



2Q2011 = second quarter 2011
QoQ = Quarter-on-Quarter
YoY = Year-on-Year
GDP = Gross Domestic Product
CPI = Consumer Price Index
PPI = Producer Price Index
EC = Eastern Cape
RSA = Republic of South Africa

This quarterly economic review focuses on global, domestic and regional economic developments for the second quarter of 2011. It highlights the main post-recession challenges facing South Africa and shows how the economic growth has taken an "M-shape" and unemployment, a "V-shape". The report covers selected economic indicators for South Africa such as CPI, PPI, repo rate, prime rate, GDP, and employment. For the Eastern Cape, the report presents headline inflation, consumer confidence, manufacturing business confidence, vehicles sales, and trends in the labour and economic status.

Table 1: South Africa: selected economic indicators

CPI	YoY	May 2011	4.6	July 2011	5.3
PPI	YoY	May 2011	6.6	July 2011	8.9
Repo rate	Interest rate	Jun 2009	5.5	July 2011	5.5
Prime rate	Interest rate	Jun 2010	9.0	July 2011	9.0
Rand/USD	exchange rate	Jun 2011	6.8	July 2011	7.1
GDP	% QoQ	1Q2011	4.8	2 Q 2011	1.3
Unemployment	rate	1Q2011	25.0	2 Q 2011	25.7

Source: South African Reserve Bank, 2011

**Advanced
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**The Eastern
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in 2Q2011**

The main findings for the second quarter of 2011 are as follows: Firstly, a slowdown in the Eastern Cape economy (from growth of 4.4% in 1Q2011 to 1.3% in 2Q2011). Secondly, the cost of living rose considerably, making the Eastern Cape headline inflation rate the highest in country. Thirdly, the poor performance of the Eastern Cape economy is aggravated by job losses. In the second quarter of 2011 alone, 16 000 jobs were lost; 44 000 people were added to the list of unemployed; 14 000 people got discouraged from looking for jobs (for every person unemployed in the province, there were seven discouraged job-seekers); 28 000 people were added to the labour force and consequently, the unemployment rate rose to 28.9% in 2Q2011 compared to 26.9% in 1Q2011. Lastly, the Eastern Cape business confidence index for the manufacturing sector dropped to 34 in 2Q2011 from 78 in 1Q2011. Domestic sales volumes index (net balance) declined from 82 in 1Q2011 to 23 in 2Q2011.

Global economic developments

The advanced economies slowed considerably in the second quarter of 2011. There were two reasons for this: Firstly, the uncertainty regarding the raising of the federal debt ceiling in the US economy; secondly, consumer confidence was weakened by the fiscal credibility crisis in the Euro zone. Moderated growth was also registered in developing

Post-recession challenges in 2Q2011 include low economic growth, a high unemployment rate and an increasing cost of living

economies, including Brazil, Russia, India, China and South Africa (BRICS), as the pace of economic activity slowed in the second quarter of 2011.

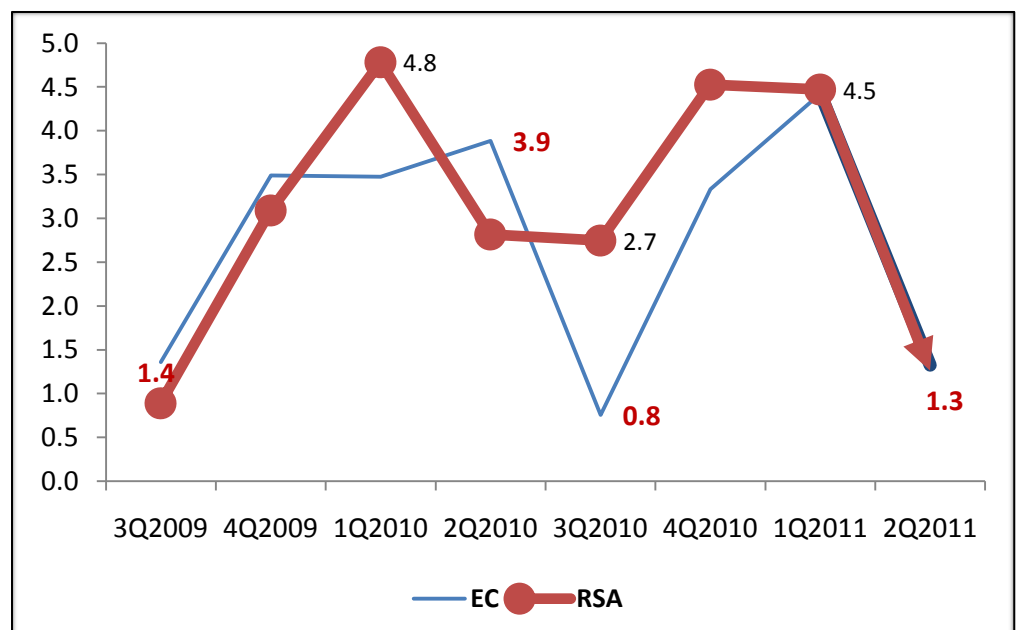
Domestic economic developments and post-recession challenges

Low economic growth, a high unemployment rate, and an increasing cost of living are amongst the post-recession challenges that the country needs to address. According to the South African Reserve Bank, the pace of increase in the real gross domestic product decelerated to 1.3% in the second quarter of 2011, a disappointing performance compared to that of 4.8% attained in the first quarter of 2011 (See Table 1). The poor performance of the South African economy in the second quarter of 2011 can mainly be attributed to a contraction in the primary and secondary sectors' real outputs.

Looking at the quarterly labour force survey released by Statistics South Africa, the number of unemployed rose by 174 000 resulting in an increase in the unemployment rate from 25.0% in the first quarter of 2011 to 25.7% in the second quarter of 2011. Of great concern is the number of discouraged work-seekers (2.2 million). The number of people who gave up looking for jobs is equivalent to the entire population of Namibia. The high cost of living measured by CPI headline inflation is of growing concern to the country, especially to those poor households where the breadwinners are unemployed. Headline consumer price inflation accelerated from a low 3.2% in September 2010 to 5.3% in July 2011, but this inflation rate still remains within the inflation target range of 3 to 6% determined by the South African Reserve Bank. The main drivers of the upward trend in consumer price inflation are fuel, food, electricity and transport. The persistence of post-recession challenges is an indication that policies implemented by Government should be reviewed.

The South African economic taking new shapes

Figure 1: Post-recession SA economy has taken an "M-shape"



Source: Statistics South Africa, 2011

With the slowdown in economic activities, the Post-recession domestic Economy has taken a M-shape

The decline in the Eastern Cape economy in 2Q2011 was mainly driven by poor performance in agriculture, mining and manufacturing activities which reflected negative growth

It is over a year since the global recession seized up, and various economists have speculated on whether the recovery in South Africa will be U-shaped, V-shaped, L-shaped, or J-shaped. A "V-shaped" recovery is where the economy bounces back quickly after a recession; a "W-shaped" recovery is referred to as "double-dip." Compared to a V-shaped recovery, a "U-shaped" recovery takes longer to reach levels seen prior to the start of the recession. Formulating the appropriate policy for each recovery shape is what policy analysts and decision-makers are concerned about.

The post-recession domestic economy has taken an M-shape

Figure 1 shows that the post-recession economy in South Africa has taken an "M-Shape" that started with a slow recovery at 1.4% in 3Q2009 and rose to 4.8% in 1Q2010, dropping to 2.7% in 3Q2010 and rising to 4.5% in 1Q2011, and it eventually slowed to 1.3% in 2Q2011. This shape is an indication that the economy is unable to sustain growth.

Table 2: Percentage change in the seasonally adjusted quarterly GDP-R by industry in the Eastern Cape and in South Africa

	Eastern Cape			South Africa		
	4Q2010	1Q2011	2Q1011	4Q2010	1Q2011	2Q1011
Agriculture, forestry and fishing	6.0	(1.8)	(4.0)	12.5	(3.7)	(7.8)
Mining and quarrying	19.5	(4.5)	(4.7)	17.1	(4.0)	(4.2)
Manufacturing	4.1	14.4	(7.0)	4.1	14.5	(7.0)
Electricity and water	1.7	1.0	0.3	5.6	3.3	0.9
Construction	0.2	(0.0)	0.5	0.2	(0.0)	0.5
Wholesale & retail trade; hotels & restaurants	2.0	2.6	2.4	3.5	4.4	4.1
Transport and communication	3.3	2.9	3.3	4.2	3.6	4.1
Finance, real estate and business services	1.4	3.9	2.4	1.7	4.8	2.9
Community, social and other personal services	3.1	2.6	2.7	3.3	2.7	2.8
General government services	5.3	1.6	5.3	5.7	1.8	5.7
All industries at basic prices	3.2	4.6	1.1	4.5	4.6	1.0
Taxes less subsidies on products	4.2	3.1	3.3	4.5	3.4	3.6
GDPR at market prices	3.3	4.4	1.3	4.5	4.5	1.3

Source: Statistic South Africa, 2011

Looking at the Eastern Cape economy, the seasonally adjusted real GDP at market prices for the second quarter of 2011 slowed by an annualised rate of 1.3% from 4.4% achieved in the first quarter of 2011. This decline was mainly driven by poor performance in agriculture, mining and manufacturing activities which reflected negative growth (See Table 2).

For every person unemployed in the province, there are seven discouraged job-seekers

In contrast to the slowdown in the real value added by the primary and secondary sectors, the tertiary sector experienced a noticeable expansion, causing the service sectors to be the largest contributors to the quarter-on-quarter growth of 1.3% in 2Q2011. The spatial distribution of economic activities shown in Map 1 reveals that the two metros, Nelson Mandela and Buffalo City are the economic hubs of the province.

Post-recession unemployment trends in the Eastern Cape taking on a "V-shape"

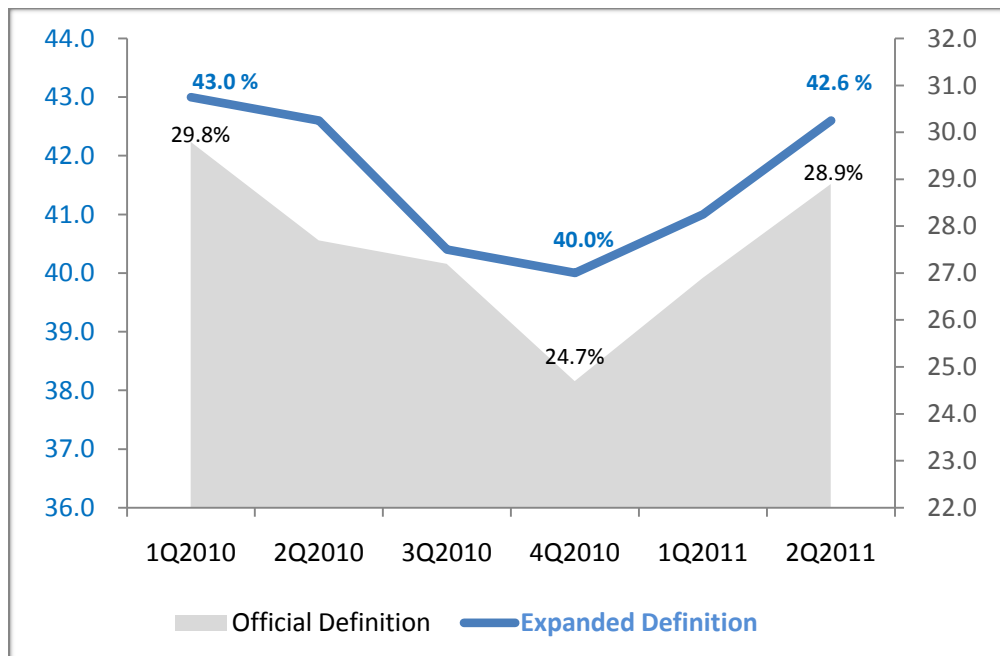
Figure 2 shows trends for the unemployment rate using both the official and expanded definitions. It shows that the post-recession unemployment rate in the Eastern Cape has taken on a V-shape. With economic growth slowing in the second quarter of 2011, the Statistics South Africa Labour Force Survey shows the following for the Eastern Cape labour market:



Jobless slow economic recovery has resulted in a V-shaped unemployment curve in the province

- 16 000 jobs were lost;
- 44 000 people added to the list of unemployed;
- 14 000 people discouraged from looking for jobs;
- 28 000 people added to the labour force and consequently, the unemployment rate rose to 28.9% in the second quarter of 2011 compared to 26.9% in the first quarter of 2011

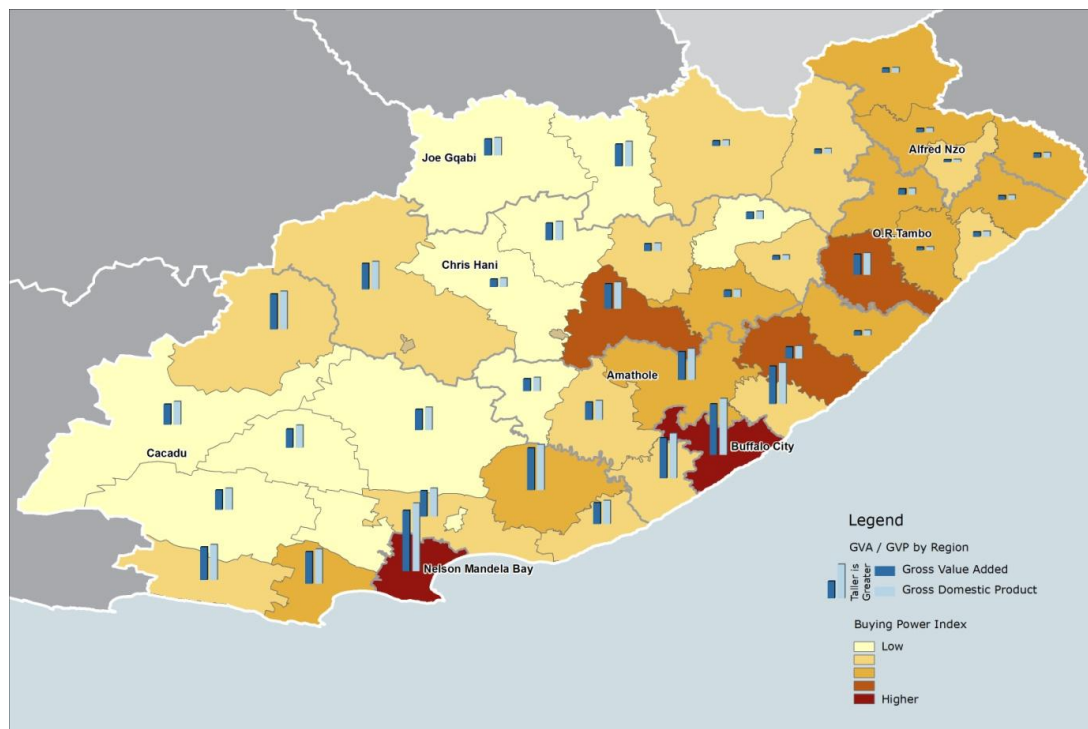
Figure 2: Post-recession unemployment trends in the EC taking on a "V-shaped" curve



Source: Statistics South Africa, 2011

In 2Q2011 alone, 16 000 jobs were lost; 44 000 people were added to the list of unemployed and 14 000 people were discouraged from looking for jobs

Map 1: Spatial Distribution of economic activities in the Eastern Cape: GVA, 2011



Source: ECSECC, 2011

Nelson Mandela Metro and Buffalo City Metro remain economic hubs of the Province

In 2Q2011, KwaZulu-Natal had the lowest unemployment rate in the country

Employment in KwaZulu-Natal grew the most compared to other provinces

Using the expanded definition of unemployment that includes discouraged work-seekers, Figure 2 shows that the rate of unemployment reached an alarming 42.6% in the second quarter of 2011 creating a V-shaped unemployment pattern.

This post recession V-shaped unemployment pattern is predicted to turn into a W-shape, signalling the inability of the Eastern Cape economy to address the challenge of unemployment in a sustainable manner.

Looking at employment and GDP growth rates across the nine provinces, Table 3 shows that for the second quarter of 2011:

- The Eastern Cape economy performed on par with the RSA at 1.3% quarter-on-quarter; but on a year-on-year basis, the Eastern Cape had the lowest growth (2.4%) in the country.
- The Eastern Cape had the second highest unemployment rate (28.9%) in the country after Mpumalanga (30.4%); and the second highest percentage of job losses (1.2%) after North West (4.3%).

Table 3: GDP and employment growth rates, and unemployment rate by province, 2Q2011

2Q2011 Provinces	QoQ		YoY		Unemployment rate
	GDP	Employment	GDP	Employment	
Western Cape	1.7	1.2	3.0	0.7	21.8
Eastern Cape	1.3	(1.2)	2.4	2.7	28.9
Northern Cape	0.4	1.1	4.3	1.5	28.8
Free State	0.7	(1.0)	3.4	(0.8)	28.2
KwaZulu-Natal	1.0	2.9	2.9	2.6	20.3
North West	0.5	(4.3)	4.1	(4.3)	27.3
Gauteng	1.8	(0.9)	3.3	0.4	28.3
Mpumalanga	(0.4)	0.8	3.2	(1.7)	30.4
Limpopo	1.2	(0.4)	4.2	(1.2)	21.1
RSA	1.3	0.1	3.2	0.5	25.7

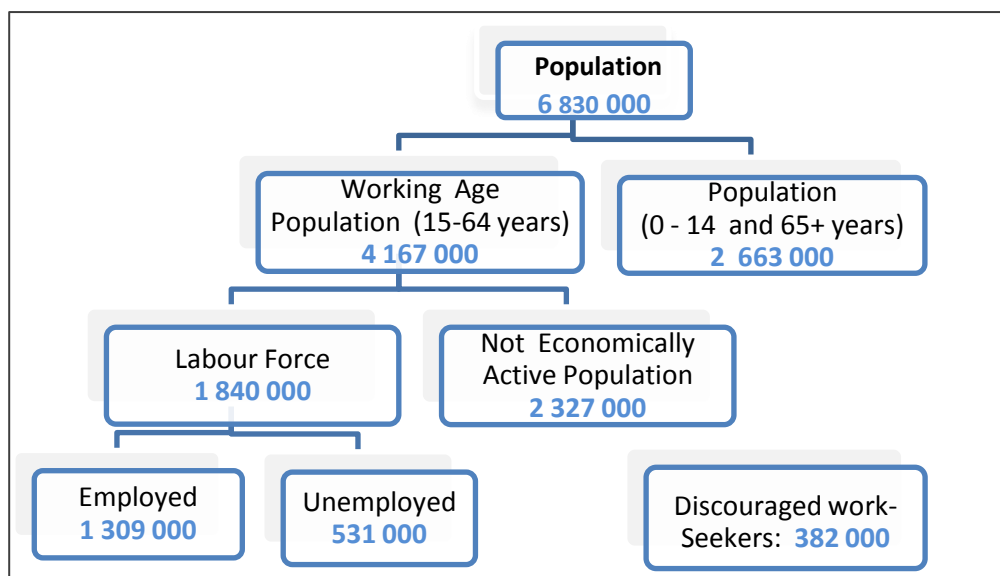
Source: Statistics South Africa, 2011

The National Planning Commission has alluded to the fact that “too few South Africans are employed”. The Eastern Cape labour market for the second quarter of 2011 is graphically presented in the diagram below. It reveals the following characteristics:

- Only two out of every ten people in the province are employed;
- The Eastern Cape labour force (people who are employed and unemployed) accounts for more than a quarter of the total population in the province;
- Three quarters of the labour force is employed; the labour force participation rate (the proportion of the working age population that is either employed or unemployed) is 44.2%; the labour absorption rate (the proportion of the working age population that is employed) is 31.4%; and
- For every person unemployed in the province, there are seven discouraged job-seekers.

The headline inflation rate in the Eastern Cape accelerated to 5.2% in May 2011, rising further to 6.5% YoY in July 2011 (the highest inflation in the country)

Diagram 1: Current structure of the Eastern Cape labour market, 2Q2011



Source: Statistics South Africa (Labour Force Survey and mid-year population estimates) and ECSECC 2011

Table 4: Employment by sector, 2Q2011

	Number (000)		Change (Number)		% Change	
	1Q2011	2Q2011	QoQ	YoY	QoQ	YoY
Agriculture, forestry and fishing	64	61	(3)	7	4.7	13.0
Mining and quarrying	2	-	-	-	-	-
Manufacturing	183	201	18	66	9.8	48.9
Utilities	6	6	-	-	-	-
Construction	120	118	(2)	5	(1.7)	4.4
Wholesale & retail trade; hotels & restaurants	295	286	(9)	(25)	(3.1)	(8.0)
Transport and communication	57	74	17	3	29.8	4.2
Finance, real estate and business services	125	139	14	23	11.2	19.8
Community, social and other personal services	333	326	(7)	(10)	(2.1)	3.0
Private households	139	97	(42)	(34)	(30.2)	(26.0)
Total (Eastern Cape)	1325	1309	(16)	36	(1.2)	2.8

Source: Statistics South Africa, 2011

The main contributors to the increase in CPI inflation in the second quarter of 2011 have been electricity, petrol and fuels, tobacco, sugar, and water

Table 4 shows that only three sectors (manufacturing, Transport and Finance) were not affected by job losses. The Private household sector (which includes domestic workers) declined by 30.2% QoQ (lost 42 000 jobs). The Trade sector that contributes the most to youth employment in the province, declined by 8.0% YoY.

Other relevant economic developments in the Eastern Cape, 2Q2011

This section focuses on other relevant developments in the Eastern Cape, namely the auto sector, headline inflation, business confidence in the manufacturing sector, and consumer confidence (See Table 5).

Headline inflation

Figure 3 shows that the cost of living, measured by the headline inflation rate, increased at a higher rate in the Eastern Cape than in other provinces. During the last quarter of 2010, inflation in the province stagnated at 3.7%. In May 2011, the headline inflation rate in the Eastern

Price increases are expected to continue in 3Q2011

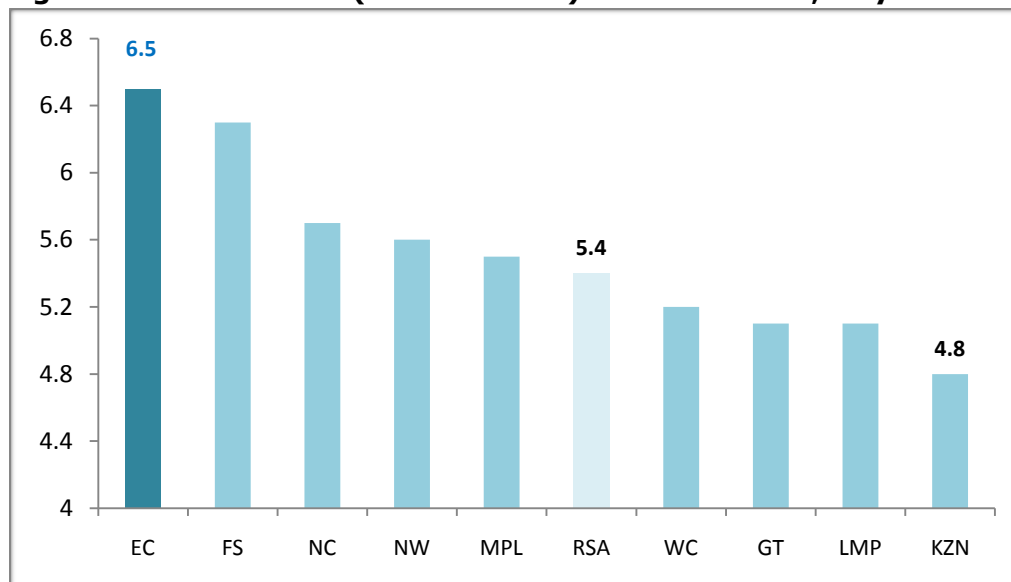
Cape had accelerated to 5.2% YoY, rising further to 6.5% in July 2011. The main contributors to the increase in CPI inflation in the second quarter of 2011 have been electricity, petrol and fuels, tobacco, sugar, and water. This trend is expected to continue in the third quarter of 2011.

Table 5: Eastern Cape' selected economic indicators

GDP	% QoQ	1Q2011	4.4	2Q2011	1.3
CPI (Headline inflation)	YoY	May 2011	5.2	July 2011	6.5
Unemployment rate	Official definition	1Q2011	26.9	2Q2011	28.9
Business confidence	Manufacturing	1Q2011	82	2Q2011	23
Passenger vehicle sales	Number	March 2011	1329	July 2011	1145
Consumer confidence	Index	1Q2011	13.8	2Q2011	12.9
Unemployment rate	Expanded def.	1Q2011	41.0	2Q2011	42.6

Source: South African Reserve Bank (2011), Statistics South Africa (2011)

Figure 3: Headline CPI (Inflation rate) in South Africa, July 2011



Source: Statistics South Africa, 2011

Job losses lead to lower consumer confidence in the Eastern Cape

Table 6: Vehicles sales in the Eastern Cape

	1Q2011			2Q2011			Jul 2012
	Jan 2011	Feb 2011	Mar 2011	Apr 2011	May 2011	Jun 2011	
Heavy Commercial Vehicle Sales	14	16	16	29	29	34	26
Light Commercial Vehicle Sales	579	641	792	539	560	573	580
Medium Commercial Vehicle Sales	20	35	48	25	27	38	43
Passenger Vehicle Sales	1114	1085	1329	1025	1143	1166	1145
Extra Heavy Commercial Vehicle Sales	24	54	40	34	41	28	42

Source: NAAMSA, 2011

Eastern Cape business confidence for the manufacturing sector

With the slowdown in the pace of economic activities, Table 7 shows how the index measuring domestic sales volumes in the Eastern Cape declined sharply to 23 in the second quarter of 2011 from 82 in the first quarter of 2011. The South African Chamber of Commerce and Industry (SACCI) argued that the business environment is still very fragile. The SACCI's

general business confidence index is down to 34 in 2Q2011 from 78 in 1Q2011, signalling limited growth prospects in the manufacturing sector.

**The SACCI
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Table 7: Business confidence for the EC manufacturing sector

Manufacturing / Eastern Cape	2Q2010	3Q2010	4Q2010	1Q2011	2Q2011
Domestic sales volumes (net balance)	46	31	67	82	23
Export sales volumes (net balance)	-52	18	98	94	77
Production volumes (net balance)	46	31	71	82	46
Domestic order volumes received (net balance)	38	30	67	69	24
Export order volumes received (net balance)	32	18	98	94	77
General business conditions (net balance)	46	24	67	78	34
Number of factory workers (net balance)	-46	-14	52	-7	-7
Fixed investment (net balance)	8	25	44	-53	-42
Rate of increase in avg. total cost per unit of prod. (net balance)	73	63	64	74	63
Rate of increase in avg. labour cost per unit of prod. (net balance)	62	72	95	86	55
Rate of increase in avg. purchase price per unit of raw material (net balance)	77	66	40	99	79
Rate of increase in avg. domestic selling price per unit of prod. (net balance)	14	25	33	81	55
Rate of increase in avg. export selling price per unit of prod. (net balance)	-18	77	25	-51	-63
Percentage gross rating present level of output below capacity	85	69	27	26	44
Business confidence (% gross rating prevailing buss. Conditions satisfactory)	19	31	76	91	65
Percentage rating shortage of skilled labour a constraint	73	28	58	53	41
Percentage rating shortage of semi-skilled labour a constraint	36	24	39	6	7
Percentage rating shortage of unskilled labour a constraint	0	24	0	0	2
Percentage rating shortage of raw materials a constraint	18	32	32	25	25
Percentage rating short-term interest rates a constraint	41	41	38	10	15
Percentage rating insufficient demand a constraint	62	70	38	29	36
Percentage rating general political climate a constraint	69	56	22	17	26
Expected volume of goods imported in 12 months' time (net balance)	55	48	61	76	73
Expected volume of goods exported in 12 months' time (net balance)	77	15	6	90	60
Expected real investment in machinery & equipment in 12 months' time	12	21	33	-55	-58
Expected business conditions in 12 months' time (net balance)	57	9	33	18	-1

Source: SACCI, 2011

Eastern Cape consumer confidence

Consumer confidence is the degree of optimism that consumers express in the state of the economy through their savings and spending activities. It is the degree of optimism that consumers feel about the overall state of the economy and their personal financial situation. Table 8 shows that the overall consumer confidence index decreased to 12.9 in 2Q2011 from 13.9 in 1Q2011. Consumer demand is taking on a cautionary stance as living costs increase and personal-debt levels are still excessive

**Overall
consumer
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from 13.9 in
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Table 8: Eastern Cape consumer confidence

Consumer Confidence in the Eastern Cape (Net balance)	2Q2009	2Q2010	3Q2010	4Q2010	1Q2011	2Q2011
Eastern Cape's consumer confidence (Total)	20.0	20.5	15.5	12.1	13.8	12.9
Economic position during next 12 months	31.0	28.8	27.9	14.5	21.4	11.3
Financial position of household during next 12 months	26.0	20.4	19.2	19.8	18.9	19.8
Rating of present time to buy durables	2.0	12.2	(0.7)	2.1	1.1	7.5

Source: SACCI, 2011

CONCLUSION:

Appropriate policies are needed to address post-recession challenges of poor economic performance, high unemployment and the increasing cost of living in the Eastern Cape.

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