



1. Introduction

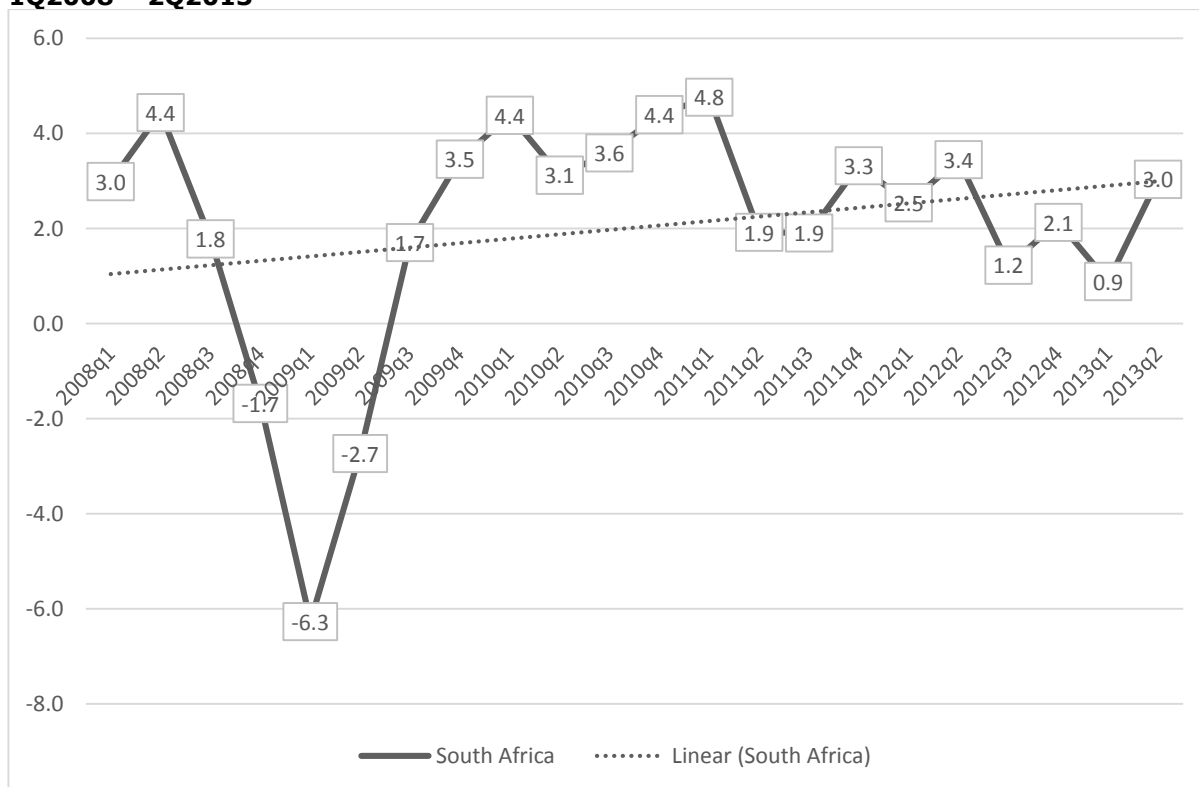
The Quarterly Economic Update for the second quarter of 2013 (2Q2013) has been expanded and contains a range of new indicators. From this quarter onwards, ECSECC will report on this expanded number of indicators in each issue. This issue covers: An overview of economic performance in South Africa and the Eastern Cape; inflation; exchange rate; exports and imports; and labour market trends.

2. DOMESTIC ECONOMIC DEVELOPMENTS

2.1 Economic performance in South Africa

Annualised Gross Domestic Product (GDP) growth in South Africa increased to 3.0% quarter on quarter (QoQ) in the second quarter of 2013 (2Q2013) from 0.9% QoQ in 1Q2013 (see figure 1). Contributing to the rise in economic activity in 2Q2013 were the manufacturing sector (1.7 percentage points based on growth of 11.5%); finance sector (0.8 percentage points based on growth of 3.5%); and trade sector (0.4 percentage points based growth of 3.2%). In 2Q2013 negative contributions came from the mining sector (0.3 percentage points) and the agriculture sector (0.1 percentage points). However, Year on Year (YoY) gross domestic product (GDP) growth for 2Q2013 was 1.8% compared to 1.9% in the previous quarter.

Figure 1: Annualised and seasonally adjusted GDP growth in South Africa at constant 2005 prices (%), 1Q2008 – 2Q2013



Source: Quantec Research estimates, 2013

2.1.1 2Q2013 sectoral drivers of GDP growth

Growth in 2Q2013 was driven by the tertiary and secondary sectors. The secondary sector grew by 9.3% in 2Q2013 from a negative growth of 6.2% in 1Q2013. The positive growth in manufacturing (11.5%) and electricity (5.3%) were the main drivers of the expansion of the secondary sector. Tertiary sector QoQ growth declined to 2.3% in 2Q2013 from 2.4% in 1Q2013. Growth in the tertiary sector was largely driven by finance (3.5%) and trade (3.2%). The primary sector in 2Q2013 experienced negative growth of 5.0% from a positive growth of 8.1% in 1Q2013. The contraction in the primary sector was due to negative growth experienced both by mining (5.6%) and agriculture (3.7%) sectors.

In 2Q2013 the main sectors contributing towards GDP in South Africa were finance (24.1%), manufacturing (17.2%) and government (15.3%) (see table 1).

Table 1: Growth rate and sectors contribution to GDP in South Africa, 1Q2013-2Q2013

SOUTH AFRICA	2013q1		2013q2		2013q1		2013q2	
	000s	Share %	000s	Share%	Quarter on Quarter			
Agriculture	43 383	2.5	42 974	2.4	-4.9	-3.7		
Mining	97 096	5.5	95 714	5.4	14.6	-5.6		
PRIMARY SECTOR	140 479	8.0	138 688	7.8	8.1	-5.0		
Manufacturing	296 586	16.9	304 768	17.2	-7.9	11.5		
Electricity	33 951	1.9	34 392	1.9	-3.0	5.3		
Construction	59 943	3.4	60 118	3.4	0.9	1.2		
SECONDARY SECTOR	390 480	22.2	399 278	22.5	-6.2	9.3		
Trade	246 584	14.0	248 520	14.0	1.9	3.2		
Transport	178 591	10.2	179 311	10.1	2.2	1.6		
Finance	422 850	24.1	426 549	24.1	3.3	3.5		
Community services	107 690	6.1	108 197	6.1	1.4	1.9		
Government	271 209	15.4	271 438	15.3	1.9	0.3		
TERTIARY SECTOR	1 226 924	69.8	1 234 015	69.6	2.4	2.3		

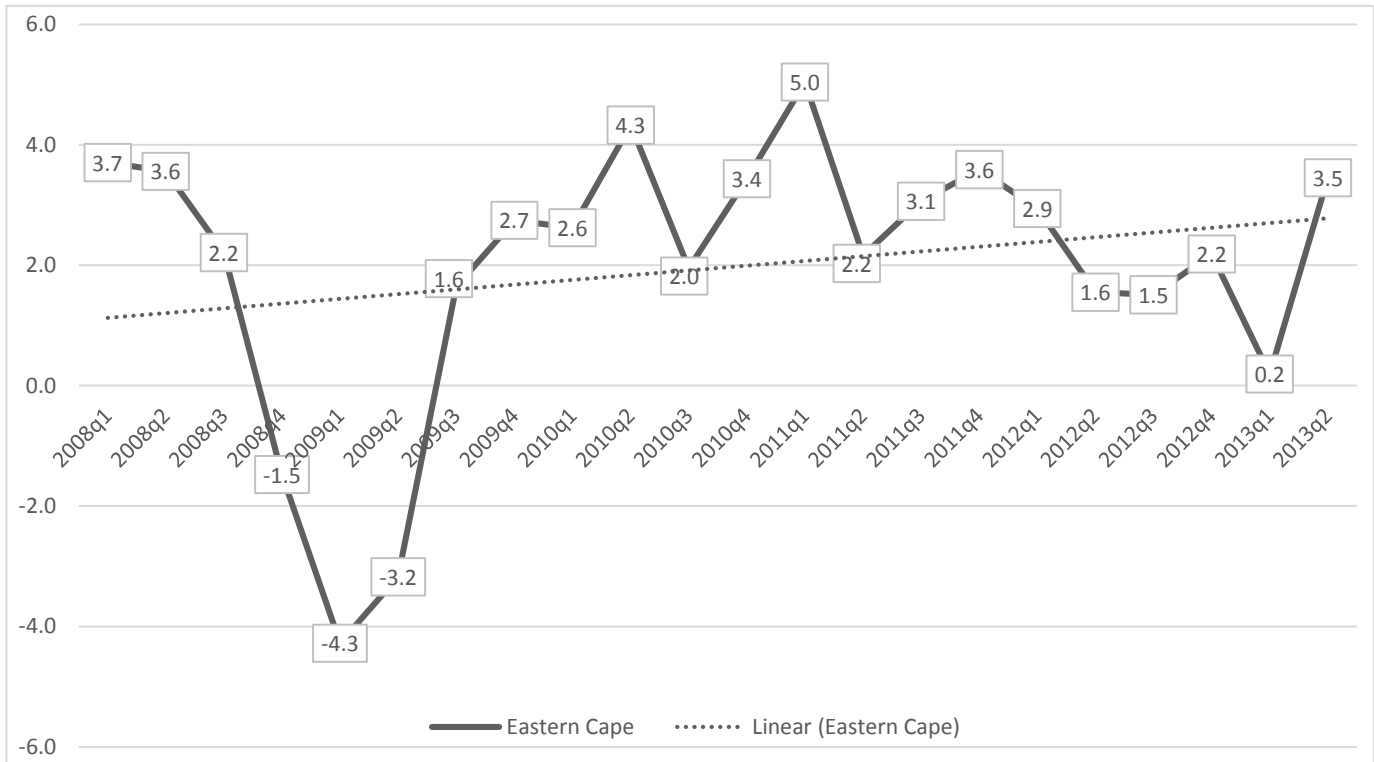
Source: Quantec Research estimates, 2013

2.2 Economic performance in the Eastern Cape

In 2Q2013 the Eastern Cape GDP grew at 3.5%, compared to 0.2% in previous quarter (see Figure 2). The expansion was due to the manufacturing sector which contributed 2.0 percentage points based on growth of 12.9% and finance sector contributed 0.6 percentage point based on growth of 3.1% (see Table 2). However, on a YoY basis, the provincial economy saw growth of 1.8% in 2Q2013 compared to 1.4% in the previous quarter.

The QoQ GDP growth of 2Q2013 was 1.9 percentage points higher than in the same period of previous year. This level of growth was last experienced in 4Q2011. In 2Q2013 the Eastern Cape economy (3.5%) outperformed the national economy (3.0%) by 0.5 percentage point.

Figure 2: Annualised and seasonally adjusted GDP growth in the Eastern Cape at constant 2005 prices (%), 1Q2008-2Q2013



Source: Quantec Research estimates, 2013

2.2.1 The Eastern Cape’s sectoral drivers

2Q2013 growth was driven by both the secondary and tertiary sectors while the primary sector experienced negative growth in both 1Q2013 and 2Q2013. The primary sector had negative growth of 2.7% in 2Q2013. This was due to the negative growth experienced by mining (10.8%) and agriculture (2.3%). In 2Q2013 the secondary sector experienced a rebound while the tertiary sector still experienced positive growth but more slowly than in the previous quarter. The secondary sector which includes manufacturing, experienced a growth of 10.9% in 2Q2013 as compared to negative growth of 7.4% in the previous quarter. The main contributor to the positive growth in the secondary sector was manufacturing, which expanded by 12.9% in 2Q2013 after negative growth of 9.0% in the previous quarter. In 2Q2013 the tertiary sector experienced growth of 1.7% which was less than the growth of 2.7% experienced in the previous quarter. This was due to the decline in growth of 1.5 percentage points experienced by the government sector and the decline in growth of 0.6 percentage point experienced by the transport sector compared to previous quarter.

The largest contributing sectors towards GDP in the Eastern Cape for 2Q2013 were finance contributing 22.6%, followed by the government sector contributing 21.3% and the manufacturing sector contributing 17.6%.

Table 2: Growth rate and sectors contribution to GDP in the Eastern Cape, 1Q2013-2Q2013

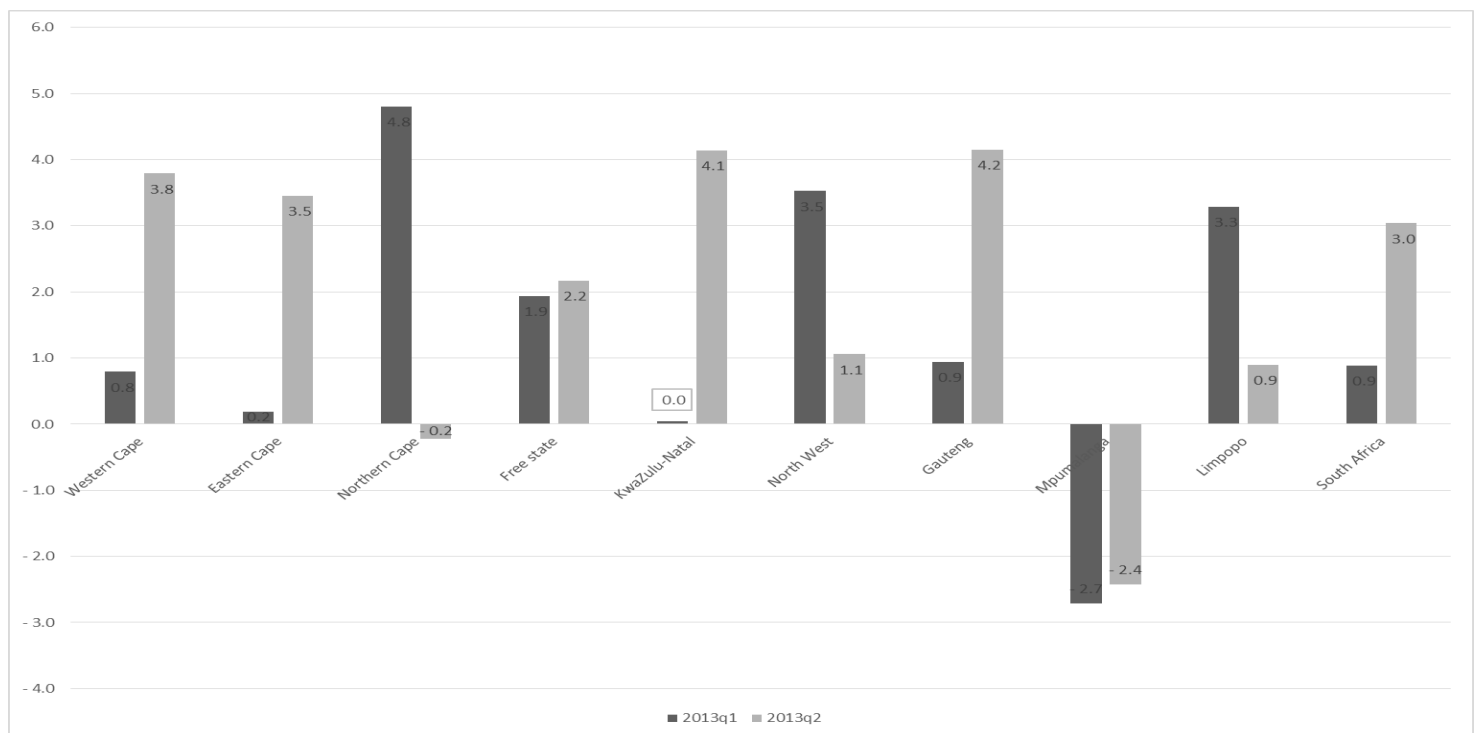
EASTERN CAPE	2013q1		2013q2		2013q1	2013q2
	000s	Share %	000s	Share%	Quarter on Quarter	
Agriculture	2 772	2.0	2 755	2.0	-3.0	-2.3
Mining	135	0.1	131	0.1	29.0	-10.8
PRIMARY SECTOR	2 907	2.1	2 887	2.1	-1.7	-2.7
Manufacturing	23 650	17.2	24 400	17.6	-9.0	12.9
Electricity	1 372	1.0	1 383	1.0	-1.2	3.0
Construction	3 650	2.7	3 664	2.6	1.3	1.5
SECONDARY SECTOR	28 672	20.9	29 446	21.3	-7.4	10.9
Trade	18 948	13.8	19 052	13.8	1.5	2.2
Transport	12 115	8.8	12 170	8.8	2.4	1.8
Finance	31 021	22.6	31 262	22.6	3.0	3.1
Community services	14 148	10.3	14 224	10.3	1.7	2.1
Government	29 427	21.4	29 458	21.3	1.9	0.4
TERTIARY SECTOR	105 659	77.0	106 166	76.7	2.2	1.9

Source: Quantec Research estimates, 2013

2.2.2 2Q2013: Regional Comparisons

The positive growth of the South African economy in 2Q2013 was driven by positive growth experienced by Gauteng (4.2%); KwaZulu-Natal (4.15%); Western Cape (3.8%); Eastern Cape (3.5%); Free State (2.2%), North West (1.1%) and Limpopo (0.9%). Mpumalanga and Northern Cape experienced negative growth of 2.4% and 0.2% respectively (see Figure 3). While 2Q2013 growth in North West and Limpopo was positive, both provinces declined by 2.4 percentage points compared to the 1Q2013. In particular, the manufacturing sector played a more pronounced role in the performance of the overall economy in 2Q2013. The manufacturing sector in all provinces grew by more than 10% QoQ except for Mpumalanga which had negative growth of 0.2%.

Figure 3: Comparative regional growth rates, 2013Q1-2013Q2



Source: Quantec Research estimates, 2013

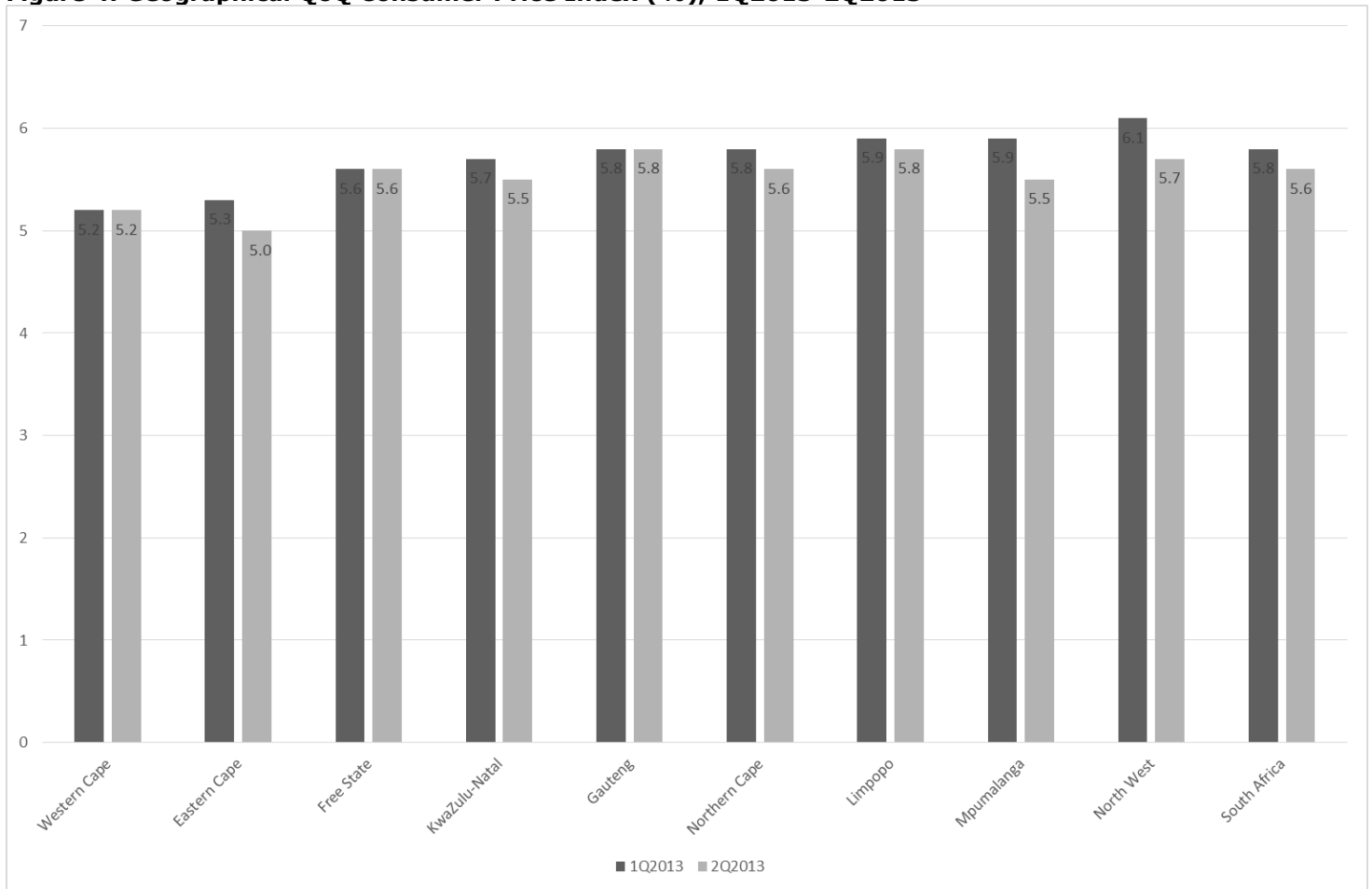
3. INFLATION

3.1 Geographical Inflation

The consumer price index (CPI) is the most commonly used measure of information. The CPI measures the changes in prices of a basket of goods and services purchased by a representative set of households. The reserve bank targets an inflation rate of between 3% and 6% per annum. In 2Q2013 the inflation rate in all provinces declined in comparison to the inflation rate in 1Q2013. However headline inflation was still close to the upper target range of 6%. The 2Q2013 inflation rates in Limpopo (5.8%) and Gauteng (5.8%) were above national headline inflation (for all urban areas) of 5.7%. The North West had an inflation rate equal to the national headline inflation (for all urban areas) while other provinces inflation rates were below national headline inflation (for all urban areas).

In 2Q2013 provinces that had inflation rates below South Africa's inflation rate of 5.6% were: Western Cape (5.2%), Eastern Cape (5.0%), KwaZulu-Natal (5.5%) and Mpumalanga (5.5%). The provinces that posted inflation rates above South Africa's inflation rate in the same quarter were Gauteng and Limpopo, both averaging 5.8%. The only provinces that recorded an inflation rate equal to South Africa's inflation rate were Free State and Northern Cape. In 1Q2013 Eastern Cape's inflation rate was the second lowest among the nine province and in 2Q2013 it became the lowest. The inflation rate in the Eastern Cape for both quarters was lower than South Africa's inflation rate.

Figure 4: Geographical QoQ Consumer Price Index (%), 1Q2013-2Q2013

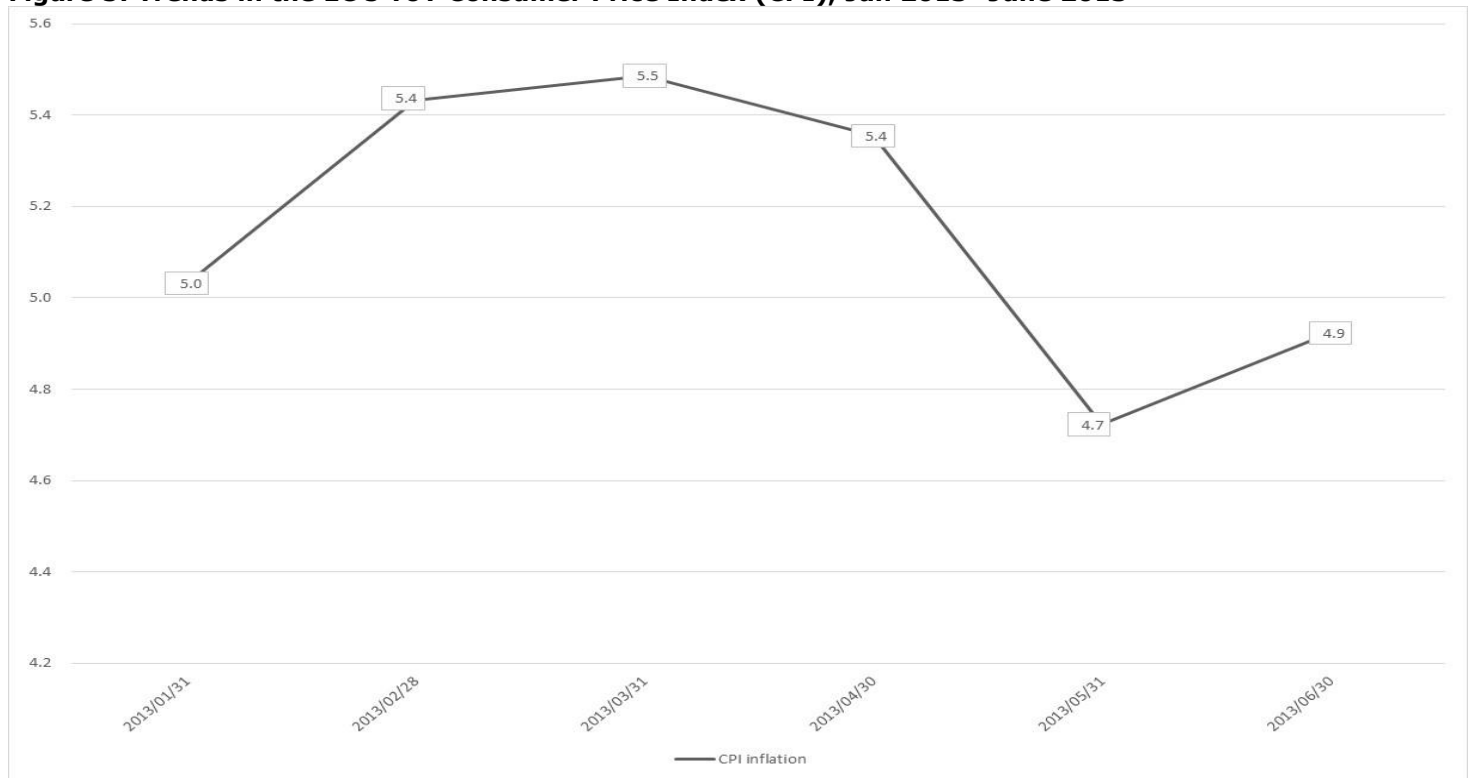


Source: Statistics South Africa, 2013

3.2 Eastern Cape inflation

Inflation in the Eastern Cape from January to June 2013 rose from 5.0% and reached a peak of 5.5% in March 2013 (see figure 5). From this peak inflation started to decline, reached a low of 4.7% in May 2013 and rose again to 4.9% in June 2013. Inflation in the Eastern Cape averaged 5.0% in 2Q2013, the lowest of all provinces. The inflation rate in the Eastern Cape is still within the range of 3.0% to 6.0% recommended by the South African Reserve Bank.

Figure 5: Trends in the EC's YoY Consumer Price Index (CPI), Jan 2013- June 2013



Source: Statistics South Africa, 2013

The main determinants of inflation in the Eastern Cape based on their respective weightings, as provided in Table 3, are price changes in food and non-alcoholic beverages (FNAB), housing and utilities, transport and miscellaneous goods and services (MGS). These four broad determinants, in terms of the weighting, contribute more than 70.0% to the level of inflation and inflation movements in the province.

As shown in Table 3, the FNAB index accounted 26.3% of the average price increase in the Eastern Cape during June 2013, followed by the housing and utilities index with a 24.9% contribution and MGS contributing 18.3%. The main contributor to the FNAB index, namely vegetables, exerted strong upward pressure on average price levels. Within the housing and utilities index, water and electricity price increases provided strong upward momentum, whereas price increases in insurance drove the MGS index higher.

Table 3: Eastern Cape CPI group indices, weights, percentage change & contribution to inflation, June 2013

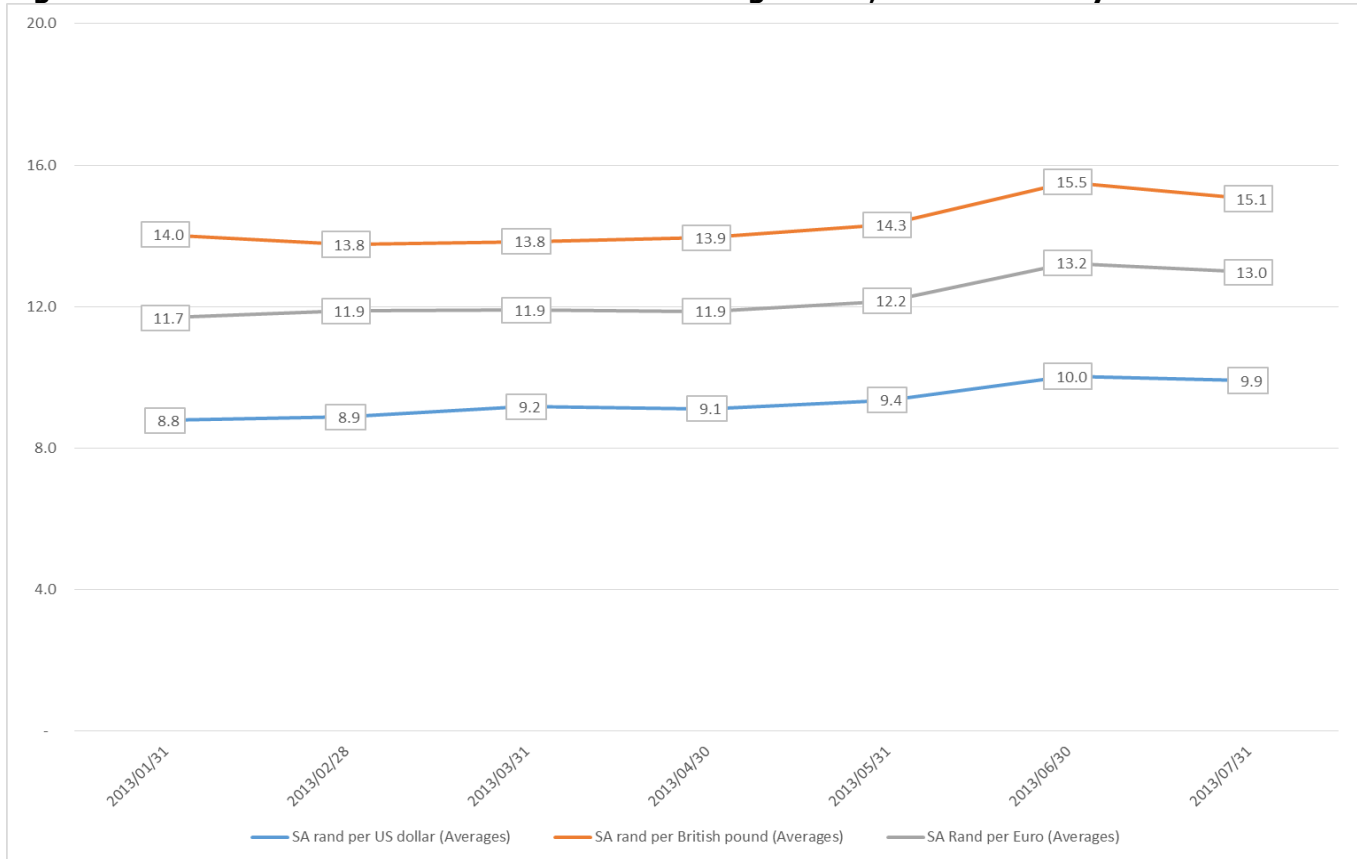
Index description	Weight	Percentage change		Estimated contribution to inflation (%)
		Month-on-month	Year-on-year	
Food & non-alcoholic beverages	25.3	0.5	5.3	26.3
Alcoholic beverages and tobacco	3.7	-0.5	5.7	4.1
Clothing and footwear	5.1	0.4	3.3	3.3
Housing and utilities	21.8	0.5	5.8	24.9
Household contents and services	5.7	0.3	4.1	4.6
Health	0.9	-0.4	4.4	0.8
Transport	11.9	0.4	3.4	7.9
Communication	2.5	0.6	0.8	0.4
Recreation and culture	4.0	0.3	4.8	3.8
Education	2.0	0	8	3.2
Restaurants and hotels	2.1	-0.1	6	2.5
Miscellaneous goods and services	14.1	0.2	6.6	18.3
All items	100.0	0.3	4.9	100.0

Source: Statistics South Africa – CPI Additional Tables, 2013

4. THE EXCHANGE RATE

The exchange rate gives the market price for which one currency can be exchanged for another. Movements in the exchange rate are determined by factors such as interest rates, economic growth expectations and the trade balance. The diagram below depicts a depreciation of the South African currency relative to major currencies (US dollar, British pound and European Euro) for the first six months of 2013. Exchange rates and inflation tend to move in opposite directions. The depreciation of the rand over the last few months has resulted in a rise in inflation. The average exchange rates of the rand (ZAR) in January 2013 against the major currencies were R8.8: 1US (\$), R14.0: 1British (£) and R11.7: 1 Euro (€). In June 2013 the rates were R9.9: 1US (\$), R15.1: 1British (£) and R13.0: 1 Euro (€) which was worse than in January 2013.

Figure 6: Trends in South African nominal exchange rates, Jan 2013- July 2013



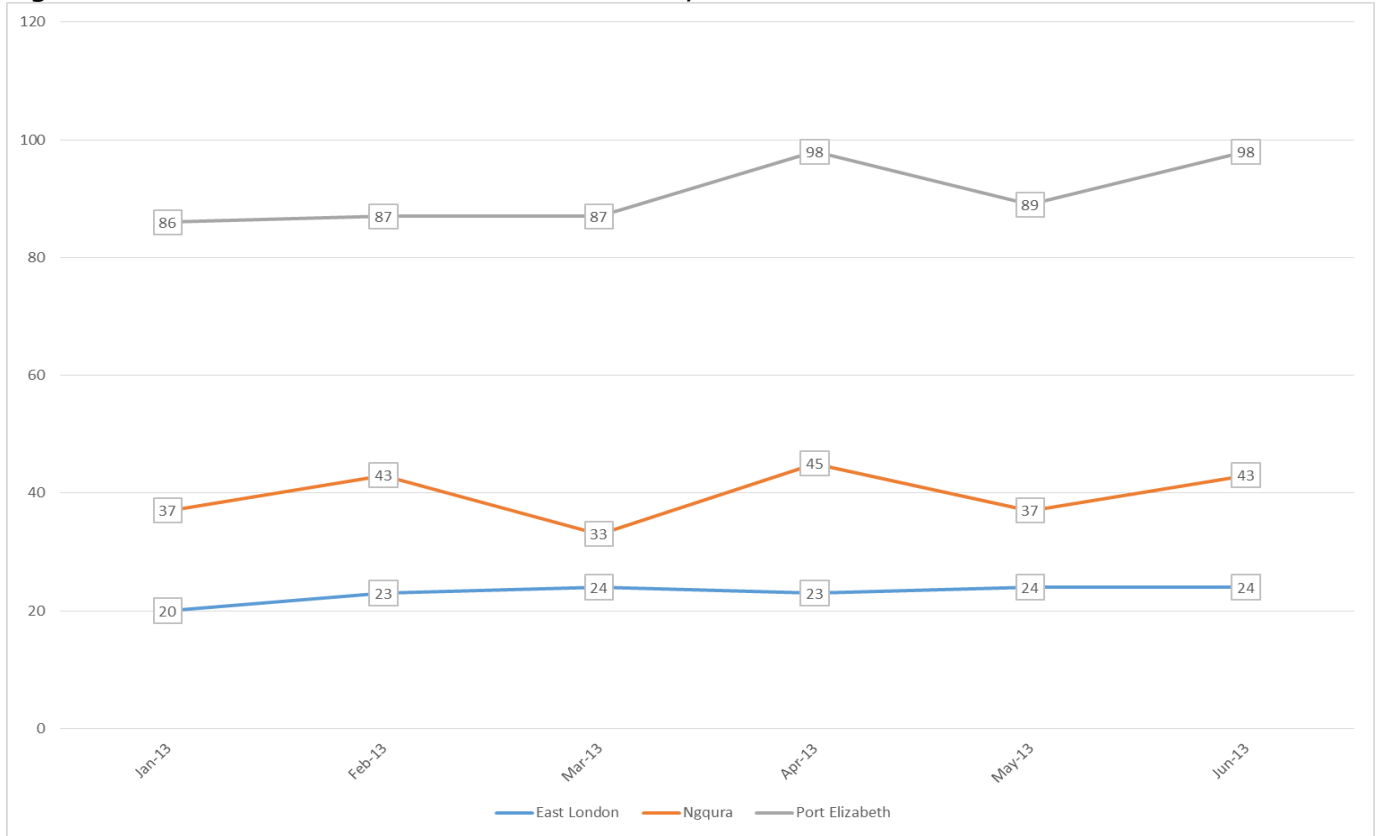
Source: South African Reserve Bank (SARB), 2013

5. EXPORTS AND IMPORTS OUT OF SOUTH AFRICAN PORTS

South Africa ports handled a total of 2 278 vessel arrivals in 2Q2013 as compared to 2 832 in 1Q2013. East London, Port Elizabeth and Ngqura ports together accounted for about 21.1% of total vessels handled in South Africa in 2Q2013. Comparing the three ports in the Eastern Cape, the busiest port was Port Elizabeth which accounted 12.5%, followed by Ngqura which accounted for 5.5% and East London which accounted for 3.1% in 2Q2013 (see figure 9).

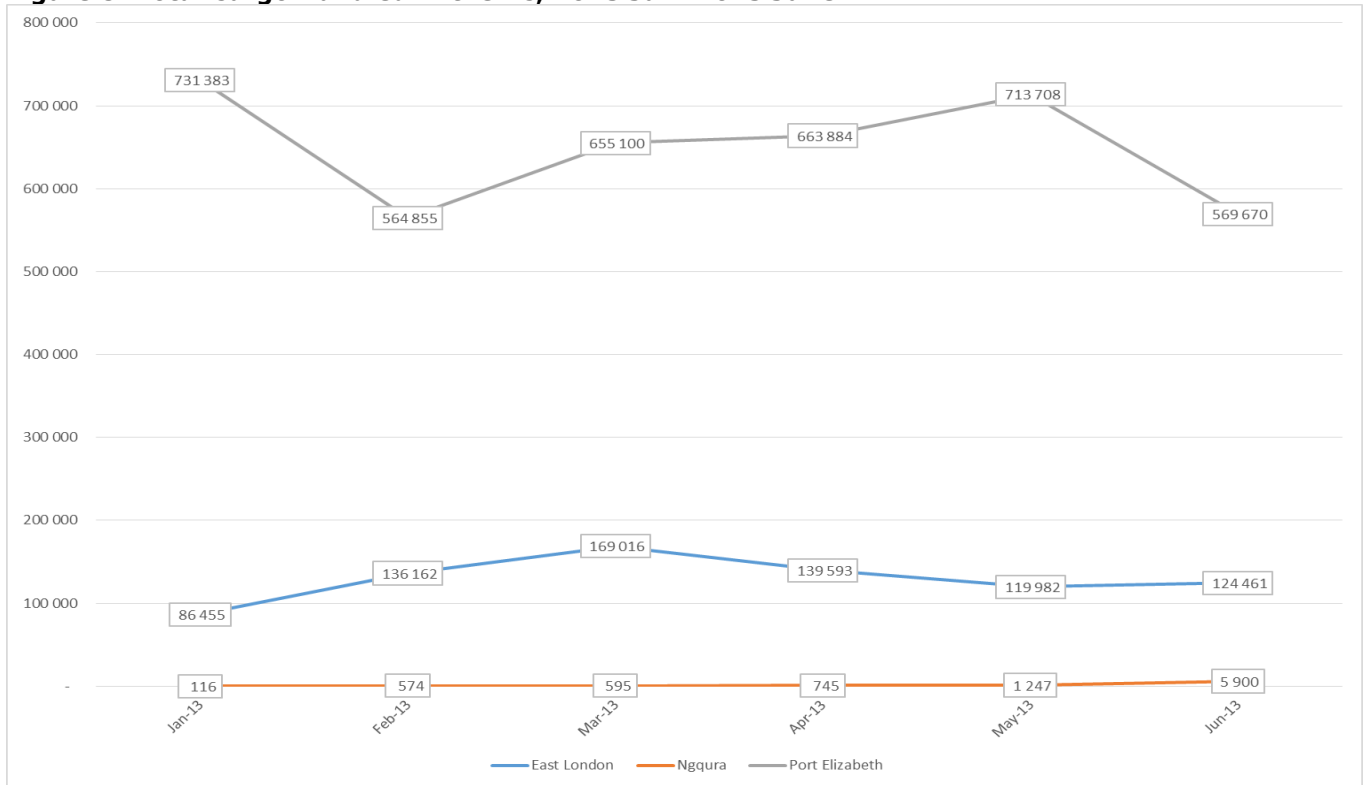
The cargo tonnage handled at Port Elizabeth in 2Q2013 was about 1.94 million metric tons compared to 1.95 million in the previous quarter (see figure 10). The total cargo tonnage handled at the country's eight ports amounted to around 50 million metric tons in 2Q2013 compared to 53 million handled in the previous quarter. The overall contribution of East London, Port Elizabeth and Ngqura to total South African cargo handling increased from 4.4% in 1Q2013 to 4.6% in 2Q2013.

Figure 7: Total Number of Vessels arrival in the EC, 2013 Jan- 2013 Jun



Source: Transnet, September 2013

Figure 8: Total Cargo Handled in the EC, 2013 Jan- 2013 June



Source: Transnet, September 2013

6. LABOUR MARKET TRENDS

Table 4 shows that between 1Q2013 to 2Q2013, 29 000 people were added to the Eastern Cape's labour force. Of these people, 9 000 people were employed while 20 000 people were unemployed. Therefore increase of unemployed people has led to an increase of unemployment rate in the EC to 30.8% in 2Q2013 from 30.2% in the previous quarter. Between 1Q2013 and 2Q2013 jobs were created in community and social service (11 000), trade (9 000), utilities (7 000), construction (6 000) and transport (6 000). Private households (-17 000), finance (-5 000), agriculture (-4 000), manufacturing (-3 000) and mining (-1 000) shed jobs. In 2Q2013 total employment grew by 0.7 QoQ and 1.8 YoY, but this growth was less than that of the previous quarter.

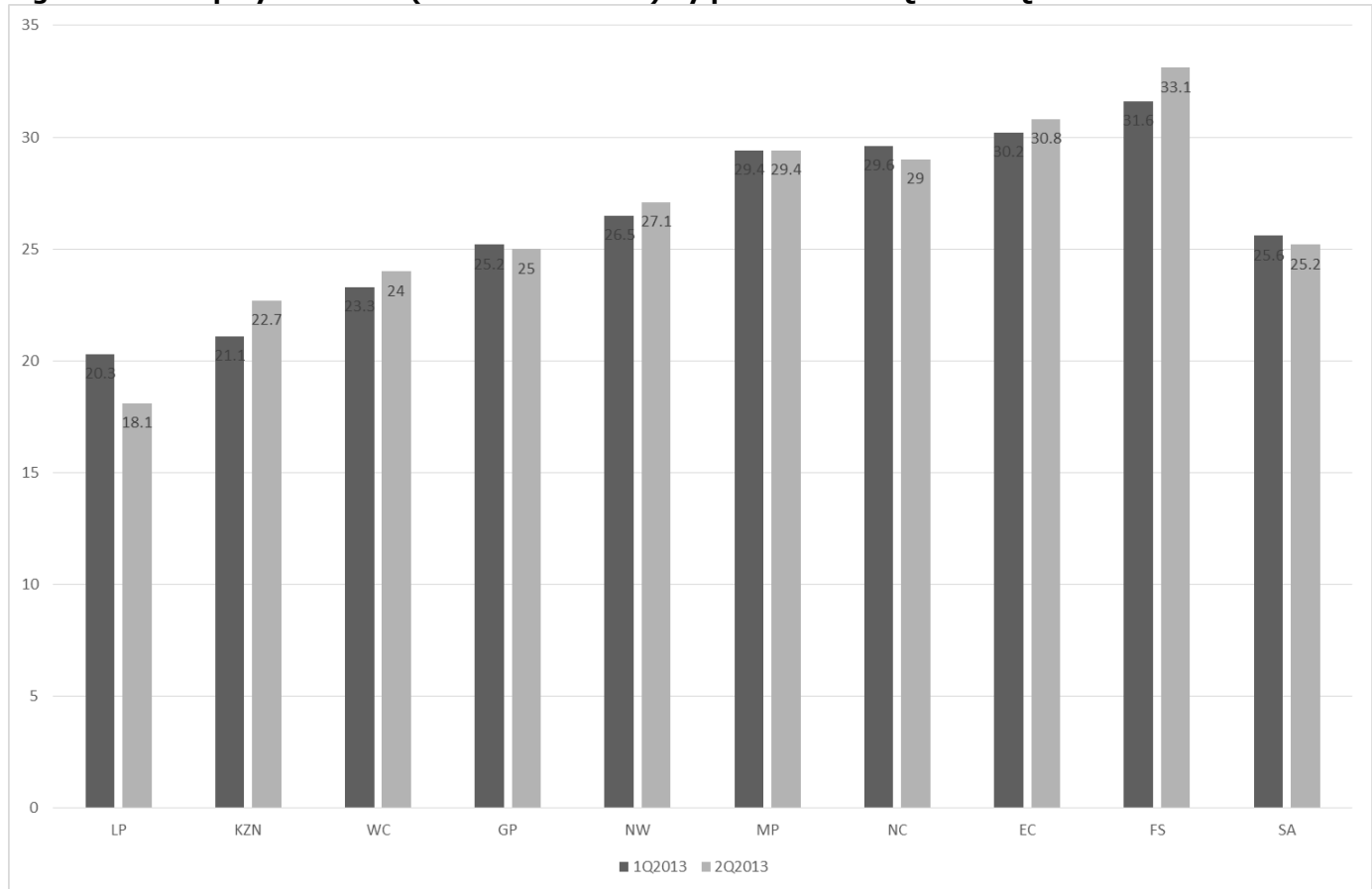
Table 4: EC's key labour market indicators for the period 1Q2013-2Q2013

Eastern Cape labour market	Numbers (000)				Percentage	
	1Q2013	2Q2013	QoQ change	YoY change	QoQ change	YoY change
Formal (non-agricultural)	812	824	11	-53	1.4	-1.6
Informal (non-agricultural)	278	296	18	42	6.6	16.4
Total Employment	1 312	1 321	9	23	0.7	1.8
Unemployment	568	588	20	67	3.5	12.8
Labour force	1 881	1 909	29	90	1.5	5.0
Discouraged work-seekers	440	416	-25	32	-5.6	8.5
Not economically active	2 362	2 343	-20	-53	-0.8	-2.2
Population working age (15-64 yrs)	4 243	4 252	9	37	0.2	0.9
Unemployment rate	30.2	30.8	0.6	2.2		
Labour absorption rate	30.9	31.1	0.2	0.3		
labour force participation rate	44.3	44.9	0.6	1.7		

StatSA: Quarterly Labour force Survey, July 2013

Figure 8 compares official unemployment rate by province between 1Q2013 to 2Q2013. The largest increases in unemployment rate were observed in KwaZulu-Natal (up by 1.6 percentage points) and Free State (up by 1.5 percentage points) and Eastern Cape unemployment rate grew the least by 0.6 percentage points. Province that experienced a decline in the unemployment rate: Limpopo (down by 2.2 percentage points), Northern Cape (down by 0.6 percentage points) and Gauteng (down by 0.2 percentage points). Largest decline in unemployment rate is experienced by Limpopo to 18.1% in 2Q2013 from 20.3% in the previous quarter.

Figure 7: Unemployment rate (official definition) by province for 1Q2013-2Q2013



StatSA: Quarterly Labour force Survey, July 2013

7. CONCLUSION

During the second quarter of 2013, the Eastern Cape economy grew significantly at 3.5% from 0.2% in the previous quarter. This growth was higher than that of 3.0% achieved for the country as a whole. The province has almost reached the pre-recession growth of 3.6% experienced 2Q2008; signalling a positive recovery process.

The positive economic recovery was also associated with an increase in the number of people who entered the labour market and got jobs. In total 9 000 more people were employed in 2Q2013. The labour absorption rate increased from 30.9% in 1Q2013 to 31.1% in 2Q2013 and total formal employment increased by 1.4% QoQ.

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