QUARTERLY Economic Update

ecsecc
eastern cape socio economic consultative council

July 2013 FIRST QUARTER 2013

This report for the first quarter 2013 (1Q2013) focuses on the latest economic development trends for South Africa (SA) and pays specific attention on the performance of the Eastern Cape (EC) economy. Data was drawn from Statistics South Africa, the South African Reserve Bank and Quantec. In 1Q2013, SA's seasonally adjusted gross domestic product (GDP) grew by a much lower rate than expected at 0.9% quarter-on-quarter (QoQ), compared with the growth of 2.1% achieved in 4Q2012. The main sectors that contributed to the SA economy were mining and quarrying, finance, and business services. Manufacturing saw negative growth of 7.9% in the Eastern Cape and GDP declined drastically to 0.2% QoQ in 1Q2013 from 2.2% QoQ in 4Q2012.

Table 1: GDP and employment growth rates and contributions by provinces, 1Q2013

	Growth rate (1Q2013)				Contribution (1Q2013)			
	GDP		Employment		GDP		Employment	
	QoQ	YoY	QoQ	YoY	Rand Million	Percent	Number (000)	Percent
Western Cape	0.8	1.8	-0.8	-2.0	293 758	14.9	1 810	13.3
Eastern Cape	0.2	1.4	4.0	2.6	154 107	7.8	1 312	9.6
Northern Cape	4.8	2.8	-2.1	-	38 815	2.0	286	2.1
Free State	1.9	1.7	3.0	2.3	96 177	4.9	754	5.5
KwaZulu-Natal	-	1.5	1.1	-	323 748	16.4	2 520	18.5
North West	3.5	2.1	-2.1	3.8	117 758	6.0	731	5.4
Gauteng	0.9	1.8	0.1	1.1	699 074	35.4	4 184	30.7
Mpumalanga	-2.7	4.0	1.1	6.2	126 767	6.4	970	7.1
Limpopo	3.3	2.2	-3.6	5.7	123 336	6.2	1 053	7.7
RSA	**0.9**	**1.9**	**0.3**	**1.5**	**1 973 551**	**100.0**	**13 621**	**100.0**

Source: Statistics South Africa, 2013

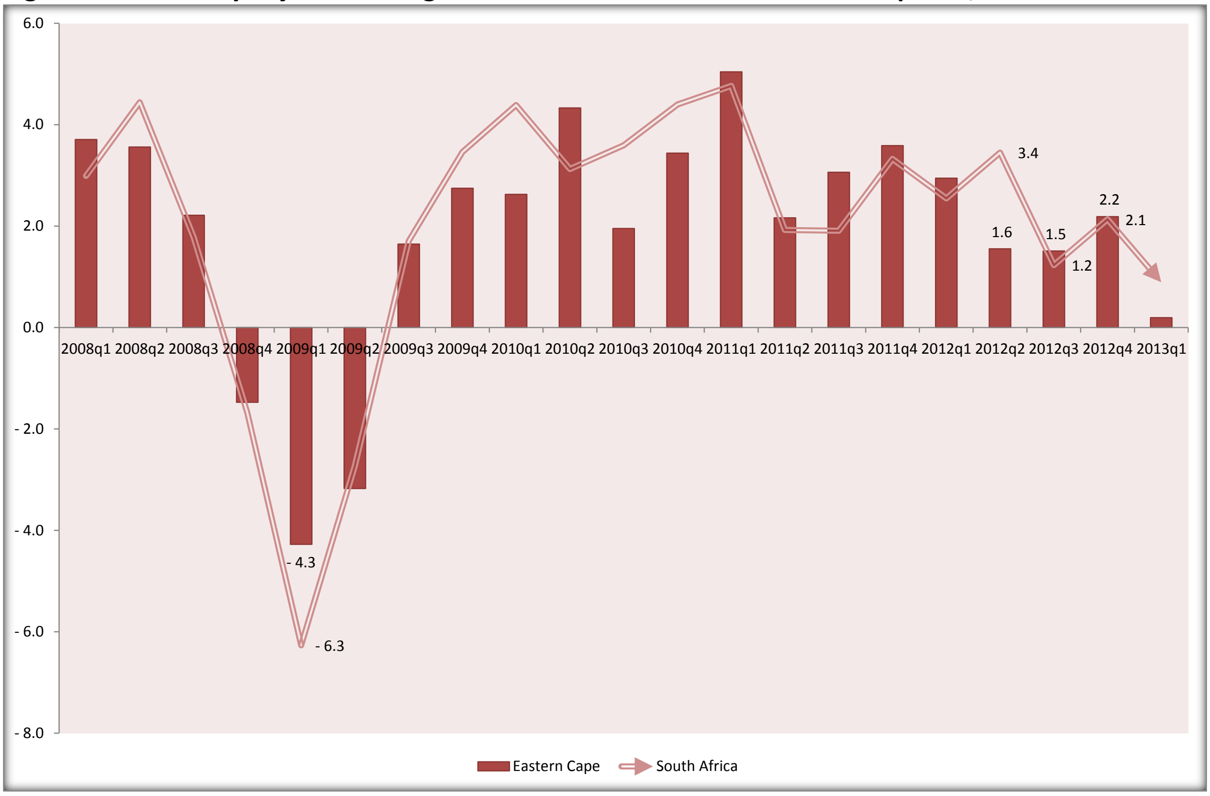
Table 1 compares, at a provincial level, GDP and employment growth rates and percentage contributions for 1Q2013. It shows high GDP growth in Northern Cape (4.8%) and North West (3.5%) and negative growth in Mpumalanga (-2.7%) below the 0.9% growth achieved in the country as a whole.

Looking at the provincial economies, Gauteng remains the leading driver of the South African economy, accounting for 35.4% of the total GDP. It is followed by KwaZulu-Natal (16.4%), Western Cape (14.9%) and Eastern Cape (7.8%).

In terms of employment contribution, the provincial ranking does not change. Gauteng remains the leading employer in South Africa, employing 30.7% of total workers. It is followed by KwaZulu-Natal (18.5%), Western Cape (13.3%) and Eastern Cape (9.6%). Employment contribution from the Eastern Cape shows an improvement compared to the 9.3% achieved in the previous quarter.

Figure 1 depicts the Eastern Cape's quarterly growth patterns against those of South Africa. Between 1Q2008 and 1Q2013, the EC's GDP growth has followed that of South Africa. The high growth achieved after the recession (above 4% in 1Q2011) is gradually declining. In 1Q2013, the Eastern Cape economy was weighed down by manufacturing sector which declined by 8.8% compared to a contraction of 7.9% for SA as a whole.

Figure 1: Seasonally adjusted GDP growth for SA and EC at constant 2005 prices, 1Q2008-1Q2013



Source: Statistics South Africa, 2013

Table 2 compares, at sector level, GDP and employment growth rates and sector percentage contributions in the Eastern Cape for the 1Q2013. It shows a decline in three sectors namely: agriculture (-3.0%), manufacturing (-8.8%) and electricity (-1.3%). These sectors falloffs in the province are the root cause of the poor economic performance in 1Q2013. The mining sector which showed the highest growth of 31.1%, has a very negligible share of 0.1% in the total provincial economy. Its impact is thus very insignificant. In terms of employment, government and community services (25.2%), Trade (21.0%) and manufacturing (13.4%) provided the lion's share of total employment in the province. The contribution from mining and electricity remained below 1%.

Table 2: Sector growth and contribution to GDP and employment in EC

	Growth rate (1Q2013)				Contribution (1Q2013)			
	GDP		Employment		GDP		Employment	
	QoQ	YoY	QoQ	YoY	Rand million	Percent	Number (000)	Percent
Agriculture	-3.0	3.2	53.3	95.7	2 722	1.8	92	7.0
Mining	31.3	8.5	0	-	135	0.1	2	0.2
Manufacturing	-8.8	-1.0	1.1	11.4	23 650	15.3	176	13.4
Electricity	-1.2	-1.5	-66.7	-85.7	1 372	0.9	1	0.1
Construction	1.3	1.7	-2.3	18.5	3 650	2.4	128	9.8
Trade	1.5	1.0	-3.2	-15.9	18 948	12.3	275	21.0
Transport	2.5	1.1	-1.5	-14.7	12 115	7.9	64	4.9
Finance	3.0	1.8	5.7	-11.1	31 021	20.1	112	8.5
Community	1.7	1.7	3.4	-1.5	14 148	9.2	331	25.2
Government	1.9	2.2	-	-	29 427	19.1	-	-
Taxes less Sub	1.4	2.6	-	-	16 869	10.9	-	-
Priv. households	-	-	12.9	39.4	-	-	131	10.0
Eastern Cape	**0.2**	**1.4**	**4.0**	**2.6**	**154 107**	**100.0**	**1 312**	**100.0**

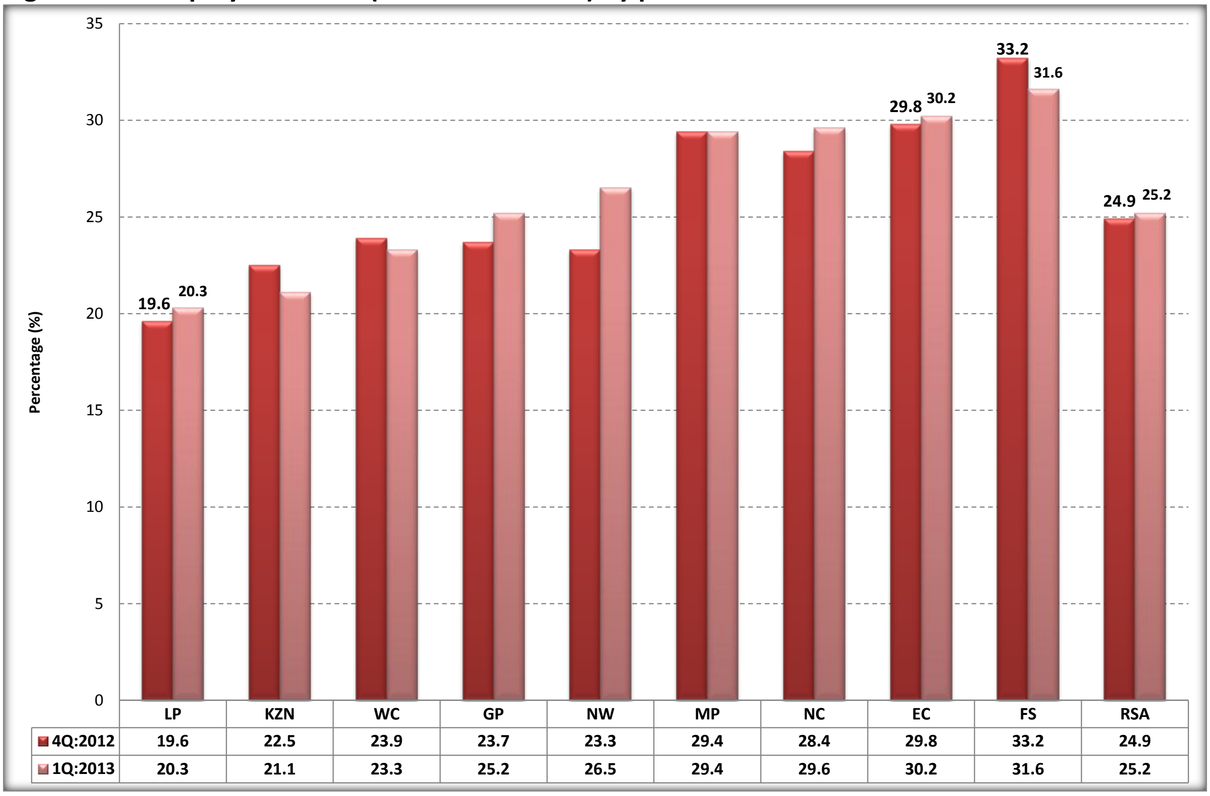
Source: Statistics South Africa, 2013

Table 1: EC's Key labour market indicators for the period 4Q2012 to 1Q2013

Eastern Cape labour market	Numbers (000)				Percentage	
	4Q2012	1Q2013	QoQ change	YoY change	QoQ change	YoY change
Formal (non-agricultural)	830	812	-18	-40	-2.2	-4.7
Informal (non-agricultural)	255	278	23	-8	9.0	-2.8
Total Employment	1 261	1 312	51	33	4.0	2.6
Unemployment	536	568	32	64	6.0	12.7
Labour force	1 797	1 881	84	98	4.7	5.5
Discouraged work-seekers	478	440	-38	41	-7.9	10.3
Not economically active	2 437	2 362	-75	-58	-3.1	-2.4
Population working age (15-64 yrs)	4 234	4 243	9	40	0.2	1.0
Unemployment rate	29.8	30.2	0.4	1.9		
Labour absorption rate	29.8	30.9	1.1	0.5		
labour force participation rate	42.4	44.3	1.9	1.9		

Source: Statistics South Africa (Quarterly Labour Force Survey), 2013

Figure 2: Unemployment rate (official definition) by province for 4Q2012-1Q2013



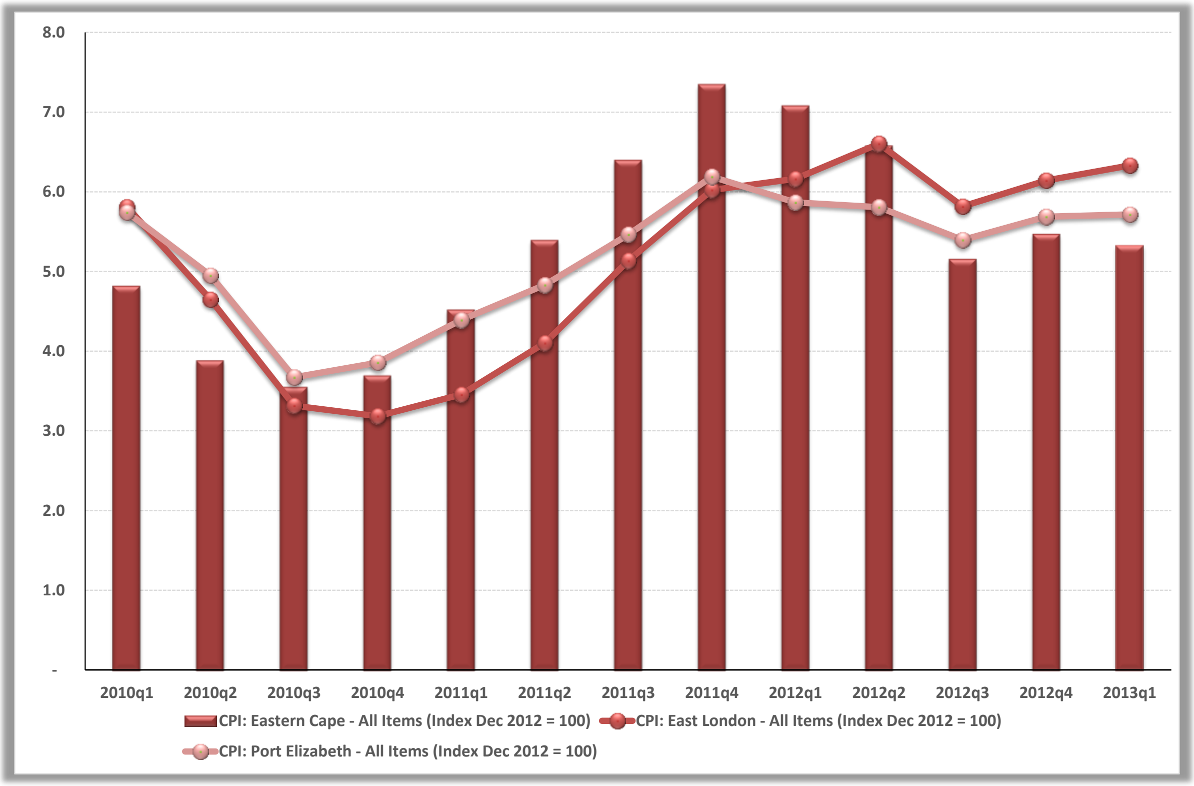
Source: Statistics South Africa, 2013

Figure 2 compares by province the official 4Q2012 unemployment rate with 1Q2013 rate. The largest increases in the unemployment rate were observed in North West (up by 3.2 percentage points), Gauteng (up by 1.5 percentage points) and Northern Cape (up by 1.3 percentage points). Provinces that experienced a decline in the unemployment rate were: Free State (down by 1.6 percentage points), KwaZulu-Natal (down by percentage points) and Western Cape (down by 0.6 percentage).

Looking at employment, Table 3 shows that between 4Q2012 and 1Q2013, 84 000 people were added to the Eastern Cape labour force. Of these people, 51 000 got jobs and the remainder were added to the pool of unemployed, causing the unemployment rate to increase to 30.2% in 1Q2013 from 29.8% in the previous quarter. In 1Q2013, jobs were created in agriculture, private households, community and social service, and finance sectors. Trade, construction, utility and transport shed jobs.

In 1Q2013, there 1 261 thousand people employed in the Eastern Cape of whom 80% were in the formal sector. The informal sector, which accounts for 20% of total employment, grew by 9.0% QoQ. Total employment in the province grew 4.0% QoQ and by 2.6% YoY. This growth in employment is also reflected in the labour absorption rate which increased by 1.1% QoQ and by 0.5% YoY.

Figure 3: Trends in Eastern Cape's QoQ Consumer Price Index (CPI) for the period 1Q2010-1Q2013



Source: Statistics South Africa, 2013

Figure 3 shows trends in the Consumer Price Index (CPI) for the Eastern Cape, East London and Port Elizabeth for the period 1Q2010 to 1Q2013. In 1Q2013, the Eastern Cape CPI (5.3%) was 0.14% lower than that of the previous quarter. This is still within the 3% to 6% inflation targeting range recommended by the South African Reserve Bank.

Conclusion:

Poor economic performance (0.2% GDP growth rate in 1Q2013) and a high unemployment rate (30.2%) remain major policy concerns for the province. High headline inflation accelerated beyond the SARB target in 1Q2013 in the East London Region. High inflation discourages consumption of goods and services, leading to lower production levels, lower employment and GDP growth. Moreover, high inflation hits poor people more severely than the rich and high income people.

The Eastern Cape Planning Commission is crafting a "2030 vision" for the province which, if successfully implemented, will address poverty and inequality bottlenecks while creating a platform for job creation.

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