



# GAUTENG PROVINCE SOCIO-ECONOMIC REVIEW AND OUTLOOK 2018

Together, Moving Gauteng City Region Forward



**GAUTENG PROVINCE**  
TREASURY  
REPUBLIC OF SOUTH AFRICA





# **SOCIO-ECONOMIC REVIEW AND OUTLOOK 2018**

**Gauteng Provincial Government**



The Socio-Economic Review and Outlook, 2018 is compiled using information from different sources. Some of this information is subject to revision.

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**Barbara Creecy**  
**MEC: Finance**

## Foreword

This is the eleventh edition of the Gauteng Socio-Economic Review and Outlook (SERO). Over the years, SERO has evolved to become an important resource for stakeholders in the private and public sectors seeking information on the socio-economic conditions in South Africa, the province and the province's component regions.

The publication provides a detailed analysis of the socio-economic indicators that act as points of reference for policy makers on the service delivery and development challenges in the province.

The 2018 edition of SERO is being presented at a time when the global economy is recovering from a protracted downturn. In line with this trend, National Treasury expects the country's economic outlook to improve slightly, with growth of 1.5 per cent in 2018 and 1.8 per cent in 2019. This recovery is coupled with a renewed sense of optimism and with a determination at national and provincial government levels to accelerate implementation of the National Development Plan, the blueprint for addressing poverty, unemployment and inequality. At the same time, sustainable public finances will be maintained through continued fiscal consolidation.

Continuing and large-scale migration into Gauteng places a strain on government's ability to provide good quality services to our citizens, many of whom are young and unemployed. Through its programme of Transformation, Modernisation and Re-Industrialisation (TMR), the Gauteng Provincial Government (GPG) is working, in partnership with the private sector, labour and civil society, to accelerate social transformation.

The TMR programme has already successfully rolled out infrastructure and implemented the province's youth empowerment partnership initiatives such as Tshepo 500 000, now upgraded to Tshepo 1 Million, which focuses on job placement, skills development and entrepreneurship training. This is part of efforts to address youth unemployment. The initiative to revitalise townships' economies has led to an increase in procurement spend by the GPG and municipalities on township businesses, from ZAR600 million in 2014 to ZAR17 billion in 2017.

In his 2018 State of the Province Address (SoPA), the Premier of Gauteng, Honourable David Makhura, emphasised that the Fourth Industrial Revolution, which uses physical and advanced digital technologies in production, management and governance systems, has arrived. The province needs to be ready and able to take advantage of this as it will affect all aspects of life.

The Premier noted that the GPG has invested in expanding broadband infrastructure, with the goal of achieving 100 per cent broadband connectivity in the province by 2020. Already, GPG has provided over 1 500 kilometres of network fibre connecting schools, health facilities, libraries and community centres. In harnessing the opportunities provided by the Fourth Industrial Revolution, the Premier acknowledged initiatives by the province's entrepreneurs.

Through its annual SERO publications, GPG will continue to provide informative, in-depth analyses of the province's socio-economic issues so that those at the forefront of policy formation and service delivery can make well-founded decisions about areas that need strengthening and, in this way, advance the standard of living of Gauteng's citizenry.

In conclusion, I would like to thank the Head of Gauteng Provincial Treasury, Ms. Nomfundo Tshabalala, and her team for their continued commitment to serving the people of Gauteng.

A handwritten signature in black ink, appearing to read 'B. Creecy'.

**Barbara Creecy**  
**MEC for Finance**

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# List of Abbreviations

AIDS	Acquired Immune Deficiency Syndrome
ANC	African National Conference
BCI	Business Confidence Index
bn	Billion
BPO	Business Process Outsourcing Park
BRIC	Brazil Russia India China
CAADP	Comprehensive African Agriculture Development Programme
CCI	Consumer Confidence Index
CoE	City of Ekurhuleni
CoJ	City of Johannesburg
CoT	City of Tshwane
CPI	Consumer Price Index
DRC	Democratic Republic of Congo
EC	Eastern Cape
ECB	European Central Bank
EG	Equatorial Guinea
EMDEs	Emerging Market and Developing Economies
EU	European Union
FAO	Food and Agriculture Organisation
FCEG	Final Consumption Expenditure by Government
FCEH	Final consumption expenditure by households
FDI	Foreign Direct Investment
FS	Free State
GCRO	Gauteng City Region Observatory
GDP	Gross Domestic Product
GDP-R	Gross Domestic Product by Region
GFCF	Gross fixed capital formation
GP	Gauteng
GPG	Gauteng Provincial Governments
HDI	Human Development Index
HIV	Human Immunodeficiency Virus
ICT	Information and Communications Technology
ILO	International Labour Organisation
IMF	International Monetary Fund
KZN	KwaZulu-Natal
LP	Limpopo
metros	Metropolitan
MGD	Millennium Development Goals
MP	Mpumalanga
MPC	Monetary Policy Committee
MTBPS	Medium Term Budget Policy Statement
MTEF	Medium Term Expenditure Framework
NC	Northern Cape
NDP	National Development Plan
NEA	Not Economically Active
NEPAD	New Partnership for Africa's development
NW	North West
OECD	Organisation for Economic Co-operation and Development
OPEC	Organisation of Petroleum Exporting Countries
PRASA	Passenger Rail Agency of South Africa
QLFS	Quarterly Labour Force Survey
Repo	Repurchase rate
SA	South Africa
SAAR	Seasonally adjusted annual rate
SARB	South African Reserve Bank
SDG	Sustainable Development Goals

SoPA	State of the Province Address
SSA	Sub-Saharan Africa
Stats	SA Statistics South Africa
TMR	Transformation, Modernisation and Re-industrialisation
UK	United Kingdom
UN	United Nations
US	United States
WC	Western Cape
WEO	World Economic Outlook

# Executive Summary

The purpose of the 2018 Socio-Economic Review and Outlook (SERO) is to give an overview of economic developments at global, national and provincial levels over the past two years, and an assessment of their impact on the province. This has been a very difficult time for the economy, characterised as it has been by lagged effects of low commodity prices and drought in 2016, and by political uncertainty and its impact on the domestic economy and consumer confidence. Whilst the global economy continued to recover in 2017, growing by an average of 3.7 per cent, South Africa's economic growth forecasts were revised downwards by the World Bank, while the Minister of Finance during his presentation of the 2018 budget speech, revised up the country's growth for the year. However, 2018 is showing signs of improvement and, reflecting the favourable terms of trade, opportunities arising from strong global growth have started to filter through to the domestic economy.

There are four chapters in this document. Chapter One analyses global economic performance and related opportunities for the South African economy. Chapter Two provides an economic review of the country, highlighting progress made and challenges faced during the period under review. Chapter Three assesses Gauteng's economy, and Chapter Four looks at socio-economic development in South Africa and in the province in the context of the economic developments taking place in both regions.

Chapter One notes the changes in 2017 that were positive for South Africa. The global economy moved onto a firmer footing, with a broad-based upswing. Unemployment rates have declined to levels last seen before the 2008 global economic crisis, although wage growth remains sluggish. Economic growth forecasts for some emerging and developing economies (EMDEs) such as Brazil and Russia suggest a resurgence in these economies as they have exited recessions. With the easing of drought conditions and an uptick in commodity prices, countries in Sub-Saharan Africa (SSA) have had some relief from the economic distress of previous years. Economic prospects in South Africa's major trading partners have also improved. These include the European Union (EU), which accounts for 22.5 per cent of South Africa's exports, Sub-Saharan Africa (28.3 per cent of the total) and China (9.2 per cent). Given that foreign trade accounts for 30.3 per cent of South Africa's Gross Domestic Product (GDP), stronger regional trade integration and firmer international commodity prices should bode well for demand for the country's exports.

Chapter Two provides a review of South Africa's economic development. The country's economic growth has followed global trends and, in some instances, has exceeded global patterns. However, amid political and economic uncertainty, low business and consumer confidence and the effects of drought, growth has lagged the global recovery. The South African Reserve Bank (SARB) estimates the economy to have grown by 0.9 per cent in 2017, an increase from the 0.3 per cent of 2016. National Treasury estimates growth to have averaged 1 per cent in 2017.

In 2017, Final Consumption Expenditure by Households (FCEH) is estimated to have grown marginally, by 1 per cent, up from 0.8 per cent in 2016. FCEH has remained under strain due to subdued economic growth, moderate income growth and limited job prospects. The SARB expects growth in household expenditure to increase to 1.1 per cent in 2018 and 1.4 per cent in 2019. Against a background of fiscal consolidation and declining revenue collection linked to subdued economic activity, growth in government expenditure was also muted in 2016 and 2017. Reduced government expenditure has a negative effect on domestic demand, investment and job creation. In the third quarter of 2017, the country's official unemployment rate reached its highest level, at 27.7 per cent. Unemployment indicates that there are more people in the labour force than can be absorbed by the available jobs. This has negative implications for the country's already high levels of income inequality and poverty.

On a more positive note, South Africa's current account has been characterised by improvements in the trade balance. In 2016, the value of exports grew faster than that of imports. This is expected to have continued in 2017, although to a lesser extent, and to have contributed positively to economic growth in that year. This is partly a result of improved global economic growth, and bodes well for the country's economy.

Chapter Three focuses on Gauteng's economy and shows that it has generally grown faster than that of the country in recent years. However, in 2017 it is estimated to have grown more slowly than the national economy, at 0.3 per cent and 0.9 per cent respectively. This is because growth in the sectors that particularly influence the province's economy was flat through most of the year.

The finance & business services, manufacturing and government services sectors have previously played a larger role in the provincial economy than in that of the country. Activity in these sectors was muted in 2017. Finance & business services, the largest sector in the province's economy, contracted by 1 per cent in the first quarter of the year and grew by only 1.3 per cent in the third quarter.

Economic growth is estimated to have slowed in all of the province's municipalities in 2017. Amongst the metropolitan municipalities, the sharpest decline was in the City of Johannesburg (CoJ) where growth slowed to 0.3 per cent from 1.3 per cent in 2016. In the City of Tshwane (CoT) and the City of Ekurhuleni (CoE), growth slowed to 0.4 per cent during the same period. In the district municipalities, Sedibeng is estimated to have grown by 0.3 per cent in 2017, with the West Rand contracting by 0.5 per cent.

Whilst information on household expenditure in the province is not yet available for 2017, its growth is likely to have been marginal although lower consumer price inflation during the year will have provided some relief to consumers. Growth in fixed investment is estimated to have been subdued during the year, with business confidence continuing to deteriorate. Data for 2016, the latest available, show that fixed investment declined significantly in that year, consistent with weak economic growth.

In the context of these difficult economic conditions, the labour market was under pressure in 2017, with unemployment rates in the province's municipalities ranging between 22.6 per cent and 50.2 per cent. Unemployment, with its negative implications for poverty and income inequality, remains a very serious problem for the province.

Against this background and in line with the Transformation, Modernisation and Re-industrialisation (TMR) programme of the Gauteng government, a number of projects are being implemented in the province's five development corridors. Carried out in collaboration with the private sector, the projects aim to improve infrastructure and transform the economic landscape.

Chapter Four analyses socio-economic developments, noting that the living standards of the majority of South Africans have improved considerably since 1994. In the country and in the province, services such as water, electricity, health care and education have become more widely available in the past two decades. These improvements include a drop in the estimated number of deaths related to Acquired Immune Deficiency Syndrome (AIDS) country-wide from 236 037 people in 2000 to 136 507 in 2016 (-30.7 per cent), and a decrease of 20 per cent in Gauteng over the same period. The country has also been able to achieve the Millennium Development Goal (MDG) of reducing extreme hunger. Nevertheless, levels of inequality remain high.

Gauteng has the largest population of all of the country's provinces, with approximately 14.3 million people (25.3 per cent of the total) in 2017 compared with 21.3 per cent in 2002. The majority of the province's people live in the metros rather than the district municipalities. Amongst Gauteng's municipalities, in 2016 the CoJ had the largest population, at 4.9 million, followed by the CoE with 3.5 million and the CoT with 3.2 million people. Sedibeng district municipality had a population of 959 955 in that year. With approximately 840 900 people, West Rand had the smallest population.

Despite the socio-economic progress achieved, the country and the province still have high levels of income inequality, especially within and between racial groups. In 2016, the Gini coefficient was 0.58 and 0.59 for Africans in the country and the province respectively compared with 0.43 and 0.42 for Whites. A major reason for this is the disparities in incomes earned by households of the different races. Nationally, Africans make up only 11.3 per cent of the households earning ZAR 2.4 million and above while Whites account for 80.6 per cent. The HDI, a measure of citizens' access to health, education and the resources needed for a decent standard of living, improved in Gauteng from approximately 0.67 index points in 1996 to 0.71 in 2016. This reflects improved literacy levels, educational attainment levels and life expectancy.

# Chapter 1 : Global Economic Review

## 1.1 Global Economic Prospects Continue to be Positive for South Africa

After two consecutive years of deceleration, global economic growth prospects have improved. In its World Economic Outlook (WEO) of January 2018, the International Monetary Fund (IMF) estimates global economic growth to have increased by 3.7 per cent in 2017 compared with 3.2 per cent in 2016. The IMF anticipates the global growth momentum to continue, forecasting an increase of 3.9 per cent for both 2018 and 2019. This will be driven by the improvements in investment, trade and business and consumer confidence.

The better growth outcome in 2017 was a result of improved, broad-based performance in the advanced economies. Led by these economies and in particular by Japan, the Euro area and Canada, about 120 economies, accounting for three quarters of world GDP, saw a pickup in year-on-year growth in 2017<sup>1</sup>. This strong growth reinforced earlier expectations for these countries and helped to offset the earlier downward growth revisions for the United States (US) and the United Kingdom (UK) made in the 2017 April WEO.

It is expected that growth in 2018 will be boosted by the Emerging Market and Developing Economies (EMDEs)<sup>2</sup>, and prospects have also improved in key BRICS countries<sup>3</sup>. The rate of growth in the EMDEs in 2017 is estimated to have been 4.7 per cent, reflecting stronger growth in China amongst others. China is estimated to have grown by 6.8 per cent in 2017 and is forecast to reach 6.6 per cent in 2018 as the government continues to boost growth through a combination of expansionary policies. Russia, Brazil and Nigeria are also expected to recover from a period of contraction in 2016. Russia is estimated to have grown by 1.8 per cent in 2017 and is expected to reach 1.7 per cent in 2018, whereas the rates of economic growth in Brazil and Nigeria in 2017 have been estimated at 1.1 and 0.8 per cent respectively.

Economic growth in Sub-Saharan Africa (SSA) is anticipated to have picked up in 2017 after slowing in 2015 and 2016 due to weak commodity prices and drought conditions. Following growth of 1.4 per cent in 2016, the rate of economic growth in SSA is estimated to have been 2.7 per cent in 2017 and is forecast to grow by 3.3 per cent in 2018 in response to improved oil production and agricultural output.<sup>4</sup>

The IMF estimates South Africa's economy to have grown by 0.9 in 2017. In the January 2018 WEO, the IMF, citing political uncertainty and its negative impact on confidence and investment, revised domestic growth for 2018 and 2019 downwards from 1.1 per cent and 1.6 per cent, respectively, to 0.9 per cent in both years. The South African Reserve Bank (SARB) estimates South Africa to have grown by 0.9 per cent in 2017.<sup>5</sup> National Treasury estimates 1 per cent growth in 2017.<sup>6</sup>

Despite the good news, areas of weak economic growth persist in many countries, particularly among oil exporters hit hard by a fall in foreign earnings. Inflation in the advanced economies remains below the European Central Bank's (ECB) 2 per cent target which it considers desirable for a healthy economy in most advanced economies.<sup>7</sup> In some instances, the low inflation rates reflect subdued wage growth which has continued despite a notable recovery in labour markets.

Political uncertainty persists in the SSA region and particularly in the region's largest economies such as Nigeria and South Africa. When these two countries are excluded, SSA is estimated to have grown by 4.4 per cent in 2017 and is forecast to grow by 5.1 per cent in 2018.<sup>8</sup> Other downside risks for growth globally include the lagged impact of the commodity price slump especially amongst the top oil-exporting countries, some of which are estimated to have had negative growth in 2017.

<sup>1</sup> IMF (2018). *World Economic Outlook, January 2018*. Washington, DC

<sup>2</sup> IMF (2018). *World Economic Outlook, January 2018*. Washington, DC

<sup>3</sup> These countries are Brazil, Russia, India, China and South Africa.

<sup>4</sup> National Treasury. (2017). *Medium Term Budget Policy Statement*. Pretoria

<sup>5</sup> SARB. (2018). *Statement of the Monetary Policy Committee*. Pretoria

<sup>6</sup> National treasury. (2018). *2018 Budget Speech*. Pretoria

<sup>7</sup> European Central Bank. (2017). *Definition of Price Stability*. (Accessed 01 December 2017): [www.ecb.europa.eu](http://www.ecb.europa.eu)

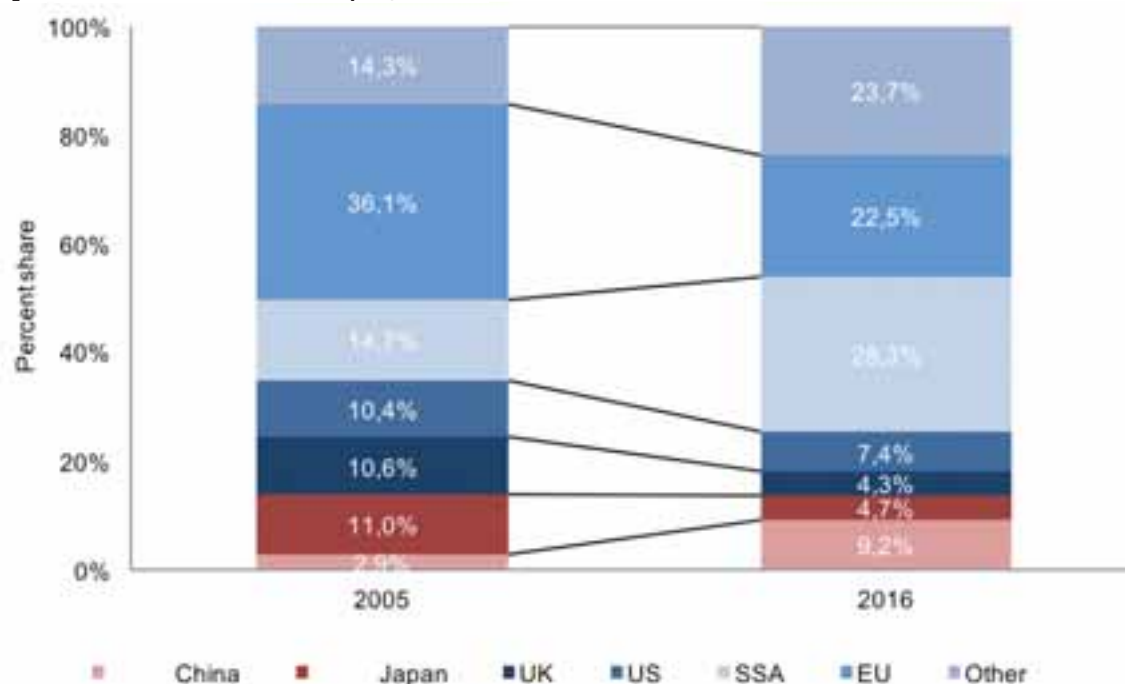
<sup>8</sup> IMF. (2017). *Regional Economic Outlook: Sub-Saharan Africa*, October 2017. Washington, DC



## 1.2 Improved Global Growth Outlook Presents Export Opportunities for South Africa

Improved global economic prospects, particularly in countries which are among South Africa major trading partners, should strengthen the country's economic growth prospects through increased exports. Traditionally, South Africa's main trading partners have been the European Union (EU), the US, Japan and the UK. In recent years, China has joined the mix and has become South Africa's single largest export partner. The improved growth outlook in these countries presents an opportunity for South Africa to increase its exports, and provides an impetus for domestic growth despite weak domestic demand.

Figure 1.1: Destinations for South Africa's Exports, 2005-2016



Source: UNCTAD, 2017

South Africa's exports to the EU region accounted for 22.5 per cent of total exports in 2016. Whilst this was a decline from the 36.1 per cent of 2005, the region remains one of the country's leading trading partners. Economic growth in the EU is estimated to have been 2.1 per cent in 2017, an improvement from 1.8 per cent in 2016. In 2018, it is expected to be 1.9 per cent. The 2017 outcome indicates the region's improved export environment, the moderating political risk, and stronger demand due to accommodative financial conditions.

Although the percentage of South Africa's exports destined for the US has declined, it is still among the top five leading markets for the country's exports. In 2016, over 7 per cent of South Africa's total exports went to the US; the figure in 2005 was 10.4 per cent. According to the IMF, the US economy is estimated to have accelerated by 2.3 per cent in 2017, with growth of 2.7 per cent expected in 2018. These forecasts are higher than the 1.5 per cent recorded in 2016 and present better prospects for South Africa's exports.

Japan's economy is estimated to have increased by 1.8 per cent in 2017 supported by better external demand and improved domestic activity. In 2018, however, growth is expected to slow to 1.2 per cent. The decrease from 2017 reflects the assumption that personal spending growth will moderate and that the boost from 2020 Olympics-related private investment will be offset by higher imports and slower projected growth in foreign demand.<sup>9</sup> 4.7 per cent of South Africa's exports went to Japan in 2016, substantially less than the 11 per cent of 2005.

<sup>9</sup> IMF. (2018). *World Economic Outlook*, January 2017. Washington, DC.



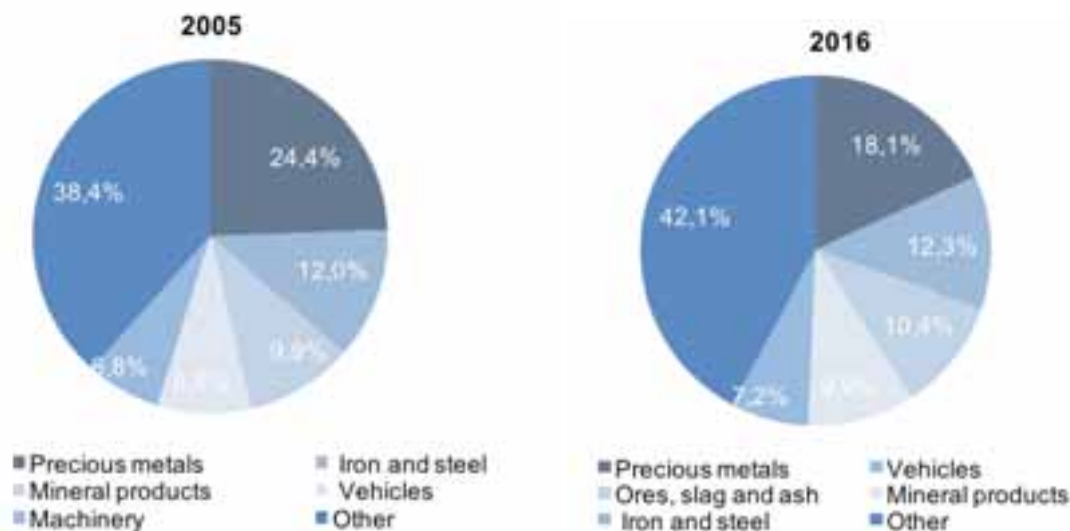
China's economy, which accounts for roughly 50 per cent of global consumption of industrial commodities, is estimated to have increased by 6.8 per cent in 2017. The equivalent figure for 2018 is expected to be 6.5 per cent, as the Chinese government continues its stance of boosting growth through a range of expansionary policies. Exports to China from South Africa made up 2.9 per cent of this country's total in 2005 and 9.2 per cent in 2016. China is now South Africa's single largest export destination at individual country level.

Historically, growth particularly in the advanced economies has supported South Africa's growth and this is expected to continue. However, a notable trend is the increasing share of South Africa's exports to the SSA region. In 2005, South Africa's exports to SSA made up 14.7 per cent of the country's total. This had increased to 28.3 per cent in 2016, making SSA the largest destination for South Africa's exports. This increasing intra-regional trade presents further export opportunities for South Africa and is particularly important given the generally weak demand in the local market and the policy uncertainty in some of the advanced economies that trade with South Africa.

In the US, the Trump administration continues to signal its commitment to implementing protectionist policies which involve import restrictions and will affect exports to the US. The ongoing uncertainty and risks in the UK associated with its planned exit from the EU is likely to have a prolonged adverse impact on that country's trade with South Africa. In addition, the Chinese government's shift towards more services-driven economic growth from one led by investment means that its demand for commodities, which have made up the bulk of South Africa's exports to that country, will not be as robust as previously.

Key opportunities for South Africa's exports are the international commodity prices which have been steadily recovering from the slump in 2016 (see Section 1.5). Improved commodity prices should assist the domestic economy through increased production and exports in the manufacturing and mining sectors. Some of these positive effects have started to show in the local economy, with the mining sector being one of the growth drivers in the second and third quarters of 2017.

**Figure 1.2: South Africa's Top Five Export Products as a Share of Total Exports, 2015-2016**



Source: Quantec Research, 2017

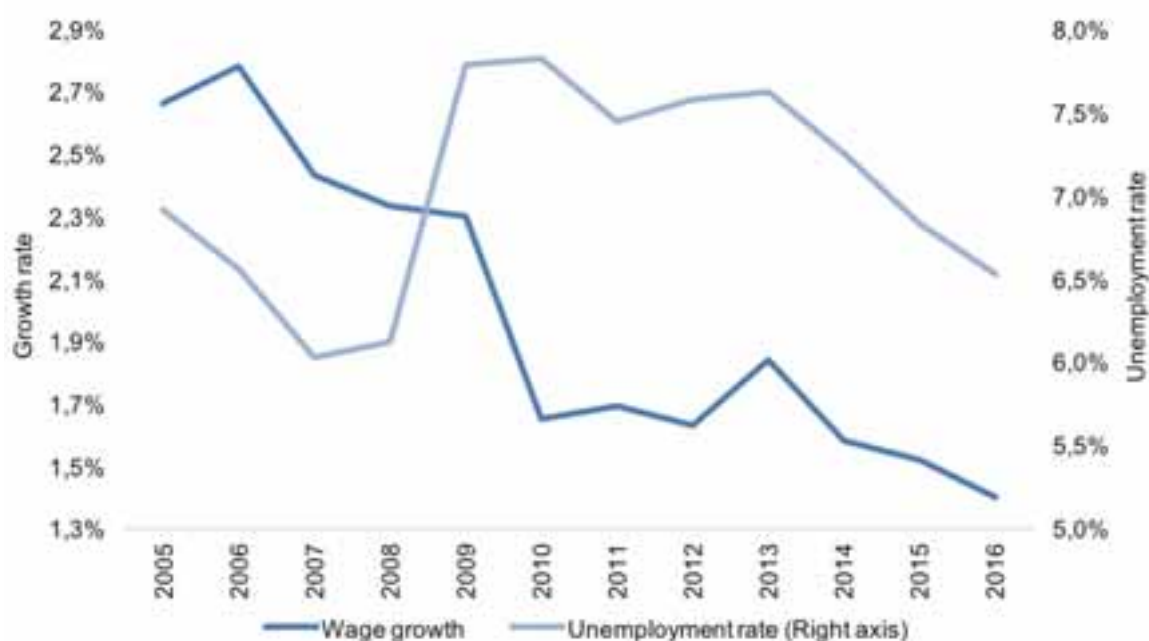
In terms of the product composition of South Africa's exports, commodities are amongst the top five products South Africa exports. In 2016, precious metals accounted for about 18 per cent of domestic total exports. Although this share had declined notably from 2005, metals were still the main product exported in 2016. Other commodities in the country's export basket were ores, steel and other mineral products.

The South African economy has a large exposure to foreign trade, with exports of goods and services accounting for 30.3 per cent of GDP in 2016. The country needs to increase its exports to drive economic growth and create employment. Improved global demand and firmer international commodity prices should provide export development opportunities for local businesses. Regional trade, reducing reliance on exports to developed countries, needs to form an increasing part of the country's economic activity, supporting growth, creating jobs and helping to reduce poverty.

### 1.3 Despite Better Growth Prospects, Wage Growth Remains Low in Advanced Economies: Implications for South Africa

Whilst economic activity in advanced economies has increased, wage growth remains at levels below those seen before the 2008-09 global financial crisis. Labour markets have recovered strongly. While they differ between countries, unemployment rates have declined significantly, in some instances reaching levels last seen before the financial crisis. However, the declining unemployment rate has not been accompanied by an increase in wage growth.

**Figure 1.3: Wage Growth and the Unemployment Rate in the G7 Countries, 2005-2016**

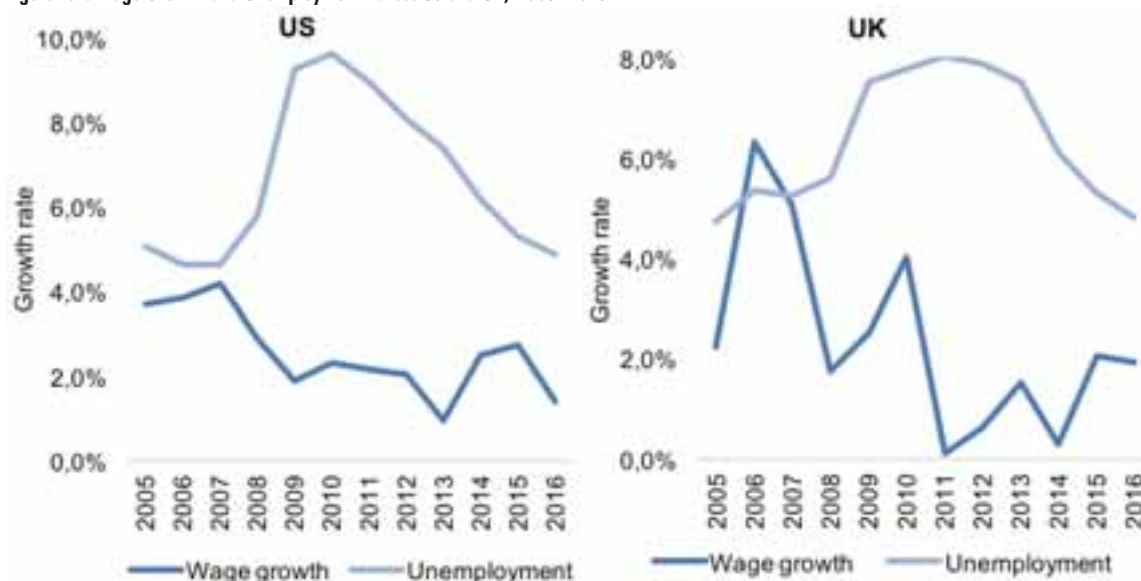


Source: Organisation for Economic Co-operation and Development (OECD) Statistics, 2017

Note: Wage growth is measured as nominal compensation per worker.

The unemployment rate in the G7<sup>10</sup> countries (a good representation of advanced economies) has fallen below levels seen before the global financial crises. However, wage growth stands at around 1 per cent compared to about 3 per cent before 2008-09. Low wage growth is more pronounced in countries where the unemployment rate has declined the most and is close to levels seen before the crisis. The US and UK are notable examples, as shown in Figure 1. 4.

<sup>10</sup> The G7 (Group of Seven countries) are the world's seven largest advanced economies: US, Italy, Canada, UK, Germany, Japan and France.

**Figure 1.4: Wage Growth and Unemployment Rates: US and UK, 2005–2016**

Source: OECD Stats, 2017

In the US, the unemployment rate averaged 4.8 per cent between 2005 and 2007 and 8.4 per cent between 2008 and 2013. By 2016, it had fallen to 4.9 per cent. However, wage growth had declined to 1.4 per cent compared with the 3.9 per cent average in 2005-07. The situation is similar in the UK, where in 2016 the rate of unemployment was 4.8 per cent compared with the average 5.1 per cent of 2005-07. However, at 1.9 per cent the rate of wage growth was below the 2005-07 pre-financial crisis average of 4.5 per cent.

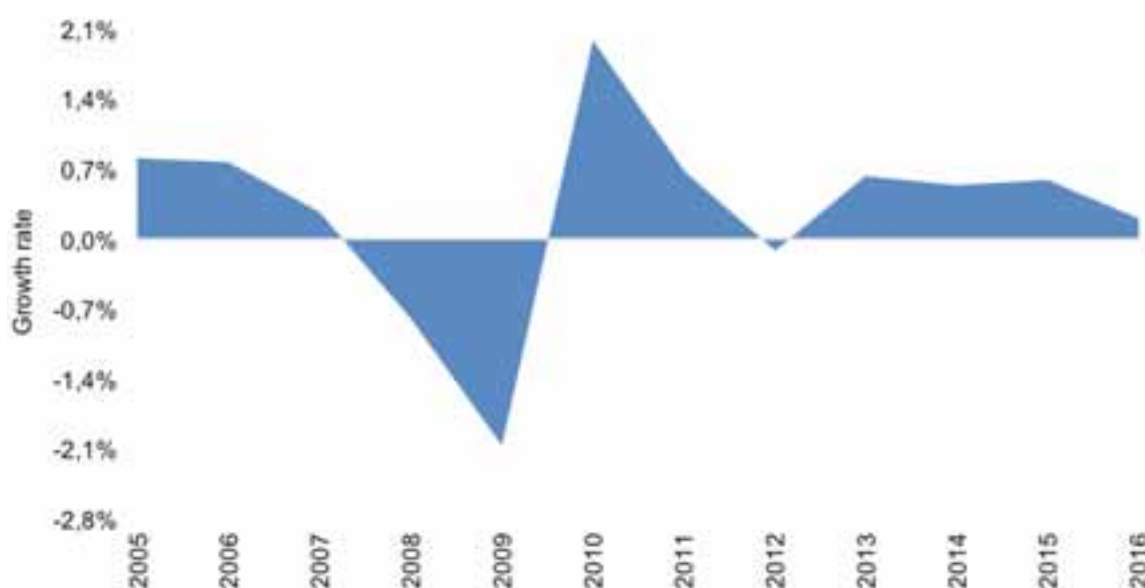
The decline in wage growth can be attributed to several factors. According to the IMF, changing dynamics in the labour market are influencing wage growth in the advanced economies.<sup>11</sup> Evidence of labour market slack (the underutilisation of labour), in the form of involuntary part-time employment (amongst other things) has risen notably.<sup>12</sup> For example, the share of involuntary part-time employment in the US rose from 0.8 per cent in 2007 to 1.3 per cent in 2016 and from 2.3 per cent to 7.8 per cent in the UK over the same period.<sup>13</sup> There is also more temporary employment and a decline in the number of hours worked per person. Such slack in a labour market typically slows wage growth.<sup>14</sup>

<sup>11</sup> IMF (2017). *Recent Wage Dynamics in Advanced Economies: Drivers and Implications*. Washington, D.C.

<sup>12</sup> IMF (2017). *Recent Wage Dynamics in Advanced Economies: Drivers and Implications*. Washington, D.C.

<sup>13</sup> IMF (2017). *Recent Wage Dynamics in Advanced Economies: Drivers and Implications*. Washington, D.C.

<sup>14</sup> IMF (2017). *Recent Wage Dynamics in Advanced Economies: Drivers and Implications*. Washington, D.C.

**Figure 1.5: Productivity Growth: G7 Countries, 2005-2016**

Source: OECD Statistics, 2017

Another key influence on wage growth is labour productivity growth, measured as output per hour worked. A decrease in output per worker affects business profitability which, in turn, weighs on wage growth as firms are less able to increase compensation.<sup>15</sup> Furthermore, the switch from labour-intensive work to a greater use of capital equipment and automation, a widespread global phenomenon in many industries, leads to low productivity growth as the available labour force is compelled to take part-time jobs and thus work fewer hours.<sup>16</sup>

One of the implications of the slow pace of wage growth is low inflation, which currently characterises the advanced economies. An econometric model by the IMF suggests that a 1 per cent increase in lagged inflation is associated with a 0.2 per cent increase in wage growth.<sup>17</sup> Headline inflation in the advanced economies has been around 1 per cent since the financial crisis and is expected to rise to 1.7 per cent in 2018 from 0.8 per cent in 2016. Unless wage growth increases, the inflation rate is likely to remain low in these economies.<sup>18</sup>

Factors described above pose risks to economic growth in the advanced economies and consequently to global growth. Labour market slack, reflecting weak demand for labour, increases the amount of involuntary part-time work. It is also reflective of weak aggregate demand. These macroeconomic imbalances pose a downside risk to growth prospects in South Africa.

## 1.4 Implications of Drought Conditions for the SSA Region

In 2015-16, SSA experienced El Niño-induced drought. This happens when ocean surfaces warm to above-average temperatures.<sup>19</sup> The El Niño effect is generally more pronounced in the southern and eastern parts of Africa.<sup>20</sup> In 2016, the IMF indicated that rainfall patterns in the region were the lowest in 35 years, making the region vulnerable to food insecurity.<sup>21</sup> Whilst the effects of drought can be felt through different channels<sup>22</sup>, this section focuses on the short- to medium-term impacts on agricultural output, agricultural employment, food security and poverty in the context of South Africa.

<sup>15</sup> IMF. (2017). *The Disconnect between Unemployment and Wages*. (Accessed 28 November 2017): [www.blogs.imf.org](http://www.blogs.imf.org).

<sup>16</sup> IMF. (2017). *Recent Wage Dynamics in Advanced Economies: Drivers and Implications*. Washington, D.C.

<sup>17</sup> IMF. (2017). *Recent Wage Dynamics in Advanced Economies: Drivers and Implications*. Washington, D.C.

<sup>18</sup> IMF. (2017). *Recent Wage Dynamics in Advanced Economies: Drivers and Implications*. Washington, D.C.

<sup>19</sup> FAO (2017). *Regional Overview of Food Security and Nutrition in Africa*. The challenges of Building Resilience to Shocks and Stresses. Ghana: ACCRA.

<sup>20</sup> IMF (2016). *Regional Economic Outlook – Sub Saharan Africa Time for Policy Reset, April 2016*. Washington, D.C.

<sup>21</sup> IMF (2016). *Regional Economic Outlook – Sub Saharan Africa Time for Policy Reset, April 2016*. Washington, D.C.

<sup>22</sup> In addition to analysing the decrease in agricultural production, the IMF also analyses the impact of drought on hydroelectric power generation in several countries including Zambia and Zimbabwe.

The SSA region heavily relies on rain-fed agriculture and any change to rainfall patterns affect output and employment in the agricultural sector.<sup>23</sup> As has been the case in South Africa, the effects of rainfall shortages on agricultural production in SSA in recent years have been severe, leading to increases in food prices due to reduced crop production including maize, the region's staple food.

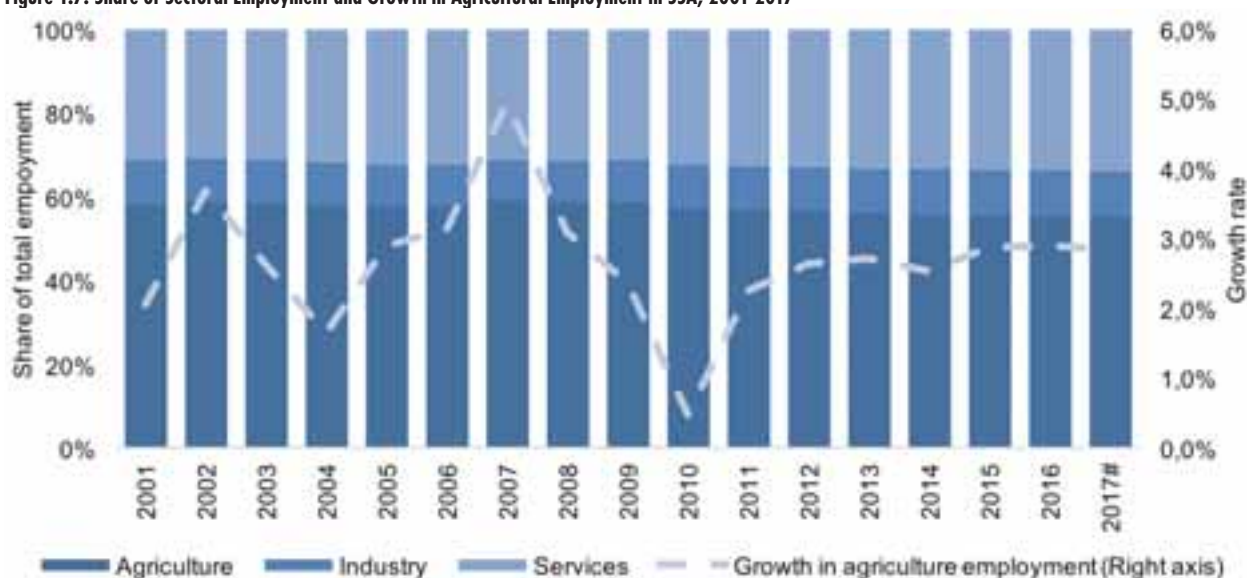
**Figure 1.6: SSA Growth in Agriculture Value Added, GDP and GDP per Capita, 2003-2016**



Source: World Bank, 2017

Agriculture value added makes up almost 20 per cent of GDP in the SSA region. Growth in the value added by the sector slowed to 2.8 per cent in 2016 from 3.2 per cent in 2015 and 4.2 per cent in 2014. In addition to other shocks such as the commodity price slump, declining agricultural output was one of the factors contributing to the slowdown in the region's GDP growth to 1.4 per cent in 2016 from 3.4 per cent in 2015. GDP per capita also contracted by 1.3 per cent, from 0.7 per cent in 2015.

**Figure 1.7: Share of Sectoral Employment and Growth in Agricultural Employment in SSA, 2001-2017**



Source: International Labour Organisation (ILO), 2017

Note: # estimate

<sup>23</sup> IMF (2017). *Regional Economic Outlook – Sub Saharan Africa Fiscal Adjustment and Economic Diversification*. Washington, D.C.



SSA's agricultural sector accounts for over 50 per cent of the region's total employment. Data show that, over the two years when the region was particularly badly affected by drought, employment in the sector was not significantly affected. The effects on seasonal employment may have been more severe, but less significant for full-time employed agricultural workers. It may also be that the effects are lagged and may be more pronounced in the coming years. At 2.9 per cent, growth in agricultural employment in 2016 was little changed compared with 2015. In 2017, employment growth in the sector is estimated to have slowed to 2.8 per cent. As a share of total SSA employment, agriculture remained unchanged in 2016 at approximately 55.6 per cent and is likely to have fallen slightly to 55.4 per cent in 2017.

About 40 per cent of the world's poor population lives in SSA.<sup>24</sup> Drought conditions can therefore have a severe socio-economic impact particularly in the context of food insecurity, poverty and inequality. In 2014-15, the Food and Agriculture Organisation (FAO) estimated that 26 per cent of SSA's population aged 15 years and more (156 million people) suffered from severe food insecurity<sup>25</sup>, the highest rate in the world.<sup>26</sup> Globally, only 7.5 per cent of people in this age group (around 406 million people) were severely food insecure during the same period.

The available statistics on poverty rates in SSA show that poverty has declined in the region but remains above the world average. According to the FAO, the share of the region's population living on less than USD1.90 a day declined from roughly 50 per cent in 2005 to 41 per cent in 2013.<sup>27</sup> Measured as a share of population living on less than USD3.20 per day, the rate was at 66.5 per cent in 2013, down from 70.5 per cent in 2010. More recent statistics on SSA's poverty rate, which could indicate the effects of the 2015-16 drought, are not available. However, it can be expected that a rise in food prices because of drought affects not only food security but poverty rates as well (depending on how the rates are measured).

Food scarcity drives up food prices, affecting households' and individuals' purchasing power and thus expenditure decisions. As the poor spend a comparatively large share of their income on food, rising food prices also worsen the inequality gap.<sup>28</sup> In South Africa, for example, the Living Condition Survey indicates that households in the lower income decile spend over 40 per cent of their income on food compared with only 8 per cent for households in the top income decile. When food prices go up, poor households spend an even higher percentage of their incomes on food, meaning that they have less for other needs such as clothes, shelter and education. In addition, households living just above the food poverty line may fall into poverty as food prices rise. Mainly driven by high food prices, SSA's average annual inflation rose to 11.3 per cent in 2016 from 6.9 per cent in 2015.

There are various policies and programmes in place across the continent to support food security. At the forefront of these is the 2030 Agenda for Sustainable Development Goals (SDGs).<sup>29</sup> This consists of 17 goals aimed at ending poverty, protecting the planet and ensuring prosperity for all by 2030.<sup>30</sup> It builds on already-existing bodies and national policies and provides for regular reviews, coordination and knowledge-sharing. Goal 2 of the SDGs aims to end hunger, achieve food security, improve nutrition and promote sustainable agriculture. Rural development and investment in crops, livestock, forestry, fisheries and agriculture are seen as crucial to ending poverty and hunger.<sup>31</sup> Other programmes in Africa include the Malabo Declaration on accelerated agricultural growth, which aims to eradicate hunger in Africa by 2025<sup>32</sup> and the Comprehensive African Agriculture Development Programme (CAADP).<sup>33</sup> Common threads running through these programmes include their objectives of promoting sustainable economic growth and eradicating poverty and hunger through increased agricultural productivity.

<sup>24</sup> IMF (2017). *Regional Economic Outlook – Sub Saharan Africa Fiscal Adjustment and Economic Diversification*. Washington, D.C.

<sup>25</sup> FAO measures the prevalence of moderate or severe food insecurity based on the Food Insecurity Experience Scale (FIES). The FIES provides estimates of the share of people or households who experience difficulties in obtaining food at different levels of severity. The data is collected through direct interviews.

<sup>26</sup> FAO (2017). *Regional Overview of Food Security and Nutrition in Africa. The challenges of Building Resilience to Shocks and Stresses*. Ghana: ACCRA.

<sup>27</sup> FAO (2017). *Regional Overview of Food Security and Nutrition in Africa. The challenges of Building Resilience to Shocks and Stresses*. Ghana: ACCRA.

<sup>28</sup> Statistics South Africa. (2017). *2014-15 Living Condition Survey. Living Conditions of Households in South Africa*. Pretoria: South Africa.

<sup>29</sup> On 25 September 2015, the United Nations General Assembly formally adopted the 2030 Agenda for Sustainable Development which sets out a new set of global goals known as the SDGs. The 17 SDGs and 169 associated targets build on the 8 goals and 18 targets of the MDGs but are wider in scope and more ambitious. They focus on five themes: people, planet, prosperity, peace and partnership.

<sup>30</sup> United Nations. (2017). *Transforming Our World: The 2030 Agenda for Sustainable Development*. New York City

<sup>31</sup> FAO. (2017). *Food and Agriculture: Key to Achieving The 2030 Agenda for Sustainable Development*. Accessed (05 December 2017): [www.fao.org](http://www.fao.org)

<sup>32</sup> Food and Agriculture Organization. (2017). *Agriculture in Sub-Saharan Africa: Prospects and Challenges for the next decade*. Ghana: ACCRA

<sup>33</sup> New Partnership for Africa's Development (NEPAD). (2017). *Comprehensive Africa Agriculture Development Programme*. (Accessed 01 December 2017): [www.NEPAD.org](http://www.NEPAD.org)

The effects of drought are continuing to fade and food prices are moderating in most SSA countries including South Africa. The IMF estimates that SSA's economic growth increased to 2.7 per cent in 2017 from 1.4 per cent in 2016.<sup>34</sup> However, the recovery remains weak and the region's per capita growth is estimated to have remained negative for the second consecutive year in 2017. In South Africa, for example, areas such as the Western Cape are still experiencing drought, and this is affecting fruit and wine exports. The deciduous fruit, wine and citrus industries are key export commodities for the province, and contribute significantly to the value of the country's overall agricultural sector. Reduced output has a major impact on employment in the fruit producing industries, with fewer seasonal workers employed.<sup>35</sup> Political uncertainty in Nigeria and South Africa also poses downside risks to the outlook in the region. Excluding these two countries, however, SSA is estimated to have grown by 4.4 per cent in 2017 and is projected to increase to 5.1 per cent in 2018 and 2019.

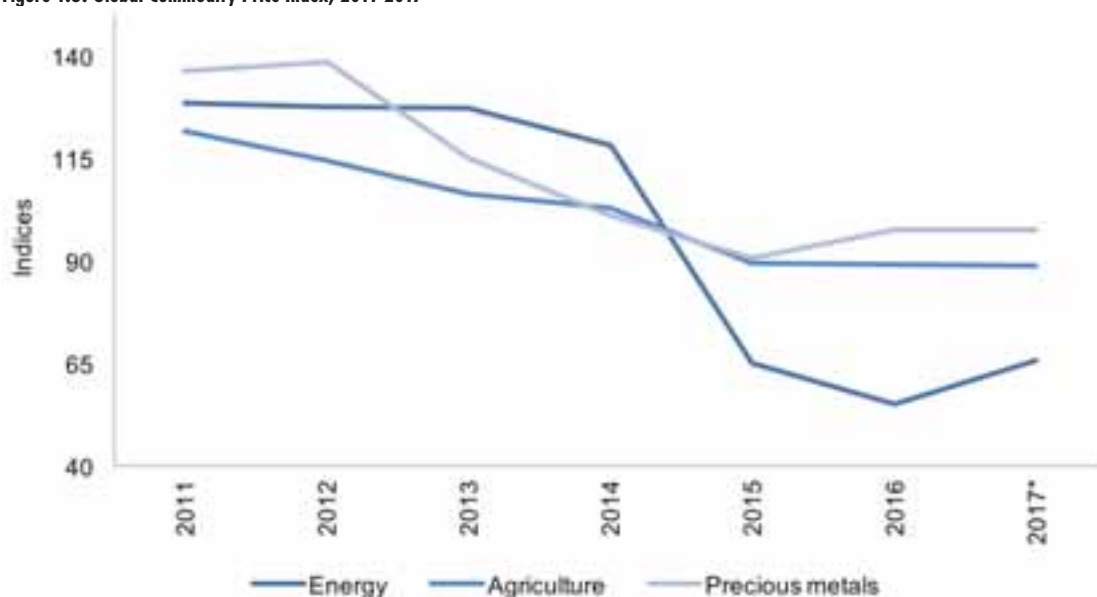
## 1.5 The Aftermath of Commodity Price Shocks in SSA: Implications for the Macroeconomy and Social Progress

A sharp decline in commodity prices, mostly in the energy and metals sectors, which began in 2014 had negative financial effects in commodity-exporting nations in SSA. Commodity exports are concentrated in around 50 per cent of the countries in the region. The greatest reliance is on oil exports, which account for up to 80 per cent of oil exporting countries' GDP.<sup>36</sup> These countries include Equatorial Guinea, the Democratic Republic of Congo, Angola, Gabon, South Sudan and Nigeria. In comparison, reliance on metal exports is not highly significant, accounting for up to 30 per cent of metal exporting countries' GDP. Countries in this category include the Democratic Republic of Congo, Botswana, Namibia, Zimbabwe, Mali, Sierra Leone and South Africa.

During the commodity price slump, oil exporting countries were affected mostly because of their heavy reliance on oil as a source of a large share of government revenue. For the metal exporters, the impact on the economy was less significant due to two factors: these countries export a range of commodities and do not rely heavily on a single commodity for revenue; and most of these countries are net oil importers. The low oil price therefore cushioned the impact of the overall commodity price slump as they were paying less to import oil.<sup>37</sup> However, metal exporters, including South Africa, were still affected by the slump, mostly from the second-round effects of mines closing and jobs being lost.

Energy and metal prices declined significantly from 2014, with agricultural commodity prices also suffering a setback. Low commodity prices led to the loss of revenue and impediments to social services projects in most of SSA's commodity exporting countries.<sup>38</sup>

Figure 1.8: Global Commodity Price Index, 2011-2017



Source: IMF, 2017

<sup>34</sup> IMF. (2017). *World Economic Outlook, October 2017*. Washington, DC.

<sup>35</sup> Farmers Weekly (2017). *Western Cape Droughts Knock Effect South Africa Economy*. (Accessed 05 December 2017): [www.farmersweekly.co.za](http://www.farmersweekly.co.za)

<sup>36</sup> IMF (2017) *Regional Economic Outlook of October 2017*. Washington, D.C

<sup>37</sup> IMF (2017). *Regional Economic Outlook of April 2017*. Washington, D.C

<sup>38</sup> IMF. (2017). *Regional Economic Outlook of October 2017*. Washington DC

Between 2014 and 2016, commodity prices fell significantly, with a marked decline in energy prices compared with other commodities such as agriculture and metals. In 2014, the Organisation of Petroleum Exporting Countries (OPEC) decided to halt oil production to prevent oversupply. However, global demand for oil declined significantly as the market reacted negatively resulting in oil prices falling to below USD35 per barrel in mid-2016.<sup>39</sup> The slump in energy prices, and particularly for oil, negatively affected commodity exporting nations which depend on oil exports for most of their revenue.

Low commodity prices negatively affect economies that rely for their revenue on commodity exports, reducing export values and leading to loss of income. This in turn affects the roll-out of badly-needed social and economic projects.

**Table 1.1: Summary of Selected Macroeconomic Indicators in the Top Three Oil and Metal Exporting Countries in SSA, 2014-2016**

Oil-Exporting Countries (% of GDP)	2014			2015			2016		
	EG	Congo	Angola	EG	Congo	Angola	EG	Congo	Angola
GDP Growth Rate	-0.7	6.8	4.8	-9.1	2.6	3.0	-9.7	-2.8	-0.7
Government Revenue	24.4	40.7	35.3	28.8	30.4	27.3	18.7	32.3	18.7
Government Debt	11.0	46.8	40.7	28.1	96.3	65.4	38.4	114.9	75.8
Current Account	-4.3	-11.6	-3.0	-17.7	-42.9	-10.0	-10.5	-70.1	-5.1
Fiscal Balance	-10.5	-47.8	-6.6	-13.7	-125.0	-3.3	-9.9	-36.7	-5.0

Metal-Exporting Countries (% of GDP)	2014			2015			2016		
	DRC	Botswana	Zambia	DRC	Botswana	Zambia	DRC	Botswana	Zambia
GDP Growth Rate	9.5	4.1	4.7	6.9	-1.7	2.9	2.4	4.3	3.4
Government Revenue	18.6	38.4	18.9	16.8	31.3	18.7	11.9	31.9	18.2
Government Debt	17.5	17.4	31.2	16.1	16.4	55.2	16.7	15.5	51.2
Current Account	-4.8	15.4	2.1	-3.9	7.8	-3.9	-3.4	11.7	4.4
Fiscal Balance	4.1	6.2	-5.7	3.1	-8.1	-9.3	0.5	-2.1	-5.8

Source: IMF, 2017

Note: EG = Equatorial Guinea, Congo = Republic of Congo and DRC = Democratic Republic of Congo

As Table 1.1 shows, oil-exporting countries were particularly negatively affected by the commodity price slump. GDP growth in Equatorial Guinea, where oil exports account for about 80 per cent of GDP, declined from -0.7 per cent in 2014 to -9.1 per cent in 2015, with the country's current account deficit widening to 17.7 per cent of GDP in 2015. By 2016, government revenue as a percentage of GDP had decreased to 18.7 per cent from 24.4 per cent in 2014. Similarly, DRC government debt increased to 114.9 per cent of GDP in 2016 from 46.6 per cent in 2014.

Amongst the metal-exporting countries, the impact of slow commodity prices was less marked. All three countries shown in Table 1.1 had negative growth rates in 2016. Government debt as a percentage of GDP decreased slightly and only one of the countries (DRC) had a current account deficit in that year. Given that these countries are generally net oil importers, low oil prices offset the impact of the commodity price slump.

South Africa is also a net exporter of metals, although it does not feature in the top three metal exporting countries. The impact of low commodity prices was less significant here than in other metal exporting countries in the region. However, economic growth slowed to 0.3 per cent in 2016 whilst net government debt increased from 40.8 per cent of GDP in 2014 to 46.2 per cent in 2017, partly because of the slump in commodity prices.<sup>40</sup> The differences between how countries were affected by the commodity price slump underline the importance of export product diversification to reduce vulnerability to shocks.

Whilst the rebound in commodity prices bodes well for the region, the previous price falls continue to weigh on the region's economic recovery. Depressed government revenues mean that fiscal resources are constrained, with implications for social programmes and therefore for the ability to address poverty and inequality. Reduced government revenues also affect the ability to implement policies such as the 2030 Agenda for SDGs and the Malabo Declaration.

<sup>39</sup> World Bank. (2017). *Commodity Market Outlook October*. Washington, D.C.

<sup>40</sup> National Treasury. (2017). *2016 Budget Review* Pretoria. South Africa



In South Africa, the outcome of the African National Congress (ANC) elective conference in December 2017 was well received by the ratings agencies and the business community, with the ratings agencies optimistic that the outcome will bring political stability and potentially reduce the risk of further sovereign downgrades. This may increase business confidence levels and economic growth, enabling faster roll-out of the social programmes indicated in the National Development Plan (NDP) Vision 2030. On the downside, government debt is expected to rise to 60.2 per cent of GDP by 2021-22.<sup>41</sup>

Overall, given the current unfavourable economic and political climate in SSA, despite favourable global economic conditions the countries in the region may be missing out in terms of improving economic and development prospects.

## 1.6 Conclusion

The global economic growth outlook remains positive and is estimated to have reached 3.7 per cent in 2017 and rising to 3.9 per cent in 2018, the global economic growth outlook is positive, with growth prospects driven by a rebound in investment and trade levels and by improved business and consumer confidence. However, global growth remains subject to downside risks including subdued inflation and low productivity levels in the advanced economies and the lagged impact of the commodity price slump in some oil exporting countries, including in SSA.

However, the favourable global growth outlook is expected to have positive spill-over effects on emerging market economies through increased trade and other activities. For South Africa, the improved global growth presents an opportunity for the country to strengthen its exports and provides an impetus to domestic growth, especially given the subdued growth in recent years. Favourable economic conditions in South Africa's main trading partners are likely to support domestic growth. However, an increasing share of South Africa's exports go to the SSA region, making SSA the country's largest export destination. This increasing intra-regional trade presents further export growth opportunities for the country.

International commodity prices have recovered from the slump of 2016 and this should assist the domestic economy through increased production and exports in the manufacturing and mining sectors. Some of these effects were already evident in the domestic economy in the second and the third quarters of 2017, with mining one of the main drivers of economic growth in those quarters. Overall, South Africa's growth is expected to have improved marginally to 0.9 per cent in 2017 from 0.3 per cent in 2016. Overall, South Africa's growth is expected to have improved marginally to 1 per cent in 2017 from 0.3 per cent in 2016.<sup>42</sup>

The protracted impact of drought in the SSA region could potentially weigh on economic recovery. The 2015-16 drought in the SSA region, including South Africa, affected agricultural production, leading to a spike in food prices and increasing the region's vulnerability to poverty and food insecurity. Another risk to growth is the aftermath of the commodity price shocks in SSA. The sharp decline in commodity prices, especially the energy and metal categories, led to losses in revenue, particularly for oil-exporting countries, and significantly affected government revenues.

Driven by improved prospects in the advanced and emerging economies, the global recovery is expected to be sustained. In response to improved oil prices and agricultural production, economic growth in SSA is expected to increase to 3.3 per cent in 2018. The SARB forecasts that the South African economy will grow by 1.4 per cent in 2018, supported by global growth and the signs of improved business and consumer confidence following the outcome of the ANC's elective conference in December 2017. The National Treasury forecast the economy to grow by 1.5 per cent in 2018, supported by the strengthening of the domestic currency, strong growth in agriculture and higher commodity prices.

<sup>41</sup> National Treasury. (2017). *Medium Term Budget Policy Statement*. Pretoria: South Africa.

<sup>42</sup> National Treasury. (2018). *2018 Budget Speech*. Pretoria. South Africa



# Chapter 2: South Africa: Economic Review

## 2.1 Introduction

Driven by increased levels of investment and trade and by dissipation of the effects of the 2016 commodity price slump, the recovery in global economic growth continued into 2017. The International Monetary Fund (IMF) expects global growth to have accelerated to 3.7 per cent in 2017 from 3.2 per cent in 2016<sup>43</sup> and sees it increasing to 3.9 per cent in 2018. However, as shown in Chapter 1, the global outlook remains vulnerable to downside risks. These include weak wage growth, the low inflation environment in the advanced economies and political uncertainty in a number of countries, especially in Sub-Saharan Africa (SSA).

Whilst global growth prospects have improved, South Africa's economy has lagged this trend. From around 2000, the country's economic growth followed and, in some instances, exceeded the global trend, benefiting significantly from strong global growth. However, especially since around 2011 this has changed. The gap between domestic and global growth has increased and, to a large extent, South Africa has missed out on the global recovery. As Figure 2.1 shows, this was especially evident between 2012 and 2017 and is in part attributable to a difficult domestic environment characterised by political and economic uncertainty, historically low levels of business and consumer confidence and drought which reduced crop production in 2016.

Low confidence levels directly affect investment, household consumption and employment creation. Investment contracted by 3.9 per cent in 2016, the largest contraction since 2010, and unemployment stood at around 27 per cent, the highest since 2008. With low growth in disposable incomes, limited job prospects and generally weak economic activity, household expenditure was under pressure. Government expenditure also remained muted as it continued with fiscal consolidation in a bid to stabilise the growth of the national debt and narrow the budget deficit. Whilst this was necessary to reduce the risk of further sovereign debt downgrades, reduced government expenditure has an unfavourable effect on domestic demand, investment and job creation.

This combination of factors - weak economic growth, the deteriorating state of public finances and uncertainty in the policy and political environment - all contributed to the country's sovereign credit rating being downgraded twice in 2017, leading to a further deterioration in business confidence. The SARB estimates the economy to have grown by only 0.9 per cent in 2017, markedly below the population growth rate of 1.5 per cent. This implies a reduction in the country's per capita Gross Domestic Product (GDP), which has negative implications for government's efforts to transform the socio-economic landscape. In the 2018-19 budget speech, National Treasury estimates growth to have reached 1 per cent 2017.

Against the background described above, this chapter analyses South Africa's economic developments over recent years and looks particularly at the areas of greatest economic weakness. The chapter also highlights areas where growth was resilient and examines their sustainability over the medium-term. The developments described in this chapter have implications for the country's socio-economic development, analysed in Chapter 4 of this review.

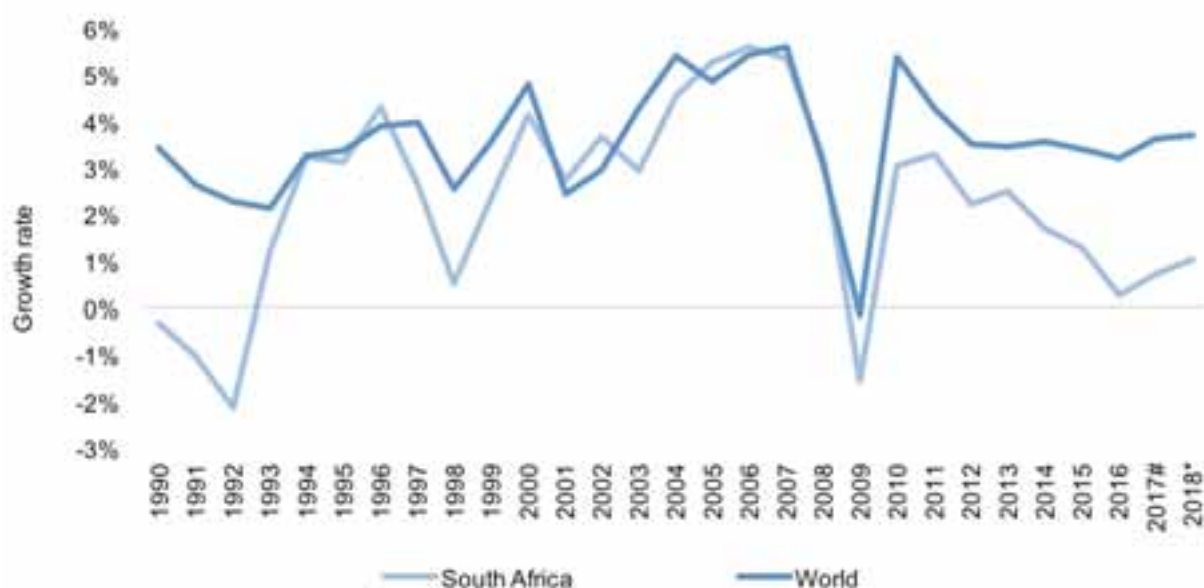
Section 2.2 below focuses on economic developments in the country, analysing components of GDP from the production and expenditure sides. Section 2.3 looks at developments in the labour market. This is followed by an analysis of trade developments in Section 2.4. Section 2.5 focuses on developments around monetary policy and on the outlook for inflation.

<sup>43</sup> International Monetary Fund. (2017). *World Economic Outlook January 2018 Update: Brighter Prospects, Optimistic Markets, Challenges Ahead*. Washington, D.C.

## 2.2 Domestic Economic Developments

Despite the global financial crisis of 2008-09, growth in the South African economy continued positive to 2010. Thereafter, it declined to 0.3 per cent in 2016. This was mainly due to the global commodity price slump that affected commodity-exporting countries such as South Africa. Coupled with domestic factors that led to low consumer and business confidence, the drought, which was also suffered by many other SSA countries, negatively affected economic growth. Especially for commodity-exporting countries, the start of 2017 brought some hope as prices were expected to increase and the effect of drought to subside. Despite this, South Africa's economic activity contracted by 0.6 per cent in the first quarter of 2017. However, driven by a strong recovery in the primary sector, second and third quarter growth rates were encouraging. For the year as a whole, growth is expected to have improved to 0.9 per cent.

Figure 2. 1: GDP Growth, SAAR: South Africa and World, 1990-2018



Source: IMF, 2017

Note: # indicates estimates and \* indicates forecast.

SAAR stands for Seasonally Adjusted Annualised Rate.

Whilst the rebound in the primary sector was welcomed, domestic issues contributed to the limited overall growth in 2017. Sovereign credit downgrades to sub-investment levels of long-term foreign and domestic currency denominated debt led to a fall in the rand exchange rate and an outflow of capital. This worsened the country's difficult economic environment during the year.

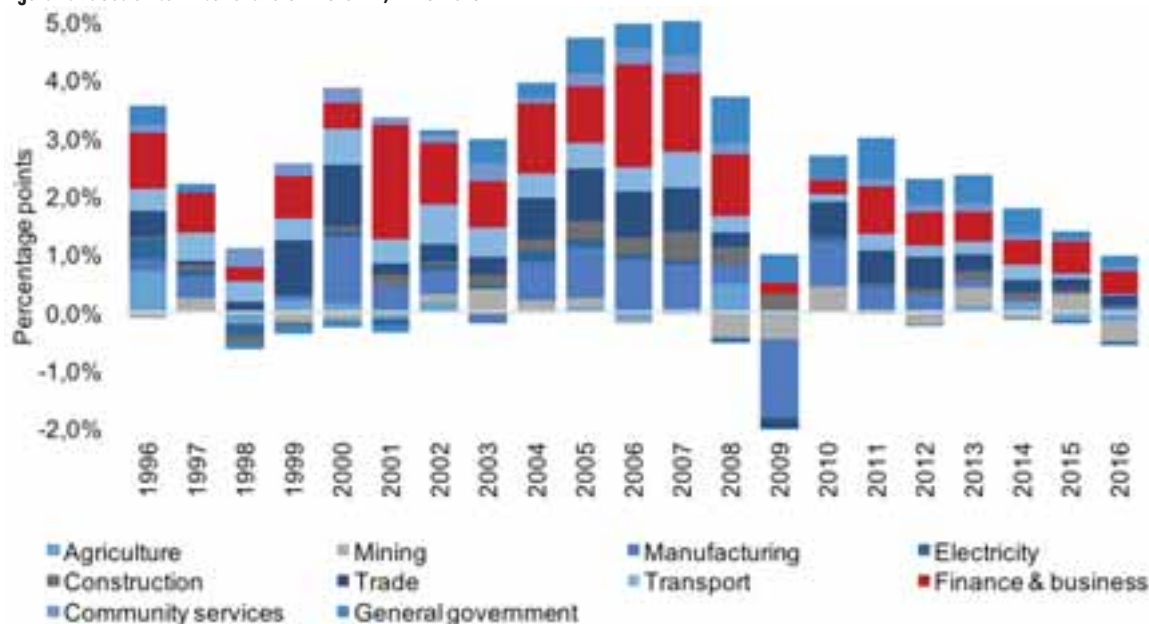
However, improved global growth prospects continue to present growth opportunities for South Africa, especially from the trade side. In its 2018-19 Budget Speech, National Treasury forecast growth to improve to 1.5 per cent in 2018 and to reach 2.1 per cent by 2020.<sup>44</sup> More optimistically, at its January 2018 Monetary Policy Committee (MPC) meeting, the SARB estimated that economic growth would improve to 1.4 in 2018 and 1.6 per cent in 2019.

### 2.2.1 Key Performance Sectors

Post-1994, South Africa's economic growth rate peaked at 5.6 per cent in 2006. The main contributor was the tertiary sector and particularly finance & business services. Although the figure below shows the mining sector's contribution as relatively small, it is important for the economy as it accounts for over 30 per cent of total exports.

<sup>44</sup> National Treasury. (2018). *National Budget Speech 2018*. Pretoria

Figure 2. 2: Sector Contributions to GDP Growth, 1996-2016



Source: Stats SA, 2017

Whilst economic growth has slowed since around 2012, in most sectors this was particularly notable in 2016. The primary sector contracted because of drought and the commodity price slump. As a result, the mining and agriculture sectors made a negative contribution to growth. The slowdown in the rate of growth in trade and finance & business services meant that these sectors made proportionally smaller contributions to economic growth. Overall, the rate of economic growth fell to 0.3 per cent in 2016 from 1.3 per cent in 2015.

Partly driven by political and policy uncertainty, 2017 was characterised by exceptionally weak business and consumer confidence levels. However, the strong rebound in mining and agriculture is expected to have cushioned against the impact of sectors that performed poorly during the year such as finance & business, trade and manufacturing, resulting in slightly better expected growth than in 2016. In 2017, growth in finance services, trade and manufacturing is estimated to have declined due to weak domestic demand and poor business and consumer sentiment. Activity in the government sector, which has been resilient in the past, is also expected to have declined amid fiscal consolidation and a smaller fiscal purse.

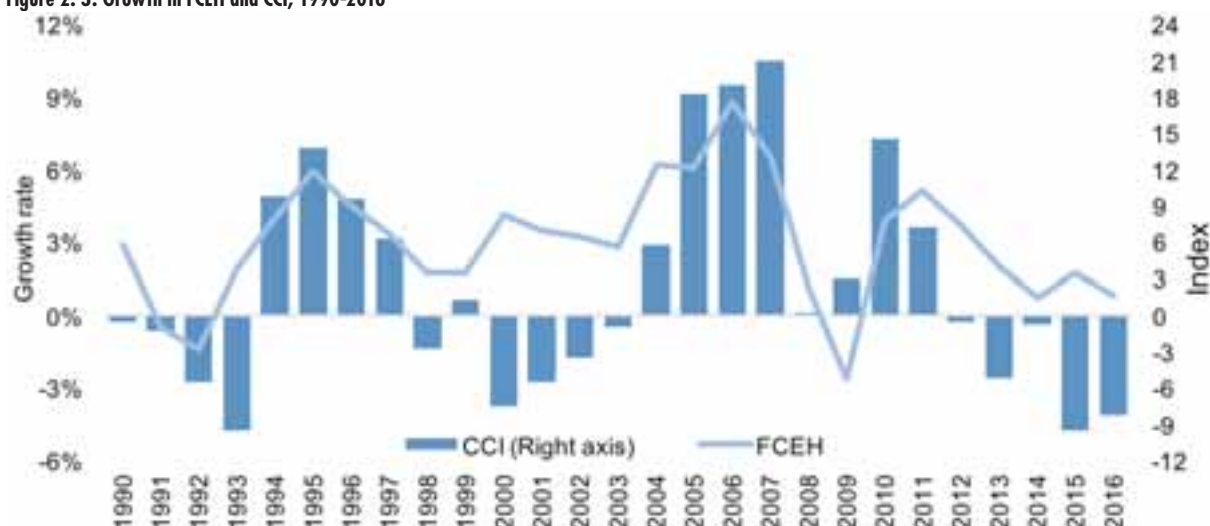
It is uncertain whether the recent rebound in mining and agriculture will be sustained. Whilst the commodity prices are recovering, benefiting mining in particular, the sector's performance remains volatile due, among other factors, to declining profits and net investment in the sector.<sup>45</sup> In agriculture, the impact of drought is dissipating. However, there are still incidences of drought conditions in the country and particularly in the Western Cape province. These may have knock-on effects on the sector and on the overall economy.

### 2.2.2 Household Consumption

Final consumption expenditure by households (FCEH) accounts for around 60 per cent of GDP, and is made up of spending on services and on durable, semi-durable and non-durable goods, with spending on services making up the largest share. FCEH therefore has a significant effect on the country's economic growth which has over the years been driven by households' demand for goods and services. Since the global financial crisis and against a background of low consumer confidence and high prices, this demand has weakened.

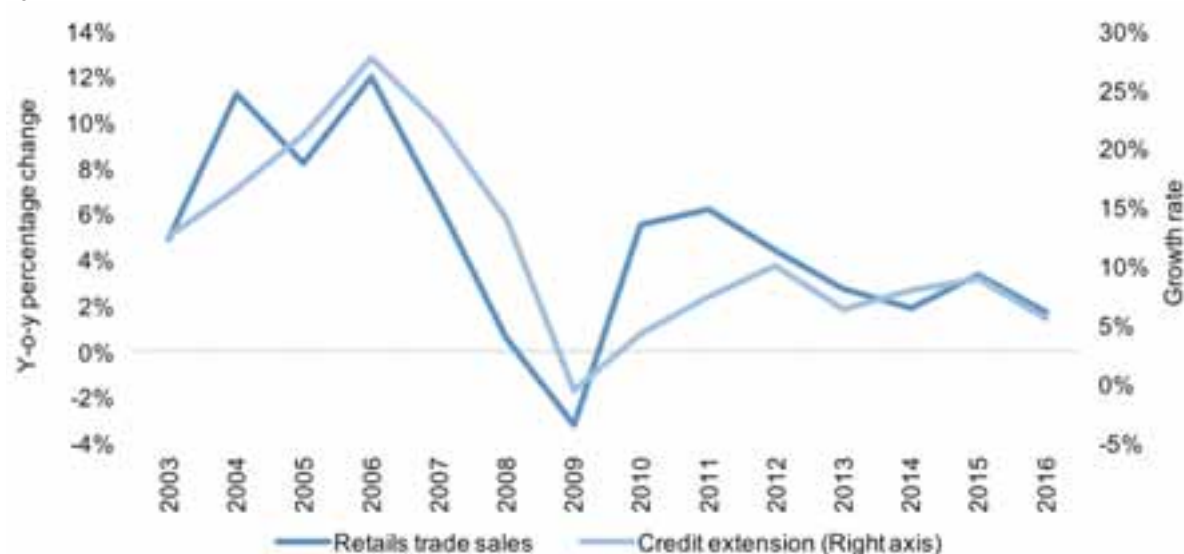
Household spending depends on a number of factors including real income, access to credit, prices and the labour market. As Figure 2.3 shows, growth in household consumption is generally associated with an increase in Consumer Confidence Index (CCI) levels, with consumers' positive view of an economy likely to be accompanied by increased spending.

<sup>45</sup> Chamber of Mines. (2017). *Mining Matters. Quarterly Update*. Johannesburg.

**Figure 2. 3: Growth in FCEH and CCI, 1990-2016**

Source: BER &amp; SARB, 2017

Growth in FCEH slowed to 0.8 per cent in 2016 from 1.7 per cent in 2015. Amongst the components of FCEH, spending on services increased, whilst growth in spending on semi-durable and non-durable slowed.<sup>46</sup> Spending on durable goods, such as cars and major appliances, was the only component that contracted, declining by 7.3 per cent in 2016 and reaching its lowest level in seven years. Durable goods tend to be expensive and are therefore particularly sensitive to consumer confidence.

**Figure 2. 4: Retail Trade Sales and Growth in Credit Extension, 2003-2016**

Source: Stats SA &amp; SARB, 2017

Retail sales trends also show that household consumption expenditure has been under strain. Growth in retail trade sales has declined since 2012, standing at 1.7 per cent in 2016. Growth in credit extension has also been modest, decreasing to 5.6 per cent in 2016 from 8.9 per cent in 2015. However, 2017 monthly data suggests that retail sales may have improved during the year, mainly because of lower than expected consumer price inflation. This is despite renewed deterioration in the CCI during most of 2017 and expectations that household expenditure may have only picked up moderately during this period.

<sup>46</sup> SARB. (2017). *Quarterly Bulletin's Online Statistical Query Database*. (Assessed on 28 December 2017): [www.resbank.co.za](http://www.resbank.co.za).



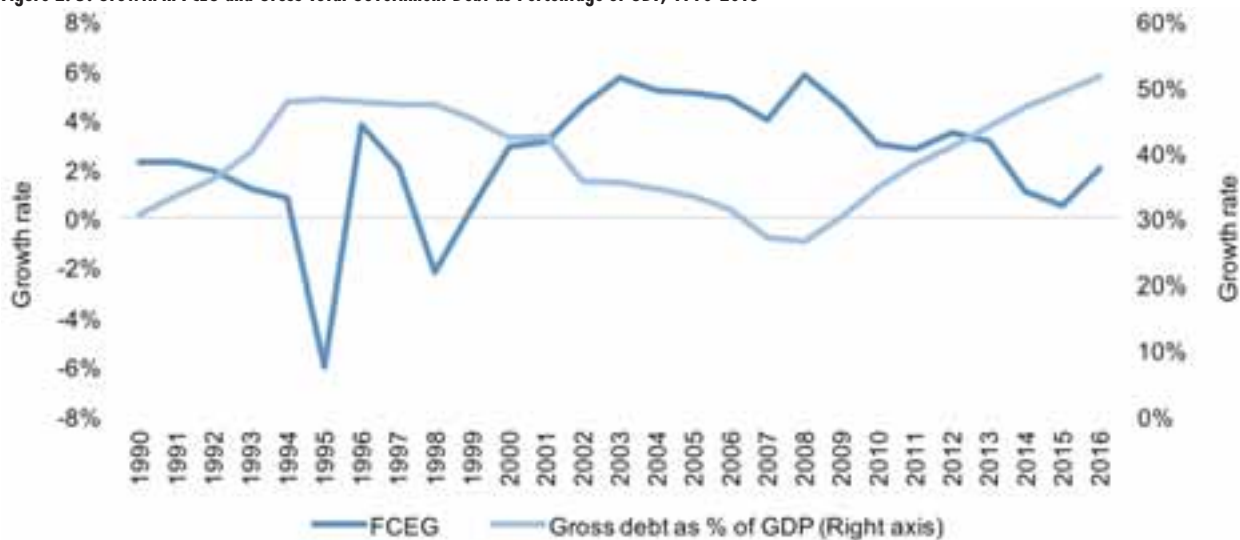
Given the current environment, FCEH is likely to remain under strain. Subdued economic growth, moderate income growth, limited growth in credit extension and unfavourable employment prospects will continue to affect consumer confidence and purchasing power. However, lower than expected consumer inflation in 2017 is likely to have provided consumers with some relief. The SARB estimates growth in household consumption to have averaged 1 per cent in 2017 and that it will increase to 1.1 per cent in 2018 and 1.4 per cent in 2019.

### 2.2.3 Government Expenditure

Final consumption expenditure by government (FCEG) plays a vital role in a country's economic activity, and accounts for about 20 per cent of South Africa's GDP. Growth in FCEG depends on growth in government revenue which is also a function of economic growth. Subdued economic growth has a negative impact on FCEG as revenue collection declines due to weak economic activity. The recent marginal growth in FCEG reflects not only the impact of weak economic growth but also government's efforts to contain expenditure given the declining revenue collection.

At the start of the 2017-18 financial year, the national revenue collection shortfall was estimated at 30 billion South African Rand (ZAR).<sup>47</sup> This was mainly attributed to a decline in tax collection, reflecting slow growth in income and declining levels of employment.<sup>48</sup> In the 2017 MTBPS, the revenue shortfall was revised up to ZAR50.8 billion, the largest upward revision since the recession of 2009. The current budget deficit target has also been revised upwards, from 3.1 per cent of GDP to 4.3 per cent for 2017-18.<sup>49</sup> In the 2018-19 Budget Speech, the revenue shortfall was revised to ZAR48.2 billion in the current financial year from the ZAR50.8 billion estimated in the 2017 MTBPS, the largest since the recession of 2009. The current budget deficit target has also been revised down, from the 4.3 per cent of GDP in the 2017 MTBPS to 3.6 per cent for 2017-18, it is further projected to narrow to 3.5 per cent by 2020-21.<sup>50</sup>

Figure 2. 5: Growth in FCEG and Gross Total Government Debt as Percentage of GDP, 1990-2016



Source: SARB, 2017

Note: FCEG stands for Government Consumption Expenditure

FCEG growth fluctuated over the period shown in the figure above, peaking at 5.8 per cent in 2008 when the country was preparing for the 2010 Soccer World Cup. It then declined to 0.5 per cent in 2015 before rising to 2 per cent in 2016. At the same time, debt as a proportion of GDP has risen, reaching 51.6 per cent of GDP in 2016. The combination of rising debt levels, deteriorating government finances, low economic growth, concerns about policy and political uncertainty led to South Africa's credit rating downgrades in April and November 2017. These weighed heavily on already low business and consumer confidence.

<sup>47</sup> National Treasury. (2017). *National Budget Speech 2017*. Pretoria

<sup>48</sup> National Treasury. (2017). *National Budget Speech 2017*. Pretoria

<sup>49</sup> National Treasury. (2017). *National Medium-Term Budget Policy Statement Speech 2017*. Pretoria

<sup>50</sup> National Treasury. (2018). *National Budget Speech 2018*. Pretoria.

Declining revenue collection presents government with difficult choices. Commitment to fiscal consolidation is necessary, amongst other objectives, to stabilise the growth of national debt and narrow the budget deficit. However, it does not assist government's plans for reducing poverty, unemployment and inequality as it slows spending. Borrowing more is not a desirable option as it increases the country's debt ratio and results in more expenditure on interest payments.<sup>51</sup> At the same time, not taking steps to stabilise public finances could lead to more credit rating downgrades, further entrenching low economic growth. The SARB projects government spending to have grown by only 0.5 per cent in 2017, with an equivalent figure for 2018 and 2019 of 1 per cent.

## 2.2.4 Investment

Investment has a significant impact on the level of economic growth, with increased capital investment increasing the capital structure of the economy. This tends to be followed by an increase in labour productivity, thus increasing the efficiency and level of output of the economy.<sup>52</sup> Uncertainty affects investment as investors look to invest in economies with a stable economic and political outlook.

Low levels of business confidence have weighed negatively on investment flows into South Africa. The SARB projected total fixed investment growth to have contracted by 0.4 per cent in 2017; this compares relatively positively with the contraction of 3.9 per cent in 2016. A moderate positive recovery is expected in 2018 and 2019, at 0.6 and 1.1 per cent respectively.<sup>53</sup>

Figure 2. 6: Growth in GFCF and BCI, 1990-2016



Source: BER & SARB, 2017

BCI stands for Business Confidence Index

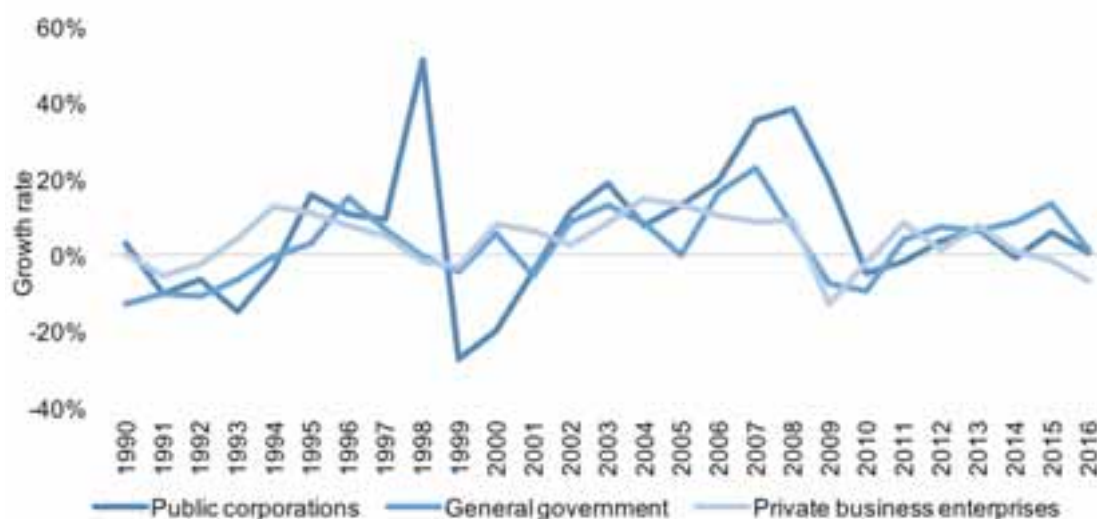
Figure 2.6 shows the extent to which, between 1990 and 2016, growth in gross fixed capital formation (GFCF) followed business confidence. This is particularly evident when business confidence is compared with growth in private sector investment. This reflects the subdued level of economic growth.

<sup>51</sup> South African Reserve Bank. (2017). *Monetary Policy Review October 2017*. Pretoria

<sup>52</sup> Business and Management Review. (2012). *Impact of Investment Activities on Economic Growth In Pakistan*. Accessed (12 January 2018) at [www.businessjournalz.org](http://www.businessjournalz.org).

<sup>53</sup> South African Reserve Bank. (2017). *Monetary Policy Review October 2017*. Pretoria



**Figure 2. 7: Growth in GFCF by Public Corporations, General Government and Private Enterprises, 1990-2016**

Source: SARB, 2017

Figure 2.7 shows growth in investment by public corporations, general government and private businesses from 1990 to 2016. The figure shows that, despite fluctuations between years, investment from 1995 to 2008 was dominated by public corporations. Post the global financial crisis, there was a rise in investment by general government, with the aim of reviving low levels of economic activity.

Private investment accounts for two-thirds of total fixed investment in South Africa. In 2018-2019, private investment, estimated to have declined for the third consecutive year in 2017, is expected to remain the weakest element of total fixed investment. Investment by public enterprises also remains subdued as state-owned companies face financing difficulties. Transnet, for example, had undersubscribed bond auctions in 2017; and with major projects such as Eskom's new power stations nearing completion and the absence of similar new future projects, investment by public corporations is forecast to contract in the medium-term. Investment by general government is expected to be the only positive source of growth in fixed investment as government tries to protect its investment budget from the current fiscal consolidation.<sup>54</sup>

## 2.3 Labour Market Developments

The majority of people receive their income from employment, either formal or informal. Access to employment, and thus earnings, is therefore important in the fight against poverty and inequality. With low growth, the economy is not creating enough jobs to accommodate the increasing labour force. In its press release about the 2015 poverty numbers, Statistics South Africa (Stats SA) estimated that over 50 per cent of the population lives in poverty; the 2016 percentage was expected to be even higher as the level of unemployment reached its peak during that year.<sup>55</sup> The table below shows the domestic labour profile.

<sup>54</sup> South African Reserve Bank. (2017). *Monetary Policy Review October 2017*. Pretoria.

<sup>55</sup> Statistics South Africa. (2017). *Poverty Trends in South Africa: An Examination of Absolute Poverty Between 2006 and 2015*. Pretoria.

**Table 2.1: South Africa's Labour Profile in Thousands, 2008-2016**

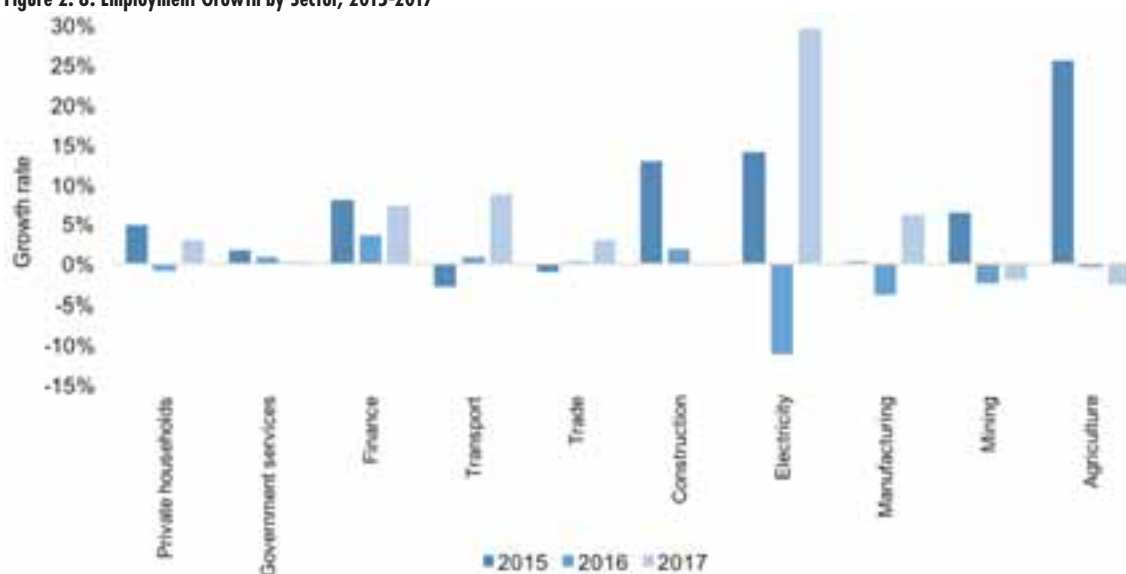
	Working-age Population, 15-64 Years	Labour Force	Employed	Official Unemployed	Not Economically Active
2008	31 765	18 831	14 585	4 246	12 934
2009	32 360	18 597	14 194	4 403	13 763
2010	32 958	18 352	13 788	4 564	14 606
2011	33 563	18 706	14 070	4 636	14 857
2012	34 175	19 200	14 425	4 775	14 975
2013	34 790	21 085	14 866	4 886	15 038
2014	35 410	20 216	15 146	5 070	15 194
2015	36 035	21 085	15 741	5 344	14 950
2016	36 669	21 533	15 780	5 753	15 136

Source: Stats SA, 2017

The table above shows that the total working-age population rose between 2008 and 2016, with the labour force following a similar trend except for 2014 when it declined compared to the previous year. The table also shows that the number of employed people rose in most years. However, when using growth rates, the number unemployed increased faster than the number employed between 2009 and 2016. The number of Not Economically Active (NEA) people, largely consisting of discouraged work seekers, fluctuated over the period with people looking for employment in one period and giving up hope of finding jobs in another.

### Employment

Since 2009, South Africa's employment growth has averaged 1 per cent with growth in the labour force averaging 1.8 per cent. This indicates that the country's economy has not been able to absorb new entrants into the labour market. During the same period, annual economic growth averaged only 1.8 per cent. These trends may result in the country not reaching the aim of the National Development Plan (NDP) to increase employment from 13 million to 24 million by 2030.<sup>56</sup>

**Figure 2. 8: Employment Growth by Sector, 2015-2017**

Source: Quantec Easy Data, 2017

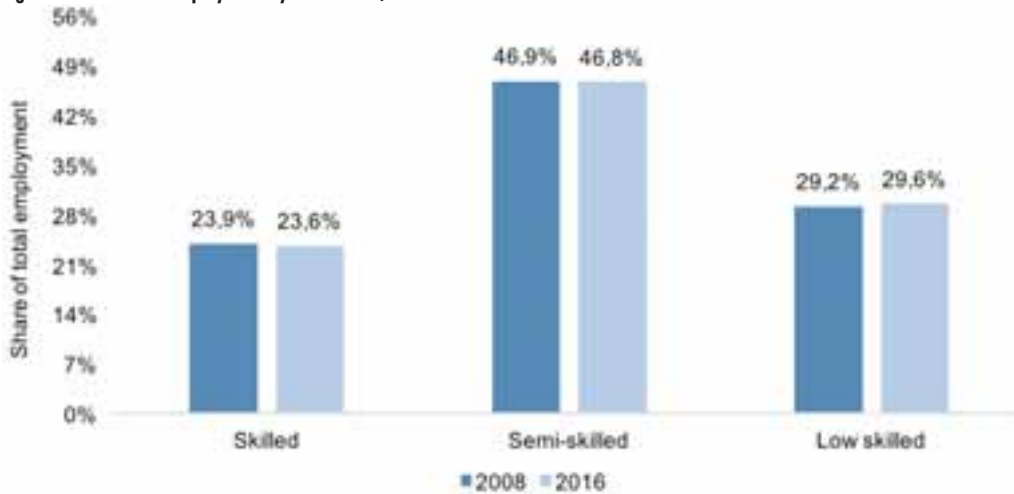
Note: 2017 includes data until the third quarter.

In 2016, growth in employment was largely flat in most sectors, including those which make the largest contributions to the economy. However, there were some improvements in 2017, though generally coming off a low base. Employment in trade grew moderately, helped by improved Consumer Price Index (CPI). Employment was also up in finance & business services, manufacturing, transport and electricity.

<sup>56</sup> The Presidency, Republic of South Africa. (2012). *National Development Plan 2030 Our Future - Make It Work*. Pretoria.

Growth in employment in the electricity sector in 2017 was due to an increased capital spending by Eskom dating back to 2016.<sup>57</sup> Sectors in which employment growth declined in 2017 included government services, construction, mining and agriculture.

**Figure 2. 9: Share of Employment by Skills Level, 2008-2016**



Source: Quantec Easy Data, 2017

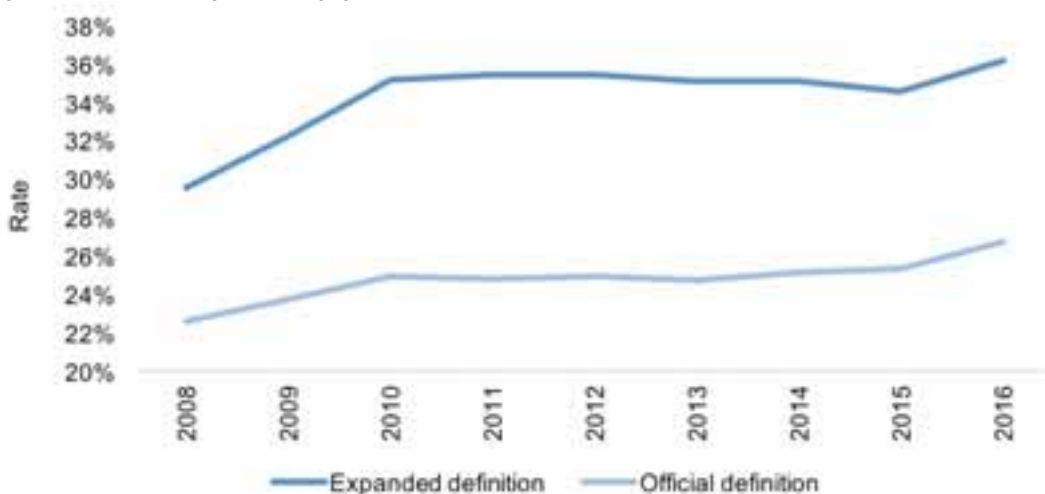
Figure 2.9 shows that the largest percentages of the workforce are semi- and low-skilled and that these percentages did not change significantly between 2008 and 2016. Government services remain the largest employer of skilled personnel, followed by finance & business services. The main sectors employing semi-skilled workers are trade and manufacturing, with low-skilled workers largely employed in trade and in agriculture.<sup>58</sup> The data also show that the bulk of the country's unemployed are semi- and low-skilled, with a large percentage of the country's labour force thus falling into these skills categories. Favourable performance by sectors able to absorb large numbers of these semi- and low-skilled sections of the labour force is needed to reduce the high unemployment levels shown in Figure 2.10 below.

### Unemployment

One of the objectives of the NDP is to reduce the unemployment rate to 14 per cent by 2020 and to 6 per cent by 2030.<sup>59</sup> The third quarter Quarterly Labour Force Survey (QLFS) of 2017 indicates that the country's unemployment rate in that quarter stood at 27.7 per cent.<sup>60</sup> Current sluggish economic growth will make it difficult to reach the 2030 target.

Figure 2.10 below shows the official and expanded unemployment rates for the years 2008 to 2016.<sup>61</sup>

**Figure 2. 10: Official and Expanded Unemployment Rates, 2008-2016**



Source: Stats SA, 2017

<sup>57</sup> Statistics South Africa. (2017). *Electricity Infrastructure Dominates Capital Spending*. Accessed (6 February 2018) at [www.statssa.gov.za](http://www.statssa.gov.za)

<sup>58</sup> According to 2016 data from Easy Data Quantec Research.

<sup>59</sup> The Presidency Republic of South Africa. (2012). *National Development Plan 2030 Our Future - Make It Work*. Pretoria.

<sup>60</sup> Statistics South Africa. (2017). *Quarterly Labour Force Survey Quarter 3: 2017*. Pretoria.

<sup>61</sup> The expanded definition of the unemployment rate includes discouraged work seekers. The official definition excludes them.

Measured by both the expanded and official definitions, the unemployment rate rose consistently over the years shown in the figure above, reaching 26.7 per cent by the official definition and 36.2 per cent by the expanded definition in 2016. Both rates were the highest recorded since the design of a new sample for conducting the QLFS in 2008. The persistently high rate of unemployment means that there are more people in the labour force than can be absorbed by the number of job opportunities being created in the labour market. This has negative implications for the country's already high levels of income inequality and poverty.

**Table 2.2: Official Unemployment Rate by Age Group, 2010-2017**

Age Group	2010	2011	2012	2013	2014	2015	2016	2017
15-19	64,5%	63,9%	63,5%	62,6%	62,0%	60,2%	64,7%	63,5%
20-24	49,3%	48,3%	50,1%	50,0%	50,0%	48,8%	51,8%	52,9%
25-29	33,7%	34,9%	34,3%	33,4%	34,1%	34,5%	36,3%	38,0%
30-34	24,6%	24,8%	24,7%	24,8%	26,0%	25,8%	27,0%	28,0%
35-39	20,3%	19,3%	19,5%	20,2%	20,6%	21,3%	23,0%	23,7%
40-44	14,3%	16,5%	16,5%	16,7%	17,3%	17,5%	19,0%	20,8%
45-49	13,5%	13,6%	13,9%	14,0%	14,6%	15,4%	15,8%	16,8%
50-54	11,4%	11,4%	11,4%	11,2%	11,8%	12,3%	13,5%	15,0%
55-59	9,0%	7,6%	8,1%	9,4%	9,3%	10,3%	10,9%	12,0%
60-64	4,1%	2,4%	4,0%	3,2%	3,4%	4,4%	4,0%	4,3%

Source: Quantec Easy Data, 2017

Note: 2017 includes data until third quarter

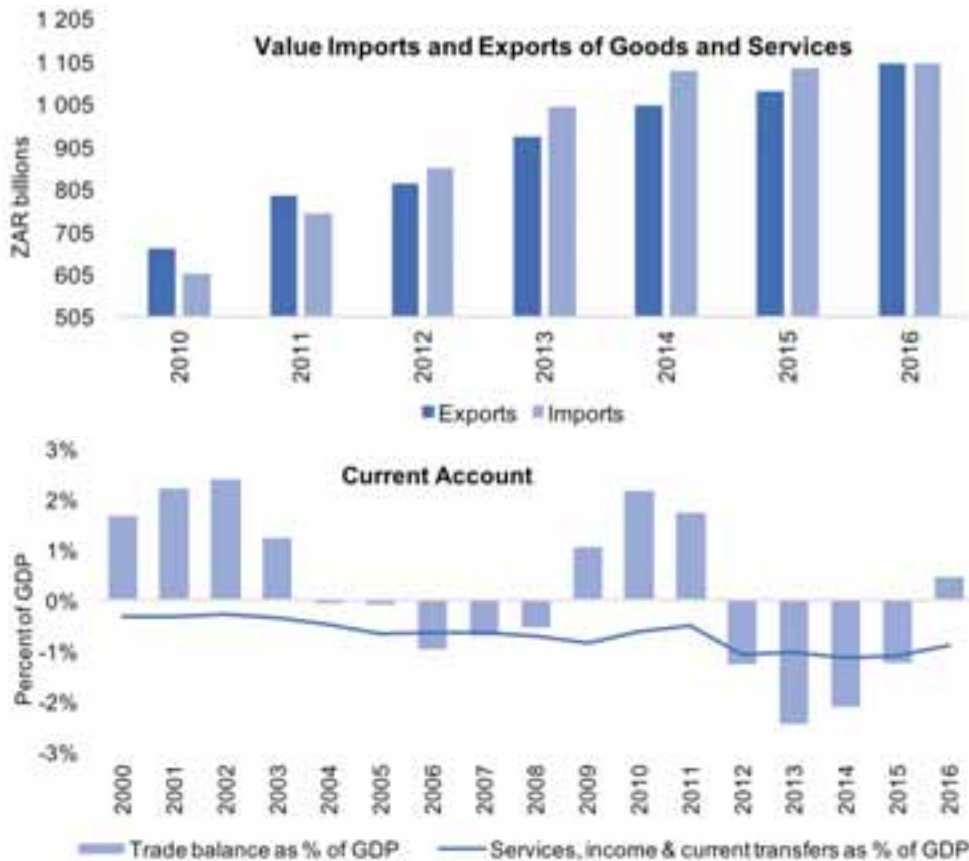
Table 2.2. shows that the rate of unemployment is particularly high amongst the young working-age population. Among those aged between 15 and 24 years, the unemployment rate for the period covered by the table was on average more than twice the rate of unemployment in older age cohorts and then the overall national unemployment rate. With South Africa said to be in its demographic transition<sup>62</sup>, increased employment is necessary if the economy is to benefit from its demographic dividend.

## 2.4 Trade

A country's trade is recorded in the current account along with services, income and net transfer payments. South Africa's current account has been characterised by improvements in the trade balance, recording its fourth consecutive trade surplus in the third quarter of 2017. This is a positive aspect of the country's economy.

<sup>62</sup> Demographic transition refers to changing patterns of fertility, mortality and population growth rates as societies move from one demographic stage to another. During the first phase of the transition, birth rates remain high, death rates fall and the population grows rapidly. In the second phase, birth rates start to decrease, population growth rates decrease and there is a concentration of older age groups.

Figure 2. 11: Exports, Imports and Current Account, 2010-2016

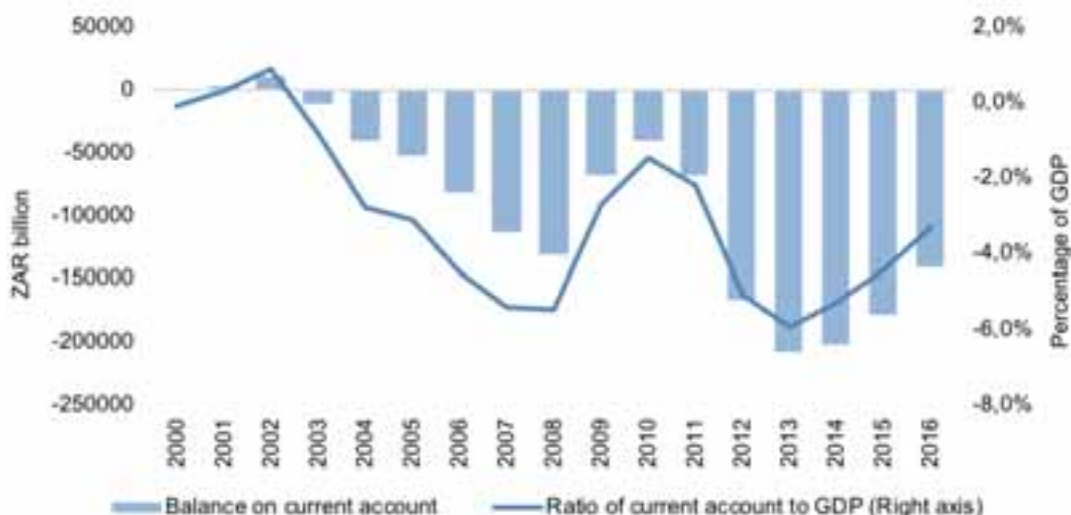


Source: SARS &amp; SARB, 2017

In 2016, exports grew faster than imports and this rate is expected to have continued in 2017 although at a lesser pace. The stronger pace of growth in exports compared with imports reflects the gap between subdued economic activity in the domestic market and stronger global growth which favours exports more than imports.<sup>63</sup> Net exports are expected to have contributed positively to economic growth in 2017.

In recent years, South Africa's terms of trade have benefited from low oil prices, a recovery in export commodity prices and weak domestic investment which has slowed imports of capital goods. The weak exchange rate has also contributed to the faster pace of growth in exports. Generally, depreciation of the domestic currency bodes well for exports as the country's products become cheaper in the markets to which they are exported.

Figure 2. 12: Balance on Current Account and Its Ratio as % of GDP, 2000-2016



Source: SARB, 2017

<sup>63</sup> South African Reserve Bank. (2017). *Monetary Policy Review October 2017*. Pretoria

The current account deficit narrowed somewhat between 2013 and 2016, from 5.9 per cent to 3.3 per cent of GDP. This can largely be explained by improvements in the terms of trade, with the trade balance recording a surplus in 2016 (see Figure 2.11). The deficit on services, income and the current transfer account did not change significantly since 2013, continuing to weigh negatively on the current account balance.

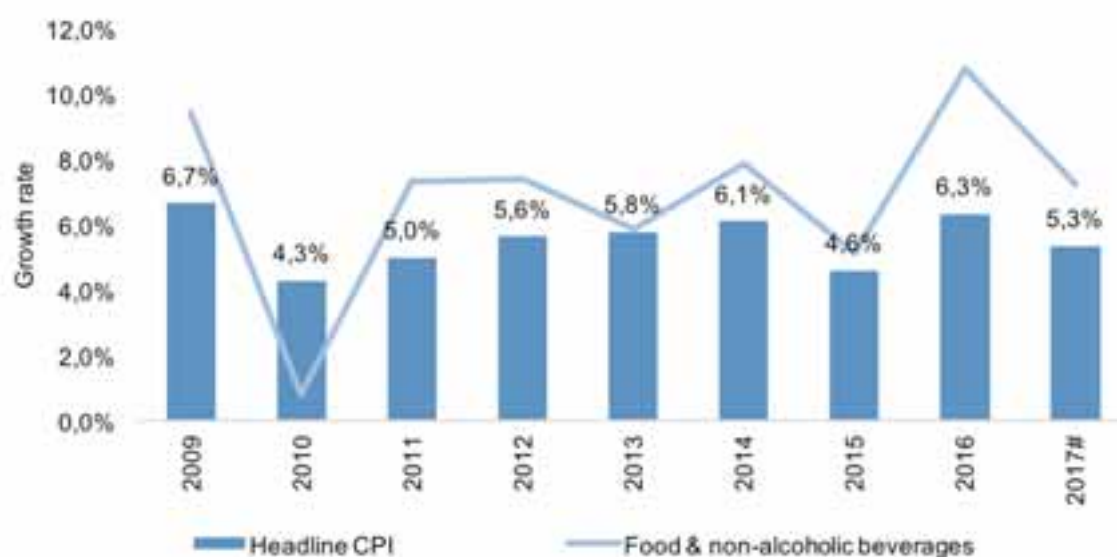
The country continues to run a current account deficit financed through borrowing from abroad. The widening current account deficit has negative implications for government's programmes to address poverty, unemployment and inequality.

## 2.5 Inflation and Monetary Policy

Slow economic growth and rising consumer prices have been a thorny issue for monetary policy authorities, especially around 2016. This challenge somewhat eased in the first half of 2017, with the inflation outlook improving notably. This was as result of declining food prices because of better crop yields, amongst other reasons. In the first half of 2017, the SARB signalled a pause to the monetary policy tightening cycle which began in 2014<sup>64</sup>, with the July consumer inflation numbers warranting the first repurchase rate (repo) reduction since 2012.

The bank forecasts that CPI will slow to 4.6 per cent by the first quarter of 2018 and will average 5.4 per cent in 2019. The upper bound forecast average for 2018 is attributed to higher assumptions about electricity and oil prices as well as increased wages; these are grounds for an increase in inflation. At its January 2018 meeting, the Monetary Policy Committee (MPC) of the SARB estimated consumer inflation to have averaged 5.3 per cent in 2017, down from 6.3 per cent in 2016.

Figure 2. 13: Headline and Food Inflation, 2009-2017



Source: IRESS, 2017

Note: # indicates estimates

CPI moderated significantly in 2017 from the 2016 rate caused by drought conditions that resulted in food prices spiking. The moderate inflation rate helped to cushion against the impact of overall subdued economic activity during the year and provided some relief for consumers. However, the SARB forecast that inflation would increase at the beginning of 2018 because of volatility in the exchange rate. Ratings agencies' downgrading of the country's domestic currency bonds to sub-investment grade in November 2017 had negative implications for the ZAR exchange rate.<sup>65</sup>

<sup>64</sup> South African Reserve Bank. (2017). *Monetary Policy Review October 2016*. Pretoria.

<sup>65</sup> South African Reserve Bank. (2017). *Statement of the Monetary Policy Committee 23rd November 2017*. Pretoria

## 2.6 Conclusion

Although there is an increasing gap between global growth and the domestic economy, growth of 2.5 and 2 per cent recorded in the second and third quarters of 2017 domestically has made the outlook somewhat more positive. The SARB estimates domestic growth to have increased to 0.9 per cent. Growth for 2018 and 2019 is forecast at 1.4 and 1.6 per cent respectively.

Household consumption expenditure has been subdued since 2012, reflecting low consumer confidence. Slow economic activity, weak employment prospects and low consumer confidence have continued to weigh on household expenditure. The SARB estimated that household consumption expenditure would grow by only 1 per cent in 2017 and forecast it to reach 1.4 per cent by 2019.

Low economic growth, which affects government revenue and levels of debt, underlies government's aggressive approach to fiscal consolidation. Whilst this is necessary, low government expenditure does not bode well for aggregate demand and thus economic growth. For the 2017-18 financial year, government expects a revenue short fall of ZAR48.2bn against a background of low economic growth. The budget deficit is anticipated to narrow to 4.3 per cent of GDP. The manner and the pace with which government acts to stabilise its finances remains critical for the credit rating agencies. From the investment side, the expectation is that growth in fixed investment will return to positive territory only in 2018 going into 2019. For 2017, the SARB expects investment to have contracted by 4 per cent as business confidence continued to deteriorate.

The weak labour market, with record high unemployment in the third quarter of 2017, has negative implications for the country's already high levels of income inequality and poverty. Without levels of economic growth which can create much-needed employment opportunities, South Africa will have failed to take advantage of its demographic dividend.

On a positive note, improved global economic prospects will give impetus to domestic economic growth through increased trade. The benefits of strong global growth are already having a positive effect on the domestic economy, with the country recording its fourth consecutive trade surplus in the third quarter of 2017. For the year as a whole, net exports are expected to have contributed positively to economic growth.





# Chapter 3: Provincial Economic Review

## 3.1 Introduction

As indicated in Chapter 2, 2016 and 2017 were difficult economic years since the 2008-09 financial crisis. Gauteng's economic growth is estimated to have slowed to 0.3 per cent in 2017, down from the already low rate of 0.8 per cent in 2016. This slow growth was driven by a broad-based slowdown in economic activity across the province, with Gross Domestic Product by Region (GDP-R) growth decelerating in all municipalities. Amongst the metropolitan municipalities (metros), the sharpest deceleration was in the City of Johannesburg (CoJ) where growth slowed to 0.3 per cent in 2017 from 1.3 per cent in 2016. GDP-R decreased by 0.4 per cent in the City of Tshwane (CoT) and in the City of Ekurhuleni (CoE) in 2017, and the poor economic performance extended to the district municipalities. Sedibeng is estimated to have grown by 0.3 per cent in 2017, whilst West Rand was expected to have contracted by 0.5 per cent.

It is estimated that household consumption expenditure fell in 2017 after growing by 6.7 per cent in 2016. This was due to low consumer confidence, high unemployment, household indebtedness and overall weak economic prospects. Growth in fixed investment also remained weak, consistent with lacklustre economic growth. In 2016, growth in investment fell by 3.7 per cent led by a significant decline in investment in the primary sector and particularly in mining. Investment trends were not anticipated to improve significantly in 2017.

In the context of these difficult economic conditions, the labour market was under pressure in 2017. Compared with the country as a whole, a relatively large share of the province's working-age population is employed; however, employment growth has not been sufficient to reduce high unemployment rates. With these rates ranging from 22.6 per cent to 50.2 per cent in its municipalities, unemployment remains one of the province's main challenges. With high unemployment come high levels of poverty and a widening income inequality gap.

Extending from the analysis in Chapter 2, which provides an overall picture of economic developments in the country, this chapter focuses on economic developments in Gauteng. It highlights areas of the economy that came under pressure in 2016 and 2017 as the domestic economy and the political environment continued to weigh on consumer and business confidence. It also examines those areas where growth remained resilient, benefiting from the province's position as a gateway to Africa. The chapter provides information about ongoing initiatives that the provincial government has undertaken towards implementing the Transformation, Modernisation and Re-industrialisation (TMR) programme to improve economic inclusiveness and to reduce unemployment, poverty and income inequality for the betterment of its citizens.

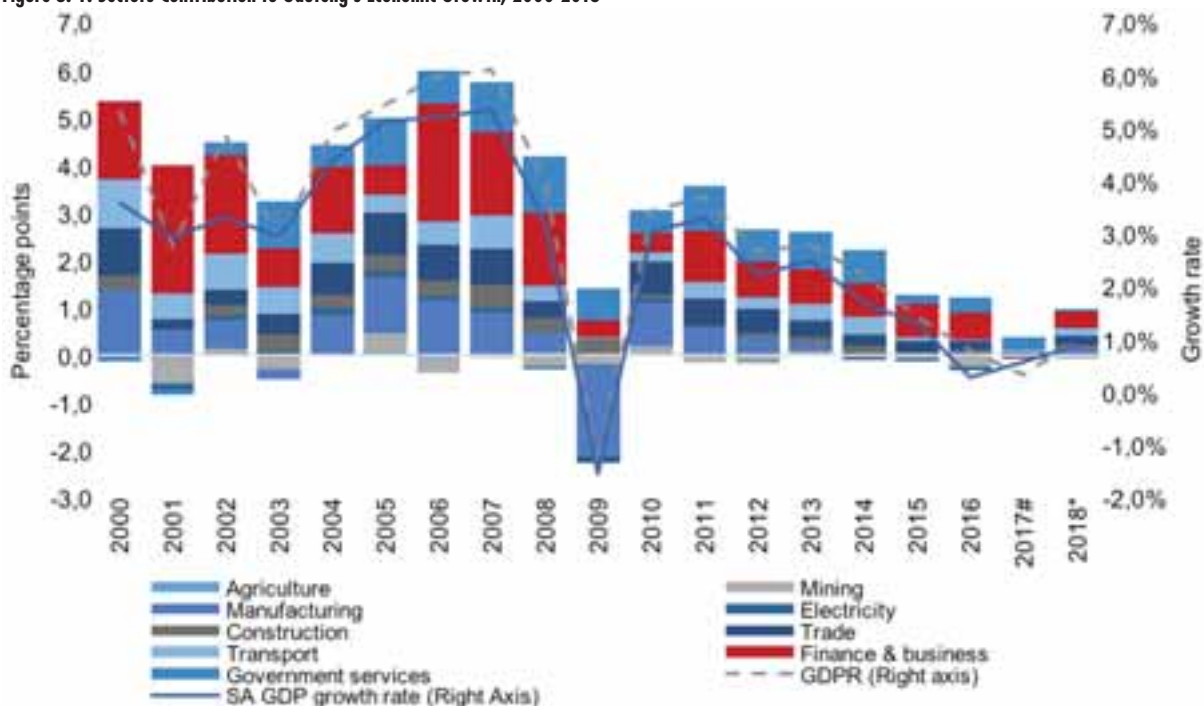
Section 3.2 below looks at economic developments in the province, focusing on components of GDP from the production and expenditure sides, and also examines labour market developments. Section 3.3 focuses on the economic and labour market situation in the province's municipalities. Section 3.4 gives information about some of the work being done to accelerate economic activity along the province's five development corridors.

## 3.2 Gauteng Economic Developments

Whilst slow growth in 2016 was driven by low commodity prices and drought conditions, lacklustre economic growth in 2017 was underpinned by moderate growth in the province's main economic sectors. The tertiary sector, which accounts for over 70 per cent of this activity, was under pressure amid low consumer and business confidence which affected the business and retail trade sectors. Fiscal constraints resulted in limited growth in the government services sector.

### 3.2.1 GDP Growth Rate by Sector

Gauteng's economy has generally grown faster than those of the other provinces and of the country. This can partly be attributed to its status as South Africa's financial hub.

**Figure 3. 1: Sectors Contribution to Gauteng's Economic Growth, 2000-2018**

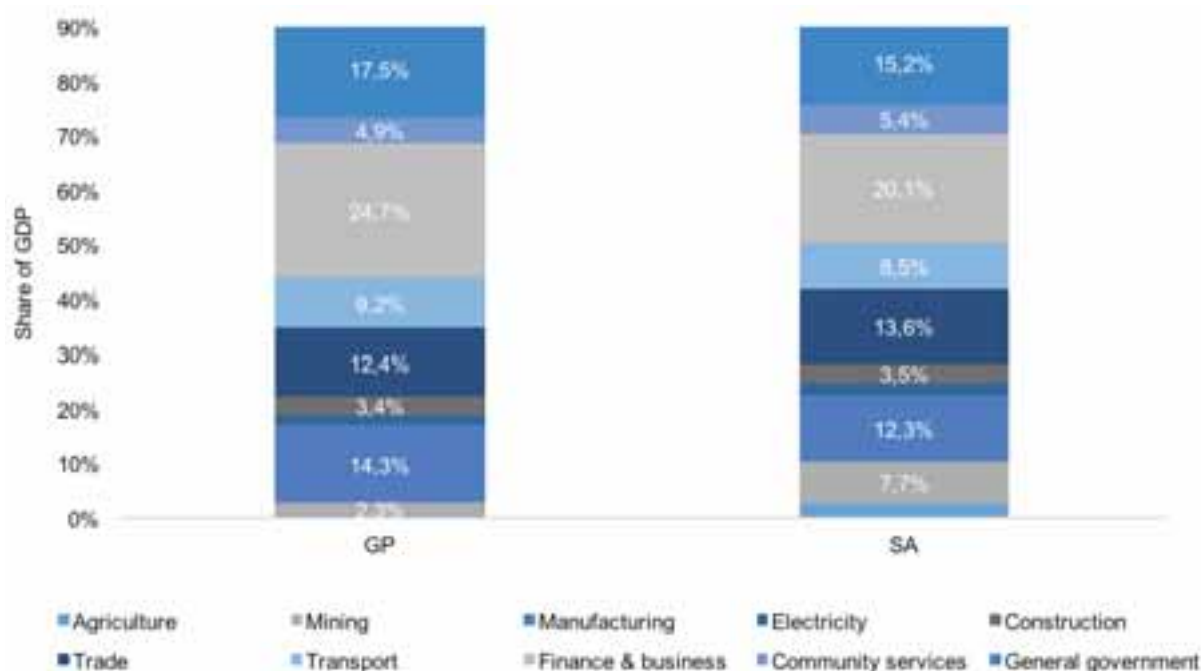
Source: Quantec Easy Data, 2017

Note: \* indicates estimates

The province's growth is driven more by high level services than by the so called "core" sectors such as agriculture, mining, manufacturing and construction. In the past five years, as has been the case with national growth, provincial growth has fallen significantly. Excluding 2009 during the global financial crisis, growth in 2016 and 2017 was the lowest since 1998. As Figure 3.1 shows, the province's economy has grown more robustly than the national economy. This has been driven mainly by the tertiary sector and in particular by finance & business services, trade and government services.

Since the end of 2016, however, the tertiary sector has come under pressure. In the first quarter of 2017, finance & business services contracted by 1 per cent, the first contraction in eight years. Low levels of consumer and business confidence across the South African economy affected the business and retail sectors. Muted activity in finance & business services was driven largely by moderate activity in the banking industry as indicated by modest growth in loans and advances since 2016.<sup>66</sup> Growth in the trade sector was also down, by 1.8 per cent, in 2016 and by 1.2 per cent in the first three quarters of 2017. As a result, the sector contributed proportionally less to provincial economic growth. In 2017, provincial GDP growth is expected to have slowed to 0.3 per cent, a larger decrease than the national figure for the first time since 2003. This is because growth in the sectors that particularly influence the provincial economy was largely flat for most of 2017. The contributions of these sectors to GDP are shown in the figure below.

<sup>66</sup> PWC. (2017). *Balancing Resilience and Growth. South Africa – Major Banks Analysis*. Johannesburg.

**Figure 3. 2: Sectors' Shares of GDP: Gauteng and South Africa, Q3 2017**

Source: Quantec Easy Data 2017

Figure 3.2 compares sectors' shares of GDP for Gauteng and South Africa. Historically, since at least 1996, the finance & business services, manufacturing and government services sectors have played a larger role in the province's economy than in that of the country. This was also the case during the third quarter of 2017, with these sectors jointly contributing more than 55 per cent to the province's economy.

In the first three quarters of 2017, activity in finance & business services, manufacturing and government services was subdued, with general government services declining in these consecutive quarters. The finance & business services sector, the largest in the province's economy, contracted by 1 per cent in the first quarter of 2017 and rose by only 1.3 per cent in the third quarter. Consequently, in both the second and the third quarters of the year Gauteng's economy grew considerably more slowly than the national economy, registering 2 and 1.2 per cent respectively compared to 2.8 and 2 per cent nationally.

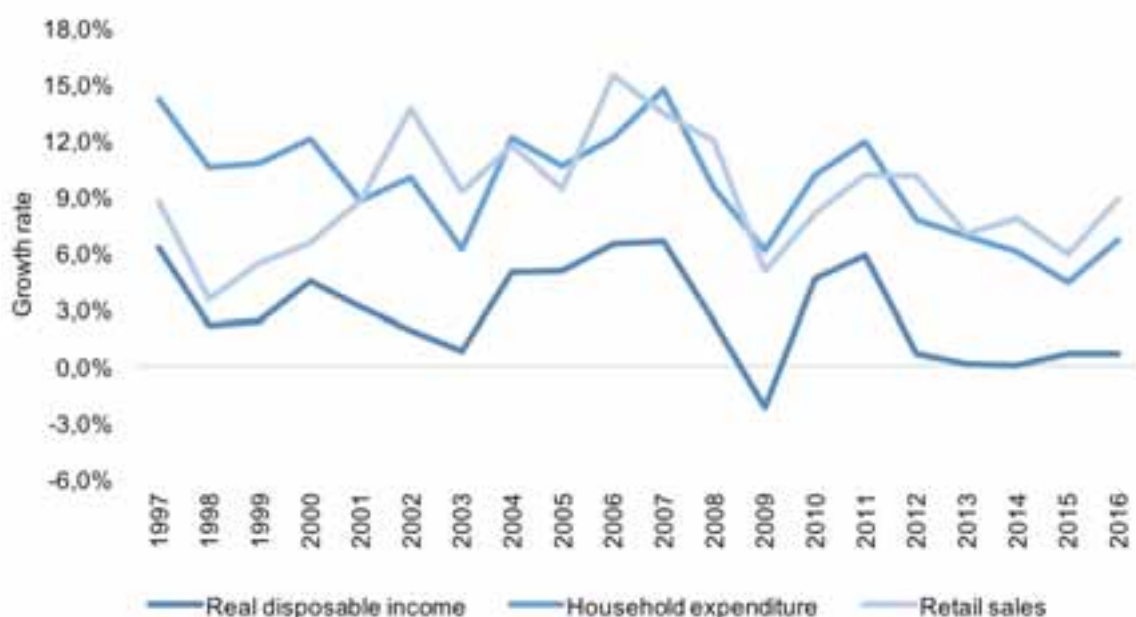
At the national level, in the second and the third quarters the economy benefited from a strong recovery in the primary sector, with mining recording strong growth and double digit growth in agriculture. These sectors account for a higher share of the national economy than that of the province.

It is projected that growth in the province's tertiary sector will improve in 2018, with GDP growth of 1 per cent forecast. However, the extent to which this improvement is sustainable will depend on the political and economic environment as these affect consumer and business confidence. In the general government sector, fiscal constraints will continue to limit government expenditure in 2018. Forecasts suggest that provincial growth will start to pick up pace in 2019 with growth of 1.6 per cent, rising to 2.4 per cent in 2020.

### 3.2.2 Household Consumption Expenditure

At a national level, household consumption expenditure accounts for about 60 per cent of GDP. It is therefore an important determinant of economic growth. Given that Gauteng makes up over 35 per cent of the national economy, household consumption expenditure is an important contributor to the national as well as to the province's economy. Gauteng is home to roughly 4 million households, with a median income of ZAR4 760 in 2015 compared with ZAR3 260 nationally.<sup>67</sup>

<sup>67</sup> Statistics South Africa. (2015). *General Household Survey 2015*. Pretoria.

**Figure 3. 3: Household Consumption Expenditure Patterns: Gauteng, 1997-2016**

Source: IHS Markit Regional eXplora, 2017

Growth in household expenditure accelerated in 2016, resulting in increased retail sales growth. In contrast, growth in real household disposable income was largely flat. This suggests that households have been drawing on savings for consumption and/or borrowing to meet their expenditure needs. The 2015 Quality of Life Survey by the Gauteng City Region Observatory (GCRO) suggests that about 40 per cent of households in Gauteng are in some form of debt.<sup>68</sup> A substantial percentage of these households are in the higher income groups<sup>69</sup>. However, it is of concern that there was a significant increase in debt amongst the lower to middle income household groups. Statistically, lower income groups spend a larger proportion of their income on food than do people in other income brackets.<sup>70</sup> This makes them particularly vulnerable to food inflation which in turn limits their ability to purchase other goods and services.

Given the range of factors that affect household consumption such as low consumer and business confidence levels, the official unemployment rate and weak employment prospects, household expenditure is not expected to have increased during 2017. The only positive development was lower consumer price inflation in that year compared with 2016; this will have provided consumers with some relief.

### 3.2.3 Investment Trends

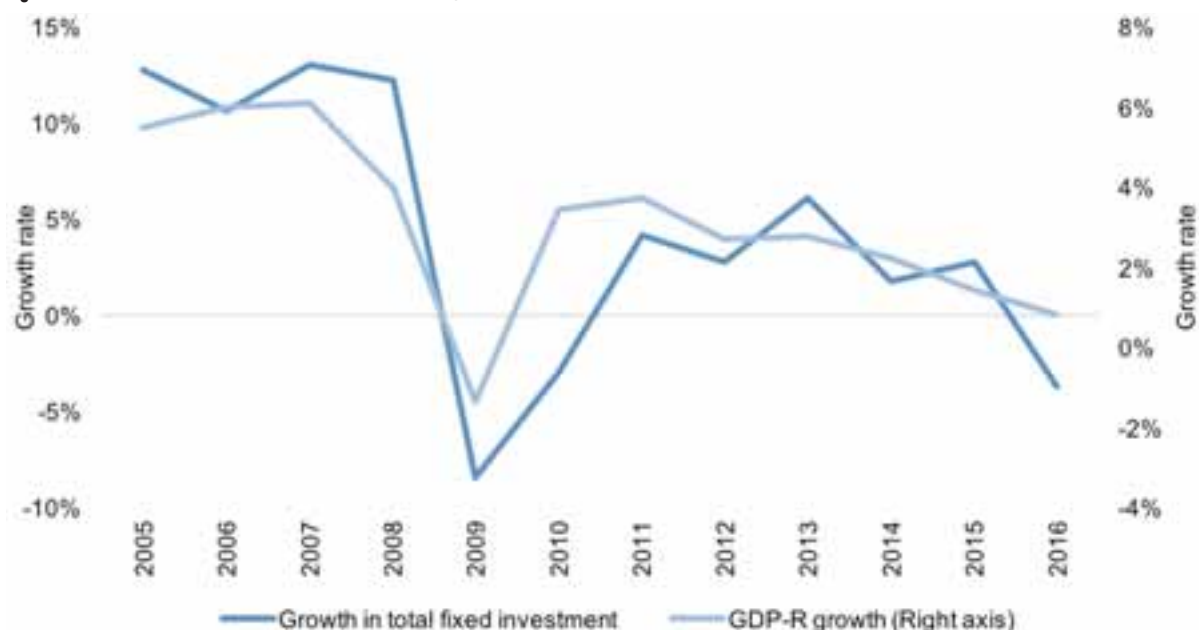
#### Gross Fixed Capital Formation

There is a generally clear relationship between declining fixed investment, particularly by the private sector, and low business confidence. Private investment in the province accounts for about 70 per cent of total fixed investment. Business confidence has been at historically low levels since 2014, reflecting the uncertain economic and policy environment.

<sup>68</sup> Gauteng City Region Observatory. (2015). *Quality of Life Survey 2015*. Johannesburg.

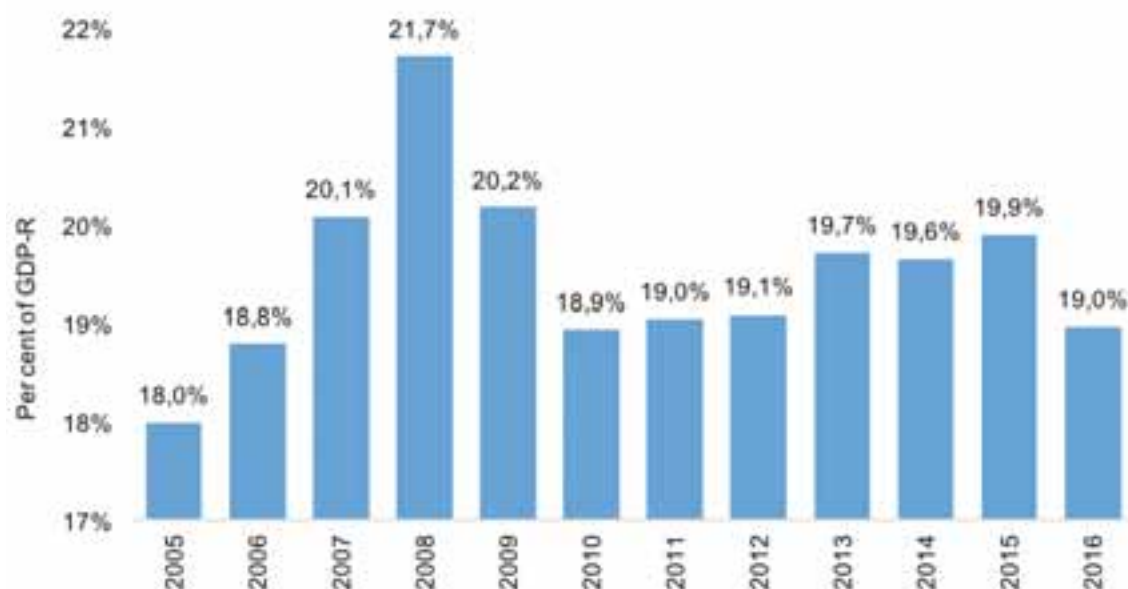
<sup>69</sup> High indebtedness amongst higher income group households can be expected as they are more likely to be in debt due to asset investments.

<sup>70</sup> Statistics South Africa. (2017). *Living Conditions of Households in South Africa. An Analysis of Household Expenditure and Income Data using the Living Conditions Survey 2014/15*. Pretoria.

**Figure 3. 4: Growth in Total Fixed Investment and GDP-R, 2005-2016**

Source: Quantec Easy Data, 2017

Whilst growth in real fixed investment has gradually increased since the global financial crisis, over the past three years it has been low, falling by 3.7 per cent in 2016. Slow growth in fixed investment is consistent with lacklustre economic growth. The province needs higher levels of investment to kick-start economic growth. On the other hand, the prospect of a favourable economic environment and policy certainty is needed to boost business confidence which in turn is necessary to unlock higher levels of investment. Investment is only likely to improve if business confidence improves and uncertainty about the economic and political environment is reduced.

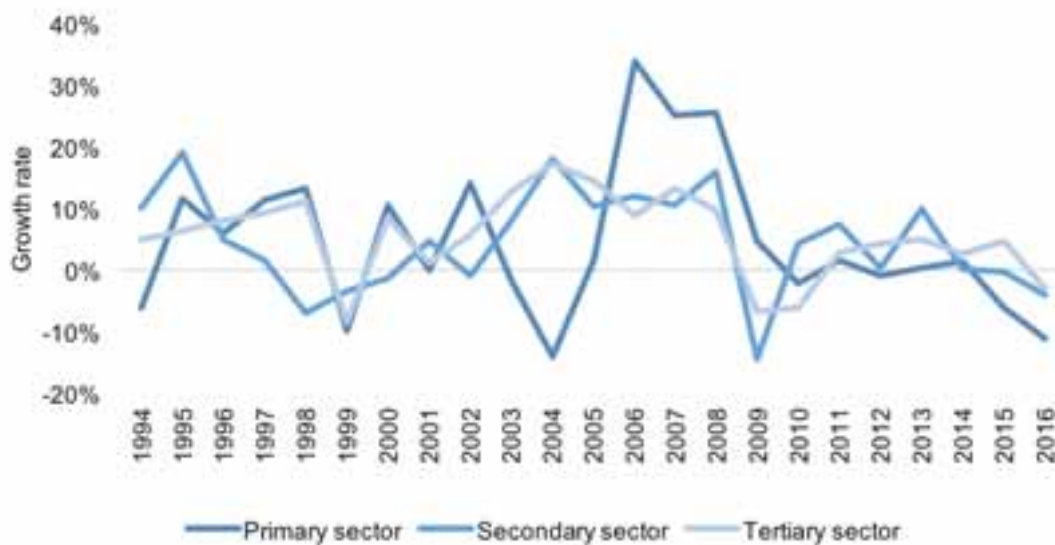
**Figure 3. 5: Fixed Investment as a Percentage of GDP-R, 2005-2016**

Source: Quantec Easy Data, 2017

Since 2010, fixed investment as a percentage of GDP in Gauteng has averaged approximately 19 per cent per year. Estimates suggest that a region with infrastructure backlogs and low economic growth should be spending at least 25 per cent of GDP on capital investment.<sup>71</sup> The National Development Plan (NDP) also advocates this and has targeted an investment ratio of 30 per cent of GDP by 2030.<sup>72</sup> This will not only help to sustain higher levels of GDP growth but will also contribute to achieving the province's employment targets.

<sup>71</sup> National Planning Commission. (2012). *The National Development Plan 2030*. South Africa: Pretoria.

<sup>72</sup> National Planning Commission. (2012). *The National Development Plan 2030*. South Africa: Pretoria.

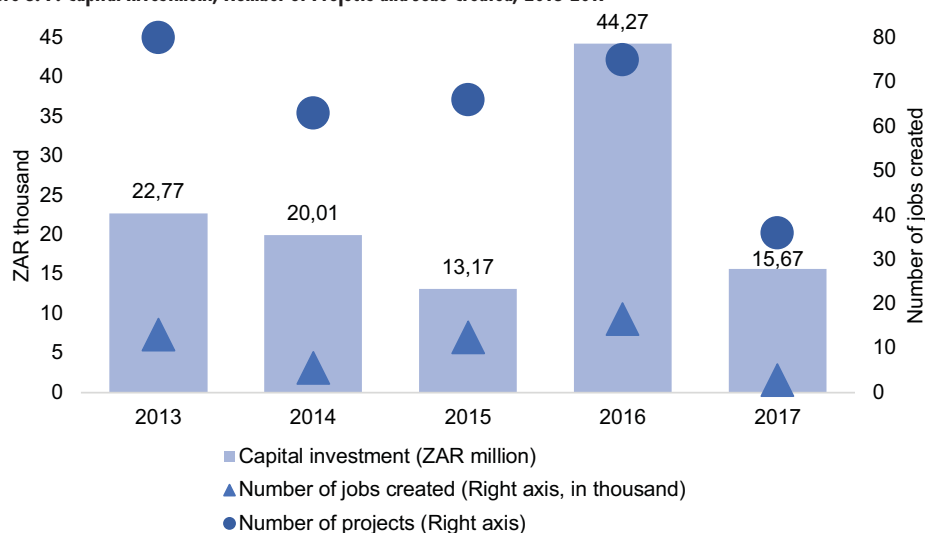
**Figure 3. 6: Growth in Fixed Investment Spending by Sector, 1994-2016**

Source: Quantec Easy Data, 2017

Across sectors, and particularly in the primary sector (agriculture and mining) growth in fixed investment has also declined since 2014. Mining accounts for over 80 per cent of fixed investment in the primary sector, and the decreased investment is in line with the mining sector's decline in output growth. In 2016, real fixed investment in the primary sector contracted the most, by 11 per cent, compared with investment in the secondary and the tertiary sectors which contracted by 4.1 per cent and 3 per cent respectively in that year.

### Foreign Direct Investment (FDI) into Gauteng

In contrast to lacklustre fixed investment growth, between 2013 and 2016 the value of FDI into Gauteng in 2016 was the highest recorded, at over ZAR44 billion. FDI into Africa generally strengthened markedly between 2003 and 2016, with top destinations being Cairo followed by the CoJ, Tangier, Casablanca and Nairobi.<sup>73</sup> The CoJ benefited because of the number of local and multinational companies that are headquartered in Gauteng and of trade with the rest of Africa.

**Figure 3. 7: Capital Investment, Number of Projects and Jobs Created, 2013-2017**

Source: FDI intelligence from the Financial Times, obtained through GGDA, 2017

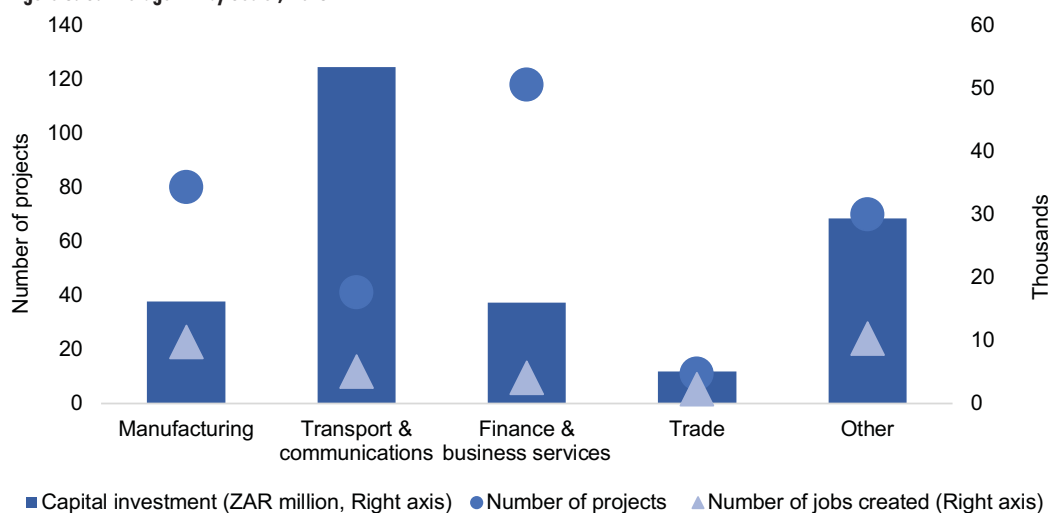
Note: Data for 2017 is to October

<sup>73</sup> BizCommunity. (2017). *Gauteng can be the FDI Hub of Africa*. (Accessed 19th December 2017): [www.bizcommunity.com](http://www.bizcommunity.com).



Between January 2013 and October 2017, 320 FDI projects were recorded in Gauteng. These represented a total capital investment of ZAR115.9 billion and resulted in the creation of 24 400 jobs. Over 80 per cent of the projects were new investments, 11.3 per cent were expansions and 1.9 per cent were co-location<sup>74</sup> projects.

**Figure 3. 8: Average FDI by Sector, 2013-17**



Source: FDI intelligence from the Financial Times, obtained through GGDA, 2017

Note: Data for 2017 is to October

Among the industries, at ZAR53.5 billion transport & communications received the highest FDI in terms of the value of capital investment. However, manufacturing created the most jobs, with over 9 thousand jobs created over the period shown in the figure above. Of 320 FDI projects recorded during this period, 37 per cent (118 projects) were in finance & business services, 25 per cent (80 projects) in manufacturing, 12 per cent (41 projects) in transport & communications, 3 per cent in trade and the rest in 'other' sectors.

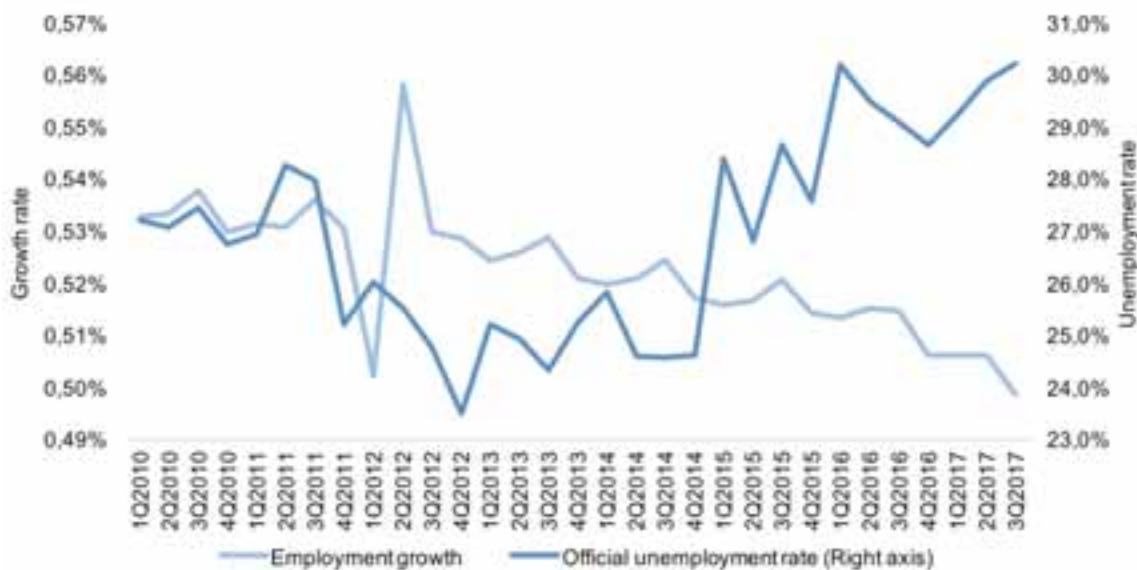
Investment is a critical cornerstone of sustained economic growth. Increased investment in the economy tends to be accompanied by higher economic growth and rising employment opportunities. However, a favourable economic environment that supports consumer and business sentiments is necessary to fuel investment appetite. Low business confidence depresses investment prospects and thus negatively affects economic growth.

### 3.1.4 Labour Market Developments

The present unfavourable economic environment does not inspire business confidence or increase employment. Although a higher share of Gauteng's working-age population is employed than in the country as a whole (53 compared with 43 per cent), employment growth in the province has not been sufficient to reduce the high unemployment rate which remains one of Gauteng's main challenges.

<sup>74</sup> Co-location facilities provide equipment, space, physical security, storage and networking equipment, amongst other things, which are available to businesses for rental. A business can also rent servers and other computing hardware.

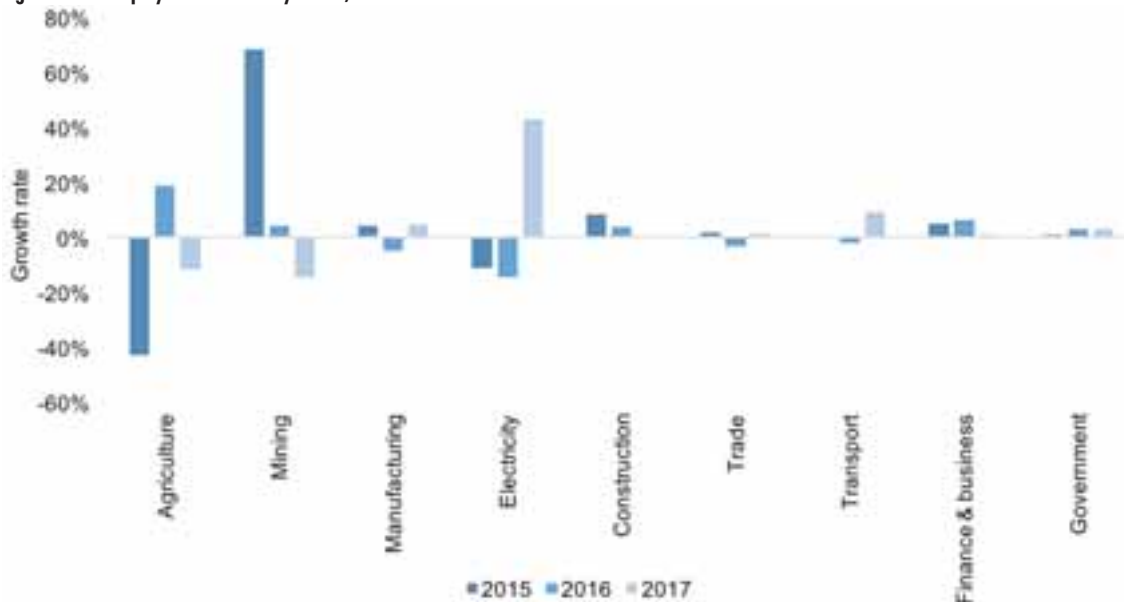


**Figure 3. 9: Employment Growth and Official Unemployment Rate, Q1 2010-Q3 2017**

Source: Quantec Easy Data, 2017

Figure 3.9 shows that growth in employment in the province has been declining since the third quarter of 2012. At the same time, the unemployment rate has increased rapidly, reaching its highest level in the third quarter of 2017 (30.2 per cent). Using the expanded definition, which includes discouraged job seekers, the unemployment rate in the third quarter was 33.3 per cent.

Unemployment in the province has two aspects. First is the connection with the unfavourable economic and business environment which has limited economic growth. Second is the issue of rapid population growth. Largely due to in-migration, Gauteng has the fastest-growing population of all the provinces. This leads to the increase in its labour force. When this grows faster than the pace at which the economy can create jobs, it is inevitable that unemployment will rise. For example, between the third quarters of 2008 and 2017 the province's labour force grew by over 20 per cent whilst employment growth was only 7.7 per cent.<sup>75</sup>

**Figure 3. 10: Employment Growth by Sector, 2015-2017**

Source: Quantec Easy Data, 2017

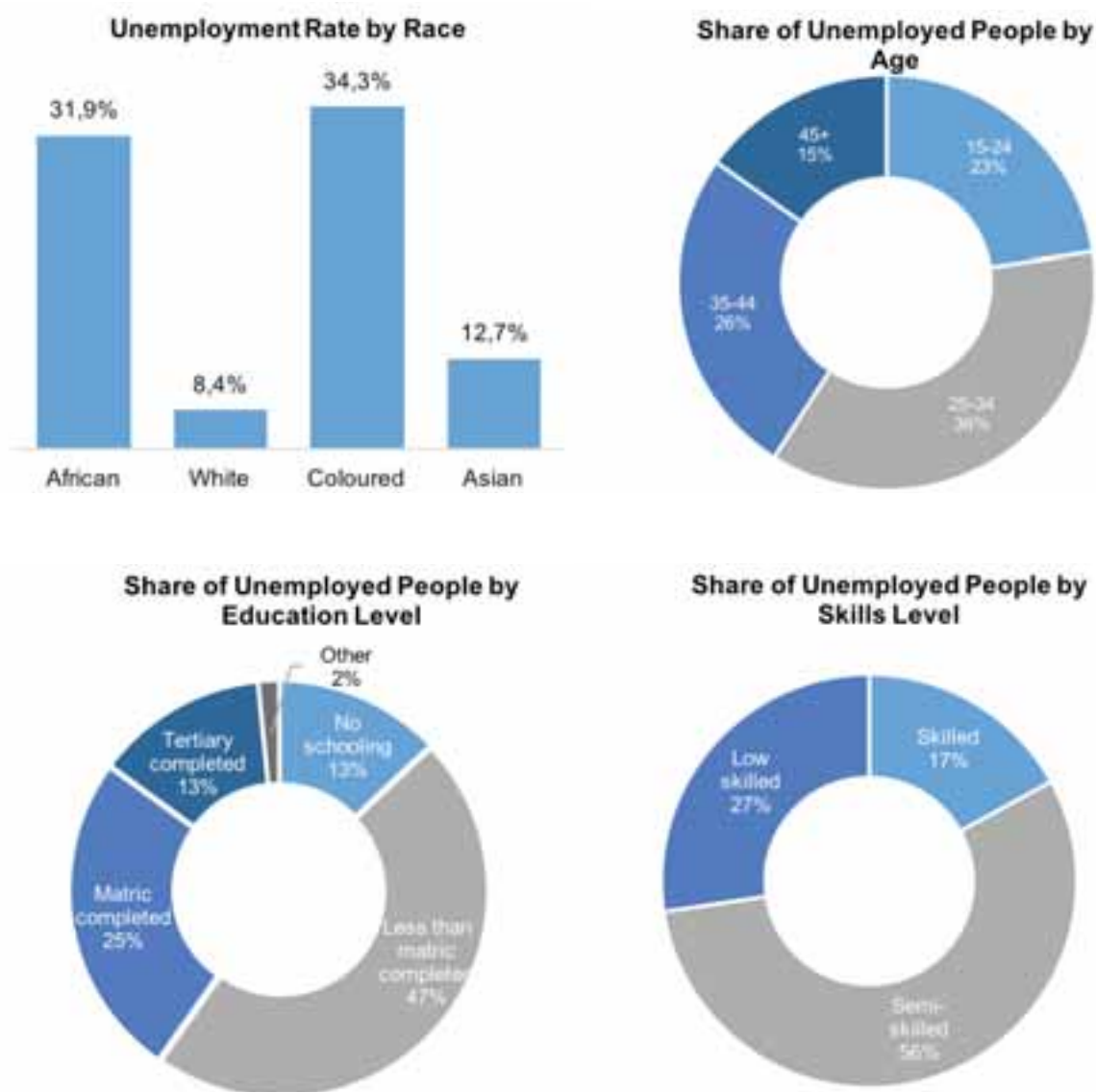
Note: Data for 2017 is until the third quarter

<sup>75</sup> Quantec Research. (2017). EasyData Regional Database. Pretoria.

Especially in 2016, employment growth has been subdued across all sectors. Sectors in which employment growth contracted in that year were manufacturing (-5 per cent), electricity (-14.4 per cent), trade (-3.1 per cent) and transport (-1.8 per cent). Sectors in which employment grew were construction (3.7 per cent), finance & business services (6.3 per cent), government services (3.1 per cent) and agriculture (18.8 per cent). Employment growth in agriculture was coming off a low base as employment had declined markedly (-42.9 per cent) in the previous year.

For the first three quarters of 2017, employment decreased by 0.8 per cent in finance & business services and remained unchanged in government services. There were some improvements in the trade, manufacturing, transport and electricity sectors. This subdued employment growth is, in part, indicative of the low economic activity in the province, particularly in 2016 when low commodity prices and drought conditions put the economy under pressure.

**Figure 3. 11: Unemployment Trends in Gauteng, 2016**



Source: Quantec Easy Data, 2017.

Figure 3.11 shows the unemployment rates across the province's population groups and the share of unemployed people by age, education and skill levels in 2016. High unemployment rates were particularly experienced by the Coloured population group; among age groups, people aged 25-34 years (youth population) had the highest unemployment rate; and in terms of education and skill levels, people without matric and who are least skilled had the highest unemployment rates.

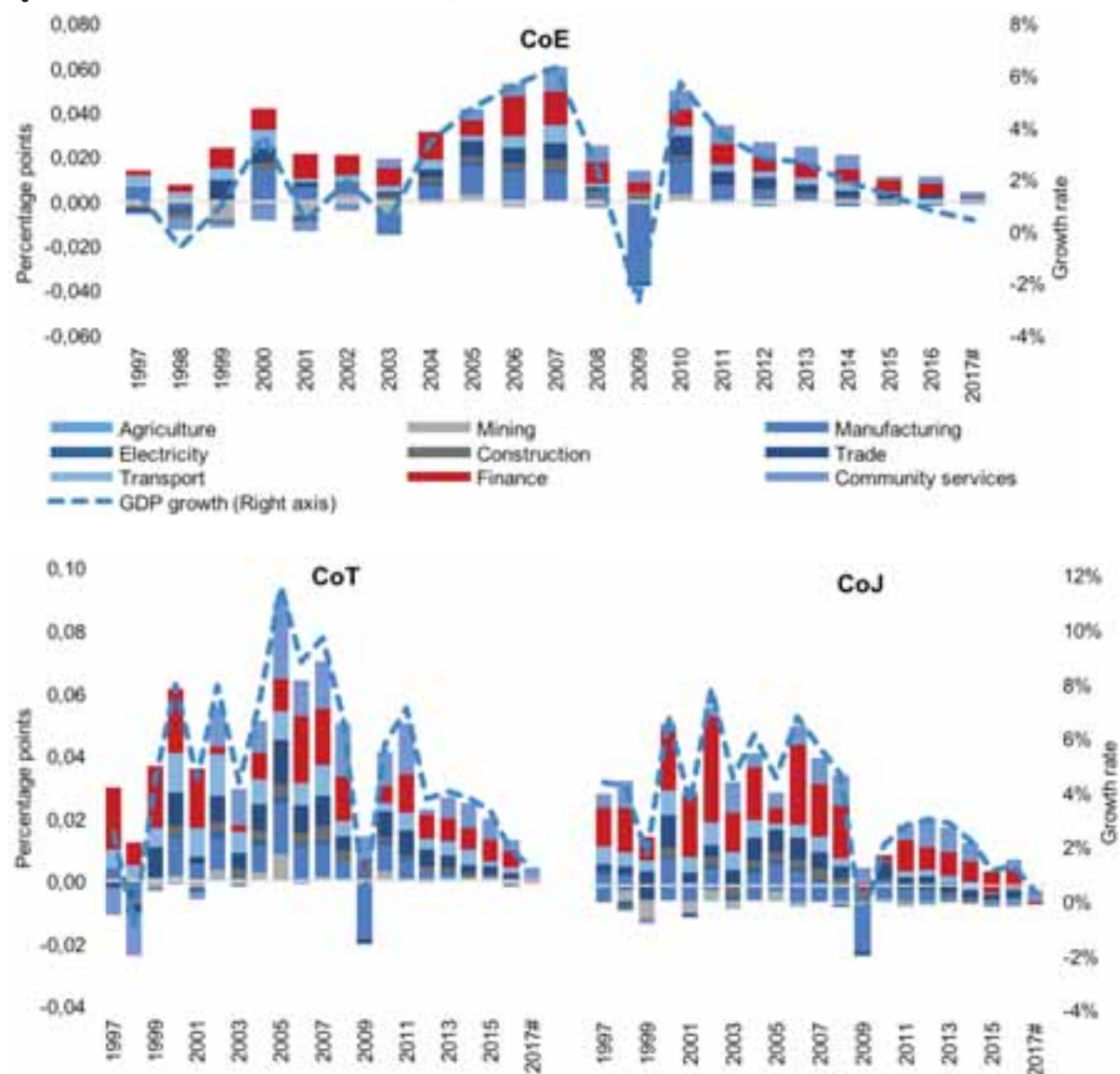
Through its TMR and Tshepo 500 000 programmes, Gauteng Provincial Government (GPG) remains committed to policies aimed at improving young people's chances of finding employment. Tshepo 500 000 has been relatively successful and has, since 2015 placed nearly 460 000 young people in training or jobs.<sup>76</sup> The programme is now called Tshepo 1million and has been expanded to target 1 million young people. It is hoped that this initiative, a partnership with the Harambee Youth Employment Accelerator and more than 40 major private sector corporations<sup>77</sup>, will have a significant impact on youth unemployment in the province.<sup>78</sup>

### 3.3 Municipality Economic Developments

#### 3.3.1 GDP Growth Rate by Sector

Municipalities' GDP growth, and especially in the metros, generally mimics that of the province. This is because metros are large and are often centres of economic activity within the province. However, within metros and districts each municipality tends to have its own comparative advantage in relation to the sectors that drive economic activity. The CoE, located in the Eastern Corridor, according to the TMR programme, is the province's manufacturing hub. Economic activity in the CoT, within the Northern Corridor, is driven mainly by the government services sector whilst the CoJ, within the Central Corridor, is driven by the finance & business services sector. Amongst the district municipalities, the economy of Sedibeng, at the centre of the Southern Corridor, is dominated by manufacturing while the West Rand, in the Western Corridor, is driven by the mining sector.

Figure 3. 12: Sectors' Contribution to GDP Growth of Metros, 1997-2017



Source: IHS Markit Regional eXplora, 2017.

Note: # indicates estimates.

<sup>76</sup> Gauteng Provincial Government. (2018). *State of the Province Address Delivered by Gauteng Premier David Makhura*. Gauteng Provincial Legislature. Johannesburg.

<sup>77</sup> Gauteng Provincial Government. (2018). *State of the Province Address Delivered by Gauteng Premier David Makhura*. Gauteng Provincial Legislature. Johannesburg.

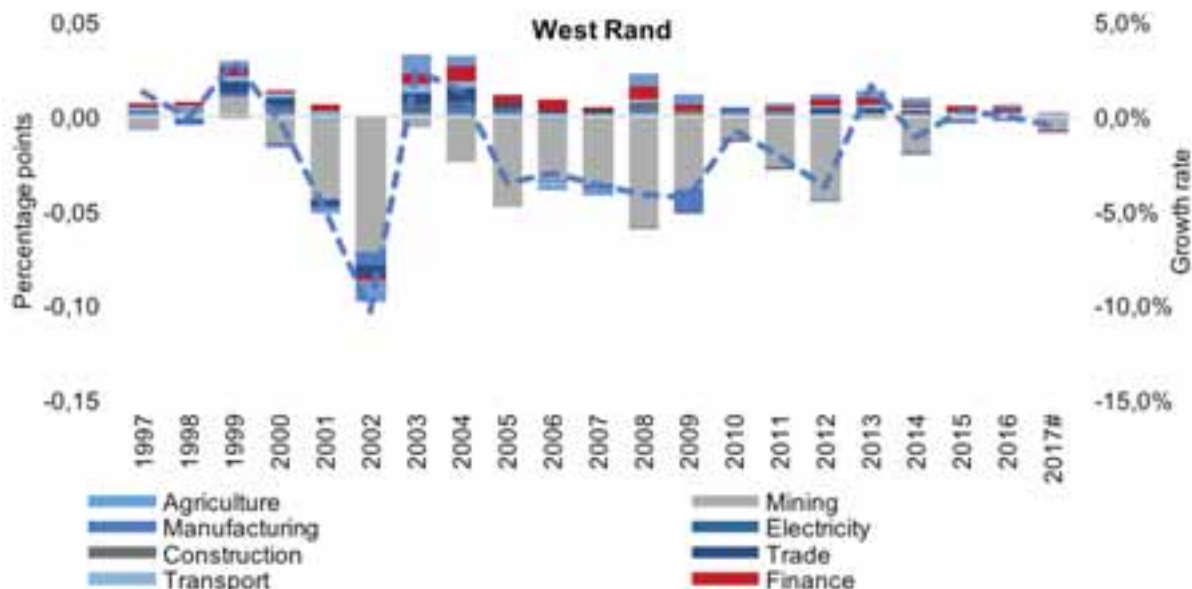
<sup>78</sup> Office of the Premier. (2017). *Tshepo 1million. Programme Taking Points*. Johannesburg.

Since 2012, in line with the performance of the provincial economy, economic growth in the metros has decelerated. This slow pace of economic growth extended into 2016 and estimations are that it slowed further in 2017. In the CoE, GDP growth decelerated to 0.8 per cent in 2016 from 1.4 per cent in 2015. This was partly driven by poor growth in the transport, trade and construction sectors which offset the relatively better growth in the metro's dominating sectors such as manufacturing, finance & business and government services. In 2017, growth in the CoE is estimated to have slowed to 0.4 per cent, resulting from a decline in output in the manufacturing and trade sectors.

A similar pattern prevails in the CoT where growth slowed to 1 per cent in 2016 compared with 2.2 per cent in 2015. Subdued growth in manufacturing, trade, finance & business and government services, which together account for over 70 per cent of the CoT's economic activity, was the main reason for slow economic growth in 2016. Growth in 2017 is anticipated to have slowed further to 0.4 per cent due to a contraction in manufacturing and finance & business services.

In contrast, GDP growth in the CoJ increased in 2016, from 1.1 per cent in 2015 to 1.3 per cent. Growth in sectors including finance & business services, government, manufacturing, trade and transport improved, offsetting the impact of the declines in mining, agriculture and electricity. The CoJ attracts more private sector and foreign investment than do the other metros. This is in part because it is the province's and the country's most populous and economically important city.<sup>79</sup> However, in 2017 the metro's economy is estimated to have slowed to 0.3 per cent, largely driven by reduced output in the finance & business services sector.

Figure 3. 13: Sectors' Contribution to GDP Growth of the District Municipalities, 1997-2017



Source: IHS Markit Regional eXplora, 2017.

Note: # indicates estimates

Growth also slowed in the district municipalities in 2016 and, in the West Rand, contracted. Sedibeng's economy is more diversified than the West Rand's. In 2016, manufacturing made up about 24.4 per cent, finance & business 21.5 per cent and government services 22.2 per cent. The West Rand is largely driven by mining which contributes over 30 per cent of municipality's economy. Finance & business (13.9 per cent) and government services (18.3 per cent) are also prominent although they contribute proportionally less to the district's economic activity than in Sedibeng. The trade sector contributes roughly 11 per cent in both Sedibeng and the West Rand.

The West Rand's heavy reliance on the mining sector has resulted in a contraction in its economy in most of the years between 1997 and 2017. In 2016, mining declined significantly in all parts of the province, driven largely by the commodity price slump. This resulted in the West Rand registering zero growth in 2016 and its economy is estimated to have contracted by 0.5 per cent in 2017. Sedibeng's more diversified economy grew by 0.1 per cent in 2016, down from 0.8 per cent in 2015, and is estimated to have increased to 0.3 per cent in 2017.

<sup>79</sup> In 2016, the CoJ had a GDP of around ZAR480 billion and contributed about 16 per cent to the national economy; the CoE and the CoT contributed approximately 7 and 10 per cent respectively.

The province's districts, with their smaller economies and populations, attract less investment than do the metros. They are also on the periphery and are less urbanised than the metros. The TMR programme aims to revive and develop these areas, with a particular focus on reviving mining towns and diversifying the West Rand's economy whilst strengthening and revitalising the dominating sectors in the Sedibeng region (see Section 3.4 for detailed analyses).

### 3.3.2 Household Income and Expenditure

The percentage of households in Gauteng falling within the lowest income level group (roughly between ZAR0 – ZAR86 000 per annum)<sup>80</sup> has decreased over the years. In 1996, households in the lowest income categories accounted for about 69 per cent of total households in the metros. By 2016, this had improved to approximately 40 per cent. Similarly, in the districts the share of low income households declined from over 75 per cent of total households in 1996 to about 48 per cent in 2016. These improvements can be attributed to the better economic environment post-1994 which enabled job creation and business opportunities.

**Figure 3. 14: Growth in Real Household's Disposable Income: Metros and Districts, 1997-2016**



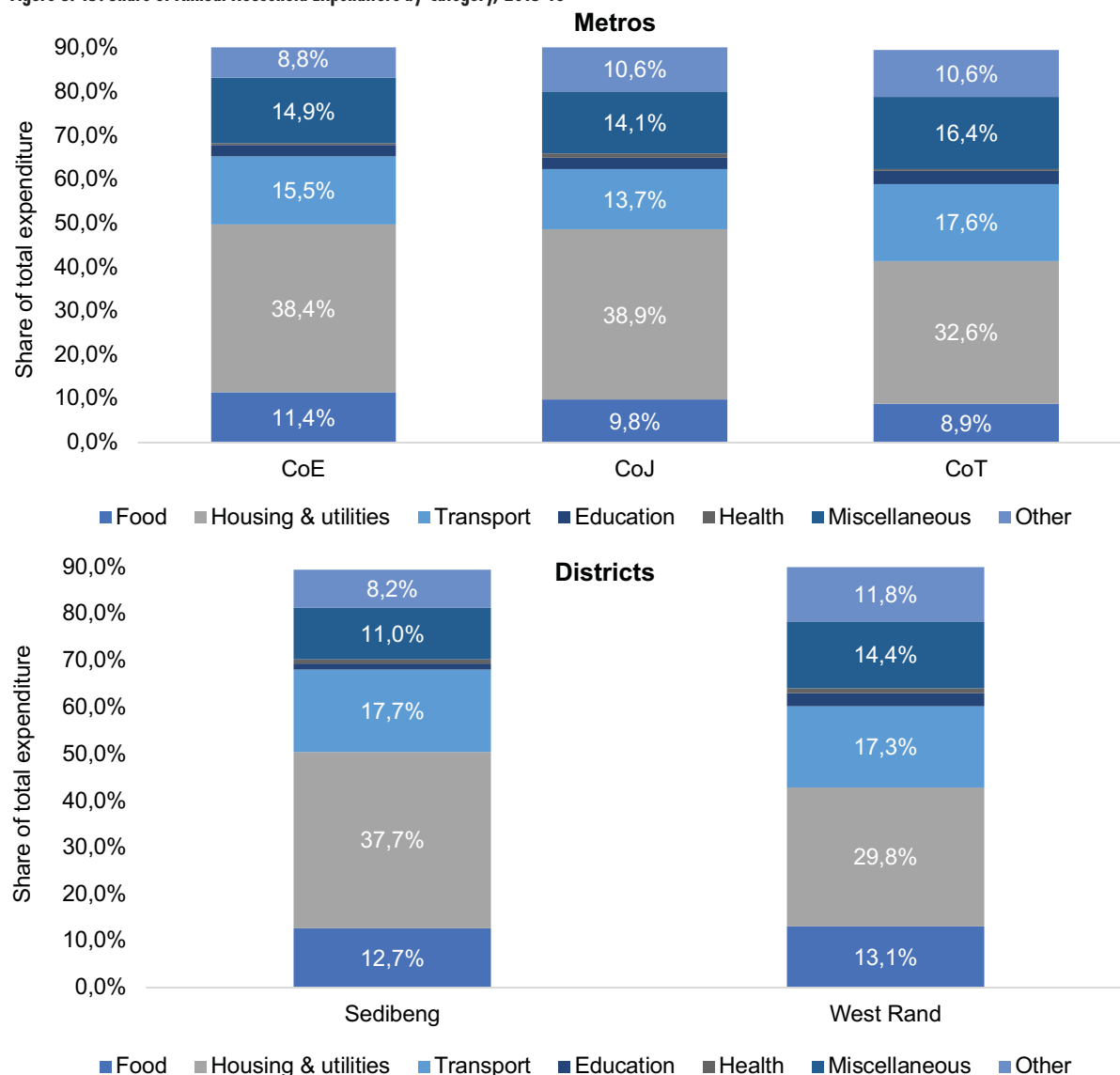
Source: IHS Markit Regional eXplora, 2017.

Although the share of households in the lowest income levels has decreased over the years, overall growth in household income levels has slowed, particularly since 2011. In 2016, growth in household disposable income contracted in the CoT although it increased in the CoE and the CoJ. Amongst the districts, growth in disposable income increased in the West Rand but decreased in Sedibeng in 2016. In municipalities where growth in real disposable income increased, this is likely to have been driven by low base effects or the lagged impact of relatively low consumer price inflation in 2015.

There is a close relationship between household income and expenditure. The IHS Markit's Regional eXplora database shows that growth in annual total expenditure accelerated in municipalities where real disposable income increased and that it slowed in municipalities where there was a drop in disposable income growth. In the CoE and the CoJ, total annual expenditure grew by 9.1 and 7.1 per cent respectively in 2016 from 4.8 and 3.7 per cent in 2015. In the same period, CoT total annual expenditure slowed to 3.6 per cent from 4.4 per cent. There were similar trends in the districts. The West Rand experienced annual growth in total expenditure of 9.2 per cent in 2016, up from 5.9 per cent in 2015. In Sedibeng in the same period, total annual total expenditure grew marginally to 7.3 from 7.2 per cent.

<sup>80</sup> BusinessTech. (2016). *How South Africa's Super-Rich Spend their Cash vs the Poor*. (Accessed on 6 January 2018): [www.businesstech.co.za/news/banking](http://www.businesstech.co.za/news/banking).



**Figure 3. 15: Share of Annual Household Expenditure by Category, 2015-16**

Source: Quantec Easy Data, 2017 (based on Stats SA's latest available Income and Expenditure survey).

An examination of expenditure by category shows that households in the province's municipalities spend the largest share of their income on housing & utilities<sup>81</sup>, followed by transport, education and food. Amongst the metros, the share of expenditure on housing & utilities was particularly high in the CoE and CoJ and in Sedibeng amongst the districts. Housing & utilities, transport, education and food account for over 50 per cent of the consumer price index (CPI) basket, making households significantly vulnerable to inflation, particularly administered, transport and food prices.

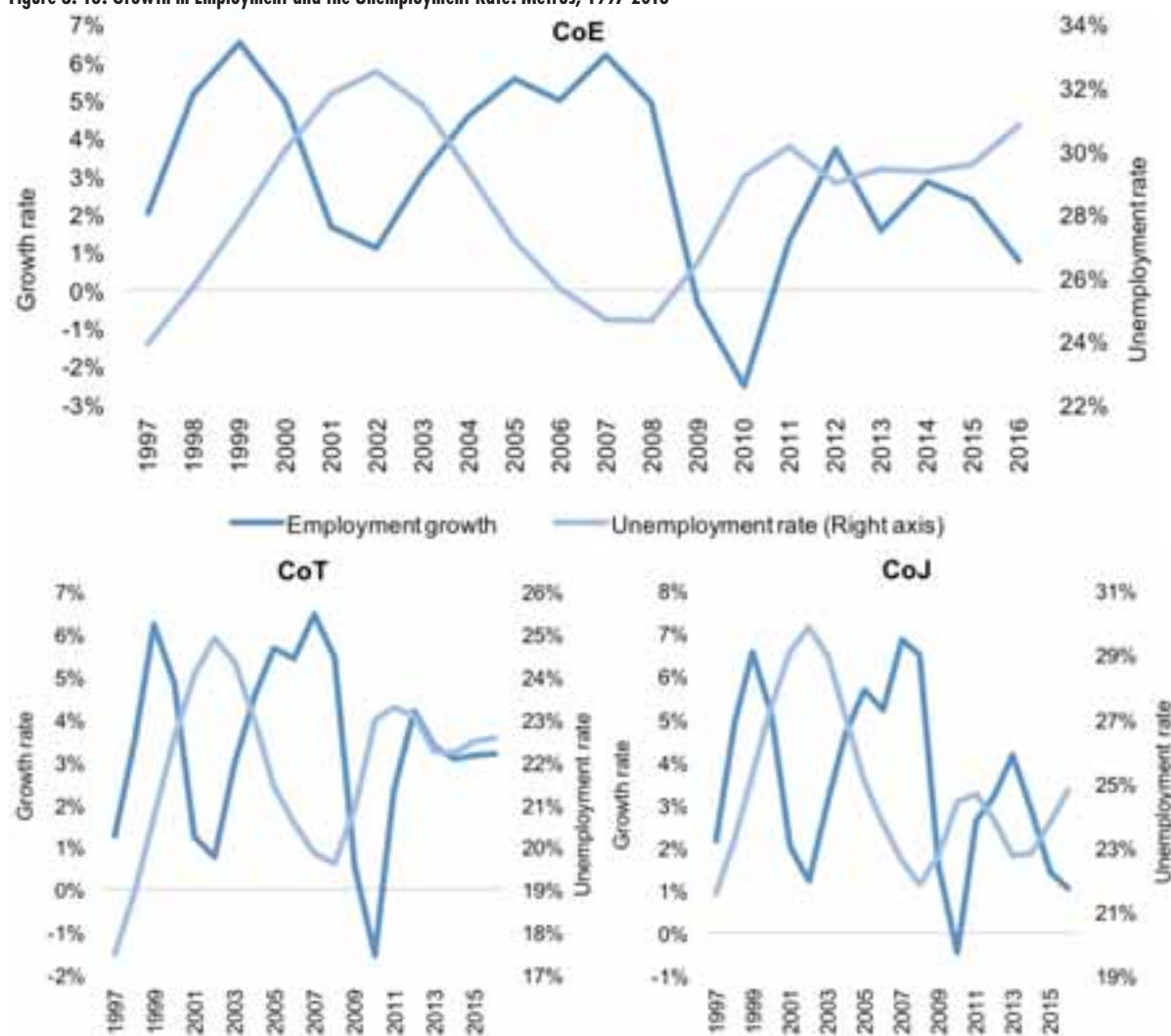
Whilst it may seem that household disposable income grew in 2016 leading to growth in total consumption expenditure, this may not be the case. Household incomes and thus expenditure remained under pressure, particularly in 2016. This was mainly because of consumer price inflation, a moderation in salary payments amid high unemployment, low consumer confidence and lacklustre economic activity. Household incomes and consumption expenditure may have improved in 2017 although, because of tough economic conditions, not significantly.

<sup>81</sup> This category includes items such as housing rental, owners' equivalent rent, maintenance & repairs, water and other services, electricity and other fuels.

### 3.3.3 Labour Market Developments

Particularly since 2012 and consistent with the generally weak economic performance, the labour market in the province's municipalities has been weak. Furthermore, the labour markets in the municipalities and especially in the metros include many migrants seeking opportunities in urban areas. This is not necessarily negative, as skilled migrants can contribute positively to economic activity. However, if the economy does not grow sufficiently to accommodate the increased labour force this can increase unemployment.

Figure 3. 16: Growth in Employment and the Unemployment Rate: Metros, 1997-2016

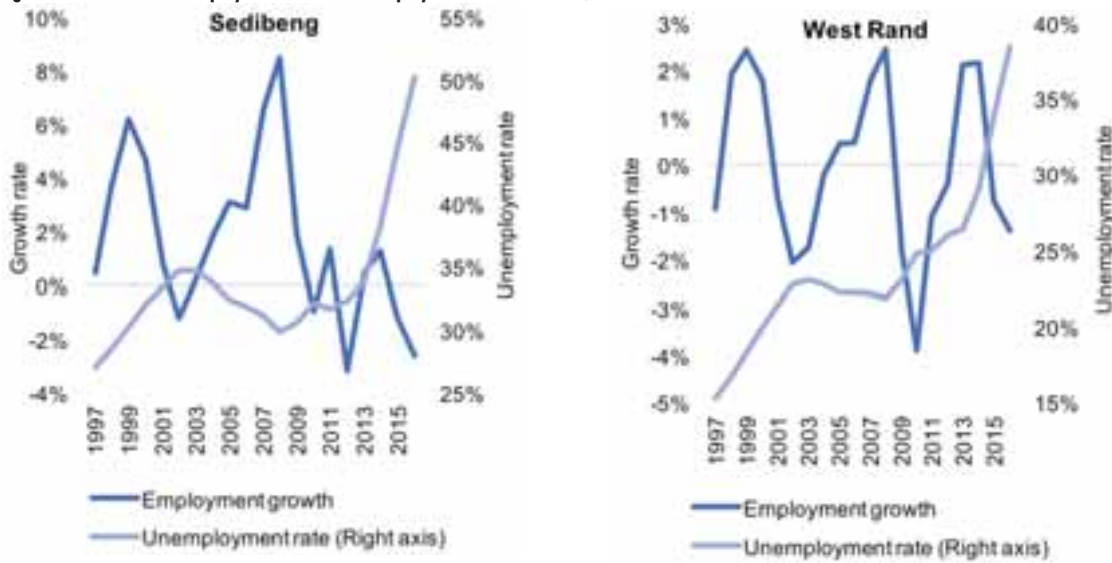


Source: IHS Markit Regional eXplora, 2017.

As is the case with trends at national and provincial levels, growth in employment has slowed significantly in the province's municipalities and has been particularly steep in the CoJ where it fell to 1.1 per cent in 2016 from 1.4 per cent in 2015 and 2.9 per cent in 2014. The extent of the decrease in employment growth is in contrast to the improved GDP growth in 2016, indicating that the growth rate was not sufficient to absorb those seeking employment. This was also indicated by the significant increase in the unemployment rate in 2016.

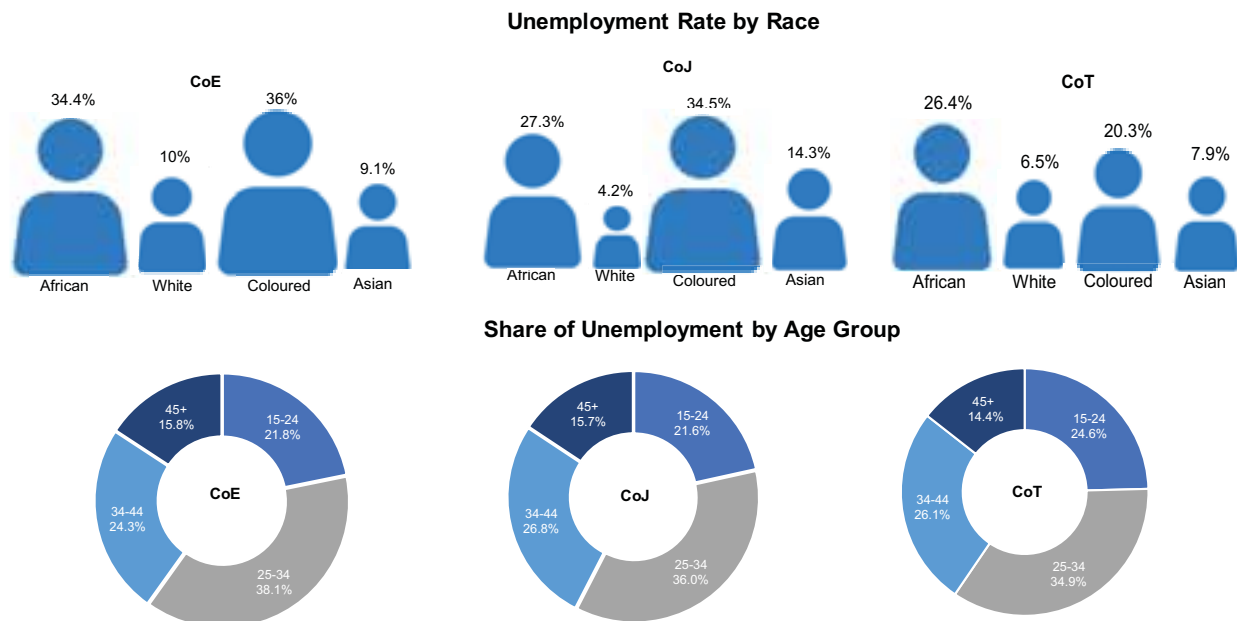
Employment growth also fell in the CoE, from 2.4 per cent in 2015 to 0.8 per cent in 2016. The CoT was the only metro where growth in employment remained unchanged, at 3.2 per cent, in 2016. The unemployment rate between 2015 and 2016 in the CoT changed marginally from 22.5 to 22.6 per cent.



**Figure 3. 17: Growth in Employment and the Unemployment Rate: Districts, 1997-2016**

Source: IHS Markit Regional eXplora, 2017.

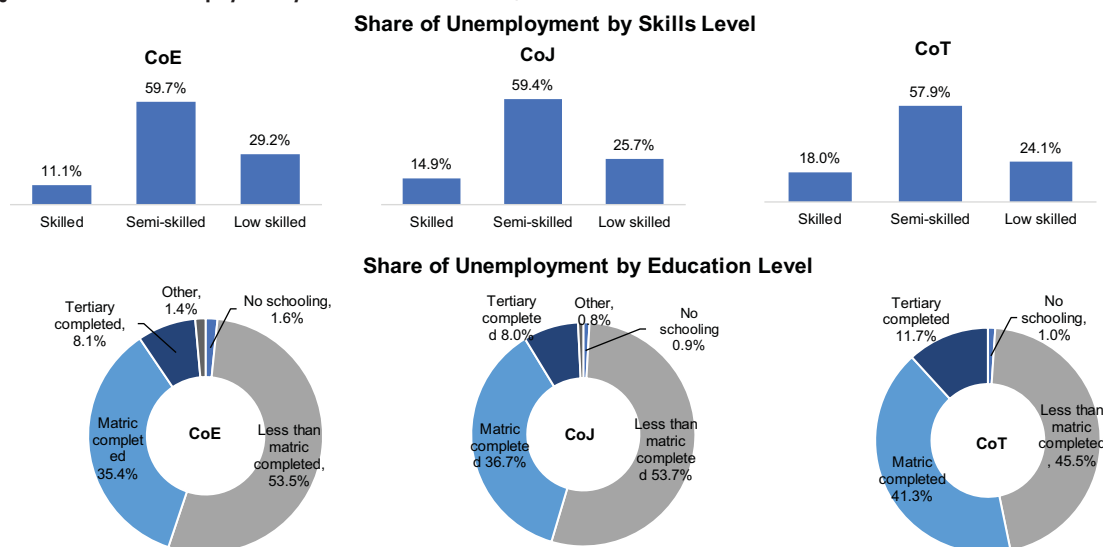
In both Sedibeng and the West Rand, growth in employment decreased in 2016, falling to -2.6 per cent in Sedibeng. The district also had the highest unemployment rate in 2016, at 50.2 per cent, compared with 38.5 per cent in the West Rand. This is of particular concern as both districts have large youth populations (as shown in Chapter 4).

**Figure 3. 18: Unemployment Rate by Race and Share of Unemployment by Age Group, 2016<sup>82</sup>**

Source: IHS Markit Regional eXplora and Quantec Easydata, 2017.

Unemployment patterns in the metros show that the unemployment rate was particularly high among the Coloured and African population groups. The unemployment rate for the Coloured population group was highest in the CoE and CoJ. Young people aged 15-24 and 25-34 made up the highest proportion of the unemployed, highlighting the problem of youth unemployment.

<sup>82</sup> Data for Figures 3.18 and 3.19 were available for the metro municipalities but not for district municipalities.

**Figure 3. 19: Share of Unemployment by Skills and Education Levels, 2016**

Source: Quantec Easydata, 2017

Amongst the metro municipalities, the share of unemployed people who are semi- or low-skilled is higher than the share of unemployed skilled people; and the share of unemployed people with no tertiary qualification is higher than those with tertiary education.

### 3.4 Activities Driving Economic Opportunities in the Gauteng Development Corridors

In the 2015 State of the Province Address (SoPA), Gauteng Premier, Honourable David Makhura announced the introduction of five development corridors each with distinct industries and comparative advantages.<sup>83</sup> This initiative falls under the broader GPG programme of TMR which is aligned with the NDP: Vision 2030. The projects relating to the corridors are a collaborative effort between national, provincial and local governments, state-owned entities and private sector institutions to address high unemployment, poverty and inequality through sustained economic growth, infrastructure development and jobs.<sup>84</sup>

The corridors are the Central, Eastern, Northern, Western and the Southern Development Corridors. This section describes some of the work being done in the corridors as well as work that has already been carried out in developing them.<sup>85</sup>

#### 3.4.1 The Central Corridor

The Central Development Corridor is anchored around the CoJ. Its distinctive industries include finance & business services, information and communications technology (ICT) and pharmaceuticals. Projects that have taken place along this corridor are mainly infrastructure building projects and include:

- The GPG's Kopanong Precinct which will contribute towards revitalising the CoJ. The project, which is estimated to cost R7.8 billion, has been registered as a public-private partnership with National Treasury. The pre-feasibility study has been completed.<sup>86</sup>
- The development of Steyn City: this is in progress, with the launch of the first phase taking place in March 2015.<sup>87</sup> Steyn City is a parkland residence of 2 000 acres situated at the edge of Sandton and linking Fourways to Lanseria and Broadacres to Midrand.<sup>88</sup> The project has already generated economic benefits including employment opportunities and improved road infrastructure.
- Waterfall Mall of Africa in Midrand: this was officially launched in April 2016. The Mall is the largest single-phase shopping centre in the Southern Africa region and features environmentally sustainable technologies.<sup>89</sup> When it opened, it was estimated that 4 500 jobs had been created.<sup>90</sup>

<sup>83</sup> Office of the Premier. (2016). Speech: *State of the Province Address by Gauteng Premier Honourable David Makhura*. Gauteng Provincial Legislature. Johannesburg.

<sup>84</sup> Gauteng Provincial Government. (2016). *Progress Report on the Implementation of the TMR Report*. Johannesburg.

<sup>85</sup> The analysis is based on the various reports and presentations available and accessible at the time of the research. It may not include all of the work and initiatives that have been done to date.

<sup>86</sup> Gauteng Infrastructure Financing Agency. (2017). *Kopanong Precinct Project*. (Accessed 09 January 2018): <http://gifa.co.za/portfolio-view/kopanong-precinct-project/>

<sup>87</sup> Office of the Premier. (2016). Speech: *State of the Province Address by Gauteng Premier Honourable David Makhura*. Gauteng Provincial Legislature. Johannesburg.

<sup>88</sup> Dragon Construction. (2018). *Steyn City*. (Accessed on 10 January 2018): <http://www.dragonconstruction.co.za/Projects/steyn-city/>

<sup>89</sup> Office of the Premier. (2016). Speech: *State of the Province Address by Gauteng Premier Honourable David Makhura*. Gauteng Provincial Legislature. Johannesburg.

<sup>90</sup> Business Report. (2016). *Mall of Africa is Growth Catalyst*. (Accessed on 10 January 2018): <https://www.iol.co.za/business-report/economy/mall-of-africa-is-growth-catalyst-2015533>

### 3.4.2 The Eastern Development Corridor

The Eastern Development Corridor is located around the CoE, the hub of manufacturing, logistics and transport industries. The largest project is the establishment of the Aerotropolis, aimed at revitalising manufacturing, aviation, transport and logistics industries linked to the OR Tambo International Airport.<sup>91</sup> The Aerotropolis Master Plan has been approved. Other projects in which implementation has begun include:

- The Passenger Rail Agency of South Africa's (PRASA) roll-out over 7 200 new rolling stock units, with an estimated investment of ZAR123 billion over 20 years. The aim of this project is to transform Metrorail services and public transport as a whole.
- With the private sector, the CoE is taking initiatives to build an International Trade Centre in Rhodesfield, an Aviation Simulation and Training Centre and the Green Reef Development.<sup>92</sup> Together, these projects are estimated to cost ZAR102 billion.

### 3.4.3 The Northern Development Corridor

This is anchored around the CoT, the country's administrative capital and the hub of the automotive sector, research, development, innovation and knowledge-based economy. Projects underway include:

- BMW's ZAR6 billion expansion of its Rosslyn plant to produce new models for the domestic and export markets. Towards the end of 2017, the car manufacturer announced a further ZAR160 million investment in its manufacturing plant in order to increase production capacity and speed and to improve flexibility of the production line.<sup>93</sup>
- The ZAR3 billion investment in its Silverton plant, announced by the Ford Motor Company in 2017, to expand its production capacity to meet growing local and international demand for one of its models.<sup>94</sup> In 2016, the company invested over ZAR2 billion to begin production of another model. This expansion is estimated to have created an additional 1 200 jobs.
- Construction of the Business Process Outsourcing Park (BPO) in Hammanskraal: the park will offer a one-stop-shop approach to all BPO needs including modern and high-quality infrastructure and integrated BPO services.<sup>95</sup> This project presents an opportunity to stimulate socio-economic growth in the Hammanskraal area and is poised to create about 3 000 job opportunities for communities in surrounding areas. It is also estimated to generate wage flows of about ZAR2.4 million per annum over the long term.<sup>96</sup>

### 3.4.4 The Southern Development Corridor

This development corridor is centred on the Sedibeng district in the Vaal area. The goal is to fuel the creation of new industries, economic nodes and cities. Projects taking place are mainly agriculture-related:

- In 2017, an advertisement for a tender to appoint a service provider to design and project-manage the refurbishment and upgrading of the Vereeniging Fresh Produce Market was issued.<sup>97</sup> The refurbishment of the facility will improve efficiency by linking farmers, agro-processors and consumers and thus enhancing economic growth.<sup>98</sup>
- About 30 Black farmers are being supported to plant and supply barley for the Heineken factory in the region. At its inception, the project was estimated to create 1 000 permanent jobs per annum over three years.
- Work on the development of Vaal City, which will be situated along the Vaal River, is underway. The project, which is estimated at ZAR11 billion, will house commercial office properties, retail and leisure facilities, park areas and residential units.<sup>99</sup>

<sup>91</sup> Office of the Premier. (2016). *Speech: State of the Province Address by Gauteng Premier Honourable David Makhura*. Gauteng Provincial Legislature. Johannesburg.

<sup>92</sup> Office of the Premier. (2016). *Speech: State of the Province Address by Gauteng Premier Honourable David Makhura*. Gauteng Provincial Legislature. Johannesburg.

<sup>93</sup> Business Report. (2017). *BMW Adds to its R6 billion Rosslyn Plant Investment*. (Accessed on 10 January 2018): [www.iol.co.za/business-report](http://www.iol.co.za/business-report)

<sup>94</sup> Business Report. (2017). *Ford Invest R3 billion for Production Expansion in SA*. (Accessed on 10 January 2018): [www.iol.co.za/business-report/](http://www.iol.co.za/business-report/)

<sup>95</sup> The BPO park will include a training academy, incubation centre, accommodation rooms, crèche, clinic and recreational facilities.

<sup>96</sup> Global Africa Network. (2017). *Property Development and Facilities Management Opportunity in BPO Sector*. (Accessed on 10 January 2017): [www.globalafricanetwork.com](http://www.globalafricanetwork.com)

<sup>97</sup> SA-Tenders. (2017). *Appointment of a Service Provider for the Proposal to Plan, Design, and Project Manage the Refurbishment and Upgrading of the Vereeniging Fresh Produce Market*. (Accessed on 10 January 2018): [www.sa-tenders.co.za/content](http://www.sa-tenders.co.za/content)

<sup>98</sup> Office of the Premier. (2016). *Speech: State of the Province Address by Gauteng Premier Honourable David Makhura*. Gauteng Provincial Legislature. Johannesburg.

<sup>99</sup> Office of the Premier. (2016). *Speech: State of the Province Address by Gauteng Premier Honourable David Makhura*. Gauteng Provincial Legislature. Johannesburg.

### 3.4.5 The Western Development Corridor

The Western Development Corridor is located in the West Rand district and is earmarked to create new industries, economic nodes and cities. Amongst Gauteng's municipalities, West Rand is the least diversified in terms of economic activity. It is characterised by the mining industry, which has been in decline. As a result, the district's economy has been shrinking since 2005, indicating that new economic activities are urgently needed. Government's goal is to diversify and revitalise the mining towns and it has been working with the private sector to transform and modernise the West Rand.<sup>100</sup> The main anchor of the new city and new economy around the Western Corridor will be Lanseria Airport and the Maropeng World Heritage Site.

- The national and provincial governments are working with municipalities and the private sector to unlock the potential of the Lanseria Airport logistics hub as part of the Lanseria Airport City development. This will include industrial, commercial and residential projects.
- The construction of the Leratong City integrated nodal development is underway. Development of the Leratong City Mall, the retail component of the project, has been completed. The development will include housing and other facilities and social amenities including crèches, a community centre and educational and healthcare facilities.<sup>101</sup>
- In November 2017, the GPG launched the Montrose City Mega Development in Rand West City.<sup>102</sup> The ZAR11 billion investment is in line with the provincial government's efforts to revitalise the municipality's economy which has been negatively affected by the closing down of mines and businesses around the area.

Other major projects are also taking place in the five development corridors. These include transport infrastructure, and roads and highways expansion and upgrades.<sup>103</sup> In his 2018 SoPA, the Premier of Gauteng, Honourable David Makhura, re-emphasised the importance of integrated, modern, safe and affordable public transport system.<sup>104</sup> He highlighted that work is in progress to roll out the Bus Rapid Transit (BRT) system, expand the Gautrain and to integrate the taxi industry into the mainstream transport system. Furthermore, the GPG together with municipalities have made significant progress in revitalising township economies in the province. The Premier indicated that the GPG public procurement spend on township businesses has risen from ZAR600 million in 2014 to ZAR17 billion in 2017, whilst the number of township enterprises doing business with government has increased from 642 to 4 182 during the same period.<sup>105</sup>

Whilst GPG remains dedicated to improving the province's economy to address high unemployment, poverty and inequality, the current economic environment requires aggressive implementation of the TMR programmes. Policy initiatives that improve the labour market, inspire business confidence and improve capacity in core institutions could lead to economic growth and reduce poverty and inequality levels.

## 3.5 Conclusion

The rate of economic growth in the province is estimated to have decreased in 2017 to 0.3 per cent from 0.8 per cent in 2016. This weak economic growth was driven by limited growth in the province's main economic sectors. The tertiary sector, which accounts for over 70 per cent of activity, came under pressure. The trade sector did not record any growth whilst the government services sector recorded moderate growth.

In line with the overall performance, economic growth in the province's municipalities has decelerated. In the CoE, growth slowed to 0.8 per cent in 2016 driven by subdued growth in the metro's dominating sectors such as manufacturing, finance & business and government services; it is expected to have decreased to 0.4 per cent in 2017. Similarly, in the CoT GDP growth stood at 1 per cent in 2016, driven by weak growth in manufacturing, trade, finance & business and government services which contribute over 70 per cent to the metro's economic activity. It is expected to have reached 0.4 in 2017.

<sup>100</sup> Office of the Premier. (2016). *Speech: State of the Province Address by Gauteng Premier Honourable David Makhura*. Gauteng Provincial Legislature. Johannesburg.

<sup>101</sup> Property24. (2016). *R6.2 billion Leratong City Housing and Mixed-used Development*. (Accessed 10 January 2018): [www.property24.com/articles](http://www.property24.com/articles)

<sup>102</sup> City Press. (2017). *The R11bn Revitalisation Programme on Track in Randfontein*. (Accessed 31st January 2018): [www.city-press.news24.com/News](http://www.city-press.news24.com/News)

<sup>103</sup> Office of the Premier. (2016). *Speech: State of the Province Address by Gauteng Premier Honourable David Makhura*. Gauteng Provincial Legislature. Johannesburg.

<sup>104</sup> Gauteng Provincial Government. (2018). *State of the Province Address Delivered by Gauteng Premier David Makhura*. Gauteng Provincial Legislature. Johannesburg.

<sup>105</sup> Gauteng Provincial Government. (2018). *State of the Province Address Delivered by Gauteng Premier David Makhura*. Gauteng Provincial Legislature. Johannesburg.

The CoJ was the only metro where growth increased in 2016, to 1.3 per cent. Activity in sectors such as finance & business, government, transport and manufacturing improved, outweighing the impact of declines in mining, agriculture and electricity.

Amongst the districts, lack of diversification in the West Rand's economy has resulted in a contraction in economic growth since the mid-2000s. The West Rand relies heavily on mining for its economic activity, and in 2016 mining declined significantly driven by the commodity price slump. Its economy thus recorded zero growth in 2016 and is expected to have contracted by 0.5 per cent in 2017. Sedibeng's economic growth rate slowed to 0.1 per cent in 2016 but is expected to have improved to 0.3 per cent in 2017.

From the expenditure side of GDP, household expenditure increased by 6.7 per cent in 2016 in the province, driving up retail sales. However, growth in household disposable income was largely flat, suggesting that households have been using savings for consumption or have been borrowing to meet expenditure. Except in the CoE, CoJ and West Rand, there was also subdued growth in disposable income in the province's municipalities.

It is not expected that household consumption expenditure will have increased in 2017, with the performance of indicators relating to household expenditure largely lacklustre during the year.

Since 2016, the economic environment has been characterised by low consumer and business confidence, which has affected the business and retail trade industries. The negative effects of low consumer and business confidence have spilled over to the household and investment sectors. A positive development is that consumer price inflation in 2017 was lower than in 2016 and this is expected to have provided some relief to consumers.

Employment grew by only 0.5 per cent in the third quarter of 2017 whilst the official unemployment rate increased to the highest level recorded since 2008, reaching 30.2 per cent. Amongst the municipalities, the latest information available (for 2016) shows that the unemployment rate was higher in the CoE, at 30.8 per cent, than the 24.8 per cent of the CoJ and 22.6 per cent in the CoT. The highest level of unemployment in 2016 was in Sedibeng, at 50.2 per cent, followed by the West Rand at 38.5 per cent. Especially given their small economic size and the large numbers of unemployed young people, unemployment is one of the main socio-economic problems facing the districts.

Against this difficult economic background, a number of projects are taking place in the province's five development corridors. These corridors form part of government's efforts, in collaboration with the private sector, to deal with high unemployment, poverty and inequality through improved infrastructure development which can fuel economic growth and sustained jobs.



# Chapter 4: Socio-Economic Review

## 4.1 Introduction

The living standards of the majority of South Africans have improved since the beginning of the democratic era. This is partly because the first decade of the new dispensation was, for many, characterised by strong economic growth and social progress. Whilst this trend has continued, the pace of progress has slowed significantly over a number of years, with stagnating economic growth and political uncertainty.

The previous chapters described the external and domestic shocks that have characterised the national and provincial economies since 2012. Especially in 2016 and 2017, these had a severe impact on economic growth which is critical for improving the standard of living. In 2016, economic growth of 0.3 per cent for the country and 0.8 per cent for the province were lower than both regions' population growth rates of 1.5 and 2.1 per cent respectively. The GDP per capita of both regions therefore declined, with negative implications for government's efforts to transform the country's socio-economic landscape.

Weak economic growth and low business confidence have implications for, amongst other things, government finances, the implementation of social programmes, job creation and citizens' standard of living. A weak fiscal position makes it difficult for government to maintain a balance between expenditure - especially on social related programmes - and the health of public finances. Low economic growth reduces the chances of employment creation which is essential for addressing poverty and inequality. Some of these have had an impact on the economies of the country and the province. In 2016, for example, poverty increased significantly in Gauteng and its municipalities, reaching levels last seen at the height of the global financial crisis. At the same time, unemployment rates increased notably with the highest rates being recorded in the district municipalities. As a result, the pace of social progress is likely to have slowed and, in some instances, reversed.

It is against this background that this chapter analyses socio-economic trends in the country and the province. It examines the effect, over approximately the past three years, of global, national and provincial economic developments on the socio-economic landscape. Section 4.2 presents a socio-economic review of Gauteng, comparing it with the national level. It analyses changes in demographics, important to policy makers when making decisions about programmes to improve health, education and infrastructure amongst other objectives. The section also looks at development indicators, highlighting trends in human development, poverty and inequality. Section 4.3 presents a similar analysis at the level of metropolitan (metro), district and local municipalities.

## 4.2 Socio-Economic Analysis of Gauteng and South Africa

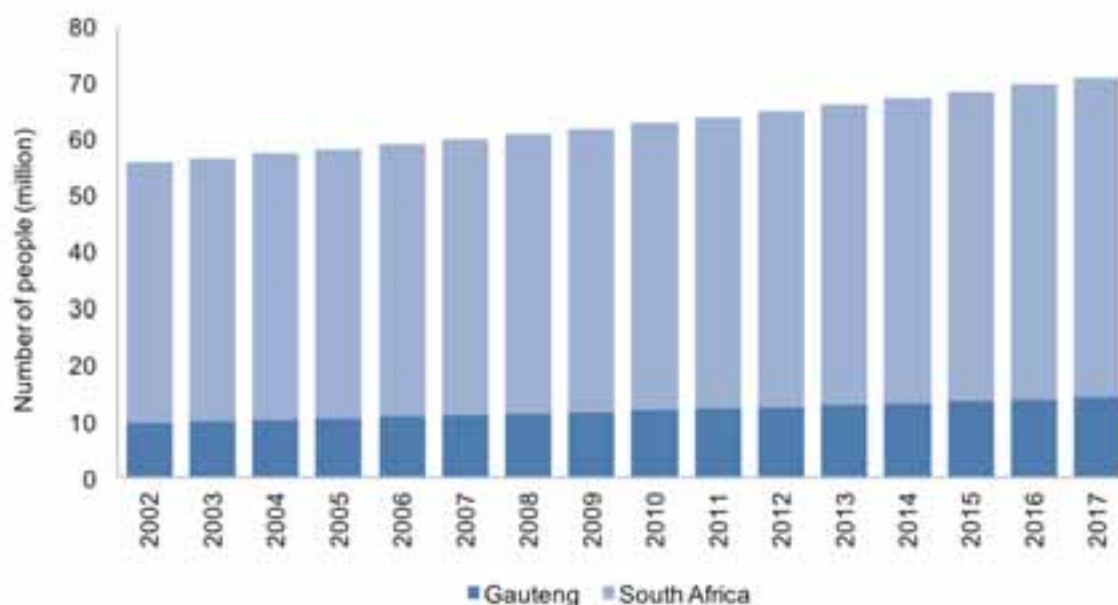
The fall in commodity prices in 2016, and drought conditions, affected economies such as South Africa's that depend significantly on revenues from natural resources. This further reduced government revenue, already affected by weak economic activity. 2017 is not anticipated to have much improved the socio-economic landscape of either the province or the country. With population growth rates of 1.5 per cent and 2 per cent for South Africa and Gauteng respectively and with low economic growth, GDP per capita contracted by 1.2 per cent for South Africa and by 1.1 per cent for Gauteng in 2016. In 2017, GDP per capita is estimated to have contracted further by 0.9 and 1.7 per cent respectively.<sup>106</sup>

### 4.2.1 Population Dynamics

South Africa's mid-year population in 2017 was estimated at 56.5 million. The population growth rate increased from 1.2 per cent in 2002-2003 to 1.6 per cent in 2016-2017. With 14.3 million people, Gauteng's population is the largest of all the provinces (25.3 per cent, up from 21.3 per cent 15 years ago). Inter-provincial and international migration are important demographic factors shaping the age structure and distribution of the province's population and have implications for social outcomes.

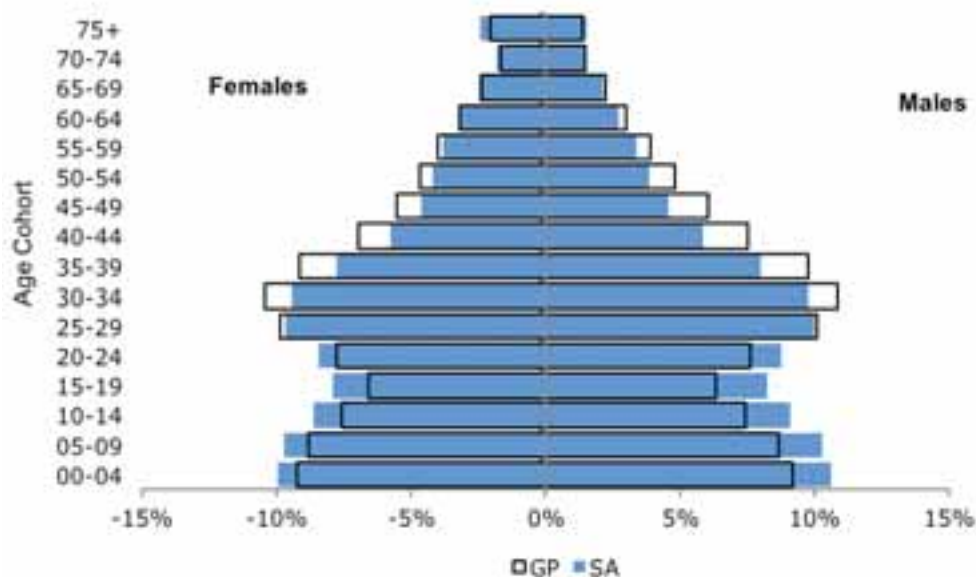
<sup>106</sup> IHS Markit. (2018). *Regional Explorer Database*. (Assessed 23 January 2018): [www.globalinsight.co.za](http://www.globalinsight.co.za).



**Figure 4. 1: Mid-Year Population Estimates: Gauteng and South Africa, 2002-2017**

Source: Statistics South Africa, 2017

Because of large inward migration by people in search of economic opportunities, Gauteng has a highest population growth rate of all provinces. It also has the lowest fertility rate, averaging 2.2 between 2011 and 2016 and projected to fall to an average of 1.9 between 2016 and 2021. However, it is estimated that it will have a net inflow of migrants of approximately 1 050 230 in the same period.<sup>107</sup>

**Figure 4. 2: Population Structure: Gauteng and South Africa, 2016**

Source: IHS Markit Regional eXplorer, 2017

Because its fertility rate is lower than the national average, Gauteng has a smaller percentage of its population between the ages of 0 and 24. However, due to a higher life expectancy at birth and to inward migration, a relatively large proportion of Gauteng's population is of working age, between the ages of 25 and 64.

<sup>107</sup> Statistics South Africa. (2017). *Mid-year population estimates, 2017*. Pretoria.

The Quarterly Labour Force Survey (QLFS) collects data on the labour market activities of people aged 15 to 64.<sup>108</sup> The unemployment rate, absorption rate<sup>109</sup> and labour force participation rate<sup>110</sup> are calculated taking into account particularly the working-age population. With its comparatively large percentage of working-age people, Gauteng has higher unemployment rates, absorption rates and labour force participation rates than the national averages, even when job gains are recorded in the province. High levels of unemployment are a major cause of poverty and inequality.

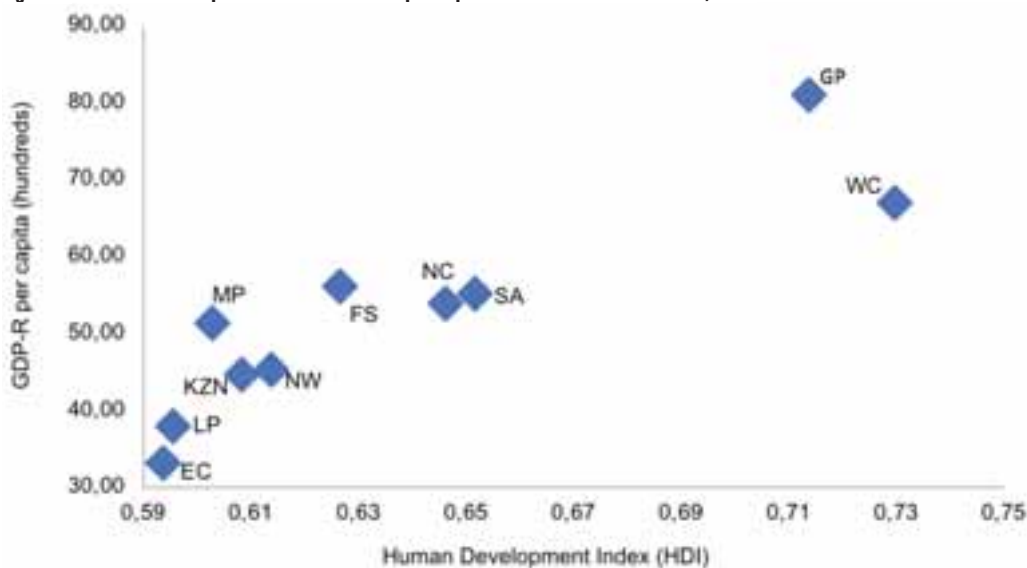
#### 4.2.2 Development Indicators

Development indicators are tools with which regions can track progress towards their developmental objectives. This section analyses Gauteng's poverty reduction, inequality, health and educational attainments. Global mobilisation behind the Millennium Development Goals (MDGs), entered into by world leaders in 2000, resulted in the most successful anti-poverty movement in history.<sup>111</sup> To build on these successes, the 17 Sustainable Development Goals (SDGs)<sup>112</sup> were adopted in 2015.

##### Human Development

The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life; being knowledgeable; and having a decent standard of living. It is a composite statistic drawn from life expectancy, education and per capita income indicators and is used to rank regions into four tiers of human development. The HDI was created to emphasise that people and their capabilities should be the ultimate criteria for assessing a country's development and not economic growth alone.<sup>113</sup>

Figure 4. 3: Human Development Index and GDP-R per Capita: South Africa and Provinces, 2016



Source: IHS Markit Regional eXplora, 2018

Note: GP = Gauteng, WC = Western Cape, SA = South Africa, NC = Northern Cape, FS = Free State, NW = North West, MP = Mpumalanga, KZN = KwaZulu-Natal, LP = Limpopo and EC = Eastern Cape.

Figure 4.3 shows the relationship between the HDI and GDP-R per capita for 2016, with a strong positive relationship for the country and for the provinces. Higher GDP-R per capita and HDI align closely in the provinces with low GDP-R per capita and HDI and in those with the highest combination of these variables. Amongst the provinces, Gauteng had the highest GDP-R per capita. Its HDI was second highest, after that of the Western Cape, with these two provinces having the highest human development and GDP per capita scores. In terms of these indicators, the scores of the Eastern Cape, KwaZulu-Natal, Limpopo, Mpumalanga and North West were lower.

<sup>108</sup> Statistics South Africa. (2017). *Quarterly Labour Force Survey (QLFS), Quarter 3:2017*. Pretoria.

<sup>109</sup> The absorption rate measures the proportion of the working-age population that is employed.

<sup>110</sup> The labour force participation rate measures the proportion of the working-age population that is either employed or unemployed.

<sup>111</sup> United Nations. (2015). *The Millennium Development Goals Report 2015*. (Accessed 30 January 2018): [www.un.org](http://www.un.org)

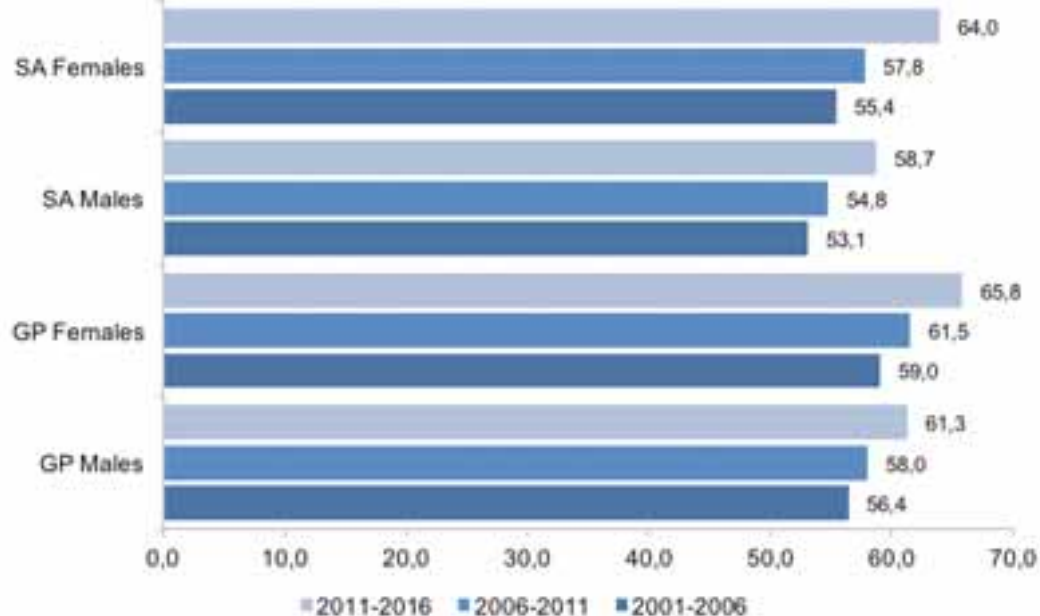
<sup>112</sup> Statistics South Africa. (2017). *Mid-year population estimates, 2017*. Pretoria

<sup>113</sup> United Nations Development Programme. (2016). *Human Development Index*. (Accessed 20 December 2018): [www.undp.org](http://www.undp.org)

### Health Indicators

Gauteng province has the largest health care system in Southern Africa, providing basic health care services with an estimate of over 20 million visits per year.<sup>114</sup> Improvements in healthcare services in the province have led to a number of positive changes.

Figure 4. 4: Average Life Expectancy at Birth: South Africa and Gauteng, 2001-2016



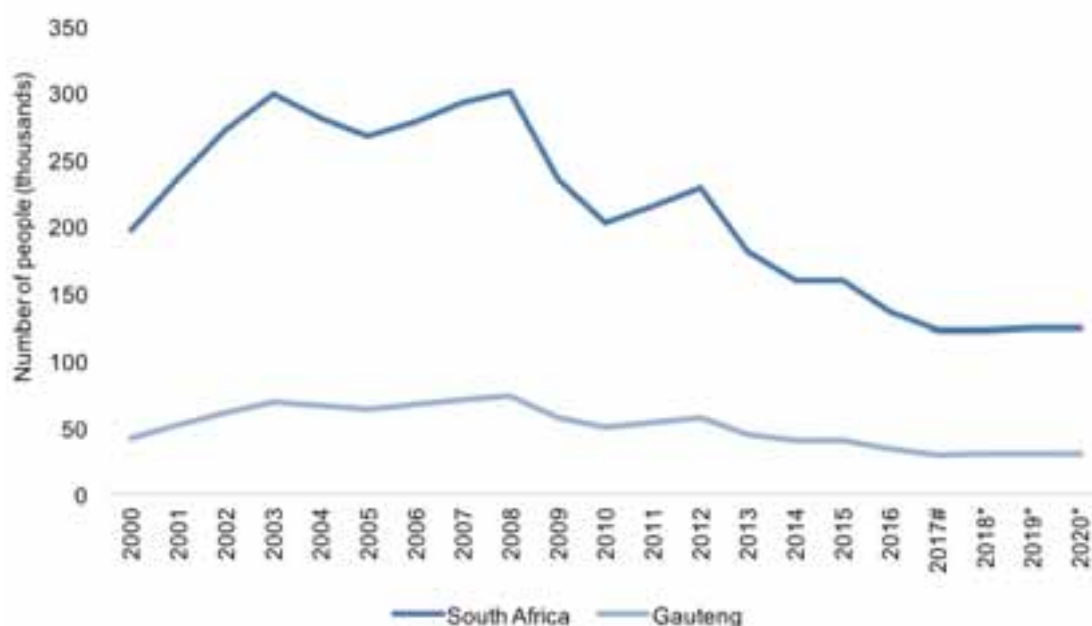
Source: Stats SA, 2017

Figure 4.4 shows average life expectancy of males and females in South Africa and in Gauteng between 2001 and 2016. Between 2001 and 2006 for the country as a whole, it was 53.1 and 55.4 years for males and females; between 2011 and 2016, 58.7 and 64 respectively. For Gauteng in the same periods, the figures were 56.4 and 61.3 for males and 59 and 65.8 for females.

According to Statistics South Africa (Stats SA), the improved life expectancy rates can be attributed to a decrease in the number of deaths related to Acquired Immune Deficiency Syndrome (AIDS) and to lower infant mortality.<sup>115</sup>

<sup>114</sup> Gauteng Provincial Government. (2018). *State of the Province Address Delivered by Gauteng Premier David Makhura*. Gauteng Provincial Legislature. Johannesburg

<sup>115</sup> Statistics South Africa. (2015). *Life Expectancy Continues to Rise as South Africa's Population Breaks 54 Million*. (Accessed 23 January): [www.statssa.gov.za](http://www.statssa.gov.za).

**Figure 4. 5: AIDS Deaths Estimates: South Africa and Gauteng, 2000-2020**

Source: IHS Markit Regional eXplora, 2017

Note: # indicates estimates and \* forecasts.

Figure 4.5 shows that, country-wide, the number of AIDS-related deaths decreased from an estimated 197 085 in 2000 to 136 507 in 2016 (-30.7 per cent) and by about 20 per cent in Gauteng in the same period. Wider availability of anti-retro viral treatment and voluntary HIV/AIDS counselling and testing programmes underlie these decreases and are a result of government's efforts to improve human development through healthcare.

Between the 2012-13 and 2018-19 financial years, annual national health expenditure has grown by 1.3 per cent in real terms.<sup>116</sup> However, in recent years public health budgets have come under pressure due to rising personnel costs and the weak exchange rate which affects the cost of medicines.<sup>117</sup> In the 2017-18 financial year, personnel costs are estimated to have accounted for about 62 per cent of total national health expenditure of ZAR187.5 billion (about 3 per cent of real GDP).<sup>118</sup> At the provincial level, compensation of employees accounted for 59.2 per cent of the health budget (about 2 per cent of provincial GDP).<sup>119</sup> This is expected to grow to 62.7 per cent (ZAR128.8 billion) of the total national health expenditure (ZAR205.4 billion) budgeted for the 2018-19 financial year. At the provincial level, compensation of employees accounted for 59.2 per cent of the health budget (about 2 per cent of provincial GDP in the 2017-18 financial year).<sup>120</sup>

As the 2017 Budget Review indicated,<sup>121</sup> efforts are being made to reduce personnel costs at national and provincial level, with government continuing to safeguard expenditure critical for achieving constitutionally mandated social rights, including healthcare.

<sup>116</sup> National Treasury. (2017). *The National Budget Review*. Pretoria.

<sup>117</sup> National Treasury. (2017). *The National Budget Review*. Pretoria.

<sup>118</sup> National Treasury. (2017). *The National Budget Review*. Pretoria.

<sup>119</sup> Gauteng Provincial Treasury. (2017). *Estimates of Provincial Revenue and Expenditure 2017*. Johannesburg.

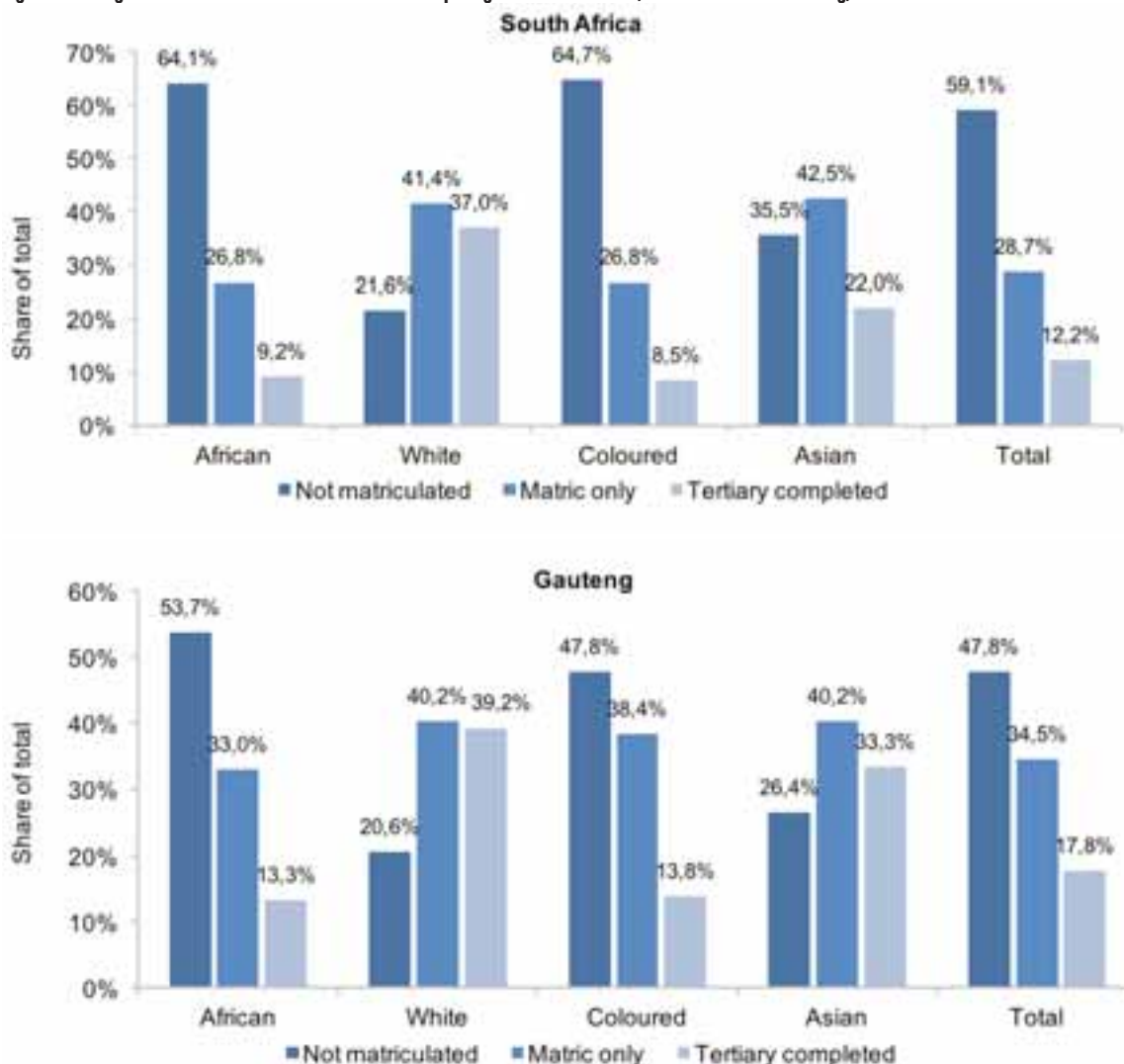
<sup>120</sup> National Treasury. (2018). *The National Budget Review*. Pretoria.

<sup>121</sup> National Treasury. (2017). *The National Budget Review*. Pretoria.

### Educational Attainment

The structure of South Africa's labour market does not align well with national and provincial government's aim of reducing unemployment. A large percentage of the country's and the province's work forces are low- or semi-skilled. Given that its economy is tilted towards growth in the services sector which requires more advanced skills, this is particularly a problem for Gauteng.

Figure 4. 6: Highest level of Educational Attainment: People Aged Above 20 Years, South Africa and Gauteng, 2016



Source: IHS Markit Regional eXplorer, 2017

Across the different population groups, Gauteng has a population of 9.1 million aged above 20 years. Figure 4.6 shows that, nationally and in Gauteng, the share of people in this age group with no matric qualification was highest among Africans and Coloureds and lowest in the White and Asian population groups. Nationally, 12.2 per cent of the population in this age group has completed tertiary education compared with 17.8 per cent in Gauteng. Amongst the population groups, 37 per cent of Whites, 22 per cent of Asians, 9.2 per cent of Africans and 8.5 per cent of Coloureds have completed tertiary education.

The majority (52.2 per cent) have completed matric, with the remainder (47.8 per cent) not having a matriculation certificate. Of people aged above 20 years, 7.2 million are Africans, of whom only 46.3 per cent have completed matric compared with 79.4 per cent of Whites, 73.6 per cent of Asians and 52.2 per cent of Coloureds.

Protests in 2015 by students across the country calling for free higher education brought this issue into the

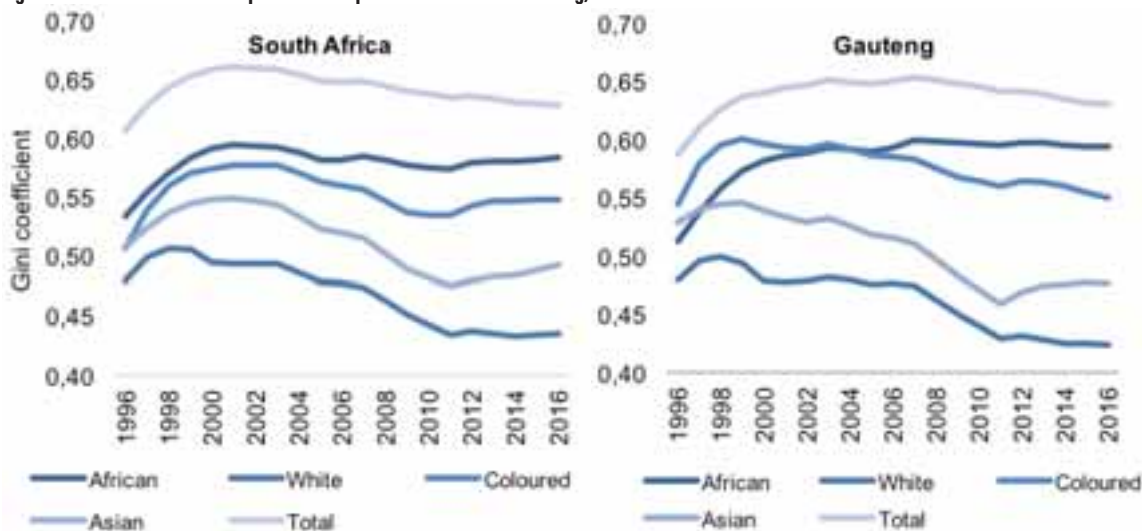
spotlight. The protests related to the cost of tertiary education and the difficulty that students from poor and middle-income households face in accessing it.<sup>122</sup> In response to the students' call for free education, in the 2016 academic year government froze university fees at 2015 levels and largely covered the shortfall. In 2017, government recommended that universities cap fee increases at 8 per cent. In 2016, a commission of inquiry into the feasibility of fee-free higher education and training was established. The purpose was to provide government with evidence-based recommendations on which it could base decisions about a suitable funding formula for higher education.<sup>123</sup>

As part of its pledge to unlock inclusive economic growth by eradicating skills shortages and mismatches, government remains committed to increasing access to higher education. In the 2016-17 financial year, transfers and subsidies to higher education institutions absorbed over 2 per cent (ZAR30.7 billion in 2017) of the national budget and this is expected to grow by an additional allocation of ZAR57 billion to fund fee-free higher education and training over the 2018-19 medium-term expenditure framework (MTEF).<sup>124</sup> All new first-year students with a family income below ZAR 350 000 per annum at universities and Technical Vocational Education and Training (TVET) colleges in the 2018 academic year, will be funded for the full cost of study.<sup>125</sup>

### Income Inequality

The World Bank has ranked South Africa as the world's most unequal society. The country has a Gini index of 0.63; next highest is Namibia with an index of 0.61. High income inequality is linked with ills which include social unrest, crime, labour unrest and service delivery protests. The Gini co-efficient measures the extent to which income distribution among individuals or households within an economy deviates from perfect equality. A Gini co-efficient of 0 represents perfect equality while a coefficient of 1 implies perfect inequality.

Figure 4. 7: Gini Coefficient: Population Groups: South Africa and Gauteng, 1996-2016



Source: IHS Markit Regional eXplorer, 2017

With a Gini coefficient of 0.63 in 2016, Gauteng's income inequality mirrored that of the country. Within population groups, income inequality has largely declined in the province. Among the White and Asian population groups, the Gini coefficient fell from 0.48 to 0.42 and from 0.53 to 0.48 respectively between 1996 and 2016. For Coloureds, income inequality rose marginally from 0.54 to 0.55 over the same period. However, in the African population group income inequality increased substantially from 0.51 in 1996 to 0.59 in 2016. The same trends are seen at national level. Households' income is an important determinant of their wellbeing and also of the Gini coefficient across households in the region.

<sup>122</sup> OECD. (2018). *OECD Economic Surveys: South Africa 2017*. OECD Publishing, Paris.

<sup>123</sup> The Presidency. (2017). *Release of the Report of Commission of Inquiry into the Feasibility of making High Education and Training Fee-free in South Africa*. (Accessed 25 January 2018): [www.thepresidency.gov.za](http://www.thepresidency.gov.za).

<sup>124</sup> National Treasury. (2018). *Budget Review 2018*. Pretoria.

<sup>125</sup> National Treasury. (2018). *Budget Review 2018*. Pretoria.



**Figure 4. 8: Percentages of Households by Population Group per Income Category in Gauteng, 2016**

Source: IHS Markit Regional eXplorer, 2017

Figure 4.8 expands on the issue of income inequality in the province by showing the percentages of households in various income categories by population group in 2016. It shows that 97.8 per cent of the households in the ZAR0-ZAR6 000 income category are Africans and 2.2 per cent are Coloureds. The White and Asian population groups do not feature in this income category. However, Whites make up 80.6 per cent of the highest income category (ZAR2.4 million+), followed by Africans who make up 11.3 per cent and Asians 6.2 per cent.

### Poverty Trends

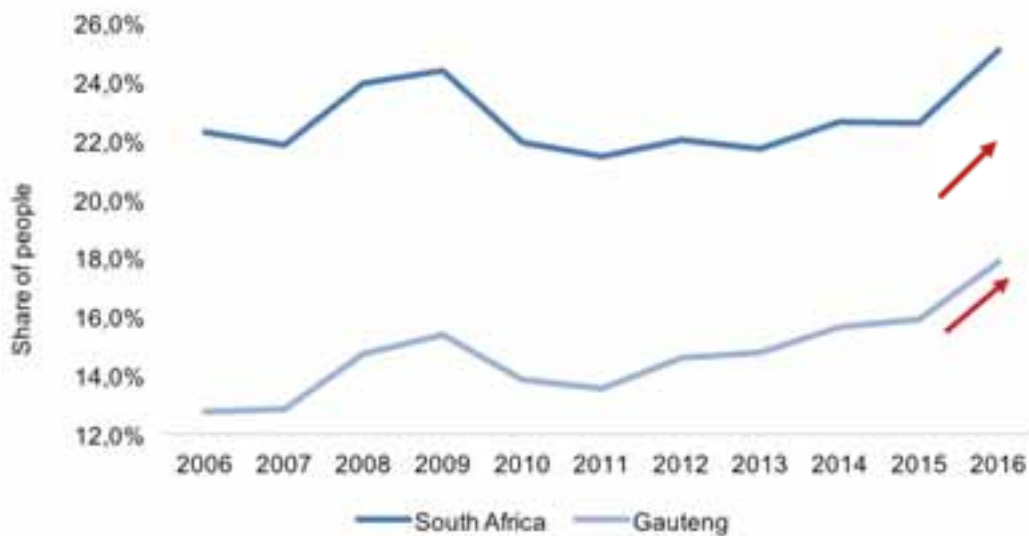
Globally, there has been marked progress in reducing poverty in recent decades. The world attained the first MDGs target of halving 1990 poverty rates by 2015. This was achieved in 2010, five years ahead of schedule. Despite this, the number of people living in extreme poverty globally remains unacceptably high. Given current global growth forecasts, poverty reduction may not take place quickly enough to reach the target of ending extreme poverty by 2030<sup>126</sup>.

The poverty measure used here to measure how far progress is being made in achieving the United Nations' SDGs target of ending hunger by 2030 is the number of people living below the food poverty line. By Stats SA's definition, this is the number of people living on ZAR498 per month in 2016. The food poverty line is the value below which individuals are unable to purchase or consume enough food to supply them with the minimum per capita per day energy needed for health.<sup>127</sup>

<sup>126</sup> World Bank. (2016). *Poverty Overview*. (Accessed 21 December): [www.worldbank.org](http://www.worldbank.org).

<sup>127</sup> Statistics South Africa. (2017). *Poverty Trends in South Africa, 2017*. Pretoria.



**Figure 4. 9: Share of People below the Food Poverty Line: South Africa and Gauteng, 2006-2016**

Source: IHS Markit Regional eXplorer, 2017

Figure 4.9 shows the share of people living below the food poverty line in South Africa and Gauteng between 2006 and 2016. It indicates that, whilst progress was made in reducing poverty between 2009 and around 2013, between 2014 and 2016 the share of people living below the food poverty line increased drastically nationally and in the province. Between 2015 and 2016, the increase was even sharper, with the share growing from 22.6 to 25.1 per cent in South Africa and by 2 percentage points, to 17.9 per cent, in Gauteng.

The rise in the share of people living below the food poverty line in 2016 may have been due, amongst other factors, to increased food prices because of drought. As mentioned in Chapter 1, food scarcity leads to higher prices which affects households' and individuals' purchasing power and thus their spending decisions. The generally weak economic activity during that year, resulting in higher unemployment and declining household income, may also have contributed to this trend which is expected to have continued into 2017, reflecting the continuing difficult economic conditions.

### 4.3 Provision of Basic Services

Basic services, provided by municipalities, are services that, if not provided, would negatively affect public health or safety.<sup>128</sup> These services include electricity, water, sanitation and refuse removal. Government also uses the provision of basic services as a means of alleviating poverty amongst poor households, providing them with free and/or subsidised services.

**Table 4. 1: Access to Household Infrastructure, 2014 and 2016**

	South Africa	Gauteng
Formal Housing	78.6% ↑	79.7% ↑
Sanitation	78.9% ↑	90.8% ↑
Water	83.8% ↑	96.2% ↑
Electricity	88.5% ↑	86.9% ↓
Refuse Removal	65.3% ↑	90.0% ↓

Source: IHS Markit, Regional eXplorer, 2017

Note: The arrows show growth changes between 2014 and 2016. The red downward pointing arrows show decreases; the green upward pointing arrows show increases.

Overall, provision of basic services has improved in the country and in the province. However, there has been a notable decrease in the proportion of households with access to electricity and refuse removal in the province. This may be due to the rapidly increasing demand for these services which outweighs what municipalities can provide, especially given the amount of inter-provincial and international migration into the province.

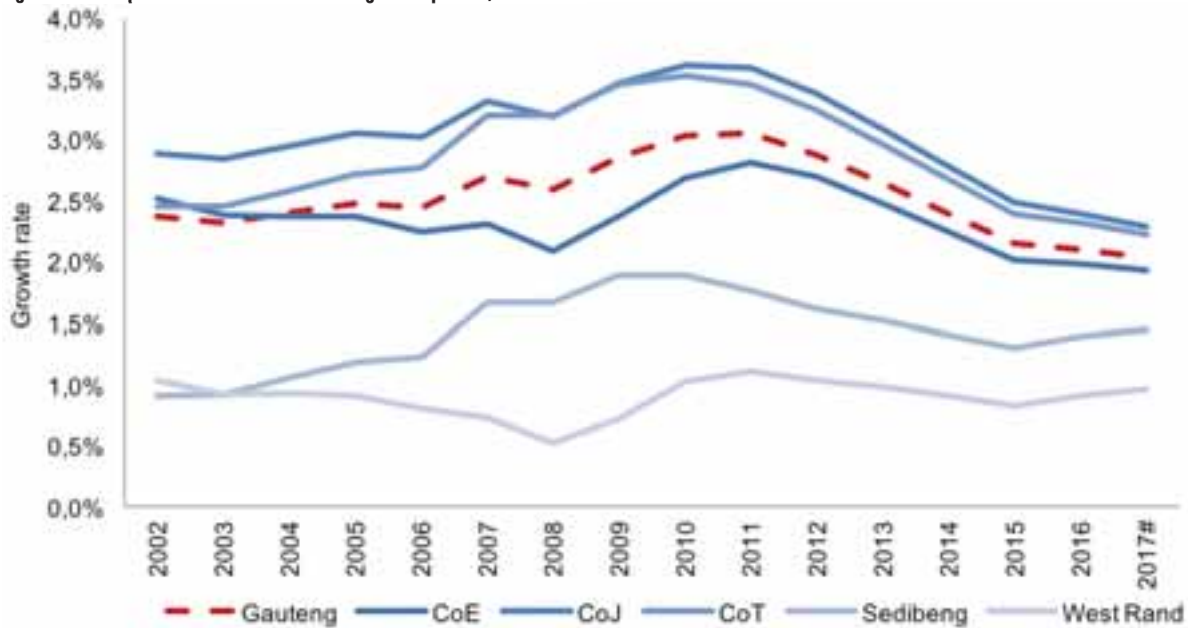
<sup>128</sup> Statistics South Africa. (2016). *What Municipalities say about Service Delivery: The Supply Side Approach*. (Accessed 24 January 2018). [www.statssa.gov.za](http://www.statssa.gov.za).

## 4.3 Socio-Economic Analysis of Municipalities

### 4.3.1 Demographic Indicators

In an era of increased population migration and pressure on food, energy and water supplies, understanding demographic trends becomes ever more important. While long term changes in demographic profiles may be substantial, over the short to medium term demographic changes tend to be more gradual.<sup>129</sup> This enables policy makers to make optimal decisions when developing programmes to improve health, education services and infrastructure. Below are some dominant trends in Gauteng and its metros and districts.

**Figure 4. 10: Population Growth Rate: Gauteng Municipalities, 2002-2017**



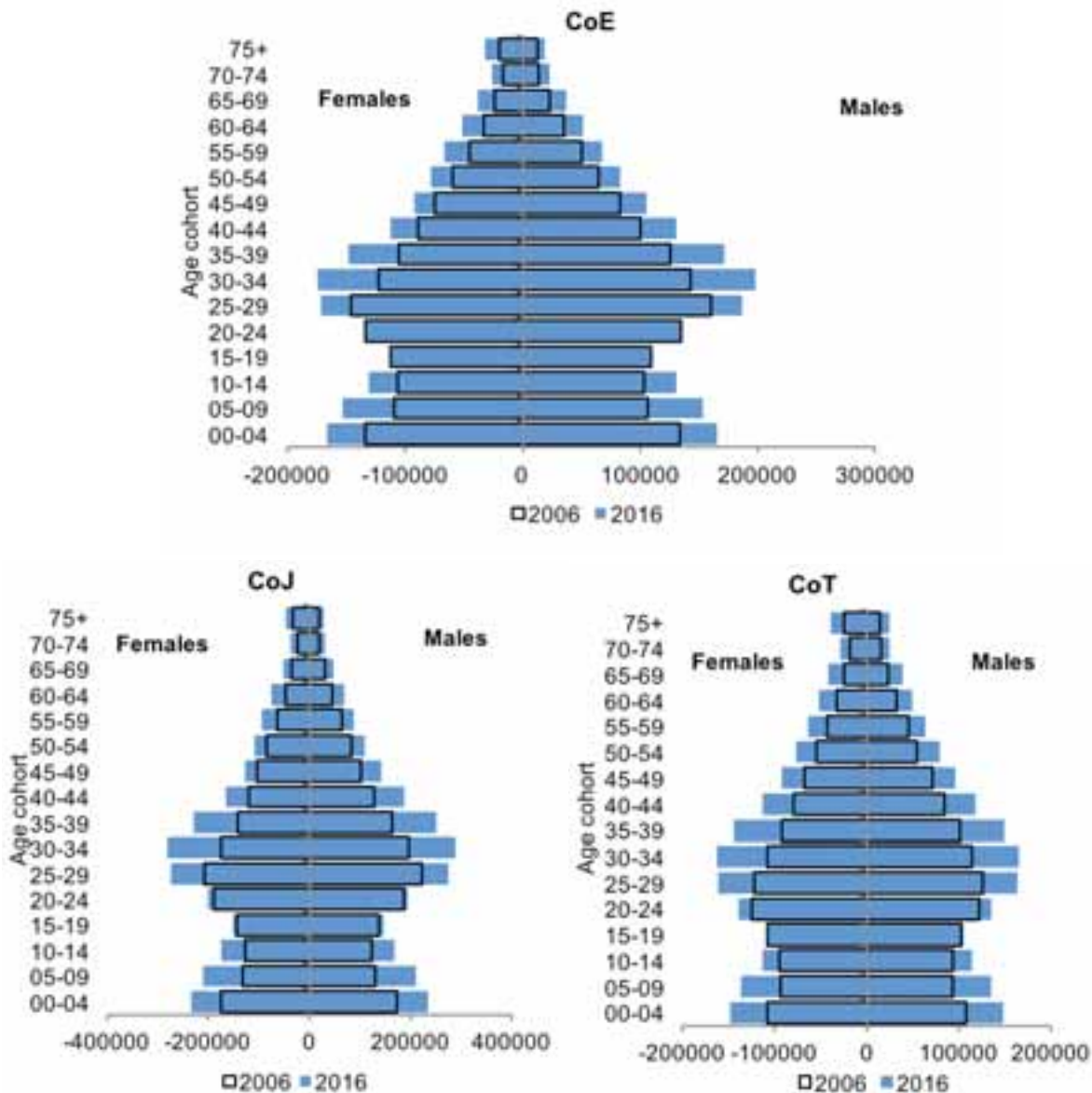
Source: IHS Markit Regional eXplora, 2017

Note: # indicates estimate.

During 2016 and 2017, the population growth rates of the district municipalities (Sedibeng and West Rand) increased but declined in the metros. In all municipalities, the highest increase in population growth rates was in 2010. Amongst the metros, the CoJ had a growth rate of 2.3 per cent in 2017 while the CoE had the lowest growth at 1.9 per cent. Amongst the district municipalities, Sedibeng had the highest population growth rate, at 1.4 per cent; the growth rate for West Rand was 1 per cent during the same period. Overall, the population growth rates in all municipalities in 2017 were lower than in 2002.

<sup>129</sup> National Planning Commission. (2017). *National Development Plan, Chapter 2: Demographic Trends*. Pretoria

Figure 4. 11: Population Structure: Metros, 2006 and 2016



Source: IHS Markit Regional eXplora, 2018

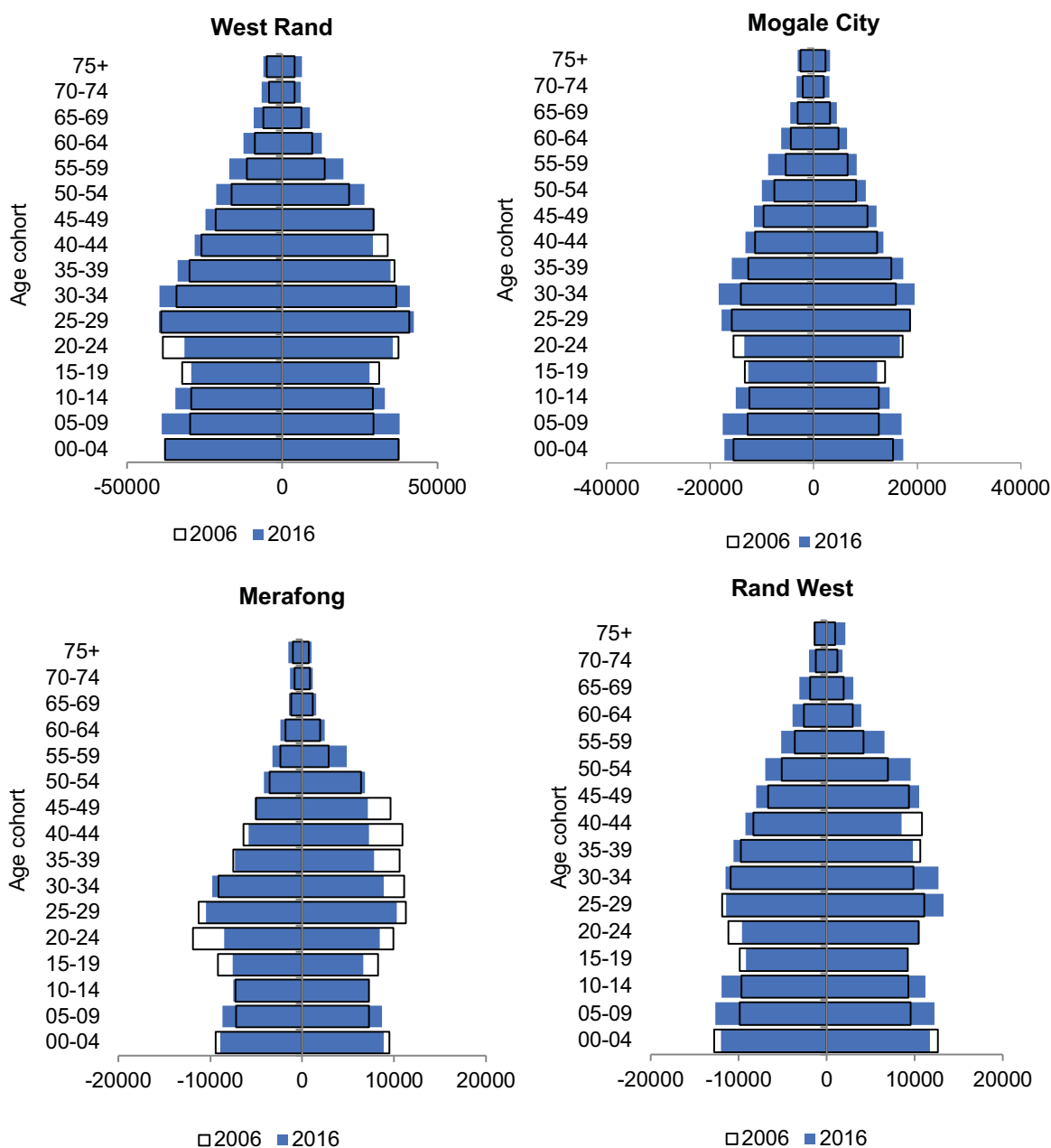
The CoE had a population of 3.5 million in 2016 compared with 2.7 million in 2006, an increase of 26.4 per cent.<sup>130</sup> The largest increases were in the female and male populations aged 30-34 and 35-39, with decreases among males and females aged 15-24. There was an increase in the populations of female and male children aged 00-09.

The CoJ, the metro with the largest population, had a population of 4.9 million in 2016 and 3.6 million in 2006.<sup>131</sup> Between 2006 and 2016, the populations of females and males aged 25-39 increased and there were slight decreases in the female population aged 15-19, the male population aged 20-24 and the male population aged 75+. The decline in the population of these older people may be due to pensioners retiring to their home areas.

Between 2006 and 2016, the population of the CoT increased from 2.4 million to 3.2 million people, with a significant increase in the male population aged 25-44 and the female population aged 25-39. These increases may be due to in-migration to metros seen as offering economic opportunities. There was also an increase in the population of female and male children aged 00-09.

<sup>130</sup> IHS Markit. (2018). Regional eXplora Database.

<sup>131</sup> IHS Markit. (2018). Regional eXplora Database.

**Figure 4. 12: Population Structure: West Rand and its Local Municipalities, 2006 and 2016**

Source: IHS Markit Regional eXplora, 2017

West Rand district municipality had a population of 840 908 in 2016 compared with 770 650 in 2006, an increase of 9.1 per cent.<sup>132</sup> There was a significant decline in the female and male populations aged 15-24 and an increase in the female and male populations aged 30-34. There was also a notable increase in the populations of female and male children aged 5-9 years.

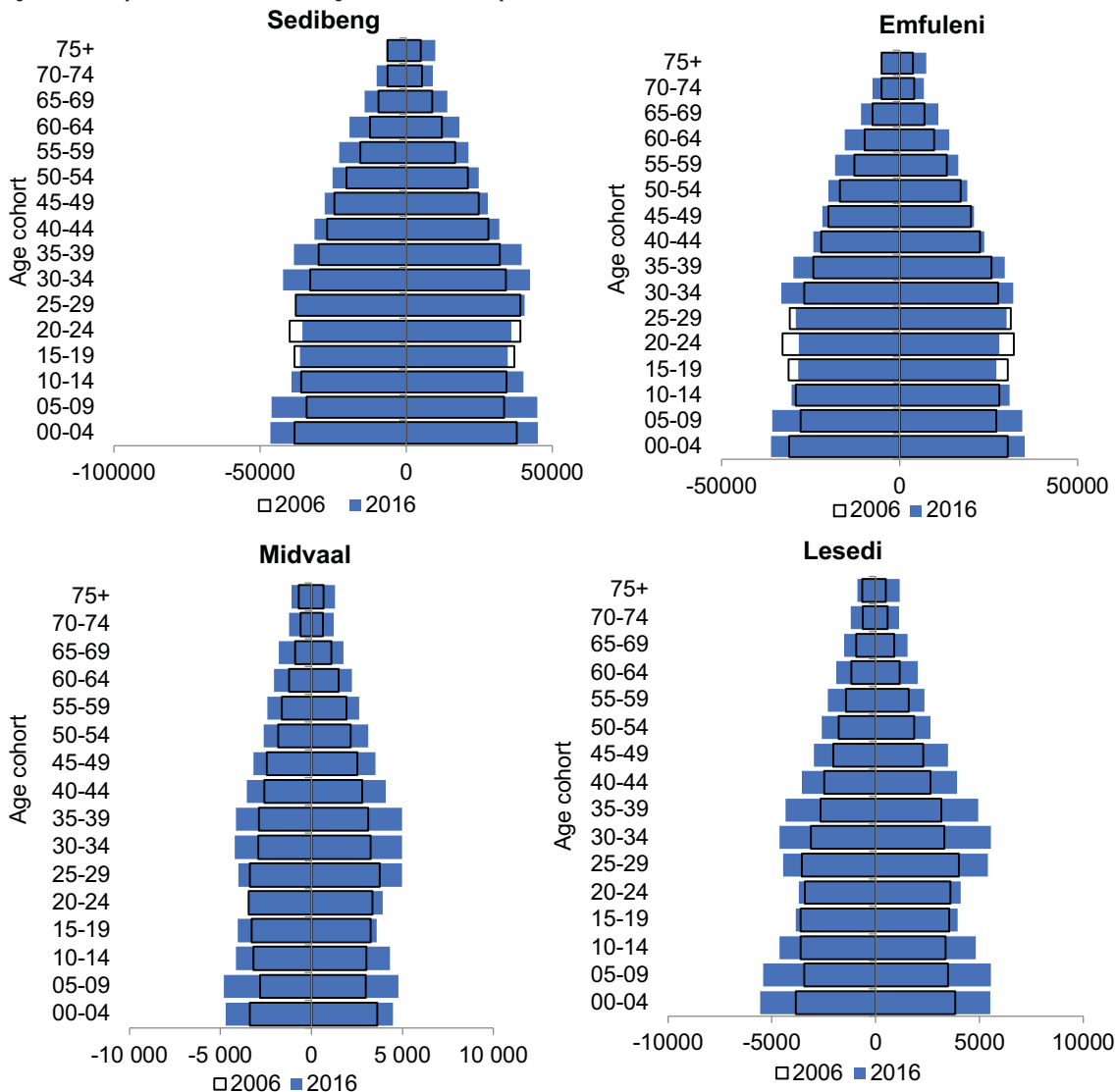
Amongst the district's local municipalities, the population of Mogale City increased to 382 611 in 2016 from 328 427 in 2006, with the female and male population groups aged 15-24 declining and the female population group aged 50-59 increasing. In 2016, the largest population groups were males and females aged 30-34 years.

The population of Merafong, which has the smallest population of all the local municipalities, increased from 192 760 in 2006 to 204 551 people in 2016. Its male population aged 20-49 decreased more than the female in the same age group. This may have been due to out-migration to areas offering better economic opportunities. However, there was a significant increase of the male population aged 55-59.

<sup>132</sup> IHS Markit. (2018). Regional eXplora Database.

Between 2006 and 2016, the population of the Rand West increased to 265 537 from 237 672, an increase of 11.7 per cent. The largest increase in males was 2851 in the population aged 30-34. There was a significant decline in the male population aged 35-44. The increases in the working age groups increased the availability of labour.

Figure 4. 13: Population Structure: Sedibeng and its Local Municipalities, 2006 and 2016



Source: IHS Markit Regional eXplora, 2017

Figure 4.13 shows the population structures of Sedibeng and its local municipalities in 2006 and 2016. In 2006, males and females in the 20-24 age group accounted for the largest single shares of the population, with the numbers declining as the ages increased. In 2016, males aged 05-09 and females aged 00-04 made up the single largest population groups.

In 2006, females outnumbered males in all three local municipalities; the opposite was the case in 2016. In Emfuleni in 2016, the single largest group was the 0-4 age group. Overall, there was a decline in the populations aged 15-19, 20-24 and 25-29 but an increase in those aged 30-34 and above.

In Midvaal in 2016, the largest age group was males aged 30-34. The largest female age group was aged 05-09. There was an increase in the populations of all age groups, male and female. However, the municipality's pyramid is narrower than that of the others, reflecting its smaller population.

In Lesedi, the largest single population group was males in the 05-09 age group, followed by people aged 30-34. There was an increase in all age groups, with the largest among males aged 30-34.

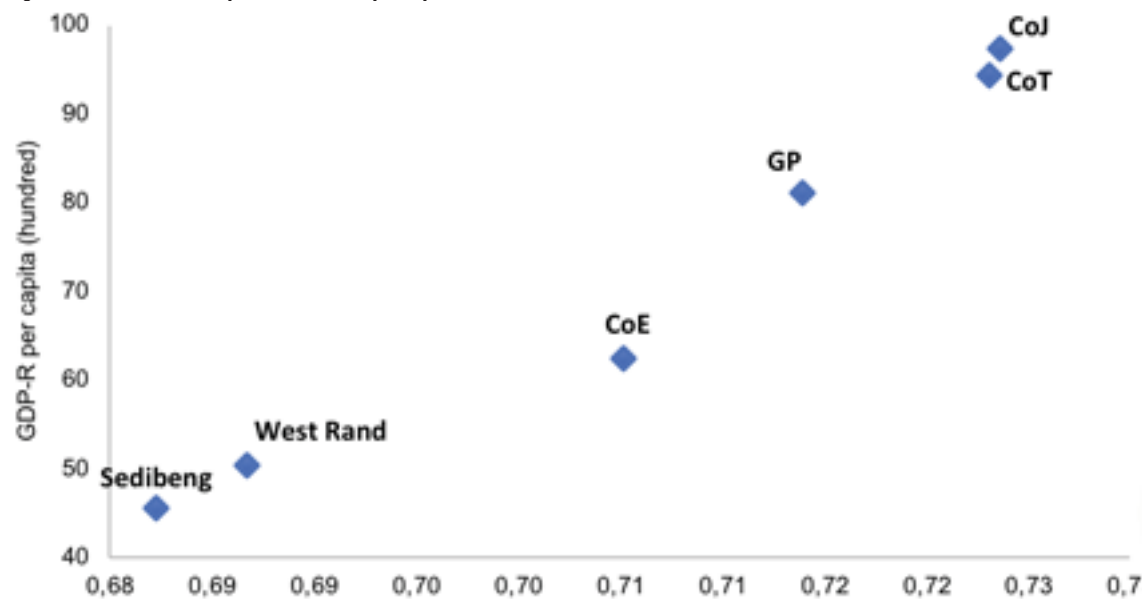
### 4.3.2 Development Indicators

This sub-section analyses indicators important in measuring progress in the development of communities in Gauteng's municipalities. It highlights trends in HDI across municipalities; health indicators; and educational attainment amongst the population aged over 20 years. Municipal provision of basic services, an important contributor to communities' standard of living, is also analysed.

#### Human Development

Human development has improved notably in Gauteng's municipalities, increasing by 2016 to an average of approximately 0.72 in the metros and 0.68 in the districts from about 0.67 and 0.61 respectively in 1996. This is partly because of better economic opportunities and increased provision of health and education services post-1994.

Figure 4. 14: Human Development and GDP-R per Capita, 2016



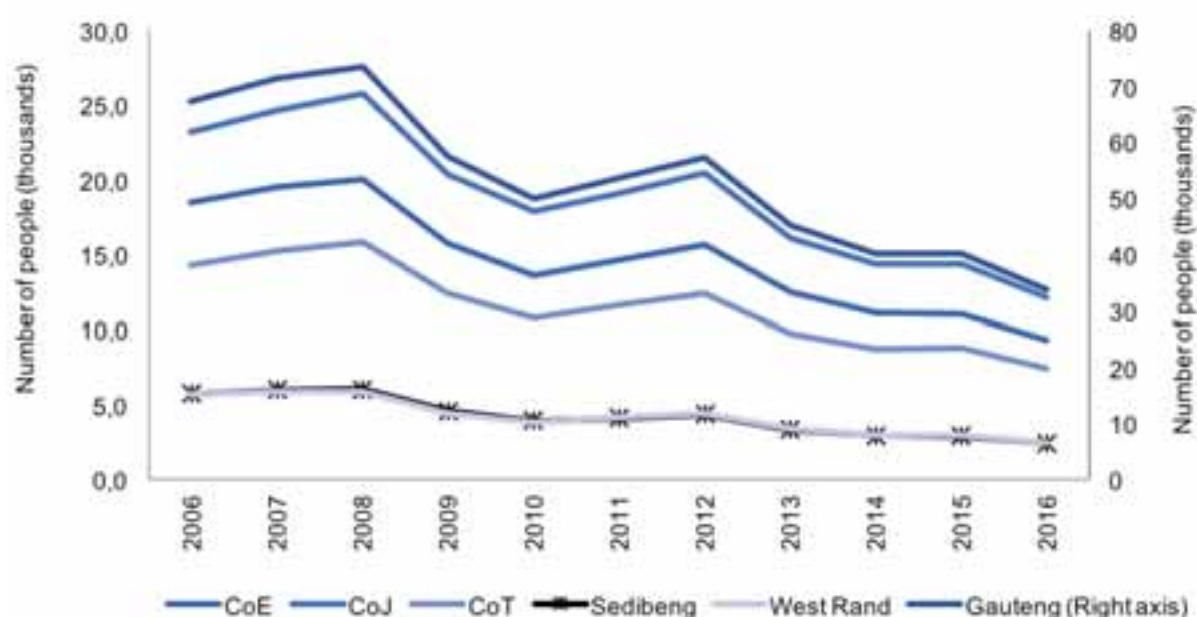
Source: IHS Markit Regional eXplorer, 2017

Figure 4.14 shows the HDI for Gauteng and its municipalities for 2016. The graph shows a strong positive relationship between GDP-R per capita and HDI. At 0.72, HDI was highest in the CoJ which also had the highest GDP-R per capita at ZAR97 321.6, followed by the CoT with ZAR94 205.5. The HDI of the CoT equalled that of the CoJ. Sedibeng had the lowest scores, with a GDP-R per capita of ZAR45 672.1 and an HDI of 0.68.

#### Health Indicators

Despite challenges, GPG remains committed to strengthening the province's health system. Significant progress has been made in reducing the number of AIDS-related deaths. With the improvement in life expectancy at provincial level (see Figure 4.4), it can be expected that this would also be seen at municipal level.<sup>133</sup> Figure 4.15 below shows the estimated number of AIDS-related deaths in Gauteng and its municipalities between 2006 and 2016.

<sup>133</sup> More recent data relating to life expectancy at municipality level is not available. It was most recently updated in 2010.

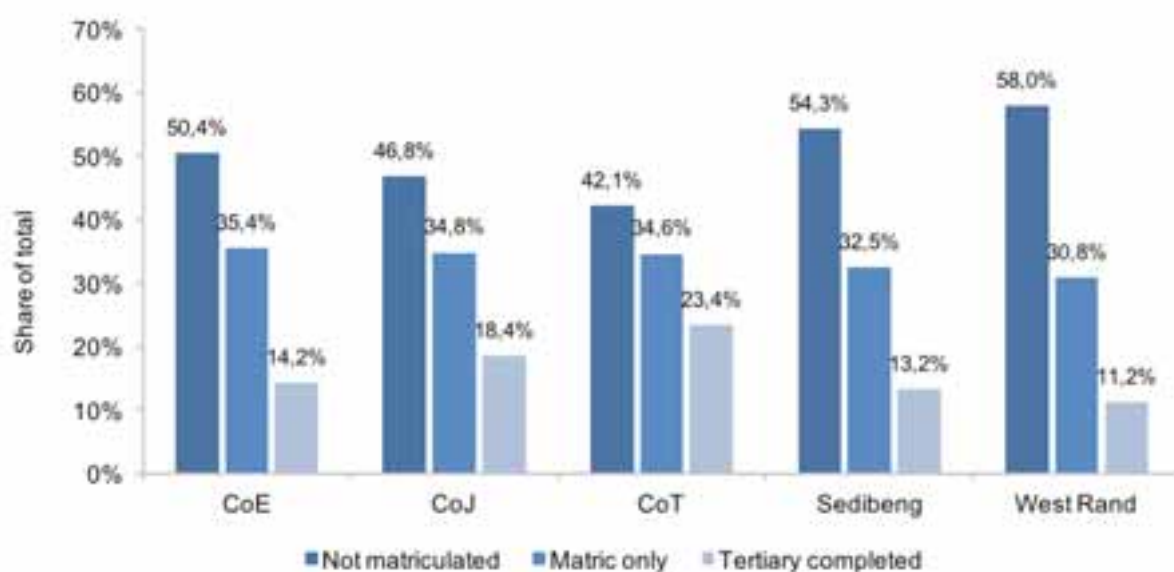
**Figure 4. 15: AIDS-related Deaths Estimates: Gauteng Municipalities, 2006-2016**

Source: IHS Markit Regional eXplorer, 2017

The figure above shows that the estimated number of AIDS-related deaths declined in Gauteng's municipalities between 2006 and 2016. In 2016, AIDS accounted for 33 815 deaths in the province; of these, 12 144 were in the CoJ and 9 302 and 7 443 in the CoE and CoT respectively. In the West Rand, an estimated 2 452 deaths were recorded in 2016 compared with 2 947 in 2015. In Sedibeng, the numbers decreased from 2 938 in 2015 to 2 474 in 2016.

### 4.3.3 Educational Attainment

Education is identified in the NDP as critical for eliminating poverty; reducing inequality; building an inclusive society that provides equal opportunities for all; and enabling all South Africans, and particularly those disadvantaged by apartheid, to realise their full potential.<sup>134</sup>

**Figure 4. 16: Highest Level of Education: People Aged Above 20 Years: Municipalities, 2016**

Source: IHS Markit Regional eXplorer, 2017

<sup>134</sup> National Planning Commission. (2017). *National Development Plan, Chapter 9: Improving Education, Training and Innovation*. Pretoria.



In the CoT, 23.4 per cent of people above the age of 20 had a tertiary education qualification in 2016, the highest percentage in the province. This metro also has the lowest proportion of people (42.1 per cent) who have not matriculated. The largest shares of the population who have not matriculated were in the district municipalities, at 58 per cent in the West Rand and 54.3 per cent in Sedibeng. The districts also had comparatively low shares of people who have completed tertiary education. This helps to explain why (as shown in Chapter 3) the districts have the highest unemployment rates amongst the province's municipalities, as the probability of being unemployed increases with not having a matric or higher education qualification.<sup>135</sup>

**Table 4. 2: Highest Levels of Education: People Aged Above 20 Years: Sedibeng and Its Locals, 2006 and 2016**

Level of Education	Year	Sedibeng	Emfuleni	Midvaal	Lesedi
No schooling	2006	34 758	25 073	3 909	5 776
	2016	22 606	15 748	2 820	4 038
Grade 0-2	2006	11 137	8 597	1 099	1 441
	2016	11 698	8 546	1 206	1 946
Grade 3-6	2006	57 673	45 890	5 279	6 504
	2016	45 677	34 900	4 595	6 182
Grade 7-9	2006	106 326	87 925	8 781	9 621
	2016	93 524	72 254	9 959	11 311
Grade 10-11	2006	121 618	100 820	10 795	10 003
	2016	163 263	125 657	17 363	20 242
Certificate / diploma without matric	2006	5 228	4 203	570	455
	2016	3 805	2 837	543	425
Matric only	2006	142 977	116 201	14 971	11 806
	2016	203 619	158 140	25 252	20 226
Matric & certificate / diploma	2006	29 656	24 435	3 116	2 104
	2016	42 377	33 668	4 852	3 858
Matric & Bachelor's degree	2006	13 590	10 420	1 936	1 235
	2016	28 559	21 580	4 308	2 671
Matric & Postgrad degree	2006	6 029	4 654	854	521
	2016	12 052	9 022	1 664	1 366

Source: IHS Markit Regional eXplora, 2017

Table 4.2 gives details of the highest levels of educational achievement for the population aged 20 years and above in Sedibeng and its local municipalities between 2006 and 2016. The number of people in the district with no schooling decreased from 34 758 in 2006 to 22 606 in 2016, with the largest decrease (9 325) in the Emfuleni local municipality.

<sup>135</sup> Statistics South Africa. (2014). *Education is Key to Better Labour Market Outcomes*. (Accessed 26 January 2018): [www.statssa.gov.za](http://www.statssa.gov.za).

**Table 4. 3: Highest Levels of Education: People Aged Above 20 Years: West Rand and its Locals, 2006 and 2016**

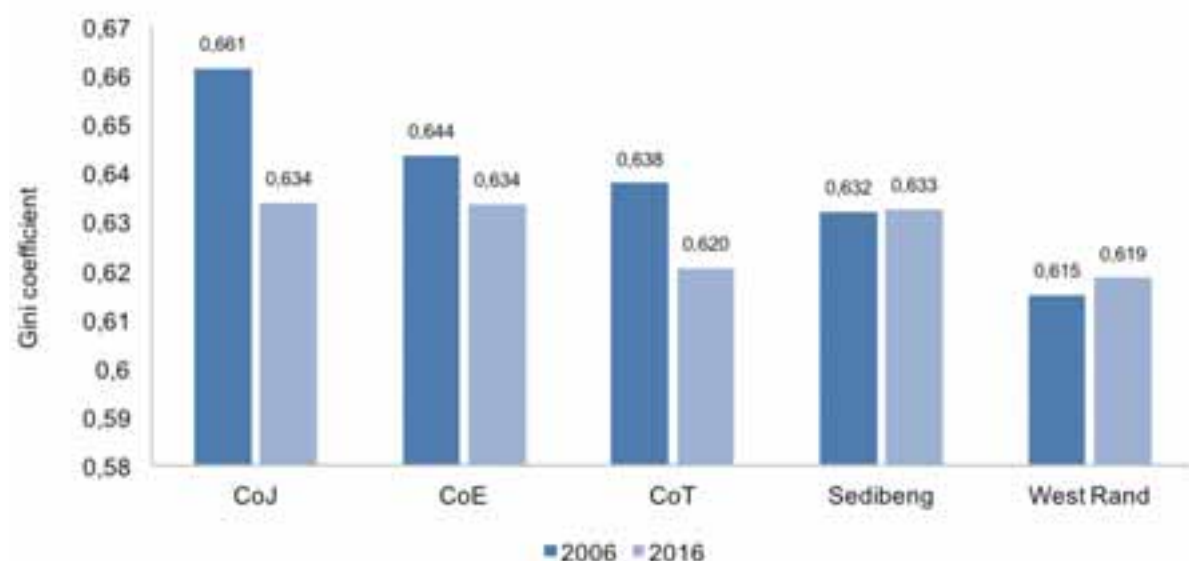
Level of Education	Year	West Rand	Mogale City	Merafong City	Rand West
No schooling	2006	39 837	15 276	12 781	11 779
	2016	20 947	8 480	6 238	6 229
Grade 0-2	2006	9 068	3 291	3 102	2 676
	2016	9 410	3 589	2 631	3 190
Grade 3-6	2006	66 292	23 439	21 426	21 427
	2016	47 280	17 582	13 421	16 277
Grade 7-9	2006	115 699	44 860	34 576	36 263
	2016	102 812	41 632	27 342	33 839
Grade 10-11	2006	107 031	45 805	28 518	32 709
	2016	142 843	63 472	33 877	45 495
Certificate / diploma without matric	2006	4 176	2 077	978	1 121
	2016	3 112	1 387	875	850
Matric only	2006	129 496	61 379	29 928	38 189
	2016	173 644	85 779	33 013	54 853
Matric & certificate / diploma	2006	25 929	14 096	4 969	6 865
	2016	32 599	17 074	7 203	8 323
Matric & Bachelor's degree	2006	11 237	6 616	1 980	2 641
	2016	21 103	13 408	3 190	4 506
Matric & Postgrad degree	2006	5 559	3 438	1 018	1 103
	2016	9 328	6 614	938	1 776

Source: IHS Markit Regional eXplora, 2017

Table 4.3 gives details of the highest levels of education achieved among the population aged 20 years and above in the West Rand and its local municipalities between 2006 and 2016. Overall, the number of people with no schooling declined from 39 837 in 2006 to 20 947 in 2016. The numbers fell by 6 796 in Mogale City, 6 543 in Merafong City and 5 550 in Rand West. The number of people whose highest educational attainment is matric increased from 129 496 to 173 644; those who had completed tertiary education increased by 20 305.

#### 4.3.4 Income Inequality

The aim of addressing high levels of inequality is to increase incomes and change their distribution in order to fight poverty.<sup>136</sup>

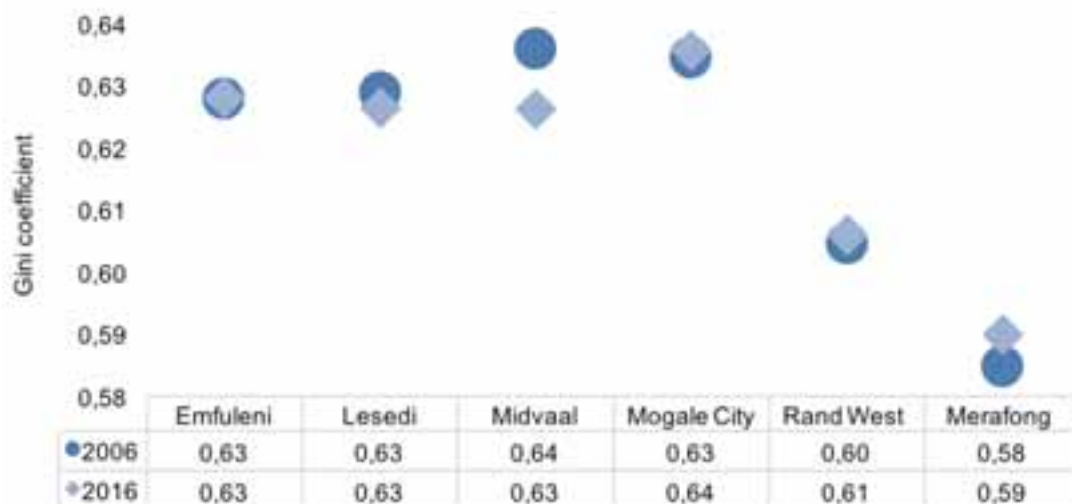
**Figure 4. 17: Gini Coefficient: Gauteng's Municipalities, 2006 and 2016**

Source: IHS Markit Regional eXplorer, 2017

<sup>136</sup> Gauteng Provincial Treasury. (2016). *Socio-Economic Review and Outcome*. Johannesburg.

Figure 4.17 shows the Gini coefficient for the province's metros and districts in 2006 and 2016. In 2006, the CoJ's coefficient of 0.66 was the highest. At 0.3, the largest reduction in income inequality occurred in this metro. Amongst all municipalities, the West Rand was the outlier, with income inequality increasing marginally, by 0.004, over the period.

**Figure 4. 18: Gini Coefficient: Local Municipalities, 2006 and 2016**



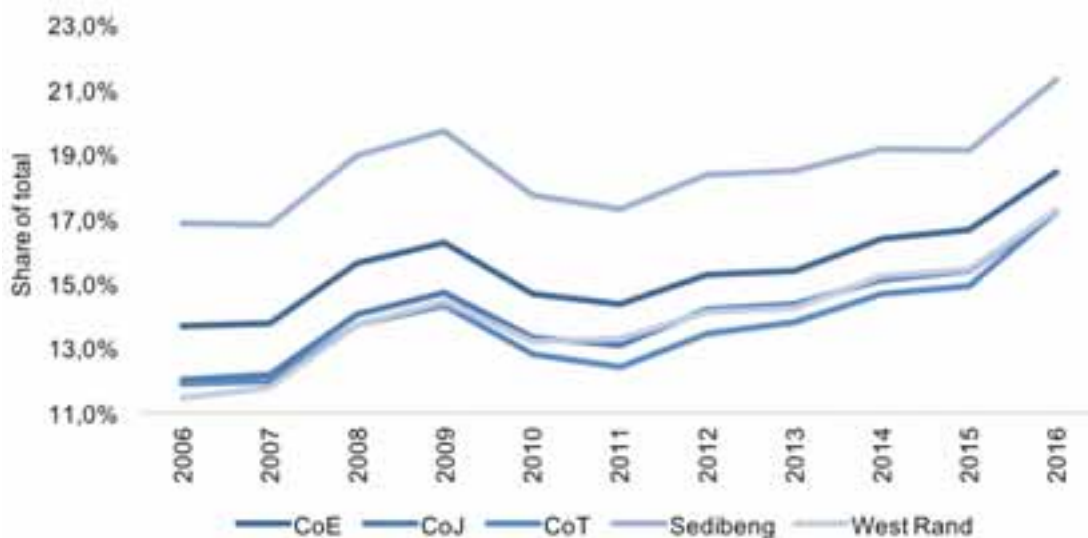
Source: IHS Markit Regional eXplora, 2018

Amongst the local municipalities, Mogale City had the highest income inequality in 2016, at 0.64. Merafong City, also in the West Rand district, had the lowest income inequality. As Figure 4.18 shows, municipalities other than Mogale City, Merafong and West Rand have seen small declines in levels of income inequality.

### 4.3.5 Poverty Trends

According to the results of the 2016 General Household Survey published by Stats SA in 2017, the percentage of South African households with inadequate or severely inadequate access to food decreased from 23.9 per cent in 2010 to 22.3 per cent in 2016.

**Figure 4. 19: Shares of People Below the Food Poverty Line: Municipalities, 2006-2016**

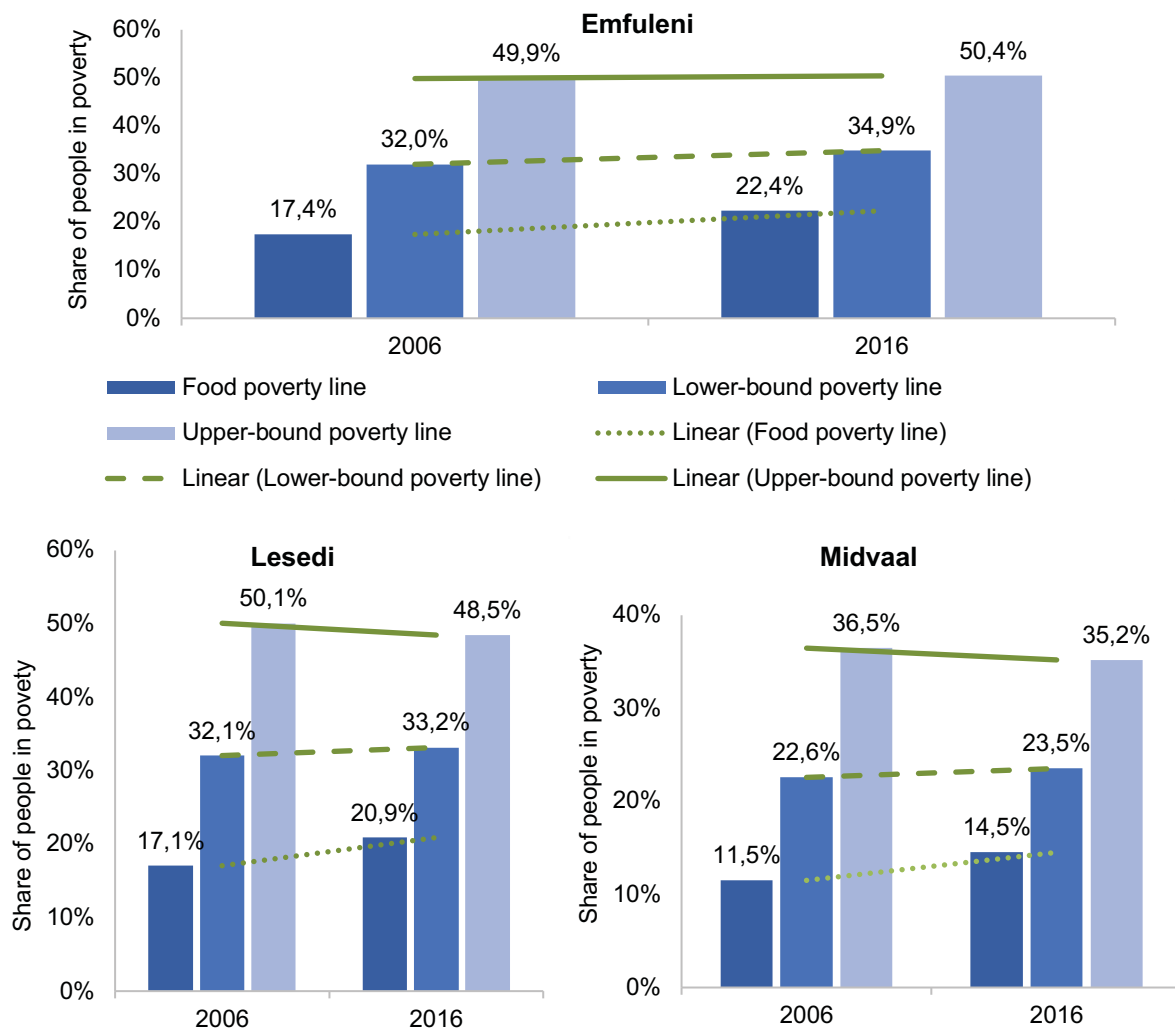


Source: IHS Markit Regional eXplorer, 2017

Figure 4.19 gives the number of people living below the food poverty line in the metros and district municipalities between 2006 and 2016, and shows a rising trend in all municipalities over the period. In 2016, there was a considerable increase in the proportion of people living below the food poverty line, to levels previously seen at the height of the global financial crisis. At 16.9 per cent in 2006 and 21.3 per cent in 2016, among the municipalities Sedibeng had the largest percentage of its people living below the food poverty line.

Amongst the metros, poverty ratios in the CoE were higher than in the CoJ or the CoT. In the CoT, 17.2 per cent of the population was living below the food poverty line in 2016, near-equaling the CoJ and the West Rand (17.3 per cent).

Figure 4. 20: Shares of People Living Below the Poverty Lines<sup>137</sup>: Sedibeng Locals, 2006 and 2016

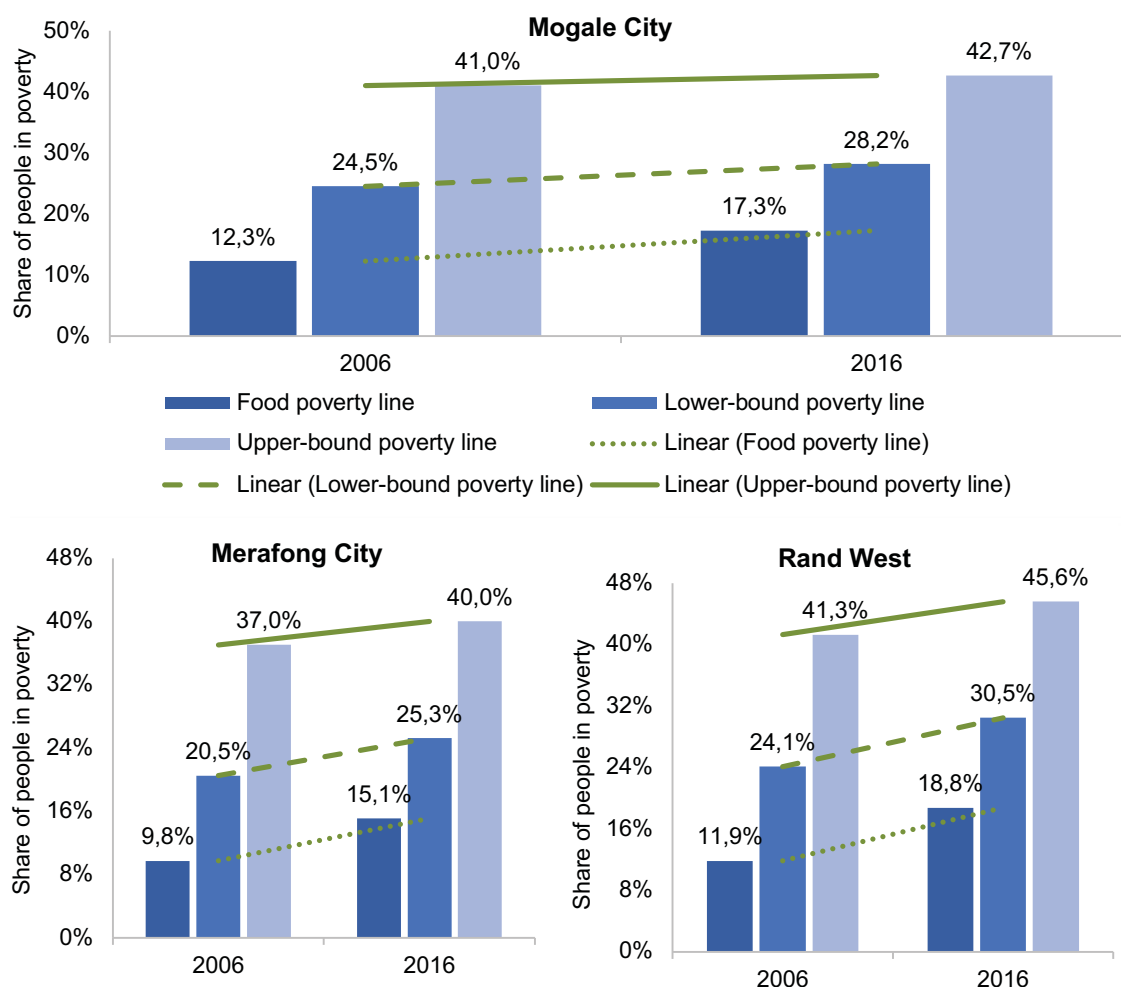


Source: IHS Markit Regional eXplora, 2017

Figure 4.20 shows the shares of people living below various poverty lines in Sedibeng's local municipalities in 2006 and 2016. Figures 4.20 and 4.21 include the upper- and lower-bound poverty lines, providing a comprehensive view of poverty trends in the local municipalities. This is important because local municipalities are more vulnerable to poverty as they tend to have greater difficulty in implementing policies aimed at social progress: for example, problems with service delivery.

Between 2006 and 2016, the shares of people living below all three poverty lines increased in Emfuleni. There was a decline for the upper-bound poverty line in Midvaal and Lesedi. In 2016, Emfuleni had a larger percentage of people living in poverty than Midvaal or Lesedi. It has a higher population than the other local municipalities and, because of its larger economic size, tends to attract more migrants seeking economic opportunities.

<sup>137</sup> According to Stats SA (2016), poverty lines capture different degrees of poverty and allow the country to measure and monitor poverty at different levels. The food poverty line measures the number of people living below ZAR498 per person per month. The upper-bound poverty line measures those living below ZAR1 077, whilst the lower-bound line measures those living below ZAR714 per person per month.

**Figure 4. 21: Shares of People Below Poverty Lines: West Rand Locals, 2006 and 2016**

Source: IHS Markit Regional eXplora, 2017

Figure 4.21 shows the share of people below the poverty lines in West Rand's local municipalities in 2006 and 2016. Poverty levels in all local municipalities had increased by 2016. In Mogale City, the share of people below the food poverty line increased from 12.3 per cent to 17.3 per cent, with the proportion of people below the other poverty lines also increasing. Merafong City's poverty levels were lower than those of Mogale City or Rand West.

#### 4.3.6 Provision of Basic Services

Provision of basic services is an important municipal function, and municipalities have a mandate to ensure that the relevant infrastructure is in place and is adequate for providing uninterrupted access to services for communities and businesses in their areas. Provision of basic services is also critical to fighting poverty and inequality, with projects to install and maintain infrastructure important for job creation.

**Table 4. 4: Access to Household Infrastructure: Municipalities, 2014 and 2016**

	Gauteng	CoE	CoJ	CoT
Formal Housing	79.7% ↑	77.9% ↑	80.6% ↑	80.3% ↓
Sanitation	90.8% ↑	90.5% ↑	95.3% ↑	83.7% ↑
Water	96.2% ↑	96.5% ↑	97.5% ↑	94.3% ↑
Electricity	86.9% ↓	81.8% ↑	89.8% ↓	88.2% ↓
Refuse Removal	90.0% ↓	90.2% ↑	93.8% ↓	85.0% ↑

Source: IHS Markit Regional eXplora, 2017

Note: The arrows show changes between 2014 and 2016. The red downward pointing arrows show declines, while the green upward pointing arrows show increases.

Between 2014 and 2016, the proportion of households with access to formal housing increased to 77.9 per cent in the CoE and 80.6 per cent in CoJ. At 80.3 per cent, the CoT was the only metro where there was a decline in the proportion of households with formal housing although this was off a relatively high base. At 97.5 per cent, the CoJ had the highest proportion of households with access to piped water, followed by the CoE at 96.5 per cent. At 89.8 per cent and 88.2 per cent respectively, in the CoJ and the CoT there was a decline in the proportion of households with access to electricity. 81.8 per cent of households in the CoE had access to electricity. At 93.8 per cent, the CoJ was the only metro where there was a decrease in the proportion of households with access to refuse removal.

**Table 4. 5: Access to Household Infrastructure: Sedibeng and its Locals, 2014 and 2016**

	<b>Sedibeng</b>	<b>Emfuleni</b>	<b>Midvaal</b>	<b>Lesedi</b>
Formal Housing	84.8% ↑	85.7% ↑	81.2% ↑	82.3% ↑
Sanitation	92.7% ↑	93.5% ↑	88.4% ↑	1.8% ↑
Water	97.0% ↑	98.1% ↑	91.7% ↑	95.3% ↑
Electricity	90.8% ↑	92.9% ↑	80.7% ↑	86.9% ↓
Refuse Removal	91.2% ↑	92.4% ↑	86.2% ↑	88.1% ↑

Source: IHS Markit Regional eXplora, 2017

Note: The arrows show changes between 2014 and 2016. The red downward pointing arrows show declines, while the green upward pointing arrows show increases.

Table 4.5 shows the proportion of households with access to basic household infrastructure in Sedibeng and its local municipalities. Over 80 per cent had access to formal housing and sanitation in 2016. At 85.7 per cent, Emfuleni had the highest proportion of households with access to formal housing, followed by Lesedi at 82.3 per cent. Lesedi was the only local municipality with a slight decline in the proportion of households with access to electricity.

**Table 4. 6: Access to Household Infrastructure: West Rand and its Locals, 2014 and 2016**

	<b>West Rand</b>	<b>Mogale City</b>	<b>Merafong</b>	<b>Rand West</b>
Formal Housing	73.7% ↑	73.7% ↑	78.0% ↓	70.5% ↑
Sanitation	89.9% ↑	91.0% ↑	90.6% ↑	87.8% ↑
Water	93.3% ↑	93.5% ↑	92.5% ↑	93.6% ↑
Electricity	81.3% ↓	84.5% ↓	85.8% ↓	73.0% ↓
Refuse Removal	83.6% ↑	85.3% ↑	81.7% ↑	82.4% ↑

Source: IHS Markit Regional eXplora, 2017 Note: The arrows show growth changes between 2014 and 2016. The red downward pointing arrows show declines, while the green upward pointing arrows show increases.

In the West Rand district, the proportion of households with access to formal housing increased in all local municipalities except Merafong. However, despite the decline (to 78 per cent), Merafong had a higher proportion of households with access to formal housing than Mogale City (73 per cent) and Rand West (70.5 per cent). There was a significant decline in the proportion of households with access to electricity in all local municipalities in the West Rand. At 93.6 per cent, Rand West had the highest proportion of households with piped water, followed by Mogale City at 93.5 per cent.

## 4.4 Conclusion

The living standards of the majority of South Africans have improved since the beginning of the democratic era and strides have been made in improving human development through, for example, reducing AIDS-related deaths and improving access to education. Provision of basic services has also improved across the country and in Gauteng's municipalities, with a larger share of the population having access to basic services.

However, especially in the past five years, economic conditions have slowed the pace of progress and, in some instances, it has been reversed. The population has grown by 1.6 per cent nationally and by 2.7 per cent between 2016 and 2017, with the economy growing more slowly. This implies a reduction in GDP per capita, necessary for government's efforts to bring about social progress.

The effects of low economic growth can be seen in the national and provincial economies. Between 2015 and 2016, the share of the population living below the food poverty line increased in South Africa and Gauteng, and the trend is expected to have continued into 2017. Levels of income inequality also increased, especially at provincial level, with notable increases in the district municipalities.

The unfavourable economic environment has had negative implications for government finances and has limited opportunities for job creation. Healthy public finances are key to implementing the social programmes necessary for human development and an improved standard of life for citizens. Lack of employment has negative implications for addressing poverty and inequality. This places government in a difficult position as it attempts to balance its spending commitments with ensuring healthy public finances. An improved domestic and global economic growth outlook from 2018 should be positive for the socio-economic landscape of the country and the province.







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