,415	14,805	15,068
Discouraged work-seekers	2,403	2,397	2,434
Other (not economically active)	13,012	12,408	12,633
Rates (%)			
Unemployment rate	24.3	26.4	25.0
Employment/population ratio	43.0	43.2	43.5
Labour participation	58.8	58.6	58.1

Source: Stats SA, 2015

Unemployment remains a serious challenge. Table 3.1 shows that in the fourth quarter of 2014 the working age population[86] was 35.6 million, 35.7 million in the first quarter of 2015 and 35.9 million in the second quarter of the year. The labour force was 20.2 million in the fourth quarter of 2014, and 20.9 million in the first and second quarters of 2015. In the fourth quarter of 2014, 15.3 million people were in employment, and 15.4 million and 15.6 million respectively in the first and second quarters of 2015. The number of unemployed people thus increased between the fourth quarter of 2014 and the first quarter of 2015 when the unemployment rate, using the official definition, stood at 26.4 per cent. The rate fell to 25 per cent in the second quarter of the year.

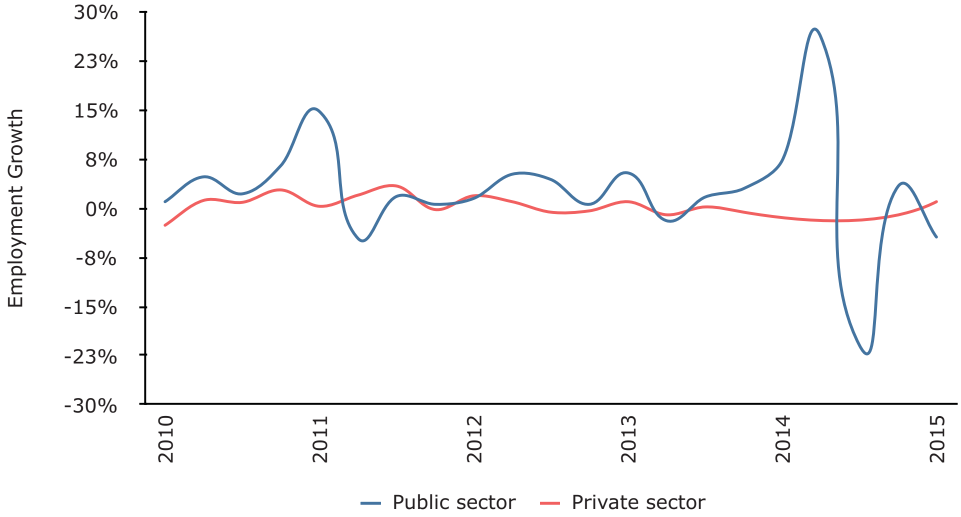
3.3.1. Employment Growth Remains Subdued

With economic growth contracting by 1.3 per cent in the second quarter of 2015, employment prospects in the public and private sector remain subdued. In the private sector in 2015 as a whole, employment remains stable to negative, with marginal growth recorded. The public sector continues with fiscal consolidation, which is a programme of reducing the government budget deficit and debt accumulation and has included a significant slowdown in employment creation.

[85] Information from http://www.tradingeconomics.com/articles/05262015111741.htm

[86] The working age population consists of people in the age group 15-65 years.

Figure 3.7: Public & Private Sector Employment Growth, 2010Q1-2015Q2



Source: SARB, 2015

In the public sector, employment growth of 14.8 per cent was recorded in the first quarter of 2011. This was followed by a decrease of 4.6 per cent in the second quarter, with the decrease continuing throughout that year. In the second quarter of 2013, growth in employment decreased to 1.9 per cent, followed by an increase to 7.3 per cent in the first quarter of 2014, a marked increase to 26.2 per cent in the second quarter of 2014 and a sharp decrease to negative 20.9 in the third quarter of 2014. That the first half of 2015 has seen only a slight increase is mainly because of fiscal consolidation efforts by government; this can result in slower employment creation.

Employment growth in the private sector between 2010 and 2014 remained stable, with marginal increases. However, increased job prospects remain limited by a shortage of electricity supply, low commodity prices and low consumer and business confidence all of which have an adverse effect on economic growth.

3.3.2. The Manufacturing and Mining Industries Continue to Face Challenges

In the second quarter of 2015, jobs were lost in traditionally employment-absorbing sectors such as manufacturing and finance & other business services. The mining sector is showing signs of employment recovery after the effects of labour unrest. However, a difficult economic environment, including lower commodity prices and subdued global demand are likely to limit this recovery in the manufacturing and mining sectors.

Table 3.2: Employment by Sub-Sector, 2014Q4-2015Q2

Sectors	2014Q2 (,000)	2015Q1 (,000)	2015Q2 (,000)	Q-o-Q Growth (%)	Y-o-Y Growth (%)
Agriculture	670	891	869	-2,5	29,8
Mining	419	443	446	0,7	6,5
Manufacturing	1745	1779	1756	-1,3	0,7
Utilities	118	143	136	-4,8	15,2
Construction	1183	1322	1401	6,0	18,5
Trade	3179	3046	3119	2,4	-1,9
Transport	947	899	922	2,6	-2,7
Finance & other business services	2012	2195	2164	-1,4	7,6
Community & social services					
Private household	3531	3450	3548	2,8	0,5
	1290	1288	1292	0,3	0,1
Total	15094	15459	15657	1,3	3,7

Source: Stats SA, 2015

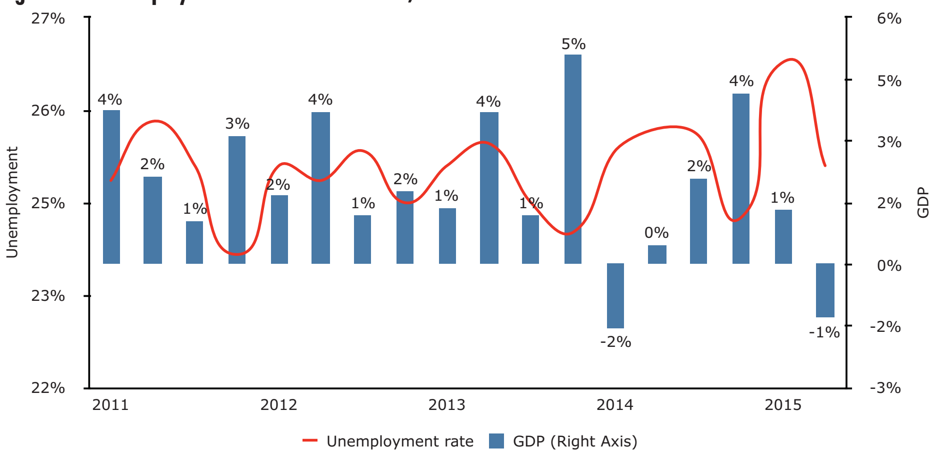
Between the first and the second quarters of 2015, of Gauteng's sub-sectors construction had the highest growth in employment at 6 per cent, followed by community & social services at 2.8 per cent and transport at 2.6 per cent. Between the second quarter of 2014 and the same quarter in 2015, employment in agriculture (29. 8 per cent), construction (18.5 per cent) and utilities (15.2 per cent) increased significantly. The mining sub-sector, where employment increased by 6.5 per cent over the same period, had recovered from a series of protracted periods of labour unrest. Employment in the finance and other business services sub-sector fell in the first half of 2015 but increased by 7.6 per cent between the second quarters of 2014 and 2015.

3.3.3. Unemployment Increases as the Economy Struggles to Grow

The South African economy is struggling to achieve the economic growth needed to bring down its unemployment rate, which, according to a latest report by the International Labour Organization (ILO), is projected to be the eighth highest unemployment in the world in 2015.[87]

There are a number of reasons for the country's stubbornly high unemployment rate. These include the slow economic growth of the last five years leading to fewer people being absorbed by the labour market. Of particular concern has been slow growth, and in some cases decline, in sectors such as agriculture and manufacturing which have traditionally been labour-absorbing.

Figure 3.8: Unemployment & Economic Growth, 2011Q1-2015Q2



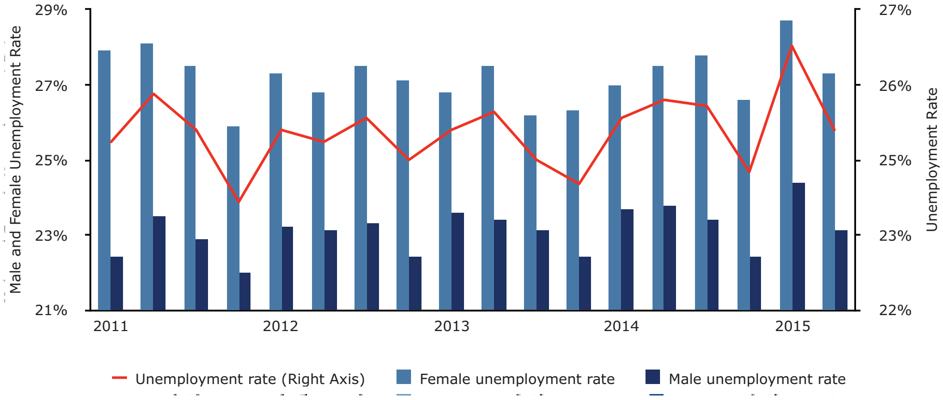
Source: Stats SA, 2015

At the beginning of the first quarter of 2011, the rate of economic growth was 4 per cent and the unemployment rate 24.8 per cent. Economic growth fell significantly in the second quarter of 2011 to 2 per cent. This was accompanied by an increase in unemployment to 25.6 per cent in the same quarter. Economic growth improved in the last quarter of 2011, along with a moderate decrease in the unemployment rate to 23.8, the lowest rate recorded in the period. In 2012, the economy grew more slowly and the unemployment rate rose. In the second quarter of 2013, it increased significantly before falling to 24.1 per cent in the fourth quarter of the year and increasing to 25.5 per cent in the second quarter of 2014.

Economic growth recovered in the second quarter of 2014 to 0.1 per cent, followed by 2 and 4 per cent respectively in the third and fourth quarters of the year respectively. There was a decrease in first quarter of 2015 to 1 per cent and a further decrease in the second quarter to negative 1.3 per cent. Electricity problems, low business and consumer confidence and weak domestic and global demand contributed to this situation, with some economic analysts seeing the risk of a possible recession in the third quarter of the year.

[87] International Labour Organization. (2015). World Employment and Social Outlook: Trends 2015. Geneva

Figure 3.9: Unemployment by Gender, 2011Q1-2015Q1



Source: Stats SA, 2015

Women have a higher unemployment rate than men in South Africa, with young women particularly affected. In the second quarter of 2015, 95,000 jobs were gained by women with, y-o-y, women's employment increasing by 229,000. In the second quarter of 2015, men gained 103,000 jobs, with y-o-y male employment increasing by 334,000. The unemployment rate for women was 27.3 per cent in the second quarter of 2015, higher than the national average of 25 per cent and more than that of their male counterparts (23.1 per cent). As shown in section 3.2.3, reasons for the higher unemployment rate amongst women include their limited participation in some industries.

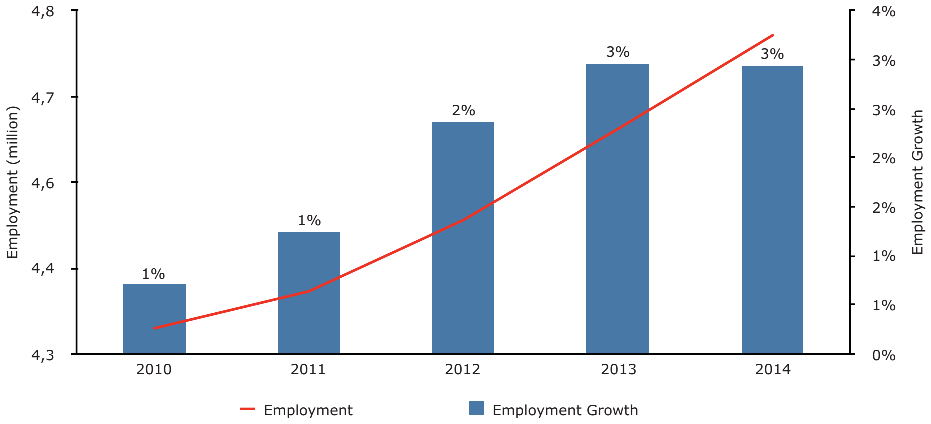
3.4. Gauteng Labour Market Review

In 2015, the labour market in Gauteng has marginally improved. Tertiary industries such as finance & business services and wholesale & retail trade continue to provide the majority of the province's employment, with manufacturing making a significant contribution. Manufacturing is labour-intensive and is therefore important for creating employment.

3.4.1. Employment Growth Remains Stable in the Province

Employment provides citizens with the dignity of providing for themselves, reduces the state's service delivery burden and increases tax revenue through income tax and Value-Added Tax (VAT) on consumer spending.

Figure 3.10: Employment & Employment Growth, 2010-2014



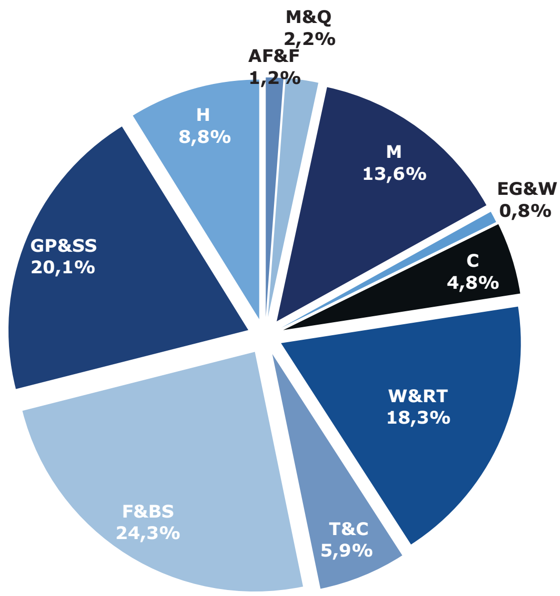
Source: IHS Global Insight, 2015

The number of people employed in Gauteng has been increasing since the recession. Employment growth in the province recovered after 2010 but plateaued at approximately 3 per cent in 2013 and 2014. This is little higher than the 2.8 per cent growth rate in the province's population[88] and therefore only marginally addresses its unemployment problem. Government interventions are therefore needed in order to create an economic environment that encourages and supports further job creation.

3.4.2. Tertiary Sector Dominates Employment, Manufacturing Sub-Sector also Significant

The tertiary sector is the largest employer in Gauteng but there is significant variation between the municipalities. In CoE and Sedibeng, manufacturing makes a large contribution, and mining & quarrying is the major employer in three of the four West Rand municipalities. There is a need to balance the focus on the comparative advantages of a region with a level of diversity, which can reduce the impact of a downturn in any one industry.

Figure 3.11: Employment by Sub-Sector, % of Gauteng Total, 2014

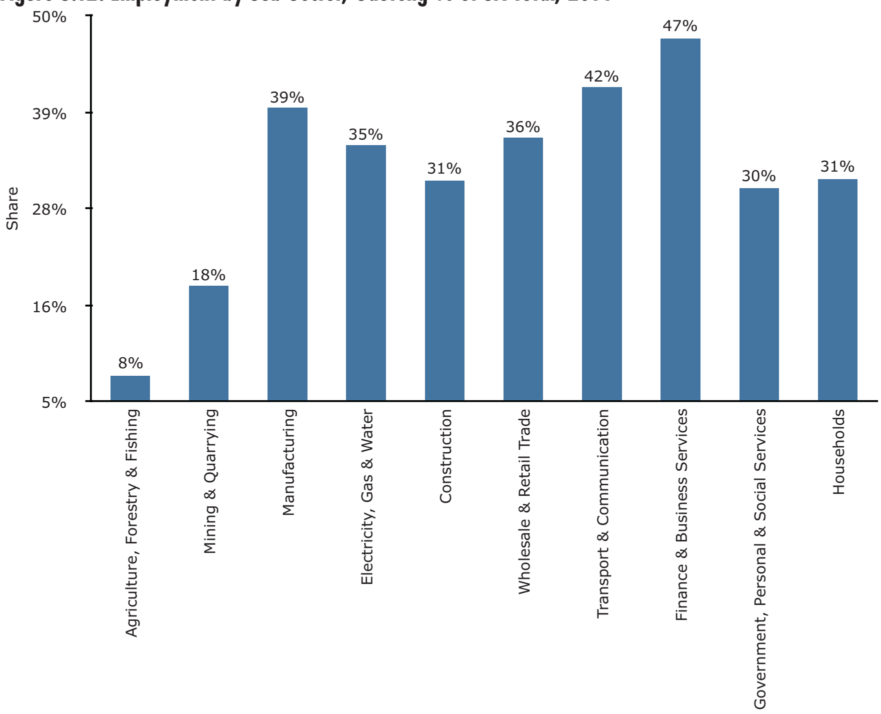


Source: IHS Global Insight, 2015. Note: AF&F=Agriculture, Forestry & Fishing. M&Q=Mining & Quarrying. M=Manufacturing. EG&W=Electricity, Gas & Water. C=Construction. W&RT=Wholesale & Retail Trade. T&C=Transport & Communication. F&BS=Finance & Business Services. GP&SS=Government, Personal & Social Services. H=Households.

88 Additional information from IHS Global Insight.

At 24.3 per cent, in 2014 the finance & business services industry was the province's largest employer. This is unsurprising given that it is the financial hub of South Africa and much of the African continent, with many financial institutions' headquarters based in Gauteng. With the province home to the CoT, the administrative capital of the country, the second largest share of the employed were in the government, personal & social services sub-sector, at 20.1 per cent. The third and fourth largest shares were in wholesale & retail trade, and manufacturing, at 18.3 and 13.6 per cent respectively. These are labour-intensive sectors and creating an enabling environment for their expansion should increase their ability to generate work for the people of the province. Wholesale & retail trade in particular already accounts for a larger share of employment in Gauteng than its share of GVA, which was 12.8 per cent as shown in Figure 2.3.

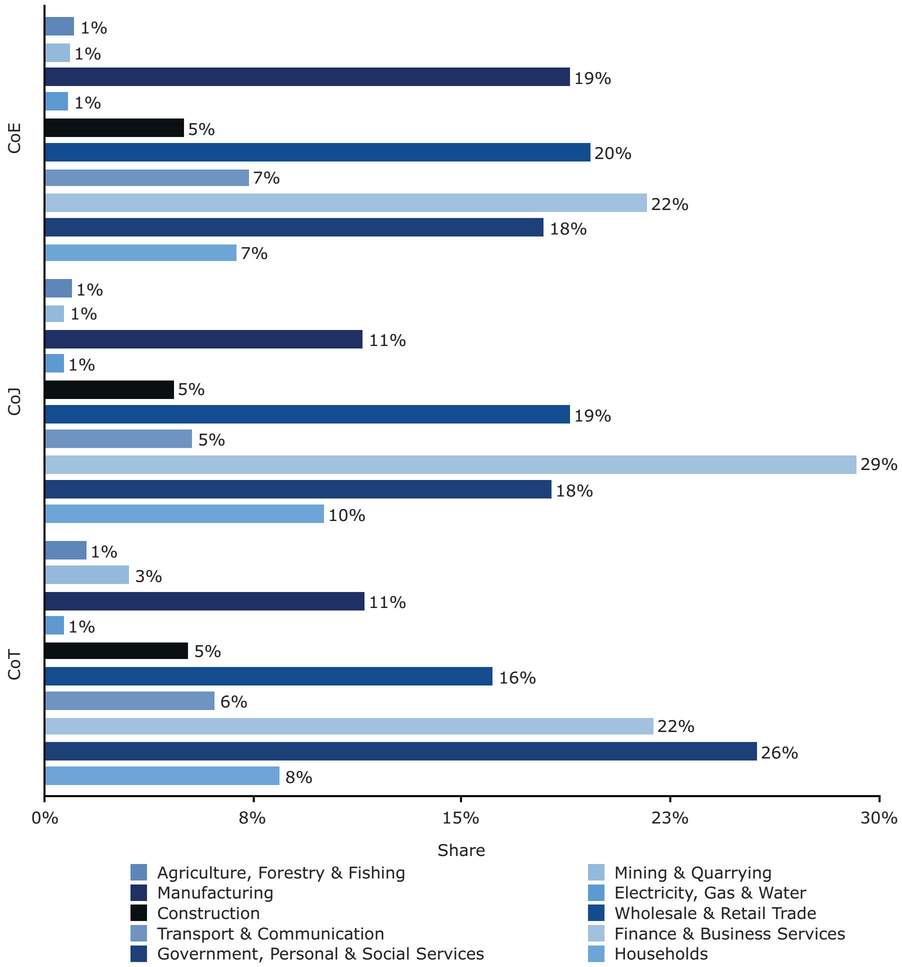
Figure 3.12: Employment by Sub-Sector, Gauteng % of SA Total, 2014



Source: IHS Global Insight, 2015

At 47.4 per cent, almost half of all finance & business services workers in South Africa are employed in Gauteng, which is the country's main hub for the sub-sector. The province's share of the government, personal & social services sub-sector is not as high because every province has its own government. Also, while the CoT is the administrative capital, the Western Cape houses the legislative capital of the country and employs 14 per cent of South Africa's government, personal & social services sub-sector workers. As the CoE and Sedibeng are major manufacturing centres, Gauteng accounts for 39.2 per cent of employment in that sub-sector. There is also a significant share in transport & communication.

Figure 3.13: Employment by Sub-Sector, % Share of Region Total, Metros, 2014

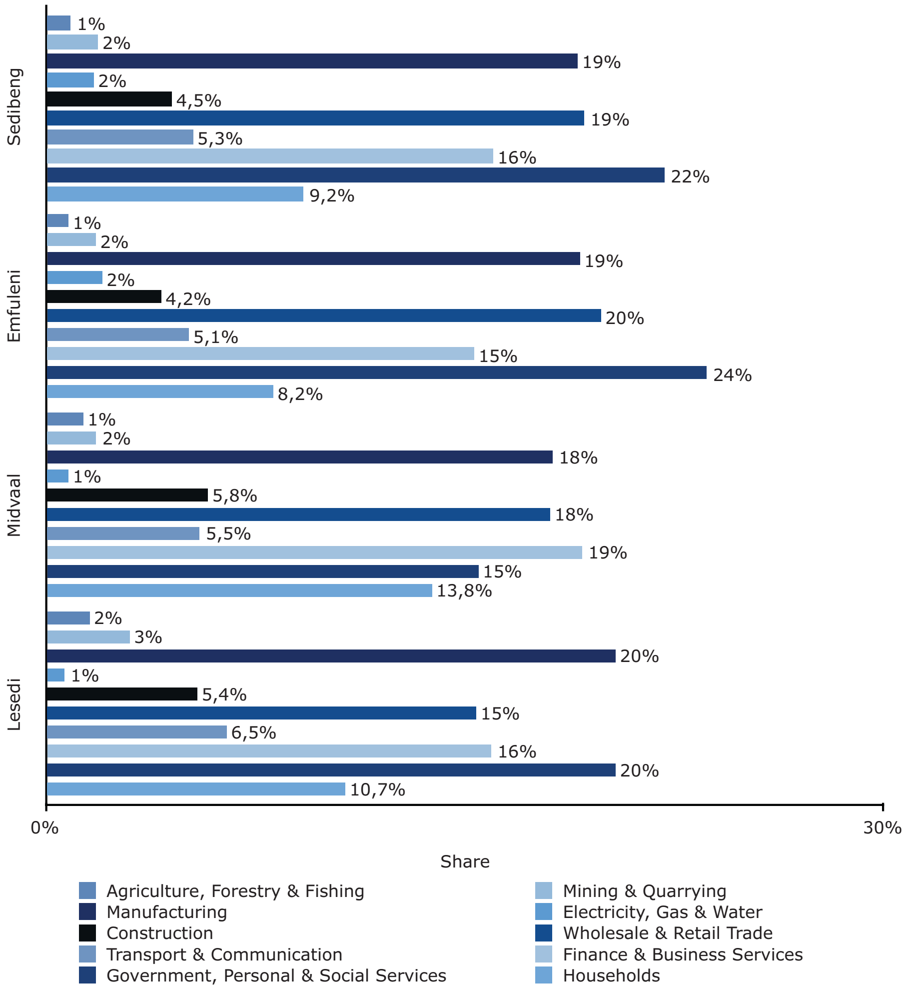


Source: IHS Global Insight, 2015

At 18.8 per cent, manufacturing makes up a large portion of employment in the CoE. The TMR programme identifies the metro as a hub for that industry and, as described in Section 2.6.1, manufacturing will be a focus for development. It is therefore likely that the industry's share of employment will increase in future. As is the case with the rest of the province, wholesale & retail trade accounts for a significant portion or employment in the CoE. Finance & business services and government, personal & social services are the other two major contributors, though to a lesser degree than in the other metros.

The largest contribution to employment in the CoJ comes from the finance & business services sub-sector, at 29.2 per cent. This metro contains offices and headquarters of many financial institutions and is home to the Johannesburg Stock Exchange (JSE). At 25.6 per cent, the government, personal & social services sub-sector accounts for the largest share of employment in the CoT, the country's government hub and administrative capital.

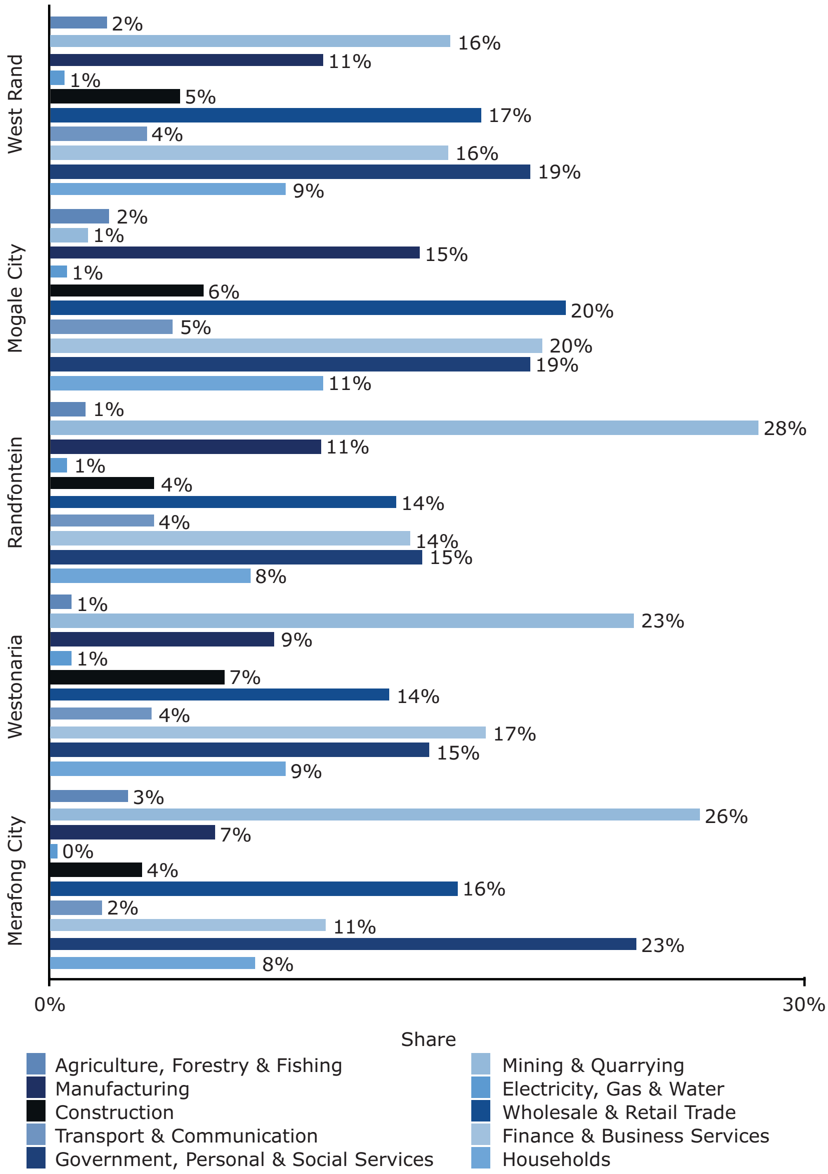
Figure 3.14: Employment by Sub-Sector, % Share of Region Total, Sedibeng & Local Municipalities, 2014



Source: IHS Global Insight, 2015

Sedibeng is another of the province's manufacturing hubs, with the sector accounting for 19 per cent of employment in the district. Government, however, is the major employer in Sedibeng, with the government, personal & social services sub-sector making the largest single contribution to employment, at 22.2 per cent. The Midvaal local municipality is unusual in that the finance & business services sector accounts for the single largest share of employment, at 19.2 per cent.

Figure 3.15: Employment by Sub-Sector, % Share of Region Total, West Rand & Local Municipalities, 2014



Source: IHS Global Insight, 2015

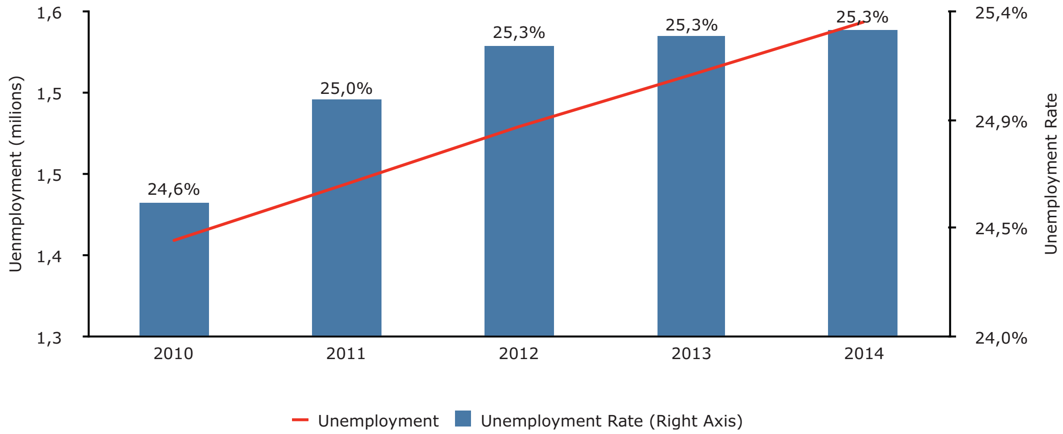
The West Rand is a mining centre, with mining & quarrying accounting for 15.9 per cent of employment in the district. However, Mogale City is the most populous local municipality within the West Rand and little of its employment is in mining; instead, there are major contributions from wholesale & retail trade, finance & business services and government, personal & social services. As a result, mining's overall share in the district is only 16 per cent although in three of its four local municipalities the industry contributes over 20 per cent; in Randfontein, this figure is 28.1 per cent.

3.4.3. Unemployment Remains a Significant Challenge for the Province

The lack of gainful employment denies people the opportunity and funds to improve their standard of living and often forces reliance on others, whether relatives or the state. Minimising this condition for as many citizens as possible is a high priority for government.

Marginal growth has been recorded in the number of unemployed persons in the province, but this growth has been largely in line with expansion of the labour force as the province attracts work-seekers from other provinces and countries. This expansion has meant that unemployment has remained at approximately 25 per cent despite the fact that employment is rising, even though slowly.

Figure 3.16: Unemployed Persons & Unemployment Rate, 2010-2014



Source: IHS Global Insight, 2015

The number of unemployed people in the province increased from 1.4 million persons in 2010 to 1.6 million in 2014. Over the same period, the unemployment rate rose from 24.6 per cent to 25.3 per cent.

Government continues to devise initiatives to address the country's persistently high levels of unemployment. These are discussed in the following section.

3.5. Current Policy Initiatives

According to the National Development Plan (NDP) South Africa needs a more dynamic and inclusive labour market.89 Employment can be enhanced through increased exports, improved skills development, a reduced regulatory burden on small businesses, improved performance of the labour market resulting in reduced tension between labour and business, and ease of access for young people.

As described in Chapter 2, at the provincial level the TMR is being implemented as a means of dealing with poverty, unemployment and inequality. The programme is well aligned with the NDP, the New Growth Path (NGP) and the Industrial Policy Action Plan (IPAP).

With specific reference to unemployment, the TMR programme emphasises the radical transformation and modernisation of the economy. This is in order to improve its efficiency, including the reindustrialisation of Gauteng as an economic hub, with an emphasis on the manufacturing, agro-processing, services, pharmaceutical and automotive sub sectors (see Chapter 2) and increased participation in Africa's industrial development.[90] These sub-sectors present an opportunity for economic growth and further employment creation.

3.5.1. Transforming Job-Seekers into Job-Creators

In accordance with the vision in the NGP, the South African government supports the growth of small, medium and micro enterprises (SMMEs) so that job seekers become job creators.91 The NGP states that the SMME sector lacks infrastructure and a regulatory framework suitable for small producers and small entrepreneurs who lack fundamental business and financial management skills. As a result, small firms find it difficult to compete with well-established ones.

To improve access to financing for SMMEs, government proposed a single financing avenue. This resulted in the merger of the South African Micro Apex Fund, Khula Enterprise Finance Ltd and the small business activities of the Industrial Development Corporation (IDC) and came into effect in 2012. The merged entity was named the Small Enterprise Finance Agency (SEFA). It can provide loans as small as R500 for micro enterprises and as large

89 South African Government Information (2012). Our future – make it work: National Development Plan 2030. Republic of South Africa.
90 Information from http://www.gautengonline.gov.za/Publications/SOPA%202015%20Summary.pdf
91 Department of Economic Development (2011). The New Growth Path Framework. Pretoria.

as R5m for medium enterprises.[92] In 2013/14, SEFA approved 294 loans valued at R366.5m.[93] It also provides support for businesses' strategic, organisational and business process needs.

As part of its TMR programme, the GPG is intensifying its efforts to support SMMEs so that they become major creators of employment, especially in townships.[94] It is increasing its capacity to support competitiveness in key strategic sectors such as automotive and manufacturing. The Gauteng Growth and Development Agency and the Gauteng Enterprise Propeller are driving efforts in this area.

3.5.2. Improving Access to ICT and Knowledge

Access to ICT is critical to unlocking South Africa's economic potential.[95] It is therefore vital that ICT infrastructure is developed and maintained and that the cost of accessing it does not prevent participants in the economy from operating profitably. Expanding the ICT sector should bring new SMMEs into the market and improve the operational efficiency of non-ICT businesses.

In line with the NGP, it is an objective of the GPG to provide widespread access to broadband for businesses and households. ICT forms part of the broader infrastructure investment programme and is seen as a key enabler of economic growth with significant multiplier effects. To realise this, GPG aims to invest and support the roll out of e-government services in order to enhance service delivery, the fast tracking of 100 per cent connectivity over the next five years and the use of ICT to promote SMME development and the TER.[96] Greater use of ICT also helps the move towards a greener economy, an objective of most governments globally.

Under the TMR programme, the CoJ has been earmarked as the ICT hub of the province, with more than 900 km of broadband already laid to enable the installation of 500 Wi-Fi hotspots across the city by June 2016. These will be free to the public.

3.5.3. Youth Employment Programmes

The Employment Tax Incentive (ETI), commonly known as the youth wage subsidy, came into effect on 1 January 2014. At the Skills Development Summit on 4 and 5 August 2015, it was announced that government intended to subsidise 423,000 new jobs for unemployed young people at an estimated cost of R5 billion over three years.[97] The purpose of the ETI is to reduce youth unemployment by subsidising firms to employ young people and to reduce hiring and training costs to firms. Through the ETI, employers receive a tax incentive for employing young people for a maximum of two years.

However, the National Treasury has stated that the youth wage subsidy alone will not solve South Africa's youth unemployment problem and that it should be viewed as a measure that helps to reduce unemployment and assist young people to gain experience. [98]

The National Treasury, the National Youth Development Agency (NYDA) and the Department of Economic Development will carry out an impact study of the effectiveness of the ETI in stimulating job creation for new entrants to the labour market. On the basis of the findings of the study, the scheme will be refined as needed.[99]

At the provincial level, along with support for key strategic sectors and creating an enabling environment for sustainable SMMEs, bringing young people into the economic mainstream is a key element of the TMR programme. At double the overall unemployment rate, youth unemployment remains one of the country's most significant problems. By the end of the second quarter of the 2014/15 financial year, five black-owned SMMEs were being incubated at the Ford Incubation Centre and 45 young people were participating in the Youth Reskilling Project to qualify as artisans.[100]

92 Information from: http://www.smesouthafrica.co.za/A-guide-to-the-Small-Enterprise-Finance-Agency-SME-loans/

93 Small Enterprise Finance Agency (2014). Annual Report 2014.

94 Gauteng Department of Economic Development (2014). Strategic Plan 2014/15-2018/19.

95 Gauteng Provincial Government (2014). Gauteng ICT Development Strategy Draft. Gauteng.

96 Information from http://www.gautengonline.gov.za/Publications/SOPA%202015%20Summary.pdf

97 Information from http://skillssummit.co.za/articles/the-youth-wage-subsidy

98 Information from http://www.treasury.gov.za/documents/national%20budget/2011/Confronting%20youth%20unemployment%20-%20Policy%20options.pdf

99 Information from http://skillssummit.co.za/articles/the-youth-wage-subsidy

100 Gauteng Department of Economic Development (2014). Strategic Plan 2014/15-2018/19.

3.5.4. EPWP

The EPWP is a government initiative that aims to alleviate poverty and unemployment.[101] Its third phase, geared towards creating 6 million work opportunities by 2019, has been implemented and R150 billion has been allocated to the programme over the next five years. About 1.4 million work opportunities had been created by the end of the first quarter of 2015.

According to the 2014 Labour Market Dynamic Survey[102] released in April 2015, about 75.1 per cent of those who participated in the EPWP programme secured employment in 2014. Seven out of ten participants in the programmes were eventually employed. Of those who participated in the EPWP, 58.1 per cent secured employment in 2011 and 75.1 per cent in 2014.

3.5.5. Tshepo 500 000

Tshepo 500 000 is part of phase three of the EPWP. Its aim is to uplift 500 000 youth, women and people with disabilities by providing skills and to transform them into active economic participants. The transformation process consist of four pillars; which are empowering graduates with working experience, providing skills development and training to alleviate skills shortage which reduces unemployment, promote efficient labour through the alignment of job-seekers with available vacancies and most importantly, promoting entrepreneurship development. This project has already created over 15,000 jobs for the youth.

3.5.6. Jozi@Work

In 2014, the CoJ established Jozi@Work, a programme that focuses on empowering community cooperatives and enterprises in order to eradicate poverty, inequality, and unemployment. The programme aims to support existing and new community enterprises to provide a range of services to the metro. The services range from waste collection to infrastructure maintenance. During its first year, it expected to spend over R1 billon on contracting an estimated 1,750 new and existing community–level cooperatives and enterprises. Through strengthening enterprise development, the programme is expected to create 40,000 new job opportunities across all nine economic sectors.

3.5.7. Kuka Maoto

"Kuka Maoto" is a government project that was established by the CoT with the aim of attending to key challenges in Gauteng communities, through the creation of good relationships between communities and the public servants. This is in order to accelerate service delivery by involving communities in service delivery projects. Furthermore, this project aims to create short term employment opportunities in communities. The initiative came into effect on the 2nd of March 2015.

The key service delivery issues addressed as part of "Kuka Maoto" are the cleaning of cemeteries, maintenance of parks and sports facilities, repair of potholes and the gravelling of roads. This project also looks at the repairs of water leakages and blockages, repairs sewer leakages and blockages, and street lights repairs. "Kuka Maoto" has already attended to service delivery issues in Mamelodi , Eersterust, Ga-rankuwa and Soshanguve.

3.5.8. Women Empowerment

There has been significant improvement in legislation that removes institutional discrimination against women but barriers remain to their full participation in the economy and to their realisation of their potential. Societal norms concerning the role of women, patriarchy, gender inequality and lack of adequate skills are some of the key problems.

There has, however, been progress in women's empowerment. For example, the number of women judges and magistrates is increasing; there are many women in senior positions in the public service; and women now work in sectors traditionally dominated by men such as mining, manufacturing and construction. Women have also

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[101] Information from http://www.gov.za/about-government/government-programmes/expanded-public-works-programme

[102] Statistics South Africa (2015). Labour market dynamics in South Africa 2014

made progress at different levels of the educational system, obtaining masters, doctoral and further degrees and qualifications.[103]

The Isivande Women's Fund (IWF) is one of the initiatives established to promote women empowerment through supporting women-owned businesses and promoting entrepreneurship. It was formulated by the IDC in 2007 and came into effect in 2010.[104] The IWF's provides financial assistance to small and medium size enterprises owned by Black women in rural and semi-urban areas.[105] In 2010, R45 million was allocated to the fund, with R20 million added in 2013. A total of R65 million is thus under management by the fund. Since the implementation of the IWF, 45 companies have been funded resulting in the creation of 155 new jobs, with 394 existing jobs maintained.

3.6. Conclusion

Globally and in South Africa, the labour market is faced with many issues, as economies work to recover from the 2008/2009 recession and related developments. A key factor is that global outlook remains weak and uneven, with economies growing slowly if at all. In particular, the decline in global commodity prices has placed significant pressure on the manufacturing and mining industries to downsize. This is likely to result in significant job losses.

In South Africa, policies to reduce unemployment, such as the NDP and the NGP, are in place. More emphasis is needed on an inclusive approach involving all stakeholders, as outlined in the NDP. Furthermore, active participation across sectors, by all members of the economy including women, and labour migration, will remain significant themes for the foreseeable future.

In line with national government's approach, GPG has developed policies aimed at creating a single, integrated economy. Programmes such as TER aim to assist small businesses in townships and ensure that they have a place in the mainstream economy. This will be done through interventions which include skills development, improving ICT access for small and medium businesses through facilities such as Incubation Hubs and targeting specific industries such as light manufacturing for government support.

Government has put in place policy initiatives that are aimed at improving the employment situation in the country. On the provincial level, these include the Tshepo 500 000 project, which has already created over 15,000 jobs for the youth, the Jozi@Work and Kuka Maoto projects.

103 Department of Women (2015) Status of women report 2015. Pretoria, South Africa.

104 Information from: https://www.thedti.gov.za/financial_assistance/financial_incentive.jsp?id=50&subthemeid=2

105 Industrial Development Cooperation (2015). Presentation to Portfolio Committee on Small Business Development: Status of Isivande Women's Fund (IWF) as at 31 March 2015. Johannesburg, South Africa.

Chapter 4 : Township Economy a Catalyst for Job Opportunities

4.1. Overview

In November 2011, the NPC presented the NDP. Although since the advent of democracy there had been many achievements, including improvements in the provision of housing and of basic services, it was recognised that these were not enough to meet the challenges facing the country. The purpose of the NDP was to address this. However, unemployment, strongly linked to the quality of education that had been available particularly to Black South Africans and to under-maintained and insufficient infrastructure in townships, has resulted in high levels of inequality and poverty. The NDP therefore not only identifies the challenges that South Africa is facing but makes proposals for resolving them. The policy advocates an environment that enables robust economic activity and job creation, which is critical to lowering the unemployment rate.

The NGP supports the NDP. It identifies drivers that can create employment opportunities and therefore complements the aims of the NDP. The NGP focuses particularly on infrastructure development, support for key economic sectors, encouraging potential new industries, making use of social capital and on spatial development to create employment.

The purpose of the IPAP is to identify industrial solutions for the challenges identified in the NDP and the NGP, and in this way to promote the country's re-industrialisation and increase the number of people in paid employment. It also aims to decrease inequality through the incomes earned by previously unemployed people. The 2014/15 IPAP makes special mention of the fact that strongly incentivised high-tech SMEs[106] have considerable potential in townships. SMEs typically require little space and could create linkages with established enterprises in the immediate area and beyond.

Chapters 1 and 2 provided an economic overview globally and of South Africa and Gauteng. It also described current opportunities and threats relating to economic growth. Chapter 3 focused on the labour market of South Africa and Gauteng. These chapters made clear that there are serious challenges to economic growth and unemployment and that these have negatively affected the country. To address the triple crises of poverty, unemployment and inequality, to give effect to national policies such as the NDP and IPAP and to bring about inclusive economic growth, the GDED has embraced the TMR programme announced by Gauteng Premier, the Honourable David Makhura, in his inaugural speech in July 2014 and adopted by the province as a plan of action.

The Gauteng TER strategy is part of the TMR and focuses specifically on townships. The province's townships are home to a large labour force, which has for many years experienced high levels of unemployment. This has led to relatively high inequality and poverty in the province, which is exacerbated by the in-migration. These in turn affect the province's ability to provide adequate basic services. The TER strategy is intended to help address these challenges. This chapter provides an overview of the current state of the township economy using a case study of one of the fastest growing townships in Gauteng,[107] and other data and literature sources. This is followed by a review of some of the projects that the provincial government and its municipalities have initiated and have planned in order to realise the goals of the TER.

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[106] A distinction is sometimes made between small and medium enterprises (SMEs) and small, medium and micro enterprises (SMMEs). In South Africa, micro enterprises are often considered to be survivalist. They therefore do not qualify for grants such as those offered by the DTI and which are presented in the IPAP.

[107] Information from this study is quoted extensively in this chapter. Source: https://www.worldbank.org/en/country/southafrica/publication/the-economics-of-south-african-townships-special-focus-on-diepsloot

4.2. The Township Economy

A township is defined as a suburb that is still predominantly occupied by the Black population group and that was designated for the Black population group by pre-1994 legislation making townships particularly a South African term.[108] The TER strategy notes that, in the past, township residents were excluded from full participation in the economy of the country. Grant (2010) describes Soweto as one of the prominent townships in Gauteng and South Africa, designed as a dormitory area and, during the apartheid era, a site of major political resistance.[109] Donaldson & Du Plessis (2013) describe typical township commercial infrastructure under apartheid as consisting of a complex of around 800 square meters with three or four mini-markets, a post office and a bank agency.[110]

This limited, and continues to limit, economic activity in townships to the supply of goods for consumption and provision of cheap accommodation for workers. In 2003, the CoJ undertook a study of Soweto. The findings showed the complex economic challenges facing the township.[111] Amongst these was high leakage of purchasing power, a dualistic economy[112] and a dispersed and dysfunctional economic landscape. A 2014 World Bank study[113] on township economies confirms that although townships across South Africa have a variety of features, they have many similarities. These include joblessness, uneven access to basic public services and high rates of crime and violence.

As a result of the design of the townships, the majority of those who earn a living do so through offering labour services rather than being self-employed and being employers. This does not assist the unemployment situation; thus the TER is structured to create an environment that will support those who live in the township to be employment-creating entrepreneurs. Currently, the majority of residents who are employed earn low wages with many receiving social grants, much of it spent on burial societies and in the malls that have sprung up in the townships across Gauteng. This creates a leakage in the system. The owners of the malls do not invest in employment creation as they do not source the goods that the sell from within the township. If the money circulated within the township there would be more potential for it to create employment there.[114]

4.2.1. The Population of Townships Driven by In-migration

As the province that contributes the most to the economy of the country (see Chapter 2), it is in Gauteng that the greatest amount of economic activity takes place. This attracts migration into the province. Stats SA's June 2015 Mid-year Population Estimates shows that 1.2 million people will have migrated to Gauteng between 2011 and 2016. This is much more than the 350 thousand people who migrated to the Western Cape province, which was the province with the second largest in migration. Some migrants live in the province temporarily, and do not succeed in finding employment. With their relatively inexpensive accommodation, townships are a preferred destination for migrants.[115]

Table 4.1: Population, SA & Gauteng, 2002, 2008 & 2015

	2002	2008	Annualised Change 2002 - 2008	2015	Annualised Change 2008- 2015
SA	45 448 096	49 296 223	2.1%	54 956 920	1.1%
Gauteng	10 329 918.06	11 532 243	2.8%	13 200 349	1.4%

Source: Stats SA, Census, 2015.

Note: The mid-year population estimates indicate that Gauteng's population growth has been higher than that of South Africa.

108 Oxford Dictionary. (2015). Accessed from http://www.oxforddictionaries.com/definition/english/township

109 Grant, R. (2010). Working it out: Labour geographies of the poor in Soweto, South Africa. Development Southern Africa 27(4): 595 - 613

110 Donaldson, R. & Du Plessis, D. (2013). The urban renewal programme as an area-based approach to renew townships: The experience from Khayelitsha's Central Business District, Cape Town. Habitat International 39: 295-3

111 Soweto Economic Activity Analysis, 2003.

112 A dualistic economy has formal and informal elements. The challenge that the informal sector presents for Soweto is that its activities, and the economic contribution that it makes, are hard to measure.

113 Mahajan, S. (2014). Economics of South African Townships, Special Focus on Diepsloot. World Bank Group. Washington, USA.

114 Information from Gauteng Township Revitalisation Strategy Draft, GDED, 2015

115 Mahajan, S. (2014). Economics of South African Townships, Special Focus on Diepsloot. World Bank Group. Washington, USA.

Between 2002 and 2008, South Africa's population increased by an average annual rate of 2.1 per cent. This slowed to 1.1 per cent between 2008 and 2015. In Gauteng, the population grew at 2.8 per cent each year between 2002 and 2008 and by 1.4 per cent each year between 2008 and 2015. Migration continues to contribute more to the population growth of Gauteng than of any other province.

The 2014 World Bank study indicated that 70 per cent of the population of Gauteng lives in townships. With the increase in urbanisation, the number of people living in townships and informal settlements (T&IS) is expected to increase as these areas attract economic migrants. T&IS are home to 38 per cent of South Africa's working age population. They are also home to 60 per cent of the country's unemployed. The majority of those who are employed work outside the T&IS, with most economic activity in the township limited to consumption. Under these circumstances, there is a clear need for transformation of the township economy.

Unlocking the potential of Gauteng's townships would greatly improve the economic prospects of the country and province and help to combat the economic challenges outlined in the previous chapters, including slowing economic growth, weak international demand and a weakening domestic currency.

4.2.2. Unemployment Remains a Significant Challenge in Townships

Unemployment is a critical national challenge and it is particularly acute in townships. In the second quarter of 2015, South Africa's official unemployment rate was 25 per cent and that of Gauteng 26.8 per cent.[116] The 2011 census data used by the World Bank to determine labour statistics by settlement type found that outside T&IS the country's unemployment rate was 16 per cent. Informal settlements and townships have unemployment rates of 33.4 and 32.6 per cent respectively. This highlights the lack of economic activities in these types of settlements. The TER is intended as a means of addressing unemployment in the province's T&IS.

Table 4.2: Labour Profiles of Selected Gauteng Townships, 2011

	Employed	Unemployed	Discouraged work-seeker	Other not economically active	Unemployment rate
Sharpeville	9 102	7 085	1 138	8 720	43.8%
Kagiso	36 398	18 890	3 249	24 754	34.2%
Vosloorus	50 700	27 315	5 228	32 868	35.0%
Soweto	368 861	216 549	43 327	274 928	37.0%
Mamelodi	117 870	57 394	9 442	61 977	32.7%
Gauteng	4 481 719	1 592 928	297 433	2 460 621	26.2%

Source: Stats SA Census, 2015.

The latest available information on the township labour profile is from the 2011 Census. This shows that the unemployment rate in the townships was significantly higher than that in the rest of the province. Using the narrow definition of unemployment, at 43.8 per cent Sharpeville, in the south of the province, had the highest unemployment rate of the five townships. This was followed by Soweto at 37 percent, Vosloorus at 35 per cent, Kagiso at 34.2 per cent and Mamelodi at 32.7 per cent. The average unemployment rate for Gauteng in that year was 26.2 per cent.

The lack of economic participation by the youth in townships is another major challenge, although this is not only a South African phenomenon but an international one.[117] With the youth of Gauteng and South Africa accounting for 16.4 and 19 per cent of the total populations respectively, high levels of economic inactivity within this age group represents a great loss in potential productivity.[118] There is also a growing concern about youth who are not in employment, education or training (NEET). People in this category are not increasing their productivity by learning and training and, as the ILO states, it is difficult for those who have never been in the job market to enter

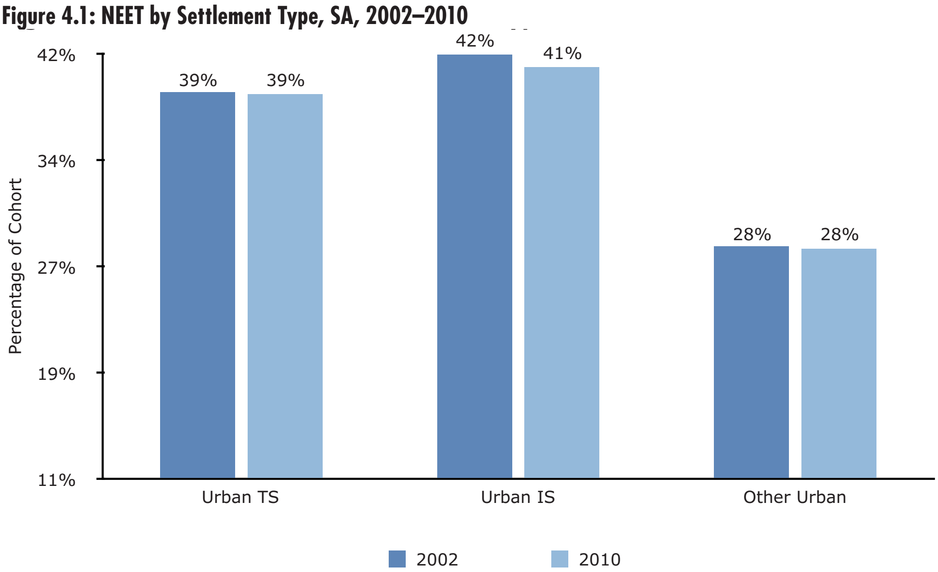
116 Information from http://www.statssa.gov.za/publications/P0211/P02112ndQuarter2015.pdf

117 The National Youth Policy 2009-2014 defines youth in South Africa as people between 14 and 35. However, in this chapter youth are defined as people between 15 and 24; this is in line with the way in which Stats SA collects (NEET) data. See http://www.thepresidency.gov.za/MediaLib/Downloads/Home/Publications/YouthPublications/NationalYouthPolicyPDF/NYP.pdf and http://www.statssa.gov.za/?p=1034

118 This draws on Stats SA's 2015 mid-year population estimates.

it at a later age.[119] The graph below looks at NEET by settlement type. It shows that about 40 per cent of the youth in South Africa's T&IS were NEET, with the percentage in other urban areas about 28 per cent.

Figure 4.1: NEET by Settlement Type, SA, 2002–2010



Source: WB, 2015.

Note: Townships and informal settlements in South Africa had about 40 per cent of its youth in NEET. Other urban areas had NEET rates of about 28 per cent.

In its 2013 *Global Employment Trends for Youth* publication, the ILO commented that the negative results of high and prolonged youth unemployment include loss of potential work experience, wage scars[120] and decreased employability. There is therefore a strong need to support the emergence of young entrepreneurs in the townships. This should not only decrease unemployment but also create employers.[121]

4.2.3. Townships' Spatial Separation from the Established Formal Economy Improves only Slightly

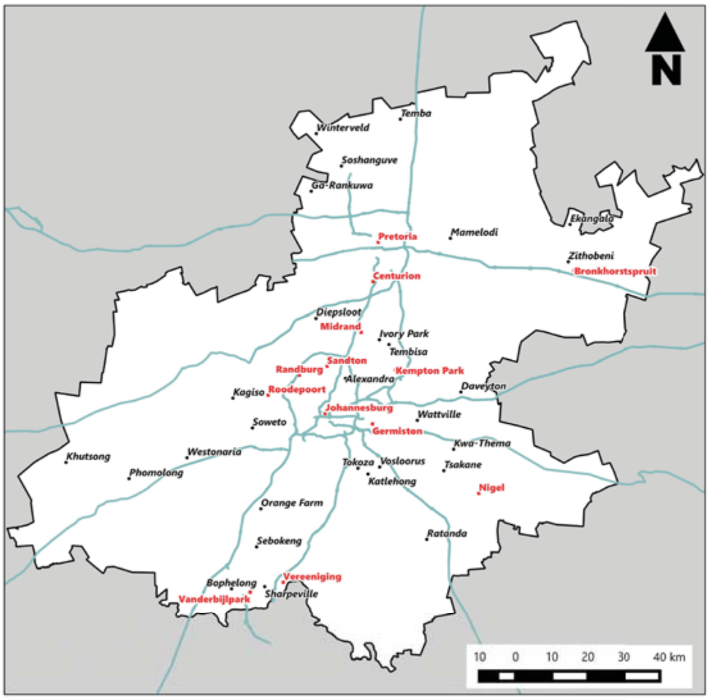
As has already been noted, the spatial layout of townships is a legacy of apartheid policies, which created them as remote dormitory areas for people working in the cities (Grant 2010). They were far away enough to be separated from the main economic activities but close enough for people to travel to the towns to work as cheap labour. Figure 4.2 shows some of the province's townships and towns, which are the hubs of economic activity. From the map, it is evident that there are few of these hubs in comparison with the number of townships. The greater Johannesburg area has a number of these towns but they are clustered together and are far from the townships which are home to most of the population in Gauteng.

[119] Information from http://www.ilo.org/global/research/global-reports/global-employment-trends/youth/2013/lang–en/index.htm

[120] The ILO states that this is because, during times of unemployment, income is lost. Compared with the prospects of peers who started working earlier, this leaves a financial scar from which it is difficult if not impossible to recover.

[121] Information from http://www.ilo.org/wcmsp5/groups/public/–dgreports/–dcomm/documents/publication/wcms_212423.pdf

Figure 4.2: Selected Gauteng Towns and Townships, 2015



Source: GPT, Demarcation Board, 2015

In 2014, the GDED conducted road shows in townships across the province in order to gain a better understanding of the nature of townships' economies.[122] The findings were captured in the draft Gauteng Township Revitalisation Strategy. Some of the entrepreneurs who attended the road shows pointed out that the offices of organisations and structures offering them support are often located in towns. This means that the entrepreneur has to spend money and time to access these institutions for assistance, whereas it should be the supporting organisations that are contributing to the entrepreneurs' potential. In addition, the more successful businesses are in towns. Small business owners in townships therefore do not have easy access to these enterprises that could supply them with inputs and/or could trade with them, and they do not benefit from learning through interaction and observing best business practice.

One of the pillars of the TMR is economic transformation. This requires spatial transformation, another pillar of the TMR. The GPG, in co-operation with the municipalities, is therefore working to ensure that citizens can better connect with the towns than is presently the case. Although road and rail networks link towns and townships, this infrastructure has not kept up with the demand from the user population. The CoJ and the CoT have been connecting their urban centres and townships with BRT systems. The CoJ's system is named "Rea Vaya" and that of the CoT "A Re Yeng". The aim has been not only to increase the amount of public transportation but to ensure that it is affordable, safe and dignified for people as they travel to their places employment.

Since June 2014, the CoE has also been in the process of constructing a BRT system.[123] It is expected to be in operation by 2016.

4.2.4. Businesses Owned by Township Residents Tend to be Small, New, Informal and Survivalist

The GDED's road shows and the World Bank study found that not only is suitable business space in townships limited but entrepreneurs have inadequate business skills and limited formal training. There is a lack of capital due to an absence of collateral enabling them to raise loans. This limits the size of the businesses that township entrepreneurs can engage in. Under these circumstances, the number of businesses being registered is likely to

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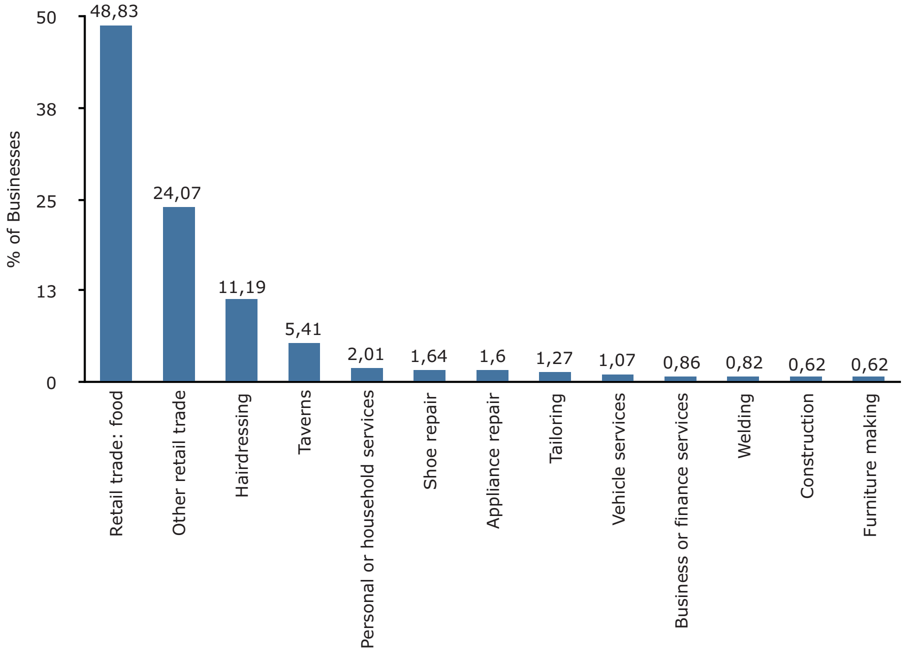
122 Gauteng Department of Economic Development (2014). Gauteng Township Revitalisation Strategy.

123 Information from http://www.sanews.gov.za/south-africa/ekurhuleni-eyes-new-brt-routes

remain limited; and without adequate support the majority of these businesses do not last more than three years. The graph below shows the findings of the World Bank study about the business activities in Diepsloot, one of Gauteng's fastest growing townships. As local level information about townships is lacking and given that, as stated above, township economies tend to be similar to each other, Diepsloot is taken as a case study for the province's townships in general.

Figure 4.3: Businesses by Activity, Diepsloot, 2012



Source: WB, 2015. Note: Because of data limitations about other townships, Diepsloot is used as an example.
The comparison is relevant as township economies are similar, with retail the main type of business. This has limited ability to create employment.

The study showed that the majority of businesses in the township were in retail, with 48.8 per cent of selling food and 24.1 per cent selling other products. Other enterprises accounted for less than 27.1 per cent of the total and were mainly service-oriented. The study also noted that larger retailers in the township are usually found in malls and are not owned by township residents. This represents a leakage in terms of reinvestment in the township. Greater contributors to job creation would be light manufacturing industries with supply connections to established businesses within and outside the township. Manufacturing is labour intensive but usually requires substantial initial investment. Industrial parks in townships could therefore be of assistance to entrepreneurs, as would training in business management and in the production of goods.

Savings are essential to the growth and survival of a business. Without them, unexpected events can bring it to an end. A business with a savings strategy also suggests that its owners plan to reinvest in it to sustain or expand it. Very few owners of unregistered business save, and those that do typically do not save with banks when compared to registered businesses. The absence of saving is driven not only by lack of business management skills and knowledge but also by the need to use the business income to sustain the owner and the owner's family. In order to change this, there is a need for training in managing a business and its assets. There is also a need to finance township businesses through concessionary loans so that they have capital to survive and expand.

Table 4.3: Saving Patterns of Township Businesses, 2010

	Save	Of which save at:	
		Bank	Stokvel, savings club or burial society
All Businesses %	42.6	72.4	15.3
Unregistered Businesses %	37.5	65.9	15.4
Registered Businesses %	72.0	91.9	17.9

Source: WB, 2015. Note: Based on survey data from authors.

Only 42.6 per cent of township businesses in the World Bank study saved, and of those that saved 72 per cent were registered businesses. Of the 42.6 per cent that saved, 72.4 per cent saved at a bank and 15.3 in a stokvel, savings club or burial society. Of registered firms that saved, 91.9 per cent saved at banks. They also diversified their savings, with 17.9 per cent using stokvels, savings clubs or burial societies as additional places to save at.

The small survivalist enterprises in the townships tend to use very little capital and technological innovation. The use of capital intensive and innovative technology could lead to the establishment of light to heavy manufacturing. This tends to be labour intensive and therefore has the potential to employ more people than do survivalist businesses, and thus to increase wealth in the townships.

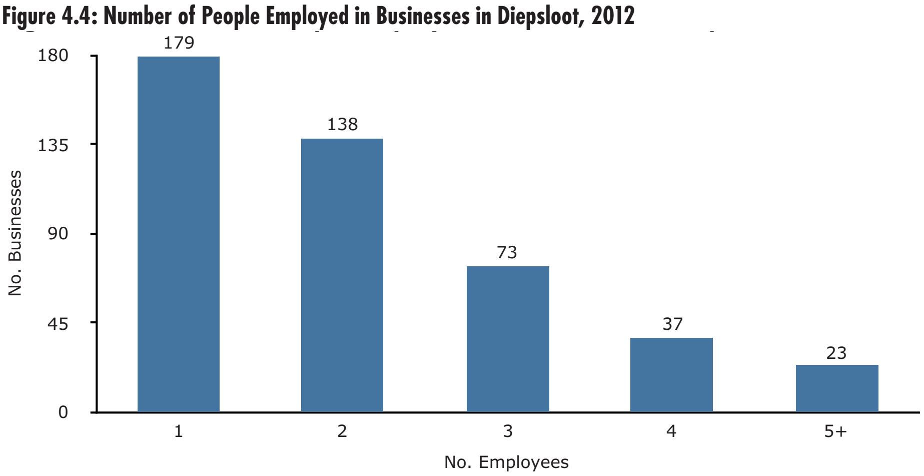
Table 4.4: Use of Credit by Firm and by Location Type, 2010

	All firms	Of which from	
	Any credit	Bank	Family and friends only
Non-township	4.9%	52.7%	28.3%
Township	3.9%	28.7%	51.3%

Source: WB, 2015. Note: Based on survey data by the World Bank.

Fewer than 4.9 per cent of firms in the 2010 World Bank survey used credit. In 2010, 52.7 per cent of non-township businesses obtained credit from banks while 51.3 per cent obtained it from family and friends. The survivalist nature of township businesses is thus further shown by the method of financing used. In most cases, it is not by choice that loans are obtained from friends and relatives but because of lack of collateral.

Figure 4.4: Number of People Employed in Businesses in Diepsloot, 2012



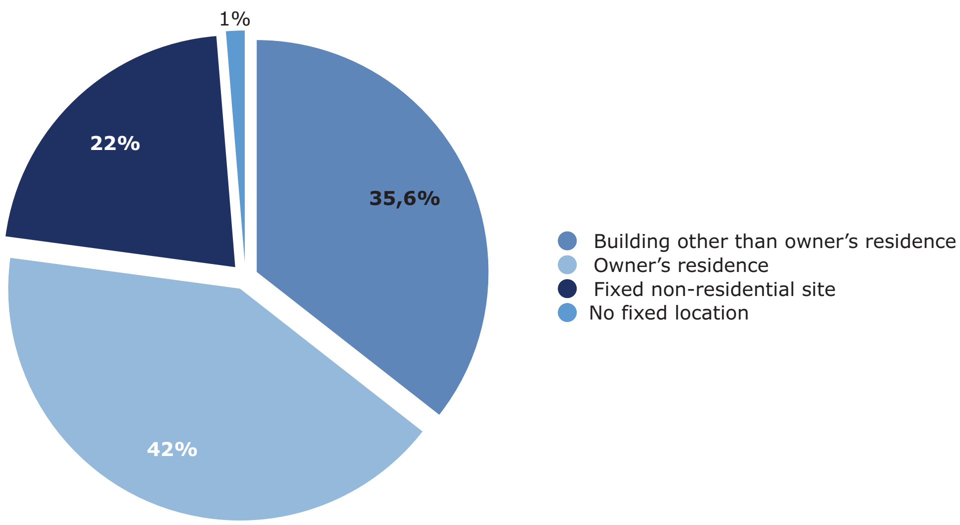
Source: WB, 2015.

According to the World Bank survey of 450 enterprises in Diepsloot, 179 had a single employee and only 23 had 5 or more. The survivalist nature of township businesses is reflected in the numbers of people they employ. To have an impact to unemployment in townships, businesses need to grow and in a sustainable manner. It is therefore necessary to support SMMEs with capital, infrastructure and business management skills in line with their individual needs.

4.2.5. Lack of Economic Infrastructure Limits Potential

The Diepsloot study indicated that apartheid township design meant that there was inadequate social and economic infrastructure, partly caused by a shortage of land on which it can be developed. For Gauteng, this is exacerbated by the fact that the province is small, making up only 1.4 per cent of the landmass of the country. There is a need for industrial and business parks in townships to support collaboration and create an environment suitable for light to medium manufacturing that is labour intensive and reduces the consumption leakage.

Figure 4.5: Location of Businesses, Diepsloot, 2012



Source: WB, 2015.

The World Bank study found that, in 2012, 41.6 per cent of the businesses in Diepsloot operated from the residence of the owner and 21.6 per cent from fixed non-residential sites. This implies that a large percentage of the businesses are run from homes in isolation from other entrepreneurs.[124] This limits co-operation and the ability to learn from other businesses' practises. Running a business from home also limits the kind of activities that a business can engage in. The GDED sees a need to support township businesses with infrastructure such as business parks that would allow the entrepreneur to focus on running the business rather than planning and building infrastructure. The business parks planned in each township are expected to address the needs peculiar to that township, with incubation programmes that will support a small business for a maximum of three years.

4.3. Township Revitalisation Programme

As indicated in Section 4.1, the TER strategy is aligned with the NDP, IPAP and TMR. It aims to increase the size of Gauteng's economy by ensuring that areas previously lacking in economic infrastructure and in relevant skills are strengthened. It also focuses on providing the infrastructure needed to develop the manufacturing sub-sector. This sub-sector is not only capital intensive but needs adequate infrastructure to transport its inputs and products, and appropriately located storage facilities. The GDED intends to work with various stakeholders to ensure that equitable regional growth in the province is achieved by moving into the townships much-needed industrial activity.

One of the province-wide projects that the GPG government started in 2015 is the Gauteng Broadband Network (GBN), a 1 600 kilometre network that will assist businesses, schools and other government centres and facilities

[124] Mahajan, S. (2014). Economics of South African Townships, Special Focus on Diepsloot. World Bank Group. Washington, USA.

with access to high-speed internet. A total of 263 access points are to be completed in 2015, connecting seven township economic zones. Townships that will benefit, through Thusong Centres[125], are Soweto, Tembisa, Alexandra, Diepsloot, Kagiso, Vosloorus, Sebokeng, Mamelodi and Hammanskraal.[126]

4.3.1. Frameworks and Strategies for the TER Championed by GDED

In championing the township revitalisation campaign in conjunction with national government and the municipalities, GDED held consultative sessions with various communities in the province in 2014. The purpose was to arrive at a clearer understanding of the kinds of interventions needed to transform, modernise and revitalise township economies. The consultative sessions confirmed that townships are faced with a shortage of land, infrastructure such as industrial parks, funding, affordable electricity and skills.

The TER aligns with four of the ten TMR pillars. These are Radical Economic Transformation, Decisive Spatial Transformation, Modernisation of the Economy and Reindustrialisation. By supporting enterprises, co-operatives and SMMEs in the townships, the TER expects to increase the number of jobs and to support the NDP and the G2030 vision. With transformation and support, townships have the potential to produce goods and services that can be sold locally, across the country and outside South Africa's borders.

The initiatives that the GDED has planned for the TER will focus on the creation of an enabling environment, establishing the social and economic value of township enterprises and making sure that this happens. Under each of these three key actions, there are a number of planned activities.

Creating enabling environment
- Ensuring an appropriate legal and regulatory framework
- Promoting manufacturing and productive activities
- Economic infrastructure support and clustered enterprise development
- Promoting entrepreneurship development
- Financing and investing in the township economy
- Ensuring market access
- Promotion of innovation and indigenous knowledge system.

Establishing the social and economic value of township enterprises
- Urgently commissioning a baseline study of the township economy
- Working with research institutions, including the Gauteng City Region Observatory, to build a knowledge base about the township economy
- Developing methodologies for assessing the social and economic impact of township enterprises, including encouraging social auditing[127] by these enterprises
- Working towards branding and developing quality standards for township economic enterprises
- Promoting awards events for township enterprises
- Fostering and supporting a network enabling the township economy to have a voice and representative organisations within and across sectors.

Making sure it happens
- Establish a dedicated unit with in GDED that will ensure that province and municipalities are taking the necessary action to bring about the change in the township economy
- Establish a high-level inter-government working group to guide the implementation, coordination, facilitation, monitoring and evaluation of the strategy.

[125] Thusong Centres are service centres that the national government established in 1999. The services offered in these centres include those offered by the departments of Home Affairs, Labour, Social Development and Health, the South African Social Security Agency (SASSA) and GCIS. They also serve as telecentres, and may have Post Offices, libraries, agricultural extension offices and municipal services. In 2012, there were 171 centres nation-wide and 42 in Gauteng.

[126] Information from: http://www.engineeringnews.co.za/article/gauteng-province-mulls-ideas-of-gbn-commercialisation-2015-07-21

[127] Social auditing refers to the steps taken by a company to assess its impact on society and the environment in various ways such as records of charitable giving, energy use, workers' pay and benefits. This is not compulsory; thus government can only encourage companies to perform such audits.

4.3.2. Current Projects are Centred around Infrastructure Development

A number of TER projects have already began across the province. These include:

Gauteng Bus Rapid Transit System

The BRT system is a component of the public transport strategy, and aims to link different parts of the city.[128] Government wants to ensure that, by 2020, most residents are no more than 500 meters from a BRT station.

The CoJ and CoT municipalities have been leaders in the implementation of the BRT in Gauteng. National Treasury has allocated funding for these projects in accordance with Schedule 4 of the Division of Revenue Act (DORA). In the 2015/16 national budget, Gauteng was allocated R1.8 billion under the public transport operations grant. This will assist municipalities to develop transport facilities enabling those who live in townships to commute to towns.

Rea Vaya

Construction of CoJ's Rea Vaya stations and dedicated lines started in October 2007 and in April 2009 began transporting commuters.[129] Construction is on-going as the city continues to expand the routes. Work on the current phase, 1C, started in 2014 and is expected to be complete in 2017. This phase will run from Parktown to Alexandra with complementary services between the Johannesburg city centre, Ivory Park and Sunninghill. Rea Vaya currently has 58 stations and 277 buses. By the end of phase 1C, residents can expect 240 to 250 additional buses.

A Re Yeng

Like CoJ's Rea Vaya, CoT's A Re Yeng BRT system has been introduced in phases.[130] Construction of infrastructure for the bus routes started in July 2012 and the system was launched in November 2014. It is planned to connect Mabopane, north of the city, and Mamelodi to the east, through the Pretoria Central Business District (CBD) and Menlyn. A Re Yeng currently has 62 stations and 340 buses.

The BRT system projects were initiated during the previous provincial administration and have been adopted by the current administration. Because of the province's spatial layout, BRT systems are critical to its economy.

Gauteng Enterprise Propeller Township Revitalisation Projects

The GEP is an agency of the GDED and is responsible for supporting enterprise development in the province. In 2014/15, the GEP embarked on a number of TER projects.

- 250 businesses were financially supported by GEP through the Community Fund and 355 through the Township Business Renewal Programme.
- The GEP Incubation Programme supported 366 township-based cooperatives, providing financial and non-financial support in line with the TER strategy. This has continued into the 2015/16 financial year and it is expected that by the end of the 2015/16 financial year 75 small and emerging businesses will be supported in the Township Industrial Parks. In the same year, under the GEP Incubation programme GEP is creating a Business Ideas Bank Platform where sector-specific business ideas can be accessed to promote the entrepreneurial spirit amongst the youth.
- In collaboration with the United Nations Development Programme (UNDP), the GEP has enrolled 25 township-based suppliers in its competitiveness programme.
- GEP supported 47 township-based cooperatives with marketing their products through exhibitions and thus assisted them to access markets.
- 165 SMMEs were linked to established businesses offering mentorship in order to learn best practices.
- 909 informal traders were trained on how to run a business in a formal manner and 74 were assisted to formalize their businesses through Companies and Intellectual Property Commission (CIPC) registration.

GPG Procurement Reforms

The GPG procurement reforms aim to further support the TER. These reforms will be implemented in two phases. The Phase 1, which is mainly aimed at assisting the township suppliers to comply in order to be eligible to register on the supplier database for GPG. The following are the aspects committed to by GPG so as to offer opportunities for township suppliers to do business with government and also mature to do business elsewhere: Commit to

128 Information from http://www.gov.za

129 Information available from http://www.reavaya.org.za.

130 Information available from http://showme.co.za/pretoria/tourism/tshwane-announces-bus-rapid-transit-system/.

spend at least 12 per cent of their procurement budgets sourcing goods and services from township businesses:

- When purchasing goods and services under R500,000, GPG departments and agencies are to prioritise spending in a manner that will work towards the TER;
- If no township suppliers can be found, departments must inform the GDED, which is responsible for advancement of township suppliers. When procuring goods and services over R500,000, the procuring department must identify models through which township suppliers can participate, such as sub-contracting and joint ventures, or by allocating percentages of the total value of the contract to SMMEs and township cooperatives.[131]

Phase 2 of the procurement reforms provide the following support to existing and new suppliers:

- Development and financial support towards the improvement in the quality of their goods and services.
- The SMMEs will be supported to the point were they are able to tender for larger projects such as infrastructure projects. This is inline with the main theme of the interventions that are planned for TER programme.[132]

4.3.3. Planned Projects to Make the TER Program a Reality

In her 2015/16 budget speech, MEC for Finance, the Honourable Barbara Creecy, announced that the GDED would receive an additional R137 million for the TER over the 2015 Medium Term Expenditure Framework (MTEF). The project will be led by the GDED. Various departments and municipalities will be responsible for implementing the project according to the identified needs. Described below are the projects, by municipality, that will be implemented to make the TER a reality.

CoJ

The CoJ contributes the most to the GDP of Gauteng but its economy is not uniform and there are wide differences in economic activity. Initiatives to address this will include establishing a light-emitting diode (LED) bulb manufacturing plant, programmes for SMMEs and cooperatives and a road maintenance training programme for contractors.

CoT

The CoT, located towards the north of the province, specialises in the automotive and innovation industries. It also houses the national government administration. The city will invest R525 million in establishing a business process outsourcing park in Hammanskraal. The park will offer on-site training, technical support and incubators for SMMEs. The project is expected to create over 1,000 jobs during construction and over 1,000 more indirect jobs. Other TER projects in this municipality include a road maintenance training programme for contractors, a transport and logistics supplier development programme and a Support Township Tourism drive.

CoE

The focus in CoE, in the east of the province, will be on promoting manufacturing, logistical and transport industries. TER projects will include assisting the establishment of wholesale and retail stores owned by community members through the refurbishment of shops currently owned by the council; and through building new retail outlets, four business parks and a transport and logistics supplier development programme.

Sedibeng

The Sedibeng district municipality, in the south of the province, has been earmarked for the creation of new industries, economic nodes and cities. Planned TER projects include a peanut butter factory, a road maintenance training programme for contractors and a transport and logistics supplier development programme.

West Rand

With its once-booming mining sector, the West Rand previously enjoyed high levels of employment. The cost of deep-level mining has decreased the amount of mining and of related economic activity. The focus in the area will be on green and blue economy initiatives, tourism, agro-processing and logistics. The TER aims to build an industrial as well as a wheel chair repair centre, and will promote the automotive industry in the region.

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[131] Information from Gauteng Provincial Treasury Circular no. 3 of 2015

[132] Information from Gauteng Provincial Treasury Extended Senior Management Team Presentation 15 September 2015

4.4. Conclusion

As a result of their politically-driven spatial design, South Africa's townships have had few opportunities for economic development. The majority of businesses owned by township residents are small and survivalist in nature and their potential to create employment for more than the owner of the business is limited. In 2011, only 41.2 per cent of those living in townships were employed, with the majority of the employed working outside the township. In that year, 39 per cent of township youth were NEET.

In recognising these challenges, government has developed over-arching policies such as the NDP, to which GPG is giving effect through TER throughout the province. Gauteng's townships are at an advantage compared with many across the country as they are relatively close to major centres of economic activity; and with systems such as the BRT they are better connected to towns than they were before. If manufacturing in the townships can be developed, they should be able to make use of the range of suppliers in the province, as it is the economic hub of the country.

The projects mentioned in the chapter are among the many that have been identified for the TER programme that falls within the broader provincial TMR, which is the provincial articulation of the NDP. Some of the planned projects will need new infrastructure and constructing this should benefit the country and the province at this time of economic uncertainty when international demand is weak. This is not an easy time in which to find financing for these projects.

The procurement reforms as rolled out are intended to develop township suppliers to the extend where township economic activity is revitalised to narrow the poverty gap and income levels, thus giving effect to the aspirations of the NDP, of inclusive economic growth. The impact of this initiative cannot be ascertained at this stage but provides an opportunity and hope for improved living conditions of the currently less economically active sectors of the province. Monitoring and evaluation of this initiative is ongoing as an integral part to resolve any bottlenecks in the process. Although the initiative does require extra effort and more deployment of resources towards support and development, the envisaged benefits are believed to outweigh the costs incurred. If successfully implemented, these initiatives provide a platform for township entrepreneurs to stimulate economic activity within the township and create employment.

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