

Subject:	Current Economic Realities
Date:	FEBRUARY 2016
Compiled By:	RESEARCH AND DEVELOPMENT UNIT

CURRENT ECONOMIC REALITIES

The IMF World Economic Outlook Projections as per the January 2016 release indicate the following growth figures for the World Output and South Africa.

Table 1: IMF World Economic Outlook Projections for World Output and South Africa Output

	2014	2015	2016 Forecast	2017 Forecast
World Output	3,4	3,1	3,4	3,6
South Africa Output	1,5	1,3	0,7	1,8

Source: IMF World Economic Outlook Projections (January 2016)

1. SOUTH AFRICA

1.1 The South African Economy is suffering from:

- Subdued growth as indicated above.
- Rising inflation. The Consumer price index CPI has increased from 5.2% in December 2015 to 6.2% in January 2016, an increase of 0,8% year on year in January 2016. Contributions to headline annual CPI increases were food and non-alcoholic beverages, alcoholic beverages and tobacco, transport and recreation and culture. Provincial annual inflation rates ranged from 5,4% in Northern Cape to 6,8% in Free State . The North West CPI was 6.0%
- Rising interest rates. The Repo Rate is now 6.75% and the Prime Lending Rate 10.25%
- A steep fall in commodity prices which outweighs the benefits of cheaper oil, due to the slowed growth in China as a result of their internal focus.
- The slowed growth in China has also had a negative impact on the value of the ZAR.
- Electricity constraints; the supply is increasingly improving but the cost is rising far above the CPI.
- Drought that took a heavy toll on agricultural output and is expected to last for at least a year. Maize and wheat will be imported and at the weakened ZAR currency value it will result in increases of bread and maize meal prices of up to 35% that will have an impact on the poorest of the poor.
- Weak business confidence is undermining investments.
- Low savings and investment rates.
- Skills shortages in the labour market.
- Economic inequality.

- Difficult industrial relations.
- Over-dependence on natural resources.
- The mining sector is challenged by low mineral prices and higher labour cost following strikes resulting in closures and lay-offs.
- Persistent unemployment rate at 25% as labour costs rise and productivity remains low.
- Consumer demand is also suppressed by expectations of higher inflation and interest rates and relatively high household debt levels.
- A looming downgrading by Moody's Investors Service's of South Africa's sovereign ratings. . A downgrade will result in SA being rated negative indicating that other sovereign funds cannot invests in South African bonds.

2. THE BOKONE BOPHIRIMA PROVINCE ECONOMY

2.1 BBP Economy

The table below summarises the *key demographic and socio-economic characteristics* for the BBP and its four district municipalities' in context of the South African picture with regards to demographics, development, household infrastructure, labour, income and expenditure, economy, tourism and international trade as per the 2014 IHS Global Insight Indicators

The Bokone Bophirima Province region covers approximately 105 076 square kilometres, comprising 8.6% of the national area. The BBP is not densely populated when compared to the national population density. The BBP houses approximately 7% of the country's total population.

Table 2: Key indicators South Africa, Bokone Bophirima Province and District Municipalities (2014)

	South Africa	North-West	Bojanala DM	Ngaka Modiri Molema DM	Dr Ruth Segomotsi Mompoti DM	Dr Kenneth Kaunda DM
Region area (km ²)	1 221 246	105 076	18 370	27 985	44 053	14 668
Total population	53 781 908	3 670 889	1 602 614	866 535	474 823	726 916
Population density (number of people per km ²)	44,04	34.94	87.24	30.96	10.78	49.56
Economically Active Population (EAP) as % of total population, official definition	35,986%	31,310%	38,483%	22,786%	20,684%	32,600%
Number of households	15 341 533	1 098 814	526 384	231 248	127 189	213 993
Annual per household income (Rand, current prices)	168 920	135 990	141 920	116 877	101 838	162 355
Annual per capita income (Rand, current prices)	48 187	40 707	46 615	31 191	27 279	47 796
Gini coefficient	0,64	0,61	0,61	0,61	0,59	0,62
Formal Sector Employment	12 109 001	674 221	371 715	111 955	53 451	137 100
Informal Sector Employment	2 305 887	104 566	58 087	18 268	9 107	19 104
Unemployment rate, official definition (%)	25,007%	26,196%	22,953%	30,229%	30,942%	29,308%

	South Africa	North-West	Bojanala DM	Ngaka Modiri Molema DM	Dr Ruth Segomotsi Mompoti DM	Dr Kenneth Kaunda DM
Share below the upper poverty line (StatsSA defined)	46,475%	47,403%	39,831%	56,652%	59,106%	45,427%
Poverty gap rate (from upper poverty line)	28,378%	28,208%	27,466%	28,796%	28,892%	28,191%
Human Development Index (HDI)	0.626	5.578	0.608	0.531	0.500	0.603
Index of buying power	1,000000000	0,055580383	0,027170996	0,010530833	0,005476255	0,012402298
Economic Output (R million in current prices)	3 404 494 638	198 968 011	111 514 503	33 302 311	13 011 912	41 139 285
Share of economic output (GVA % of SA in current prices)	100,00	5,84	3,28	0,98	0,38	1,21
Economic Output (R million in constant 2010 prices (R 1000))	2 729 203 315	153 664 276	88 037 300	25 586 875	9 920 398	30 119 703
Share of economic output (GVA % of SA in constant 2010 prices (R '000))	100,00	5,63	3,23	0,94	0,36	1,10
Average annual growth (Constant 2010 Prices) 2014	1,6%	-0,5%	-1,4%	1,2%	2,3%	-0,2%
Average annual growth (Constant 2010 Prices) 2014 to 2019	2,7%	2,8%	3,4%	2,3%	2,5%	1,8%
Growth in Tourism (using bednights) by origin 2013	5,0%	9,0%	9,1%	7,7%	10,3%	9,3%
Growth in Tourism Spend 2013	5,8%	3,0%	2,7%	3,1%	4,7%	3,1%
International Trade						
Exports (R 1000)	1 003 825 998	18 300 516	14 718 510	1 086 254	364 150	2 131 602
Imports (R 1000)	1 072 463 997	5 553 622	2 131 904	441 338	120 572	2 859 808
Total Trade (R 1000)	2 076 289 995	23 854 138	16 850 414	1 527 592	484 722	4 991 410
Trade Balance (R 1000)	-68 637 999	12 746 893	12 586 606	644 916	243 578	-728 206
Exports as % of GDP	26,4%	8,1%	11,7%	2,8%	2,4%	4,5%
Total trade as % of GDP	54,7%	10,6%	13,4%	4,0%	3,2%	10,6%
Regional share - Exports	100,0%	1,8%	1,5%	0,1%	0,0%	0,2%
Regional share - Imports	100,0%	0,5%	0,2%	0,0%	0,0%	0,3%
Regional share - Total Trade	100,0%	1,1%	0,8%	0,1%	0,0%	0,2%

(Source: Regional eXplorer 832 (2.5q))

The Bokone Bophirima Province shows improvement in most of the *developmental indicators* (2009 used as baseline). Most notable is the improvement in the Human Development Index (HDI) currently at 0.58 from 0.52 in 2009. Similar improvements are seen in both the number and percentage of people living in poverty below the upper poverty line (StatsSA defined), currently measured at 47.4% (59.1% in 2009) respectively. Improvements in all measures relating to schooling and education are also reported.

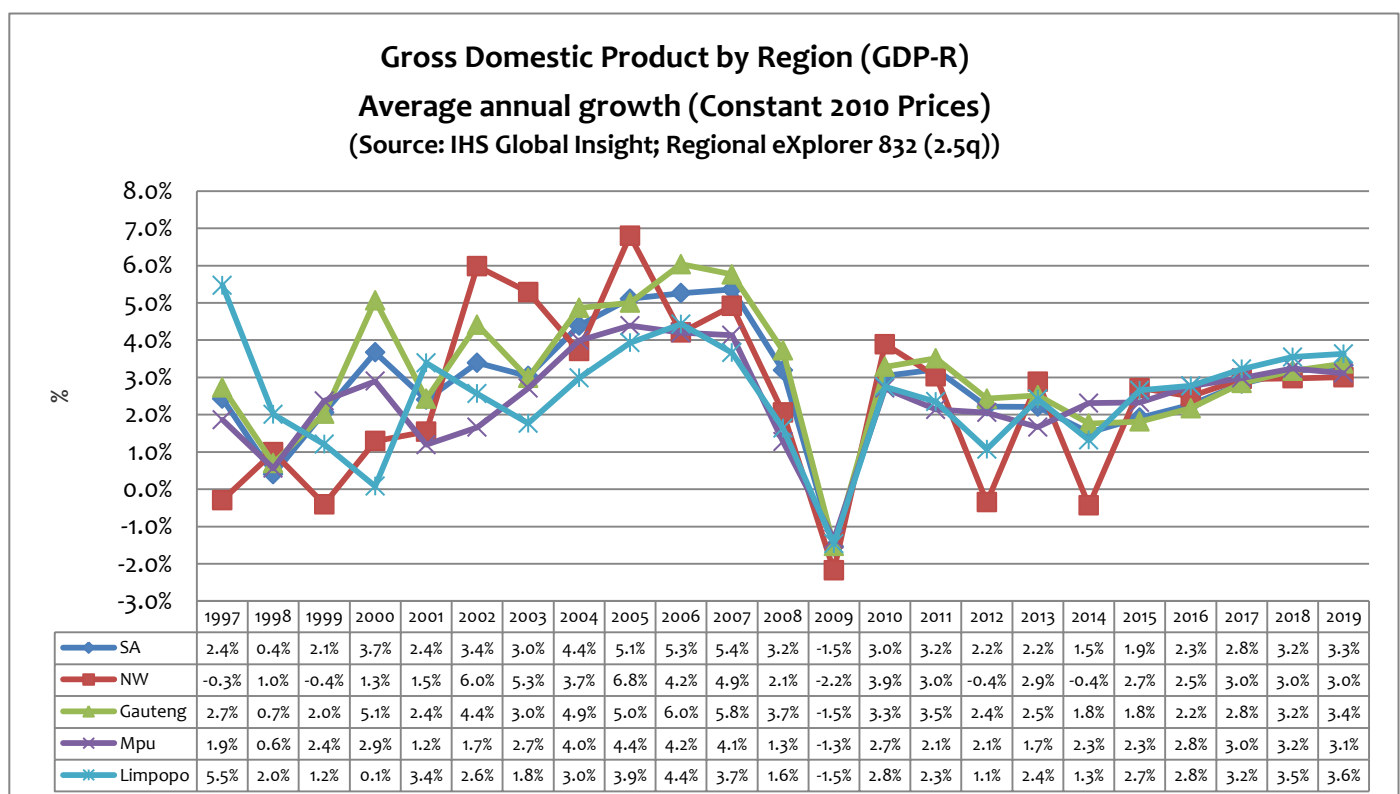
The Index of Buying Power has also increased for the Bokone Bophirima Province. IHS Global Insight's Index of Buying Power (IBP) indicates that 5% of the country's spending power is located in the Bokone Bophirima Province. Income levels in the BBP are below the national average (which is to be expected for the more rural areas in South Africa). The unemployment rate is slightly lower than that of the national average, while the percentage of people living in poverty is marginally higher than the national average. The BBP has a share of approximately 10.8% of national employment.

The 2014 Gini coefficient indicates that the level of equality is decreasing from 0,602 in 2009 to 0.614 in 2014 for the Bokone Bophirima Province. This is a trend for South Africa and the District Municipalities as well.

With regards to the economy, the Tress index provides insight into the level of concentration (or diversification) within an economic region. A Tress index value of 0 means that all economic sectors in the region contribute *equally* to GVA, whereas a Tress index of 1 means that only one economic sector makes up the whole GVA of the region. In the table below it is clear that the Bokone Bophirima Province has become more diversified in its economy from 2009 where it was the 2nd most concentrated economy and in 2014 the 4th most concentrated. This is an indication that the efforts to diversify the economy are paying off and can be contributed to the weaker performance of the mining sector. The BBP is a large and significant local economy in the South African economic context. The area contributes approximately 5.7% to national production with mining,

In the graph below the average annual growth of the Bokone Bophirima Province is compared with the national growth figures as well as with Gauteng, Limpopo and Mpumalanga and it is clear that the Bokone Bophirima Province growth is more volatile which can be attributed to the heavy reliance on mining.

Graph 1: Gross Domestic Product by Region; SA, BBP, Gauteng, Mpumalanga and Limpopo 1997 to 2019



According to the Regional Economic Review: Current realities in the Bokone Bophirima Province, A report from the TRADE (Trade and Development) research niche area of the North West University; March 2014, the provincial economy is structurally unbalanced with the primary and tertiary sectors contributing more towards GDP-R and growing faster than the secondary sector. The situation is further exacerbated by limited water and electricity supply, the poor state of infrastructure, shortage of skilled labourers and rigid regulatory and legislative policies. A provincial input-output analysis points to a situation of high economic leakages and a dislocation of supply and demand across a number of industries. This has resulted in input and output activities between industries not operating in tandem, minimising the competitiveness of the province.

2.2 Five Provincial Concretes of the 5th Administration 2015-2020

It is important to view the economy according to the Five Provincial Concretes as determined by the existing Administration for the period 2015-2020

- Agriculture, Culture & Tourism (ACT)
- Villages, Townships, Small Dorpies (VTSD)
- Reconciliation Healing and Renewal (RHR)
- “Saamwerk Saamtrek” Philosophy
- Setsokotsane Programme

The five concretes are based on Repositioning Rebranding Renewal and (RRR) of the Bokone Bophirima Province.

2.2.1 Agriculture, Culture & Tourism (ACT)*

With the Focus of the 5th Administration on agriculture, culture and tourism it is important to indicate the relative importance of these sectors in the BBP. Agriculture (both narrow [2.8%] and broad [4.4%]) plays a smaller role than in most of the other provinces (with the exception of Gauteng and Limpopo). Along with most other provinces, except Gauteng, the cultural sector makes up a small part of GVA (2.7%). Culture and Tourism is difficult to isolate as it is spread across various sectors in the economy. The tourism sector contributes more (19%) to provincial GVA than agriculture and culture put together. In the total BBP economy ACT contributed approximately 23% of all value added in 2014.

Table 3: Share of Provincial GVA and Employment

Detailed sectors	Share of provincial GVA	Share of provincial employment
Narrow agriculture	2.77%	4.85%
Broad agriculture	4.40%	6.78%
Culture	2.71%	3.60%
Tourism	19.01%	18.82%

The table below shows location quotients above 1.1 (e.g. a location quotient over 1.0 means that an area has a higher concentration of economic output in a particular industry than the national average). Understanding an area’s strengths provides valuable insights into how different sectors within the province may be connected.

Table 4: Areas with location quotients ≥ 1.1 (highlighted in red) by broad economic sector in the Bokone Bophirima Province (2014)

Source: IHS Global Insight’s Regional eXplorer

Area	Economic Sector								
	Agriculture	Mining	Manufacturing	Electricity	Construction	Trade	Transport	Finance	Community services
NWP	1.11	3.72	0.43	1.00	0.64	0.83	0.66	0.66	0.95
District Municipalities									
BJDM	0.47	5.93	0.43	0.70	0.47	0.68	0.50	0.51	0.58
NMMDM	2.01	0.33	0.54	1.74	0.79	0.93	0.85	0.77	1.65
RSMDM	3.68	0.33	0.29	1.39	0.93	1.07	0.92	0.95	1.36
KKDM	1.31	1.52	0.41	1.10	0.87	1.08	0.86	0.87	1.26
Local Municipalities									
Moretele	0.40	0.08	0.81	2.19	0.84	1.23	0.90	1.20	1.07
Madibeng	0.80	2.86	0.85	0.87	0.73	0.91	0.80	0.75	0.86
Rustenburg	0.22	8.96	0.17	0.28	0.24	0.34	0.25	0.30	0.26
Kgetlengrivier	0.90	6.51	0.33	0.43	0.50	0.61	0.56	0.39	0.55
Moses Kotane	0.54	3.83	0.26	1.41	0.60	1.21	0.56	0.53	0.92
Ratlou	2.85	0.24	0.27	0.73	0.82	0.84	0.79	0.84	1.92
Tswaing	6.38	0.40	0.45	0.61	0.79	0.87	0.83	0.60	1.58
Mahikeng	1.04	0.15	0.30	1.78	0.75	0.94	0.84	0.88	1.86
Ditsobotla	2.87	0.52	1.10	0.58	0.95	0.90	1.10	0.69	1.29
Ramotshere Moiloa	1.25	0.56	0.51	4.15	0.66	1.00	0.61	0.60	1.50
Naledi	4.05	0.11	0.29	0.96	0.78	1.33	1.17	1.14	1.04
Mamusa	5.02	0.28	0.23	1.44	1.36	1.14	0.78	1.07	1.09
Greater Taung	1.39	0.62	0.17	2.20	0.82	0.94	0.77	0.96	1.59
Lekwa-Teemane	4.73	0.17	0.73	0.74	1.16	1.12	1.02	0.76	1.19
Kagisano/Molopo	5.37	0.36	0.17	1.18	0.90	0.75	0.75	0.68	1.80
Ventersdorp	8.11	0.44	0.42	0.68	1.00	0.85	0.94	0.63	1.27
Tlokwe City Council	1.58	0.73	0.53	1.24	0.86	0.99	0.72	0.88	1.54
City of Matlosana	0.53	2.00	0.35	1.09	0.85	1.13	0.92	0.88	1.13
Maquassil Hills	5.71	0.66	0.42	0.71	1.14	1.00	0.79	0.77	1.27

2.2.2 Framework of fundamental economic guiding principles: A policy agenda towards sustainable ACT:

To enable stakeholders to move towards more sustainable ACT, there are many elements that are required or must be considered. They may include:

- Clustering;
- Linkages with local suppliers of goods and services;
- Skills and human resources development;
- Access to finance and investment;
- Institutional framework and mainstreaming of ACT in national policies;
- Promotion and marketing;
- Protection and conservation of cultural heritage.

2.2.2.1 Are small towns likely to be suitable foci for stimulating economic growth in rural areas?

- Small towns have some ability to generate economic growth in surrounding rural areas and further potential if policies are targeted at the appropriate areas or sectors.
- In planning for sustained economic growth in rural areas, what is the appropriate spatial distribution of development in rural areas, i.e. in towns or the surrounding countryside?
- More isolated towns are likely to generate greater spillover effects in rural hinterlands than those close to urban centres, but the ability of small towns to generate economic growth is not simply determined by relative accessibility to urban areas.
- Development within towns is likely to be important to sustaining economic growth in small towns as within-town linkages are stronger than town-hinterland linkages.
- To ensure sustained economic growth in rural areas a balance needs to be struck between town

and hinterland development, but the provision of employment in small towns for hinterland residents is an important issue.

2.2.2.2 What industrial sectors are more likely to have stronger local linkages in the rural economy?

- National retailers could be of greater benefit to town economies if they not only continue to provide local employment opportunities, but also sourced more of their inputs locally.
- Adding value to local produce and marketing it both locally and non-locally may be useful way of stimulating economic growth.
- There is a need for adequate public transport provision in rural areas to improve accessibility of towns for hinterland residents, and not just for those living furthest from the town.

2.2.2.3 What demographic groups are more likely to have stronger local linkages in the rural economy?

- Higher occupational groups are a potential target group in town centre marketing strategies.

2.2.2.4 Is combining business and residential development in small towns likely to foster sustainable economic development?

- Combining residential and business development in towns and wider rural areas may help create more sustainable communities by containing income earned by local residents and reducing the need to travel.

2.3 Conclusion

ACT and VTSD do have the potential to contribute to economic growth and poverty reduction in the Bokone Bophirima Province. However, these sectors' capacity to generate employment and income owing to its low backward and forward linkages makes it relatively less important for economic diversification and economic growth.

To ensure that ACT and VTSD provide employment and income opportunities in the long run and contribute to sustainable development, their operations, including the activities that are linked with them, must be sustainable.

**Source: Study: "The potential role of ACT and VTSD in boosting provincial & local development." Prepared by TRADE research niche area, North West University.*

In the view of the above and the SONA of 11 February 2016 it is unlikely that the targeted growth rates will be achieved.

2.4 Recommendations

The VTSD and ACT focus is very relevant to revitalize the rural economy.

It is proposed that strategies be investigated that will earn foreign currency including:

- Attraction of more foreign tourists
- Attraction of Foreign Direct Investment (FDI)
- Increasing exports which implies an focus on manufacturing and competitiveness including development of black industrialization

Report ends.