



This second quarter 2012 economic update focuses on the latest economic development trends of the global economy and South Africa (SA) and pays specific attention to the performance of the Eastern Cape (EC) economy. Data is drawn from Statistics South Africa, South African Reserve Bank and Quantec.

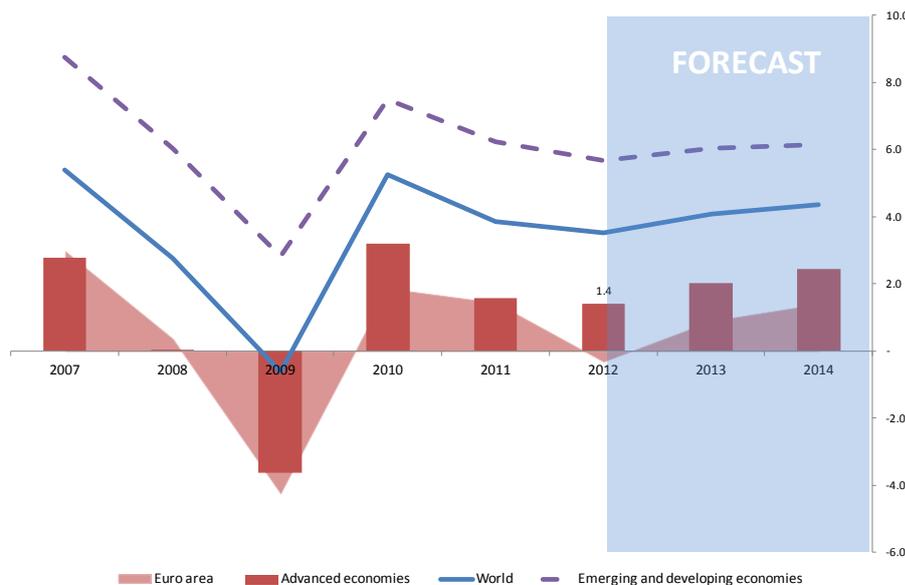
Performance of the Global Economy

The global economy is showing signs of slow recovery in this quarter because of continuing weakness and the ongoing financial problems in Europe. The International Monetary Fund (IMF) projects that global growth will be 3.5% in 2012 and 4.1% in 2013. These forecasts are based on two important assumptions:

- that there will be sufficient policy action in the Euro area that will allow financial conditions to ease gradually
- recent policy easing in emerging market economies has gained momentum

In contrast to trends in the global economy, growth in the emerging economies will be stronger, with projections of 5.7% in 2012 and 6.0% in 2013. This higher growth rate in emerging economies as compared to the Euro zone, advanced economies and World, suggests that the emerging markets have weathered the current crisis better.

Figure 1: Global GDP growth, 2007-2014



Source: IMF, World Economic Outlook, 2012

During the second quarter of 2012, Gross Domestic Product (GDP) growth has been sluggish but positive in Brazil (0.4% compared to 0.1% in the previous quarter) and China (up from 1.6% to 1.8%). Growth slowed strongly in Japan (0.2% compared with 1.3%) and Australia (0.6% compared with 1.4%), Growth in France remained unchanged from the previous quarter. Growth in a number of the emerging economies was weaker especially for Brazil, China and India and this was due to both sharp declines in domestic demand in response to capacity constraints and policy tightening and a weaker external environment. Many emerging economies experienced increased investor risk aversion and perceived growth uncertainty. This led to capital outflows and currency depreciation and a decline in the prices of equities.

The Euro Zone has been at the centre of further escalation in financial market stress triggered by increased political and financial uncertainty in Greece; general loss of confidence; doubts about governments' ability to deliver on fiscal adjustment and reform; as well as unwillingness of partner countries to help. Job creation has slowed, with already high unemployment rates exacerbated in many advanced economies, especially among youth in the Euro zone. The Euro zone is expected to go to mild recession in 2012.

Table 1: Selected Country's Economic Indicators, 2012

Countries	Population (millions)	Unemployment rate (%)	GDP, constant prices (% change)	GDP, constant prices (U.S. Dollars; Billions)	Investment (% of GDP)	Current account balance (U.S. Dollars; Billions)	General government net lending/borrowing
Austria	8	4.30	0.92	272	22.97	7.32	-0.71
Brazil	197	6.00	1.47	1523	20.19	-62.34	-2.14
China	1354	4.10	7.83	16657	47.78	190.68	-1.30
Egypt	82	12.72	1.96	595	17.23	-8.67	-11.12
France	63	10.14	0.12	1804	20.24	-44.76	-4.70
United Kingdom	63	8.13	-0.38	1432	14.75	-80.59	-5.57
India	1223		4.86	58004	36.00	-74.54	-9.52
Japan	128	4.51	2.22	519212	20.28	95.39	-10.03
South Africa	51	24.38	2.59	1945	20.95	-21.37	-4.99

Source: IMF, World Economic, 2012

Slowdown in economic growth worldwide has inhibited employment creation. Table 1 shows that unemployment has remained high in developed countries but even higher in South Africa. Challenges for South Africa in reducing unemployment include low levels of educational attainment and lack of marketable and practical skills among high school graduates. This means young find it hard to find work and lack entrepreneurial skills to start up their own businesses. If unemployment is not addressed in South Africa, the persistently high unemployment rate is likely to become politically and socially unsustainable.

Downside Risks to Growth

Downside risk persists in both developed and developing countries as the weaker global outlook continues. Growth continues to be sluggish globally, and unemployment to rise, especially in the developed economies. The weaker growth in the second quarter of 2012 is due to the continuing sovereign debt crisis and fiscal tightening in many countries. This weaker growth is characterised by risk emanating from delayed or insufficient policy action that will further escalate the Euro crisis. There are other downside risks that are related to fiscal policy in other advanced economies. The recent political gridlock in the United States (U.S.) also raised fears of excessive fiscal tightening and insufficient progress in developing credible plans for medium term fiscal consolidation.

Downside risk in emerging markets and developing economies is mainly associated with external factors in the short term. There has been a tightening of policy in response to signs of overheating in these economies. Growth in these economies might be lower than expected even though it has been above historical trends over the past decade. This growth was partly supported by financial deepening and rapid credit growth that probably generated too much optimism about potential growth.

Economic performance in South Africa and the Eastern Cape

South Africa’s GDP at market prices has increased to 3.2% in the second quarter of 2012, up from 2.7% in the first quarter. The contributors to this increase in economic activity were mining (contributing 1.5 percentage points based on growth of 31.2%), followed by finance (contributing 0.5 percentage points based on growth of 2.3%) and wholesale and retail trade (contributing 0.4% based on growth of 2.8%).

The mining sector showed positive growth due to higher production levels in other metal ores and coal. The slow growth experienced in Finance is mainly due to a decline in banking services, among other things.

Eastern Cape GDP growth declined drastically in the second quarter to 1.6% from 2.7% in the first quarter.

Figure 2: Seasonally adjusted GDP growth at constant 2005 prices



Source: Statistics South Africa, 2012

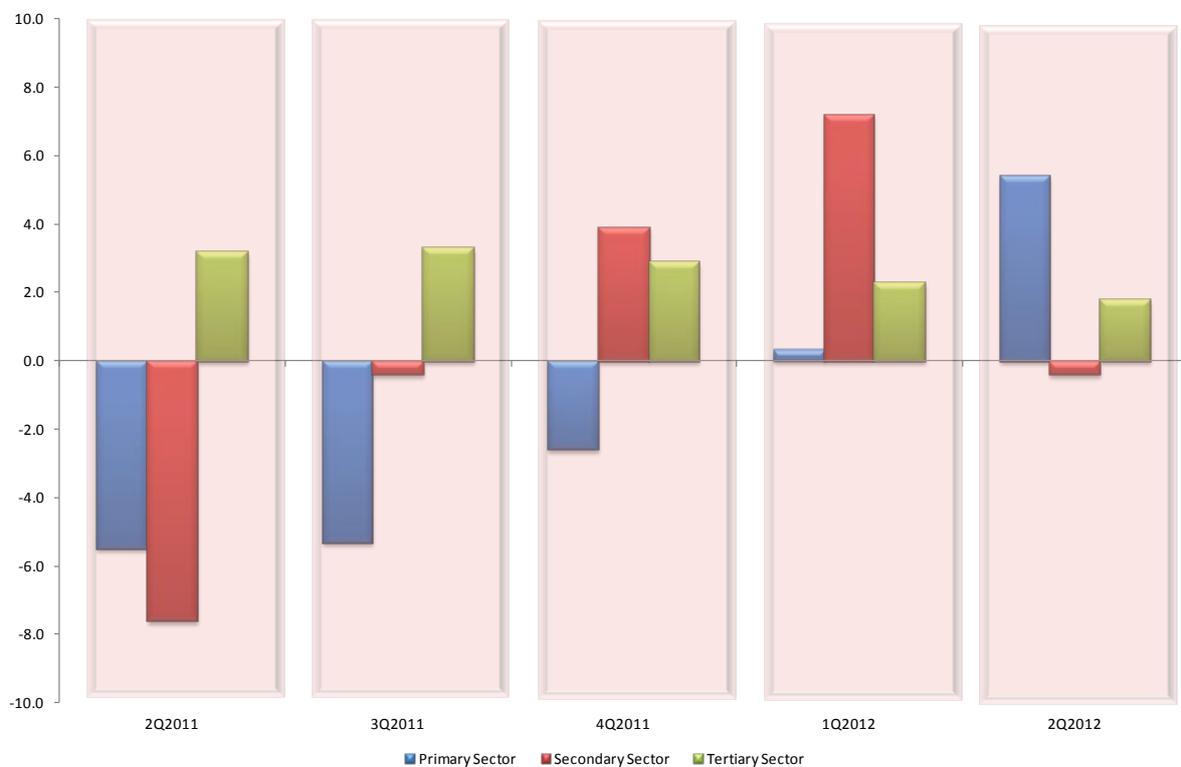
Figure 3 below depicts the EC’s sectoral growth performance from the second quarter of 2011 to the second quarter of 2012. There was a reduction in the EC’s GDP growth in the second quarter. This reduction is attributable to volatile growth patterns in the primary and secondary sectors.

Primary sector growth increased drastically in the second quarter of 2012, reaching 5.4% as compared to the negative growth of 5.5% in the second quarter 2011. This good performance in the primary sector is attributed to rapid growth in the mining and quarrying industry. Mining and quarrying has grown by 71.4% in the second quarter 2012, up from from negative growth of 30.7% in first quarter 2012.

Growth in the secondary sector declined to -0.4% in the second quarter of 2012, down by 7.6 percentage points when compared to 7.2% in the first quarter of 2012. This poor performance was due to the decline in both the manufacturing and electricity industries. The manufacturing industry declined by 1.1% and electricity declined by 1.5% in the second quarter 2012.

The tertiary sector grew by 1.8% in the second quarter 2012. This performance is poor compared to the 2.3% attained in the first quarter 2012. In the second quarter 2012, what growth there was in the tertiary sector was attributed to the moderate performance of finance, real estate and business (1.9% in the second quarter 2012 compared to 3.3% in the first quarter 2012); and general government service (1.7% in the second quarter 2012 compared to the 2.1% in the first quarter 2012).

Figure 3: Sectoral Economic Performance of the Eastern Cape, 2Q2011-2Q2012



Source: Statistics South Africa, 2012

The EC's GDP growth of 1.6% in the second quarter of 2012 was led by growth in the primary (5.4%) and tertiary (1.8%) sectors. The growth was largest in the following sectors: mining and quarrying grew by 71.4%, followed by construction (4.6%) and agriculture, forestry and fishing (3.2%) (see Table 2). The mining and agriculture sectors are very small and their growth does not contribute much towards GDP of the province. In the second quarter of 2012, the manufacturing and electricity sectors contracted by 1.1% and 1.5% respectively. On the other hand, wholesale and retail trade, transport and communication, finance, real estate and business services, and general government services, grew by 1.6%, 1.9%, 1.9% and 1.7% respectively (see Table 2). Growth in these sectors was less than that attained in the first quarter of 2012.

Figure 4 shows that the main contributors to the GDP in the second quarter 2012, were finance (20.2%), followed by government (19.1%) and manufacturing (15.2%). Finance grew by 1.9% QoQ and government grew by 1.7% QoQ, while manufacturing declined by 1.1% in the same quarter.

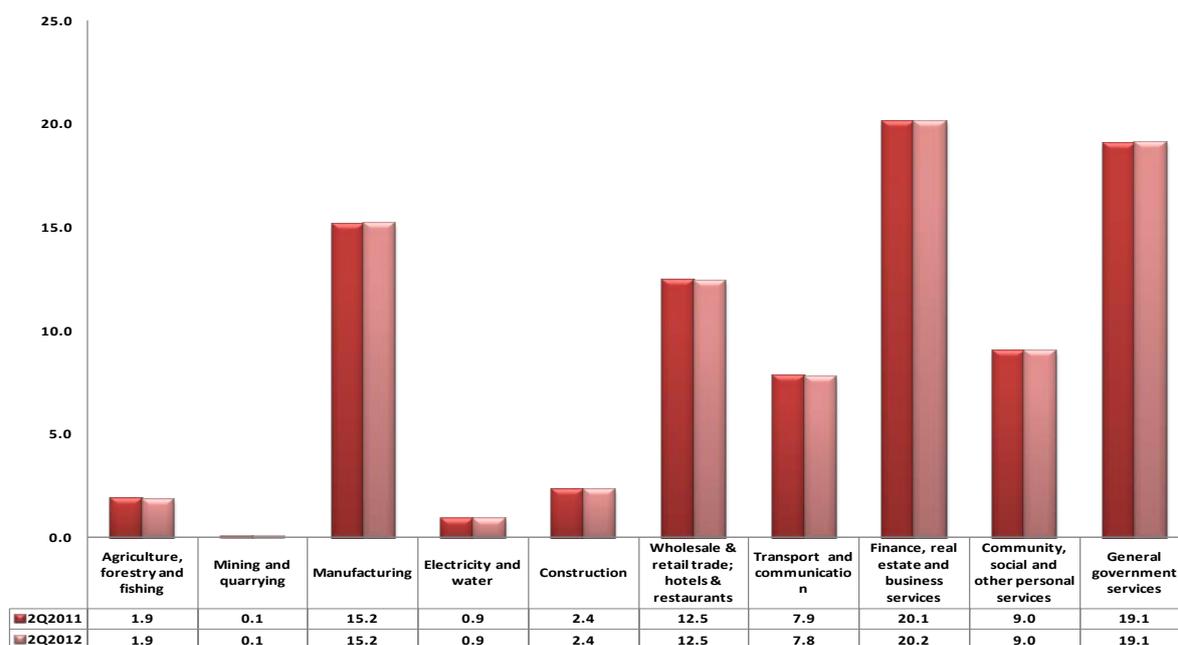
Table 2: % change in the seasonally adjusted GDP by sector in the Eastern Cape, 2Q2011-2Q2012

Sector	2Q2011	3Q2011	4Q2011	1Q2012	2Q2012
Agriculture, forestry and fishing	-5.3	-3.8	-2.8	1.9	3.2
Mining and quarrying	-8.7	-32.1	1.4	-30.7	71.4
Primary Sector	-5.5	-5.3	-2.6	0.3	5.4
Manufacturing	-9.3	-0.7	4.4	8.2	-1.1
Electricity and water	0.4	-1.0	0.4	0.0	-1.5
Construction	0.9	1.9	2.0	4.1	4.6
Secondary Sector	-7.6	-0.4	3.9	7.2	-0.4
Wholesale & retail trade; hotels & restaurants	3.0	3.5	3.0	1.7	1.6
Transport and communication	3.5	1.9	2.4	2.0	1.9
Finance, real estate and business services	2.2	3.6	1.8	3.3	1.9
Community, social and other personal services	2.7	2.4	2.9	1.6	2.0
General government services	4.7	3.9	4.0	2.1	1.7
Tertiary Sector	3.2	3.3	2.9	2.3	1.8
All industries at basic prices	0.7	2.3	2.9	3.3	1.4
Taxes less subsidies on products	3.4	3.5	3.2	4.0	3.2
GDPR at market prices	1.0	2.4	3.0	3.3	1.6

Source: Statistics South Africa, 2012

The manufacturing sector is directly affected by the crisis that continues in the Euro zone as it is SA's largest trading partner. There is economic instability in Greece, Italy, Spain and Portugal and this is likely to deepen the crisis and result in a recession. EC exporters will have to look for market elsewhere as the demand for their products will drop in Europe. The potential export market for the EC is in Asia. The countries that show rapid growth in the Asia include Bangladesh, Indonesia, Pakistan, Philippines, South Korea and Vietnam. Research has shown that these countries are growing and becoming attractive.

Figure 4: Sectors contribution to the Eastern Cape Economy, 1Q2012-2Q2012



Source: Statistics South Africa, 2012

Growth Trends in the Eastern Cape and Other Provinces

Table 4 depicts the growth trajectory for South Africa and the provincial economies from the second quarter 2011 to second quarter 2012. In the second quarter 2012 all the provincial economies managed to achieve positive growth whereas in first quarter of 2012 Northern Cape, North West and Limpopo experienced negative growth of 2.6%, 1.0% and 0.3% respectively. In the second quarter of 2012, Northern Cape had the largest growth of 9.7%, followed by North West (6.8%) and Limpopo (5.9%). The Eastern Cape had the lowest growth of 1.6% in the second quarter 2012 as compared to other provinces. This is due to a decline in the manufacturing sector which is mainly driven by automotive. The reliance on the auto sector makes the Eastern Cape more vulnerable to global fluctuations.

Table 3: Annualised GDP growth rates by province, 2Q2011-2Q2012

Province	2Q2011	3Q2011	4Q2011	1Q2012	2Q2012
Western Cape	1.4	3.0	3.1	3.9	2.2
Eastern Cape	1.0	2.4	3.0	3.3	1.6
Northern Cape	-0.2	-3.8	2.1	-2.6	9.7
Free state	0.4	-0.3	2.5	0.7	4.5
KwaZulu-Natal	0.6	2.3	3.3	3.7	2.1
North West	0.3	-1.9	2.3	-1.0	6.8
Gauteng	1.5	2.9	3.7	3.8	2.6
Mpumalanga	-0.8	-0.8	2.7	1.1	4.3
Limpopo	1.1	-0.9	2.4	-0.3	5.9
South Africa	1.0	1.7	3.2	2.7	3.2

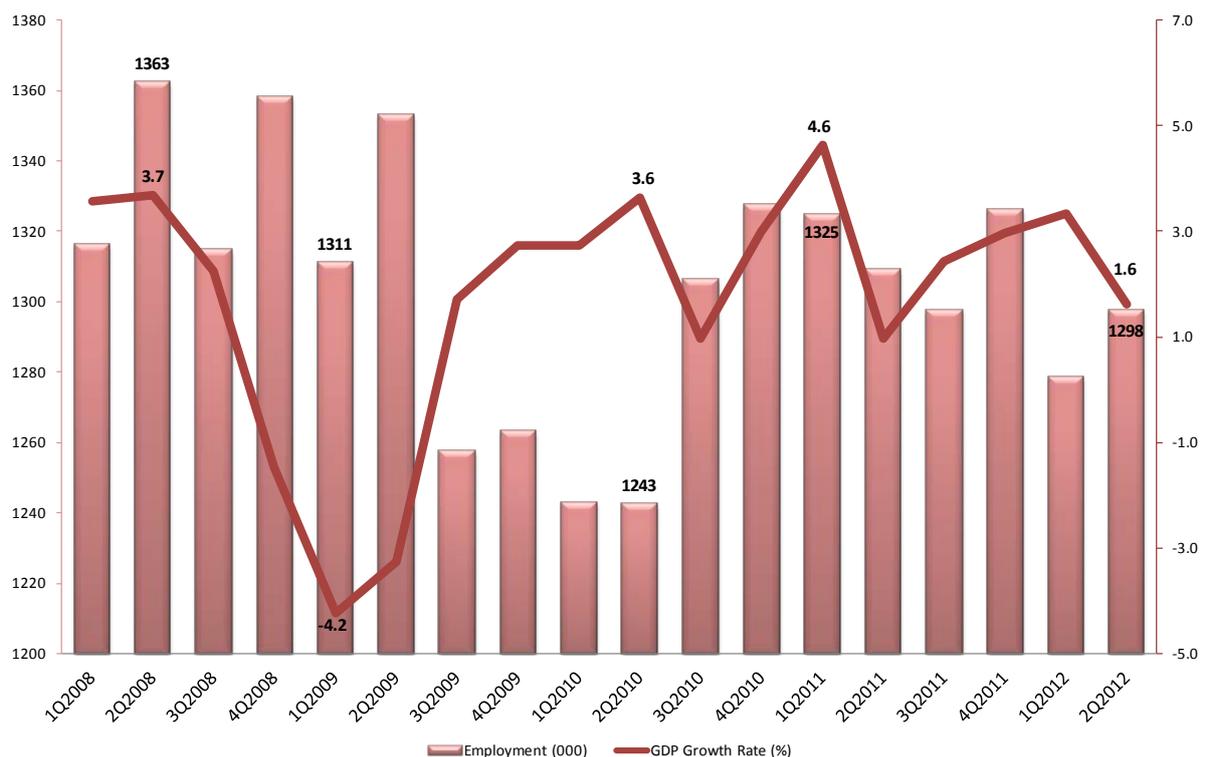
Source: Statistics South Africa, 2012

Labour Market Trends in the Eastern Cape

In the second of quarter of 2012 the unemployment rate of the Eastern Cape was 3.4 percentage points higher than that of the country as a whole. It increased from 28.3% in the first quarter of 2012 to 28.6% in the second quarter of 2012. This slight increase in the unemployment rate is partly attributed to 32 000 jobs shed in the informal sector (Non-agricultural). To reduce unemployment, the provincial administration needs to increase its focus on youth graduates and on fixing the education system.

Following a rise in the unemployment rate (28.3%) in the first quarter 2012, it increased slightly to 28.6% in the second quarter 2012. In the second quarter of 2012 the formal sector (non-agriculture) in the Eastern Cape grew by 25 000 QoQ and 6 000 YoY, while the informal sector (non-agriculture) shed 32 000 jobs QoQ and 25 000 YoY (see Table 5). In the same quarter, the number of discouraged work seekers (people that have given up looking for work) decreased by 16 000 QoQ between the first and second quarters, from 399 000 to 383 000. However, the number grew by 1 000 YoY. The population aged 15 to 64 increased by 12 000 people leading to a 2% QoQ increase in the labour force. It grew by 36 000 QoQ but declined by 21 000 YoY.

Figure 5: Employment and GDP Growth Rate in the Eastern Cape, 1Q2008-2Q2012



Source: Statistics South Africa, 2012

Table 4: Labour Statistics in the Eastern Cape between 1Q2012 and 2Q2012

Eastern Cape labour market	Numbers (000)				Percentage	
	1Q2012	2Q2012	YoY change	QoQ change	YoY change	QoQ change
Formal (non-agricultural)	852	877	6	25	0.7	2.9
Informal (non-agricultural)	286	254	-25	-32	-9.0	-11.2
Total Employment	1 279	1 298	-11	19	-0.8	1.5
Unemployment	504	521	-10	17	-1.9	3.4
Labour force	1 783	1 819	-21	36	-21.0	2.0
Discouraged work-seekers	399	383	1	-16	-4.0	0.3
Not economically active	2 420	2 396	69	-24	3.0	-1.0
Population working age (15-64 yrs)	4 203	4 215	48	12	1.2	0.3
Labour absorption rate	30.4	30.8	-0.6	0.4		
labour force participation rate	42.4	43.2	-1.0	0.8		
Unemployment rate	28.3	28.6	-0.3	0.3		

Source: Own calculation derived from Statistics South Africa, 2012

Table 5 contrasts sectors that generate employment to those that are static or shedding jobs. It shows that government, agriculture and private households were the main employment generators. Employment levels declined in the second quarter 2012 in the following sectors: finance, transport, trade and construction. Mining, manufacturing and utilities remained static in this quarter. The finance sector is the sector that experienced the biggest decline in employment of 24 000 QoQ and 37 000 YoY. Employment in the manufacturing sector in the in the EC remained unchanged at 158 000 QoQ but declined by 43 000 YoY. The construction sector in the EC continued to decline and shed 2000 jobs QoQ, bringing the total number of jobs lost YoY to 12 000. In contrast to the declines in some sectors, there was a strong growth in the community services sector, with employment increasing by 27 000 QoQ and 37 000 YoY, with growth of 8% QoQ and 11.3% YoY, respectively in the second quarter of 2012. Private households created 12 000 QoQ jobs, reversing the sharp decline experienced in the last quarter of 2011 and the first quarter of 2012.

Table 5: Eastern Cape Employment by sector, 1Q2012-2Q2012

Employment Generators			
Sectors	Employment		Jobs created
	1Q2012	2Q2012	
Community and social services	336 000	363 000	27000
Agriculture	4 700	60 000	13000
Private Households	94 000	106 000	12000
Employment stays the same			
Mining	0	0	0
Manufacturing	158000	158000	0
Utilities	7000	7000	0
Employment losers			
Finance	126000	102000	24000
Transport	75000	69000	6000
Trade	327000	324000	3000
Construction	108000	106000	2000
Total	1235700	1295000	17000

Source: Statistics South Africa, 2012

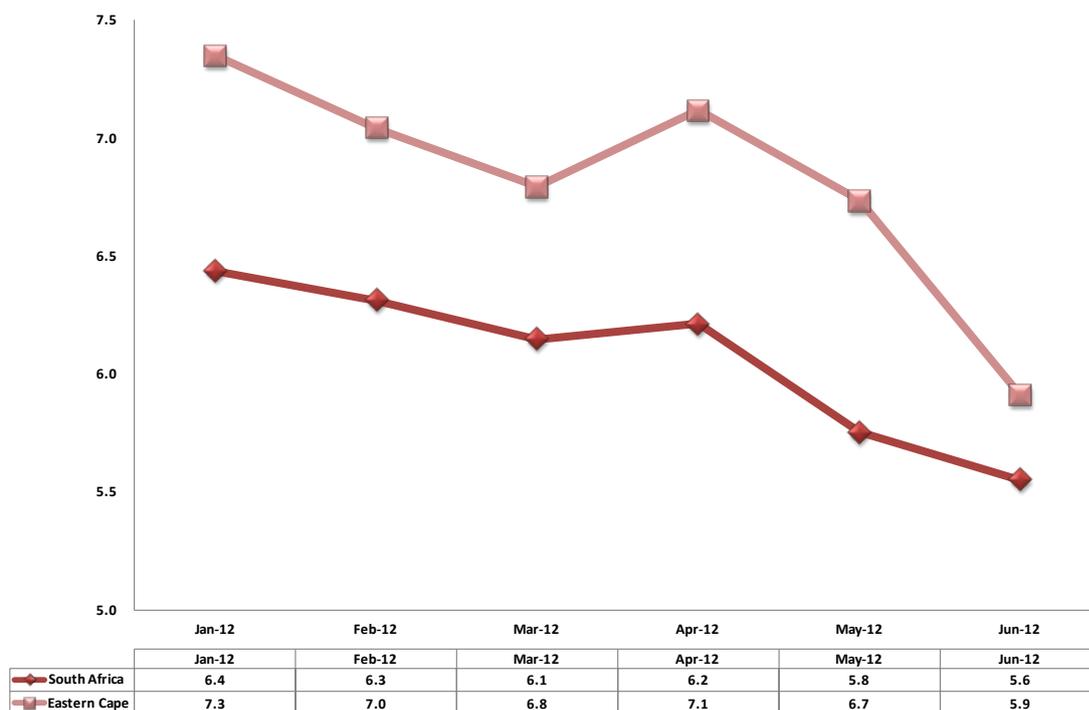
Inflation Trends in the Eastern Cape and South Africa

Annualised inflation slowed from April 2012 to June 2012. This decline was experienced by both South Africa and the Eastern Cape. Figure 5 shows that between January 2012 and June 2012, inflation in the EC followed the same downward trajectory as South Africa. But the CPI in the Eastern Cape remained higher than that of the country as a whole.

From January 2012 to April 2012, inflation in SA was outside the targeted band of 3% to 6%. It fell within the targeted band in May 2012 and reached 5.6% in June 2012. From January 2012 to May 2012, inflation in the Eastern Cape was outside the targeted band apart from in June 2012 when it reached 5.9%.

Table 6 below shows consumer inflation by province and for South Africa. Consumer inflation continued to decline throughout the second quarter 2012 in all provinces and for SA. Western Cape, Gauteng and Limpopo are the provinces with lowest inflation which is well below the national average. The Northern Cape had the highest inflation of around 7% on average throughout the second quarter of 2012.

Figure 6: Consumer inflation for Jan-2012 to Jun-2012



Source: Statistics South Africa, 2012

Table 6: Geographical Consumer Inflation (April 2012-June 2012)

Geographical Area	Second Quarter 2012		
	April	May	June
Western Cape	5.7	5.3	5.3
Eastern Cape	7.1	6.7	5.9
Northern Cape	7.5	7.2	7.0
Free state	6.2	5.9	5.8
KwaZulu-Natal	6.6	6.2	5.8
North West	6.5	5.9	5.9
Gauteng	6.1	5.5	5.4
Mpumalanga	6.5	6.0	6.2
Limpopo	5.9	5.7	5.5
South Africa	6.2	5.8	5.6

Source: Statistics South Africa, 2012

Other Economic Indicators

Recent developments in the finance sector, energy sector, housing sector and auto sector are indicated in the table below.

Table 7: Other selected Indicators for the Eastern Cape: Jan 2012 to Jun 2012

Indicators: Eastern Cape	Measure	1Q2012			2Q2012		
		Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12
Civil cases - PE (Number)	Number of cases	4 188	6 720	11 178	4 986	4 543	3 038
Civil cases - EL(Number)	Number of cases	264	345	160	152	159	125
Electricity distributed by Eskom (Eastern Cape)	Gigawatt-hours	844	816	859	763	839	802
Building plans passed (Eastern Cape)	Number	139	13	58	31	50	106
Buildings completed (Eastern Cape)	Number	310	157	241	89	241	219
Total sales (Local and Exports)-EC	Number	59 807	74 942	80 120	60 265	72 844	78 906

Source: Quantec, 2012

- **Finance Sector:** The number of civil cases in Port Elizabeth (PE) has been decreasing in the second quarter of 2012 while East London (EL) has increase from Apr 2012 to May 2012 and started declining in Jun 2012. The number of civil cases both in PE and EL had a negative growth in Jun 2012 of 33.1% MoM and 21.4% MoM respectively.
- **Energy sector:** In June 2012, electricity distributed by Eskom declined by 4.4% MoM.
- **Building sector:** In June 2012, the number of building plans passed increased by 110% MoM, reflecting a positive growth for this quarter. Buildings completed in Jun 2012 fell by 9.1% MoM after an impressive increase in May 2012.
- **Auto sector:** The auto sector in the EC continues to grow despite the Euro crisis. The growth in this sector has been supported by a decline in the interest rate. There was an increase in total vehicle sales (local and export) in the second quarter 2012.

Table 8: Manufacturing indicators in the Eastern Cape, 2Q2011-2Q2012

Manufacturing: Eastern Cape	2Q2011	3Q2011	4Q2011	1Q2012	2Q2012
Domestic sales volumes (Net balance)	23	42	-18	48	66
General business conditions (Net balance)	34	-24	-27	-73	-13
Number of factory workers (Net balance)	-7	-70	-28	-65	-58
Fixed investment (Net balance)	-42	-52	3	5	66
Business confidence (% gross rating prevailing business conditions satisfactory)	65	69	37	5	20

Source: Quantec, 2012

The business confidence index reflects the percentage of respondents in the manufacturing sector indicating that business conditions are satisfactory. Manufacturing business confidence increased from 5% in the first quarter of 2012 to 20% in the second quarter of 2012. The manufacturing sector is one of the main contributing sectors to GDP in the Eastern Cape. Looking at manufacturing indicators in Table 9, there has been growth in the manufacturing sector compared to the previous quarter. Domestic sales experienced positive growth of 37.5% while general business conditions experienced negative growth of 82.2% in the second quarter 2012.

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Contact ECSECC

Physical Address: 12 Gloucester Road, Vincent, East London

Postal Address: Postnet Vincent, 5247

P/Bag X9063, Suite No 3025246, Vincent, 5247

Telephone: +27 (0) 43 701 3400

Fax: +27 (0) 43 701 3415

www.ecsecc.org

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