

CEOs Overview

The 2011 Free State Provincial Economic Review and Outlook (PERO) publication is the third in the annual series, having being inaugurated and launched in 2009. Wherein, the document was launched during the height of the greatest recession experienced in our lifetime – which its foundation was firmly rooted in the developed countries, but through economic channels saw South Africa being plunged in with so many other countries in the world. During the 2009, is wherein the first publication detailed the happenings in the economy of the world, South Africa and of course the Free State.

It is thus pleasing and with deep-seeded joy that we as a Provincial Treasury continue on this road to provide thorough economic analysis, through the PERO. The main propeller of the PERO continues to be the provision of in-depth analysis of the provincial economy, with a modest view of informing the formulation and the implementation of the public policy in the Free State. Not only, that but also emphasis needs to be placed on the other essential component of this document, that being the nucleus or platform to inform the decision-making process and that is data driven economic decision making – which could influence the budgetary allocations and as such provide a positive impact on the economic and social status of the people of the Free State.

Allow me to re-emphasize my predecessor's sentiments during the inaugural publication of the PERO in 2009, and also exclaim that we as a province continue securely committed to achieving a sustainable economic growth for the province, amid the exogenous factors that continue to hamper progress made and that will forever strive to ensure that all the socio-economic objectives enshrined and constituted in the Republic, also encapsulated in the New Growth Path (NGP), the National Developmental Plan – Vision 2030 are achieved. The 2011 PERO publication lends itself, alongside the 2011 revised FSGDS as a foundation for planning and the implementation of impactful programmes in the Free State province.

In parting, allow me to give a word of gratitude to the Economic Analysis Directorate, which has compiled the 2011 PERO, for their diligence, their nitpicking and continued hard work. We are looking forward to the fourth compilation of the 2012 Free State Provincial Economic Review and Outlook .

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CEO: Free State Provincial Treasury

EXECUTIVE SUMMARY

The 2011 Free State Provincial Economic Review and Outlook (PERO) comes in amid the growing double-dip economic sentiment, where there is a growing belief that the global economy might be heading for another economic downturn. According to the IMF World Economic Outlook, they anticipate a mild slowdown of the global expansion/growth and increasing risks. The IMF is of the opinion that global activity is slowing down temporarily and downside risks have increased again. The global expansion remains unbalanced. Growth in many advanced economies is still weak considering the depth of the recession. In addition, the mild slowdown observed in the second quarter of 2011 is not a reassuring sign for improvements. Growth in most emerging and developing economies continues to be strong. Overall, the global economy expanded at an annualized rate of 4.3% in the first quarter, and forecasts for 2011–12 are broadly unchanged, with offsetting changes across various economies.

The IMF proposes for policies that lead to steering away from unbalanced growth, the global economy has turned the corner from the Great Recession, and further purports that in securing the transition from recovery to expansion, it will require a concerted effort at addressing diverse challenges the global economy is faced with. The key fiscal priority for major advanced economies, especially the United States and Japan, is to implement credible and well-paced consolidation programs focused on bolstering medium-term debt sustainability. Given the tepid recoveries in these economies thus far, consolidation should ideally be gradual and sustained so as not to undermine growth prospects.

The 2011 PERO provides a thorough analysis of the global, national, provincial and local economic trends, as well as the situational analysis on the province's labour market related issues. It tackles and analyses the tedious tide of the world economy, more so analyzing the impact of the 2009 global economic downturn. The 2011 PERO does this through the analysis of growth rate of the regions of the world, and the performance of the South African economy. On the provincial front, the 2011 PERO places specific emphasis on the provincial growth and looks into the performance of the major economic sectors. The document also analyses the economic developments in the four Free State District Municipalities, and the newly established Mangaung Metropolitan Municipality, and also give an overview of the local economies outlook – according to the IHS Global Insight figures. In closing, the 2011 PERO tackles the persistent issue of high unemployment and youth unemployment in the labour market analysis chapter, which remains the achilles heel of both the Free State and the South African economy as it strives to recover.

World economic state

The reverberations of the 2009 great recession can still be felt across the globe, more so as it has highlighted the disparities that could be traced between the regions of the world. The growth projections and the registered growths of the developed and the emerging-market economies as published by the IMF, have led to a two-speed recovery, with emerging-market economies outpacing their more developed counterparts. The IMF projected a subdued growth for the world economy, with an output projection of 4.3% for 2011 and gradually increasing to an averaged 4.6% over the next five year period.

On the back of a promising growth projection by the IMF on the world economy, the advanced economies are expected to trail the world output projections by an averaged 2.1%, between 2011 and 2016. On the “big bad wolf” (major advanced economies), that is where the roots of the financial crisis could be traced, it is anticipated that this group of nations’ output would grow at a sluggish pace, registering a below par 2.3% in 2011. The economic woes in many developed economies are a major factor in the global slowdown. Most developed economies are suffering from predicaments remnant of the global financial crisis. Growth in the United States slowed notably in 2011. Gross domestic product (GDP) growth is expected to weaken further in 2012 and, even under the baseline assumptions; a mild contraction is possible during part of the year.

The emerging-market economies continue to be a beacon of hope for the world economy, with some economies in this region having not plunged in to oblivion during the height of the recession, such as China and India. The IMF anticipates the emerging-market economies to outpace the world economy with a growth projection of 6.5% for 2011, and average 6.7% between 2012 and 2016. Closer to home, the Sub-Saharan African region is anticipated to also experience positive growth, with the IMF growth estimates being 5.5% for 2011, and subsequent growth of 5.9% in 2012.

Contrary to its Sub-Saharan counterparts, South Africa can anticipate a moderately positive growth period, which would have had its roots in 2010 when the country’s growth was 2.8%, an improvement compared to the previous year’s negative growth of 1.8%. In the South African context, this is expected to be a moderate growth year, with the Bureau of Economic Research (BER) expecting a 3.8% growth. Meanwhile, the economic outlook for South Africa is a promising picture, with the IHS Global Insight projecting an average growth of 4.1% between 2011 and 2016.

The Free State Economic Situation and Prospects

Chapter 2 of the 2011 Free State PERO takes stock of the economic achievements of the Free State Provincial economy, and also discerns the economic makeup of the province through the analysis of the provincial economic structure. It concludes by taking a snapshot of the provincial economic outlook, based on forecast provided by IHS Global Insight (2011).

Provincial Economic Structure

Historically, the Free State has been described as the bread-basket of South Africa due to the then perceived strong agricultural sector. However, the picture is now in stark contrast to the sectors historic strong position, as the agricultural sector contributed a lowly 5.8% to the provincial economy between 2001 and 2010, on average. In the meanwhile, the manufacturing sector has made some strides in terms of its weighted contribution to the provincial economy, averaging about 11.4%, and estimated to remain at 11.4% for 2011. As things stand, the tertiary sector is the mainstay of the provincial economy with roughly 62.7% contribution towards the provincial economy, and also averaged 62.6% during the review period, solidifying its position in the province. On average, the largest sector in the province is the community services sector, with an average contribution of 26.3%, over the review period. In terms of the provincial contribution to the South African economy by industry, the province has seen minute declines of 0.03% between 2001 and 2010.

Provincial Economic Performance

The Free State provincial economy has circumnavigated through the pressures broad about by the 2009 global financial crisis that saw both the province and the Republic kneeling to the greatest recession in recent history, to chart a new growth trajectory and as such registering a below par growth of 2.1% in 2010 (IHS Global Insight, 2011). Between 2007 and 2010, the Free State growth rate averaged 1.97%, whilst the national average for the same period was 2.57%; about 0.60 percentage points higher than that of the Free State. Pre-recession, the province's average growth was 3.80%, and hit a slump following the financial crisis that plunged the global economy in 2009 to register a negative growth of 1.8%.

Sectoral Analysis

Sectoral analysis involves a review and an assessment of the current conditions, and the future prospects of a given sector in a regional economy. Contrary to popular perceptions, the primary sector has not been dwindling as initially thought, but improving marginally – accounting for roughly 20.1% of the provincial GDP in 2010. The primary sector grew by 3.5 percentage points or 21.1% between 2001 and 2010; and it is made up of the mining sector (69.8%) and the agricultural sector (30.2%). In the Free State's secondary sector, the manufacturing sector contributes 73.4%, whilst the utilities and the construction sectors command 15.4% and 11.2%, respectively. The contribution of the secondary sector towards the provincial GDP increased marginally from 18.6% to 19.0% between 2000 and 2008, however, the sector contracted in 2009, registering a contribution of 17.9%. Amongst the three major sectors, the tertiary sector is the largest in the Free State, accounting for roughly 62.6% during 2010. However, the contribution of the sector towards the provincial GDP has decreased by a rough 1.4%.

Trade Performance

According to IHS Global Insight (2011), South Africa had a positive trade balance of R 28,1 billion during 2010, with a total trade of R 1.2 trillion in the same year. Export accounted for roughly 51.1% of the total trade (or about R 628 billion in monetary terms), whilst import accounted for about 48.9% of the total trade. This impressive trade performance was amid uncertainties in the global economy, reflecting on the recession of 2009, and a sluggish growth mode in the global economy. The Free State economy has, over the period under review, realised a trade surplus, with the only blemish registered during 2001, when the provincial economy registered a trade deficit of around R 212 million.

Provincial Economic Outlook

The Free State provincial economic outlook seems to be a sombre one, taking queue from the South African economy, which according to the IMF projection would average 3.8% between 2011 and 2015. According to the IHS Global Insight(2011), the Free State economy is projected to grow by roughly 3.1% on average between 2011 and 2015, bridging the 4 percentage point mark towards the end of the forecast period or in 2015, when it is anticipated to register a 3.9% growth.

The State of the Free State Local economies and the outlook

The Free State local economies have seen varying degrees of exposure to the 2009 financial turbulence, with some municipalities gravely exposed whilst others virtually not exposed. This is particularly due to the

varying characteristics of their locality and the influence of exogenous factors within a locality. With the Thabo Mofutsanyana District Municipality and the Mangaung Metropolitan Municipality being the least exposed, registering growths of -0.9% and -1.3%, respectively, during 2009. This rather timid but relatively better growth could be ascribed to the District and the Metro's economic makeup and thus sectoral dependence, with both heavily reliant on the community services sector, which performed better than expected during the 2009.

On the back of the recession, saw all of the districts and the Mangaung Metro registering positive growth rates during 2010, with the Fezile Dabi District registering the highest growth among the municipalities with a 3.1%, followed by the smallest District Municipality, the Xhariep District Municipality with a 3.0% growth. The Fezile Dabi District Municipality has the lowest unemployment rate in the province at 23.3%, whilst the Free State provincial unemployment average 29.2% (IHS Global Insight, 2011).

GDP-R per capita incomes between 2001 and 2010 depicted clear disparities in terms of income in the different districts, the Metro, and the province, which is indicative of the geo-economic make-up of the province. With the provincial average per capita income being R 28 944.20 on annual basis, that would imply a monthly income of R 2, 412.02. The provincial economic powerhouses (i.e. the Fezile Dabi District Municipality and the Mangaung Metropolitan Municipality) continue to have better per capita incomes than the provincial average, recording R 50, 629 and R 39,340, respectively. Meanwhile, the smallest local economy, in district terms has the second lowest per capita income average, whilst the Thabo Mofutsanyana with an averaged R 13,762 per annum. On an annualized basis, provincial per capita income has been increasing by roughly 2.6%, while only Fezile Dabi has performed better than that by growing roughly by 4.2%.

The general economic outlook for local economies looks promising, with the Mangaung Metro expected to see an increase in growth of around 3.6% over the next five years, whilst the Fezile Dabi District might even bridge the four percent mark over the same period. Only, the Lejweleputswa district is expected to perform woefully over the next five years, with the main reason cited for the poor performance being the depleting mineral resources the region has come to depend on.

Local economies continue to be the backbone of the economy, however, a concerted effort is required to see the districts and the Metro being back to their former glory days. With increased focus on the local economic development projects, there would be spin-offs that could see the resurrection of the local economies and in

the long-term increase the employment levels of the same economies. A key challenge going forward is to ensure that the local government fiscal framework is progressively reformed to better reflect the different fiscal capacities of municipalities.

Developments in the Labour Market

Chapter 4 of this report takes stock of the recent labour market developments at the global level, nationally and at provincial level, as well as emerging challenges as the world continues to struggle to forge a sustainable recovery from the global economic and indeed jobs crisis.

Global Labour Market

This section of the report has attempted to demonstrate that the impact of the crisis on the global labour market has been severe despite rapid economic growth in 2011. Employment growth at the global level fell to 0.7% in 2009 and the global unemployment rate increased to 6.3%, from 5.6% in 2007. The number of unemployed around the world surged from 177.3 million in 2007 to 205.2 million in 2009, an increase of 27.9 million. Other labour market indicators revealed additional forms of severe labour market distress, amongst others these were falling employment-to-population ratios, increases in vulnerable forms of employment, and rising discouragement – particularly among young people.

An analysis of the global employment-to-population ratio from 2000 to 2011 reveals substantial heterogeneity in trends across regions. Over this period, the decline in the global employment-to-population ratio was driven by declines in three regions: the Developed Economies and European Union, East Asia and South Asia, with the latter two regions having registered particularly large drops. In the other regions of the world, employment-to-population ratios actually rose after 2002, driven in part by increasing numbers of women in the workforce. In four of the six regions with rising employment-to-population ratios – Latin America and the Caribbean, North Africa, South-East Asia and the Pacific and Sub-Saharan Africa, employment-to-population ratios for women rose faster than the corresponding ratios for men, resulting in a narrowing of the gender employment gap.

A special look at the developments in the Sub-Saharan Africa region reveals that economic growth in the region slowed down to 2.8% at the height of the economic crisis in 2009, but rebounded strongly to 5.4% in 2010. The region continued its recovery in 2011, growing at 5.2%. Most of Sub-Saharan Africa's higher middle-income economies also registered economic growth in excess of pre-crisis trends, with the exceptions

of Namibia and the region's largest economy, South Africa. Economic growth in South Africa accelerated from 2.8% in 2010 to 3.4% in 2011, but remained below the pre-crisis trend of 4.3%. Similarly, economic growth in Namibia, at 3.6% in 2011, was well below the pre-crisis trend of 5.2%.

The South African Labour Market

An exploration into the South African labour market reveals that even though GDP has recently improved, unemployment rate however remains stubbornly high. Both the narrow and expanded unemployment rates are essentially unchanged since 2010Q3 at 25.0% and 33.2% respectively. This high level of unemployment continues to remain, but a striking feature of the South African labour market. Labour force participation rates have remained unchanged between 2010Q3 and 2011Q3; 54.3% of the working age populations are members of the labour force, while 61.0% are broad labour market participants.

South Africa's absorption rate of 40,9% compares relatively poorly with those of member states of the Organisation for Economic Cooperation and Development (OECD), which stood at an average of some 65% in 2010, with Iceland the highest at 79%, and Turkey (where many women are not employed for religious reasons) the lowest at 46%. Moreover, the two member states of BRICS that are also part of the OECD, i.e. Russia and Brazil, have absorption rates of approximately 68%.

Provincial Labour Market

This section of the report provides an overview of the current state of the labour market in the province by examining trends in employment and labour market participation on the one hand and the features of the province's sizeable unemployment problem on the other. An analysis of these key provincial labour market indicators point towards further deterioration of the provincial labour market, they point out a distressed market with limited employment prospects. The province is suffering from the problem of delayed labour market recovery since the recent economic crises. The number of persons in the provincial labour force increased by 4 000 between Q2:2011 and Q3:2011. Between the third quarter of this year and the same period last year, the labour force in the province increased by 14 000 persons or by about 0.8 percentage points. This overall expansion in the working age population implies continuous pressure is exerted on the provincial economy to expand employment opportunities in order to absorb new entrants in the labour market.

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ACRONYMS

BER – Bureau of Economic Research

BRICS – Brazil, Russia, India, China and South Africa

CEO – Chief Executive Officer

CPI – Consumer Price Index

EU – European Union

FHCE – Final Household Consumption Expenditure

GCE – Government Consumption Expenditure

GDP – Gross Domestic Product

GFCF - Government Consumption Expenditure

GNI – Gross National Income

GVA – Gross Value Added

ILO – International Labour Organisation

IMF – International Monetary Fund

ISIC – International Standard Industrial Classification

LED – Local Economic Development

LFPR – Labour Force Participation Rate

LQ – Location Quotient

MDG – Millennium Development Goals

MENA – Middle East and North Africa

MLL – Minimum Living Level

NGP – National Growth Path

OECD – Organisation for Economic Cooperation and Development

OPEC – Organisation of the Petroleum Exporting Countries

PERO – Provincial Economic Review and Outlook

PMI – Purchasing Managers Index

QLFS – Quarterly Labour Force Survey

SA – South Africa

SAMI – South African Mining Industry

UNSC – United Nation Security Countries

US – United States

WEO – World Economic Outlook

Chapter 1: Global and National Economic Perspective

1.1 INTRODUCTION

The 2011 edition of the Free State Provincial Economic Review and Outlook (PERO) publication reflects the tail end of the recent global recession and paints a rather rickety start to an expected new output growth cycle. The shaky start could be ascribed to the Eurozone area debt crisis and more recently the US debt-ceiling crisis. During the period 2008 to 2009, the world economy suffered the worst financial and economic crisis since the Great Depression of the 1930s. The rapid global economic downturn severely disrupted economic growth worldwide and caused significant setbacks in the progress made towards achieving the United Nations Millennium Development Goals (MDGs) and the other internationally agreed upon developmental goals. According to United Nations estimates, the annual growth rate in global output fell from about 4.0%, on average, during the period 2006 to 2007 to 1.6 % in 2008. The rate of growth in output dropped even further at the height of the recession (i.e. 2009), to -2.0%, when 95 countries affiliated to the United Nations experienced declines in their average per capita income.

As the global economy reels from the great recession of 2009, most economies are charting a new economy devoid of the austerity measures employed to soften the impact of the recession. According to the South African Reserve Bank Quarterly Economic Bulletin (2011), the global economic recovery continued in the first quarter of 2011, defying concerns of a double-dip pattern in activity. Nevertheless, the recovery remained uneven with emerging and developing-market economies outpacing the developed economies; most of the latter group of economies continued to be characterised by stimulatory monetary policies alongside fiscal consolidation, fragile confidence and a lack of job creation. Meanwhile, political turmoil and conflict continued in a number of countries in the Middle East and North Africa (MENA), disrupting economic activity and adding upward pressure on the international price of oil, notably in Egypt, Tunisia and Libya. Global supply chains were also impaired when a devastating earthquake and tsunami hit Japan on 11 March 2011 and disrupted global production.

The world output growth has been somewhat subdued, with IMF projecting a moderate growth of 4.3%; with the advanced economies having had an indifferent experience to that of the emerging-market economies. The IMF projections indicate a sluggish economic growth of 2.2% for the advanced economies and a more robust growth projection for emerging-market economies of 6.6%. The strong growth was experienced in most countries that belong to the BRIC¹ (Brazil, Russia, India and China), with an averaged growth of 6.7%. On the home front, the prognosis in terms of economic growth has improved somewhat, even though it is

¹ BRIC (Brazil, Russia, India and China) is an economic group of countries, and South Africa has subsequently been accepted to be a member of the group, thus with the name change from BRIC to BRICS.

considered to be below its full potential. Absa Capital, projects the South African economic growth to average 3.9%, which is a 1.1 percentage point higher than the previous year's growth of 2.8%. In gist, the global economy is projected to experience growth, though subdued; this is according to projections of the World Bank, the IMF and a whole host of private-financial institutions.

The purpose of this chapter is to review the performance of the global economy, mindful of the recent international economic meltdown experienced in 2009 and also the two-speed recovery that is already apparent, as the global economy treks back to its former hey-day. The chapter further paints a picture, in terms of the world economic outlook, stemming from projections made by institutions such as the World Bank and other market leaders in the realm of projecting economic outcomes. It further analyzes the South African economic performance, amid the global economic developments – and thus offers the outlook for the country for the next five years according to the IMF projections released in June 2011.

1.2 INTERNATIONAL ECONOMIC DEVELOPMENTS

As the global economy reeled itself from the bottom of the trough and has consequently charted a path to a successful recovery, what creeps in mind is how long will positive growth be sustained, mindful of the Greek risk crisis, which has many pundits punting a double-dip recession. Meanwhile, conditions still remained vulnerable in the highly indebted peripheral countries of the euro area such as Greece, Ireland and Portugal which received financial assistance from the European Union and the IMF. The €110 billion rescue package received by Greece in 2010 has failed to restore the country's financial health. This has led to new discussions on a second bailout package which could also include a deal with private bondholders to roll over maturing Greek bonds (South African Reserve Bank, Quarterly Bulletin, June 2011)

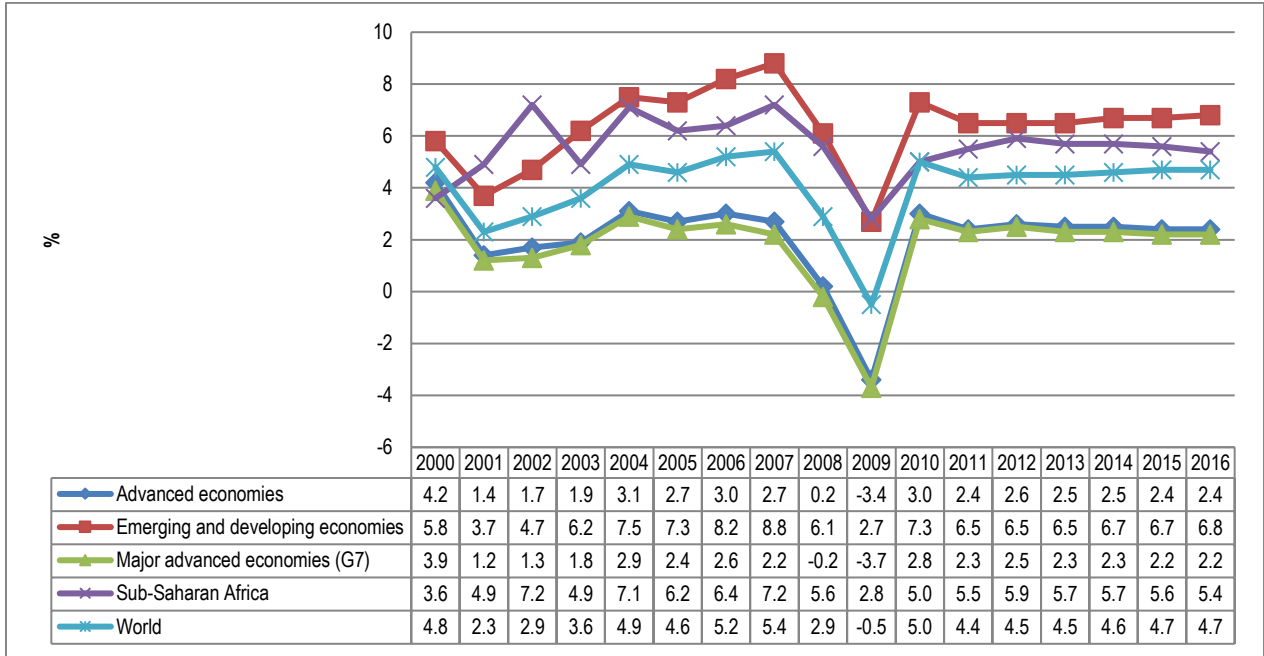
According the IMF's Global Financial Stability Report Market Update for June 2011, the Financial risks² have risen for three reasons. Firstly, while a multi-speed global recovery remains the base case, downside risks to the baseline have increased. Secondly, concern about the debt sustainability and support for adjustment efforts in Europe's fringe is leading to market pressures and worries about possible infectivity. Also, the political risks in the MENA (Middle-East and North African countries) are also raising questions about medium-term fiscal adjustment in a few of the advanced economies. The third financial risk identified by the

² Financial risk is often defined as the unexpected variability or volatility of returns and thus includes both potential worse-than-expected as well as better-than-expected returns.(www.wikipedia.com)

IMF, pertains to a recent pullback in risk appetite, the prolonged period of low interest rates may push investors into riskier assets in a search for a higher yield.

Global activity according to the IMF’s World Economic Outlook (WEO) update for June 2011 is slowing down temporarily, and the downside risks have increased, yet again. The update further asserts that the global expansion remains unbalanced, growth in many advanced economies is still weak, considering the depth of the recession and also based on the fact that it originated in most of these countries. The IMF projects the global activity to slowdown in the second quarter of 2011, and only to reaccelerate in the second half of the year. However, activity will remain unbalanced amid elevated downside risks. Forward looking indicators such as manufacturing purchasing managers’ indices (PMI) suggests that activity has softened in the second quarter 2011.

Figure 1.1: Output (GDP) growth rates³, 2000 -2016



Source: IMF, World Economic Outlook database, June 2011

The above figure depicts the IMF’s past growth performance and the estimated output growth rates for the global economy, and other sub-global and major groupings economies. As anticipated, the World economy will continue to grow in 2011 and beyond, though expected to be lower than the growth of 2010, were it grew by 5%, to an expected averaged growth of 4.6% over the six year period. The advanced economies’ road to

³ The growth rates depicted after 2010 are the International Monetary Fund’s estimates of output/GDP.

recovery has been a relatively rocky step up, with the debt-crisis in most European countries threatening to put a damper on the global economic recovery. Lately, most economic commentators are fearing and speculating about the possibility of another global recession due to the debt-ceiling⁴ crisis plaguing the United States of America. Standard & Poor's has subsequently downgraded the U.S.'s AAA credit rating for the first time, slamming the nation's political process and criticizing lawmakers for failing to cut spending or raise revenue enough to reduce record budget deficits. Standard & Poor's lowered the U.S. one level to AA+ while keeping the outlook at "negative" as it becomes less confident Congress will end Bush-era tax cuts or tackle entitlements. The rating may be cut to AA within two years if spending reductions are lower than agreed to, interest rates rise or "new fiscal pressures" result in higher general government debt.

Earlier concerns about a potential double-dip recession in advanced economies never materialized (with the exception of Japan) and output growth accelerated in the first quarter of 2011, mainly due to the stronger growth of 3.4% registered in the euro area. Economic growth was underpinned by exports and gross fixed capital formation as monetary policy remained accommodative and business confidence improved, despite fiscal consolidation. However, conditions still remained vulnerable in the highly indebted peripheral countries of the euro area such as Greece, Ireland and Portugal which received financial assistance from the European Union and the IMF. The €110 billion rescue package received by Greece in 2010 has failed to restore the country's financial health. This has led to new discussions on a second bailout package which could also include a deal with private bondholders to roll over maturing Greek bonds.

The Major Advanced Economies (i.e. the Group of seven (7) nations), is anticipated to grow at a relatively slower pace, as compared to the rest of the World Economies. The IMF estimates that the G7 countries output would grow by a sluggish average of 2.37%, beyond 2010. This sluggish growth is indicative of the change in the economic landscape, with the Emerging and Developing economies' ascendancy to economic prominence. The Emerging and developing economies is expected to outpace the World economy's averaged growth of 4.6%, by 2.14 percentage points beyond 2010, growing by an averaged 6.71% for the period 2010-2016. This impetuous in the Emerging and Developing economies, could be ascribed to the developments in the Chinese and Indian economies, as the resilience of both economies did not plunge them into recession during the Great Recession of 2009.

⁴ In the United States, the federal government can only pay for expenditures if Congress has approved the expenditure. If the total expenditure exceeds the revenues collected there is a budget deficit, and the only way that the shortfall can be paid for is for the government, through the Department of the Treasury, to borrow the shortfall amount by the issue of debt instruments. Under federal law, the amount that the government can borrow is limited by the debt ceiling, which can only be increased with a vote by Congress. (www.wikipedia.com)

Closer to home, the Sub-Saharan African economies are anticipated to also experience positive growth in the period 2010-2016, according to the IMF estimates. Growth in Sub-Saharan Africa rebounded sharply in 2010. Supported by the global economic recovery and developments on the domestic front, GDP in Sub-Saharan Africa grew by 4.8% in 2010—up from the 2.0% advance of 2009 and just shy of the region’s 5.0% pre-crisis average growth. Excluding South Africa, the largest economy in the region, Sub Sahara Africa grew by 6.0%, one of the fastest growth rates among developing regions.

Table 1.1: Overview of the World Economic Outlook

	Year over Year				Q4 over Q4		
	Actual		Projections		Estimates	Projections	
	2009	2010	2011	2012	2010	2011	2012
World Output	-0.5	5.0	4.4	4.5	4.7	4.5	4.4
Advanced Economies	-3.4	3.0	2.4	2.6	2.7	2.6	2.5
United States	-2.6	2.8	2.8	2.9	2.7	3.0	2.7
Euro Area	-4.1	1.7	1.6	1.8	2.0	1.5	2.1
Germany	-4.7	3.5	2.5	2.1	4.0	1.9	2.5
France	-2.5	1.5	1.6	1.8	1.5	1.7	2.0
Italy	-5.2	1.3	1.1	1.3	1.5	1.3	1.2
Spain	-3.7	-0.1	0.8	1.6	0.6	1.1	1.9
Japan	-6.3	3.9	1.4	2.1	2.5	2.5	1.3
United Kingdom	-4.9	1.3	1.7	2.3	1.5	2.2	2.4
Canada	-2.5	3.1	2.8	2.6	3.2	2.8	2.5
Other Advanced Economies	-1.2	5.7	3.9	3.8	4.8	4.3	3.7
Newly Industrialized Asian Economies	-0.8	8.4	4.9	4.5	6.1	5.9	3.8
Emerging and Developing Economies	2.7	7.3	6.5	6.5	7.4	6.9	6.9
Central and Eastern Europe	-3.6	4.2	3.7	4.0	3.7	3.7	4.0
Commonwealth of Independent States	-6.4	4.6	5.0	4.7	4.7	4.5	3.7
Russia	-7.8	4.0	4.8	4.5	4.7	4.3	3.5
Excluding Russia	-3.1	6.0	5.5	5.1	-	-	-
Developing Asia	7.2	9.5	8.4	8.4	9.2	8.4	8.5
China	9.2	10.3	9.6	9.5	9.8	9.4	9.5
India	6.8	10.4	8.2	7.8	9.7	7.7	8.0
ASEAN-5	1.7	6.9	5.4	5.7	6.1	5.4	5.6
Latin America and the Caribbean	-1.7	6.1	4.7	4.2	5.2	5.0	4.6
Brazil	-0.6	7.5	4.5	4.1	5.0	5.0	4.0
Mexico	-6.1	5.5	4.6	4.0	4.4	4.4	3.7
Middle East and North Africa	1.8	3.8	4.1	4.2	-	-	-
Sub-Saharan Africa	2.8	5	5.5	5.9	-	-	-
European Union	-4.1	1.8	1.8	2.1	2.1	1.8	2.4
World Growth Based on Market Exchange Rates	-2.1	3.9	3.5	3.7	-	-	-
World Trade Volume (goods and services)	-10.9	12.4	7.4	6.9	-	-	-
Imports							

Advanced Economies	-12.6	11.2	5.8	5.5	-	-	-
Emerging and Developing Economies	-8.3	13.5	10.2	9.4	-	-	-
Exports							
Advanced Economies	-12.2	12.0	6.8	5.9	-	-	-
Emerging and Developing Economies	-7.5	14.5	8.8	8.7	-	-	-
Commodity Prices (U.S. dollars)							
Oil	-36.3	27.9	35.6	0.8	-	-	-
Nonfuel	-15.8	26.3	25.1	-4.3	-	-	-
Consumer Prices							
Advanced Economies	0.1	1.6	2.2	1.7	1.6	2.2	1.5
Emerging and Developing Economies	5.2	6.2	6.9	5.3	6.3	5.9	4.2

Source: IMF, *World Economic Outlook, April 2011*

Table 1.1 above depicts the IMF's overview of the World Economic Outlook, and therefore entails the projections for the 2011 and 2012 world output, world Trade, commodity prices and inflation. In 2009, the World economy experienced the greatest recession of recent times when it grew at a negative 0.5%; it was precipitated by the virtual collapse of the United States' subprime housing market in 2007, and led to the bleeding of credit markets and the failure of the ten major financial companies in the third quarter of 2008. This virtual collapse spread throughout the world like a wild fire, and turned into a worldwide crisis of confidence and led to the systematic collapse of the global financial services sector, which then spilled to the tradable and non-tradeable markets.

Though 2009 was a year to forget for the global economy, 2010 was the beaconing of a new era in the world economy as it grew positively by 5%. How about 2011, is it the year of the beginning of turning a new leaf. This question is posed due to the uncertainty that continue to prevail in the Global economy, as there is the sovereign debt crisis plaguing some of the Euro zone countries, such a Greece, Italy and others. Meanwhile the US, is also facing uncertainty pertaining to its debt-ceiling level. However, the Congress in the US has resolved to increase the debt ceiling in the meantime. This question is further fuelled by the protracted political unrest in the MENA (Middle East, North Africa) region, with most of the North African countries under new or interim governments. The political turmoil in the MENA countries resulted in higher oil prices, with a barrel of crude oil increasing by almost 35% since the end of 2010 and Brent crude reached a two-and-a-half year high level of US\$127 per barrel at the beginning of April 2011. However, the price of Brent crude has subsequently gone down to trade at around US\$113, during the month of September 2011.

In the Advanced economies, the United States of America's output grew from a negative 2.6% in 2009 to 2.8%, and the IMF projects an averaged 2.9% growth for 2011 and 2012. The risk to the IMF's projections on the US output growth remains fragile, due to the US's to the large budget deficits and increasing

government debt. However, the US Congress had approved the elevation of the debt ceiling in the United States', nonetheless the S&P ratings agency had decreased the US AAA rating to an AA+ investment rating level, due to the bellowing government debt. In the case of the Japanese economy, its road to recovery has been hampered by the earthquake that hit the country during March 2011. In 2009, Japan recorded an unimpressive growth of -6.3%, but resurged during 2010, with an output growth of 3.9%. However, going forth the IMF project's a sluggish growth in output of 1.4% in 2011 and 2.1% in 2012. The IMF further purported that the damage caused by the earthquake and the tsunami would dampen the country's GDP by about an averaged 4.5%.

In the Euro area, the IMF projects the region to grow by an averaged 1.7% for the period 2011-2012, from a disappointing -4.1% growth in output during 2009. The Eurozone area's economic activity has been revitalized by the growth in the global economy, due to the region's dependence on its exports. Which are expected to be supported by the growing world economic positive sentiment, with also in the business confidence, private-sector domestic demand projected to have an increasingly positive spin on the economic growth in the region.

In the United Kingdom, economic outlook according to the IMF projections is projected to grow by 1.7% in 2011 and 2.3% in 2012. This increase in growth is following the region's lackluster performance in 2009, growing at -4.9% due to the financial crisis that plagued the global economy. However, like many other regions in the world, the United Kingdom's economy rekindled to a moderate growth in output of 1.3% during the 2010 financial year. In terms of the sluggish outlook in the UK, certain factors are at play such as the domestic consumption restrained by the fiscal consolidation mechanisation employed during the height of the recession and also the slow real income growth. In recent times, the youth unrest in England also dampened the outlook.

GDP growth in the Emerging and Developing market economies, has been projected to outpace the world economic growth and that of the Advanced economies, as has been the case over the last ten or more years. The IMF projects the Emerging and Developing Markets to grow by an averaged 6.5% for the period 2011 and 2012. This is a slight decrease from the performance of the emerging market economies during 2010, where this group of nations recorded an impressive growth of about 7.3%. Unlike many groupings of nations in the World economy, the emerging and developing market economies were slightly cushioned against the full wrath of the 2009 Great Recession as they grew by 2.7%, whilst the world output grew by -0.5%.

GDP growth in Sub-Saharan Africa is expected to remain strong in 2011 and 2012. With the global recovery still on a firm footing; a growing domestic middle class with discretionary incomes to spend, and rising business confidence in the region's prospects, growth in Sub-Saharan Africa is expected to step-up to stronger rates in 2011 and 2012, reaching growth of 5.1% and 5.8%, respectively.

Excluding South Africa, GDP growth in Sub-Saharan Africa is expected to grow between 5.9% and 6.6% over the forecast horizon, making it one of the developing regions with the highest growth prospects over the medium term. High food prices pose a risk to the Sub-Saharan Africa's medium-term economic outlook. Prices of globally traded food products have risen significantly since June 2010. As of April 2011, global prices were up by 103.2% for maize (year-on-year), 74.1 % for wheat, 94.6 % for Sorghum and 38.4% for palm oil. However, for most Sub Saharan African countries, food price increases were moderate for much of 2010, and in a few countries prices declined, thanks to favourable harvests yielded during 2010, the local nature of food markets in many countries in the region, and the availability of alternate staples (e.g. cassava) that can substitute for higher priced internationally traded food (IMF: Global Economic Prospects June 2011: Regional Annexure).

Box 1.1: Brazil, Russia, India, China and South Africa (BRICS)

BRICs is a concept formulated by Investment Banker Jim O'Neill of Goldman Sachs in a prominent 2001 economic thesis entitled "The world needs better economic BRICs"; O'Neill was referring to the economically related nations of Brazil, Russia, India and China. O'Neill predicted that these countries would become economic powerhouses; however, he had no idea how powerful and significant the BRIC acronym would become. In the paper he envisaged that over the next ten years, the weight of the BRICs, and especially China, in World Gross Domestic Product (GDP) would grow. Further, he argued that with the increase of these countries' economic standing, world policy-making forums should be reorganized to accommodate the emergence of BRIC. The controversial concept exploded within the financial world and made waves within the investment community, which prompted O'Neill to write a follow-up paper in 2003 called "Dreaming with BRICs: The Path to 2050." The paper advocated that by 2039 the BRICs group could overtake the largest Western economies in scale.

Does South Africa belong in BRICS?

BRICS has the potential to morph into a political club. This is exemplified by the inclusion of South Africa as the fifth member, which appears to have been on political rather than strictly economic grounds. The inclusion of the African State has surprised many, not to mention O'Neill, who cites South Africa's economy of about \$527, 5-billion, in GDP Purchasing Price Parity, as modest compared with the powerhouses of the original BRIC members who account for roughly half of global economic growth. Current productivity and population trends in the country also give no indication that South Africa is close to matching its BRICS counterparts. In O'Neill's initial reports, several other large developing countries that had the potential to be much bigger economies in coming decades, such as that of South Africa, were excluded. In fact, one report specifically illustrated

Box 1.1: continues

Between 2000 and 2008, the BRICs (excluding South Africa) contributed almost 30% to the global growth in US Dollar terms, compared to around 16%, the previous decade. Although the Advanced Economies still contribute the most towards global growth, than the BRICs on this 2000-2008 average measure, since 2007 alone The People's Republic of China has contributed more than any of the advanced economies, including the Eurozone area. Per country basis, all of the BRICs countries contributed more to world growth in 2007-2008, than from 2000 to 2006. Over the next five years, the BRICS group of economies is expected to account for 36% of world economic growth, increasing their combined share of global GDP to about 22%, equivalent to that of the US. In December 2010, partly in recognition of its role as a gateway to the African continent, South Africa was invited to join this grouping, providing new opportunities for trade and investment.

According to Goldman Sachs Global Economic projections, China may now overtake the United State 14 years earlier than was originally thought – it is now expected to become the largest economy in the world by 2027, vs. 2041 previously envisaged. While this projection is still far in the future, another development appears to be foregone conclusion that China should overtake Japan as soon as next year, i.e. 2012. The original 2003 projections underestimated the move by six years. Brazil will probably overtake Italy by the end of 2010, 15 years earlier than was thought 2003. Brazil may now overtake Germany by 2029, seven years ahead of previous expectations and, most strikingly, is now forecast to overtake Japan by 2034, as previously thought. Same applies to Russia and India; they may both become bigger than Japan as soon as 2037 and 2027, respectively. Overall, the BRICs group of economies together could now be larger than the G6 by 2031, vs. the

World Trade volume for goods and services is anticipated to depreciate from the unheralded high of 2010, resulting in trade of 12.4%, to a moderate 7.4% for 2011 and 6.9% for 2012, according to the IMF projections. During the height of the Great Recession trade reached its lowest levels in recent history, with -10.9%. Looking at importation of goods and services, the Advanced economies import are expected to decline from 11.2% during 2010, to an averaged 5.7% for 2011 and 2012. In terms of the emerging and developing market economies, importation of goods and services is anticipated to hover around 9.8% for the years 2011 and

2012, this due to the growing need in these economies to accelerate and keep the momentum going forth. On the export front, the emerging and developing economies are anticipated to carry the bulk of exported products; however, a decrease from the 2010 high of 14.5%, to a moderate average of 8.75% for the period 2011 and 2012 is projected. In the Advanced economies, exports are also anticipated to dwindle from 12.0% for 2010, to an averaged 6.4% during 2011 and 2012.

On the commodity prices front, global oil prices have increased by 35% since the end of 2010 and Brent crude reached a two-and-a-half year high level of US\$127 per barrel in early April 2011. A combination of factors supported oil prices, including the weaker US dollar, continuing unrest in the MENA countries, i.e. regime changes in Egypt, Algeria, Libya, electricity shortages in China and a tight global supply-demand balance. Libya has discontinued most of its 1,2 million barrels per day of crude oil exports, due to the unrest that plagued the North African country, while concerns about production disruptions in other MENA countries which are not part of the Organization of the Petroleum Exporting Countries (OPEC) have also come to the fore.

In gist, the IMF forecast inflation for the advanced economies to remain at a subdued level between 2011 and 2012, with inflation anticipated to be at 2.2% and returning to below 2%, during 2012 at about 1.7%. On the emerging and developing market economies front, inflation is expected to exceed the 6% mark for the period 2011 and 2012. This reflection is mainly due to the behaviour of food and energy prices and the fact that these components have a higher weight in the consumer price index (CPI) in most lower-income countries.

1.3 SOUTH AFRICAN ECONOMIC DEVELOPMENTS

During the 2011 fiscal year, the Minister of Economic Development in South Africa outlined the New Growth Path Framework, which is an economic framework centered in creating more than five million jobs over the next ten years. The framework is premised on the growing consensus that creating decent work, reducing inequality and defeating poverty can only happen through a new growth path founded on a restructuring of the South African economy to improve its performance in terms of labour absorption as well as the composition and rate of growth. To achieve that step change in growth and transformation of economic conditions requires hard choices and a shared determination as South Africans to see it through.

The New Growth Path has identified areas where employment creation is possible on a larger scale as a result of substantial changes in economic conditions in South Africa and globally. The framework has identified the following as the key job drivers sectors:

- Infrastructure
- The Agricultural Value Chain
- The Mining Value Chain
- The Green Economy
- Manufacturing Sectors, which are included in IPAP2, and
- Tourism And Certain High-Level Services

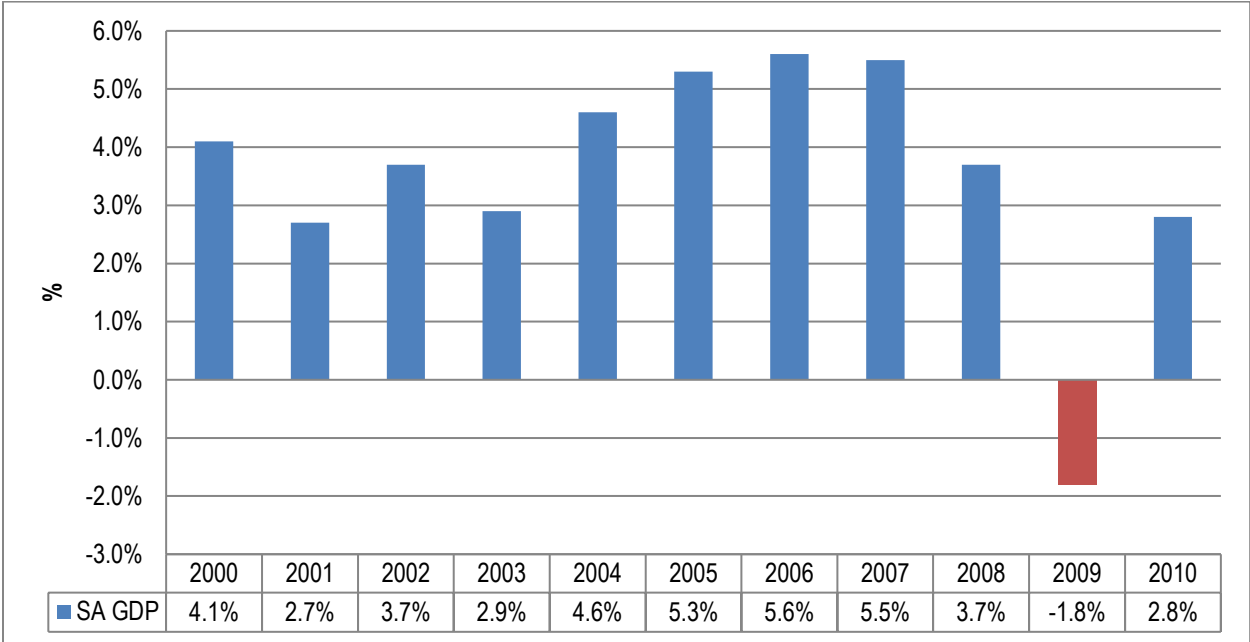
The year 2011, in the South African economic context lends itself as a year to re-evaluate strides made in the key sectors identified by the New Growth Path framework established by the Ministry of Economic Development, and the South African economy, in general. Economic activity in South Africa gained further foothold in the first quarter of 2011, when real Gross Domestic Product expanded at an annualised rate of 4.5%. The manufacturing sector's output rose considerably over the period, led by higher production of petroleum and chemical products but with the expansion spread across most of the subsectors of the manufacturing Industries. Despite this improvement, aggregate production in manufacturing remained well below pre-crisis levels and capacity utilisation rose only marginally.

Growth in the tertiary sectors accelerated somewhat as the commerce sector registered rising sales volumes while the finance sector facilitated more transactions. By contrast, growth in the primary sector lost momentum in the first quarter as lower field crop production due to flooding resulted in a moderate contraction in agricultural output. This was further exacerbated by a slower pace of increase in mining sector as production of gold and coal contracted considerably. Technical problems and depletion of resources at some mines and lower grades of ore milled held back gold production, while excessive rainfall and logistical problems resulted in a reduction in coal output.

Strongly rising real consumption expenditure by the household sector continued to provide the main impetus to domestic final demand in the first quarter of 2011. The brisk consumption spending mirrored a further increase in real disposable income as property income and compensation of employees trended higher. Household debt rose moderately in the first quarter, but the increase in disposable income was strong enough

to reduce the household indebtedness ratio. Among the broad types of consumer items, expenditure on durable goods recorded the strongest increase over the period.

Figure 1.2: South African GDP (constant 2005 prices), 2000 - 2010

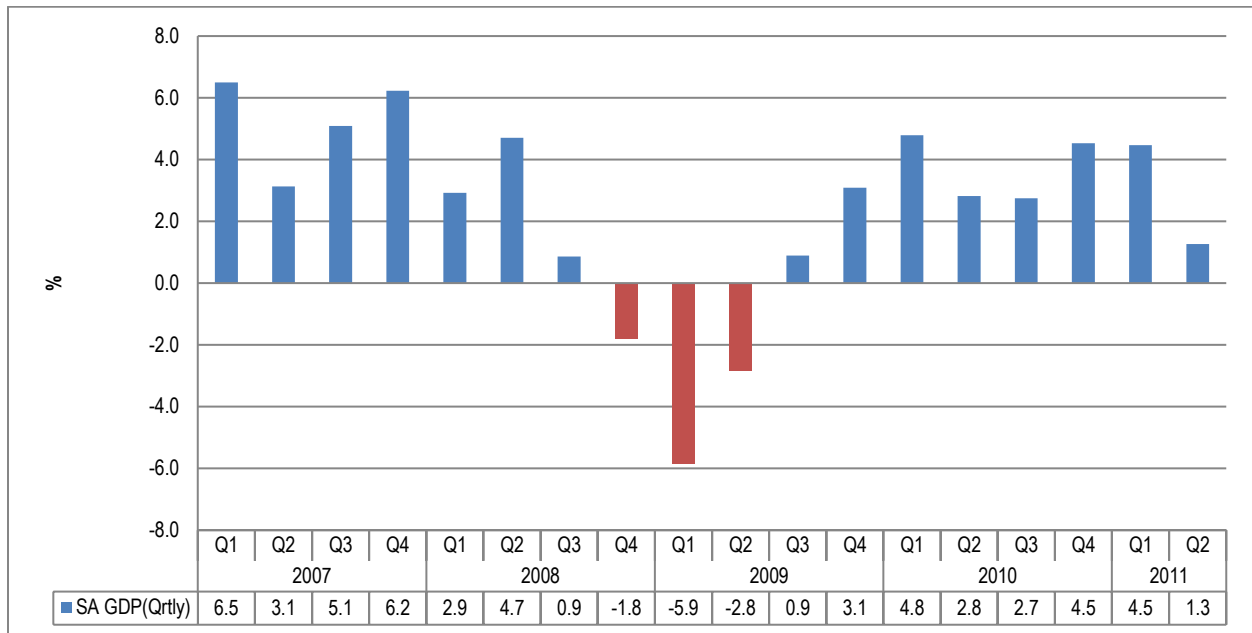


Source: Stats SA, Gross Domestic Product, Second Quarter 2011

The South African economy like many other economies of the world, could not escape the clutches of the Great Recession, even though pundits have retorted that South Africa’s experienced a mild recession. The Republic felt the full might of the Great Recession in the Labour market segment of the economy, as it shed around a million jobs during the height of the recession. The contraction in both the economic growth and the labour market could be attributed to the declines in the manufacturing and mining sectors of the economy, as the South African economy is relatively largely driven by these sectors.

During 2010, the growth in the South African economy accelerated further to an annualised rate of 4.8% in the first quarter of 2011 and contracted somewhat during the second quarter to 1.3% growth, which is the seventh and eighth consecutive quarters of uninterrupted growth since the start of the recovery in the third quarter of 2009. This increase in economic activity could be attributed to a stronger pace of increase in the real value added by the secondary and tertiary sectors. However, growth in the real value added by the primary sector decelerated in the first quarter, and declined further during the second quarter of 2011, as indicated by figure 1.3 below.

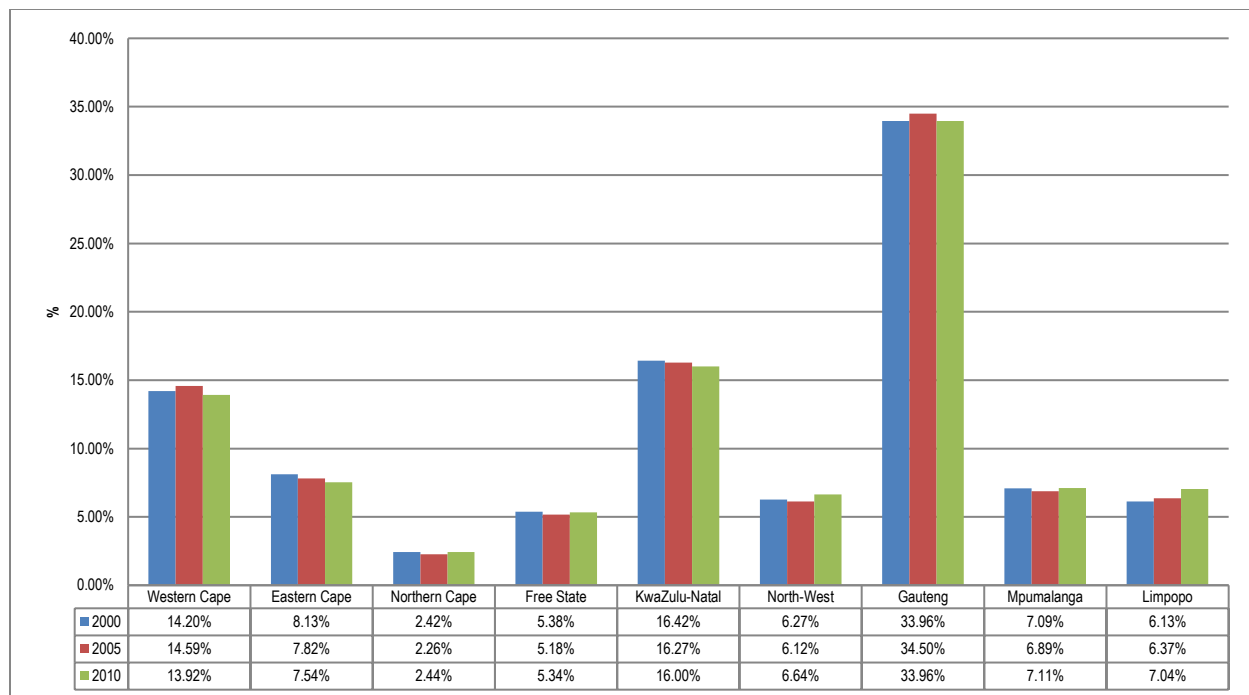
Figure 1.3: South Africa's Quarterly GDP figures (constant 2005 prices)



Source: Stats SA, Gross Domestic Product, Second Quarter 2011

Real gross domestic product at market prices in the second quarter of 2011 increased by 1.3% quarter-on-quarter, seasonally adjusted and annualised. The largest contributions to the quarter-on-quarter Gross Domestic Product growth of 1.3% were from general government services, which contributed 0.8 of a percentage point based on growth of 5.7%; mainly due to the higher level of employment in the sector, this is indicative of the South African government economic stance taken on the New Growth Path of increasing employment. Finance, real estate and business services contributed 0.6 of a percentage point based on growth of 2.9%; the wholesale, retail and motor trade; accommodation industry contributed 0.5 of a percentage point based on growth of 4.1%; and the transport, storage and communication industry contributed 0.4 of a percentage point based on growth of 4.1%.

Figure 1.4: Provincial Contribution to the South African Economy, 2000 - 2010



Source: IHS Global Insight, ReX, 2011

The figure above paints a conformative picture of the South African economy through the contributions made by the nine provinces to the economy. There have not been any significant shifts in the province's contribution to the South African economy between 2000 and 2010. The Gauteng province is the largest contributor, with an averaged 33.9% contribution towards the South African economy, with a minimal variation of 0.32 percentage points during 2000 and 2010. The Gauteng province's strong contribution could be attributed to a strong finance and community (government) sectors; however, what is important to note is that there has been a major shift in the province's contribution, increasing marginally by 0.54 of a percentage point between 2000 and 2005, only to revert back to the 33.96% in 2010.

The Kwazulu-Natal province is currently in second place with an averaged 16.3% contribution between 2000 and 2010, with the minimalist of variations. However, the province has shed its contribution over the years, declining by roughly 0.42 of a percentage. This is also the case for the Western Cape which has also seen a decline in its contribution from 14.2% in 2000 to around 13.9%, translating to a 0.28 percentage point decline. This decline in the Kwazulu-Natal and the Western Cape provinces could be attributed to the declining trade in the global economy and the stunting in the international tourism market, as both provinces are dependent on the exports and the tourism market. The biggest increase in the contribution to the national economy is seen in the Limpopo province with a 0.91 percentage point increase, whilst the Eastern Cape's contribution

has dwindled a bit, decreasing by 0.54%, for the review period. The Free State also saw its contribution marginally decline, by 0.05% between 2000 and 2010.

Table 1.2: Sectoral Percentage GDP growth at constant 2005 prices, 2010Q1 to 2011Q2

	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2
Agriculture, forestry and fishing	4.9	13.6	16.3	12.5	-3.7	-7.8
Mining and quarrying	18.7	-24.5	33.7	17.1	-4.0	-4.2
Manufacturing	8.3	5.7	-4.9	4.1	14.5	-7.0
Electricity, gas and water	4.9	-1.7	-2.2	5.6	3.3	0.9
Construction	1.3	1.0	0.8	0.2	0.0	0.5
Wholesale, retail and motor trade; accommodation	3.1	6.0	3.3	3.5	4.4	4.1
Transport, storage and communication	2.4	4.5	3.0	4.2	3.6	4.1
Finance, real estate and Business Services	3.2	4.0	1.4	1.7	4.8	2.9
General government services	1.2	4.6	0.5	5.7	1.8	5.7
Personal services	3.5	3.6	3.1	3.3	2.7	2.8
Total value added at basic prices	4.6	2.7	2.6	4.5	4.6	1.0
Taxes less subsidies on products	6.5	4.0	3.9	4.5	3.4	3.6
GDP at market prices	4.8	2.8	2.7	4.5	4.5	1.3
Total value added at basic prices excluding agriculture	4.6	2.4	2.3	4.3	4.8	1.2

Sources: Stats SA, *Gross Domestic Product, Second Quarter 2011*

Agricultural, mining and manufacturing sectors were the only sectors that experienced a decline in growth in the second quarter of 2011. With the real output of the agricultural sector contracting at an annualised rate of 7.8 % in the second quarter of 2011 – its second consecutive quarterly decline following a revised decrease of 3.7% in the first quarter of 2011. This aggravated decline could be ascribed to the poor weather conditions which hampered the harvesting of the bulk of South Africa's field crop in the second quarter, in particular, resulting in lower output volumes. Wet conditions as a result of heavy rainfall have also affected livestock production in the second quarter of 2011.

In the mining sector real value added declined further at an annualised rate of 4.2% in the second quarter of 2011. Mining production contracted partly in response to weaker global economic conditions and the parallel lower demand for certain mining commodities. With regard to the manufacturing sector, subsequent to a robust increase of 14.5% in the first quarter of 2011, the real value added by the manufacturing sector declined at a rate of 7% in the second quarter, thus subtracting 1.1 percentage points from the overall rate of economic growth.

Table 1.3 below gives an overview of the South African economy, and also the projections for 2011 and 2012, provided by the Bureau of Economic Research (BER). The BER anticipates the Final Household

Consumption Expenditure (FHCE) to increase from 4.4% in 2010 to a moderate 4.5% during 2011 and marginally decline to 4.1% during 2012, and thus hover around an averaged 4.3% for both years. In the meanwhile, Government Consumption Expenditure (GCE) is expected to slightly decrease for the current year and 2012, from the 4.6% high of 2010. According to the figures provided, Gross Fixed Capital Formation⁵ (GFCF) is anticipated to improve from the trough of 2010, when it amounted to a negative 3.7%, to an improved 2.3% in 2011, and further improve in 2012 to around 4.1%. However, the forecast for the Gross Fixed Capital Formation are still below the pre-crisis figures were South African private investment and the State investments were at the optimum mark.

Table 1.2: Overview and Projections of the South African economy

	Actual	Projections	
	2010	2011	2012
Real GDP Growth (real y-o-y %) - Data			
Final Household Consumption Expenditure	4.4	4.5	4.1
Government Consumption Expenditure	4.6	4.5	4.3
Gross Fixed Capital Formation	-3.7	2.3	4.1
Real Gross Domestic Expenditure	4.2	4.9	4.4
Total Exports	4.5	5.0	5.5
Total Imports	9.6	8.6	7.7
Real GDP	2.8	3.8	3.7
Inflation Data (annual averages)			
CPI (Headline)	4.3	5.2	5.9
PPI (All items)	6.0	7.5	5.4
Exchange rates (fourth quarter averages)			
R/US\$	6.91	6.98	7.45
R/Euro	9.40	9.84	10.06
R/Pound sterling	10.92	11.17	11.66

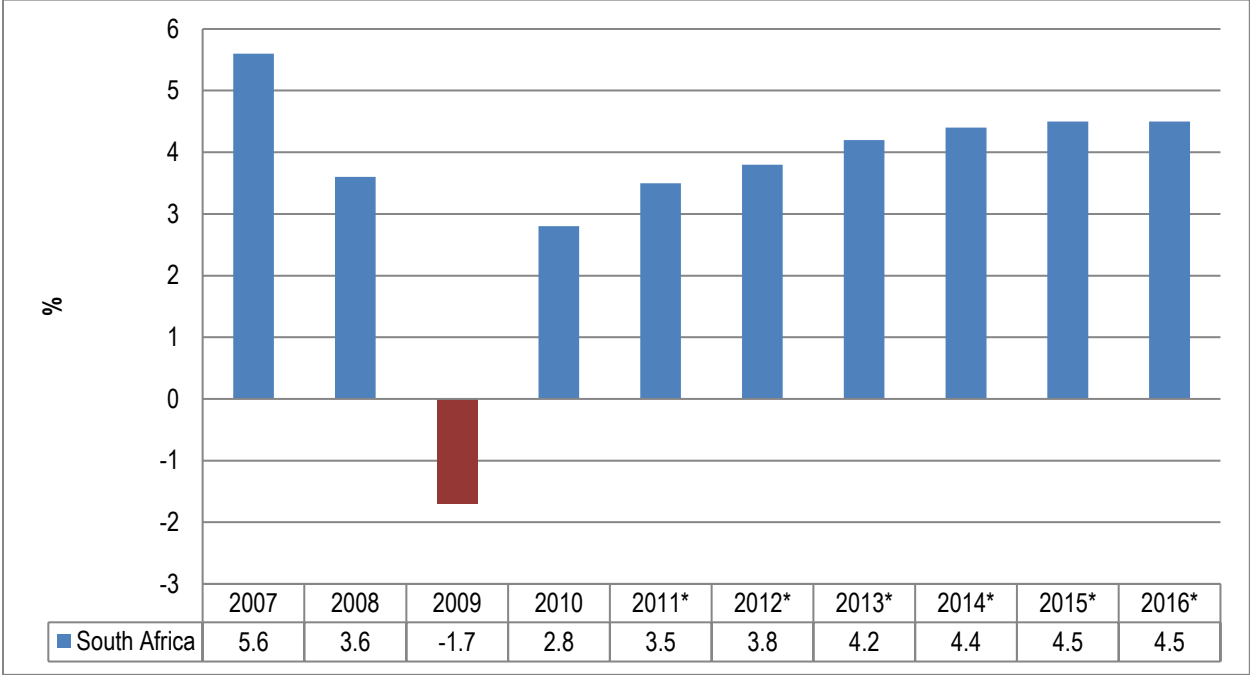
Source: Bureau of Economic Research (BER), 2011

Zooming in on the trade figures, the total exports is expected to increase marginally by 11.1%, from the 4.5% in 2010 to 5.0% in 2011, and total exports are further anticipated to appreciate to 5.5% in 2012. Total imports are expected to decline from 9.6% in 2010, to around 8.6% in 2011 and 7.7% in 2012, with the decline attributable to the weakening manufacturing sector. The recent slowdown in South Africa's own growth momentum should also help keep the country's import bill in check. Net exports are expected in South Africa's trade account to be largely balanced in 2011 after registering a surplus of 0.8% of GDP in 2010. This, together with a bit of a pick-up in foreign dividend payments this year (owing to robust portfolio inflows into SA since

⁵ Total fixed investment by private companies and individuals, state owned enterprises and government, including depreciation.

2010), leaves the ABSA Capital forecasting a modest widening in the current account deficit to 3.5% of GDP in 2011 after last year's 2.8% deficit (2011 South Africa Economic Quarterly Perspectives Q4; ABSA Capital - www.absacapital.com).

Figure 1.5: South African Real GDP growth rate and IMF projected GDP figures



Source: IHS Global Insight, ReX, 2011

The economic outlook for South Africa is promising; though a tad lower than the envisaged 7.5% growth, which according to the New Growth Path framework would effectively translate into the 5 million job target by 2020, inscribed in the framework. According to the IMF projections, South Africa would experience a peak of 4.5% growth only in the latter years of the projections, i.e. 2015 and 2016. Furthermore, the IMF anticipates an averaged growth of 4.1% for the period 2011 to 2016, which is still well below the pre-crisis era growth rates.

The latter section of Chapter 1 of PERO, focused mainly on the South African economic outlook on a selected variables, however, there are risks to the outlook and thus imperative to comprehend these. The most important risks to the SA economy remain external with the major global risk factors heavily influencing the outlook for the South African economy. The regions of the world most in danger (Europe, the US and potentially Asia) are SA's most important trading partners. A sharp growth moderation in Asia or a double-dip recession in Europe and/or the US will have a detrimental impact on SA's export performance:

- Recent developments have illustrated the volatility of the rand. Severe problems in Europe, the United States or China may, also have the potential to increase global risk aversion, resulting in a potential sharp outflow of portfolio capital from SA and a large decline in the value of the rand. As was the case during the global financial crisis of 2008/09, the risks to SA are both on the trade and capital flow side.
- Continued global uncertainties will also have an impact on the employment and investment decisions of local business. This may also exacerbate market jitters and impact on confidence. SA executives (and the country) may suffer a similar fate. Moreover, employment decisions are being made in an environment of above inflation wage demands, thus impacting negatively on employment (Western Cape Provincial Treasury Provincial Economic Review & Outlook, 2011).

Box 1.2: The South African National Development Plan: Vision 2030

Overall targets of the plan:

- *The number of households living below R 418 a month per person (in 2009 rands) should fall from 39% to zero (0%)*
- *The level of inequality as measured by the Gini-Coefficient should fall from 0.7 in 2009 to 0.6 in 2030.*

Economy and Employment

Targets

- *The unemployment rate should fall from 27% in 2011 to 14% by 2020 and further to 6% by 2030. This requires an additional 11 million jobs. Total employment should rise from 13 million to 24 million.*

Box 1.2 Continues.....

Box 1.2. Continues

Coal

5. *Ensure domestic security of coal supply for existing power stations through industry compact, more comprehensive coal field planning (and export permits, if necessary).*
6. *Invest in a new heavy-haul rail corridor to the Waterberg coal field, upgrade the central basin coal network and expand export capacity in the line to Richards Bay.*

Gas

7. *Enable exploratory drilling to identify economically recoverable coal seam and shale gas reserves, while environmental investigations will continue to ascertain whether environmental concerns alleviated, then development of these resources and gas-to-power projects will be fast-tracked.*
8. *Develop infrastructure for the import of liquefied natural gas, mainly for power production, over the short to medium term.*

1.4 SUMMARY AND CONCLUSION

The 2009 recessionary phenomenon, which plunged the world economy into turmoil precipitating the full on implementation of fiscal austerity measures across most regions, as to avoid the further declines in the

regional economies. The ramblings of which could still be felt across the globe, pertinently the disparities that could be trekked between the growth projections and the registered growths of the developed and the emerging-market economies, with most calling it a two-speed recovery, with emerging-market economies outpacing their more developed counterparts. The IMF projected a subdued growth for the world economy, with an output projection of 4.3% for 2011 and gradually increasing to an averaged 4.6% over the next five year period.

On the back of a promising growth projection by the IMF on the world economy, the advanced economies are expected to trail the world output projections by an averaged 2.1%, between 2011 and 2016. On the “big bad wolf” (Major Advanced economies), that is where the roots of the financial crisis could be traced, the output projections supplied by the IMF, it is anticipated that this group of nations output would grow at a sluggish pace, registering a below par 2.3% in 2011. The Emerging-market economies continue to be a beacon of hope for the world economy, with some economies in this region having not plunged in to oblivion during the height of the recession, such as China and India. The IMF anticipates the emerging-market economies to outpace the world economy with a growth projection of 6.5% for 2011, and average 6.7% between 2012 and 2016. Closer to home, the Sub-Saharan African region is anticipated to also experience positive growth, with the IMF growth estimates being 5.5% for 2011, and subsequent growth of 5.9% in 2012.

Contrary to its Sub-Saharan counterparts South Africa can anticipate a moderately positive growth period, which would have had its roots in 2010, when the country’s growth was 2.8%, an improvement to the previous year’s negative growth of 1.8%. 2011, in the South African context is expected to be a moderate growth year, with the Bureau of Economic Research (BER) expecting a 3.8%, growth. Meanwhile, the economic outlook for South Africa is a promising picture, with the IHS Global Insight projecting an average growth of 4.1% between 2011 and 2016.

In gist, the world economy has by many accounts circumnavigated through the most torrid period in recent history, and as it was taking shape – it is again confronted by the distress in the Eurozone due to the debt-crisis debacle. This debacle is a clarion call to all those in position of influence to employ all measures to avoid the 2009 saga, from penning out. It is crucial that Central/Federal Banks and the IMF implore the stringent of measures in their lending criteria upon lending to the debt riddled Eurozone countries. As it was the case in 2009, Central Banks and governments would be required to forestall the impending crisis.

Chapter 2: Free State Economic Perspective

2.1 INTRODUCTION

The Free State Province as with all the other provinces in South Africa was also not spared the wrath of the 2009 Great Recession, suffered along with the rest of the World economies, barring a few emerging market economies such as India and China. The Province experienced a negative growth, declining by a moderate 1.7 percentage points during the height of the recession. The negative growth experienced by the province could also be ascribed to the global trade and globalization and the effects thereof, as the province could not shun away from the world economic events. The 2009 recession was described by many in the economic world as the worst and most catastrophic economic event since the 1920s Great Depression.

This catastrophe manifested itself from a financial systems calamity to an economic abyss, which in the South African context saw nearly a million jobs been shed, and almost the wiping off of the progress made with regard to the social issues, that plagued the country, and as a result would continue to. This continued social and economic exclusion of millions of South Africans and mainly the African majority has reflected in high levels of poverty and inequality, which is the South African Government's important challenge in its young democracy. In the view of the National Planning Commissioners, in their Diagnostic Overview of South Africa, these high levels of poverty and inequality have a historical basis in apartheid and are driven principally by the fact that too few people work and that the quality of education for many African people remains of poor quality and standard. Central to addressing these challenges sustainably over time is the government and the private sector's ability to create jobs for more people than before and to improve the quality of education, especially for the poor African populace.

The Free State lies in the heart of South Africa, with the Kingdom of Lesotho nestling in the hollow of its bean-like shape. Lying between the Vaal River in the north and the Orange River in the south, the region is one of flat, rolling grassland and crop fields, rising to lovely sandstone mountains in the northeast. The province is the granary of South Africa, with agriculture central to its economy, while mining on the rich goldfields reef is its largest employer. Bloemfontein is the capital, and home to South Africa's Supreme Court of Appeal, the University of the Free State and the Central University of Technology. Important towns include Welkom, the heart of the goldfields and one of the few completely preplanned cities in the world; Odendaalsrus, another gold-mining town; Sasolburg, which gets its name from the petrochemical company Sasol; Kroonstad, an important agricultural, administrative and educational centre; Parys, on the banks of the Vaal River; Phuthaditjhaba, a vast and sprawling settlement known for its beautiful handcrafted items; and Bethlehem, gateway to the Eastern Highlands of the Free State (South African Yearbook, 2010).

However, similar to the world economy, the province is saw its re-emergence from the 2009 trough and has continued on a positive trajectory, after experiencing positive growth rates in the latter stages of 2009. The province, registered a positive annual growth of 2.2%, in 2010, 0.6 percentage point lower the national average. The Free State is home to the petro-chemical industry giant SASOL, and it is considered to be of the highest technological level, comparable with any other in the world. While in the past the province had been given the honour of been South Africa's granary, intertwined with the province being South Africa's premium gold ore export supplier, with roughly 30% of the country's output.

2.2 PROVINCIAL ECONOMIC STRUCTURE

Wikipedia describes economic structure through the economic system approach, and as such discern economic structure as the combination of the various agencies, entities or even sectors that provide the economic structure that defines the social community. These agencies are joined by lines of trade and exchange along which goods, money etc. are continuously flowing. There are several basic questions that must be answered in order for an economy to run satisfactorily. The scarcity problem, for example, requires answers to basic questions, such as: what to produce, how to produce it, and who gets what is produced. An economic system is a way of answering these basic questions, and different economic systems answer them differently. Many different objectives may be seen as desirable for an economy, like efficiency, growth, liberty, and equality. Economic systems can be divided by the way they allocate economic inputs i.e. the means of production and how they make decisions regarding the use of these inputs. The Free State economy is influenced by the capitalist; however, there are undercurrents of socialism in the province, similar to that of the country. The province has been reliant on the primary sectors of the economy, as in mining and the agricultural sectors, with the development of other sectors in the economy taking queue from these sectors.

Arandjelović et al (2007), tries to define economic structure in the simplest way possible, and contends that economic structure would represent the ratio between production of the sector, activity or branch and production on the level of the entire national economy (expressed through Gross Domestic Product). This kind of economic structure is also called vertical economic structure. Thus defined economic structure is not a fixed and unchangeable grouping, but it more or less changes through time, and structural changes in the economy can be set as a specific long term objective of development. Faster or slower changes in the economic structure are influenced by a number of factors, especially economic growth and capital accumulation as the most important. On a wider scale, economic structure is conditioned by the entire economic life.

True to Arandjelović et al (2007) assertion that economic structure is not a fixed and unchangeable category; but economic structure transcends overtime and it is thus not immune to developments in the mechanics of the economy. More so, is the case with most economies in the world, including the Free State provincial economy, which has transcended from a relatively primary sector oriented, to succumb to the evolution of the industries or the Industrialisation revolution, and went on to notice considerable growths in the tertiary sector of the provincial economy.

Table 2.1: Sectoral Composition of the Free State Economy, 2002 – 2010

Industry	2002	2003	2004	2005	2006	2007	2008	2009	2010
Primary Industries	14.6%	14.5%	14.1%	14.3%	12.7%	12.1%	11.7%	11.4%	11.6%
Agriculture, forestry and fishing	4.1%	3.7%	3.6%	3.6%	3.1%	3.1%	3.6%	3.6%	3.5%
Mining and quarrying	10.5%	10.8%	10.5%	10.7%	9.6%	9.0%	8.1%	7.8%	8.0%
Secondary Industries	16.7%	16.3%	16.5%	16.5%	16.7%	16.8%	16.6%	16.1%	16.3%
Manufacturing	12.6%	12.2%	12.2%	12.2%	12.4%	12.4%	12.3%	11.6%	11.9%
Electricity, gas and water	2.7%	2.7%	2.8%	2.8%	2.7%	2.7%	2.5%	2.5%	2.5%
Construction	1.4%	1.5%	1.5%	1.5%	1.5%	1.7%	1.8%	2.0%	1.8%
Tertiary industries	58.1%	58.6%	58.8%	58.5%	59.4%	60.0%	60.7%	61.8%	61.3%
Wholesale, retail and motor trade; catering and accommodation	10.3%	10.4%	10.5%	10.4%	10.6%	10.5%	10.3%	10.1%	10.2%
Transport, storage and communication	8.1%	8.1%	8.0%	7.9%	8.0%	8.1%	8.2%	8.3%	8.3%
Finance, real estate and business services	15.1%	15.1%	15.6%	15.8%	16.6%	17.1%	17.7%	18.0%	17.8%
Personal services	11.2%	11.6%	11.3%	11.2%	11.3%	11.4%	11.4%	11.5%	11.2%
General government services	13.4%	13.5%	13.3%	13.2%	13.1%	13.0%	13.1%	13.9%	13.9%
All industries at basic prices	89.4%	89.5%	89.4%	89.3%	88.9%	88.9%	89.0%	89.2%	89.2%
Taxes less subsidies on products	10.6%	10.5%	10.6%	10.7%	11.1%	11.1%	11.0%	10.8%	10.8%
GDPR at market prices	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Stats SA, GDP, Third Quarter 2011

Historically, the Free State has been described as the bread-basket of South Africa due to the then perceived strong agricultural sector. However, the picture is now in stark contrast to the sector's historic strong position, as the agricultural sector is currently contributing a lowly averaged 3.6% to the provincial economy, 2002 to 2010 (see the table 2.1 above). The mining sector, this once mighty sector has seen steep declines in terms of its contribution to the provincial economy. For the period 2008 to 2010, the sector's contribution averaged 8.0%. Despite the sectors dwindling contribution, the sector continues to play an integral role in the province's effort to accelerate economic growth and as a consequent address some of the critical socio-economic quandary of unemployment, inequity and poverty. Overall, the primary sector has seen a decrease in its contribution to the provincial GDP, decreasing by roughly 3.0%, between 2002 and 2010. In the meanwhile, the manufacturing sector has made some strides, in terms of its weighted contribution to the provincial

economy, averaging about 12.2%, and estimated to remain at 11.4% for 2011 (IHS Global Insight, 2011). However, considering the period 2002 until 2010, the sector has declined by a staggering 5.6%, implying a need to re-invest in the sector, as the sector is regarded as one of the Job drivers within the South African economy – and further articulated in the New Growth Path (NGP). Both the construction and the utilities sectors have not realised any major increases in their contributions, averaging 1.9% and 2.5%, respectively, during the review period. The only talking point for the construction sector is its increased contribution in 2009, increasing by 0.2 percentage points or 40% change; however, the sector retreated back to a contribution of around 2.0% in 2010. This improved contribution in the sector could be attributed to the World Cup construction linked projects, and also the new mushrooming housing development noticeable in the province.

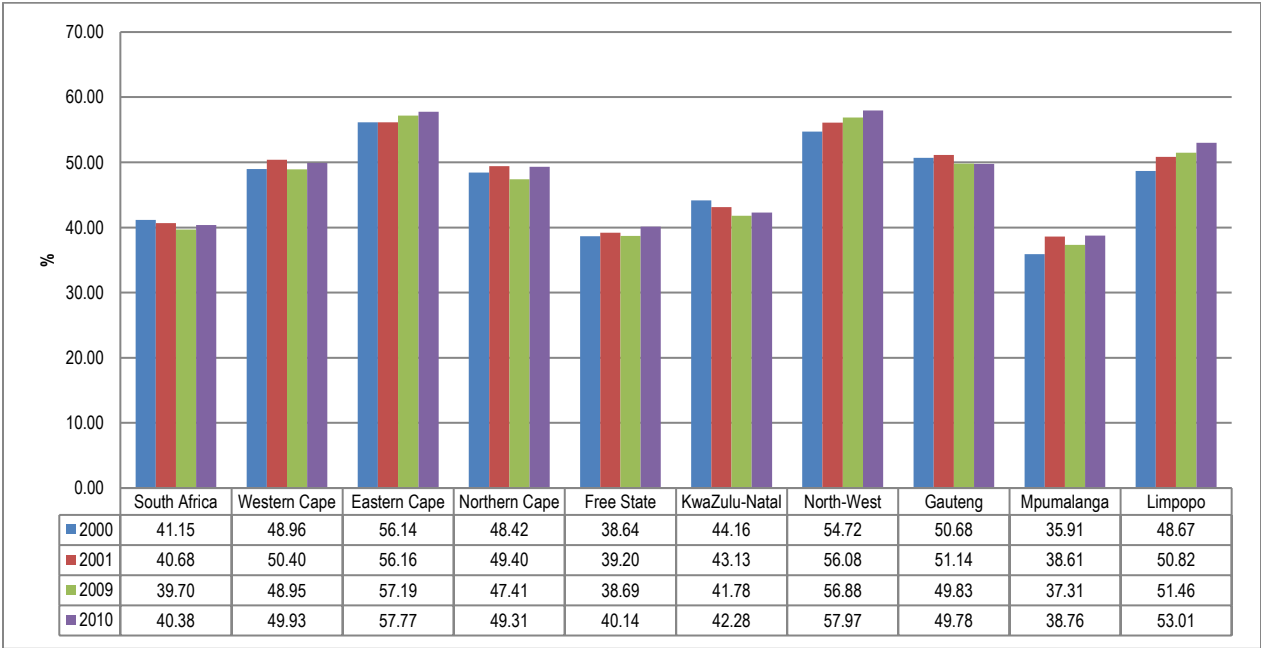
The tertiary sector is the mainstay of the provincial economy with roughly 60.7% contribution towards the provincial economy, and also averaged 62.6%, during the review period, solidifying its position in the province. On average, the second largest sector in the province is the community services (general government) sector, with an averaged contribution of 13.5%, over the review period. The sector realised a half a percentage point growth between 2002 and 2010, this growth could be ascribed to the increase in the Government functions in the provinces, and obviously the increased fiscus. The backbone of the provincial economy based on the figures supplied by Statistics South Africa is the finance sector with an averaged 16.5% contribution.

Overall, the table above discerns a shift back to the primary sector, as for the period reviewed has seen an increase in its contribution to average 13.0%, and contributing 11.6% in 2010. Thus, nullifying the assertion that the province has moved from the primary sector to the secondary sectors, i.e. the manufacturing sector, however, on the case of the tertiary industries have realised a continued increase.

There is a general acknowledgement and consensus in the realm of regional or development economics, that stability is a prerequisite for sustained economic growth and development. It is further asserted that the more diversified an economy is, the more stable it will be – as stability would eliminate the advent of a monopolistic tendencies in the economy. To quantify stability in a regional economy context, the Tress Index lends itself as the most adequate measure, and as such is the mostly wide used measure of the sectoral composition in economic activity in a region, and it gives a good indication of the level of diversification or concentration in the regional economy. A tress index indicates the relative concentration of the economic activity and thus its reliance on the various sectors found in the economy. In calculating the tress index, it

takes the estimated ranking of the various sector identified in the economy – according to their contributions to the GVA or employment, adding the values cumulatively and thus index them. A tress index computed to zero (0) indicates or represents a totally diversified economy, whilst a tress index of 100 would represent perfect concentration and reliance on one sector.

Figure 2.1: Tress Index



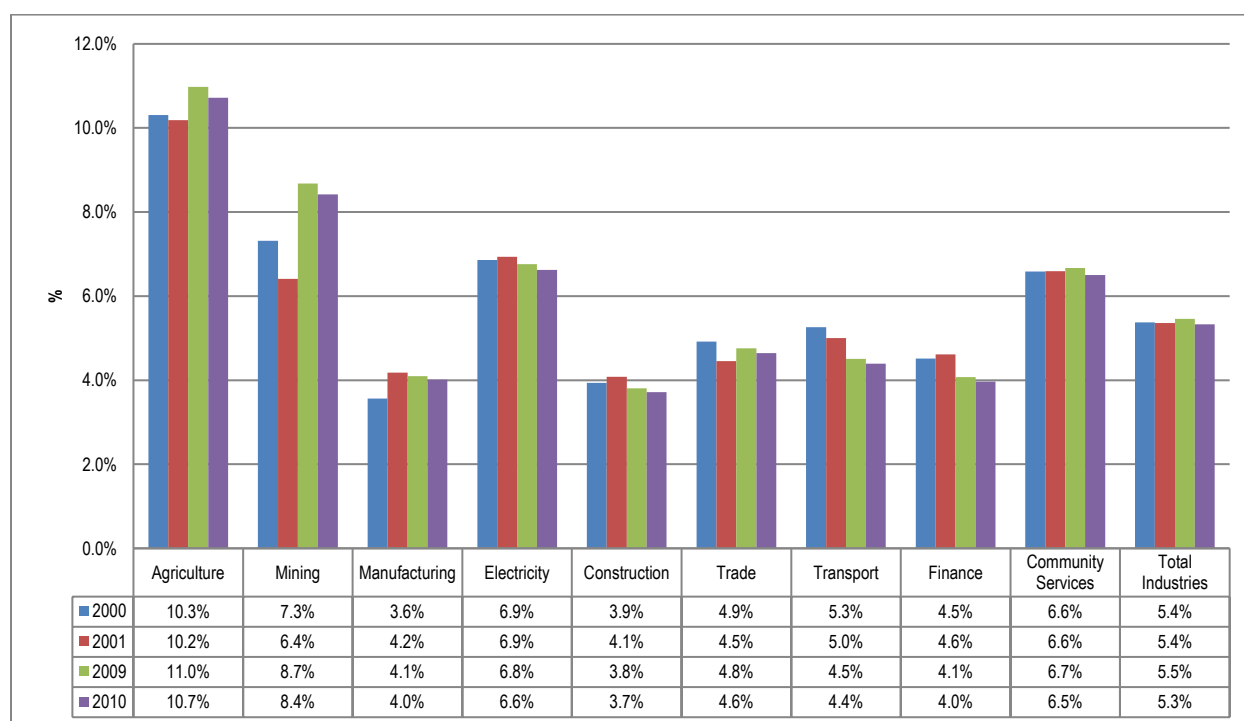
Source: IHS Global Insight, ReX, 2011

In 2010, South Africa had a tress index of 40.4, indicative of a well-diversified economy. The Mpumalanga province takes the honour of being the most diversified economy, with a tress index of 38.8, followed closely by the Free State province with an index of 40.1, indicating the province’s diversified economy. However, looking at the trend in figure 2.1 above, the tress index has increased, though slightly, between 2001 and 2010, with 2.5 increase – this is indicative of fact that the provincial economy is becoming more dependent on a few sectors in the economy than it was in 2001.

This is contrary to the South African economy, as its concentration levels are somewhat relaxed, with a bit more diversification – declining by 0.30 between 2001 and 2010. In the provincial context, the loss is due to the decreased diversification, and it is a worrisome fact, which may lead to the province being vulnerable and as such susceptible to exogenous factors such as the adverse climatic conditions, commodity price fluctuations, and so on. Mpumalanga and the Free State, are followed by Kwazulu-Natal with a tress index

of (42.3), whilst provinces with the highest concentration are North West (57.9), the Eastern Cape (57.8), and the Limpopo province with a tress index of 53.0 in 2010.

Figure 2.2: Free State's Contribution to South African economy by Industry, 2000 - 2010



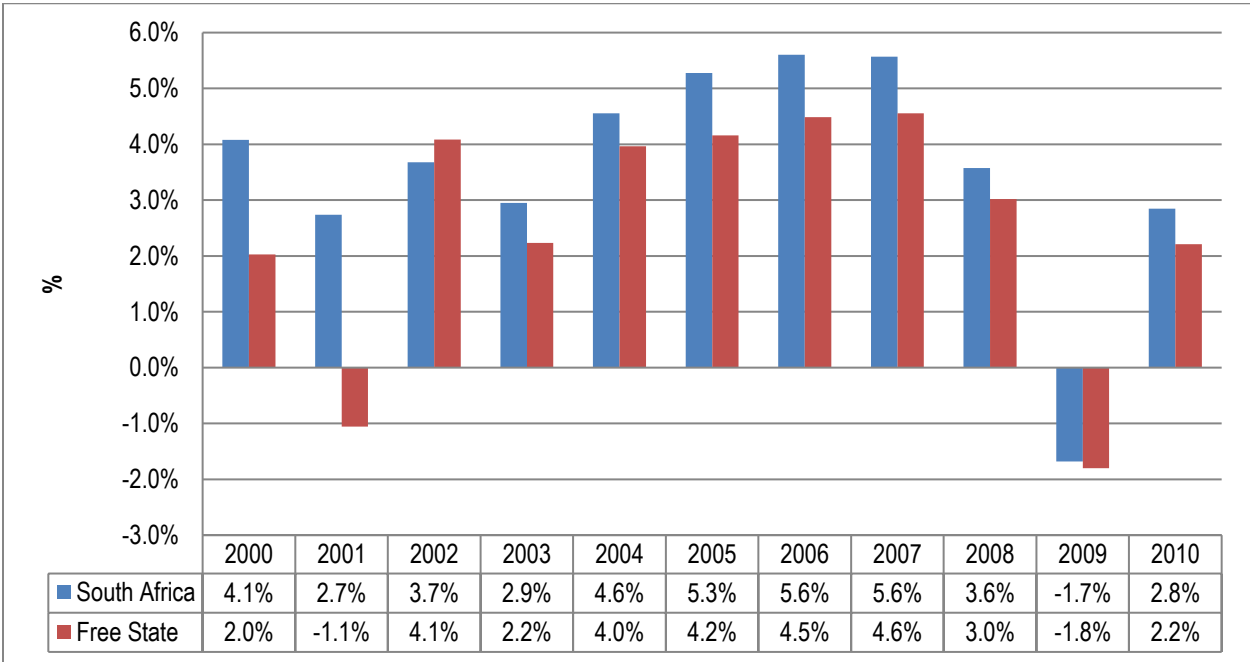
Source: IHS Global Insight, ReX, 2011

Figure 2.2 above clearly discerns the Free State contribution towards the national output between 2001 and 2010. In 2010, the Free State industries' contribution towards the South African economy has been on the decline, decreasing by a marginal 0.2% between 2009 and 2010, whilst also decreasing by 0.03% during the 2001 and 2010 period. This decline could also be explained by the declines in all the sectors, except for the agricultural and mining sectors, which registered a 5.2% (0.52% annualised) and 51.2% (or 5.12% on an annualised basis), respectively. The province's major contributors to the national output were the agricultural, the mining and the electricity with 10.2%, 8.4% and 6.6%, respectively, for 2010. With the largest sector in the province, that is the community services sector contributing 6.5% towards the national output, however, the sector's contribution has been on the decline, decreasing by an annualised average of 0.14% between 2001 and 2010.

2.3 PROVINCIAL ECONOMIC PERFORMANCE

This section of the 2011 Provincial Economic Review and Outlook (PERO), tackles the performance of the provincial economy, and focuses on the usage of the GDP as a measure. Historically, the GDP figures have been regarded as a good measure or proxy for progress, however, GDP as a measure of economic progress is going under a change. There are increasing concerns that have been raised about the adequacy of current measures of economic performance, in particular those based on GDP figures. Moreover, there are broader concerns about the relevance of these figures as measures of societal well-being, as well as measures of economic, environmental, and social sustainability. In the context of this section, we disregard the adequacy of GDP as an adequate measure, but rather proceed to analyse the movements of the measure in economic performance, thus neglect the social progress but reflect on income through the analysis of the Gross Domestic Product (GDP) per capita income (<http://mostlyeconomics.wordpress.com/2009/09/15/gdp-as-a-measure-of-economic-progress-is-going-under-a-change/>).

Figure 2.3: Free State and South Africa’s GDP Growth rates, 2000 - 2010



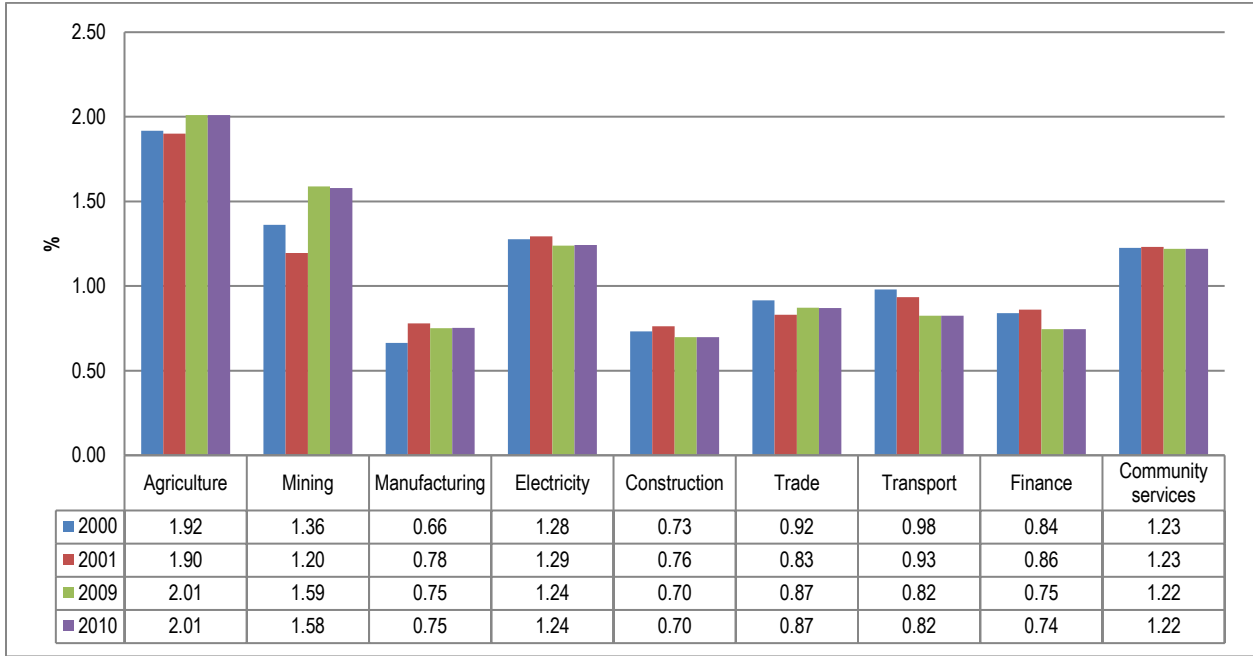
Source: IHS Global Insight, ReX, 2011

The Free State provincial economy has circumnavigated through the pressures broad about by the 2009 global financial crisis – that saw both the province and the Republic kneeling to the greatest recession in recent history, to chart a new growth trajectory, and as such registering a below par growth of 2.1%, according to the IHS Global Insight figures. This minute growth is in spite of the happenings in both the Eurozone area and the United States, which have resuscitated the topical issue of a double dip recession. The threat of the

double-dip recession, with regard to the Free State provincial economy, is due to the historical fact that the province has largely been reliant on its primary sector, that is in the main the mining and agricultural sectors for its exports, thus due to the global economic pressures could result in the province registering negative growth rates- due mainly to negative global trade.

Figure 2.3 above indicates and thus confirm that the Free State growth performance has lacked behind the national average, and other major provinces such as Gauteng, Kwazulu-Natal and the Western Cape. Between 2007 and 2010, the Free State growth rate averaged 1.97%, whilst the national average for the same period was 2.57%, about 0.60 percentage points than that of the Free State. Pre-recession, the province growth was growing at 3.80% on average, and hit a slump following the financial crisis that plummeted the global economy in 2009 to register a negative growth of 1.8%.

Figure 2.4: Location Quotient



Source: IHS Global Insight, ReX, 2011

Location quotient (LQ) or economic base analysis is an integral focus of regional economics and planning, as it measures the concentration of industry in a region compared to the national average. Economic base analysis was developed by Robert Murray Haig in his work on the Regional Plan of New York in 1928. Briefly, activities in an area divide into two categories – basic and non-basic. Basic industries are those exporting from the region and bringing wealth from outside; non-basic (or service) industries support basic industries.

Because of data problems, it is not practical to study industry output and trade flows to and from a region. As an alternative, basic and non-basic concepts are operationalized using employment data. The basic industries of the region are identified by comparing employment in the region to national norms. If the national norm for employment in, e.g. Egyptian woodwind manufacturing is five percent and the region's employment is eight percent, then three percent of the region's woodwind employment is basic.

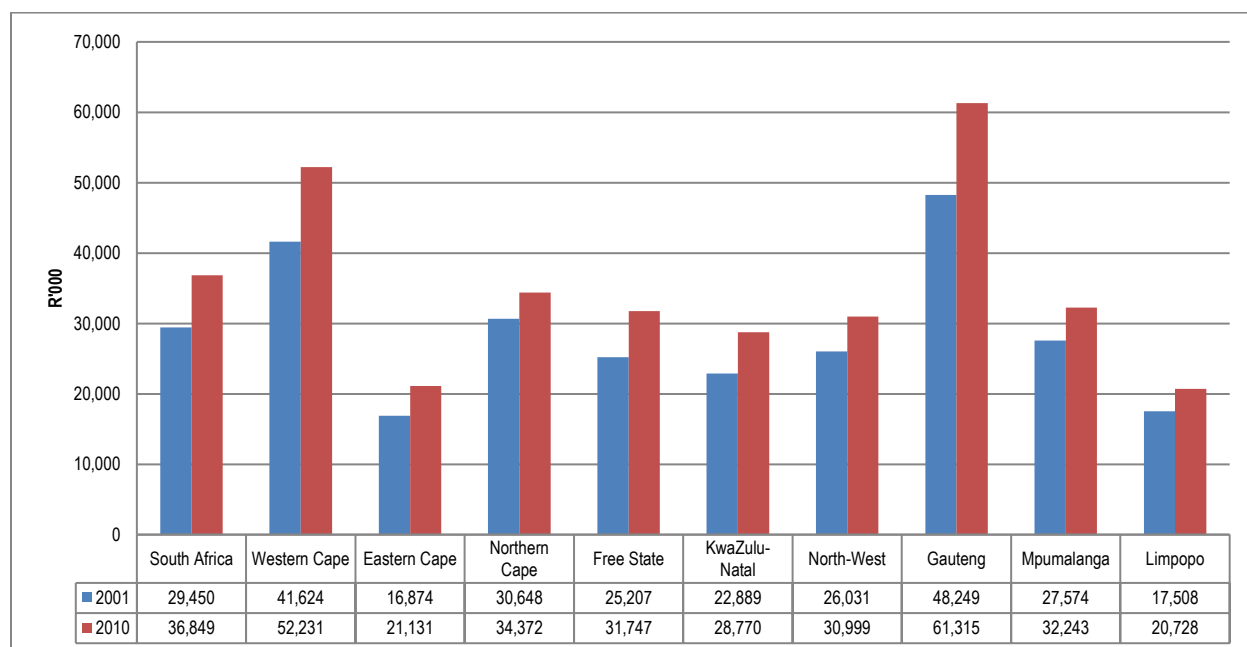
Once basic employment is identified, the outlook for basic employment is investigated sector by sector and projections made sector by sector. In turn, this permits the projection of total employment in the region. Typically the basic/non-basic employment ratio is about 1:1. Extending by manipulation of data and comparisons, conjectures may be made about population and income. This is a rough, serviceable procedure and it continues in use today. It has the advantage of being readily operationalized, fiddled with, and understandable even by the layman (http://en.wikipedia.org/wiki/Economic_base_analysis).

Figure 2.4 above, details the Free State Location Quotient for the years 2000 to 2010, and it is clearly evident that in 2010 the province had significant comparative advantage in sectors such as agriculture (2.2), mining (1.58), the utilities (1.24), and to some degree the community services sectors (1.22). The improvement in the agricultural sector's comparative advantage is a pleasing sight, as it indicates the provinces continued investment in the agro-processing sector and all other sectors with the sector is bearing fruit. The improvements in the sector are also notable in the sectors though marginal but improvements in the sectors contribution to both the provincial and national output. The finance and construction sector has the lowest comparative advantage in the province 0.74 and 0.75, respectively.

Having reflected on the economic performance of the province, though it is safely to conclude that it has been somewhat subdued, and also below the envisaged New Growth Path growth of 7%, and will be imperative to also reflect on the impact performance on the societal average. GDP per capita is not a measurement of the standard of living in an economy. However, it is often used as such an indicator, on the rationale that all citizens would benefit from their country's increased economic production. Similarly, GDP per capita is not a measure of personal income. GDP may increase while real incomes for the majority decline. The major advantage of GDP per capita as an indicator of standard of living is that it is measured frequently, widely, and consistently. It is measured frequently in that most countries provide information on GDP on a quarterly basis, allowing trends to be seen quickly. It is measured widely in that some measure of GDP is available for almost every country in the world, allowing inter-country comparisons. It is measured consistently in that the technical definition of GDP is relatively consistent among countries. The major disadvantage is that it is not

a measure of standard of living. GDP is intended to be a measure of total national economic activity— a separate concept (http://en.wikipedia.org/wiki/gdp-per_capita).

Figure 2.5: GDP-R per capita for South Africa and by Province



Source: IHS Global Insight, ReX, 2011

The national GDP per capita has marginally increased for the period 2001 to 2010, increasing by an annualised average of 2.51% or in a nutshell on average most South African households received an additional income of R 740 on an annual basis, from R 29 450 to R 38 849. Gauteng, Free State, KwaZulu-Natal and the Western Cape experienced an annualised average above that of national, with 2.71%, 2.59%, 2.57% and 2.51%, respectively. However, percentages tend to be deceptive and therefore in real terms an average household in Gauteng would have seen an increase of R 1,301 on an annualised basis or an extra R 109.00 monthly, whilst in the Western Cape an annualised increase of R 1,061. The Free State GDP per capita, increased from R 25 207 to around R 31 747, thus increasing by an annualised R 654.00, the third most increase in South Africa, while on a monthly basis recorded an extra R 54.00 to the household income.

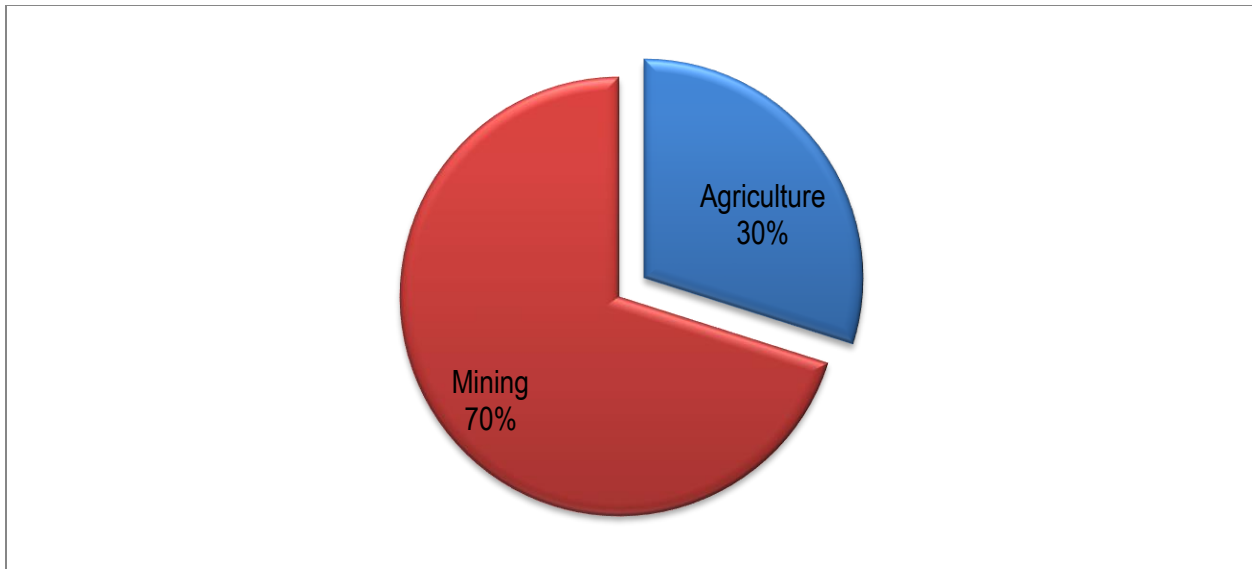
2.4 SECTORAL ANALYSIS

Sectoral analysis involves a review and assessment of the current conditions and future prospects of a given sectors in a regional economy (Investopedia 2011; 2010 FSPERO). It provides and serves as an ideological space of how well the different are expected to perform as a whole. The section analyses the Free State economy in terms of the different sector, which sectors are major sector or minor sectors of the economy; major sectors are namely – the primary, secondary and tertiary sectors. It analyses the relative sizes of the sectors, as the well as their growth is reviewed to provide a picture of the provincial economic state. The sector's future performance is also analysed to provide and thus an understanding of where the provincial economy might be heading. For the first time, this section would also review the Tourism sector, though the sector does not belong to any of the major sector i.e. the primary, secondary and tertiary sectors of the provincial economy, but rather is an amalgamation of the different sectors of the economy.

2.4.1 Primary industries

Contrary to popular believe, the primary sector has not been dwindling as initially thought, with the primary industries contribution to the provincial economy improving, though marginally. The Free State primary sector is, therefore, not a falling sector in magnitude as earlier fathomed. In fact, according to the IHS Global Insight (2011), the primary sector's contribution grew by roughly 3.5 percentage points or 21.1% between 2001 and 2010. The Free State primary sector consists of the mining & quarrying industry (69.8%) and the agricultural industry (30.2%).

Figure 2.6: Free State Primary Sector, 2010



Source: IHS Global Insight, ReX, 2011

The primary industries are labour continued shrinking of this sector is a course for concern as it is predominantly labour-intensive in nature. This has affected the Free State employment conditions negatively. Historically, it was the Free State's dominant sector, with the province being previously known as the food basket of the country. In 2010, the primary sector was still larger than the secondary sector, with its share of the GDP at 20.1% while that of the latter was at 17.1%. However, over the years, the landscape of the sector's contribution has changed, with niche industries becoming less productive over time.

Agriculture

The Free State's agricultural produce still plays an important role in the South African agricultural context, even though it is on the decline. Known as the "Granary of the Country", the Free State has arable land covering 3.2 million ha, whilst natural veld and grazing cover 8.7 million ha. The province is the largest producer of grain crops in the country and the second largest producer of sunflower seed, groundnuts and dry beans. By 2009, 90% of the country's cherry crop is produced in the Ficksburg area, while soya, sorghum, sunflowers and wheat are also produced in the Eastern Free State. 40% of the country's potatoes are cultivated in the high lying areas of the province (South African Year Book, 2010). By 2008, more than half of the national sorghum and sunflower output was produced in the province and the provincial share was 54% and 52% respectively

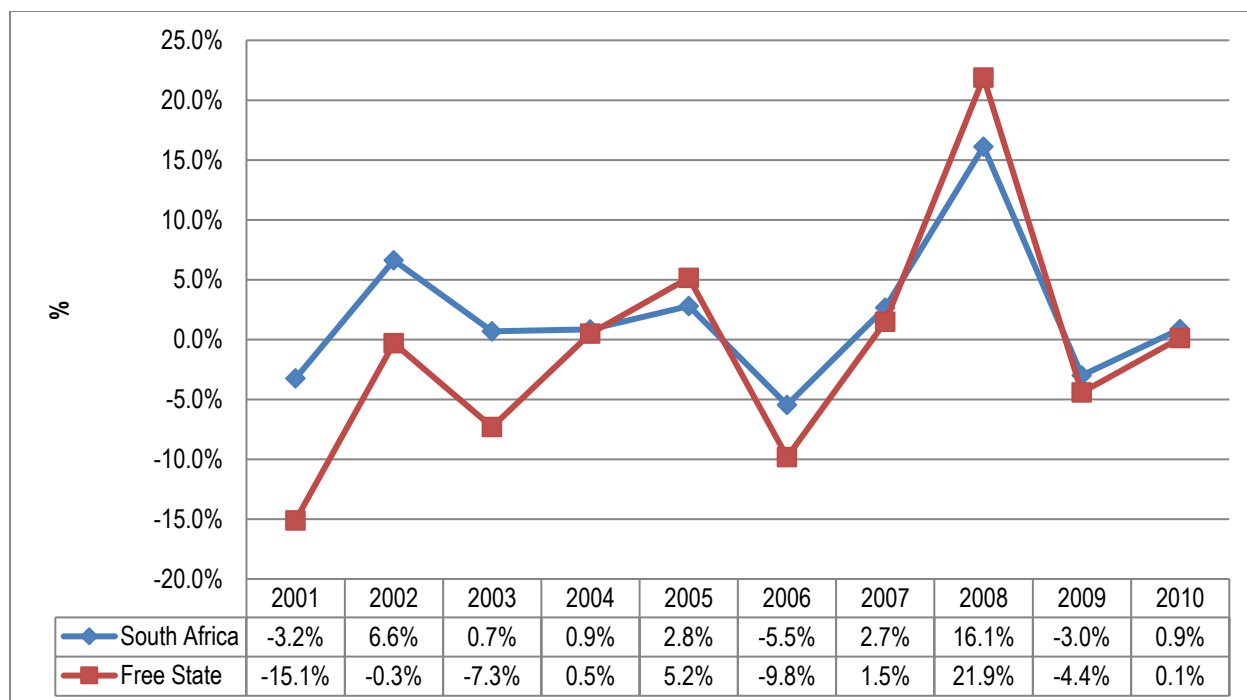
Table 2.2: Agricultural Industry's Gross Domestic Product, 2001 - 2010

	Constant 2005 prices - Rand thousand						Percentage Share					
	2001	2003	2005	2007	2009	2010	2001	2003	2005	2007	2009	2010
Western Cape	7690582	8179118	8875958	8503567	9456548	9537236	22.1%	21.4%	23.7%	23.9%	21.9%	22.0%
Eastern Cape	2676170	2357471	2015207	2352313	2676933	2704450	6.4%	5.7%	5.4%	5.4%	5.1%	5.1%
Northern Cape	1674984	1881106	2310318	2037532	2239330	2265066	4.5%	6.2%	6.2%	6.5%	6.6%	6.7%
Free State	3037090	2807025	2967145	2715691	3163989	3168257	10.2%	11.1%	7.9%	9.2%	11.0%	10.7%
KwaZulu-Natal	9732527	10704008	10109584	10587862	11741016	11848646	28.1%	25.6%	27.0%	25.7%	26.7%	26.8%
North-West	1950488	2368308	2693353	2372059	2756243	2783642	7.5%	5.3%	7.2%	6.3%	5.9%	6.1%
Gauteng	1929173	2059721	2313309	2045226	2202785	2229149	5.6%	6.8%	6.2%	6.3%	5.9%	5.9%
Mpumalanga	3004167	3545999	3464066	3133018	3702880	3725895	10.1%	10.0%	9.3%	9.4%	9.2%	8.9%
Limpopo	1901643	2167243	2653452	2553731	2951276	2984453	5.4%	7.8%	7.1%	7.4%	7.7%	7.9%
South Africa	33596824	36070000	37402392	36301000	40891000	41246794	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: IHS Global Insight, ReX, 2011

The South African agricultural industry's contribution to the Gross Domestic Product was roughly R 37.5 billion at the 2005 constant price, for the period 2001 to 2010. With the Kwazulu-Natal province having a major agricultural sector found in the country in terms of contribution to South Africa's output, with the province maintaining an averaged weight in contribution of 26.7% of the sector. Kwazulu-Natal is closely followed by the Western Cape with an averaged 22.5% share of the country's agricultural sector during 2010, whilst in third place was the Free State province with a 10.7% contribution or in real terms R 3.2 billion. In 2010, KwaZulu-Natal and Western Cape's share marginally increased to 26.8% and 22.0%, whilst the Free State and Mpumalanga's share declined slightly to 10.7% and 8.6%, respectively. The least contributors during 2010 were the Eastern Cape with 5.1%, followed by the North West and Gauteng with 5.9% and also 5.9%, respectively.

Figure 2.7: South Africa and Free State Agriculture growth rates, 2001 – 2010



Source: IHS Global Insight, ReX, 2011

The Free State agricultural industry growth rate seem to move relatively in tandem to the South African agricultural sector's growth, as depicted by figure 2.9, above. However, the provincial growth rates have been volatile throughout the period under review, with a variation of 10.0% during the period. The provincial agricultural industry's growth rate average -0.8%, whilst the South Africa average a positive 1.9% for the same period, this fuelling speculation that the output from the province has been rather erratic and as such a course for concern. In 2001, the industry recorded a growth of -15.1%, followed by a modest increase of 14.8 percentage points in 2002 to register a negative yet improved 0.3%. It further experienced negative growth rates of -7.3% and -9.8%, in 2003 and 2006 respectively. Nationally, negative growth rates in the agricultural sector of -3.2%, -5.5% and -3.0% occurred in 2001, 2006 and 2009, respectively. The overall picture, the provincial agriculture industry growth rate decreased by 15.2 percentage points from a negative growth of 15.1% in 2001 to roughly 0.1% in 2010.

Mining

The Free State remains the fifth largest gold producer worldwide, with an approximated 30% contribution to the South African Gold reserves sourced from the Free State province 12 mines operating in the Goldfields area. Regarded as one of the main economic priority sectors for investment promotion, also pronounced as one of the key sectors in the alleviation of poverty through its assumed labour-intensity, by the Free State

government, the mining and mineral beneficiation remains an important industry for the Free State. The Free State's mining employees account for 9.9% of the total mining employees of South Africa, and their remuneration accounted for 9.4% of the national mining remuneration (SAMI, 2007/2008). This makes the province the fifth largest employer and remuneration payer in the national mining industry.

Table 2.3: Mining Industry's Gross Domestic Product, 2001 -2010

	Constant 2005 prices – Rand thousand						Percentage Share					
	2001	2003	2005	2007	2009	2010	2001	2003	2005	2007	2009	2010
Western Cape	439182	439464	468687	446419	416782	440476	0.4%	0.5%	0.4%	0.4%	0.4%	0.4%
Eastern Cape	153966	163490	155254	155781	143117	151583	0.1%	0.2%	0.1%	0.2%	0.3%	0.3%
Northern Cape	8651905	9007445	8190339	8605453	7833625	8302836	8.8%	8.2%	7.7%	7.4%	7.3%	7.4%
Free State	6392117	8078926	8677543	8005457	7084775	7434224	6.4%	9.0%	8.2%	8.6%	8.7%	8.4%
KwaZulu-Natal	4097154	3879554	3709389	3674620	3537212	3740694	3.9%	3.6%	3.5%	3.5%	3.5%	3.5%
North-West	25161615	25859072	26524840	26891117	24264201	25766060	24.9%	23.6%	25.0%	24.3%	24.2%	25.1%
Gauteng	13114174	12560948	13560356	12368461	10756332	11322482	12.7%	14.1%	12.8%	13.6%	13.1%	12.9%
Mpumalanga	19011143	19421727	20843374	20903870	19128981	20179420	20.9%	18.8%	19.7%	19.3%	19.7%	18.9%
Limpopo	21823464	23944194	23862095	24284500	22020472	23321491	21.7%	22.0%	22.5%	22.6%	22.8%	23.1%
South Africa	98844719	103354820	105991877	105335680	95185496	100659266	100%	100%	100%	100%	100%	100%

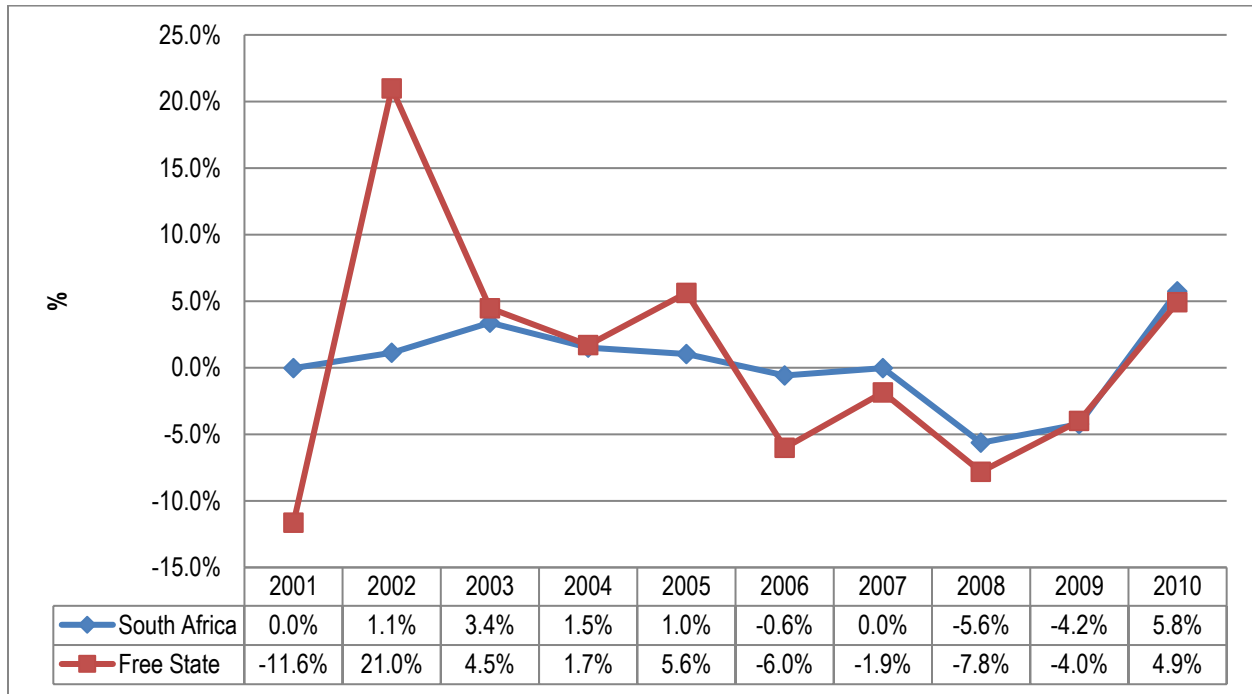
Source: IHS Global Insight, ReX, 2011

For the period 2001 until 2010, the South African mining sector has averaged R 101 billion in 2005 constant price contribution to the Republic's output. The largest contributors to the mining output being the North West, Limpopo province, Gauteng and Mpumalanga, with an averaged tally of about 79.7% or R 81 billion of the total mining output. In 2010, the North West province held a share of 25.1% in contributions to the South African output, followed by both Limpopo and Mpumalanga at 19.3% each and then by Gauteng at 15.0%. The North West and Limpopo's mining industries gained momentum as their shares grew to 25.1% and 23.1% in 2010 respectively. Whilst in the case of Free State province, the mining industry grew by 16.6 percentage points, from R6.3 billion in 2001 to R7.4 billion in 2010, as depicted by table 2.3 above.

The Free State provincial mining sector's contribution to the national mining industry GDP has been rather shaky with an averaged 8.2% for the period 2001 to 2010, also with a variation of 0.9%. Important to highlight that the mining sector's contribution and performance has been indifferent, first increasing between 2001 and 2005, by roughly R 2.3 billion, then decreasing by R 1.6 billion, between 2005 and 2009 to R 7.1 billion in 2009, whilst its share of the national mining industry output remained at 8.7%. The employment contribution by this industry to the provincial employment declined from 10.9% as at March 2001 to 4.1% as at March 2009. The closure of a number of mine shafts could be a reason for this decline. During 2009, some industries

shed jobs while others gained them. The least contributors to the national mining GDP were the Eastern Cape and the Western Cape with roughly 0.3% and 0.4%, respectively during 2010.

Figure 2.8: South Africa and Free State Mining growth rates, 2001 – 2010



Source: IHS Global Insight, ReX, 2011

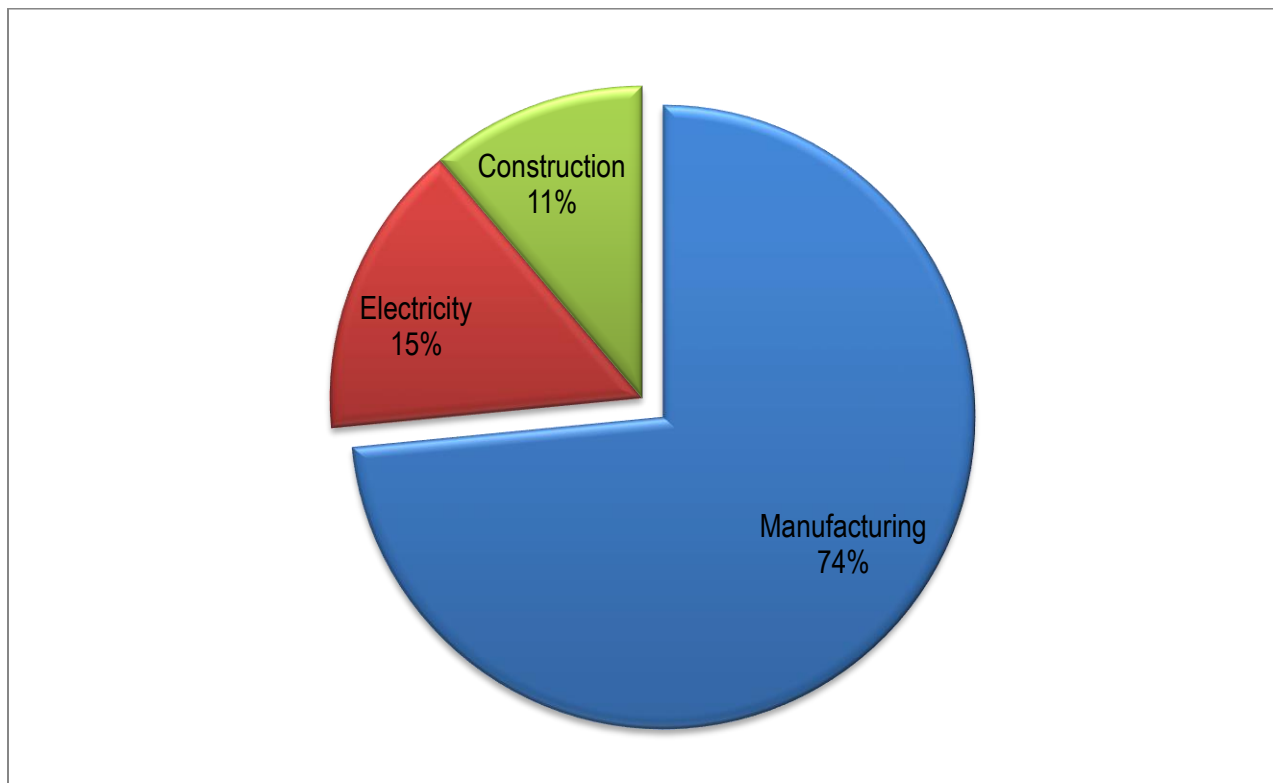
The mining sector growth rate of the Free State has been less stable than that of South Africa, with a variation of 9.2%, whilst for South Africa's variation is 3.2%, for the period reviewed. According the IHS Global Insight (2011) in 2009, both the Free State and South Africa's mineral growth rates were negative at -4.2% and -4.0%, respectively. The Free State's growth rate improved significantly the following year to 4.9%, an increase of 8.9 percentage points⁶. The South African mining industry growth rate, increased to 0.1% in 2001 and to 1.1% in 2002, averaging 0.2% for the period 2001 and 2010, the provincial mineral growth rate averaged from 0.6%, while that of the national 5.9%. Overall, the Free State and South Africa growth rates largely follow a similar trend, but the Free State's growth rate is more sensitive to economic changes than that of the national.

⁶ 2001 was characterised by the currency crisis. A huge inflow of short term capital that enters a country and also leaves in high masses can cause panic in the financial markets which can lead to more capital flights. This can cause the value of stock e.g. gold to decrease and cause the rand to depreciate (Remembering the 2001 currency crisis, 2003). The theory is when the value of stock decreases, less production of that commodity should occur and more production should occur when its value has increased (hedging). This could be the reason for the low and negative growth rate in 2001.

2.4.2 Secondary industries

Within the Free State secondary sector, the manufacturing industry makes up 73.4% while the electricity & water industry and the construction industry comprise 15.4% and 11.2% respectively. The contribution of the secondary sector towards the Free State GDP has increased from 18.6% in 2000 to 19.0% in 2008, with the manufacturing industry remaining the main contributor throughout the review period. However, in 2009, this sector contracted to 17.9%.

Figure 2.9: Free State Secondary Sector, 2010



Source: IHS Global Insight, ReX, 2011

Manufacturing's contribution increased from 14.9% in 2001 to 11.0% in 2010, while electricity & water's contribution fell from 3.2% in 2001 to 3.5% in 2010. The construction industry has increased by 0.8 percentage point from 1.8% in 2001 to 2.6% in 2008. In 2009, only the manufacturing industry contracted to 12.7%. The electricity & water industry's contribution to the Free State GDP remained unchanged while the construction industry's share increased to 2.2%.

Manufacturing

It is approximated that 14% of the province's manufacturing industry is classified as being in high-technology industries, which is the highest percentage of all the provincial economies in South Africa. The synthetic - fuels industry found in the Fezile Dabi District Municipality of the Free State is one of the most important chemical hubs in the southern hemisphere. As a subsector of manufacturing, the chemicals industry is the most important in the province and accounts for 70% of the provincial manufacturing output (Free State Business, 2010). The second most important subsector is food and food products, while textiles, agro-processing, jewellery and engineering products feature prominently in the provincial manufacturing landscape.

Table 2.4: Manufacturing Industry's Gross Domestic Product, 2001 -2010

	Constant 2005 prices - Rand thousand						Percentage Share					
	2001	2003	2005	2007	2009	2010	2001	2003	2005	2007	2009	2010
Western Cape	35129531	34716956	38732992	43300494	40276072	42224705	14.9%	14.8%	14.9%	14.7%	14.5%	14.5%
Eastern Cape	18559513	18459965	20067885	22532409	21623169	22706664	8.3%	7.9%	7.7%	7.8%	7.7%	7.7%
Northern Cape	1059568	987693	1159376	1300873	1275768	1341290	0.4%	0.5%	0.4%	0.4%	0.4%	0.4%
Free State	8957537	9163491	9898427	11043548	10670851	11107445	4.2%	4.0%	3.8%	4.0%	4.1%	4.0%
KwaZulu-Natal	48659545	49546878	55069618	61484687	56342659	59106199	21.3%	21.3%	21.3%	21.5%	21.5%	21.5%
North-West	4285208	4405370	5124935	5947277	5848015	6221502	1.8%	1.9%	2.0%	2.1%	2.1%	2.2%
Gauteng	93444965	95309858	106781285	119492535	106441485	111880026	40.3%	40.7%	41.2%	41.0%	41.1%	41.2%
Mpumalanga	16288824	16966720	18932003	21308554	20621440	21564422	7.5%	7.5%	7.3%	7.4%	7.4%	7.1%
Limpopo	3025672	3024071	3334424	3835623	3832543	4037758	1.3%	1.3%	1.3%	1.2%	1.4%	1.4%
South Africa	229410362	232581000	259100945	290246000	266932001	280190012	100%	100%	100%	100%	100%	100%

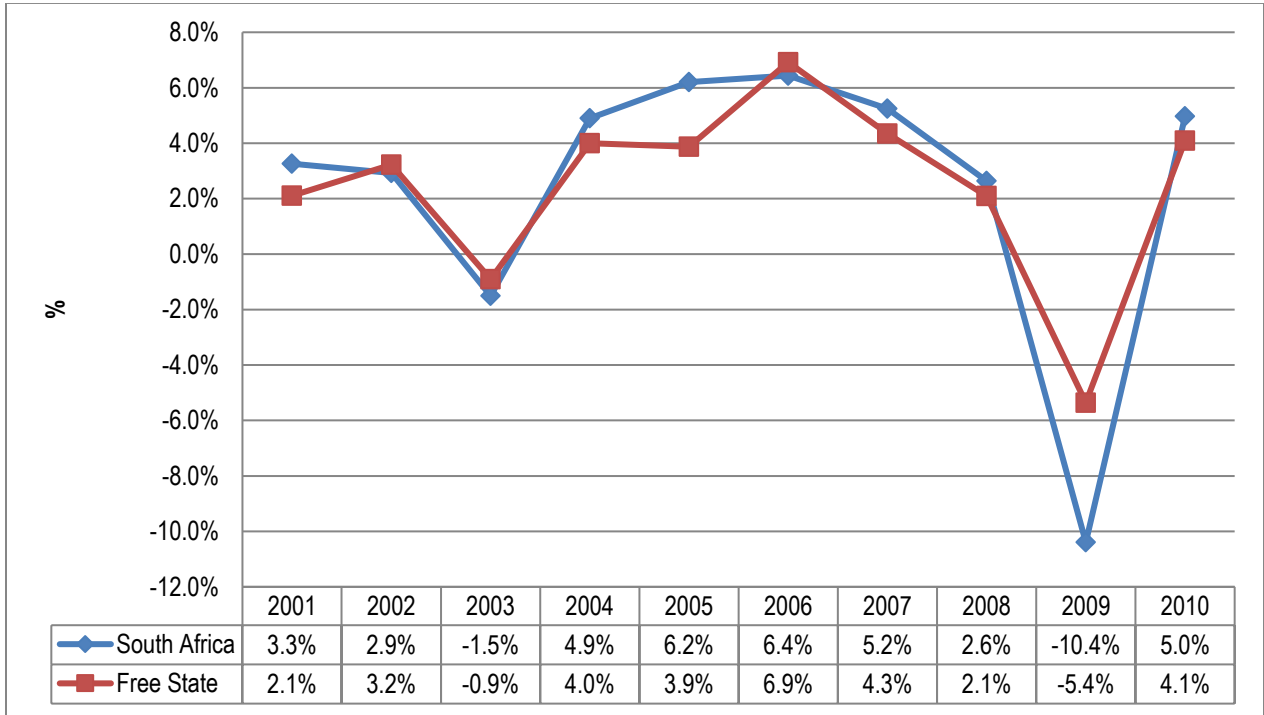
Source: IHS Global Insight, ReX, 2011

The South African manufacturing sector's commanded an averaged R 2.5 billion, and the sector is the third largest sector in the South African economy, behind the community Service sector and finance. According to the IHS Global Insight (2011), the sector's contribution is alarmingly in decline mode, averaging 19.4% during 1996 to 2000, whilst during 2001 to 2010 the sector averaged 17.6%, and it is anticipated that its contribution would decline further during the period 2011 to 2015, and thus average 14.4%. The provinces with the largest contributions towards the national manufacturing industry GDP in 2001 were Gauteng (40.3%), followed by Kwazulu-Natal (21.3%) and Western Cape (14.9%). The province that contributed the least towards the national manufacturing industry's GDP was Northern Cape at 0.4%.

In 2010, the major players in the manufacturing industry solidified their position, and as such their relative performance was maintained. Gauteng's manufacturing industry share marginally increased to 41.2%, followed by KwaZulu-Natal to 21.5%. The Western Cape' share declined to 14.5% while Northern Cape's

share increased to 0.5%. Free State’s share of the South African manufacturing sector declined, though minimally, from 4.2% in 2001 to 4.0% in 2010. According to table 2.6 above, the Free State’s manufacturing industry output increased from R8.9 billion in 2001 to R11.1 billion in 2010, growing at an annual average growth rate of 3.4%. However, studying the period 2007 until 2010, they indicate a decline in output to R10.7 billion in 2009, most ascribed to the global events as the manufacturing sector is trade driven. The percentage share however, remained steady as it only decreased from 4.2% in 2001 to 4.1% in 2009 and declined further in 2010 to around 4.0%.

Figure 2.10: South Africa and Free State Manufacturing growth rates, 2001 – 2010



Source: IHS Global Insight, ReX, 2011

Both the provincial and national growth rates for the manufacturing industry were relatively rickety, however moved in tandem, during 2001, both the province and South Africa’s manufacturing sector registered a sombre 2.1% and 3.3%, respectively. According to figure 2.10 above, both declined to -0.9% and -1.5% respectively, in 2003; while the period thereafter was characterized by economic growth, with the growth rates increasing to 6.9% and 6.4% respectively in 2006. In 2009, the year was characterized by the financial crisis, that has its roots in the developed world and its subsequent recession might have caused the provincial and country’s manufacturing sector growth rates to decline, with -5.4% and -10.4%, respectively.

In a nutshell, the Free State's manufacturing industry's growth rate decreased from 8.7% in 2000 to 2.1% in 2008, whilst nationally, the growth rate declined from 8.1% to 2.7%, over the same period. However, average annual growth rate for the manufacturing industry from 2000 to 2008 was 3.4%, while nationally, this rate was 3.7%. The 2010's IHS Global Insight estimates show how sensitive the national and provincial manufacturing industries are to both the domestic and global meltdown and consequent level of demand. Both the national and provincial growth rates declined dramatically to -10.7%.

Utilities

The utilities sector is made up of the electricity and water sectors. The Free State province houses some of the largest water reservoirs in the country, such as the Gariep Dam (which also produces hydro- electric power) and Vanderkloof Dam. One of the latest developments in the province is the Bethlehem hydro-electric project in the Eastern Free State. Increasing capacity in the provincial electricity and water industry can only be beneficial for the province and country as a whole. A fast developing country such as South Africa requires the efficient electrical power infrastructure in order to fulfill its national economic goals.

Table 2.5: Utilities Industry's Gross Domestic Product, 2001 -2010

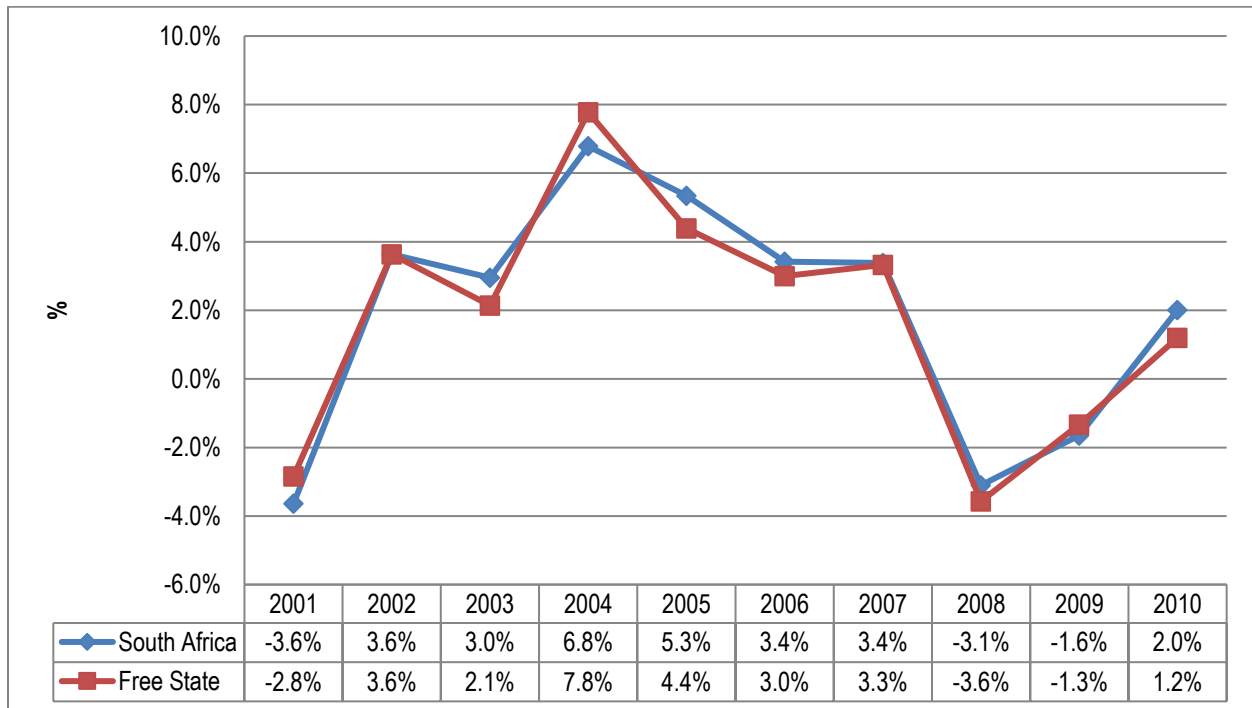
	Constant 2005 prices - Rand thousand						Percentage Share					
	2001	2003	2005	2007	2009	2010	2001	2003	2005	2007	2009	2010
Western Cape	2638512	3055142	3476895	3629816	3509973	3577591	9.5%	10.4%	10.5%	10.4%	11.0%	11.0%
Eastern Cape	1353258	1186923	1312044	1393334	1330606	1358723	4.9%	4.0%	4.0%	4.4%	4.1%	4.1%
Northern Cape	655132	563623	663271	676461	671077	686314	2.4%	1.9%	2.0%	2.1%	2.5%	2.6%
Free State	1902093	2013405	2265251	2410747	2293693	2321228	6.9%	6.9%	6.9%	7.1%	6.8%	6.6%
KwaZulu-Natal	5128906	4984341	5695680	6078845	5807975	5923439	18.6%	17.0%	17.3%	17.1%	16.0%	16.1%
North-West	609744	714718	823947	879473	873315	903774	2.2%	2.6%	2.5%	2.3%	2.6%	2.7%
Gauteng	9242865	10036107	11339158	12205045	11461430	11708400	33.9%	34.1%	34.4%	33.8%	33.5%	33.6%
Mpumalanga	4036966	4386062	4804093	5155917	4861295	4964452	14.6%	14.8%	14.6%	14.8%	15.0%	14.6%
Limpopo	1936767	2403679	2629853	2864363	2825637	2867054	7.0%	8.2%	8.0%	8.0%	8.4%	8.6%
South Africa	27504242	29344000	33010193	35294000	33635000	34310975	100%	100%	100%	100%	100%	100%

Source: IHS Global Insight, ReX, 2011

The South African utilities sector is the least contributing sector with a contribution of 2.8%, averaging 2.5% over the period 2001 to 2010, in real terms the sector averaged R 32 billion, during the same period. The largest province in terms of the production of the sector during 2010 is the Gauteng province with 33.6%, followed by KwaZulu-Natal 16.1% and the Mpumalanga with 14.6%. In real terms, during 2010, the Gauteng province contributed around R 11.7 billion, followed by KwaZulu-Natal R 5.9 billion and the Mpumalanga R 4.9 billion. The Free State's utilities industry output value grew at an average annual rate of 1.8% from R1.9

billion in 2001 to R2.3 billion in 2010. This output remained approximately the same in 2009, as depicted by table 2.3 above. However, the percentage share to the national total decreased gradually from 6.9% in 2001 to 6.6% in 2009, and remained at 6.8% in 2010. The electricity and water industry has increased its contribution towards the Free State's employment from 0.3% as at March 2001 to 0.6% as at March 2009.

Figure 2.11: South Africa and Free State Utilities growth rates, 2001 – 2010



Source: IHS Global Insight, ReX, 2011

Figure 2.11, above depicts the South African and the Free State Utilities sector's growth rates – the trend tend to move in tandem. That negative electricity & water industry growth rates occurred in 2001 at -2.8% and -3.6%, respectively. The slowing down of the domestic national economy in 2001, due to the financial crisis, could have sparked the slowed down in the demand for electricity & water. Both growth rates reached their peak in 2004 at 7.8% and 6.8%, respectively and have been on a decrease thereafter. In 2008 and 2009, the provincial utilities sector registered negative growth rates, with -3.6% and -1.3%, while the national growth rate was -3.1% and -1.6%.

In gist, average growth rates for the province and the nation were 1.8% and 1.9%, respectively, for the period 2001 until 2010. Similar to 2001, the economic downturn that occurred in 2009 might have caused both the national and provincial growth rates to return to the negative territory, both at -0.5%. Overall, years of low

growth rates, together with cheap electricity rates could have resulted in higher demand that could have resulted in enormous pressure on the power supplier, even nationally. However, the Free State still has comparative advantage in this industry, which has increased from 1.28 in 2000 to 1.39 in 2008 and remained so in 2009, and should take advantage of it.

Construction

The construction industry in the Free State comprises economic activity directed towards renovations, extensions, upgrading and construction within the province (Free State Socio-economic Review, 2008). It is also an important market for materials and products produced by other sectors of the economy, e.g. manufacturing. The Free State's construction industry has the highest backward linkage⁷ among the other sectors at 1.06, meaning that 1.06 units output from the rest of the Free State's economy is required for a one unit increase of this industry's output. This industry, therefore, has the potential to stimulate the rest of the economy.

Table 2.6: Construction Industry's Gross Domestic Product, 2001 -2010

	Constant 2005 prices - Rand thousand						Percentage Share					
	2001	2003	2005	2007	2009	2010	2001	2003	2005	2007	2009	2010
Western Cape	4579050	6237751	7690637	9800829	11260927	11417965	16.5%	19.7%	19.9%	18.4%	17.0%	17.0%
Eastern Cape	1801824	2079122	2398884	2973226	3367479	3419651	6.5%	6.6%	6.2%	5.2%	5.9%	5.9%
Northern Cape	485046	417111	477579	582329	647858	658188	1.8%	1.3%	1.2%	1.4%	1.3%	1.4%
Free State	1131785	1097018	1230320	1510190	1680192	1691489	4.1%	3.5%	3.2%	3.0%	3.8%	3.7%
KwaZulu-Natal	5580834	4621482	5738880	7064920	8054288	8172200	20.1%	14.6%	14.9%	14.5%	15.6%	15.6%
North-West	912842	1007676	1198634	1530212	1731768	1776151	3.3%	3.2%	3.1%	3.2%	3.3%	3.4%
Gauteng	10408877	13187887	16401503	21155918	25845289	26274452	37.6%	41.8%	42.5%	44.6%	43.5%	43.5%
Mpumalanga	1420424	1588919	1859297	2346732	2682058	2706475	5.1%	5.0%	4.8%	5.4%	5.2%	5.0%
Limpopo	1390445	1338034	1562465	2006642	2360144	2406429	5.0%	4.2%	4.1%	4.2%	4.4%	4.5%
South Africa	27711128	31575000	38558200	48971000	57630004	58523000	100%	100%	100%	100%	100%	100%

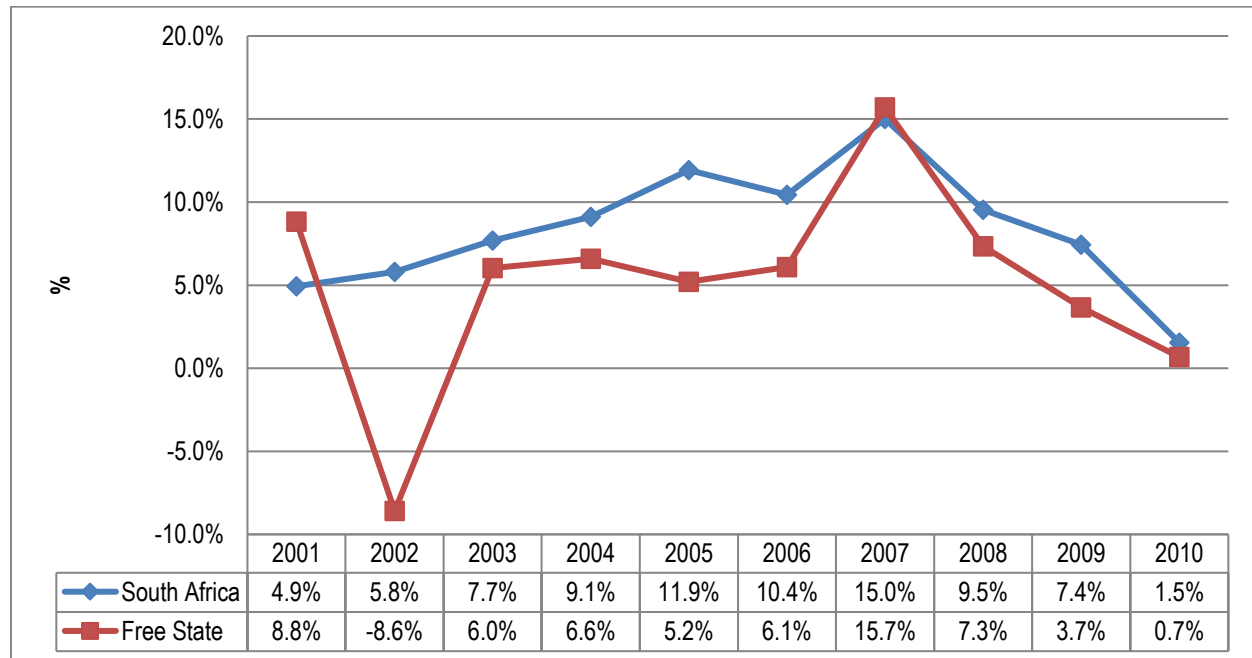
Source: IHS Global Insight, ReX, 2011

Table 2.3 above, outlines the construction industry's contribution to the Gross Domestic Product; 2001 and 2010. The Gauteng province, Kwazulu-Natal and Western Cape were the three biggest contributors to the South African construction sector's GDP in 2001 at 37.6%, 20.1% and 16.5%, respectively. Northern Cape contributed the least at 1.8%. In 2009, Gauteng's share increased to 43.5% while Western Cape and Kwazulu-Natal contributions decreased to 17.0% and 15.6%, respectively. Northern Cape's share also

⁷ A backward linkage indicates how many units of output a particular sector needs from the rest of that economy for its unit output increase.

decreased to 1.2%. Free State remained the second least contributor throughout the period, declining from 4.1% to 3.7%, during the review period. Only Western Cape and Gauteng, the two largest provinces in terms of income (GDP), have comparative advantage in this industry.

Figure 2.12: South Africa and Free State Construction sector growth rates, 2001 – 2010



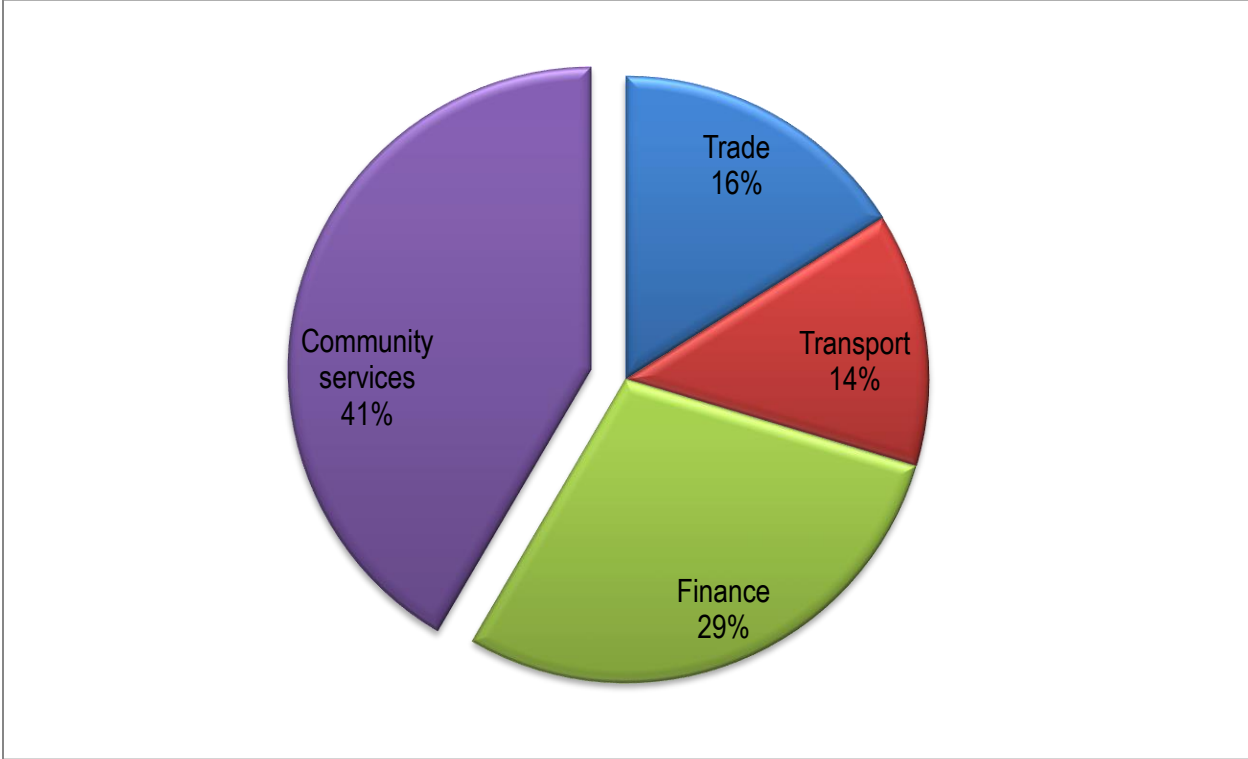
Source: IHS Global Insight, ReX, 2011

From 2001 to 2010, the province’s construction industry’s growth rate was erratic with a variation of 6.2% in the growth rates, negative growth rates was registered in 2002, of -8.6% as shown in figure 2.12 above. During the same period, the province construction sector’s averaged 5.2%, whilst the South African construction sector averaged better 8.2%. Thereafter, the sector seemed to be more stable until 2007, when it reached its peak at 15.7%, declining to 9.2% in 2009. The national growth rate seemed to be more stable, with a minimal variation of 3.8% and it also reached its peak in 2007 at 15.0%, subsequently decreasing to 9.5% in 2008. Overall, the Free State construction industry grew, on average, by 5.9% per annum while in South Africa’s case, it grew by 9.1%. Both growth rates dropped to 7.8% in 2009, with the run towards the end of the construction of the FIFA World Cup contributing towards the fall.

2.4.3 Tertiary industries

Among the three major sectors in the economy, the Free State's tertiary sector is the biggest and comprises the government & other services industry (41.6%), the finance, real estate & business services industry (28.8%), the trade & accommodation industry (16.1%) and the transport & communication industry (13.6%).

Figure 2.13: Free State Tertiary Sector, 2010



Source: IHS Global Insight, ReX, 2011

The contribution of the tertiary sector towards the Free State's GDP has increased from 63.5% in 2001 to 65.6% in 2005, however decreased to 62.0% in 2009, thus averaging 62.6% in 2001 to 2010. The community services industry remained the main contributor towards the provincial GDP, although it increased from 26.6% in 2001 to 27.3% in 2005 and increased further in 2010, its share increased to 27.3%. The finance and the trade & accommodation industries are the second largest and third largest industries respectively in the tertiary sector.

Trade

The trade & accommodation industry's growth is highly depended on continuous economic activity and that is consumption driven, and that is if the broad economy is performing well, thus it is anticipated that the sector would follow suit. The trade and accommodation is the fourth biggest industry in the provincial economy, with

a 12.1% stake in the provincial economy, during 2010. The industry's contribution to the South African trade industry's GDP increased from R7.3 billion in 2001 to R9.3 billion in 2007 (see table 2.10 below), thereafter declined to R 8.8 billion in 2009, by an annual average increase of 2.2%. Following the economic turmoil, it declined to R8.8 billion in 2009. The industry's contribution towards the province's employment declined from 23.1% in March 2001 to 20.6% in March 2009.

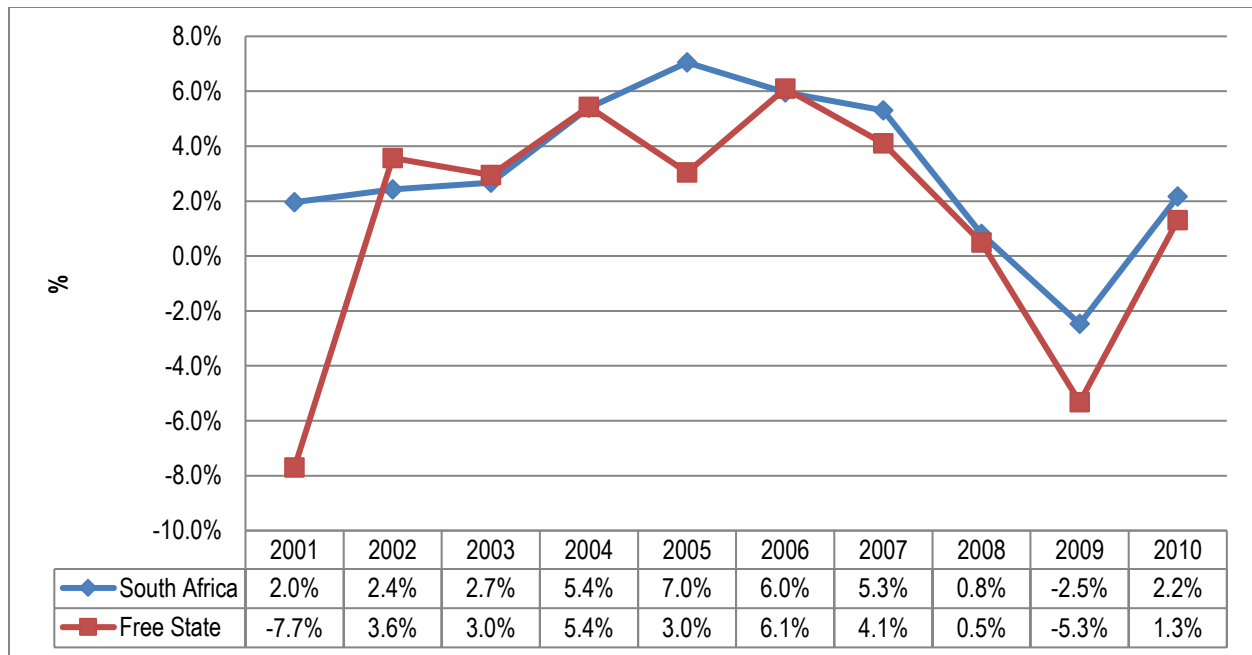
Table 2.7: Trade Industry's Gross Domestic Product, 2001 -2010

	Constant 2005 prices - Rand thousand						Percentage Share					
	2001	2003	2005	2007	2009	2010	2001	2003	2005	2007	2009	2010
Western Cape	26807972	28037677	32235644	35757741	34780897	35487330	16.2%	16.6%	16.5%	17.8%	17.4%	17.4%
Eastern Cape	13870021	14264272	15714471	17141935	16533313	16900725	8.4%	8.4%	8.1%	7.8%	8.0%	8.0%
Northern Cape	2946631	3407879	3816794	4175846	3947697	4038952	1.8%	2.0%	2.0%	2.2%	2.0%	2.0%
Free State	7305520	7789598	8462025	9345977	8892583	9008574	4.5%	4.5%	4.3%	4.7%	4.8%	4.6%
KwaZulu-Natal	27774572	29477041	33074695	37142398	37062637	37835542	16.8%	16.8%	17.0%	16.8%	16.8%	16.8%
North-West	7111918	7572432	8730001	9870105	9861809	10198943	4.3%	4.4%	4.5%	4.5%	4.7%	4.9%
Gauteng	58941749	62770871	71224515	79908784	78830979	80576740	35.9%	35.8%	36.5%	35.2%	35.4%	35.4%
Mpumalanga	10011697	10159026	11150738	12318666	12288498	12465453	6.1%	6.0%	5.7%	5.7%	5.9%	5.6%
Limpopo	9593472	9366403	10603275	11945548	11740588	12057589	5.9%	5.5%	5.4%	5.4%	5.1%	5.3%
South Africa	164363551	172845200	195012158	217607000	213939000	218569847	100%	100%	100%	100%	100%	100%

Source: IHS Global Insight, ReX, 2011

Table 2.7 above, paints the provincial trade sector's contribution to the South African trade sector's GDP, the sector averaged R 197 billion, between 2001 and 2010. There are three leading contributors to the national trade & accommodation industry in 2001, which were Gauteng (35.9%), Kwazulu-Natal (16.8%) and Western Cape (16.2%). The three leading contributor's contribution steadied somewhat during 2010, with Gauteng's contribution declining by 0.5 of percentage point, whilst the Western Cape's contribution increased slightly to 17.4%. In the case of the Kwazulu-Natal province, the provincial trade sector has relinquished its second position to the Western Cape, as the province trade sector contribution remained at 16.8%, whilst obviously in real terms increased by R 10 billion. Their average growth rates from 2001 to 2009 were 3.6%, 4.0% and 3.6% respectively. Free State's share declined from 4.9% in 2000 to 4.3% 2009, which saw the province remaining in the second least contributor over the review period.

Figure 2.14: South Africa and Free State Trade industry growth rates, 2001 – 2010



Source: IHS Global Insight, ReX, 2011

Similar to other industries, the period 2001 to 2002 is characterized by unstable growth rates, more so is the case for the Free State than the South Africa, as depicted in figure 2.14 above; 2001 was characterized by high interest rates brought about by the weakness in the global economy, due to the Asian crumble. The events around the world made it harder for the businesses to borrow money to expand operations and harder for consumers to borrow money for spending on various things. The rise in the interest rates in that year made less money to be available in circulation. This, together with a possible decrease in consumer spending, could have inevitably led to this industry shrinking.

Nationally, the growth rate of this industry started at a high of 7.0% in 2005 and decreased to 0.8% in 2008 and then further plunged to -2.5% in 2009, during the height of the recession. In 2010, the National trade sector's growth rate was at 2.2%, an improvement on the 2009 figures, the growth rate declined experienced in 2009 -2.5%, was due to consumer demand in the country fell on the back of the recession. Free State's trade & accommodation industry growth rate was negative in 2001 at -7.7%, it subsequently picked up in 2002 to 3.6% and remained positive until reaching its peak in 2006 of 6.1%, thereafter decreased to -5.3% in 2009. In 2010, the provincial trade sector's growth rate was at 1.3%, an improvement on the 2009 figures.

Transport

Transport developments that have taken place since the beginning of the industrial revolution have been linked to growing economic opportunities. At each stage of human societal development, a particular transport mode has been developed or adapted, to make it easier to commute, transport cargo and other essential services. Likewise, telecommunications and rural development are synonymous with one another, providing communities with an opportunity to compete in the fast- growing service sector. Thus, it is a tool that allows rural businesses and citizens to directly participate in national and global economies.

Table 2.8: Transport Industry's Gross Domestic Product, 2001 -2010

	Constant 2005 prices - Rand thousand						Percentage Share					
	2001	2003	2005	2007	2009	2010	2001	2003	2005	2007	2009	2010
Western Cape	15978982	18171375	20897225	23291722	23990714	24661106	15.0%	15.0%	15.0%	14.8%	15.0%	15.0%
Eastern Cape	7900692	8953671	9781224	10792894	11093810	11421883	7.2%	7.2%	7.0%	7.0%	7.1%	7.1%
Northern Cape	2317246	2699148	3021967	3355701	3519247	3626971	2.3%	2.2%	2.2%	2.3%	2.1%	2.1%
Free State	5631371	6091432	6447491	7164332	7460630	7614484	5.0%	4.6%	4.6%	4.8%	4.5%	4.4%
KwaZulu-Natal	23139547	27107026	29993926	33801509	35513454	36529937	22.1%	22.1%	21.5%	22.0%	22.1%	22.1%
North-West	5092167	6332230	6825705	7772112	8383247	8714465	5.1%	5.2%	4.9%	4.9%	5.1%	5.3%
Gauteng	35410656	40957316	45420796	50929872	52623457	54190027	31.2%	31.2%	32.6%	32.2%	32.6%	32.5%
Mpumalanga	6722826	7938086	8627110	9602120	10016612	10263195	6.7%	6.7%	6.2%	6.2%	6.0%	5.8%
Limpopo	6612537	8036715	8456826	9578739	10120831	10440235	5.4%	5.7%	6.1%	5.7%	5.5%	5.6%
South Africa	108806024	126287000	139472270	156289000	162722000	167462304	100%	100%	100%	100%	100%	100%

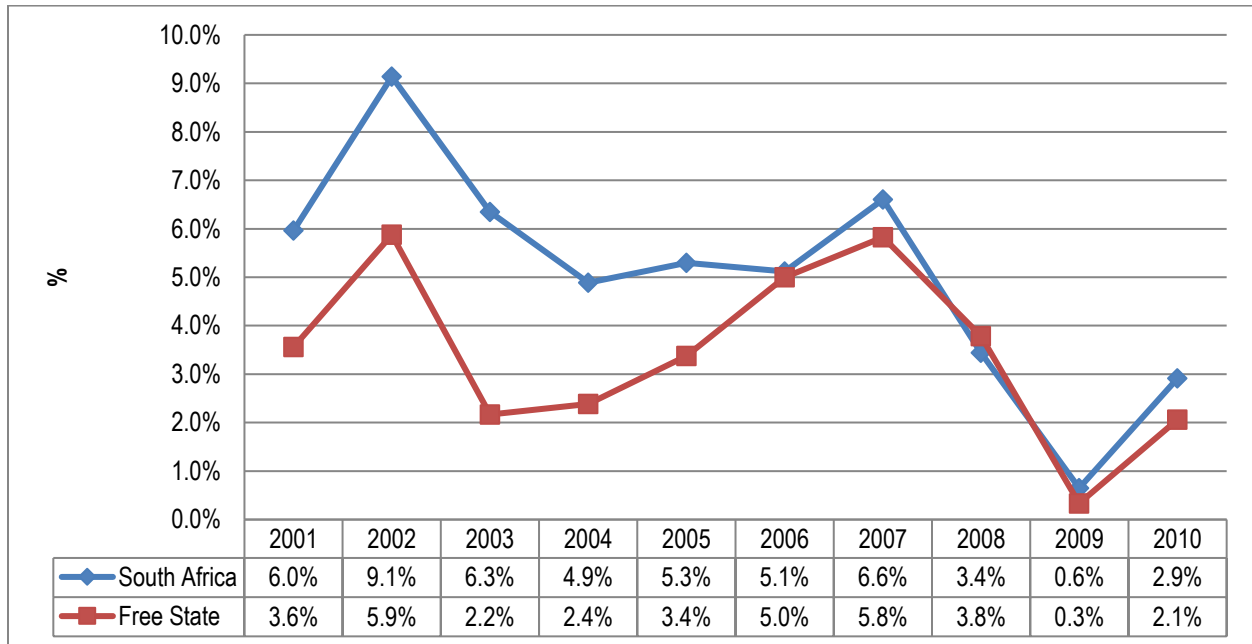
Source: IHS Global Insight, ReX, 2011

The transport industry in the South African economic context is the sixth largest sector in the country, and the sector contributed on average 9.5%, between 2001 and 2010. The sector is also expected to maintain its sixth place going forward, though decline in its weighted contribution to South African economy, to average a modest 9.2%. In real terms, the transport industry averaging R 143 billion in the period reviewed. The three major economic power-houses in the South African economy, i.e. the Gauteng province, the Western Cape and Kwazulu-Natal seemed to be in the fore front of driving the South African economy, with a totaled weight of 68.3% in 2001 and increasing 69.6% during 2010, thus a 1.9% increase. The Gauteng province is firmly in command of the sector with roughly an averaged 32.1% stake in the sector; mostly attributable to the Africa's biggest Airport i.e. the O.R Tambo International, which is locale in the province.

The transport services sector is an important sector in any economy, as it bridges the gap between the different activities in an economy. Hence, it can play a crucial role in the development of a province such as the Free State, as the province is geographically located in the center of the country, making it ideal to the industry. This industry consists of road, rail and air transport as well as telecommunications and for the Free

State, has increased from R5.6 billion in 2001 to R7.4 billion in 2009, increasing by an average annual rate of 4.0%, thus further increasing by R 150 million to R7.6 billion in 2010.

Figure 2.15: South Africa and Free State Transport industry growth rates, 2001 – 2010



Source: IHS Global Insight, ReX, 2011

Figure 2.15 illustrates the transport industry's growth rate during the period 2001 to 2010, both provincial and national growth rates were positive throughout the review period; however, the provincial growth rate has remained below the national one throughout most of the period, as depicted in figure 2.17 above. The provincial growth rate was 3.6% in 2001, the highest growth rate recorded over the period, was in 2002, when the Free State transport rates increased to 5.9%, from 3.6% the preceding year. The national growth rate was 6.0% in 2001 and it reached its peak in 2002 at 9.1%, and it eventually also reached 0.6% in 2009.

In 2010, both the Free State and the South African growth rates further decreased to around 0.3% and 0.6%, respectively, brought by the pressures of the recession. Both growth rates had a modest variation in performance with a variance of 1.8% and 2.3%. On average, the Free State (3.4%) and the South African (5.0%), indicating that has been increasing at a decreasing rate over the review period, a worrying factor considering that a region that wants to develop economically must have, amongst others, the right transport, storage and communication means to keep up with the globe. A sign of development in any country (or maybe even a region) is, amongst others, an increasing size of transport and telecommunications.

Finance

The finance industry consists of banking & insurance services, property services and business-related professional services. The provincial finance industry GDP grew from R 10.7 billion in 2001 to R 15.8 billion in 2007, at an annual growth rate of 6.6% and it further increased to R16.5 billion in 2010, as shown in table 2.9 below. The share of the Free State to the national finance industry, decreased from 4.6% to 4.1% from 2001 to 2009, the share/weight declining further to 4.0% during 2010. The contribution of this industry towards the provincial employment increased from 7.1% in March 2001 to 8.1% in March 2009, which is according to the South African Statistics employment figures.

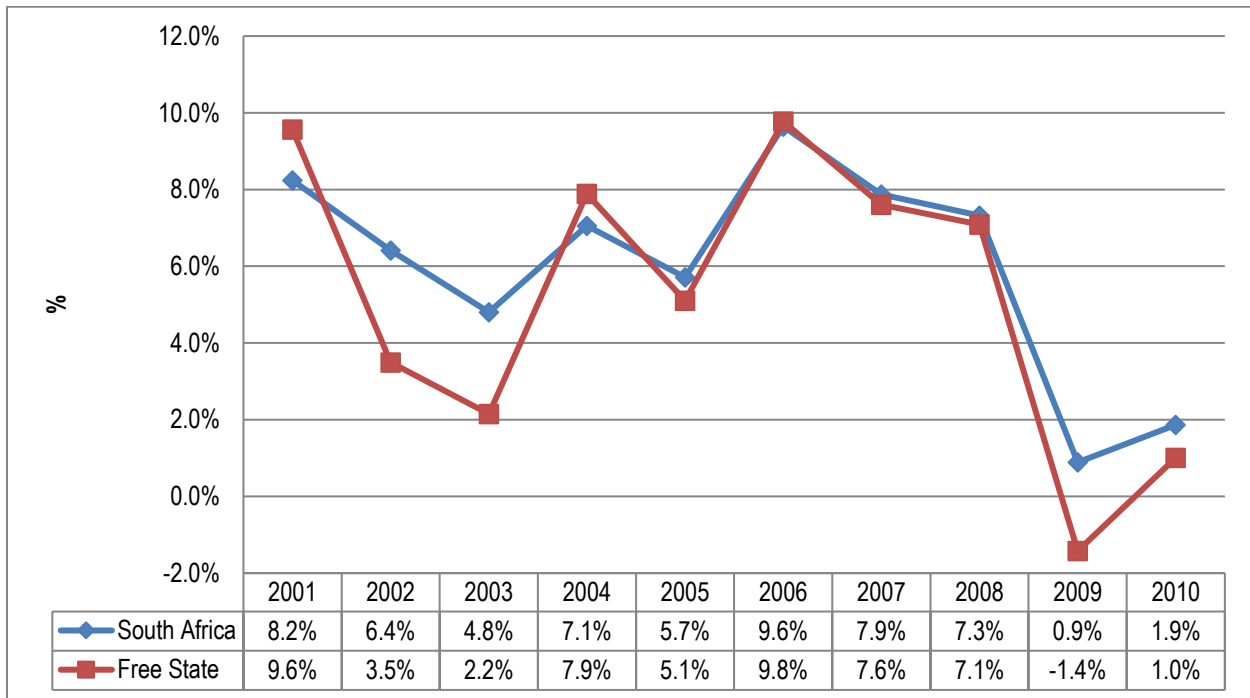
Table 2.9: Finance Industry's Gross Domestic Product, 2001 -2010

	Constant 2005 prices – Rand thousand						Percentage Share					
	2001	2003	2005	2007	2009	2010	2001	2003	2005	2007	2009	2010
Western Cape	47737152	53629010	60410590	71510961	77306731	78642781	20.5%	20.2%	20.4%	20.2%	19.5%	19.5%
Eastern Cape	18750459	20600716	23595433	26768053	28393673	28929977	8.2%	8.1%	8.0%	7.4%	7.5%	7.5%
Northern Cape	3650820	3589251	4262817	4779184	5057625	5159013	1.6%	1.4%	1.4%	1.5%	1.5%	1.6%
Free State	10702433	11314390	12830625	15155567	15998721	16159296	4.6%	4.3%	4.3%	4.2%	4.1%	4.0%
KwaZulu-Natal	31560809	35054247	41558517	48218461	52519619	53462635	13.8%	14.1%	14.1%	14.0%	14.2%	14.2%
North-West	8837026	9679394	12125017	14291598	15252916	15630685	3.9%	4.0%	4.1%	3.7%	3.6%	3.8%
Gauteng	91585080	104475612	114423240	137488572	150605517	153627639	38.2%	38.4%	38.7%	39.9%	40.0%	39.9%
Mpumalanga	9284185	9873913	11549126	13485300	14153397	14354891	4.0%	4.3%	3.9%	4.2%	4.4%	4.2%
Limpopo	12045121	12906469	14748273	17803304	19132802	19523987	5.3%	5.2%	5.0%	4.9%	5.2%	5.3%
South Africa	234153086	261123000	295503637	349501000	378421001	385490904	100%	100%	100%	100%	100%	100%

Source: IHS Global Insight, ReX, 2011

The Finance sector has over the recent past established itself as the second largest sector in the South African economy, with roughly 19.9% average contribution to the South African economy, during 1996 to 2010, whilst between 2001 and 2010, the average increased to 20.9%. Going forth, IHS Global Insight forecast the sector's average to improve, though marginally, to contribute roughly 21.8%. The provinces with the largest contribution towards the South African finance, real estate & business services industry GDP in 2001 were Gauteng (38.8%), Western Cape (20.5%) and Kwazulu-Natal (13.8%); and during 2010, the Gauteng province and KwaZulu-Natal share increased to 39.9% and 14.2%, respectively. In the meanwhile, the Western Cape's share of the finance sector contribution declined marginally by one percentage point to 19.5%. Northern Cape was the least contributor and its contribution declined from 1.6% in 2001 to 1.5% in 2009, the province averaged 1.5%, over the review period. Free State was the third least contributor in 2001 and maintained the third least contributor 2010, averaging 4.2% through the period 2001 to 2010.

Figure 2.16: South Africa and Free State Finance industry growth rates, 2001 – 2010



Source: IHS Global Insight, ReX, 2011

As illustrated in figure 2.18 above, the Free State and South Africa's finance growth rate have rather fluctuated auspiciously, with a variation of 3.8% and 2.8%, however they have largely moved similarly with each other. This industry, provincially and nationally, grew on average by 6.6% and 7.2% respectively from 2000 to 2008, and in 2009, these impressive average growth rates shrank to -1.4% and 0.9%, due to the economic meltdown, which it's full on impact, was felt. As much as South Africa and the Free State have an advanced, efficient and reliable banking system, the fall of this industry in 2009 might have been influenced by factors such as; people in the province losing their jobs and therefore not having money to pay for their insurance, their bonds and/or their outstanding debts with banks. Declining house prices could have also negatively influenced the finance industry. The Finance industry dusted its self-off the dirt of 2009, to register impressive growth of almost 2.0% nationally, whilst provincial increasing by 1.0%.

Community Services

The community services sector is comprised of the general government as well as personal services sectors. This industry has grown in leaps and bounds from R17.8 billion in 2001 to roughly R23 billion 2009, reflecting an average annual increase of 3.0%. It further increased to R23.3 billion in 2010, as depicted by the table 2.10 below. This industry has also contributed positively towards the provincial employment as its share of the provincial employment grew from 29.3% in March 2001 to 32.8% in March 2009; the sector is regarded as the highest employer in the province.

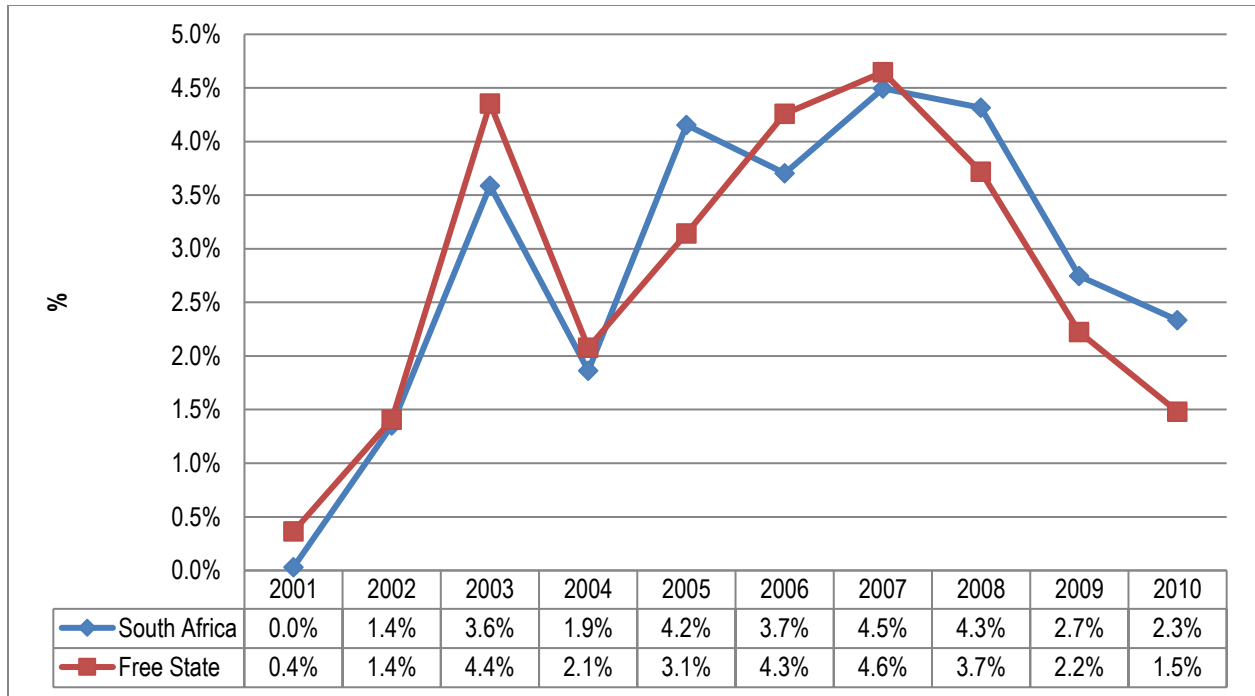
Table 2.10: Community Services Industry's Gross Domestic Product, 2001 -2010

	Constant 2005 prices - Rand thousand						Percentage Share					
	2001	2003	2005	2007	2009	2010	2001	2003	2005	2007	2009	2010
Western Cape	28452355	29849918	31872766	34377679	36654393	37463931	10.5%	10.6%	10.7%	10.4%	10.4%	10.4%
Eastern Cape	31175273	32492199	34370436	37151458	39444576	40380349	11.6%	11.6%	11.6%	11.5%	11.4%	11.4%
Northern Cape	6909575	7269625	7718626	8429587	8923564	9144379	2.5%	2.6%	2.6%	2.4%	2.5%	2.6%
Free State	17820577	18857878	19854648	21662229	22967370	23307419	6.6%	6.6%	6.7%	6.8%	6.7%	6.5%
KwaZulu-Natal	39146513	40923511	43249737	46973277	50507280	51656364	14.7%	14.8%	14.6%	15.2%	15.4%	15.4%
North-West	14654181	15287055	16124407	17696232	18677547	19137474	5.4%	5.4%	5.4%	5.4%	5.2%	5.4%
Gauteng	94905474	100193115	106978250	115409686	125555065	128733266	36.1%	35.9%	36.0%	35.6%	35.6%	35.6%
Mpumalanga	14021036	14874578	15515399	16923266	17801088	18152358	5.2%	5.2%	5.2%	5.3%	5.5%	5.3%
Limpopo	19566893	20201121	21331168	23241586	24450118	25056372	7.3%	7.3%	7.2%	7.4%	7.3%	7.5%
South Africa	266651877	279949000	297015436	321865000	344981001	353031912	100%	100%	100%	100%	100%	100%

Source: IHS Global Insight, ReX, 2011

The community services sector is the largest sector in the South African economy; with an averaged 22.6% stake during the 1996 to 2000, period, and during the 2001 and 2010 tenure, the sector had a weight of 21.2% in the country. The Gauteng province, Kwazulu-Natal and Eastern Cape were the leading contributors to the community services industry in 2001 at 36.1%, 14.7% and 11.6%, respectively, whilst Northern Cape was the least contributor at 2.4%. Their average growth rates from 2001 to 2010 are 3.2%, 3.2%, 2.5% and 4.1%, respectively. Free State's contribution has remained the fourth least and was steady at 6.7% throughout the period, with only a change in 2007 when it improved to registered 6.8%, most notably declining to 6.5% in 2010.

Figure 2.17: South Africa and Free State Community Services industry growth rates, 2001 – 2010



Source: IHS Global Insight, ReX, 2011

The long run trend of the provincial and national community services sector growth rates have registered positive growth rate, albeit the global turmoil of both 2001 and 2009, thus indicating the sector's resilience to weather the storm, as they have been upward throughout the analyses period, as depicted in figure 2.18. These growth rates have remained positive from 2000 until 2010, with the provincial growth rate increasing from 0.4% in 2001 to 3.7% in 2008. And in 2009, the sector registered positive growth rates despite the recession.

The national growth rate increased from 0.7% in 2000 to 4.0% in 2008, declining to 3.8% in 2009. Overall, the dependence on the community services industry during non-turmoil periods is a worrying factor as these periods should be and are characterized by a boom in the private sector, and hence more dependence on the private sector can be placed. The government's influence should only be more visible during periods such as a recession, when the markets fail to correct themselves and counter-cyclical measures have to be implemented.

Tourism Sector

The tourism sector is attributed the impressive title of the fastest growing economic sector internationally, in the South African context, it's no different. Tourism has become an important economic and social activity in the national and global economy during the last decades. According to the 2011 South African Tourism Satellite Account released by StatsSA, the tourism direct gross domestic product was R 67 990 million (or 2,8% of total gross domestic product) for 2009, compared with R67 141 million (or 2,9% of total gross domestic product) in 2008 and R59 783 million (or 3,0% of total gross domestic product) in 2007.

The year 2009, saw 9 933 966 foreign visitors flocking to South Africa compared with 9 591 828 foreign visitors and 9 090 881 foreign visitors in 2008 and 2007, respectively. There were 538 394 persons (or 4.1 % of total employment) directly engaged in producing goods and services purchased by tourists in 2009 as compared with 599 410 (or 4.4% of total employment) in 2008 and 569 677 persons (or 4.2% of total employment) in 2007. Inbound tourism expenditure totaling R67 141 million was recorded in 2009. The main expenditure items were 'non-specific products' (28.0%), 'accommodation for visitors' (15.6%), 'road passenger transport services' (13.0%) and 'connected products' (12.6%).

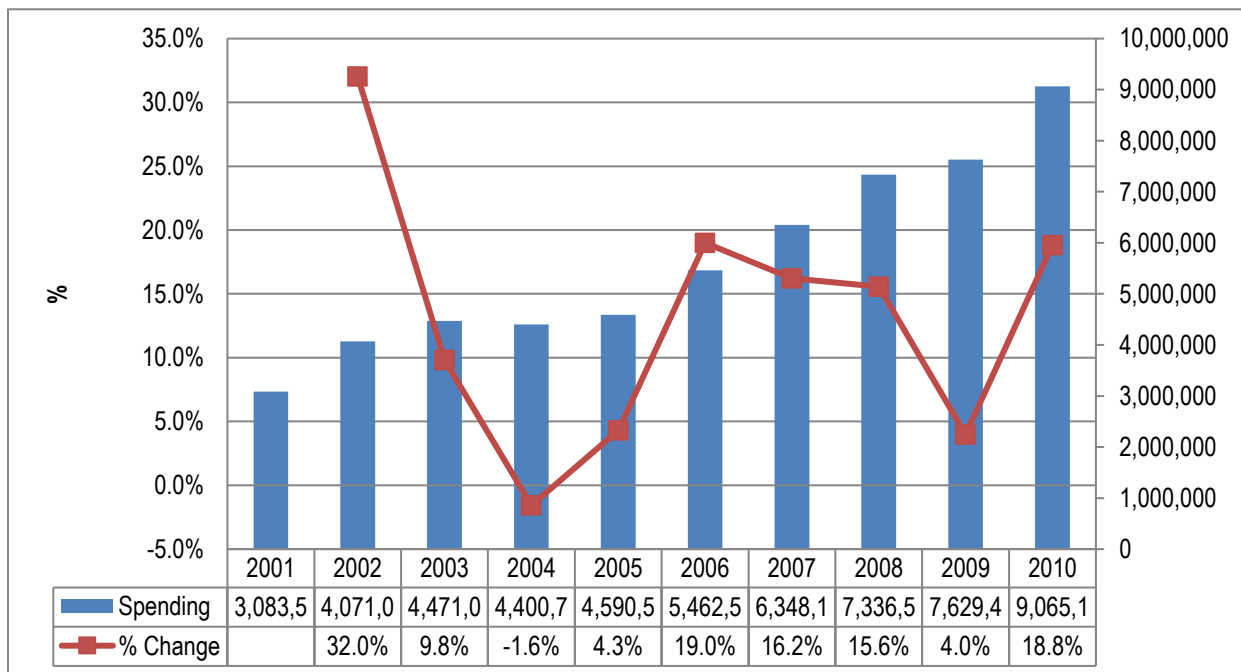
Inbound tourism expenditure totaling R69 964 million was recorded in 2008 and the main expenditure items were 'non-specific products' (33.6%), 'accommodation for visitors' (13.9%), 'road passenger transport services' (12.0%) and 'connected products' (12.0%). Domestic tourism expenditure totaling R 78 992 million (including the domestic portion of outbound tourism expenditure) was recorded in 2009. The main expenditure items were 'road passenger transport services' (32.7%), 'accommodation for visitors' (19.9%), 'non-specific products' (12.1%) and 'air passenger transport services' (11.9%). Domestic tourism expenditure totaling R76 914 million (including the domestic portion of outbound tourism expenditure) was recorded in 2008. The main expenditure items were 'road passenger transport services' (32.8%), 'accommodation for visitors' (19.7%) and 'non-specific products' (12.1%).

The South African Tourism Satellite Account, Stats SA, 2011, further tackles pertinent issue of employment and the Tourism employment is a measure of the number of jobs in tourism and non-tourism industries. Tourism employment is the employment strictly related to the goods and services (tourism connected and non-tourism-connected) acquired by visitors and produced by either tourism industries or other industries that cannot be directly observed. South Africa does not have a direct measure of tourism employment due to a lack of sufficient data. Therefore, employment in the tourism industries includes employment that is directly and/or indirectly related to the goods and services acquired by tourists and non-tourists. There were 538 394 persons (or 4.1% of total employment) directly engaged in producing goods and services purchased by

tourists in 2009 as compared with 599 410 (or 4.4% of total employment) in 2008 and 569 677 persons (or 4.2% of total employment) in 2007.

Having contextualised the National Tourism sector in the introductory remarking of this analysis of the tourism sector, the 2011 PERO, tackles the Free State Tourism. It is also crucial importance for the user to comprehend that this analysis is based on the IHS Global Insight figures, and it is the first inclusion of the in the PERO, thus conceding that there would be disparities. The definition of tourism spending according to the IHS Global Insight is inherited from the StatsSA definition used in their compilation of the Tourism Satellite Account. In other words, it includes all expenditure by visitors in the particular region excluding capital expenditure and the shopping expenditure of traders (known as shuttle trade.) It is important to note that this definition of spending is different to the concept of 'contribution' to GDP and merely represents a nominal spend per region (IHS Global Insight, 2011).

Figure 2.18: Total Tourism Spend (R 1000, Current prices)

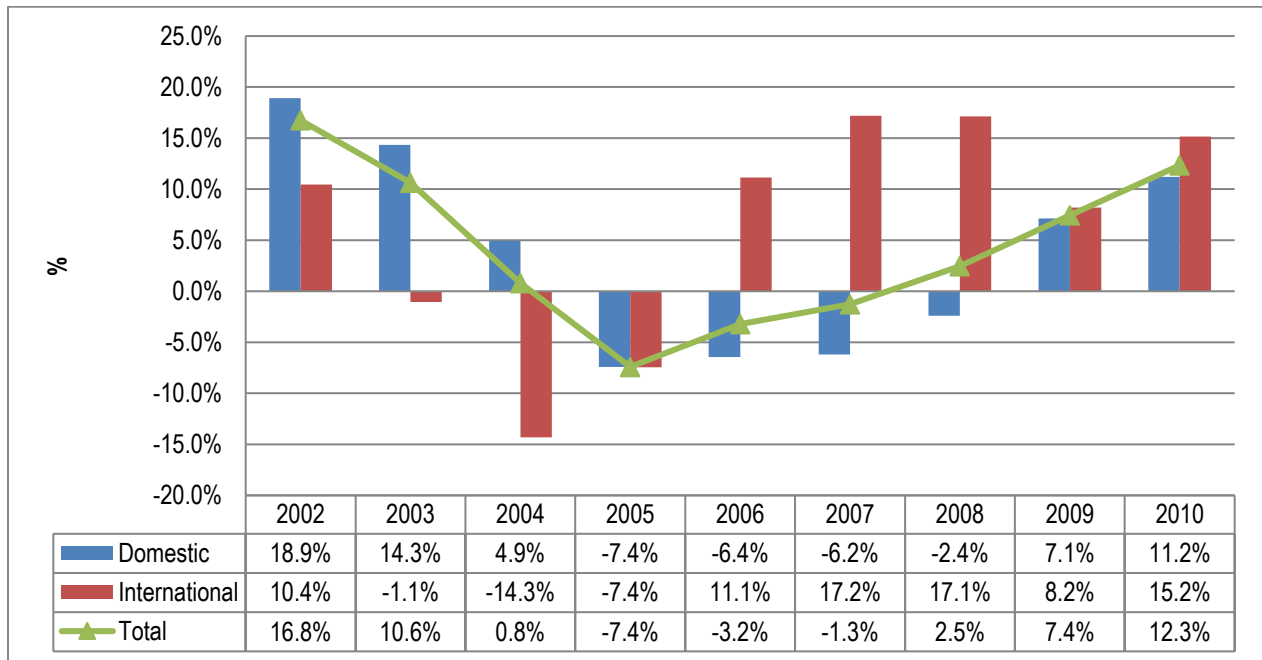


Sources: IHS Global Insight, Free State Provincial Treasury calculations

Figure 2.6 above illustrates the total tourism spending in the Free State by tourists flocking the province, and the figures have been steadily increasing, growing by roughly 13.1%, averaged. With a negative growth registered during the year 2004, when expenditure dipped to R 4, 40 million from R 4, 47 million, in 2003. IHS Global Insight measures the total of trips made from the bottom up (in terms of origin) by compiling a

separate measure of international tourists and domestic tourists. International visitors are derived from data provided by SA Tourism and Stats SA foreign arrivals. The data is adjusted to conform with the definition of a tourist (as opposed to simply an 'arrival') using a number of statistical techniques as well as additional data from Home Affairs and SA Tourism (South African Tourism Satellite Account, Stats SA, 2011).

Figure 2.19: Growth in Tourism (using bednights) by origin



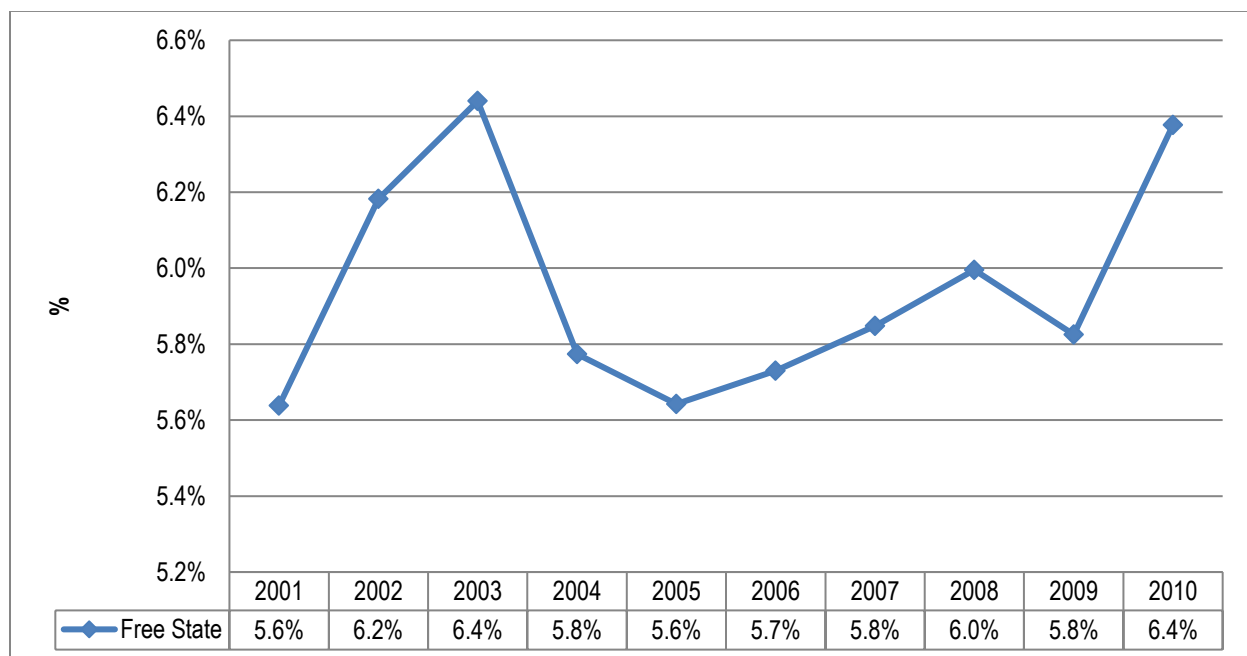
Sources: IHS Global Insight, ReX, 2011

The tourism sector has realised a positive average growth, with a totaled averaged of 4.3%, between 2002 and 2010, as indicated by the figure above. In the meanwhile the domestic tourism market averaged around 3.8%, the domestic tourism market, would represent the Free Staters who would have explored and experienced the province's tourist attractions. The domestic tourism market performed well below that of the international tourism market (is the non-Free Stater market, which includes, foreign tourists and the South African tourists), which registered an average of 4.8%, during the 2002 and 2010, period. Indicative of the need to propel the ordinary Free Staters to explore the province, this could be increased through tourism marketing drives, such as the Shot Left campaign, were Free State tourist attractions could be marketed.

Although tourism is by its nature a demand-driven phenomenon, it is necessary, from a macroeconomic point of view, to observe how the match between demand and supply operates, and how the latter affects the basic macroeconomic variables of the country of reference. Within a context of macroeconomic analysis, the

relationship between supply and demand is best studied within the general framework of national accounts. The tourism sector is not measured as a sector in its own right in national accounts, because tourism is not a clearly defined industry in the International Standard Industrial Classification of all Economic Activities (ISIC), but rather an amalgamation of industries such as transportation, accommodation, food and beverage services, recreation and entertainment, travel agencies, etc. This is because industries are classified according to the goods and services they produce, while tourism is a consumption-based concept sector that depends on the status of the consumer (South African Tourism Satellite Account, Stats SA, 2011).

Figure 2.20: Total Tourism spending as a percentage of GDP (Current prices)



Sources: IHS Global Insight, ReX, 2011

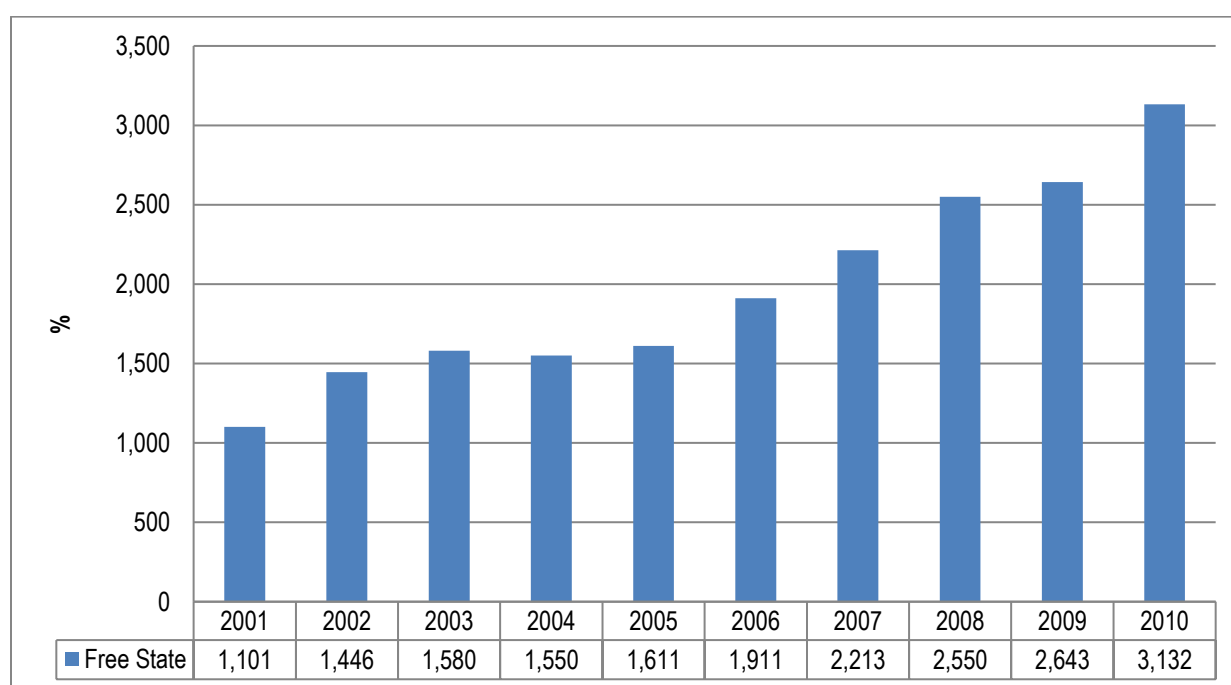
Due to the complexities of the Tourism⁸ sector makeup it is indicative that the reader cautiously understands, how it is derived at (i.e. made up of portions of many other sectors such as, transport, accommodation, food and beverage services, recreation and entertainment, travel agencies, etc) and how the total tourism spending as a percentage of GDP is calculated, as entailed in the figure above. When percentage contribution to GDP is computed, the tourism sector contribution amounted to an averaged 5.9%, over the past ten year

⁸ A major reason for the difficulties in measuring the size of tourism is the fact that in the ISIC, industries are created on the basis of their activity or output, rather than on data on their customers, whereas tourism is defined by the characteristics of the tourists. Furthermore, tourism consumption includes 'tourism-characteristic' (i.e. accommodation, travel services, cable cars, etc.) and 'non-tourism related' (i.e. retail trade) goods and services, which deliver their services largely to non-tourists. The key factor to measure tourism is to relate purchases by tourists to the total supply of these goods and services within a country.

period. Impressive contributions of above the six percentage mark, towards the provincial GDP were recorded, in 2002 (6.2%), 2003 (6.4%), 2008 (6.0%) and 2010 (6.4%).

The impressive 2010 contributions towards the provincial GDP could be attributed to the Soccer World Cup, held in South Africa, between the 11 June and 11 July, where around 350 000 tourists converged in the country, this was also impressive as the global economy was in the stages of recovery from the first and worst recession in the 21st century – which had a negative impact on consumption, thus taking into account that the sector is tourism is a consumption-based concept sector that depends on the status of the consumer.

Figure 2.21 Average Tourism spend per resident capita (Rand, Current prices)



Sources: IHS Global Insight, ReX, 2011

Tourism sector is considered by the United Nations as an important economic and social activity in the national and global economy during the last decades, and it concedes that it is one sector that commands employment or is a job-driver, as also articulated in the New Growth Path. Tourism employment is a measure of the number of jobs in tourism and non-tourism industries. Tourism employment is the employment strictly related to the goods and services (tourism-connected and non-tourism-connected) acquired by visitors and produced by either tourism industries or other industries that cannot be directly observed.

South Africa does not have a direct measure of tourism employment due to a lack of sufficient data. Therefore, employment in the tourism industries includes employment that is directly and/or indirectly related to the goods and services acquired by tourists and non-tourists. Reluctantly, in this latter part of the tourism sector analysis, we do not analyse the employment figures of the sector in the Free State, due to the lack of data, but rather analyse the average tourism spend per resident capita. Using the IHS Global Insight figures, it is apparent that the average tourism spend per resident capita, has tremendously improved, with an annualised average of 18.4%, between 2001 and 2010. Basically implying that in 2010, an average household in the province involved or not in the sector benefitted roughly R 3, 132 or R 260.96 on a monthly basis.

These figures are impressive and could also re-in fence the old adage that working nation is a strong and healthy nation, which could also lead to the alleviation poverty. However it is conceded that the sector is an employment creator and a job-driver. According to the 2011 TSA Stats SA, there were 538 394 persons (or 4.1 % of total employment) directly engaged in producing goods and services purchased by tourists in 2009 as compared with 599 410 (or 4.4% of total employment) in 2008 and 569 677 persons (or 4.2% of total employment) in 2007, thus in a nutshell the sector on average roughly employs 4.3% or 569 160 of the total workforce.

2.5 TRADE PERFORMANCE

The logic of international trade, exports and imports, is grounded in the benefits to be derived from the division of labour and hence, specialisation. Specialisation, which causes efficiency in production, results in surplus production that, has to be traded. Adam Smith, who brought this to the fore in his classic work, *The Wealth of Nations* (1776), argued that the size of the market can be a constraint. This situation applies to the individual worker and firm but can be extended to apply to a town, region and nation. Essentially, what Adam Smith has argued is that the wealth of the individual and the nation is determined by specialisation and consequently trade. In the wake of Adam Smith's ground-breaking work many other theoretical developments refined our understanding of the role of trade in economic activity with the most recent work that emphasis's the existence of external economies, integrating trade theory and economic geography (2011 Western Cape Provincial Economic Review and Outlook).

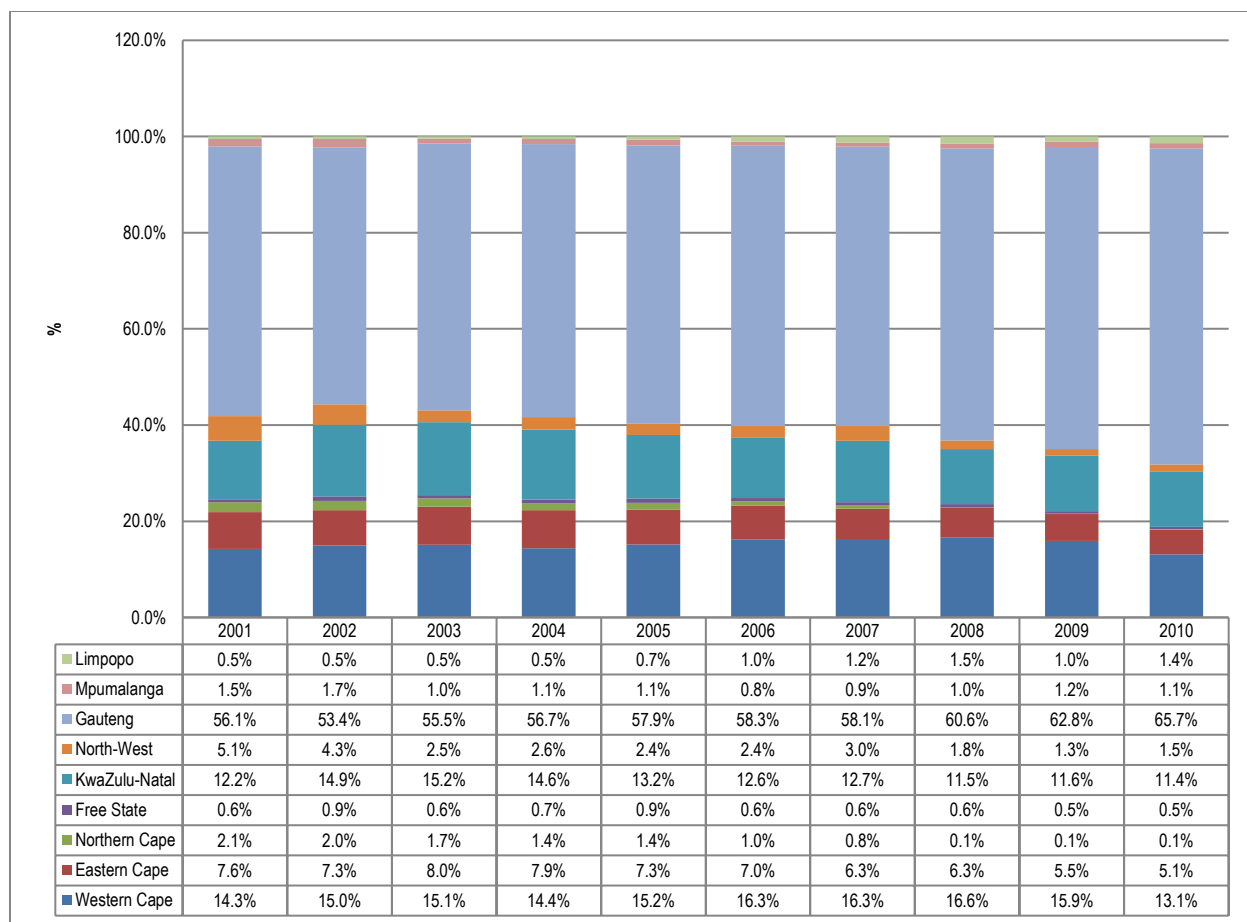
World trade continued to recover in 2011, albeit at a much slower pace than in 2010. After a strong rebound of more than 14% in 2010, the volume of world exports in goods decelerated visibly, to 7%, in 2011. The

level of total world exports had fully recovered to its pre-crisis peak by the end of 2010, but it is estimated to be still below the long-term trend level by the end of 2011. As has been the case with the recovery of WGP, developing countries, particularly Asian economies with large shares in the trade of manufactured goods, led the recovery. While the level of trade in volume terms has already far surpassed the pre-crisis peak for developing countries as a group, the trade volume for developed economies has yet to recover fully from the global crisis.

Commodity-exporting developing countries experienced a strong recovery in the value of their exports in the first half of 2011, owing to the upturn in commodity prices, but saw little growth of export volumes. Some of the value gains were lost again in the second half of the year with the downturn in key commodity prices. In the outlook, the volume growth of world trade is expected to moderate to about 5.0 % in 2012-2013. The dichotomy between a robust growth in trade in emerging economies and a weak one in developed economies will continue (World Economic Situation and Prospects 2012 – United Nations New York, 2011).

According to the IHS Global Insight (2011), South Africa had a positive trade balance of R 28, 1 billion during 2010, with a total trade of R 1.2 trillion in the same year. Export accounted for roughly 51.1% of the total trade, or about R 628 billion in monetary terms, whilst import accounted for about 48.9% of the total trade. This impressive trade performance was amid uncertainties in the global economy, reflecting on the recession of 2009, and a sluggish growth mode in the global economy. During 2010, the South African the trade total was equal to 46.0% of the South African GDP, whilst the exports were 23.5%. Provinces within South Africa, contributions to the country's favourable trade performance during 2010 and previous years, as illustrated by the figure 2.22 below.

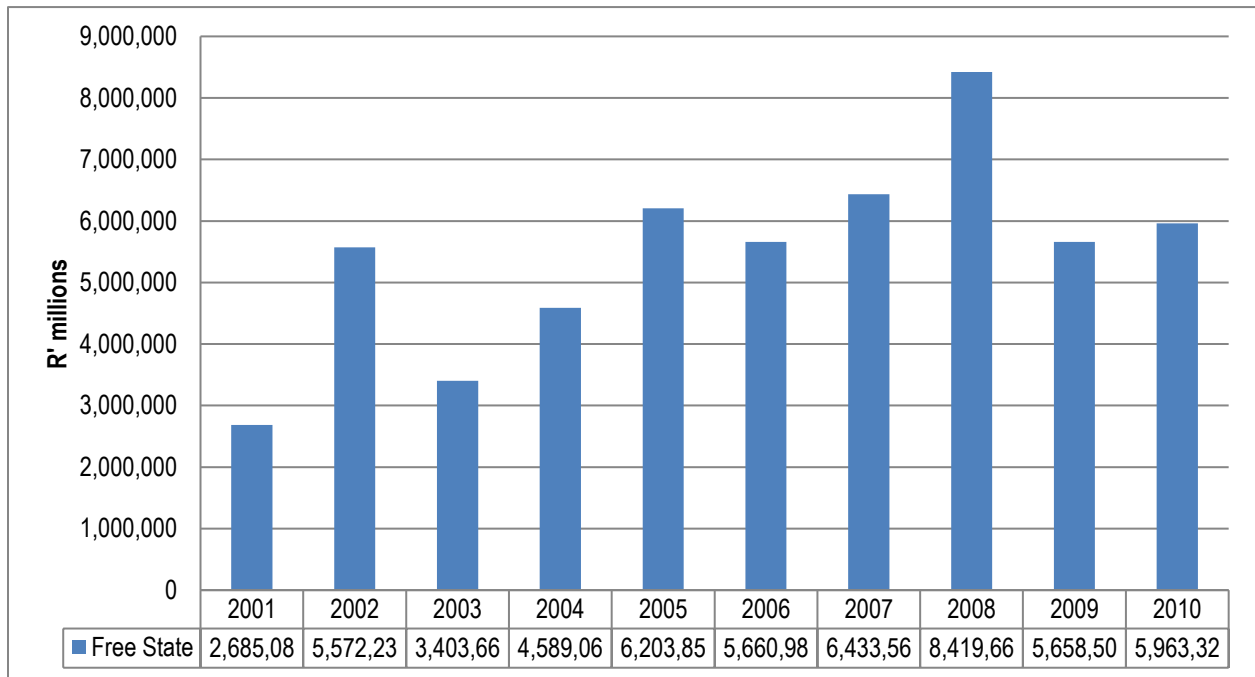
Figure 2.22: Provincial Share of South Africa's Total Trade, 2001 – 2010



Sources: IHS Global Insight, ReX, 2011

The South African economic hub, i.e. the Gauteng province is in poll position with regard to contributions to the South African total trade performance, contributing on average 58.5% to the South African total trade, with a somewhat slightly erratic variation of 3.6%, over the review period. The Gauteng province's contribution grew by roughly 17.0% over the period, with an annualised growth of 1.7%. The Gauteng economy participates actively in the global economy, trading throughout South Africa, the Sub-Saharan region and overseas markets. The trade activity within the province constitutes a large percentage share of south Africa's trade total – with national exports accounting for 63.7% and 56.0% of the national imports. The Gauteng province is followed by the Western Cape and KwaZulu-Natal, with an averaged contribution of 15.2% and 13.1%, respectively. The Free State province constitutes the least contributions to South African trade total, with an averaged modest contribution of 0.6%. The Free State has seen a decline in terms of its contribution to the South African total trade, with a decline of 11.7% over the review period, whilst on an annualized basis declined by 1.2%. However, the variation in contribution has been modest, with a 0.1% variation for the period reviewed.

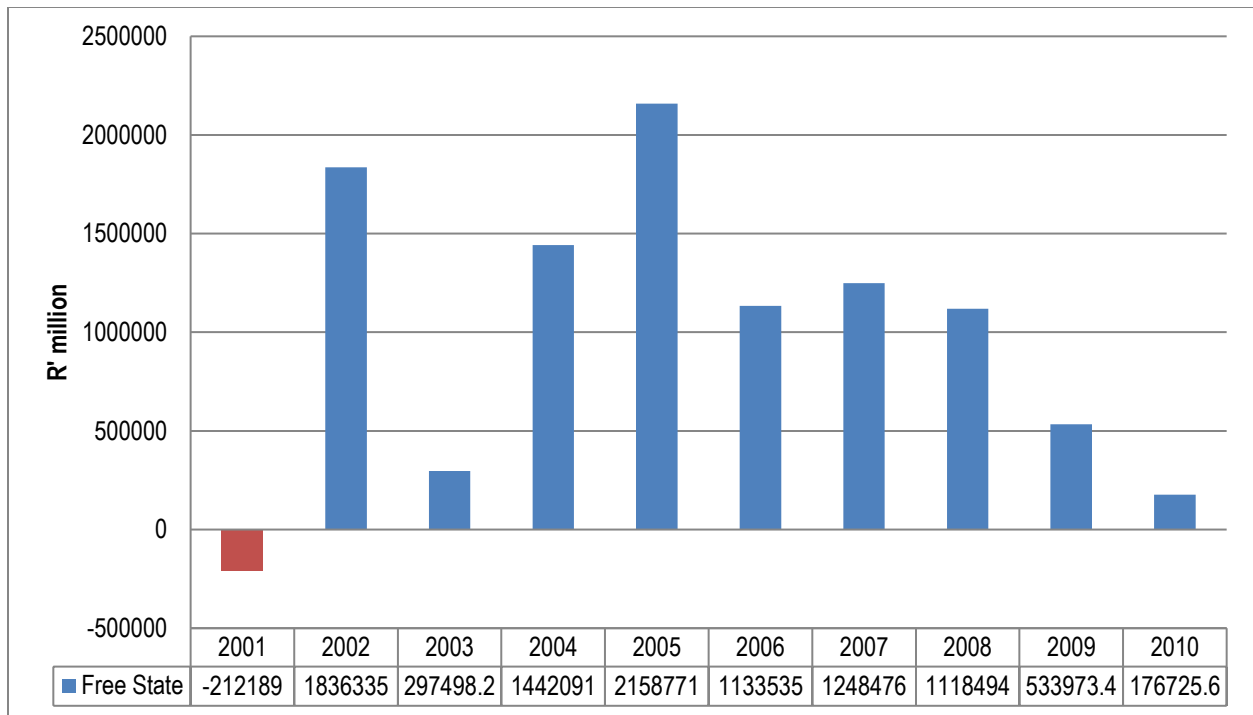
Figure 2.23: Free State Total Trade (R 1000), 2001 - 2010



Sources: IHS Global Insight, ReX, 2011

As indicated previously the Free State constitutes the least average contribution to the South African trade total, as the province was once considered to be relatively sound contributor to the trade total, due to the sound primary sector exports endeavours. The Free State total trade had averaged R 5.5 billion over the review period, with a growth of 122.1% and 12.2% on an annualised basis. The Free State trade activity has had tumultuous periods, during the period reviewed, growing at an unprecedented 107.5% between 2001 and 2002, which is a 51.8% increase in monetary terms. The Free State trade total increased between 2001 and 2002, only to decline during the following year, registering an unimpressive -38.9% decline, translating into a negative -146.4% decrease, between the 2002 growth and the 2003 growth. Pre-financial crisis, i.e. 2008, the Free State almost reached the R 8.5 billion trade total, only to decline by roughly R 2.8 billion the following year translating into a negative growth of 32.8% between the two years. However, this period was a difficult period for international trade, as most of South Africa's trading partners were facing the unwavering tsunami, i.e. the financial crisis.

Figure 2.24: The Free State Trade Balance (R 1000)

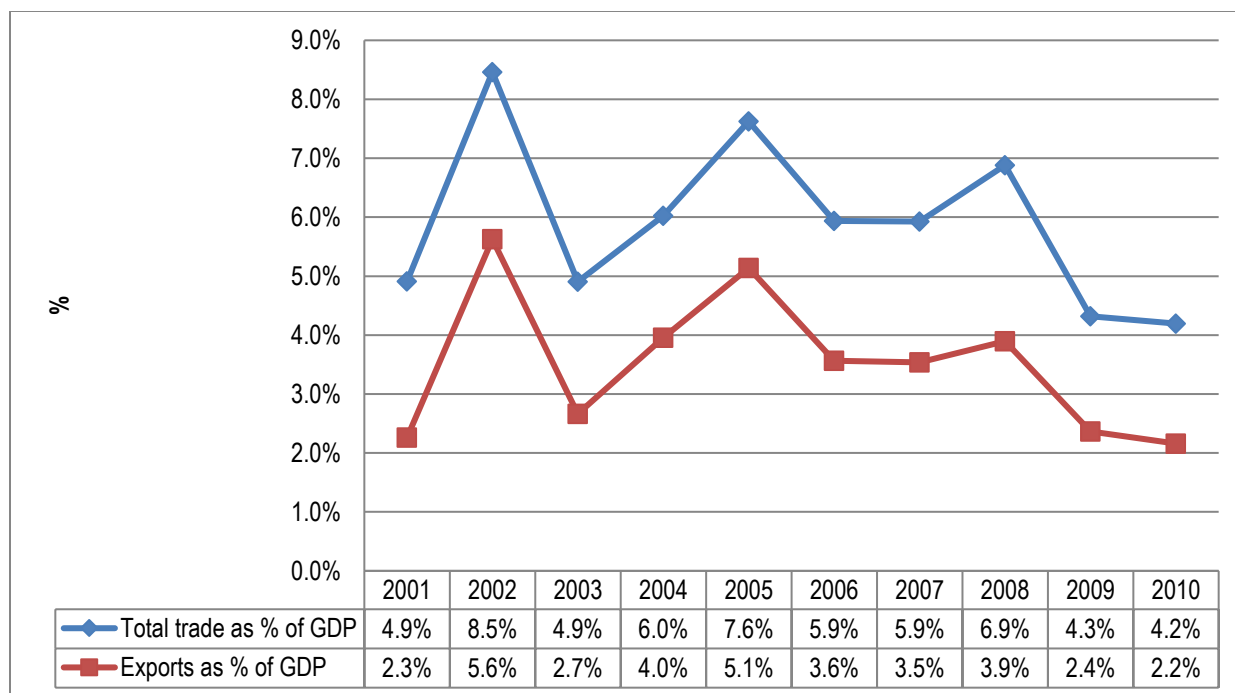


Sources: IHS Global Insight, ReX, 2011

Wikipedia, the free encyclopedia, defines the balance of trade (or net exports, sometimes symbolized as NX) as the difference between the monetary value of exports and imports of output in an economy over a certain period. It is the relationship between a nation's imports and exports. A positive balance is known as a trade surplus, and it consists of exporting more than what is imported; a negative balance is referred to as a trade deficit or, informally, a trade gap. The balance of trade is sometimes divided into a goods and a services balance. Studying figure 2.24 above, it is perceptible that the Free State economy has over the period of the review realised a trade surplus, with the only blemish registered during 2001, when the provincial economy registered a trade deficit of around R 212 million.

Between 2001 and 2002, the Free State economy saw an increase of about R 2.1 billion in monetary terms, whilst in growth terms realised a 965.4% growth. Overall, the Free State trade balance has been rather positive and promising with an averaged R 973 million in the green, with a modest variation of R 758 803, between 2001 and 2010. The provincial economy saw a positive growth of 183.9%, between 2001 and 2010, whilst on an annualised basis registered an impressive 18.3% growth.

Figure 2.25: The Free State Trade and Exports as a percentage of GDP



Sources: IHS Global Insight, ReX, 2011

The importance of international trade in different countries is measured by the share of trade in goods and services in GDP. The rates shown correspond to the average of imports and exports of both goods and services at current prices as a percentage of GDP. Goods consist of merchandise imports and exports. Services cover transport, travel, communications, construction, IT, financial, other business, personal and government services, as well as royalties and license fees. The trade-to-GDP ratio is often called the "trade openness ratio". However, the term openness may be somewhat misleading as a low ratio for a country or region does not necessarily imply high tariff or non-tariff obstacles to foreign trade, but may be due to a range of other factors mentioned above (<http://www.oecd-ilibrary.org/sites/factbook-2010-en/03/01/01/index>).

Free State total trade as a percentage of the provincial GDP has averaged 5.9% over the review period, with a modest variation of 1.4%, as illustrated by figure 2.25 above. The provincial total trade is rather timid, when compared to the international trade norm, which according to the OECD, in 2008, the trade-to-GDP ratio for OECD countries was 29%, while the rate for the EU27 countries was 41%. The ratios exceeded 50% for small countries - Austria, Belgium, the Czech Republic, Denmark, Hungary, Ireland, Korea, Luxembourg, the Netherlands, the Slovak Republic, Sweden, and Switzerland - but were under 20% for the two largest OECD countries - Japan and the United States. The provincial economy faced a declining growth rate in terms of the percentage of trade to the GDP (or trade to GDP ratio), declining by 14.6% during the review period, and by 1.46% on an annualised basis.

Looking at the figure above, it is clear that the total trade as a percentage of GDP and the exports as a percentage of GDP seem to be moving in unison. With the difference between the two ratios (i.e. total trade to GDP and export to GDP), averaging 2.4%, from 2001 to 2010, with the minimalist of variation of 0.34%, in the difference between the two ratios. Whilst the export as a percentage of GDP reflecting a negative growth rate of -4.5%, over the review period, whilst on an annualised basis grew negatively by 0.4%. Between 2001 and 2002, the export to GDP ratio grew by a staggering 148.8%, or a 3.4 percentage point increase, only to fall the following year registering a negative growth of 52.6%. This alarmist growth, saw only subsequent improvements during the two following years (2004 and 2005), growing by 48.4% and 29.9%, in the respective years.

The cycle of rising and falling continued during 2006, when the export to GDP ratio fell by 30.1%, only for the spark to be rekindled during 2008 (pre-financial crisis), when it registered a growth of 10.1%. During the height of the 2009 financial crisis, the Free State export as a percentage of GDP fell by 39.3%, due to the lackluster performance of international trade during an ostentatious period of gloom in the global economy. Along with the improvements in the global economy during 2010, the export to GDP ratio improved somewhat, growing by roughly 30.7%, from a negative 39.3% in 2009, to register an improved negative growth of 8.7%.

METHODS OF REGIONAL ANALYSIS: SHIFT-SHARE

Is the local economy growing or declining? Is this the best use of public funds? What industries should be targeted? How does our community compare with other communities? These are among the many questions that urban planners, regional analysts, and economic developers tackle day-to-day. To answer such questions, analysts rely on a standard toolkit: a set of quantitative methods that include population projection techniques, shift-share analysis, economic base analysis and location quotients, input-output analysis, optimization techniques, and benefit-cost analysis. In most cases, analysts need only a spreadsheet program— e.g. Excel, Quattro Pro, or Lotus123— to apply any of the regional methods. In this article, a popular method for identifying competitive industries is described.

Free State's Provincial Employment by Industry

Sectors	<i>Jan-Mar 2010</i>	<i>Jan-Mar 2011</i>	<i>Year-on-Year Change</i>
	<i>Thousand</i>	<i>Thousand</i>	<i>Percent</i>
<i>Agriculture</i>	75	62	-17.3%
<i>Mining</i>	34	21	-38.2%
<i>Manufacturing</i>	71	63	-11.3%
<i>Utilities(Water & Electricity)</i>	4	4	0.0%
<i>Construction</i>	47	56	19.1%
<i>Trade</i>	161	167	3.7%
<i>Transport</i>	46	36	-21.7%

Sectors	2010 Free State Employment	National Employment Growth rate	National Growth Share
<i>Agriculture</i>	<i>75000</i>	<i>0.33%</i>	<i>246.7482785</i>
<i>Mining</i>	<i>34000</i>	<i>0.33%</i>	<i>111.8592196</i>
<i>Manufacturing</i>	<i>71000</i>	<i>0.33%</i>	<i>233.5883703</i>
<i>Utilities(Water & Electricity)</i>	<i>4000</i>	<i>0.33%</i>	<i>13.15990819</i>
<i>Construction</i>	<i>47000</i>	<i>0.33%</i>	<i>154.6289212</i>

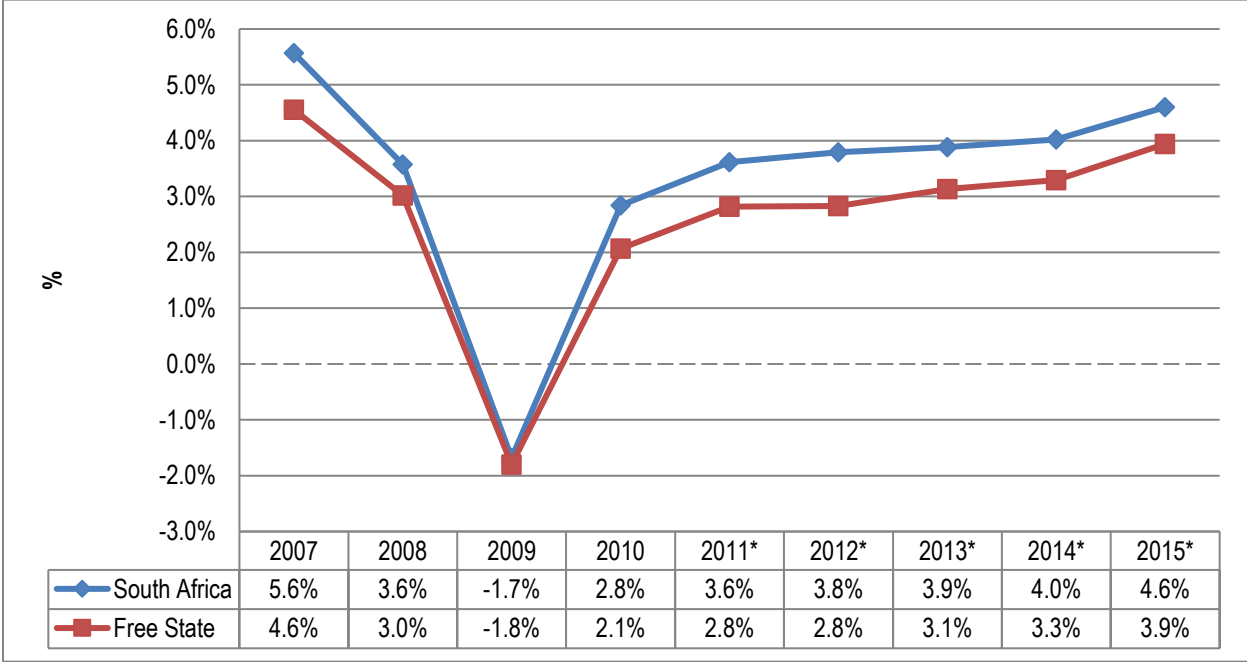
Sectors	2010 Free State Employment	Free State Industry Growth rate	Industry's National Growth Rate	Regional Share Mix
<i>Agriculture</i>	75000	-17.3%	-8.36%	-6731.00304
<i>Mining</i>	34000	-38.2%	3.30%	-14122.11221
<i>Manufacturing</i>	71000	-11.3%	2.74%	-9941.880342
<i>Utilities(Water & Electricity)</i>	4000	0.0%	34.72%	-1388.888889
<i>Construction</i>	47000	19.1%	-2.74%	10285.84906

2.5 PROVINCIAL ECONOMIC OUTLOOK

The provincial economic outlook seems to be a sombre outlook, taking queue from the South African economy, which according to the IMF projection would average 3.8%, between 2011 and 2015. IHS Global

Insight forecast the Free State economy to grow by roughly 3.1% average, between the same period, bridging the 4 percentage point mark towards the forecast period or in 2015, when it is anticipated to register a 3.9% growth.

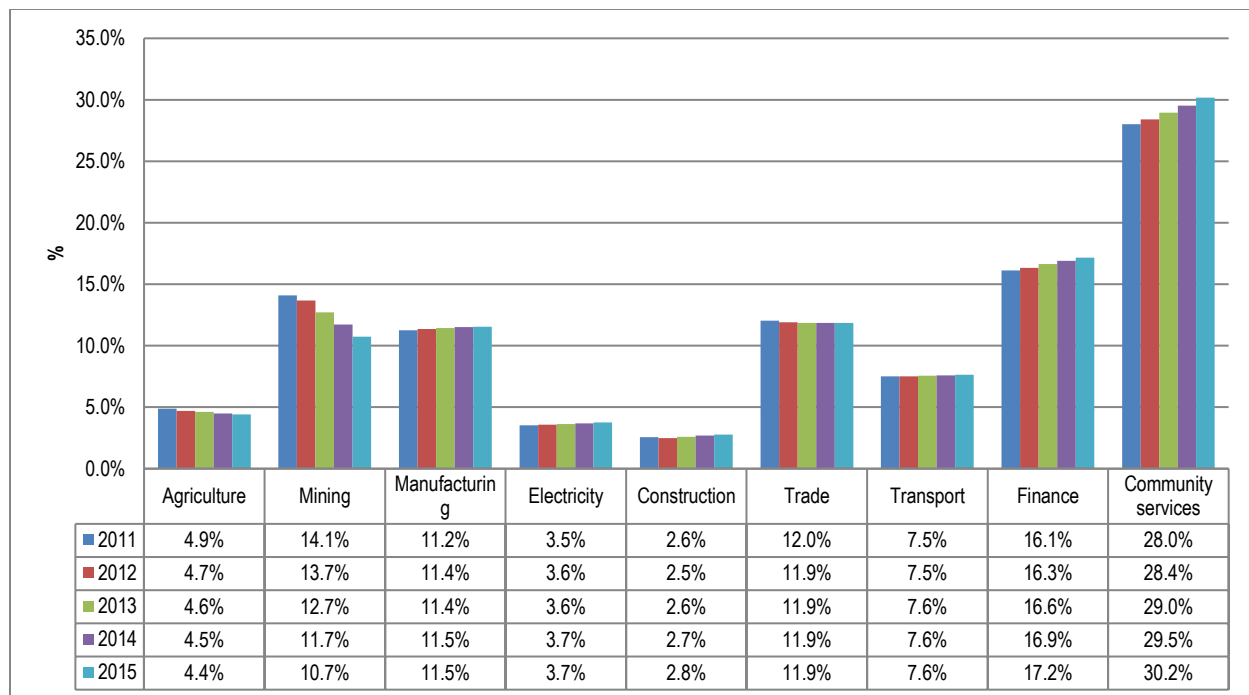
Figure 2.22: South Africa and the Free State GDP growth rates and growth projections, 2007 to 2015



Source: IHS Global Insight, ReX, 2011

Figure 2.22 above indicates and confirms that the Free State growth performance has lacked behind the National average, and according to IHS Global Insight forecasts does not indicate the trends seizing in the near future. Between 2007 and 2010, the Free State growth rate was averaging 1.97%, whilst the National average for the same period was 2.57%, about 0.60 percentage points than that of the Free State. Pre-recession, the province growth was at an averaged 3.80%, and hit a slump following the financial crisis that plunged the global economy in 2009 to register a negative growth of 1.8%. Post-crisis, the Free State registered growth rate of 2.1% in 2010, increasing 3.9 percentage points. Studying the IHS Global Insight growth projections; indicates a sombre outlook for the provincial growth average, the province growth is expected to hover around the 3.18% mark, which is from 2011 to 2015.

Figure 2.23: Projection of the Free State Composition by Industry, 2011 to 2015



Source: IHS Global Insight, ReX, 2011

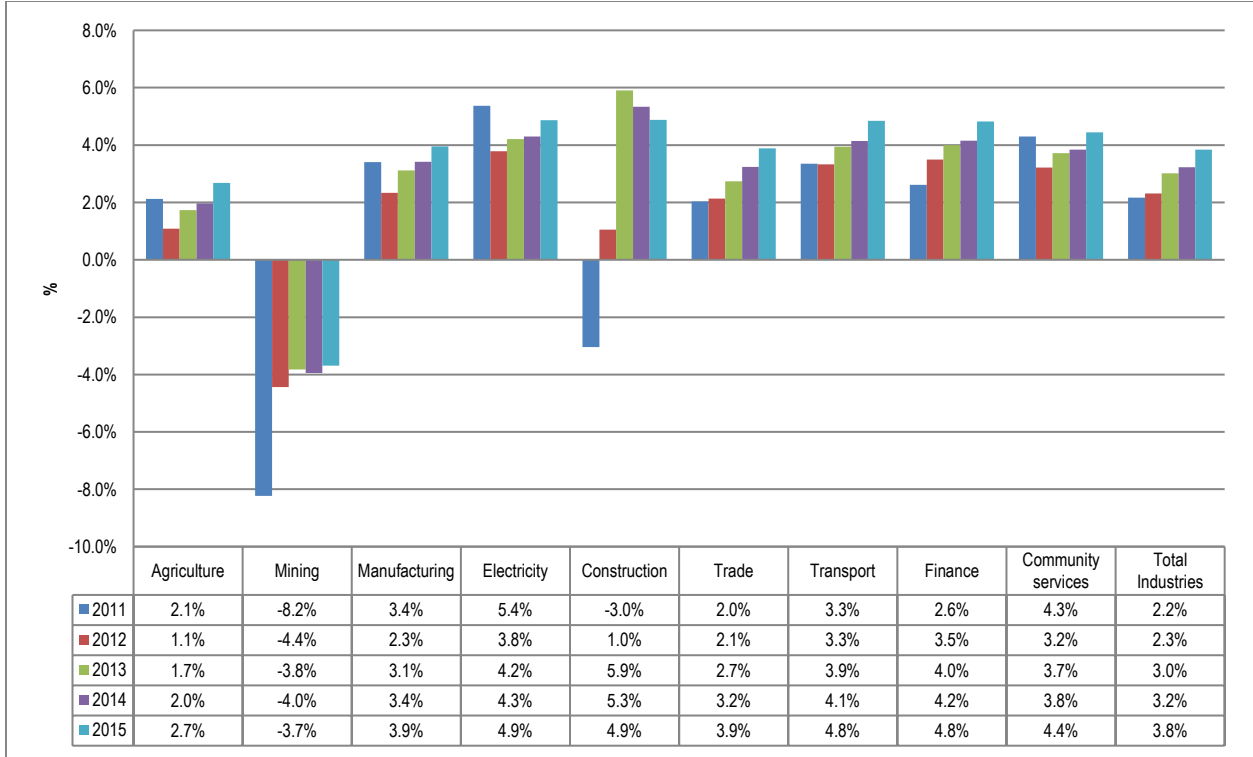
Historically, the Free State has been described as the bread-basket of South Africa due to the then perceived strong agricultural sector. However, the picture is now in stark contrast to the sectors historic strong position, as the agricultural sector is currently contributing a lowly averaged 5.8% to the provincial economy, 2008-2010. For 2011, the sector is expected to contribute 5.0% towards the provincial economy, and looking at the period reviewed, the sectors averaged contribution is anticipated to decline to around 4.6%, as indicated by the figure 2.23, above. One of the former Free State economic mainstays; is the mining sector, however this once mighty sector has seen steep declines in terms of its contribution to the provincial economy. For the period, 2008 to 2010, the sector's contribution was at an averaged 15.33%, whilst for 2011, IHS Global Insight, anticipates its contribution to be around 12.6% going forward.

IHS Global Insight, further projects the sector's weight in contribution to average by 11.1% for the review period. It is of extreme importance, to note that even though the mining sector has been in the decline, the sector continues to be one of the province's dominant sectors. Thus continues to play an integral role in the province's effort to accelerate economic growth and as a consequent address some of the critical socio-economic paralysis of unemployment, inequity and poverty. Meanwhile, the manufacturing sector has made some strides, in terms of its weighted contribution to the provincial economy, averaging about 11.4%, and

estimated to remain at 11.4% for 2011, also according to the IHS Global Insight figures, no major shift is anticipated, and the sector is expected to average 11.4%, over the forecast period.

In the provincial economic context, the tertiary sector continues to be the largest sector in the Free State, with a weighty 62.7%, stake of the provincial economy, and according to the IHS Global Insight forecast to increase by 6%, by the end of the forecast period. The community services sector continues to be the largest industry, with an averaged weight of 26.3% of provincial economy between 2008 and 2010, and is also the biggest employer in the province, with roughly 197 000 employees or 25% of the Free State Labour force (Stats SA, 2nd Quarter 2011, QLFS). Over the forecast period the community/general government sector is projected to grow by roughly 4.0 percentage points. In second place in terms of the weight of sectors contribution to the provincial economy is the finance, real estate and business services sector with an averaged contribution of 16.4% between 2009 and 2010. The IHS Global Insight forecast the size of the sector to gradually increase, to average around 16.6%, for the 2011 forecast period.

Figure 2.24: Sectoral GDP growth rates, 2011 to 2015



Source: IHS Global Insight, ReX, 2011

Figure 2.24 above depicts the sectoral contribution to the forecast provincial output growth, compiled by IHS Global Insight, from 2011 to 2015, forecast period. Clearly, the mining sector's contribution has been on the decline averaging a negative 2.3%, and is anticipated to decline further over 2011 forecast period with an averaged negative 5.2%. This decline is alarming, when considering the sectors weight to the provincial economy – this decline would hamper the employment prospects, due to a declining output. On the flipside, the agricultural sector's contribution to the provincial output has been on the steady increase averaging about 5.9% for the 2008 to 2010 period, and anticipated to average 1.9% for the 2011 forecast period. This positive contribution by the agricultural sector would in all likelihood not be noticed due the sector's relatively small weight of 5.0% (2010 figure) in the provincial economy.

Looking at the sectors with a weighty stake in the provincial economy, that is the community services sector and the finance sector's GDP growth rate contribution performance between 2008 and 2010, averaged 2.5% and 2.2%, respectively. In 2011, the community services is anticipated to contribute around an impressive 4.7%, considering the sectors importance in the provincial economic context. Over the forecast era, IHS Global Insight, forecast the sector's contribution to dwindle somewhat, however remain robust, with an averaged 3.7% contribution. In the meanwhile, the finance sector is anticipated to remain on track with a growth rate of around 3.8%, over the forecast period.

2.6 SUMMARY AND CONCLUSION

The purpose of Chapter 2 of the 2011 PERO was to take stock of the economic achievements of the Free State provincial economy from 2001 until 2010 and then look into the future, i.e. based on forecast provided by IHS Global Insight, and also the economic makeup of the province, through the analysis of the economic structure. Further on, analyzed the economic performance and also projected the growth for the province.

Historically, the Free State has been described as the bread-basket of South Africa due to the then perceived strong agricultural sector. However, the picture is now in stark contrast to the sectors historic strong position, as the agricultural sector is currently contributing a lowly averaged 5.8% to the provincial economy, 2001 to 2010. In the meanwhile, the manufacturing sector has made some strides, in terms of its weighted contribution to the provincial economy, averaging about 11.4%, and estimated to remain at 11.4% for 2011. As things stand, the tertiary sector is the mainstay of the provincial economy with roughly 62.7% contribution towards the provincial economy, and also averaged 62.6%, during the review period, solidifying its position in the province. On average, the largest sector in the province is the community services sector, with an

averaged contribution of 26.3%, over the review period. In terms of the provincial contribution to the South African economy by industry, the province has seen minute declines of 0.03%, between 2001 and 2010.

The Free State provincial economy has circumnavigated through the pressures broad about by the 2009 Global Financial crisis – that saw both the province and the Republic kneeling to the greatest recession in recent history, to chart a new growth trajectory, and as such registering a below par growth of 2.1% in 2010, according to the IHS Global Insight figures. Between 2007 and 2010, the Free State growth rate averaged 1.97%, whilst the national average for the same period was 2.57%, about 0.60 percentage points than that of the Free State. Pre-recession, the province growth was at an averaged 3.80%, and hit a slump following the financial crisis that plunged the global economy in 2009 to register a negative growth of 1.8%.

Sectoral analysis involves a review and an assessment of the current conditions and the future prospects of a given sector in a regional economy. Contrary to popular perceptions the primary sector has not been dwindling as initially thought, but improving marginally – accounting for roughly 20.1% of the provincial GDP in 2010. The primary sector grew by 3.5 percentage points or 21.1%, between 2001 and 2010; and it made up of the mining (69.8%) and the agricultural sector with 30.2%. In the Free State's secondary sector the manufacturing sector makes up 73.4% of the industries, whilst the utilities and the construction sectors command 15.4% and 11.2%, respectively. The contribution of the secondary sector towards the GDP, increased marginally from 18.6% to 19.0% between 2000 and 2008 – however, the sector contracted in 2009, to register a contribution of 17.9%. Amongst, the three major sectors – the tertiary sector is the largest in the Free State, accounting for roughly 62.6% during 2010. However, the contribution of the sector towards the provincial GDP has decreased by a rough 1.4%.

According to the IHS Global Insight figures, South Africa had a positive trade balance of R 28, 1 billion during 2010, with a total trade of R 1.2 trillion in the same year. Export accounted for roughly 51.1% of the total trade, or about R 628 billion in monetary terms, whilst import accounted for about 48.9% of the total trade. This impressive trade performance was amid uncertainties in the global economy, reflecting on the recession of 2009, and a sluggish growth mode in the global economy. The Free State economy has over the period of the review realised a trade surplus, with the only blemish registered during 2001, when the provincial economy registered a trade deficit of around R 212 million.

On the outlook, the provincial economic outlook seems to be a sombre one, taking queue from the South African economy, which according to the IMF projections would average 3.8%, between 2011 and 2015. According to the IHS Global Insight forecast, to grow by roughly 3.1% average, between the same periods,

bridging the 4 percentage point mark towards the end of the forecast period or in 2015, when it is anticipated to register a 3.9% growth.

To contextualise and conclude, the Free State provincial economy is not an isolated or closed economy; as it is a part of the global economy, the case in point being the province's non exemption from the negative impact of the 2009 global economic recession, which hampered most economies in the world. As such, the province should and must employ measures to counter not only negative impacts from within but exogenous ones as well. Going forward the province should, continue to have realistic target or goals in its quest to meet the needs of its citizenry. Thus sound policies are required to mitigate such; these policies would have to be based on sound economic, developmental grounds in order to achieve the goals set out in the New Growth Path framework and the newly developed Vision 2030, launched by the Presidency.

Chapter 3: Free State Municipality's Economic Insight

3.1 INTRODUCTION

Globally, the foundational stronghold of any national government is the local government. Local governments representative structure and the extension of the national government at grassroots level to be responsible to [speedy] service delivery, infrastructural developments and provision of basic public services such as free-education, schools, hospitals, water, clean sanitation etcetera to local communities. The dismal government performance owing to poor service delivery relative to the magnitude of desperately needed social and infrastructural developments by South Africans subsequently compelled the national government to re-priorities their growth and developmental strategies by developing a new strategic policy framework referred to as the “New Growth Path Framework” (hereafter called NGP). In particular, at the core of NGP’s framework is the aim to enhance decent job-creation via labour intensive projects in order to increase the absorption rate of labour capital, this in turn has the potential to ease the existing chronically high unemployment (especially among the economically active population – the youths) and poverty rate. Hence, for any country to achieve a robust economic growth (that would lower unemployment rate, reduce poverty, enhance equitable distribution of income etcetera), then, adequate development planning, effective strategies and policies must be implemented.

Therefore, to accurately evaluate the performance of any national government in relation to policy implementation, service delivery, social and infrastructural developments and assessment of general well-being of the people; thus, the role of growth of local governments becomes very crucial. Given that the local government has an essential role to play within the NGP framework, the South African governments via the Ministry of Economic Development have identified twelve (12) cogent outcomes to spur an all-inclusive domestic growth.

Consequently, the debilitating impact of the 2009 economic recession is evident in some municipalities (across the nine provinces in South Africa) than others due to spatial location, different economic contributions and sectoral compositions. For instance, in municipalities where significant growth in local economies is driven predominantly by the trade, finance and manufacturing sectors were severely affected by the 2009 recession as job losses were widespread in these sectors. Additionally, this massive decline in the general employment rate, in turn, exert an enormous pressure on households’ ability to pay municipal accounts, meanwhile, businesses scaled back on their municipal services consumption to save costs. The combined effects of these two adverse economic scenarios further heighten the administrative, expenditure

and low fund generation pressures on the municipalities causing inability to generate own revenues and provide the required basic public services.

Currently, what is more alarming in 2011 is the fact that despite the [sluggish] economy recovery phase, in South Africa, unemployment and poverty rate remains stubbornly high. As a result, municipalities were unable to generate own revenues owing to low collection rate of debts.

Therefore, for any regional (interchangeably used for municipal / district / local) economy to thrive, it needs a sound local government and an economic base. Based on this premise, this chapter of the PERO (2011) highlight the intricacies of a typical local economy by extensively reviewing the performance of the Free State's four (4) Municipal districts and the newly formed - Mangaung metropolitan municipality over a ten(10) years period, that is from 2001 to 2010. Also, an economic outlook for the metropolitan and the districts were provided.

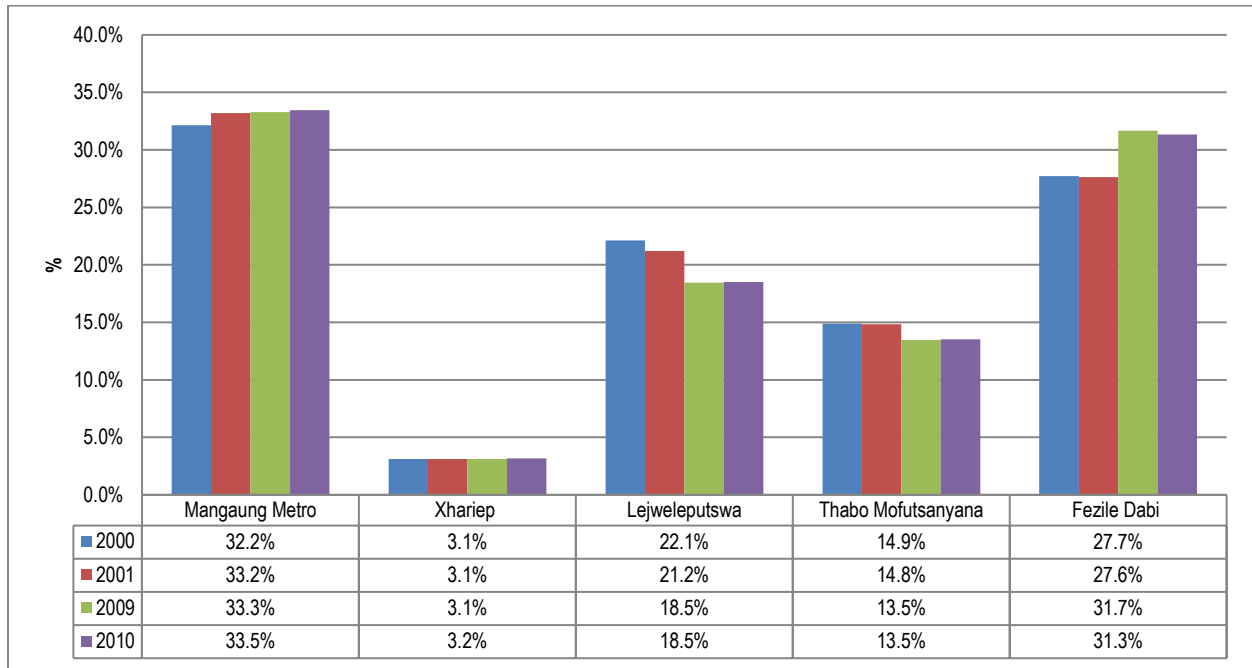
This particular chapter of the PERO analyzes the Free State economic structure in terms of the individual contributions of the four (4) district municipalities including the Mangaung metropolitan. Additionally, subsequent sections discuss the sectoral contributions of the nine (9) economic sectors as an economic composition of each district and the metropolitan municipality. Finally, the concluding section evaluates the economic performance (as a measure of gross domestic product – GDP) of Mangaung metropolitan and the district municipalities. Applicable economic outlook up to the year 2015 is projected using the IHS Global Insight data.

3.2 FREE STATE ECONOMIC STRUCTURE BY METROPOLITAN AND DISTRICT MUNICIPALITY

In order, to fully comprehend the diverse facets of municipal economies relative to their collective contributions to the Provincial economic growth and governmental performance. Foremost, it is best to understand the dynamics of the each municipal [economic] structure. Aren Van Schalkwyk (2002) defines “economic structure” as the structure of an economy that is functioning as the sum of all the different economic activities in geo-political boundaries of a particular area. As afore-mentioned, the economic structure of the Free State province will be analyzed in this section. Given, the different contributions weight by the municipal areas to the Provincial GDP as result of their sectoral contribution, output and productivity;

over the years, some municipal's economic contribution to the Provincial GDP has improved, while some remain indifferent (no observable change) and others have deteriorates⁹.

Figure 3.1: GDP Contributions by District Municipalities and the Metro at 2005 Constant Prices, 2000-2010



Source: IHS Global Insight, ReX, 2011

Looking at Figure 3.1 above, it depicts the Free State district municipality contributions to the Provincial economy. At a glance, in terms of municipals economic contributions to the Provincial GDP, Mangaung metropolitan takes the first position, followed by Fezile Dabi municipality in the second place whilst Lejweleputswa and Xhariep municipalities occupied the third and fourth place respectively.

Evidently, the contribution of Lejweleputswa municipality has been declining since the year 2000. Between 2000 and 2010, Lejweleputswa municipality economic contribution to the Provincial GDP fell by roughly 17.4%, whilst on an annualized basis (for the same period under review), Lejweleputswa's contribution

⁹ GDP is determined in three ways (Note: In principle, all the 3 methods must give the same result) . These methods are (i) Product (or output) approach – this is most direct approach because it calculates the market value of all goods and services produced. This approach sum up all the outputs of every intermediate production process in every class within a sectors to arrive at the total (gross) output value, (ii) Income approach – the incomes of the productive factors (by producers) must equal to the value of their product. Thus, the gross GDP is determine by calculating the sum of all income received by producers in a country and (iii) Expenditure approach calculates the final expenditure on goods and services in a country. GDP is calculated on the assumption that the value of all products purchased equals total expenditure.

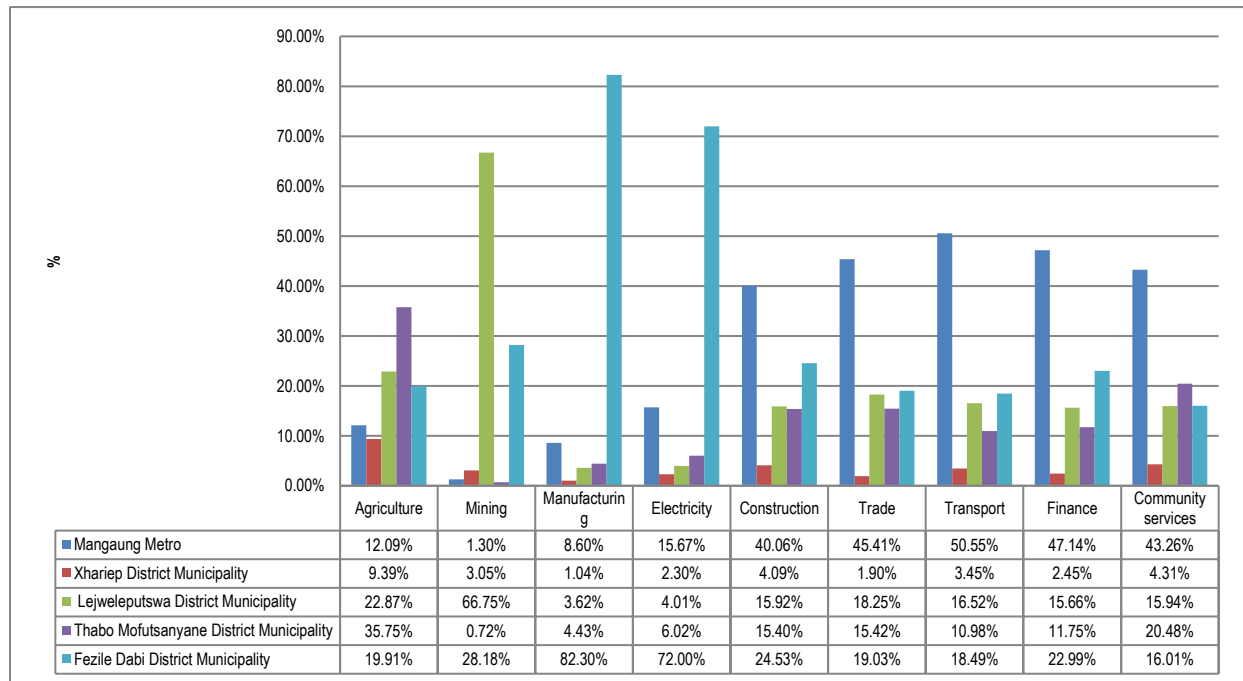
declined by 1.8%. The continuing dismal performance of the gold mining sector in exacerbates, the municipality's declining economic contribution.

On the other hand, Mangaung metropolitan municipality has maintained its first position. Despite the improvement in Mangaung municipality's economic contribution to the province, technically, the overall economic performance of Mangaung municipality remains the same. For example, in 2010, Mangaung's contribution to the provincial growth exceeds its contribution in the year 2000 by 1.30 percentage point. Also, from a close inspection, only 0.3% economic growth was recorded between 2001 and 2010. On annualized basis, Mangaung metropolitan municipality's economic contribution to the Province merely improved by 0.07%.

Similarly, considering Fezile Dabi district municipality for the period under review. Surprisingly, this municipality's contribution to the provincial GDP averaged 30.0%. The establishment of SASOL (one of the petrochemical giant in the world) in Fezile Dabi, is responsible for the outstanding economic performance of this municipality. Notably, between 2009 and 2010, Fezile Dabi district municipality contributed 1.7% to the provincial GDP. This sound performance was achievable owing to the establishment of Voorspoed diamond mining operations (near Kroonstad) which started in 2009.

Standing at the tail-end of districts' economic contribution to the provincial economy growth is the Xhariep district municipality. Xhariep municipality overall contribution (for the reviewed period) averaged 2.8%, having improved by 4.71% between 2000 and 2010. On an annualized basis, Xhariep district municipality real contributions to the province have only increased by 0.47 % (on estimate).

Figure 3.2: Dispersion of the Sectors by Mangaung Metro and District Municipalities in the Free State, 2010



Source: IHS Global Insight, ReX, 2011

From Figure 3.2 depict the distribution and the performance of *different economic sectors* in Mangaung metropolitan, Fezile Dabi municipality, Lejweleputswa, Thabo Mofutsanyana and Xhariep municipalities.

Foremost, taking into account sectoral performance of Free State municipalities by examining the agricultural sector. It is evident that Lejweleputswa municipality is the largest producer of agricultural products. Nonetheless, the agricultural sector remains the mainstay of Thabo Mofutsanyana municipality. In reality, about 35.8% of Free State's demand for agricultural products is supply by this municipality. Meanwhile, Xhariep municipality ranked the least given its small agricultural sector.

Secondly, looking at the mining sector, Lejweleputswa municipality takes the lead in this sector because about 66.8% (over two-thirds) of the provincial income (needed for GDP growth) from the mining sector, comes from Lejweleputswa municipality. Following Lejweleputswa, Fezile Dabi municipality yields 28.8% (almost a third) of the provincial mining and, the municipality where least mining activity takes place is the Thabo Mofutsanyana municipality with roughly 1%.

In terms of the manufacturing sector, Fezile Dabi municipality has dominate this sector since approximately about 82.3% of manufacturing activities in Free State takes place in Fezile Dabi. Consequently, other districts including Mangaung metropolitan, shares 17.7% of the remaining manufacturing sector.

Furthermore, by looking at the utility sector. Fezile Dabi district have the highest sectoral performance (same as in the manufacturing sector). Approximately 72.0% of all the utility activities in the province is generated by Fezile Dabi. This large concentration of the manufacturing and utilities sectors is attributable to the existing operations of petrochemical companies (a sub-sector of the manufacturing sector) in this municipality.

In the construction sector, out of about 64.6% (almost two-thirds) of the provincial construction sector, 25.5% is found in the Fezile Dabi district, whilst 40.1% comes from Mangaung metropolitan. However, it is not baffling that Mangaung controls 40.1% of the provincial construction sector, historically; Mangaung's construction sector has been performing well due to its economic potential and political influence.

In a broad context, the tertiary sector has been the largest contributing sector to South Africa and the Free State's domestic growth. In 2010, this sector account for approximately 62.7% of the provincial. Foremost, to analyze the dispersion of sub-sectors within the tertiary sector, the trade sector will be reviewed. Mangaung metropolitan municipality has the largest concentration of trading companies, hence, 45.4% of the provincial trading activities emanates from Mangaung. Following Mangaung metropolitan municipality, about 19.1% of trading activities materialized from Fezile Dabi district whilst Xhariep district/municipality have the lowest share of 1.9% relative to the provincial tertiary sectors.

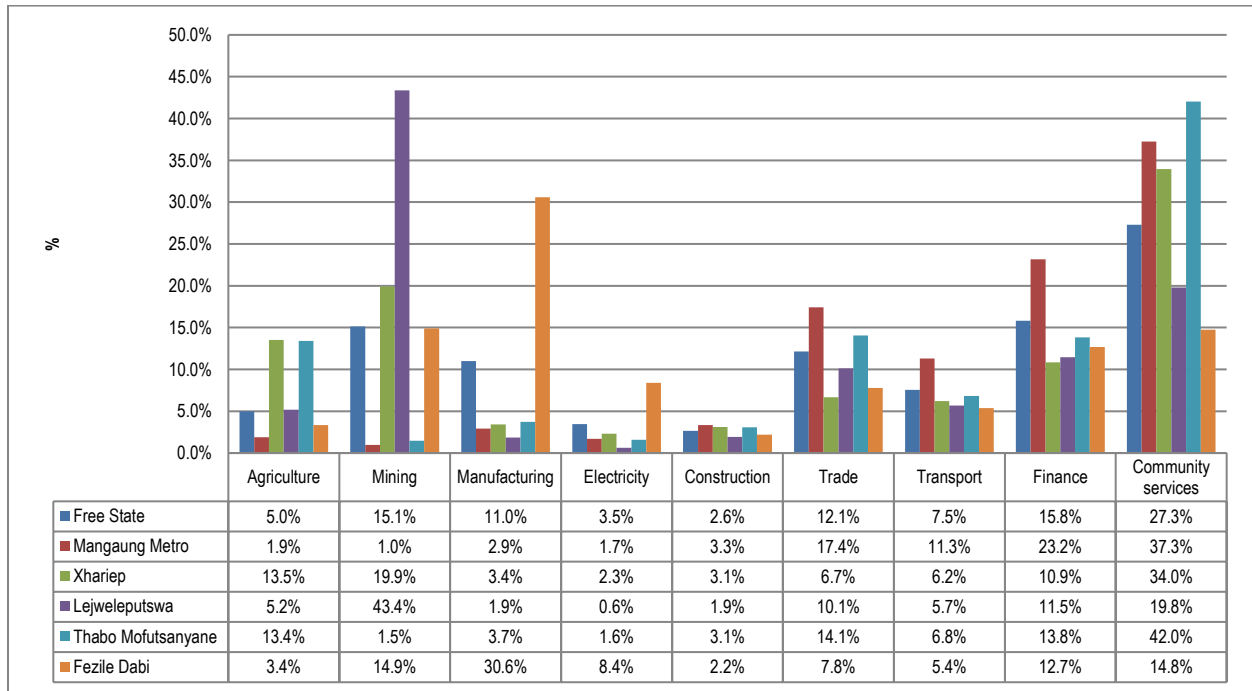
According to 2010 data from IHS Global Insight, there are six (6) most prominent economic sectors in Free State, namely; transport, financial, community service, construction, utilities, and mining – sectors. The transport activity is massive in Mangaung municipality by accounting for 52.4% of the provincial GDP. As expected, Xhariep is the smallest municipality (in terms of size of the population and economic contribution) in Free State. Xhariep district currently have the smallest transport sector with the Provincial share of roughly 3.5%.

Apparently, the financial and community sectors are the two outstanding sectors with considerable contribution towards the provincial economy. In 2010, both sectors jointly account for 43.1% of the provincial GDP. In addition, these sectors are commonly found in Mangaung metropolitan and Fezile Dabi municipalities.

In 2010, 47.1% of all provincial finance sector activities took place in the Mangaung metropolitan, at the same time, 23.0% of the entire provincial's financial sector activities emanate from Fezile Dabi. This picture is a slightly different, when reviewing the community services sector. Thabo Mofutsanyana district account for

almost 20.5% share out of the total Provincial community services sector, as Lejweleputswa delivered 15.9% and Fezile Dabi account for 16.0% of the total Provincial community services sector respectively.

Figure 3.3: Provincial and District's Sectoral share of regional total (%), 2010



Source: IHS Global Insight, ReX, 2011

The figure above illustrates the provincial sectoral share as a percentage (%) of the regional/municipal totals. Visually, in 2010, the economic contribution of the community services sector was considerably evident mostly in the Province and some municipalities with the exception of Lejweleputswa and Fezile Dabi district municipalities.

Firstly, in the Lejweleputswa municipality, the mining sectors is the largest contributor to the district economy by generating 43.4% of the municipality' economy. This is followed by the government sector with a contribution of 19.8%. Meanwhile, the utilities sector made the least contribution to the regional economy in 2010. Given that, the manufacturing sector remains the core driver of Fezile Dabi's economy, this sector accounted for about 30.6% of the municipality's total economy growth. Whereas, the least contributor towards the regional total economic growth is the construction sector due to the meager contribution of 2.3% in 2010.

On the other hand, the community services sector was the largest contributor to the Xhariep District Municipality's economy by yielding 34.0% share of the total regional economy. This performance is followed by the mining sector that delivered 19.9%. Obviously, the utilities and construction sectors were virtually none existent in the region, that is, they contributed 2.3% and 3.1% respectively.

By intently looking at Mangaung metropolitan, according to the IHS Global Insight data, the community services sector is the biggest contributor of the provincial output. This district is found to be reliant on its community services sector that generates 37.3% of the total regional economy growth. After this sector is the financial sector that accounts for 23.2% district's economic growth. However, the mining contributed the least amount of (about) 1.0% to the total regional economy. Another municipality that depends heavily in its community service sector is Thabo Mofutsanyane municipality. Estimating the total regional economy contribution, the community service sector in Thabo Mofutsanyane adds about 42.0%.

As shown in Figure 3.3, the Free State Province rely heavily on the services sector because approximately 62.7% of the Province's economy is obtained from the community services sector, even as, the province managed to gain 43.5% contribution from the tertiary sector, although, the total contribution of the tertiary sector to the province is roughly 27.3%. In addition, the financial and mining sectors contributed towards the provincial economy by adding 15.8% and 15.1% respectively.

From the above analysis, remarkably, two out of the four municipalities were found to rely heavily on the community service sector including Mangaung metropolitan. Nonetheless, Fezile Dabi and Lejweleputswa regions were the only two district municipalities where community services sector is not a dominant sector. In these municipalities, the community service sector only account for 14.8% and 19.8% of the province's economy respectively.

Moreover, Mangaung metropolitan municipality (the biggest municipality in the province) exhibit almost a similar economic structure to that of the province owing to the dominance of tertiary sector in both economic structure. Although, Mangaung metropolitan depend solely on its community services sector as the largest contributor to the regional economy by with roughly 37.3% and followed by the financial and trade sectors by adding 23.2% and 17.4% respectively to metropolitan's economy.

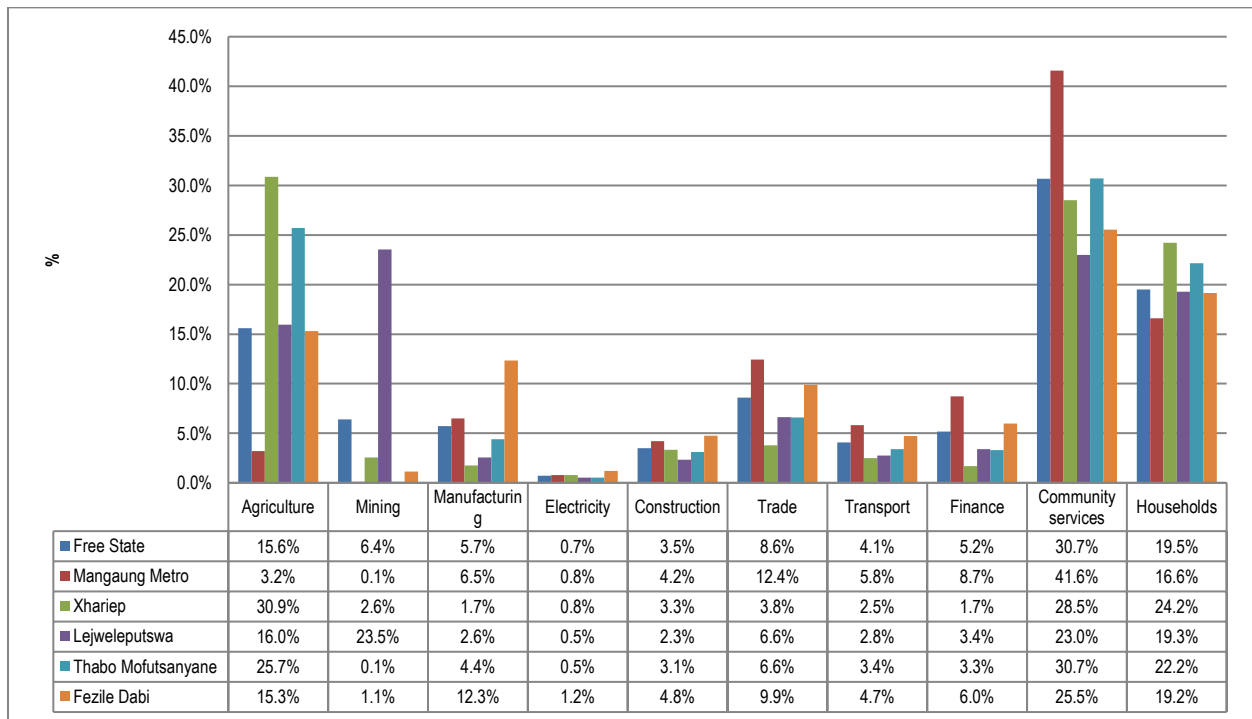
Unbelievably, Mangaung metropolitan's economy remains a non-mining economy, unlike the provincial economy. Equally, Xhariep municipality (the smallest district municipality and the least contributor to the provincial economy) also has a somewhat similar economic structure to that of the province, given that,

Khariiep's community services sector is the largest contributor to its district economy, contributing a weighty 34.0% share to the district's economy in 2010. Conversely Khariiep's small diamond mining sector is responsible for the robust growth of 19.9% contributed to the regional economy.

To ensure accurate review of Free State economic structure, it is imperative to evaluate the extent of job creation and labour market absorption rate within the provincial and municipal economic sectors within the NGP framework.

As previously discussed, job creation and a significant increase in the existing labour-absorption rate were the fundamental rationales behind the drafting of the New Growth Path (NGP) Framework for South Africa¹⁰.

Figure 3.4: Formal Sector Employment: Sector's share of regional total (%), 2010



Source: IHS Global Insight, ReX, 2011

Figure 3.4 represent the graphical analysis of provincial formal sector employment level as a percentage relative to the regional total employment level

From the above figure, the illustrated employment trends are quite telling for South Africa, this is so, because of the massive number of jobs shed during the severe global economic meltdown start began in 2009 until

¹⁰ Since advent of the democracy, the NGP frame work document is the fourth economic policy stance drafted by the national government

2010. IHS Global Insight latest data revealed that the community services sector is the leading sector in terms of employment, given the sector's employment level of 30.7% for the province. The second employment creating sector is the Household/Private sector that produced 19.5% for the Province.

In contrast, in Xhariep district, the employment sector is the agricultural sector by contributing roughly 30.9% employment growth to the regional employment total. This remarkable employment growth figure is attributable to profitable labour-intensive projects such as animal farming and wild life reservations for game drive in the municipal area. The community services sector is another crucial sector in Xhariep that municipality's employment level by contributing 28.5% employment growth to the regional employment total while the utilities sector is the least employer.

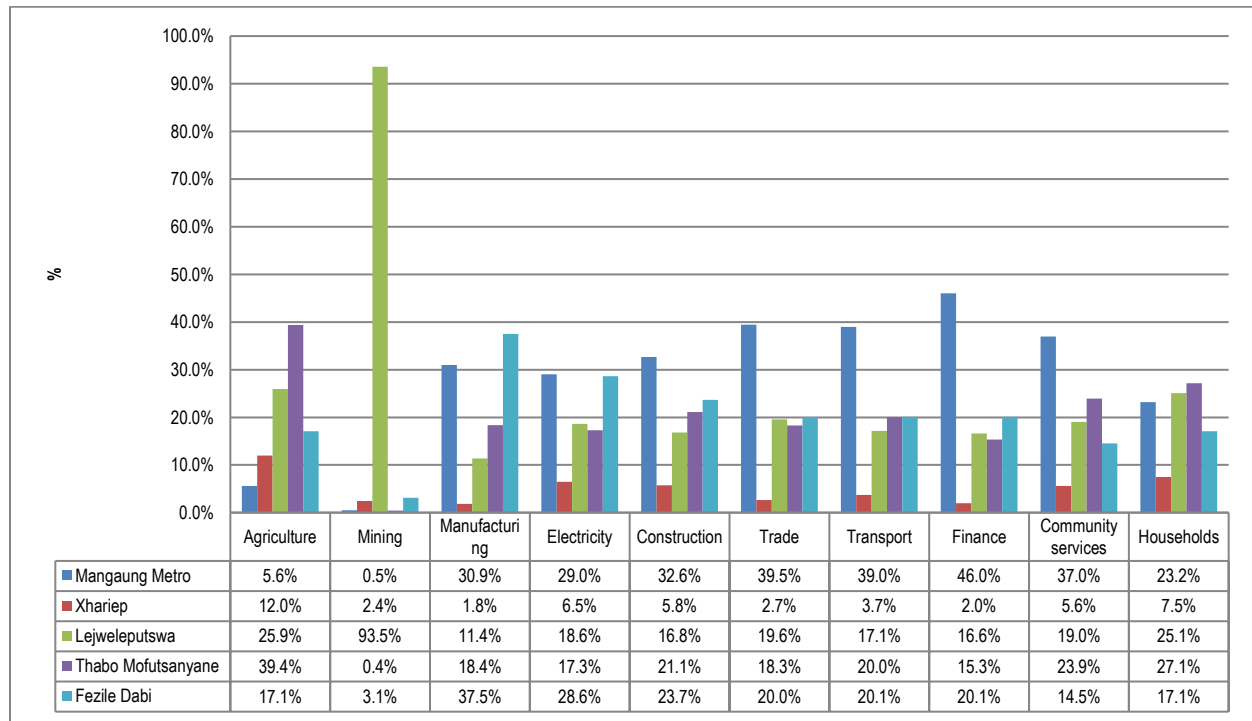
Taking into consideration, the employment growth in Mangaung metropolitan municipality, the community service sector remains the strongest demand for employment by providing nearly 41.6% jobs relative to regional employment total. In Mangaung municipality, the household sector generated 16.6% while the mining sector (as the least employer) employed about 0.1% relative to the total employment level in the district.

Furthermore, figure 3.5 graphically indicate the sectoral employment contribution by the different district municipalities in Free State during the year 2010. It is obvious from figure 3.5 that Lejweleputswa district municipality takes the lead in creating jobs within the provincial mining sector by delivering about 93.5% employment growth as a percentage of total employment. Subsequently, Mangaung metropolitan and Thabo Mofutsanyana municipalities only contribute about 0.5% and 0.4% to the total employment rate. An in-depth analysis revealed that the more jobs were created by the agricultural sector employment in Thabo Mofutsanyana and Lejweleputswa municipalities seeing that about 65.3% of total employment was recorded. In contrast, Xhariep district municipality could only account for a meager 9.87% of the total agricultural employment.

Then again, as far as the growth rate of employment in the manufacturing sector is concerned. Much of the job created in the manufacturing sector based on municipalities contribution materialized from Fezile Dabi district municipality. On estimate, about 37.5% of the manufacturing sectors employment was created in Fezile Dabi municipality while Mangaung metropolitan followed by creating 30.9% employment growth rate¹¹.

¹¹ The existence of vibrant petrochemical and textile sectors were responsible for the improved employment growth rate recorded in Fezile Dabi and Mangaung metropolitan municipalities respectively.

Figure 3.5: Sectoral Employment Contribution by District Municipality, 2010



Source: IHS Global Insight, ReX, 2011

In view of individual municipal employment contribution to the overall jobs created in the province, Mangaung metropolitan remains the predominate source of provincial employment. The employment growth rate in this metropolitan averaged 29.8%. Another significant source of provincial employment. Is the Lejweleputswa municipality, where employment growth rate averaged 26.3% in 2010.

Succinctly, it is clear that Mangaung metropolitan dominates the secondary and tertiary sectors of the provincial economy. This dominance is also evident in the financial and community services sectors in terms of employment creation. In Mangaung metropolitan, the financial sector produced about 46.09% employment rate while the community services sector generates roughly 37.0% employment rate¹². Conclusively, Xhariep district Municipality has the smallest share of employment out of all the ten (10) identifiable employment sectors in the province. Shockingly Xhariep has an almost insignificant manufacturing and financial sectors that yields an employment share of 2.4% and 2.0% correspondingly.

¹² The presence of most of the Provincial government departments including the legislature resides in Mangaung metropolitan municipality; this could explain the relatively high contribution of the community services employment to the Provincial employment level.

3.3 MUNICIPAL ECONOMIC PERFORMANCE

In 1377, in Ibn Khaldun's paper titled 'Muqaddimah (also known as Prolegomena)', he posited that "economic growth" occurs when an increase in the population and/or civilization leads to a rise in the labour force as result of increase in general demand for luxurious goods and services. Eventually, this increase in demand will lead to a corresponding increase in profit from the sale of customized luxurious goods and services.

For an example, some hand-made crafts are considered as referred to as luxury goods. Hypothetically, the more valued these crafts are, the higher the sale price. Thus in a robust economy with significant economic growth that increase consumer's disposable income, demand of luxurious goods such as crafts might increase. Resultantly, an increase in the demand for crafts leads to considerable rise in profits earned by craft producers. Given the multiplier effect of an increase in demand for crafts, town and local communities where craft production is their major source of livelihood and income will benefit from income and demand multiplier effect. To sufficiently meet the high demand for crafts, craft-making communities will need to employ additional labour. Ironically, note that, the additional labour employed arises from the high demand to supply luxurious goods while the initial labour employed is required to meet consumers' need for necessity.

From the economics perspective, "economic growth" is defined as the increasing capacity of the economy to satisfy the general wants of consumers in a particular country. Essentially, a robust economic growth increases (total) productivity of a country, this in turn, lowers the input cost (.i.e. labour, capital, raw materials, and energy etcetera) for a given amount of output. Notably, low input costs raise demand for goods and services.

The general perception within the global economy is that a robust economy growth is the vital pre-requisite for human development and poverty reduction including the achievement of the pre-set Millennium Development Goals (MDG). To ensure a reasonable global development, economists and policy analyst have emphasized the need for all countries (even their local communities) to be foster socio-economic development by ensuring that the poorest-of-the-poor are able to participate and meaningfully contribute towards economic growth.

A common example by development economists and scholars on the issue of the equitable economic growth is that; for instance, in a country ravaged with socioeconomic inequalities. Say, the economic growth rate of

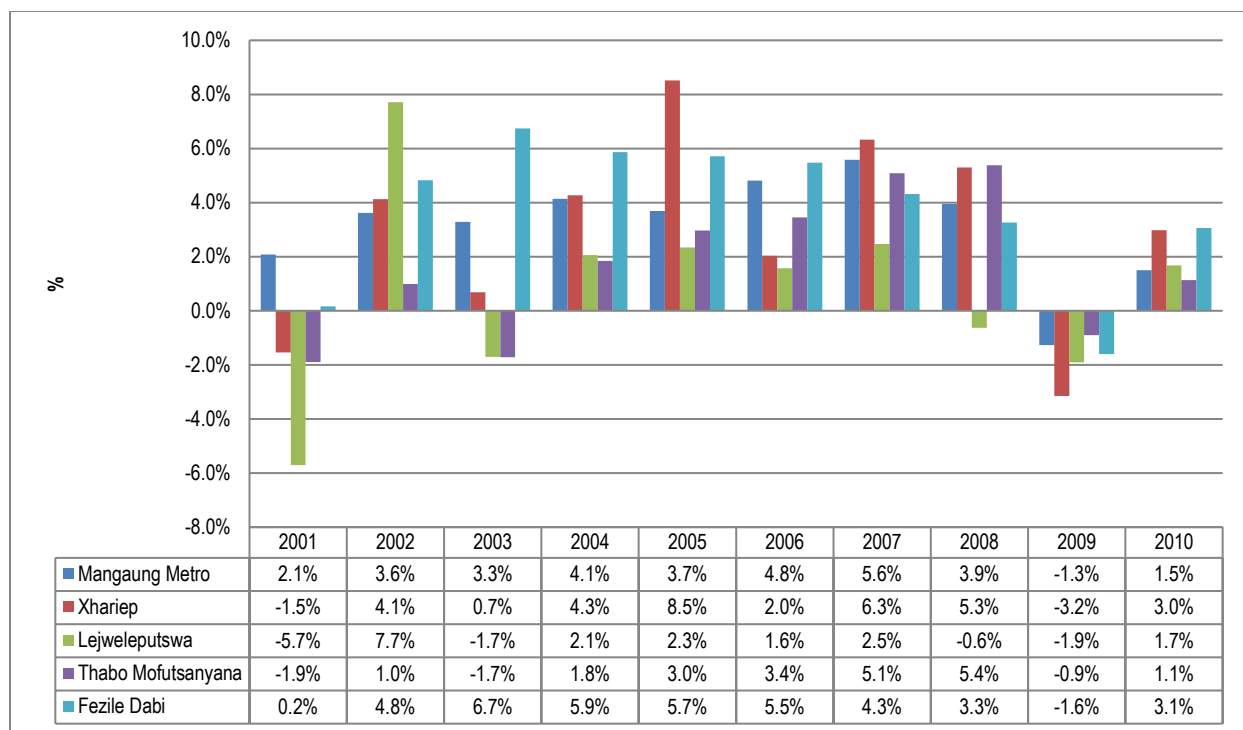
such a country is 2% per head and 40% of its population are living in poverty. It is possible to halve the poverty rate of such a country within a ten year period¹³.

For a country South Africa with a skewed income distribution and a high inequality rate (measured as a gini-coefficient of 0.62), it would take nearly 60 years to halve the country's poverty rate. Therefore, drastic policy actions are needed to counteract the prevailing high unemployment and poverty rate in South Africa despite the country's sluggish growth rate. To achieve an effective result, economically designed strategic policies must targeted local communities as the primary implementation structure.

Having studied the economic structure of the Free State metropolitan and district municipalities in the previous section, the sub-section of chapter 3 of the 2011 Free State PERO examine the average annual growth rate of provincial and district municipalities over a ten year period; analyze the unemployment trends in the municipal districts; assess the contributions of different sectors to the municipal economies and review income level of all the municipal districts utilizing the GDP-R per capita income.

Figure 3.6: The Mangaung Metro and Provincial Districts Average annual growth (Constant 2005 Prices)

¹³ According to Ban Ki-Moon (the Secretary General of the United Nations)... "while economic growth is necessary, it is not sufficient for progress on reducing poverty" (http://en.wikipedia.org/wiki/Economic_growth; accessed on 28 October 2011)



Source: IHS Global Insight, ReX, 2011

A furtive glance at figure 3.6 reveals the Free State district municipalities annualized average growth rate from 2001 to 2010 (as the period under review). It is clear from figure 3.6 that the largest contributor to the provincial economy is the Mangaung metropolitan municipality with an average growth of 2.7% (for the period under review). Nonetheless, Mangaung metropolitan municipality annualized growth rate slightly deteriorate in 2009 to about 1.35% owing to severe global economic downturn that resulted from global financial contagion. Despite the 2009 global recession, annual growth rate of Fezile Dabi district municipality was the fastest growing region in economic terms due to its averaged growth of 4.3% (for the period under review) in comparison to the expected annual growth rate of 5.9%. Similarly, Xhariep municipality emerged as the second fastest growing municipal district with an average annualized growth rate of 3.1% growth for the period under review. However, Xhariep's highest economic performance was in 2005, when the municipal recorded an annualized growth rate of 8.02%.

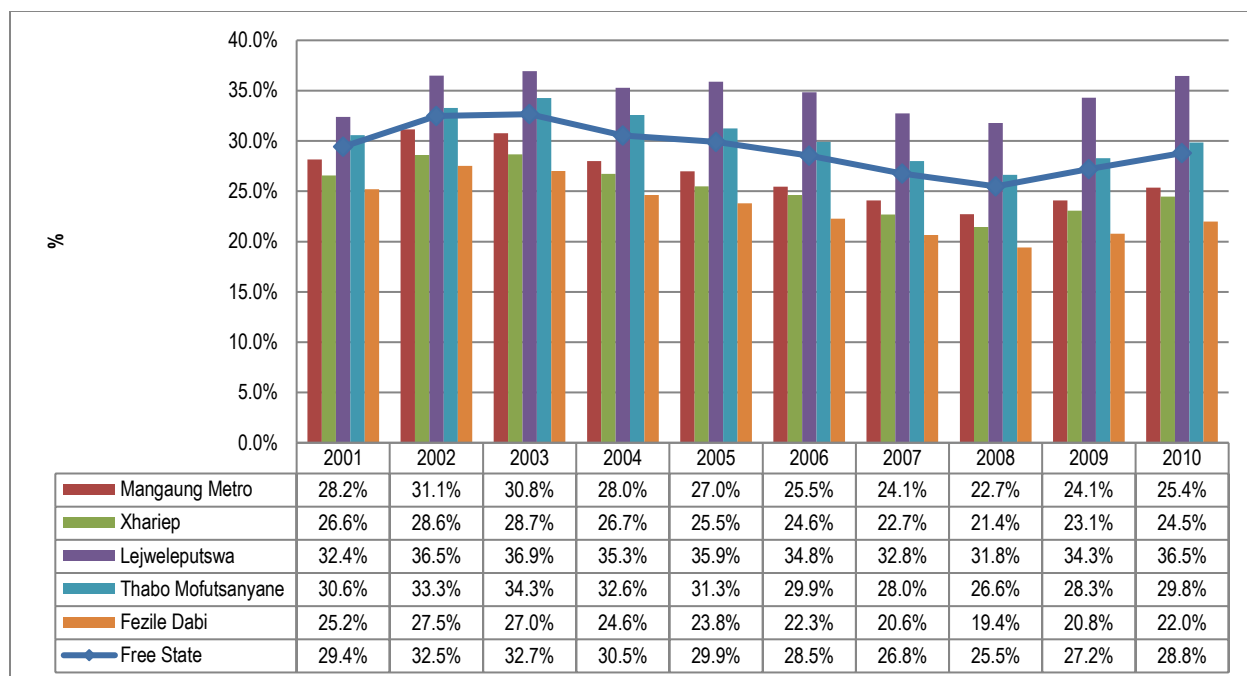
Even though, the severity of the devastating 2009 global economic meltdown might have lessened, however, the residuals of this unanticipated recession shock still reverberate across the global economy. In particular, the after effects of the 2009 recession are more evident in the global labour market owing to massive job shedding. According to Stats SA released data for South Africa and Free State Province labour market, the

total number of jobs shed were 870,000 and 39 000 respectively between the fourth quarter of 2008 and 2009¹⁴.

Looking at figure 3.7, it can be seen that, Fezile Dabi district municipality has the lowest unemployment rate in the Free State Province. Albeit, Fezile Dabi municipality has a positive employment momentum despite the evidence of a general decline in municipal unemployment rate. Between 2001 and 2010, the unemployment rate in this municipality was 12.0%. In reality, this district municipality performed well above the provincial average of 23.3% during the period under review. On the contrary, the municipal unemployment rate of the provincial economic hub, that is, Mangaung metropolitan municipality, was below the employment rate in Fezile Dabi and Xhariep. Municipal districts with the highest unemployment rates are Lejweleputswa and Thabo Mofutsanyana municipalities with an averaged employment rate of 30.5% and 34.7% correspondingly.

Figure 3.7: Free State, the Mangaung Metro and District Municipal Unemployment rates; 2001 – 2010

¹⁴ This decline in employment figures had a direct impact on the households' by hampering their ability to pay municipal bills. According to the National Treasury, in June 2008, the outstanding debtors stood at R37 billion (39% of municipal own revenue). However, in December 2010, outstanding debtors stood at R62 billion (30% of municipal own revenue). Ironically, despite the surging rise in the number of debtors, in actual fact, the number of debtors as a percentage of own revenues have been declining. This unparalleled effect can be attributed to the rapid increase in own revenues due to the high electricity tariffs and debt write-offs. Of recent, some municipalities (if not all) are striving to implement transparent budget management, improve their revenue generation capacity and ensure a speedy debt collection management (National Treasury: Local Government Budget and Expenditures, 2011)



Source: IHS Global Insight, ReX, 2011

Furthermore, by examining the differences between 2001 and 2010, it is obvious that there was a slight contraction in the provincial unemployment rate by almost 0.6% excluding Lejweleputswa district municipality, meanwhile, Fezile Dabi municipality employment rate shrunk by 3.2% (for the period under review). Moreover, as result of deteriorating mining sector and disinvestment from strategic sectors in Lejweleputswa district contribution to the provincial economy has fallen by 3.9% over the ten year period. Resultantly, the unemployment rate in the Lejweleputswa district has increased by 4.1 percentage points.

As previously indicated, it is imperative to review income level of all the municipal districts using GDP-R per capita income. For the purpose of this analysis, foremost, the definition of “per capital income” must be clarified.

Per capita income or income per person is a measure of mean income within an economic aggregate, such as a country or city. Per capita income is often used as a measure of the wealth of the population of a nation, particularly in comparison to other nations. It is usually expressed in terms of a commonly-used in currency denomination, in the South African context it would be the Rand (R). For a simple computation, per capital income is calculated by taking summation of all source of income as an aggregate (such as GDP or Gross National Income (GNI)) and dividing it by the total population. Note that, per capita income does not attempt to reflect the distribution of income or wealth. But, an estimation of per capital income is very useful because

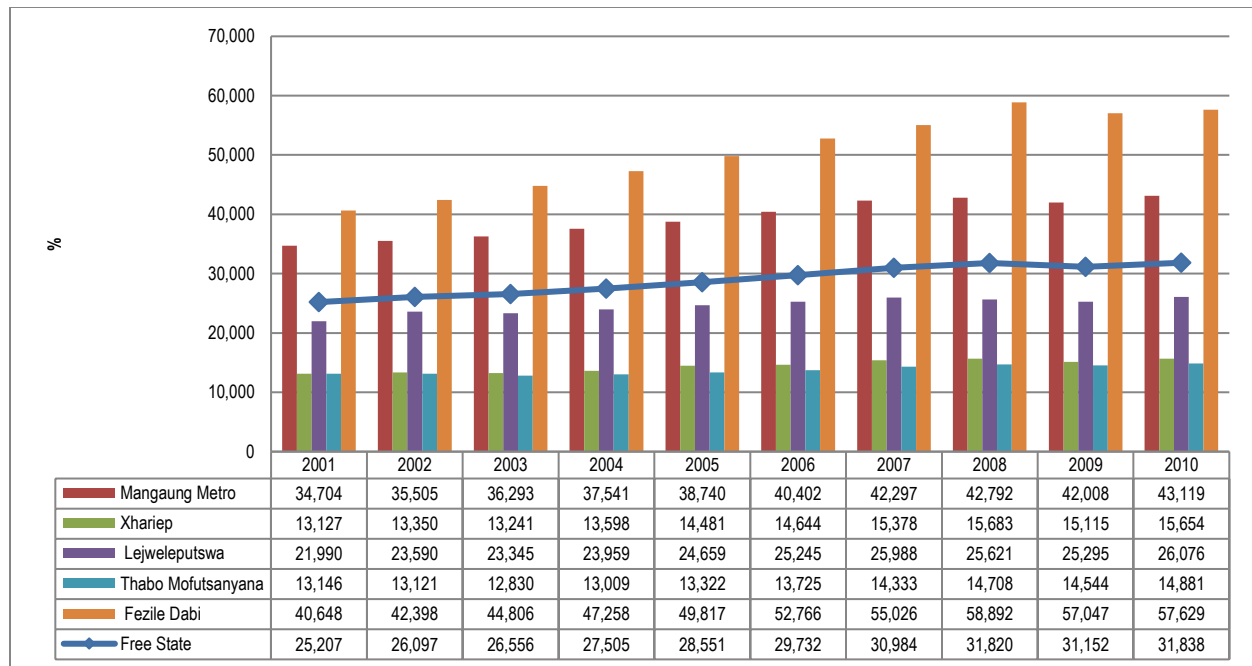
(over a long period of time), it tends to suggest the prosperity of a country/province/municipality or the lack thereof¹⁵.

Notably, the GDP – R per capita income measure is a valuable measure, but, if GDP-R for a country/region is estimated in isolation, the computed figure will be spurious (an error) measure. Therefore, for any country, it is essential that the analysis of the GDP-R per capita income be interpreted in conjunction with the country's gini-coefficient and poverty rates in the different regions.

To calculate GDP-R as a measure of income distribution: divide the country /region's gross output by the total population.

Figure 3.8: The Provincial, Manganung metropolitan and other Municipal district's GDP-R per Capita at Constant 2005 Prices

¹⁵ Conversely, per capita income measure has several weaknesses as a measurement of prosperity. First, as a mean value (estimate or calculated figure), it does not reflect income distribution. If the distribution of income within a country is skewed, a small wealthy class can increase per capita income far above that of the majority of the population. In this case, median income is a more useful measure of prosperity than per capita income since it is less influenced by the outliers. Secondly, since (not all) economic activities result into monetary income. e.g. services provided within the family and trade by barter are usually not counted. In as much as, the importance of these services varies widely in-between different economies, essentially, any comparison of wealth using per capita income over time need must take into account changes in prices. If the appropriate measures of income adjusted for inflation is not used, a simple statistic estimation of per capita income will overstate the effects of economic growth. Thirdly, international (wealth or prosperity) comparisons can be distorted by differences in the costs of living between countries that are not reflected in exchange rates. In a situation, where the objective of comparison is to look at differences in living standards between countries, using a measure of per capita income adjusted for differences in purchasing power parity more accurately reflects the differences in what people are actually able to buy with their incomes. (http://en.wikipedia.org/wiki/Per_capita_income; 27 October 2011)



Source: IHS Global Insight, ReX, 2011

Looking at figure 3.8, the GDP-R per capita income (at the 2005 constant prices) of the province, the Mangaung metropolitan and the four (4) district municipalities was visually illustrated. From a quick observation, there is a glaring evidence of disparities in income per person in the province and other district municipalities.

Using the GDP-R estimated data, the living standard in Fezile Dabi district municipality is far better than other districts. In Fezile Dabi district, the monthly income per capital is R 4, 219 (annualized per capital income averaged R 50 629 per annum). In comparison, Fezile Dabi district's monthly and annualized per capital income is quite impressive and well above South Africa Minimum Living level (MLL) of R 1,489.00. In addition, this municipality markedly supersede the estimated per capita income for the province, given the monthly the monthly income per capital of R 2, 412 and an annualized per capital income of R 28,944 (these estimates are slightly above the MLL)¹⁶

Xhariep district municipality has the second lowest GDP-R per capita income. This outcome is expected since Xhariep district is the least contributor to the provincial economy with the lowest population count in

¹⁶ It vital to take note that the MLL used for analysis in this sub-section of the PERO is the same figures utilized by Borat, van der Berg and van Aardt(2003) in their research paper to capture the extent of poverty and inequality in Africa over a ten (10) year period .i.e. 2004-2014. Also, the Bureau of Marketing Research reported the MLL as R1 871 per household of 4.7 people (cf. BMR report 3/19; 2003). Afterwards, the MLL have been adjusted to rand values based on the 2000 prices, this implies that an income of R1 489 per month per household of 4.7 people.

Free State. The district's per capita income (on an annual basis) is R 14, 427 and the monthly per capita is R 1,202 (note that Xhariep's monthly per capita income is lower than the BMR 2000 Constant Minimum Living Level in South Africa by R287).

On the other hand, Mangaung metropolitan municipality annualized (average) per capita income is R 39,340 and the monthly income per capital is almost R 3, 278. From a gloomy perspective, Thabo Mofutsanyana municipality (as the poorest district) has the smallest per capita income in the province with an annualized average of R 13,762 per annum and a monthly per capita income of R 1, 146.83 (this is R 342.17 below the MLL). This implies that, if all the incomes in the municipal district are equitably shared among the existing population in the municipal district, a deficit of a R 348.66 would materialized. In 2010, Thabo Mofutsanyana municipal district had a poverty rate of 49.5% with an estimated gini-coefficient of 0.62¹⁷.

Since gini-coefficient is a measure of inequality (i.e. how skewed the wealth / income distribution of a particular country is) and Thabo Mofutsanyane's gini-coefficient of 0.62 is closer to 1. Hence, in reality, these estimates elucidate that; 10% of the wealthiest category in the Thabo Mofutsanyana municipality are the major benefactor (about 62%) of all the income flowing into the municipal district. In other words, the remaining 90% of Thabo Mofutsanyana municipality population are left to share 38% of all the income flowing derived from this region. This is income grossly skewness in wealth / income distribution is worrisome and alarming, considering the fact that this municipal district has the second highest unemployment rate in Free State. Poverty gap estimates from IHS Global Insight (2010) revealed that Thabo Mofutsanyana would need roughly R 1 billion to alleviate the prevailing poverty rate in the district.

3.4 FREE STATE MUNICIPAL ECONOMIC OUTLOOK

In this sub-section, forecast GDP contributions by the different municipal districts in the Free State are comprehensively documented. Thereafter, the projected GVA growth rates (for the period 2011 to 2014) Mangaung metropolitan and other municipal districts, is thoroughly evaluated.

The start of the 2011 financial year presented a positive and an improved global economic outlook (and beyond) for the province. Albeit, this positive global economic outlook is being threatened by; (i) the fresh emergence of 'sovereign debt crisis' in the Euro zone; (ii) the existing 'debt-ceiling crisis' in the United States

¹⁷ In (development) economics, gini-coefficient is a measure of inequality.

of America (hereafter referred to as U.S) and (iii) the widespread political unrests that plagued most countries in the Middle East and the North African regions (hereafter called MENA).

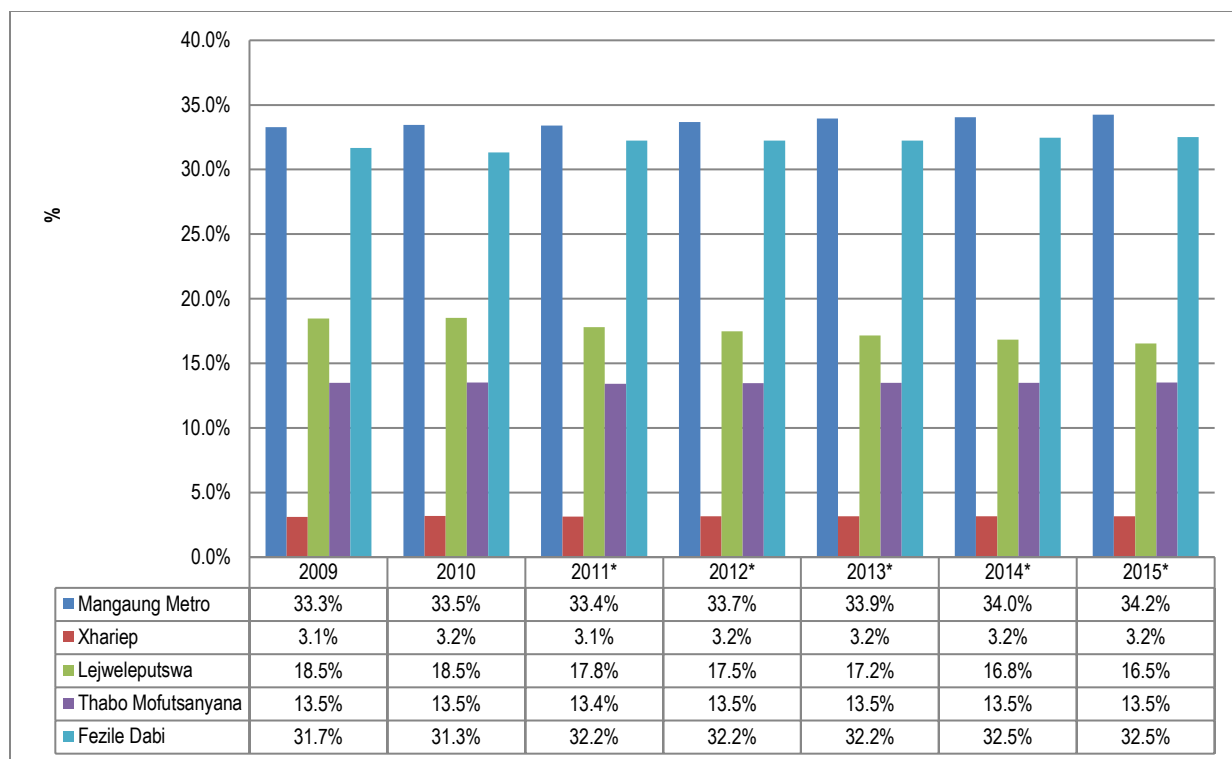
Therefore, taking into account the existing sluggish economic growth in South Africa, the prior improved economic outlook forecasted for the entire Free State as a province (including all the municipal districts) could become a somber outlook. According to the IHS Global Insight projected estimates, Free State forecasted growth rate is anticipated to be 2.8% for 2011 with subsequent average growth rate of 3.3% for the year 2012 to 2015.

Undisputedly, prior analysis have pinpoint that Mangaung metropolitan municipality is the mainstay (and a vibrant economic hub) of the province, taking into consideration the municipality's significant contribution via its government services sector. From figure 3.9, Mangaung metropolitan municipality contribution to the province has been forecasted to slightly increase to an annualized average of 33.84 % (with a minimal variation of 0.2), for the period 2011.

Following Mangaung municipality in the municipal contribution ranking is the Fezile Dabi municipal district. An annualized average growth of 32.3% (with a slight deviation of about 0.55.) is anticipated for Fezile Dabi municipal district. The manufacturing sector in this municipality continues to be its main source of growth. Many economists and analyst expect Fezile Dabi to bridge the 32.5% mark, in terms of the municipality's contribution to the provincial economy before the end of the forecast period.

Figure 3.9: Actual and forecast GDP Contributions by the Mangaung Metro and the District Municipality at 2005 Constant Prices¹⁸

¹⁸ The asterisk (*) represents forecasted figures.



Source: IHS Global Insight, ReX, 2011

Meanwhile, the growth rate of Lejweleputswa district as the third largest contributor to the provincial economy is expected to decline further by an annualized average of 4.6% (or 2.0 percentage points between 2009 and 2015). This decline is expected to stem from the dwindling gold mining sector in the region.

Furthermore, according to the IHS Global Insight predictions, Thabo Mofutsanyana district's municipal contribution to the provincial economic growth is presumed to hover around 13.5% (for the forecasted period under review). Conclusively, the forecasted figures for Thabo Mofutsanyana and Xhariep district suggested that no significant improvement in terms of municipal contributions to provincial economy should be anticipated from these municipalities for the next five (5) years. If anything, a slight decline in municipal contributions should be expected

Table 3.1: The Mangaung Metro, Districts and Local Municipalities Annual GDP Growth Forecasts (2005 Constant Prices)¹⁹

	2009A	2010A	2011F	2012F	2013F	2014F	2015F	Ave 10-15
Mangaung Metro	-1.38%	3.08%	2.72%	3.12%	3.79%	3.79%	4.51%	3.58%
Xhariep	-2.72%	4.48%	1.68%	2.76%	3.44%	3.49%	4.17%	3.10%
Letsemeng Local Municipality	-7.06%	7.69%	0.12%	2.78%	3.37%	3.44%	4.09%	2.75%
Kopanong Local Municipality	-0.85%	3.06%	2.56%	2.82%	3.52%	3.54%	4.25%	3.33%
Mohokare Local Municipality	-0.41%	3.14%	2.32%	2.71%	3.43%	3.50%	4.20%	3.23%
Naledi Local Municipality	0.15%	2.40%	2.29%	2.55%	3.35%	3.43%	4.12%	3.14%
Lejweleputswa	-1.56%	2.83%	-1.07%	0.39%	1.21%	1.41%	2.14%	0.81%
Masilonyana Local Municipality	-2.01%	3.12%	-1.36%	0.05%	0.91%	1.04%	1.74%	0.47%
Tokologo Local Municipality	-1.79%	4.09%	1.36%	2.43%	3.04%	3.31%	3.90%	2.80%
Tswelopele Local Municipality	-0.59%	2.19%	2.34%	2.08%	2.71%	3.04%	3.67%	2.77%
Matjhabeng Local Municipality	-1.42%	2.80%	-1.58%	0.08%	0.92%	1.12%	1.85%	0.47%
Nala Local Municipality	-3.16%	2.93%	1.90%	2.34%	3.05%	3.18%	3.88%	2.87%
Thabo Mofutsanyana	-0.66%	2.76%	2.19%	2.59%	3.29%	3.41%	4.12%	3.12%
Setsoto Local Municipality	-1.41%	2.70%	2.13%	2.46%	3.12%	3.28%	4.00%	2.99%
Dihlabeng Local Municipality	-1.37%	2.78%	2.14%	2.53%	3.23%	3.35%	4.09%	3.07%
Nketoana Local Municipality	-1.36%	3.03%	1.81%	2.35%	3.02%	3.24%	3.92%	2.87%
Maluti a Phofung Local Municipality	0.56%	2.72%	2.38%	2.80%	3.50%	3.57%	4.27%	3.30%
Phumelela Local Municipality	-1.03%	2.56%	1.68%	2.29%	3.05%	3.23%	3.95%	2.84%
Mantsopa Local Municipality	-1.49%	2.80%	2.25%	2.52%	3.17%	3.33%	4.02%	3.06%
Fezile Dabi	-2.76%	1.40%	5.86%	2.37%	2.94%	4.23%	4.03%	3.88%
Moghaka Local Municipality	-2.29%	3.13%	0.15%	1.03%	1.72%	1.84%	2.53%	1.45%
Ngwathe Local Municipality	-0.82%	3.45%	1.67%	2.69%	3.35%	3.50%	4.19%	3.08%
Metsimaholo Local Municipality	-3.12%	0.60%	8.23%	2.71%	3.22%	5.01%	4.41%	4.70%
Mafube Local Municipality	-2.24%	2.71%	2.26%	2.41%	3.10%	3.29%	3.99%	3.01%

Source: IHS Global Insight, ReX, 2011

From table 3.1, all municipal districts and the Metropolitan, with the exception of Lejweleputswa district, are expected to record positive growth rates in 2011 as the beginning of the recovery phase after the devastating direct effects of the 2009 recession.

Nonetheless, the diminishing mining sector which constitutes 64.1% of the municipal GDP have exposed Lejweleputswa municipality a projected negative growth of 0.57%. Observe that, over the next five years, negative growth rate are forecasted for only the mining and quarrying industry. This is so, because South Africa's gold mining sector has been deteriorating, it is anticipated that this sector will shrink by around 5% per year in the Free State. In fact, it is expected that by 2015, the gold mining sector in the Free State will no longer be the most important sector. If this happens, the growth rate in Lejweleputswa district would be in

¹⁹ Note that the A represents the Actual figures, whilst the F represents the Forecast figures by IHS Global Insight.

jeopardy and given the ever-increasing poverty rate, the living standard of Lejweleputswa municipality will be disheartening. On the other hand, the growth rate in this municipality is expected to rebound in 2011 to 0.72%. Also, it is anticipated that the municipality will experience an annualized average growth rate of 1.42% between 2012 and 2015. This lackluster growth remains a worrying indication since as the district is the third largest contributor to the provincial GDP.

Xhariep remained the second least growing district based on the projected growth of 2.31% for the period under review. On a positive side, since the district municipal constitute a small percentage share (i.e. 2.9%) of the provincial economy. The forecasted growth rate of 2.31% is moderately a good growth rate for the district, although it will have a minimal impact on the overall growth of the province. Considering Thabo Mofutsanyana municipality as the fourth largest contributor to the provincial economy, it is anticipated that this municipality will experience resurgence in its growth trajectory given the expected growth rate of 2.91% in 2011 and an annualized averaged growth rate of 3.39% in 2011 and beyond.

Henceforth, it is heartening to notice that the provincial economic powerhouses such as the Mangaung metropolitan and Fezile Dabi districts are forecast to grow by 3.55% and 4.14% respectively during 2011 (these growth forecast are well above the provincial growth average). In addition, annualized growth rate average of 3.80% and 3.93% is anticipated to be recorded in Mangaung metropolitan and Fezile Dabi districts between 2011 to 2015.

In sum, the forecasted growth rates for Mangaung metropolitan are likely to be driven by the accelerated growth of the tertiary (community services and finance) sectors as a result of their dominance in Mangaung. On the contrary, the manufacturing sector and the diamond mining sector in the Moqhaka Municipality (to some extent) are envisaged to spur growth rate in Fezile Dabi district.

3.5 CONCLUSION

Similar to other local economies elsewhere in the world, the Free State local economies were exposed (to some extent) to the devastating effects of the 2009 recession as a result of global financial contagion that originates from the U.S. This chapter within the 2011 Free State PERO has shown that the negative impact of the 2009 recession on Free State local economies varies owing unique features such as: spatial / geographical location and sectoral composition. Evidently, some municipalities were seriously affected whilst other municipalities were slightly exposed to the debilitating effect of the recession.

The post-recession era, have set the global economy on a recovery trajectory to achieve robust economic growth. Subsequently, a positive tone has been set for slight improvement for Free State Province as a whole. The general economic outlook for local municipalities look promising, over the next five (5) years; Mangaung metropolitan is expected to record about 3.6% growth rate and Fezile Dabi district is envisaged to bridge the 4.0%. Contrary to these forward looking growth forecasts, Lejweleputswa district is expected to perform woefully over the next five year owing to the depleting mineral resources and dismal performance of the municipality's mining sector that the district wholly depended on.

Undoubtedly, local economies continue to be the backbone of the national economy; yet, a concerted effort is needed by the government (at all structural level), scholars and economic experts to devise an implementable strategic polices achieve a 'sustainable' economic growth that has the tendency to alleviate the existing poverty rate, reduce the chronically high unemployment, enhance labour absorption capacity and improves the general wellbeing of the country.

Given, the importance of the local economies, it is imperative that government should increase its focus on the local economic development projects (LED) for the sole purpose of generating viable positive externalities (economic spin-offs) that could see the resurgence of weakened local economies, so that, in the long run there would be an increase in employment level in the same economies.

Moreover, a key challenge (going forward) is to ensure that the local government fiscal framework is progressively reformed to accurately reflect the different fiscal capacities of individual municipality. This will entail re-examining the different revenue streams available to municipalities and ensuring that the division of the local government equitable share targets the poorest municipalities. It will also be important to re-examine the design of conditional grants with a view of putting in place appropriate incentives to ensure that they are spent effectively (2011 National Treasury, Municipal Budget Review).

CHAPTER 4: FREE STATE LABOUR MARKET

4.1 INTRODUCTION

This chapter reviews recent developments in the labour market; the main focus is on a brief analysis of international, national and provincial labour market dynamics. The emphasis is on the first three quarter of 2011, additionally it reviews the developments covering the period from 2008 to the present (looking into what has happened since the recent economic downturn in the labour market).

The recent global economic crisis and its impact on labour markets have heightened even further the need for consistent monitoring of labour markets at all levels. This chapter also comprehensively analyse the recent labour market developments and emerging challenges as the world continues to struggle to forge a sustainable recovery from the global economic and indeed jobs crisis.

4.2 GLOBAL LABOUR MARKETS DEVELOPMENTS

As the first chapter of this edition of PERO 2011 have pointed out, that despite rapid economic growth in 2011 the global unemployment soared to an all-time high (Global unemployment remains stuck at a rate of around 6.0%, notwithstanding rapid economic growth of 5.1% in 2010 and 4 percent in 2011, see table 4.1 below) with a particularly large rise in many developed economies. Other labour market indicators revealed additional forms of severe labour market distress: falling employment-to-population ratios, increases in vulnerable forms of employment, stagnant labour productivity growth, and rising discouragement – particularly among young people.

Table 4.1: Unemployment rate by sex, world and regions (%)

Both Sexes	2000	2005	2006	2007	2008	2009	2010	2011*		
								CI lower bound	Preliminary estimate	CI upper bound
World	6.3	6.2	5.8	5.5	5.6	6.2	6.1	5.7	6.0	6.3
Developed Economies and European Union	6.7	6.9	6.3	5.8	6.1	8.3	8.8	8.1	8.5	8.7
Central and South-Eastern Europe (non-EU) and CIS	10.8	9.2	9.1	8.4	8.4	10.2	9.5	8.1	8.6	9.3
East Asia	4.4	4.1	3.9	3.8	4.2	4.3	4.1	3.9	4.1	4.3
South-East and the Pacific	5.0	6.4	6.1	5.5	5.3	5.2	4.8	4.4	4.7	5.0
South Asia	4.4	4.7	4.2	3.8	3.7	3.9	3.9	3.6	3.8	4.1
Latin America and the Caribbean	8.6	7.9	7.6	7.0	6.6	7.7	7.2	6.7	7.2	7.6
Middle East	10.5	11.2	10.9	10.3	10.4	10.1	9.9	9.5	10.2	10.8
North Africa	13.6	11.5	10.5	10.1	9.6	9.6	9.6	10.3	10.9	11.6
Sub-Saharan Africa	9.2	8.3	8.2	8.1	8.1	8.2	8.2	7.9	8.2	8.5

Source: ILO, Trends econometric model, October 2011

* 2011 are preliminary estimates; CI = confidence interval

In 2011, two important documents were released. They provide comprehensive analysis of recent trends in labour markets around the world; these are (1) Global Employment Trends 2011: The challenge of a jobs recovery published by the International Labour Organization (ILO), (2) World of Work Report 2011: Making markets work for jobs, which is also published by ILO annually.

Global Employment Trends 2011 incorporates the most recent labour market information available to explore the state of the labour market globally and regionally. It is endorsed as the first report to review the labour market situation during the recovery from the global economic crisis. On the other hand, The World of Work Report 2011, present world labour market projections for the next two years (i.e., 2012 – 2013) assessing risks of social unrest and discusses policies to boost real investment and avoid double-dip in employment. These two documents reports that; a stalled global economic recovery has begun to dramatically affect labour markets, whereby nearly two-thirds of advanced economies and half of emerging and developing economies (with recent available data) are once again experiencing a slowdown in employment. This comes on top of an already precarious employment situation in which global unemployment is at its highest point ever, surpassing 200 million worldwide (see Table 4.2 below).

A central theme of the Global Employment Trends 2011 report is that, while global economic growth is rebounding on a better than expected trajectory, the same cannot be said with the global labour market. It remains with stubbornly elevated unemployment and slow employment generation in developed economies coupled with widespread decent work deficits in even the fastest-growing developing economies. In the context of a robust, though uncertain and unbalanced economic recovery, these labour market challenges represent a serious threat. Without a sound and sustainable recovery in labour markets – one that helps to address the global imbalances that contributed to the crisis – the broader macroeconomic recovery will find itself resting on an uncertain and weakening foundation.

World of Work Report 2011, shows that almost 80 million jobs need to be created over the next two years to reach pre-crisis employment rates, furthermore, it assert that the recent slowdown in economic activity suggests the world economy is likely to only create half the number of jobs needed. As a result, on current trends, employment in advanced economies will not return to the pre-crisis situation before 2016, which is one year later than predicted in World of Work Report 2010.

In 2011, 74.8 million youth aged 15–24 were unemployed, an increase of more than 4 million since 2007. The global youth unemployment rate, at 12.7% remains a full percentage point above the pre-crisis level. According to ILO, globally, young people are nearly three times as likely as adults to be unemployed. In this light, the recent increase in social unrest in many countries and regions around the world is of little surprise. In the Middle East and North Africa regions, for example, youth are around four times as likely as adults to be unemployed, with youth unemployment rates well in excess of 25% in both regions. As illustrated by Table 4.1 below, worldwide 78 million young people were unemployed in 2010, well above the pre-crisis level of 73.5 million in 2007 but down from 80 million in 2009. Unemployment in the 15-24 age group stood at 12.6 percent in 2010, 2.6 times the adult rate of unemployment. A comparison by gender, indicates that males have all along being the majority of the unemployed, accounting for about 118 million unemployment around the world, while females accounted for about 86.5 million unemployed globally.

Subsequently, young people have suffered heavily from the deterioration in labour market. The rate of youth unemployment rose globally from 11.7% in 2007 to 12.7% in 2011; the advanced economies have been the hardest hit, this rate jumped from 12.5% to 17.9% over the period under review. In addition to the 74.7 million unemployed youth around the world in 2011 – a growing number of whom are in long-term unemployment – an estimated 6.4 million young people have given up hope of finding a job and have dropped out of the labour market altogether. Young people who are employed are increasingly likely to find themselves in part-time employment and often on temporary contracts. In developing countries, youth are disproportionately among the working poor.

Table 4.2: Unemployment in the world (millions)

	2000	2004	2005	2006	2007	2008	2009	2010*		
								CI lower bound	Preliminary estimate	CI upper bound
Total	177.2	192.5	191.2	184.6	177.3	182.9	205.2	194.3	205.0	215.4
Male	103.2	109.9	108.7	105.3	101.4	104.8	119.5	112.3	118.4	124.4
Female	74.0	82.6	82.5	79.4	75.9	78.1	85.7	82.0	86.5	91.0
Youth	74.4	79.2	79.6	76.9	73.5	74.4	79.6	73.5	77.7	81.9
Adult	102.8	113.3	111.6	107.7	103.8	108.5	125.6	120.9	127.3	133.5

Source: ILO, Trends econometric model, October 2010

* 2010 are preliminary estimates; CI = confidence interval

The fact that economies are not generating enough employment is reflected in the employment-to-population ratio, which suffered the largest decline on record between 2007, when it was 61.7%, and 2010, when it fell

to 61.1% (see table 4.2 below)²⁰. While the global employment-to-population ratio has declined sharply in recent years, looking at longer term trends from 2000 to 2011 reveals substantial heterogeneity in trends across regions. Over this period, the decline in the global employment-to-population ratio was driven by three regions: the Developed Economies and European Union, East Asia and South Asia, with the latter two regions having registered largest decline. In the other regions of the world, employment-to-population ratios actually rose after 2002, driven in part by increasing numbers of women in the workforce. In four of the six regions with rising employment-to-population ratios – Latin America and the Caribbean, North Africa, South-East Asia and the Pacific and Sub-Saharan Africa, employment-to-population ratios for women rose faster than the corresponding ratios for men, resulting in a narrowing of the gender employment gap.

Table 4.3: Employment-to-population rate by sex, world and regions (%)

Both Sexes	2000	2004	2005	2006	2007	2008	2009	2010*		
								CI lower bound	Preliminary estimate	CI upper bound
World	61.5	61.4	61.4	61.6	61.7	61.6	61.2	60.9	61.1	61.3
Developed Economies and European Union	56.7	55.9	56.2	56.7	57.1	57.1	55.5	54.5	54.7	54.9
Central and South-Eastern Europe (non-EU) and CIS	51.7	51.9	52.4	52.8	53.7	54.1	53.4	53.3	53.6	53.8
East Asia	73.5	72.5	71.9	71.4	71.0	70.4	70.0	69.8	69.9	70.1
South-East and the Pacific	67.1	65.8	65.6	65.6	66.0	66.0	65.9	65.6	65.8	66.1
South Asia	57.5	58.4	58.5	58.7	58.8	59.0	59.0	58.9	59.1	59.2
Latin America and the Caribbean	58.1	59.2	59.9	60.6	60.9	61.3	60.6	60.4	60.7	61.0
Middle East	44.8	44.9	45.1	45.3	45.3	45.1	45.2	45.1	45.4	45.8
North Africa	43.9	45.2	45.4	46.0	46.1	46.5	46.4	46.2	46.6	46.9
Sub-Saharan Africa	63.5	64.2	64.3	64.8	65.1	65.2	65.2	64.9	65.2	65.5

Source: ILO, Trends econometric models, October 2010

*2010 are preliminary estimates; CI = confidence interval.

Special focus on Sub-Saharan Africa

Economic growth in the Sub-Saharan Africa region slowed down to 2.8% at the height of the economic crisis in 2009, but rebounded strongly to 5.4% in 2010. The region continued its recovery in 2011, growing at 5.2%. According to ILO, many low-income countries, which make up the majority of the region's economies, weathered the crisis well, mainly due to their more limited trade and financial linkages with the global economy, but also thanks to larger fiscal space, which was used for countercyclical measures.

²⁰ The proportion of the working-age population in employment

Several countries showed a marked acceleration of growth rates to above pre-crisis levels, including Eritrea, Ghana and Zimbabwe. Economic growth in Eritrea accelerated from 2.2% in 2010 to 8.2% in 2011, while growth in Zimbabwe is estimated at 6.0% in 2011, following 9.0% in 2010. Both countries registered several years of negative growth during the 2000s, and in the case of Zimbabwe growth was negative for all years from 2002 to 2008. Ghana is one of only three countries globally with an estimated double-digit growth rate in 2011, together with Mongolia and Qatar. Economic growth in Ghana reached 13.5% in 2011, far exceeding the average during 2000 to 2007 of just above 5%. In all three countries with double-digit economic growth in 2011, this growth has been boosted by oil exports, which started in Ghana in 2011 and has helped lift the country from low-income to lower middle-income status according to the World Bank country classifications. Most of Sub-Saharan Africa's higher middle-income economies also registered economic growth in excess of pre-crisis trends, with the exceptions of Namibia and the region's largest economy, South Africa. Economic growth in South Africa accelerated from 2.8% in 2010 to 3.4% in 2011, but remained below the pre-crisis trend of 4.3%. Similarly, economic growth in Namibia, at 3.6% in 2011, was well below the pre-crisis trend of 5.2%.

4.3 THE SOUTH AFRICAN LABOUR MARKET

The South African economy has not fully recovered but emerged from the recession in quarter three of 2009 when the GDP published by Statistics South Africa (Stats SA) recorded a positive growth of 0.9 percentage points quarter-on-quarter after three consecutive quarters of negative growth since quarter four of 2008. The positive growth rate trend has continued until quarter one of 2010 when the GDP recorded a growth of 4.6 percentage points quarter-on-quarter. However, this growth has been very disappointing because it failed to translate into the great number of much needed jobs being created. This trend has been widely reported as a worrying factor not only in the South African economy but all over the world, even though there are signs of global economic recovery; worries have increased about a jobless recovery.

An exploration into the South African labour market reveals that even though GDP has recently improved, unemployment rate however remains stubbornly high at 25.0%. South Africa's high unemployment rate could be associated with several factors amongst others such as:

- Rapid growth of unskilled labour supply, together with a structural shift in labour demand towards skilled labour.

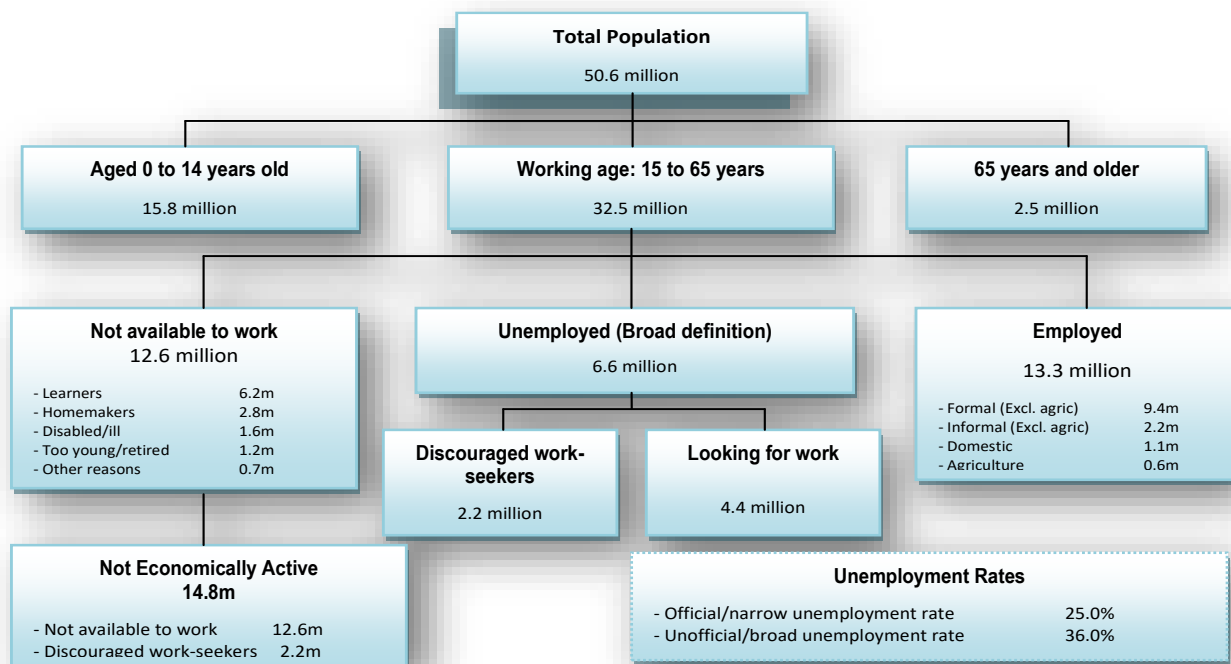
- Long distances between places of residence and places of work, which raise the cost of job search and therefore gaining employment, and
- Growth in the number of discouraged job-seekers.

Additionally, one other striking feature of the country’s Labour market is that, unemployment is inequitably distributed and certain groups are more likely to be unemployed than others. This phenomenon is associated with skills mismatch in the country where a high proportion of labour market participants are unskilled and best equipped to work in the now declining primary sectors than in the Tertiary sectors.

The structure of the South African Labour Market

Labour market flows of individuals between employment, unemployment and inactivity have been fairly constant over the past couple of years. However, since the onset of the recent recession, there has been a sharp increase in the flow of individuals from employment to unemployment, and there are now more individuals moving into unemployment from employment than those in the other direction. There are also more individuals moving from inactive to unemployment, than those from unemployment to inactive. This shows that the increase in unemployment is not through just individuals losing their jobs, but also through more individuals making themselves available for work, where they were previously economically inactive.

Figure 4.1: The structure of the South African labour market (as at 2011Q3)



Source: Stats SA, QLFS, 2011Q3 (Own calculations)

Figure 4.2 above illustrate the structure of the South African Labour Market as at the third quarter of 2011 or at the time of writing this report. It shows that the number of working South Africans between 15 and 64 was estimated around 13.3 million by Statistics South Africa (Stats SA) ²¹. This figure includes all sectors of the economy: formal, informal, agriculture and domestic workers. The figure further depict how these people fit into the South African total population of some 50.6 million people (albeit this figure not yet officially confirmed).

Those who are working comprises only about 40.9% of the total number of people of working age, this is referred to as an absorption rate²², and in fact there are analyst who assert that its actually reflects the status of the labour market more accurately than unemployment rate. South Africa's absorption rate of 40,9% compares relatively poorly with those of member states of the Organisation for Economic Cooperation and Development (OECD), which stood at an average of some 65% in 2010, with Iceland the highest at 79%, and Turkey (where many women are not employed for religious reasons) the lowest at 46%. Moreover, the two member states of BRIC that are also part of the OECD, i.e. Russia and Brazil, have absorption rates of approximately 68%. This clearly indicates that, South Africa has a very long way to go to play catch up with some of member states of BRIC. South Africa just to reach Brazil's absorption rate of 67.6%, its number of working people has to expand by 8.7 million from 13.3 million to about 22 million.

Labour Market Overview

Table 4.4 shows that, the South African working age population grew by 1.4 percent or 450 000 individuals between 2010Q3 and 2011Q3, while employment is estimated to have grown almost twice as fast, at a rate of 2.6 percent to 13.3 million. This can be seen as a modest improvement in the trend observed in 2011Q2, where employment growth was estimated around 0.5 percent. Narrow unemployment totaled 4.4 million this is marginally higher than a year earlier, while growth in expanded unemployment is half that observed in 2011Q2. Of note it seems like the growth in the number of discouraged work-seekers is stalling for the first time since the recession. This weakening of the upward trend in discouragement and by extension in expanded unemployment points to a slowly improving labour market.

Labour force participation rates have remained unchanged between 2010Q3 and 2011Q3: 54.3 percent of the working age populations are members of the labour force, while 61.0 percent are broad labour market

²¹ This material in this section of the report, reflects data available as of the third quarter of 2011

²² It is also known as employment-to-population ratio, it is essentially the proportion of the working-age population that is employed.

participants. Both the narrow and expanded unemployment rates are essentially unchanged since 2010Q3 at 25.0 percent and 33.2 percent respectively.

Table 4.4: Labour Market Overview, 2010 Quarter 3 - 2011 Quarter 3

	2009	2010	2011	Change ('10 - '11)	
	Quarter 3	Quarter 3	Quarter 3	Absolute	Relative
Labour Market Aggregates (Thousand)					
Working Age Population	31750	13009	32765	447	1.4
Employment	13157	4397	13344	335	2.6
Narrow Unemployment	4241	4397	4442	46	1.0
Narrow Labour Force	17398	17406	17786	381	2.2
Expanded Unemployment	5895	6431	6646	215	3.4
Expanded Labour Force	19052	19440	19990	550	2.8
Discouraged Work-seekers	1654	2034	2204	170	8.4
Labour Force Participation Rate (Percent)					
Narrow LFPR	54.8	53.9	54.3	0.4	0.8
Expanded LFPR	60.0	60.2	61.0	0.9	1.4
Unemployment Rate (Percent)					
Narrow Unemployment Rate	24.4	25.3	25.0	-0.3	-1.1
Expanded Unemployment Rate	30.9	33.1	33.2	0.2	0.5

Source: Stats SA, LFS, 2009 to 2011 (Own calculations)

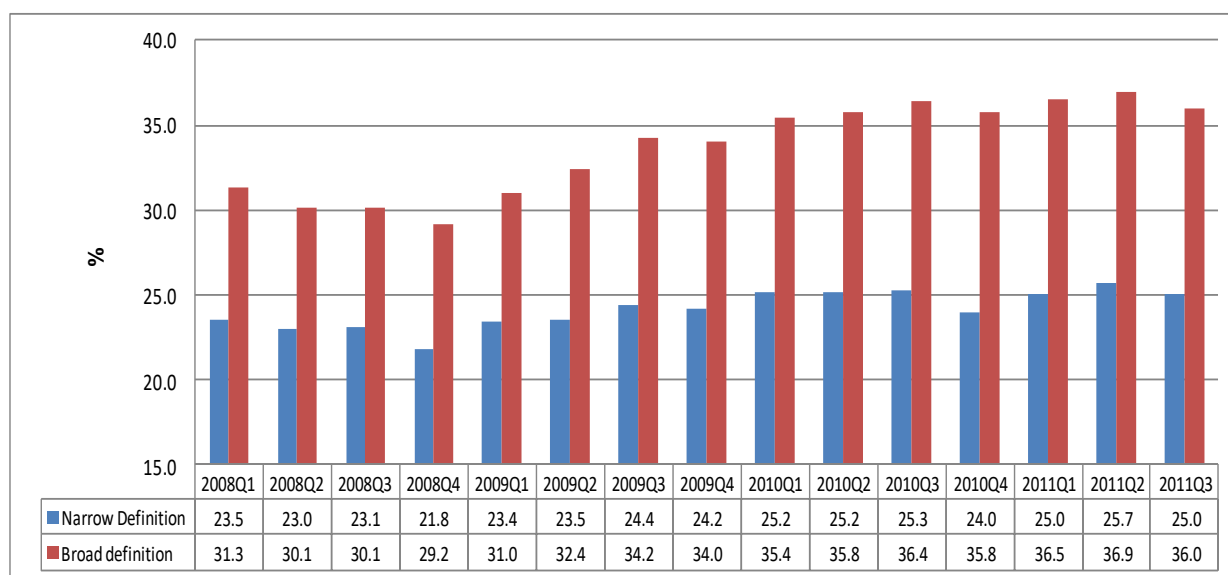
South Africa is one of the countries that has a high proportion of young people in the world, every year, many more people reach working age than those who go on retirement or who stop working for other reasons (amongst others death). In the age group 25 to 54 – which is the most productive years of most people – approximately 82% of all men are either working or actively looking for a job; for women is about 64% and the overall average is between 27% and 28%.

All these factors put together suggest that, for the number of unemployed people (all people who would like to work but who do not have a job) to remain constant, about 430 000 new, viable job opportunities have to be created every year. From the third quarter of 2010 to the third quarter of 2011 (which is the latest available data at the time of writing this report) this growth came to about 340 000. As a result the number of jobless people (broadly defined) has increased marginally in 2011, even though the broad unemployment rate has declined from 36.4% to 36.0%.

Unemployment in South Africa

Persistent high level of unemployment remains a striking characteristic of the South African labour market. Including both searching and non-searching unemployed, the expanded unemployment rate has exceeded 30 percent since 2009Q3 and it is gradually trending upward. In the third quarter of this year, the expanded unemployment rate was 36.0 percent; it remained virtually unchanged over the preceding year (see figure 4.1 below). South Africa's official unemployment rate fell to 25% in the third quarter of this year, from 25.7% in the second quarter in 2011. However, this is still substantially higher than the recent low of 21.8% recorded in 2008. A substantial number of new jobs were created, but these were still not able to absorb both SA's rapid growth in the labour force and the previously unemployed.

Figure 4.2: Unemployment in South Africa, 2008 to 2011



Source: Stats SA, QLFS, Own calculations 2008 to 2011

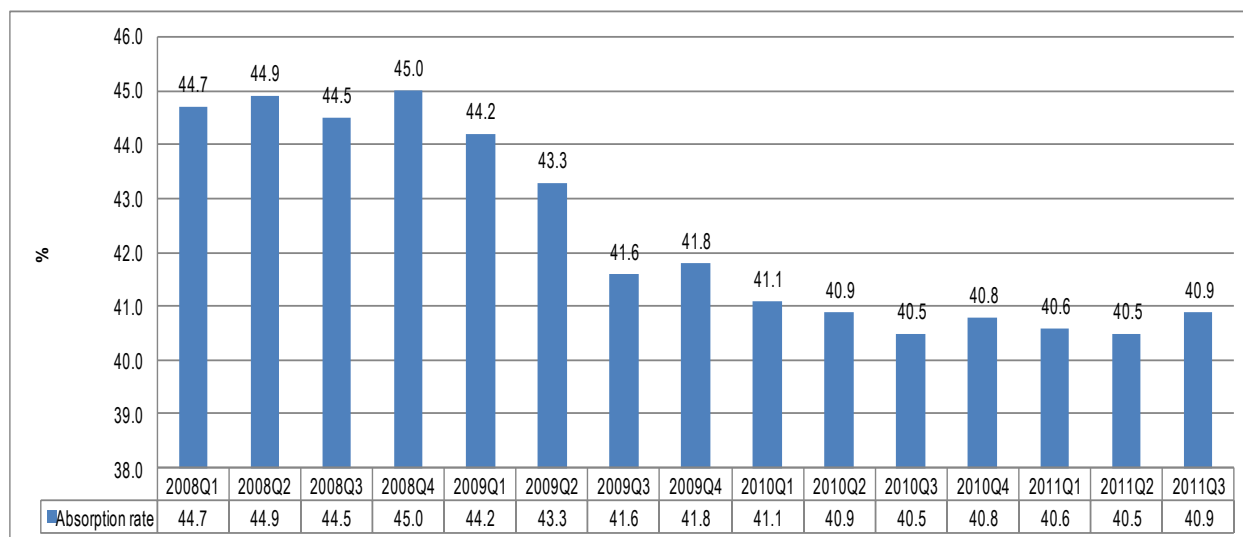
However, figure 4.2 above also evidently shows why it is better to pay attention to the broad definition of unemployment rather than the narrow definition in South Africa. If only the narrow definition is taken into account, the effects of the recession appear to be tolerable; however, the broad definition reveals much more clearly the extent to which the economic recession has hit the labour market.

Figure 4.3 below on the other hand; illustrate how the absorption rate has continued to fall even after the end of the economic recession in September 2009²³. Throughout all of 2010 and 2011 it has remained unchanged, notwithstanding an increase in the number of working people during that period. As mentioned

²³ Also known as Employment-to-population ratio, it essentially referees to the proportion of the working age population that is employed

above, the reason therefore is that the number of new jobseekers far exceeded that of the number who did find employment.

Figure 4.3: Absorption rate in SA (2008Q1 to 2011Q3)



Source: Stats SA, QLFS, Own calculations 2008 to 2011

In summary, the two figures above (figures 4.2 & 4.3) indicate how the unemployment rate defined both narrowly and broadly, have risen since the beginning of 2008 while the absorption rate has declined because of the recession in 2008.

Furthermore, table 4.5 below explicitly indicate that, three-fifths (61%) of working age adults participate in the broad labour force, a proportion that has remained almost unchanged for the last three years. There are, however, substantial differences across demographic covariates. Participation rates range from 59.6% amongst Africans to more than two-thirds amongst Coloureds and Whites. Similarly, there is a gap of 12 percentage points between the LFPRs of men and women, the latter being less likely to be active in the labour force.

The young (15 to 24 years) and the old (55 to 65 years) have the lowest LFPRs due to educational enrolment and retirement or ill health respectively, while participation is highest amongst those in the age group 25 to 44 years at over 80 percent. Just 32.4% of 15 to 24 year olds are labour force participants, as were 40.2% of 55 to 65 year olds. Amongst those with primary or incomplete secondary education, labour force participation is around 50%, rising to 75% amongst those with completed secondary education and to around

90% of those with post-secondary education. This is partly related to the age distribution of individuals within these educational categories.

Table 4.5: Labour Force Participation Rates, 2009 Q3 - 2011Q3

<i>Percentage / Percentage Points</i>	2009	2010	2011	Change ('10 - '11)	
	Quarter 3	Quarter 3	Quarter 3	Absolute	Relative
Overall LFPR	60.0	60.2	61.0	0.9	1.4
By Race					
African	58.3	58.5	59.6	1.1	1.8
Coloured	65.9	65.6	66.4	0.8	1.2
Asian	59.2	62.7	58.1	-4.6	-7.4
White	68.1	67.3	68.5	1.2	1.8
By Gender					
Male	66.8	67.1	67.2	0.1	0.2
Female	53.6	53.7	55.2	1.5	2.8
By Age Group					
15 to 24 year olds	31.8	32.5	32.4	-0.1	-0.2
25 to 34 year olds	80.0	80.4	81.4	1.0	1.2
35 to 44 year olds	82.1	80.8	82.6	1.8	2.2
45 to 54 year olds	71.3	72.0	73.2	1.3	1.8
55 to 65 year olds	40.6	40.2	40.2	0.0	-0.1
By Educational Attainment					
No education	42.2	40.5	39.9	-0.6	-1.5
Grades 0 - 7	50.7	49.1	50.4	1.3	2.7
Grades 8 - 11	50.6	51.8	52.4	0.5	1.0
Grades 12	74.4	74.1	74.5	0.3	0.4
Diploma/Certificates	88.6	87.3	88.5	1.2	1.3
Degree	89.0	88.0	90.0	2.1	2.3

Source: Stats SA, LFS, 2009 to 2011 (Own calculations)

4.4 Free State Labour Market

This section examines the key labour market information for the Free State Province. It aims at providing a credible analytical platform to debate the appropriate interventions for improved Provincial labour market performance, enhanced job creation and reduced unemployment. The information provided in this section is based upon Statistics South Africa's Quarterly Labour Force Survey up until the 3rd quarter 2011 (recent available information at the time of writing the report). An analysis of these key provincial labour market indicators in the period under review point towards further deterioration of the provincial labour market, they

point out a distressed market with limited employment prospects. The province is suffering from the problem of sluggish labour market recovery.

Overview of the Labour Market

Table 4.6 below indicate that the number of persons in the provincial labour force increased by 4 000 between Q2:2011 and Q3:2011. Between the third quarter of this year and the same period last year, the labour force in the province increased by 14 000 persons or by about 0.8 percentage points. Of interest is that, these were net effect of about 50 000 reduction in women of working age, and 53 000 increase of men of working age population between Q2:2011 and Q3:2011, or a decrease of about 20 000 of women between Q3:2011 and Q3:2010 last year and 33 000 of men in the same period.

On a racial basis, the province is experiencing a reduction in the number of Coloureds and Indians/Asians of working age on both quarter to quarter and on year-on-year basis, nonetheless, both races represent minority races of working age population in the province, majority being Black/African followed by Whites; even though it appears that whites on a yearly basis are decreasing, as the was a reduction of 27 000 between Q3:2011 and Q3:2010. This overall expansion in the working age population implies continuing pressure is exerted on the provincial economy to expand employment opportunities in order to absorb new entrants in the labour market.

Table 4.6: Population of working age (15 – 65 years), Free State

	Jul-Sep 2010	Oct-Dec 2010	Jan-Mar 2011	Apr-Jun 2011	Jul-Sep 2011	Qrt to Qrt change	Year on year change	Qrt to Qrt change	Year on year change
	Thousand	Thousand	Thousand	Thousand	Thousand	Thousand	Thousand	Percent	Percent
Both sexes	1 860	1 863	1 867	1 870	1 874	4	14	0.2	0.8
Women	943	961	981	973	923	-50	-20	-5.1	-2.1
Men	917	902	886	897	950	53	33	5.9	3.6
Population groups	1 860	1 863	1 867	1 870	1 874	4	14	0.2	0.8
Black/African	1 581	1 602	1 595	1 609	1 624	15	43	0.9	2.7
Coloured	47	31	47	64	46	-18	-1	-28.1	-2.1
Indian/Asian	2	3	8	4	1	-3	-1	-75.0	-50.0
White	229	227	217	193	202	9	-27	4.7	-11.8

Source: Stats SA, QLFS, Q3: 2011

As stated earlier on, the province's working age population reached just above 1.8 million in the third quarter of this year as shown by table 2.2, which represent 0.8 percentage growth from the same period a year ago; these could be due to factors such as differing population age structures as well as possible changes in

internal migration patterns. Growth in the provincial labour force, which refers to those who are the employed and unemployed individuals continue to grow slightly rapidly between the third quarter of this year and the second quarter, an increase of about 35 000 individuals was recorded between the two periods, representing 3.3% growth.

Table 4.7: Labour force characteristics, Free State affection

	Jul-Sep 2010	Oct-Dec 2010	Jan-Mar 2011	Apr-Jun 2011	Jul-Sep 2011	Qrt to Qrt change	Year on year change	Qrt to Qrt change	Year on year change
	000s						Percent		
Population 15-64 yrs	1 860	1 863	1 867	1 870	1 874	4	14	0.2	0.8
Labour Force	1 091	1 077	1 082	1 074	1 109	35	18	3.3	1.6
Employed	768	785	780	772	826	54	58	7.0	7.6
Formal sector (Non-agricultural)	490	502	495	480	544	64	54	13.3	11.0
Informal sector (Non-agricultural)	122	128	132	136	133	-3	11	-2.2	9.0
Agriculture	67	64	62	73	68	-5	1	-6.8	1.5
Private households	89	91	90	83	82	-1	-7	-1.2	-7.9
Unemployed	322	292	302	303	283	-20	-39	-6.6	-12.1
Not economically active	769	787	785	796	765	-31	-4	-3.9	-0.5
Discouraged work-seekers	85	82	87	94	104	10	19	10.6	22.4
Other(not economically active)	684	705	698	701	660	-41	-24	-5.8	-3.5
Rates (%)									
Unemployment rate	29.5	27.1	27.9	28.2	25.5	-2.7	-4.0		
Absorption rate	41.3	42.1	41.8	41.3	44.1	2.8	2.8		
Labour force participation rate	58.6	57.8	58.0	57.5	59.2	1.7	0.6		

Source: Stats SA, QLFS, 2011Q3

The employment breakdown by sector as illustrated by table 4.8 below, shows that agriculture and trade were the main drivers of employment over the second quarter in the province, each recorded 11 000 job gains in the 2nd quarter; the rest of the other sectors recorded job losses ranging from 2 000 job losses in the community and social services to 7 000 in the private households except utilities which remained the same (and off a low base). The net effect was that 8 000 jobs were lost between the first and the third quarter of this year.

Table 4.8: Employed by industry - Free State

	Apr-Jun 2010	Jul-Sep 2010	Oct-Dec 2010	Jan-Mar 2011	Apr-Jun 2011	Qrt to Qrt change	Year on year change	Qrt to Qrt change	Year on year change
	Thousand						Percent		
Free State	778	768	785	780	772	-8	-6	-1.0	-0.8
Agriculture	75	67	64	62	73	11	-2	17.7	-2.7
Mining	31	32	29	21	16	-5	-15	-23.8	-48.4

Manufacturing	71	66	62	63	60	-3	-11	-4.8	-15.5
Utilities	6	3	4	4	4	0	-2	0.0	-33.3
Construction	50	51	54	56	54	-2	4	-3.6	8.0
Trade	166	181	169	167	178	11	12	6.6	7.2
Transport	45	33	37	36	31	-5	-14	-13.9	-31.1
Finance	68	73	83	80	76	-4	8	-5.0	11.8
Community and social services	178	173	191	199	197	-2	19	-1.0	10.7
Private households	90	89	91	90	83	-7	-7	-7.8	-7.8

Source: Stats SA, QLFS, Q2: 2011

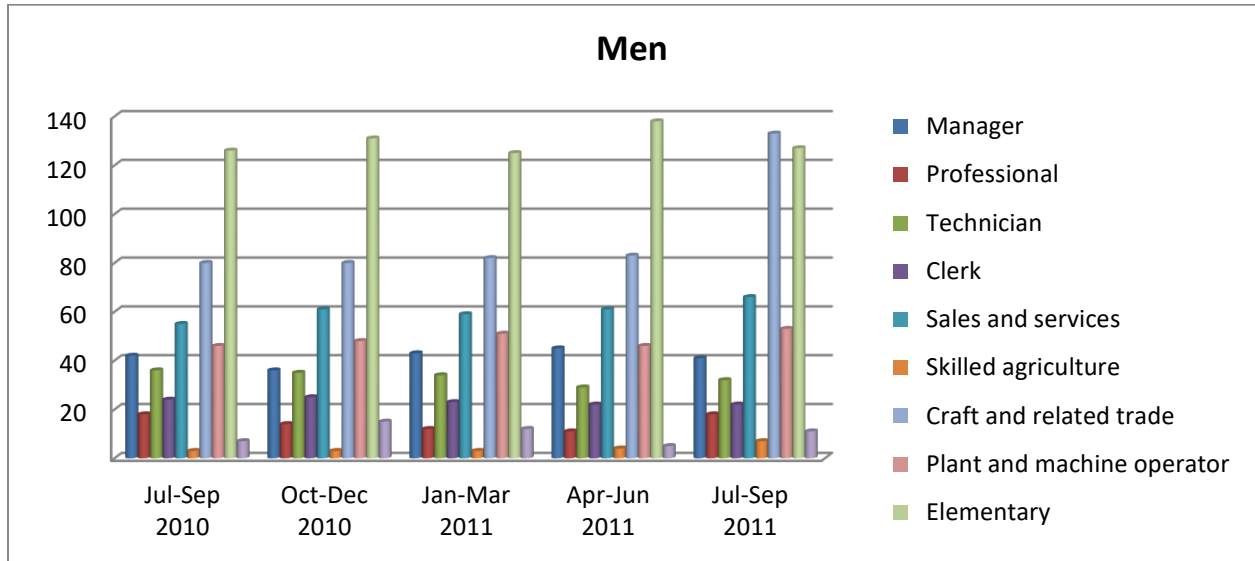
On an annual basis, couple of sectors fared fairly better, with community and social services (which includes government) accounting for most jobs created (19 000), this was followed by trade, finance and construction sectors creating 12 000, 8 000 and 4 000 jobs respectively. However, there were sectors that performed poorly; mining, transport and manufacturing, they recorded 15 000, 14 000 and 11 000 job losses respectively. agriculture, utilities and private households were responsible for 11 000 job losses collectively. The overall net effect was that at least 6 000 jobs were lost over this period.

Employment trends²⁴

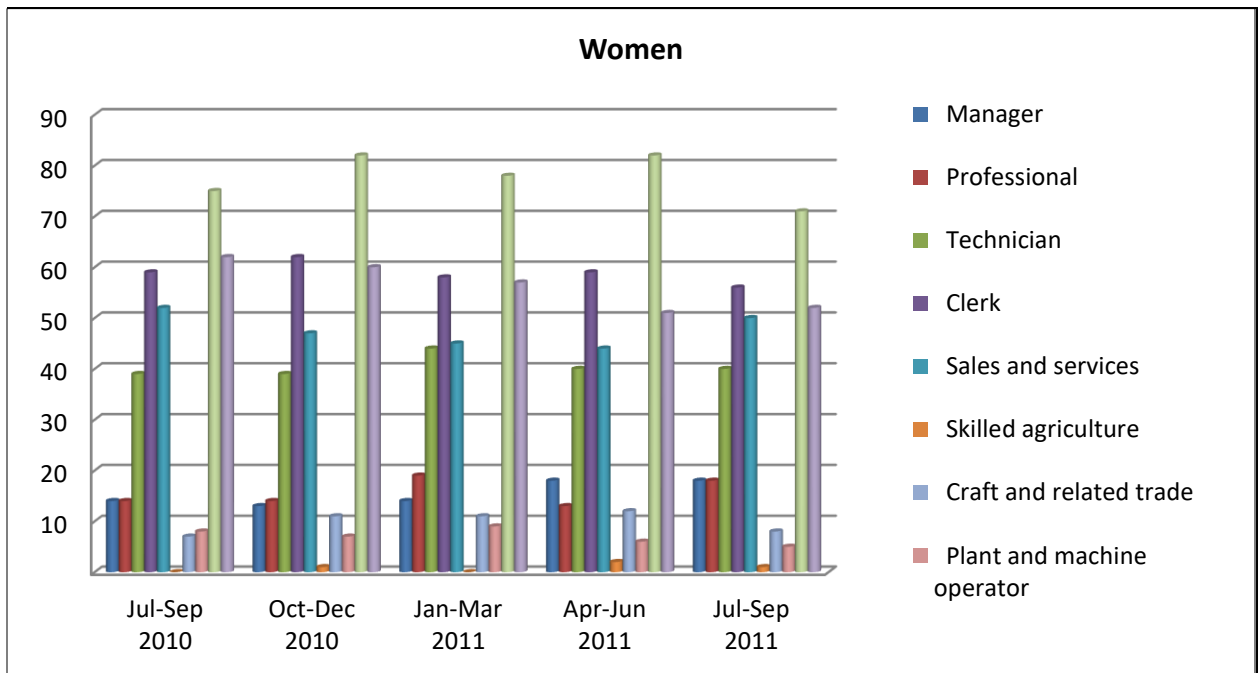
The Free State economy has created 58 000 jobs in the past year between the third quarters of 2010 and 2011. In the third quarter of 2011 alone, the number of individuals employed stood at about 826 000, from 768 000 jobs in the third quarter of 2010. Unfortunately, employment of women of the Free State province alone has fallen from 330 000 jobs in the third quarter of 2010 to 318 000 jobs in 2011 for the same quarter. Nevertheless, the employment of both (women) managers and professionals increased marginally by 4 000 jobs, while technicians and craft and related trade increased by 2 000 jobs when combined. By September 2011, men accounted for more than half of the total employment. Expansion of employment in the province benefited males more than females for the past year.

²⁴ The broad detailed view of the employment by sex and occupation can be seen on table 2 on appendices.

Figure 4.4: Employment by sex and occupation in Free State



Source: Stats SA, Third quarter 2011, QLFS



Source: Stats SA, Third quarter 2011, QLFS

Between the second quarter of 2011 and third quarter of 2011, looking at the male category, the biggest increase in employment was observed in the craft and related trade occupations, where it increased by 50 000 jobs, followed by professionals and plant and machine operators by 7 000 each. The biggest job losses were observed among the elementary (11 000) and manager (4 000) occupations.

The year-on-year comparisons shows an overall jobs gain of 70 000. Most of the jobs created were in craft and related services (53 000) and sales and services (11 000). Job losses were observed in the clerical occupations (2 000) and managerial occupation by 1 000 individuals.

In the women category, between the second quarter of 2011 and third quarter of 2011, the biggest increase in employment was experienced in the sales and services occupation (6 000) and professionals by 5 000 jobs. The biggest job losses were experienced by women in elementary (11 000) and craft and related trade (4000) occupations.

The year-on-year comparison shows that 12 000 women lost their jobs during the period under review. Most this jobs were lost in domestic (10 000) and elementary (4 000) occupations. This is very alarming because most of these women are single parents and breadwinners of their families. Even if they were not paid enough (domestic workers) they were able to support their families with the little they were paid.

Unemployment trends

The number of unemployed individuals in the province decreased by 39 000 people between the third quarter of 2010 and 2011. In terms of gender, about 150 000 females and 133 000 males were unemployed. On average, men represent 26.1% and women 43.7% of the unemployed.

Table 4.9: Characteristics of unemployed

	Jul-Sep 2010	Oct-Dec 2010	Jan-Mar 2011	Apr-Jun 2011	Jul-Sep 2011	Qrt to Qrt change	Year on year change	Qrt to Qrt change	Year on year change
	Thousand						Percent		
Both sexes	322	292	302	303	283	-20	-39	-6.6	-12.1
Women	156	148	161	160	150	-10	-6	-6.3	-3.8
Job losers	45	42	50	45	47	2	2	4.4	4.4
Job leavers	13	15	12	15	10	-5	-3	-33.3	-23.1
New entrants	62	53	64	58	64	6	2	10.3	3.2
Re-entrants	10	12	14	11	7	-4	-3	-36.4	-30.0

Other	25	26	22	31	21	-10	-4	-32.3	-16.0
Men	167	144	141	142	133	-9	-34	-6.3	-20.4
Job losers	78	71	62	67	61	-6	-17	-9.0	-21.8
Job leavers	7	7	9	6	10	4	3	66.7	42.9
New entrants	62	48	48	44	43	-1	-19	-2.3	-30.6
Re-entrants	8	7	10	6	4	-2	-4	-33.3	-50.0
Other	12	12	12	19	15	-4	3	-21.1	25.0

Source: Stats SA, QLFS, Third quarter 2011,

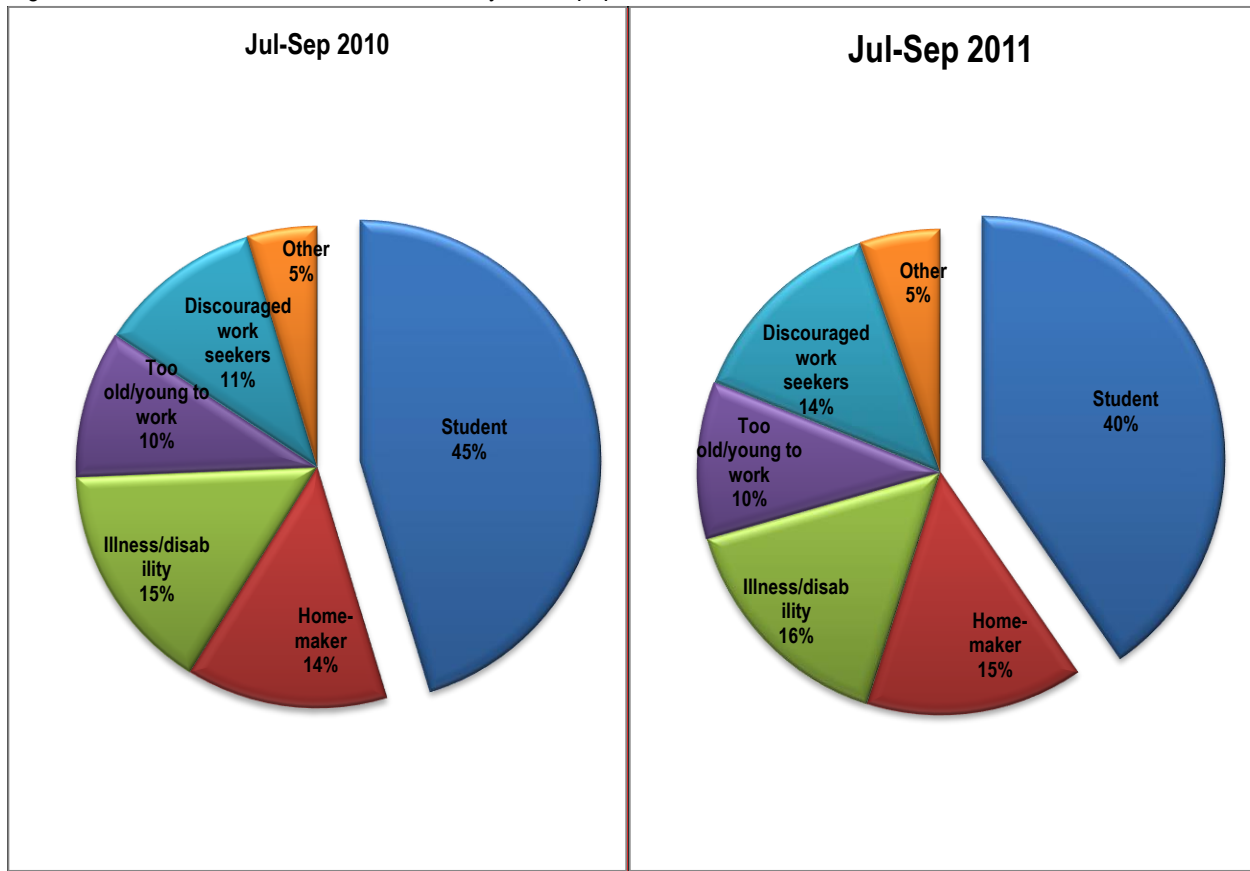
The table above shows that between the second quarter of 2011 and the third quarter of 2011 there was an overall decrease in the number of new entrants into the labour market by 20 000.

In the women category, between the second and third quarter of 2011 there were 5 000 job losers, 4 000 re-entrants and other 10 000 women who did not have employment. On a year-on-year comparison, we observed that many women have found some kind of financial support from their families or had been retrenched as 6 000 jobs were no more active.

Among those who were unemployed, approximately 19 000 who are men were new entrants into the labour market which constitutes 30.6% of the unemployed on a year-on-year comparison. Compared to the third quarter of 2010, the number of re-entrants decreased by 4 000 and new entrants decreased by 19 000, while the number of job leavers increased by 3 000 in the men category, in the third quarter of 2011.

Not economically active population²⁵

Figure 4.5: Characteristics of not economically active population of Free State



Source: Stats SA, QLFS, Third quarter 2011,

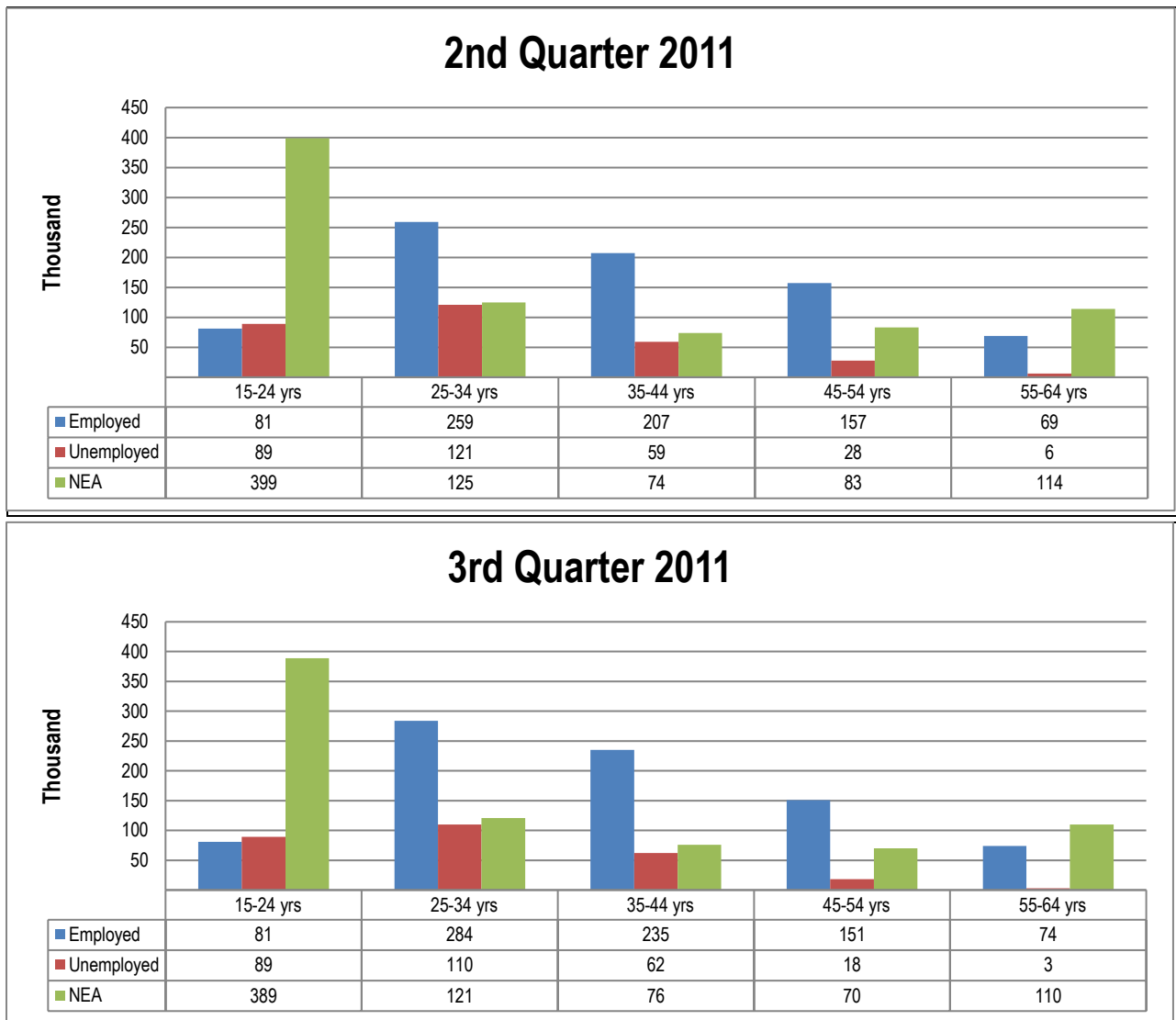
In these figures above, the year-on-year changes indicate that, the number of persons who were not economically active swing (needs some torturing). A decrease was recorded in the number of students (5 percentage points), while the number of persons with an illness or disability, discouraged work seekers and home-makers increased by 1, 3 and 1 percentage points respectively. The number of individuals who were too old or too young to work and other; remain the same.

²⁵ The broad detailed view of the characteristics of not economically active population can be seen on table 4 on appendices.

Key labour market indicators²⁶

Most youth (389 000 individuals in the third quarter) of Free State who are between 15 and 24 years of age are neither employed nor unemployed. These individuals could be either students or school leavers, of which most of them still are depending on their parents for support.

Figure 4.6: Main indicators of labour market



Source: Stats SA, QLFS, Third quarter 2011,

²⁶ The broad detailed view of the socio- demographic characteristics can be seen on appendices, on table 3.

According to the figure above, most jobs were recovered in the third quarter of 2011 as compared to the second quarter of 2011 particularly the fact that most jobs were recorded among the youth (25-34years). 11 000 unemployed youth (25-34years) found some kind of employment in the Free State in different sectors of economy. The quarter to quarter comparison of not economically active shows that more people had taken out steps of looking for employment.

Conclusion

This chapter has presented the dynamics or developments in the global, regional and national labour markets and their long-term implications on the performance of the province's labour market. South Africa's economy had regained almost a third of the jobs lost from the 2008/09 global economic recession and this is encouraging, particularly the fact that the biggest growth had been recorded in Free State province, where unemployment rate has dropped by 2.7% points in the third quarter of 2011 as compared to the second quarter of 2011. This translates to 54 000 more jobs in Free State in the same period. Even if the growth recorded may look like a drop in the ocean, an effort of creating jobs is promising even if the scores of unemployment remain a challenge in the country.

The country's biggest challenge now is Eurozone crisis, as analysts envisage a possible severe recession in 2012. Trading partners will be affected too, and jobs in most sectors will be shared.

Since the EU is one of South Africa's major export markets (valued at over €22 billion per year, Business Report November 2011), every South African should be concerned about the success of the EU; collapse of its economies will directly cause significant collapse of business in South Africa.

APPENDICES²⁷

	Jul-Sep 2010	Oct-Dec 2010	Jan-Mar 2011	Apr-Jun 2011	Jul-Sep 2011	Qrt to Qrt change	Year on year change	Qrt to Qrt change	Year on year change
	Thousand					Percentage			
Both sexes	768	785	780	772	826	54	58	7.0	7.6
Women	330	337	335	326	318	-8	-12	-2.5	-3.6
Manager	14	13	14	18	18	0	4	0.0	28.6
Professional	14	14	19	13	18	5	4	38.5	28.6
Technician	39	39	44	40	40	0	1	0.0	2.6
Clerk	59	62	58	59	56	-3	-3	-5.1	-5.1
Sales and services	52	47	45	44	50	6	-2	13.6	-3.8
Skilled agriculture	.	1	.	2	1	-1	.	-50.0	.
Craft and related trade	7	11	11	12	8	-4	1	-33.3	14.3
Plant and machine operator	8	7	9	6	5	-1	-3	-16.7	-37.5
Elementary	75	82	78	82	71	-11	-4	-13.4	-5.3
Domestic worker	62	60	57	51	52	1	-10	2.0	-16.1
Men	438	447	445	445	508	63	70	14.2	16.0
Manager	42	36	43	45	41	-4	-1	-8.9	-2.4
Professional	18	14	12	11	18	7	0	63.6	0.0
Technician	36	35	34	29	32	3	-4	10.3	-11.1
Clerk	24	25	23	22	22	0	-2	0.0	-8.3
Sales and services	55	61	59	61	66	5	11	8.2	20.0
Skilled agriculture	3	3	3	4	7	3	4	75.0	133.3
Craft and related trade	80	80	82	83	133	50	53	60.2	66.3
Plant and machine operator	46	48	51	46	53	7	7	15.2	15.2
Elementary	126	131	125	138	127	-11	1	-8.0	0.8
Domestic worker	7	15	12	5	11	6	4	120.0	57.1

Source: Statistics South Africa, Third quarter 2011, QLFS

	Jul-Sep 2010	Oct-Dec 2010	Jan-Mar 2011	Apr-Jun 2011	Jul-Sep 2011	Qrt to Qrt change	Year on year change	Qrt to Qrt change	Year on year change
	Thousand					Percent			
Age group of the employed	768	785	780	772	826	54	58	7.0	7.6
15-24 yrs	81	92	84	81	81	0	0	0.0	0.0
25-34 yrs	231	238	241	259	284	25	53	9.7	22.9
35-44 yrs	221	218	229	207	235	28	14	13.5	6.3
45-54 yrs	172	171	168	157	151	-6	-21	-3.8	-12.2
55-64 yrs	63	66	58	69	74	5	11	7.2	17.5
Age group of the unemployed	322	292	302	303	283	-20	-39	-6.6	-12.1

²⁷ Due to rounding, numbers do not necessarily add up to totals

15-24 yrs	100	85	92	89	89	0	-11	0.0	-11.0
25-34 yrs	136	128	125	121	110	-11	-26	-9.1	-19.1
35-44 yrs	59	51	56	59	62	3	3	5.1	5.1
45-54 yrs	21	25	25	28	18	-10	-3	-35.7	-14.3
55-64 yrs	6	4	5	6	3	-3	-3	-50.0	-50.0
Age group of the not economically active	769	787	785	796	765	-31	-4	-3.9	-0.5
15-24 yrs	408	410	407	399	389	-10	-19	-2.5	-4.7
25-34 yrs	113	118	123	125	121	-4	8	-3.2	7.1
35-44 yrs	66	71	71	74	76	2	10	2.7	15.2
45-54 yrs	81	89	86	83	70	-13	-11	-15.7	-13.6
55-64 yrs	102	98	97	114	110	-4	8	-3.5	7.8
Highest level of education of the employed	768	785	780	772	826	54	58	7.0	7.6
No schooling	20	17	15	11	11	0	-9	0.0	-45.0
Less than primary completed	88	79	81	74	99	25	11	33.8	12.5
Primary completed	47	57	55	58	54	-4	7	-6.9	14.9
Secondary not completed	271	285	292	277	287	10	16	3.6	5.9
Secondary completed	215	213	200	221	229	8	14	3.6	6.5
Tertiary	124	130	135	125	138	13	14	10.4	11.3
Other	3	4	1	5	8	3	5	60.0	166.7
Highest level of education of the unemployed	322	292	302	303	283	-20	-39	-6.6	-12.1
No schooling	5	2	3	3	3	0	-2	0.0	-40.0
Less than primary completed	33	29	23	23	17	-6	-16	-26.1	-48.5
Primary completed	11	15	13	14	17	3	6	21.4	54.5
Secondary not completed	152	136	151	150	136	-14	-16	-9.3	-10.5
Secondary completed	107	97	98	99	93	-6	-14	-6.1	-13.1
Tertiary	14	12	15	12	13	1	-1	8.3	-7.1
Other		1			3	3	3	.	.
Highest level of education of the not economically active	769	787	785	796	765	-31	-4	-3.9	-0.5
No schooling	32	37	37	40	37	-3	5	-7.5	15.6
Less than primary completed	101	107	94	110	102	-8	1	-7.3	1.0
Primary completed	73	69	60	56	62	6	-11	10.7	-15.1
Secondary not completed	413	427	433	440	423	-17	10	-3.9	2.4
Secondary completed	127	132	142	128	122	-6	-5	-4.7	-3.9
Tertiary	19	14	14	16	14	-2	-5	-12.5	-26.3
Other	3	1	4	5	4	-1	1	-20.0	33.3
Current marital status of the employed	768	785	780	772	826	54	58	7.0	7.6
Married	382	387	384	360	381	21	-1	5.8	-0.3
Living together like husband and wife	98	92	92	90	101	11	3	12.2	3.1
Widow/widower	34	34	38	31	36	5	2	16.1	5.9
Divorced or separated	35	31	32	33	31	-2	-4	-6.1	-11.4
Never married	218	240	233	257	278	21	60	8.2	27.5
Current marital status of the unemployed	322	292	302	303	283	-20	-39	-6.6	-12.1
Married	67	65	70	60	48	-12	-19	-20.0	-28.4
Living together like husband and wife	24	25	25	32	41	9	17	28.1	70.8
Widow/widower	7	8	7	10	10	0	3	0.0	42.9
Divorced or separated	13	9	9	10	11	1	-2	10.0	-15.4
Never married	212	185	190	191	172	-19	-40	-9.9	-18.9
Current marital status of the not economically active	769	787	785	796	765	-31	-4	-3.9	-0.5

Married	162	178	172	172	159	-13	-3	-7.6	-1.9
Living together like husband and wife	42	46	43	47	56	9	14	19.1	33.3
Widow/widower	43	48	52	53	47	-6	4	-11.3	9.3
Divorced or separated	23	24	22	22	19	-3	-4	-13.6	-17.4
Never married	499	491	496	501	485	-16	-14	-3.2	-2.8

Source: Statistics South Africa, Third quarter 2011, QLFS

Table 4.12: Characteristics of the not economically active - Free State									
	Jul-Sep 2010	Oct-Dec 2010	Jan-Mar 2011	Apr-Jun 2011	Jul-Sep 2011	Qrt to Qrt change	Year on year change	Qrt to Qrt change	Year on year change
	Thousand					Percent			
Not economically active	769	787	785	796	765	-31	-4	-3.9	-0.5
Student	348	338	335	326	309	-17	-39	-5.2	-11.2
Home-maker	104	121	117	109	111	2	7	1.8	6.7
Illness/disability	119	139	130	143	120	-23	1	-16.1	0.8
Too old/young to work	76	73	73	76	80	4	4	5.3	5.3
Discouraged work seekers	85	82	87	94	104	10	19	10.6	22.4
Other	36	34	44	46	41	-5	5	-10.9	13.9
Inactivity rate by age (Both sexes)	41.3	42.2	42.0	42.6	40.8	-1.8	-0.5		
15-24 yrs	69.3	69.8	69.9	70.1	69.6	-0.5	0.3		
25-54 yrs	23.5	25.1	25.0	25.3	23.6	-1.7	0.1		
55-64 yrs	59.6	58.0	60.6	60.6	58.8	-1.8	-0.8		
Inactivity rate by age (Women)	48.5	49.5	49.4	49.9	49.4	-0.5	0.9		
15-24 yrs	73.2	73.9	73.3	72.1	74.0	1.9	0.8		
25-54 yrs	32.5	33.5	34.0	34.5	33.8	-0.7	1.3		
55-64 yrs	72.2	69.6	68.8	72.0	67.0	-5.0	-5.2		
Inactivity rate by age (Men)	34.0	34.4	33.9	34.6	32.5	-2.1	-1.5		
15-24 yrs	65.4	65.6	66.3	68.3	64.8	-3.5	-0.6		
25-54 yrs	13.9	16.2	15.1	15.5	13.9	-1.6	0.0		
55-64 yrs	45.7	44.2	49.3	45.1	48.9	3.8	3.2		

Source: Statistics South Africa, Third quarter 2011, QLFS

Table 4.13: Employed by sex and usual hours of work - Free State

	Jul-Sep 2010	Oct-Dec 2010	Jan-Mar 2011	Apr-Jun 2011	Jul-Sep 2011	Qrt to Qrt change	Year on year change	Qrt to Qrt change	Year on year change
	Thousand						Percent		
Both sexes	768	785	780	772	826	54	58	7.0	7.6
Working less than 15 hours per week	21	27	17	29	26	-3	5	-10.3	23.8
Working 15-29 hours per week	62	60	74	61	62	1	0	1.6	0.0
Working 30-39 hours per week	67	69	71	69	63	-6	-4	-8.7	-6.0
Working 40-45 hours per week	382	370	387	375	392	17	10	4.5	2.6
Working more than 45 hours per week	236	258	231	238	284	46	48	19.3	20.3
Women	330	337	335	326	318	-8	-12	-2.5	-3.6
Working less than 15 hours per week	17	14	10	9	10	1	-7	11.1	-41.2
Working 15-29 hours per week	43	37	43	40	37	-3	-6	-7.5	-14.0
Working 30-39 hours per week	40	47	45	44	44	0	4	0.0	10.0
Working 40-45 hours per week	160	170	170	157	154	-3	-6	-1.9	-3.8
Working more than 45 hours per week	70	70	67	76	74	-2	4	-2.6	5.7
Men	438	447	445	445	508	63	70	14.2	16.0
Working less than 15 hours per week	4	14	7	20	16	-4	12	-20.0	300.0
Working 15-29 hours per week	19	23	31	21	25	4	6	19.0	31.6
Working 30-39 hours per week	27	23	26	24	19	-5	-8	-20.8	-29.6
Working 40-45 hours per week	222	201	217	218	239	21	17	9.6	7.7
Working more than 45 hours per week	166	188	164	162	210	48	44	29.6	26.5

Source: Statistics South Africa, Third quarter 2011, QLFS