



PROVINCIAL ECONOMIC REVIEW & OUTLOOK, 2019

2019



MEC'S FOREWORD



Spurred by the President's Economic Recovery and Stimulus Package, the province has undertaken a number of initiatives to give practical meaning to the ANC-led government's focus on accelerating inclusive growth last year. These includes trade missions to countries such as China, Russia, Croatia, Denmark, India, Belarus, Bulgaria, and the United Arab Emirates. The total investment value for these investors is estimated at R2.6 billion which will be realized in the next five to ten years as we operationalize of the Maloti-a-Phofung SEZ. We have used our transversal

procurement strategy to promote economic inclusion, competitiveness and optimise value-chains.

It is therefore not so surprising that the province experienced a growth rate of 2.9 per cent in 2017. Even though this is still below the target growth of 6 per cent as outlined in our Provincial Growth and Development Strategy, it is significant to catapult the province into a higher and even more inclusive growth trajectory. Our resolve to pilot gender-responsive planning and budgeting in the province will add further impetus to this noble objective. The transformation of the economy remains central to our strategic intent. Productive use of the many acres of land in our province should change the course of our labour-absorbing agricultural sector in general and rural development in particular, coupled with planned and ongoing establishments of industries in the energy sector.

During the State of the Nation Address marking the end of the 5th post-apartheid administration, President Ramaphosa aptly cited the following as the tasks that must be focused on going forward: (1) accelerate inclusive economic growth and create jobs; (2) improve the education system and develop the skills that we need now and into the future; (3) improve the conditions of life for all South Africans, especially the poor and the vulnerable; (4) step up the fight against corruption and state capture; and lastly (5) strengthen the capacity of the state to address the needs of the people.

As we roll up our sleeves in earnest anticipation of the task at hand, as we implement the National Development Plan with much more vigour, we remain resolute that we have the support, trust and confidence of our people and key stakeholders in the meaningful transformation and betterment of the lives of our people, especially the poor and the vulnerable.

Ms. Elzabe Rockman

MEC: Free State Provincial Treasury

EXECUTIVE SUMMARY

Global and national macroeconomic performance

The world economy has strengthened as lingering fragilities related to the global financial crisis subside. In 2017, global economic growth reached 3 per cent, which is the highest growth rate since 2011. The improved global economic situation provides an opportunity for countries to focus policy towards longer-term issues such as low carbon economic growth, reducing inequalities, economic diversification and eliminating deep-rooted barriers that hinder development. The global economic growth is projected to have expanded by 3.7 per cent in 2018, which is a high and constant economic growth compared to 2017, but the expansion is becoming less even, and risks to the outlook are mounting.

The rate of expansion appears to have peaked in some major economies and growth has become less synchronized. In the United States of America (USA), near-term momentum is strengthening in line with the 2018 April WEO forecast. The USA's growth is projected to increase from 2.2 per cent in 2017 to 2.9 per cent in 2018, owing to increased private sector activity fuelled by the current fiscal stimulus in the country. However, growth of the USA might regress to 2.5 per cent in 2019, due to the current trade tensions between the US and other countries. Growth projections have been revised down for the euro area, Japan, and the United Kingdom, reflecting negative surprises to activity in early 2018.

Among emerging market and developing economies, growth prospects are also becoming more uneven, amid rising oil prices, higher yields in the USA, escalating trade tensions, and market pressures on the currencies of some economies with weaker fundamentals. Some economies, including Brazil, India and Russia, experienced a mild pickup in growth in 2018, while others, such as Argentina, South Africa and Turkey, came under intense financial pressure and suffered recessions or near-recessions. Growth projections have been revised down for Argentina, Brazil, and India, while the outlook for some oil exporters has strengthened. China's economic growth is projected to uninterruptedly moderate from 6.9 per cent in 2017 to 6.2 per cent in 2019, due to a declining external demand, tightening financial regulation and the country's economic restructuring towards a more sustainable growth path. In particular, the trade tensions between China and the US is estimated to be the main reason for the 0.2 percentage points shred of Chinese growth in 2019. Going forward, emerging markets face a number of

headwinds, including slowing growth in advanced economies and in the pace of world trade; the strong US dollar; tightening financial conditions; and rising political uncertainty in countries such as Brazil and Mexico.

The South African economy is projected to have grown by 0.8 per cent in 2018, which is 0.5 percentage points below the preceding year's economic growth of 1.3 per cent in 2017. The World Bank has projected that South Africa's economic growth will accelerate only modestly to 1.3 per cent in 2019, held back by constraints on domestic demand and limited government spending. The Bank's forecast compares with the 1.7 per cent given by Finance Minister Tito Mboweni in October 2018, while the South African Reserve Bank kept its own prediction unchanged at 1.9 per cent in November 2018.

Free State province's economic structure and performance

Free State provincial economy continues on a transformational trajectory. Over the past ten years, the share of the primary industries has continued to decline unabated in the provincial economy. These industries contributed 18.8 per cent to the provincial economic output in 2008, declining to 14.3 per cent in 2017; representing a contraction of 4.5 percentage points. The share of the secondary industries has remained stagnant at around 16 per cent. What is rather concerning is the declining share of the manufacturing sector (from 12.1 per cent in 2008 to 10.4 per cent in 2017). Manufacturing is recognised as one of the priority sectors in the Free State, therefore the apparent decline of the sector is a major concern. Tertiary industries are the beneficiaries of the transforming structure of the Free State economy. The share of the tertiary industries increased from 55.3 per cent in 2008 to 58.7 per cent in 2017; an increase of 3.4 percentage points.

The biggest sectors in the Free State in 2017 were the community services (22.6 per cent), finance, real estate and business services (14.2 per cent), trade, catering and accommodation (12.5 per cent), and manufacturing (10.4 per cent). The smallest sectors were construction (2.0 per cent), electricity, gas and water (4.3 per cent), and agriculture, forestry and fishing (5.0 per cent).

It is evident that an important structural shift has taken place in the Free State provincial economy during the period under review. The structural change in the provincial economy can

be characterised in the main, by a move away from primary and manufacturing production, towards a greater emphasis on output in the services sector. The key loss in production share though, lay in the primary sectors, with manufacturing production remaining largely unchanged. This reflects not only that the economy has been mimicking national and global trends, but also that the economy is well placed to exploit opportunities in a sector that is growing faster than any other in the world economy.

The Free State provincial economy has barely recovered from the 2009 economic recession, recording further negative annual growth rates in 2015 and 2016, largely due to the draught and declining commodity prices. In the five years preceding the 2009 recession, the provincial economy grew by 3.6 per cent on average, compared to just 2.3 in the following five years and 0.9 per cent in the three years after that. The poor growth rate of the provincial economy is primarily informed by the following factors:

- The slowdown in the agriculture sector mainly as a result of drought;
- Declining output and low prices for commodities coming from our province;
- Stagnated manufacturing; as well as
- Marginal growth in the government and community services sector.

During the period 2008 to 2017, the fastest growing industries were agriculture (5.8 per cent), construction (2.3 per cent) and community services (2.3 per cent). On the other hand, the worst average growth rates were in mining (0.0 per cent) and electricity (-0.6 per cent).

The Free State economy is estimated to have declined by -1.4% in 2018. The provincial economy is projected to recover and grow by 0.9 per cent in 2019, and this growth is expected to accelerate to 1.5 per cent in 2022. This growth rate over the MTEF period remains below the 5.4 per cent target to significantly reduce unemployment rate by 2030. The Free State province faces challenges such a volatility in the performance of the agricultural industry as well as the commodity markets, structural challenges in the mining industry such as deep-seated gold reserves, a struggling GFCF and consequent weak performance of the construction industry and a chronically high unemployment rate which negatively affects the demand within other industries.

In response to these challenges, the Free State Government has undertaken a number of measures to improve and accelerate inclusive economic growth, some of which are:

- **Radical Economic Transformation Fund:** The allocated budget for the current financial year is R16.7 million and its objective is to support rural and township based enterprises in the priority sectors as identified in the Free State Growth and Development Strategy(FSGDS). The enterprises are assisted with the acquisition of equipment, raw material and refurbishment of their premises to so that they are more competitive and attractive to the target market
- **Risk-sharing Facility:** The DESTEA has established a multi-stakeholder committee which includes DFI's such SEFA, IDC, NEF and FDC as part of the strategy to mobilize funding for enterprises. To this end, the department has introduced the Risk-Sharing co-funding model where the department contributes up to 40% of the required funding as part of own contribution. This strategy has enabled the enterprises to the province to access over R30m in funding in the last financial year. All of the enterprises supported are in key sectors such as manufacturing, agro-processing, and mining.
- **Special Economic Zone (SEZ):** Maluti-A-Phofung SEZ was launched in April 2017. The MAP-SEZ, through its investment promotion strategy has been able to attract local and foreign investors in various industrial sectors supported by the DTI and has a healthy pipeline of more than 14 investors who have been attracted from local and foreign investors within various trade sectors from countries such as China, Russia, Croatia, Denmark, India, Belarus, Bulgaria, and The United Arab Emirates. The total investment value for these investors is estimated at R2.6 billion which will be realized in the next five to ten years.
- **Industrial Park Revitalisation:** DESTEA, FDC and the DTI partnered to support and improve industrial parks in the Province. The DTI has upgraded Botshabelo and QwaQwa industrial parks which were launched in 2017/18 and 2018/19 respectively. The second phase is to establish clusters in the industrial parks and apply to the DTI for cluster funding that will support enterprises within the park. The Botshabelo and Puthaditjhaba Industrial Parks were revitalised for R50m and R49m respectively.
- **Tabalaza Pitching Programme:** A youth targeted platform which brings together inventors and small businesses with investors and venture capitalists. Pitching is done to investors and venture capitalists with the intention of obtaining capital investment

and or funding opportunities. The allocated budget for this programme is R5m shared equally amongst the five district municipalities.

- Tourism Promotion Events: The Authority drives its domestic tourism through events such as Bloem-Show, NAMPO, Fauresmith Endurance, Macufe, Cherry Festival, Free State Madeira Flower Festival, Kasi Tourism, amongst others.

Free State labour market review

Unemployment remains a major challenge globally and locally. An estimated 192 million people were unemployed globally in 2018. About 6.2 million and 441 thousand people were unemployed in South Africa and Free State, respectively, in Q3:2018. It is also disheartening that the unemployment numbers are increasing, whilst those who are employment are increasing at a much slower pace thus resulting in the perpetually increasing unemployment rates. The latest statistics puts unemployment at 27.5 per cent and 36.3 per cent for the country and province respectively. The most vulnerable to unemployment remains Blacks, women and the youth.

Trends in the Free State labour market can be summarised as follows:

- About 79 thousand jobs were lost during the 2009 recession in the Free State and the province has since struggled to recover to pre-recession levels as the provincial economy remained largely stagnant.
- The biggest employers in the Free State in Q3:2018 were community and social services (25.4 per cent), trade (18.2 per cent), private households (11.9 per cent) and agriculture (9.6 per cent), whilst the smallest employers were utilities (1.4 per cent), mining (3.1 per cent) and transport (4.5 per cent).
- About 47.1 per cent are employed in the semi-skilled occupation, 37.2 per cent in the low-skilled occupations and only 15.7 per cent in the skilled occupation.
- The most affected by unemployment in the province are those between 25 and 34 years of age, estimated at 185 thousand young people in Q3:2018. Approximately 41.9 per cent of the unemployed belong to this age group. In Q3:2018 about 62.0 per cent of the unemployed were the youth (i.e. 15 to 34 years of age)
- In the Free State Province, 779 thousand people are said to be NEET; about 60 percent of those are females and half are the youth. The age group 55-64 years has the highest

NEET rate, estimated at 58.5 per cent in Q3:2018, down from 61.5 per cent in Q3:2017. Those between the ages of 24 and 34 years have the second highest rate of NEET at 47.4 per cent in Q3:2018.

The efficiency of the labour market in the Free State Province is currently undermined by a number of issues. One fundamental problem stems from the provincial economy's low capacity to absorb labour, the current employment to population ratio is just 40.7 per cent. This modest labour absorption rate is primarily a product of the mismatch between the skills of the workforce and those demanded by industry. Owing to a lack of training and skills development, a large share of the Free State's workers do not possess the skills required to fill the job openings requiring highly skilled workers across the province. This problem has been exacerbated by changes in the sectoral composition of employment in the province and the country at large, where a shift towards a more capital- and skill-intensive economy has meant that fewer and fewer new low-skilled jobs are becoming available. Inadequate vocational skills training and a poor quality education system have only worsened the skills deficit.

It is, therefore, prudent that the province pursue an aggressive skills development programme to meet the demands of the labour market on the one hand and accelerate inclusive economic growth on the other hand. The Free State Government remains unequivocally committed to this task at hand.



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CHAPTER 1: GLOBAL AND NATIONAL MACROECONOMIC PERFORMANCE

Key Findings

- The global economy is projected to maintain a constant growth rate of 3.7 per cent between 2017 and 2019. However, the globe is facing several downside risks to the economic outlook, including a trade war, risk aversion towards emerging market and developing economies (EMDEs) assets by investors and a tougher external financing environment.
- The aggregate economic growth of advanced economies is estimated to have accelerated from 2.3 per cent in 2017 to 2.4 in 2018. However this growth might retreat to 2.1 per cent in 2019.
- The positive impact of the fiscal stimulus in the United States of America (USA) in 2018 is projected to turn neutral in 2019, whilst the trade war may weigh on the country's growth in 2019. Elsewhere amongst advanced economies, growth began regressing in 2018 and worsen in 2019 for their idiosyncratic circumstances e.g. euro area, the United Kingdom (UK) and Japan.
- Similar to the global growth trajectory, the EMDEs are projected to maintain a constant growth rate of 4.7 per cent between 2017 and 2019. China's growth remains, but is declining towards a sustainable level, whilst India's growth is picking up post its transitory shocks. Also, the economic growth rates of Russia and Brazil have been positive post their 2016 recessions.
- The SSA region is currently benefiting from rising commodity prices, improving agricultural conditions post the 2015/16 drought and increasing domestic demand. As a result, the growth of the region is projected to surge from 2.7 per cent in 2017 to 3.8 per cent in 2019.
- South Africa has faced many downside risks in 2018, including the trade war, currency depreciation, rising crude oil prices, rising VAT, fuel levy and RAF, rising interest rates by the USA and weak business confidence, amongst other. As a result, growth is projected to have weakened from 1.5 per cent in 2017 to 0.8 per cent in 2018. Various economic reforms have been presented in 2018, which may start bearing fruit in 2019 and cause the growth to recover to 1.4 per cent in 2019.
- The global inflation rate may rise from 3.2 per cent in 2017 to 3.8 per cent in 2018 and 2019, due to driven by heterogeneity factors across countries, depending on their cyclical positions as well as the impact of currency depreciations, tighter external financing conditions and rising oil prices.
- The current trade war between the USA and several other countries is having an impact on the commodity market. The broad-based impact of tariffs has indirectly affected global supply chains, trade, and economic growth, and therefore the demand outlook for several commodities. There have also been terms-of-trade effects given the size of the countries affected by tariffs

1.1 GLOBAL ECONOMIC PERFORMANCE

The global economic growth is projected to expand by 3.7 per cent in 2018, which is a high and constant economic growth compared to 2017. The July estimates of the IMF (2018) expected the global economy to grow by 3.9 per cent in 2018, which is 0.2 percentage point higher than the current expectations. However, growth has been revised down in 2018 due to 1) the current trade tensions between the USA and China as well as several other countries, 2) risk aversion by investors from EMDEs with weaker fundamentals and higher political risk, 3) tighter financial conditions e.g. rising interest rates in the USA and 4) rising oil import bills, amongst other reasons. The downside risks faced by the global economy are likely to spill into 2019 and as a result, the global economic growth is projected to remain steady at 3.7 per cent in 2019, although the impact of those risks will differ amongst countries.

The aggregate growth of advanced economies is projected to increase from 2.3 per cent in 2017 to 2.4 per cent in 2018, and thereafter regress to 2.1 per cent in 2019. Amongst these group of countries, growth momentum is notable in the USA in 2018, as the country's growth is projected to increase from 2.2 per cent in 2017 to 2.9 per cent in 2018, owing to increased private sector activity fuelled by the current fiscal stimulus in the country. However, growth of the USA might regress to 2.5 per cent in 2019, due to the current trade tensions between the USA and other countries. The IMF (2018) also assumes that the impact of the fiscal stimulus by the USA will be neutral in 2019, becoming contractionary in the succeeding years. Also whilst fiscal stimulus winds down, monetary policy will tighten further in the USA in 2019.

Elsewhere amongst advanced economies, growth has begun regressing in 2018 and projected to worsen in 2019. The Japanese economy contracted in the 1st quarter of 2018, owing to weak private consumption and investment. Over the medium term, growth will weaken due to higher oil prices, slow employment growth, fiscal consolidation and VAT hike in 2019. The growth of the Euro area will decline between 2017 and 2019 due to idiosyncratic factors amongst its countries, as well as slow productivity and unfavourable demographics in general. Lastly, the United Kingdom (UK) economy will weaken in 2018, but slightly recover in 2019. The UK may be experiencing extreme weather patterns in 2018. Although a slight recovery in the economy is projected in 2019, the medium term growth of the country might be negatively affected by higher trade barriers following Brexit.

Similar to the global economic trend, the growth of emerging markets and developing economies (EMDE) is projected to remain constant from 2017 to 2019, at 4.7 per cent. EMDEs are the main drivers of economic growth globally, however, these group are facing external as well as idiosyncratic challenges which prevent higher economic growth than what is currently projected. The trade tensions between America and China as well other countries are posing one of the biggest challenges on global trade and global growth, with the spill-overs likely to be felt globally. Risk appetite by investors towards EMDEs due to the Turkish crisis has also considerably declined. However, oil exporters within EMDEs will benefit from rising oil prices, which have risen from \$45.26 per barrel (bbl) in November 2016 to \$76.73 per bbl in October 2018.

China's economic growth is projected to uninterruptedly moderate from 6.9 per cent in 2017 to 6.2 per cent in 2019, due to a declining external demand, tightening financial regulation and the country's economic restructuring towards a more sustainable growth path. In particular, the trade tensions between China and the USA is estimated to be the main reason for the 0.2 percentage points shred of Chinese growth in 2019. However, the economic growth rates of India, Brazil and Russia are projected to improve between 2017 and 2019. India's growth will accelerate post the transitory shocks of the currency exchange initiative and the Goods and Services tax, while the Brazilian economy will benefit from a rise in private demand. Russia's growth will rise due to higher oil prices as well as increasing domestic demand.

The Sub-Saharan Africa (SSA) region, dominated by primary commodity exporters and oil exporters in particular, will benefit from rising oil prices. As a result, the economic growth of the region is projected to rise from 2.7 per cent in 2017 to 3.8 per cent in 2019. Amongst the SSA, growth for Nigeria and Angola will improve over the forecast periods given that they are oil producers, whilst SA's growth will temporarily decline in 2018 before recovering in 2019, due to various reasons to be discussed in succeeding sections below.

Table 1.1 Global economic performance

	Year-on-year			
	Actuals		Projections	
	2016	2017	2018	2019
World Output	3.2	3.7	3.7	3.7
Advanced Economies	1.7	2.3	2.4	2.1
United States	1.5	2.2	2.9	2.5
Euro Area	1.8	2.4	2.0	1.9
Germany	1.9	2.5	1.9	1.9
France	1.2	2.3	1.6	1.6
Italy	0.9	1.5	1.2	1.0
Spain	3.3	3.0	2.7	2.2
Japan	0.9	1.7	1.1	0.9
United Kingdom	1.9	1.7	1.4	1.5
Canada	1.4	3.0	2.1	2.0
Other Advanced Economies	2.3	2.8	2.8	2.5
Emerging Market and Developing Economies	4.4	4.7	4.7	4.7
Commonwealth of Independent States	0.4	2.1	2.3	2.4
Russia	-0.2	1.5	1.7	1.8
Excluding Russia	1.9	3.6	3.9	3.6
Emerging and Developing Asia	6.5	6.5	6.5	6.3
China	6.7	6.9	6.6	6.2
India	7.1	6.7	7.3	7.4
ASEAN-5	5.0	5.3	5.3	5.2
Emerging and Developing Europe	3.2	6.0	3.8	2.0
Latin America and the Caribbean	-0.6	1.3	1.2	2.2
Brazil	-3.5	1.0	1.4	2.4
Mexico	2.9	2.0	2.2	2.5
Middle East, North Africa, Afghanistan, and Pakistan	4.9	2.2	2.4	2.7
Saudi Arabia	1.7	-0.9	2.2	2.4
Sub-Saharan Africa	1.4	2.7	3.1	3.8
Nigeria	-1.6	0.8	1.9	2.3
South Africa*	0.6	1.3	0.8	1.4
Memorandum				
European Union	2.0	2.7	2.2	2.0
Low-Income Developing Countries	3.5	4.7	4.7	5.2
Middle East and North Africa	5.2	1.8	2.0	2.5

Source: IMF, World Economic Outlook Database, October 2018,

1.1.1 Growth trends in Advanced economies

The collective growth of advanced economies is projected to accelerate from 2.3 per cent in 2017 to 2.4 per cent in 2018, and thereafter decline to 2.1 per cent in 2019, coherent with the growth trend displayed by the USA over the same period. The growth of the USA will benefit

from the fiscal stimulus the country is currently implementing in 2018, however the effect of the stimulus will become neutral in 2019 before unwinding in 2020. Elsewhere amongst advanced economies, economic growth has begun unwinding in 2018 and will further decline in 2019. Economic activity lost some momentum in the first half of 2018 after peaking in the second half of 2017. Outcomes fell short of projections in the euro area and the United Kingdom, growth in world trade and industrial production declined, and some high-frequency indicators moderated (IMF, 2018). Monetary policy remains accommodative in advanced economies but may tighten in response the USA's current interest hiking, which may continue in 2019 and cause monetary policy tightening in other countries.

Beyond the next couple of years, as output gaps close and monetary policy settings continue to normalize, growth in most advanced economies is expected to decline to potential rates. Slower expansion in working-age populations and projected lacklustre productivity gains will be the prime drivers of lower medium-term growth rates (IMF, 2018).

Table 1.2 Advanced Economies Economic Data

	Real GDP growth			CPI (% changes)		
	Actual	Expected		Actual	Expected	
	2017	2018	2019	2017	2018	2019
Advanced Economies						
USA	2.2	2.9	2.5	2.1	2.4	2.1
Euro Area	2.4	2.0	1.9	1.5	1.7	1.7
United Kingdom	1.7	1.4	1.5	2.7	2.5	2.2
Japan	1.7	1.1	0.9	0.5	1.2	1.3
	Current Account balances (% of GDP)			Official unemployment rates		
	Actual	Expected		Actual	Expected	
	2017	2018	2019	2017	2018	2019
USA	-2.3	-2.5	-3.0	4.4	3.8	3.5
Euro Area	3.5	3.0	2.9	9.1	8.3	8.0
United Kingdom	-3.8	-3.5	-3.2	4.4	4.1	4.2
Japan	4.0	3.6	3.8	2.9	2.9	2.9

Source: IMF, World Economic Outlook Database, October 2018

United States (USA)

The economic growth of the USA is projected to surge from 2.2 per cent in 2017 to 2.9 per cent in 2018. However, this indicator is projected to regress by 0.4 percentage points to 2.5 per cent in 2019. As previously mentioned, the current fiscal stimulus is benefitting economic

growth in the country. However, growth in the USA will slightly retreat in 2019 due to the current trade tensions the country has with other countries, while the impact of the fiscal stimulus will be zero in that particular year. Growth is projected to subside further in 2020 as the fiscal stimulus unwinds.

Inflation in the USA is projected to rise from 2.1 per cent in 2017 to 2.4 per cent in 2018, and thereafter retreat back to 2.1 per cent in 2019. The inflation rate of the country will rise in relation to the fiscal stimulus in 2018, and thereafter decline in 2019 as the fiscal stimulus turn neutral. Also, the USA has increased interest rates three times in 2018, which will further continue to rise in 2019. Rising interest rate normally dampen demand and keep inflation expectations down.

The current deficit of the USA is projected to deteriorate from 2.3 per cent in 2017 to 2.5 per cent in 2018, and further worsen to 3.0 per cent in 2019. The IMF (2018) attributes the widening current account deficit of the country to strong growth in 2018 whilst the initial worsening condition of the indicator in 2019 will be attributed to the expansionary fiscal policy.

However, the unemployment rate of the country is projected to improve from 4.4 per cent in 2017 to 3.5 per cent in 2019. The unemployment rate is currently being aided by fiscal stimulus (by cutting tax and rising both defence and non-defence discretionary spending), a recovery of private investment, and supportive financial conditions, although financial conditions are projected to tighten both in 2018 and 2019. Unemployment is already near levels not seen since the late 1960s (IMF, 2018).

Euro Area

The economic growth of euro area is projected to consistently decline, from 2.4 per cent in 2017 to 2.0 per cent in 2018 and 1.9 per cent in 2019. The 0.4 percentage point decline in growth in 2018 is attributed to slower export growth, higher oil prices, political uncertainty in some countries, whilst others have been experiencing industrial action. Growth will continue to wane into 2020 due to high oil prices, accommodative monetary policy unwinds and borrowing costs increase.

The inflation rate in the euro area is anticipated to have risen from 1.5 per cent in 2017 to 1.7 per cent in 2018, due to incipient signs of rising price pressures from higher oil prices, for example. However, the inflation rate of the monetary union is projected to remain stable at 1.7 per cent in 2019, possibly due to high oil prices and the unwinding of accommodative monetary policy.

The current account surplus of the euro area is projected to decline from 3.5 per cent in 2017 to 3.0 per cent in 2018, and thereafter slightly decline to 2.9 per cent in 2019. The dampening current account surplus in 2018 may be explained by slower export growth coupled with high oil import bills.

The unemployment rate of the monetary union is projected to have significantly declined from 9.1 per cent in 2017 to 8.3 per cent in 2019, and to decline further to 8.0 per cent in 2019. The euro area may be benefiting from interest rates which are currently at 0 per cent, which can positively impact hiring decisions. Headline inflation may rise due to rising energy prices, however core inflation remains around 1 per cent. Also, the long-term inflation expectations continue to hover around 1.6 percent (World Bank, 2019), which creates low interest rate expectations and may be positively affecting hiring decisions.

United Kingdom

The United Kingdom (UK) is projected to have grown by 1.4 per cent in 2018, which is 0.3 percentage points lower than the country's 2017 growth rate. However, the country is expected to recover slightly and grow by 1.5 per cent in 2019. The UK faced similar challenges to the euro areas such as slower export and higher oil prices. However, the country also faced extreme weather patterns in 2018, such as colder winter and hotter summer, which will have a negative impact on agriculture through crop and cattle, as well as unintended consequences on infrastructure. The slight economic recovery in 2019 may point to the positive base effect of abnormal weather in the preceding year. The biggest uncertainty currently facing the UK for 2019 is whether it will exit the European Union with a deal or without a deal. The possibility of a "no-deal" Brexit raises the downside risk of a disruptive exit and of high trade and nontrade barriers between the United Kingdom and the rest of the European Union (IMF 2018). In the medium-term, risks stem from the possibility of shifts in policy agendas and the implementation of politically popular but unsustainable macroeconomic policies, delays of

structural reforms, demographic challenges, rising inequality, and declining trust in mainstream policies.

CPI in the UK is projected to decline from 2.7 per cent in 2017 to 2.5 per cent in 2018, and thereafter decline to 2.2 per cent in 2019. The IMF (2018) attributes the declining inflation in the UK in 2018 and 2019 due to the fading pass-through effects of large sterling depreciation of 2016–17 on domestic prices.

The current account deficit of the UK is projected to uninterruptedly narrow from 3.8 per cent in 2017 to 3.2 per cent in 2019. However, the 2019 forecast will be influenced by couple of factors and its direction is uncretain. The World Bank (2018) expects annual average oil prices to continue to rise in 2019 despite temporary easing between November and December 2018. Therefore as an oil-importer, the current account of the UK might further widen in 2019. Also, Brexit will occur on the 29th of March 2019, and as late as February 2019, no deal has been formulated and agreed upon with Britain on how it will exit the EU. A no-deal Brexit might prove disruptive and may reduce investments into the country, deterring foreign investors from to keep financing the deficit by buying British assets after Britain leaves the EU. However, the sterling might experience a currency depreciation post Brexit, which would make imports expensive and exports cheaper, and decrease the current account deficit in 2019.

The UK is projected to benefit from a declining unemployment rate in 2018. The indicator is projected to decline from 4.4 per cent in 2017 to 4.1 per cent in 2018. Although internal demand has weakened in 2018, slack in the economy has diminished, which has resulted in a declining unemployment rate. However, the unemployment rate may slightly rise to 4.2 per cent in 2019.

Japan

The growth of the Japanese economy is projected to have declined from 1.7 per cent in 2017 to 1.1 per cent in 2018; it is estimated to soften further to 0.9 per cent in 2019. The decline in the projected economic growth of the country in 2018 accommodates the contraction which was experienced in the 1st quarter of the year, which was caused by weaker exports. The hiking of Consumption Tax from 8 per cent to 10 per cent in 2019 may also lead to the softening economic growth of Japan in the same year. The IMF (2018) states that Japan's medium-term prospects are impeded by unfavourable demographics and a trend decline in the labour force,

whilst the World Bank (2018) also includes higher oil prices, slow employment growth and drag to growth by a VAT hike as impediments to economic growth for the country.

Meanwhile, the inflation rate in Japan is projected to rise from 0.5 per cent in 2017 to 1.2 per cent in 2018, and surge further to 1.3 per cent in 2019. Higher energy prices have increased headline inflation in most advanced economies, however core inflation (which excludes food and energy inflation), remains below target for most advanced economies, including Japan. Japan has a low unemployment rate of 2.9 per cent in 2017, which is projected to not change in 2018 and 2019. Therefore, this low unemployment rate is projected to keep real wages growth muted as wages rise only moderately, reflecting weak productivity growth and possibly greater labour market slack than reflected in headline unemployment numbers.

The current account surplus of Japan is projected to temporarily dip from 4.0 per cent in 2017 to 3.6 per cent in 2018, in response to the weaker export growth at the beginning of 2018 from a previous surge in the 4th quarter of 2017 as well as higher oil prices. However, the current account surplus of Japan is projected to rise from 3.6 per cent in 2018 to 3.8 per cent in 2019 in spite of rising oil prices, possibly due to its primary income account and the returns on investments made overseas.

As previous mentioned, the official unemployment rate in Japan was 2.9 per cent in 2017, and this indicator is projected to remain constant in 2018 and 2019. Similar to other advanced economies, Japan is operating above potential and employment growth is projected to be slow. In general, the country has unfavourable demographics characteristics through an ageing population and a shrinking labour force. The IMF (2018) predicts that by 2050, Japan will have the highest dependency ratio (the number of aged dependents per worker) in the world, estimated at 75 per cent. This has implications for the country's plans in relation to the fiscus, debt and social spending.

1.1.2 Growth trends in Emerging markets and developing economies

The aggregate growth of EMDEs will remain constant at 4.7 per cent from 2017 to 2019. In 2018, China's growth remains high although it is declining to a more sustainable level, whilst India's growth is rising post some transitory shocks. Brazil and Russia have been growing post

the 2016 recessions, whilst South Africa's growth remains low due to structural constraints as well as external pressures.

Table 1.3. Emerging Economies Economic Data

Emerging Economies	Real GDP growth			CPI (% changes)		
	Actual	Expected		Actual	Expected	
	2017	2018	2019	2017	2018	2019
China	6.9	6.6	6.2	1.6	2.2	2.4
India	6.7	7.3	7.4	3.6	4.7	4.9
Brazil	1.0	1.4	2.4	3.4	3.7	4.2
Russia	1.5	1.7	1.8	3.7	2.8	5.1
South Africa*	1.3	0.8	1.4	5.3	4.8	5.3
Nigeria	0.8	1.9	2.3	16.5	12.4	13.5
	Current Account balances (% of GDP)			Official unemployment rate		
	Actual	Expected		Actual	Expected	
	2017	2018	2019	2017	2018	2019
China	1.4	0.7	0.7	3.9	4.0	4.0
India	-1.9	-3.0	-2.5	n/a	n/a	n/a
Brazil	-0.5	-1.3	-1.6	12.8	11.8	10.7
Russia	2.2	6.2	5.2	5.2	5.5	5.3
South Africa	-2.5	-3.2	-3.5	27.5	27.9	28.3
Nigeria	2.8	2.0	1.0	16.5	n/a	n/a

Source: IMF, World Economic Outlook Database, October 2018

China

China's economic growth is projected to decelerate from 6.9 per cent in 2017 to 6.6 per cent in 2018, and further to 6.2 per cent in 2019. The IMF (2018) states that the country is experiencing slowing external demand growth and a necessary financial regulatory tightening. The negative effect of the current trade war between China and the USA will result in the 6.2 per cent growth in 2019, which also caters for the partial offset of a policy stimulus by the country. Growth is projected to gradually decline towards 5.6 per cent over the medium term as the economy transitions towards a more sustainable economic growth path with continued financial de-risking and environmental controls. The slowing down of China's economy has negative implications for external demand for countries like South Africa, as China was South Africa's main export destination in 2017 at 9.7 per cent (Trading Economics, 2018)

CPI in China is rising, and it is projected to rise from 1.6 per cent in 2017 to 2.2 per cent in 2018, and thereafter rise further to 2.4 per cent in 2019, due to higher food and energy prices.

However, the current account surplus is projected to decline from 1.4 per cent in 2017 to 0.7 per cent in 2018, and remain at 0.7 per cent in 2019. Export growth is declining and deleveraging is taking place in the country. Again, the effects of the trade war between China and the USA will have a negative effect on the current account balances of China.

The official unemployment rate of China is projected to slightly rise from 3.9 per cent in 2017 to 4.0 per cent in 2018 and remain at 4.0 per cent in 2019. Possible consequences of the trade war is de-investment by foreign investors as well the relocation of the global industrial chain, which will negatively affect labour in China.

India

The lower 6.7 per cent growth of India in 2017 was temporary, caused by the transitory shocks of the currency exchange initiative as well as the implementation of the Goods and Services Tax. Post these negative shocks, India is projected to grow by 7.3 per cent in 2018 and 7.4 per cent in 2019. The higher growths in 2018 and 2019 reflect the base effect of the negative transitory shocks as well as a strengthening investment and a robust private consumption.

The inflation rate of India grew by 3.6 per cent in 2017 and is projected to grow by 4.7 per cent in 2018 and 4.9 per cent in 2019, in response to accelerating demand and rising fuel prices.

However, the current account deficit of India is projected to deteriorate from 1.9 per cent in 2017 to 3.5 per cent in 2018, and thereafter slightly improve to 2.5 per cent in 2019. As a large commodity importer, the current account balance of India is influenced by commodity prices such as the rising fuel prices.

India does not provide unemployment rate figures, however one can deduce that unemployment is declining based on a high and rising economic growth, strengthening investment and strong private consumption.

Brazil

Post its 2016 economic recession, Brazil grew by 1.0 per cent in 2017 and is projected to grow by 1.4 per cent in 2018 and 2.4 per cent in 2019. Private demand is recovering as output gap closes. The nationwide truck drivers' strike and tighter external financial conditions resulted in a weaker-than-expected growth in 2018. Growth over the medium term is projected to average 2.2 per cent in Brazil.

CPI is rising in Brazil. The inflation rate of the country was 3.4 per cent in 2017, and is projected to increase to 3.7 per cent in 2018 and 4.2 per cent in 2019. Monetary policy remains accommodative in the country whilst food price inflation has rebounded after a notable drop caused by an exceptional harvest in 2017.

The current account deficit of Brazil was 0.5 per cent in 2017, and is projected to worsen to 1.3 per cent in 2018 and 1.6 per cent in 2019. The current account of Brazil may be worsening due to a slow economic turnaround of the country, which may be having a negative impact on investment and FDI. Investment is also being negatively affected by uncertainty with regard to the 2018 elections, but may improve once elections have taken place.

The official unemployment rate of the country was 12.8 per cent, however it is projected to decline to 11.8 per cent in 2018 and 10.7 per cent in 2019. Trading Economics attributes the creation of jobs to the informal economy in 2018. In general, economic growth and private demand is improving post the 2016 recession, which may be having a positive impact on the unemployment rate

Russia

Like Brazil, Russia also experienced a recession in 2016 and only restarted growing positively in 2017, by 1.5 per cent. Economic growth is projected to improve to 1.7 per cent in 2018 and 1.8 per cent in 2019. The IMF (2018) attributes the rising economic growth of 2018 to higher oil prices (given that Russia is an oil-exporter), as well as recovering domestic demand.

CPI in Russia is projected to temporarily decline from 3.7 per cent in 2017 to 2.8 per cent in 2018. However, it is projected to accelerate to 5.1 per cent in 2019. In 2018, the inflation rate of the country might decline due to moderately tighter monetary policy. However, inflation

might accelerate in 2019 due to the on-going recovery in domestic demand, higher fuel prices and the pass-through from the recent depreciation (IMF, 2018).

The current account surplus of Russia is projected to quicken from 2.2 per cent in 2017 to 6.2 per cent in 2018, due to rising oil prices. However, the current account balance is projected to slightly decline to 5.2 per cent in 2019. In spite of rising oil prices, the OECD (2018) states that there is uncertainty regarding future sanctions which may be imposed on Russia as well as higher cost of funding emerging markets, which may reduce investment in Russia in 2019 and have a negative impact on its current account balance.

The official unemployment rate of Russia is projected to rise from 5.2 per cent in 2017 to 5.5 per cent in 2018, and thereafter decline to 5.3 per cent in 2019.

South Africa

The economic growth of South Africa is projected to decline from 1.3 per cent in 2017 to 0.8 per cent in 2018. However, the economy is expected to recover and grow by 1.4 per cent in 2019. The economy declined by 2.6 per cent in the 1st quarter of 2018, followed by a 0.4 per cent drop in the successive quarter, which resulted in a technical recession in the 2nd quarter of 2018. The decline of the economy in the 1st and 2nd quarters of 2018 was mainly due to the decline of the agricultural industry, by 33.6 per cent and 31.9 per cent respectively. Four other industries declined in the 1st quarter, whilst two other industries declined in the 2nd quarter of 2018. However, the South African economy recovered in the 3rd quarter and grew by 2.2 per cent, as the agriculture recovered and grew by 6.5 per cent. In general, this resulted in a weaker growth of 0.8 per cent in 2018. The economy is projected to recover and grow by 1.4 per cent in 2019. A number of policy interventions have already been presented in 2018, which may begin to bear fruit in 2019 and onwards. The pace of structural reform implementation and the level of policy credibility will determine the extent of economic recovery.

The inflation rate of South Africa was 5.3 per cent in 2017 and it is projected to decline to 4.8 per cent in 2018. The outlook for the inflation rate is upward, as the indicator is projected to revert back to 5.3 per cent in 2019. The indicator is projected to decline in 2018 as the after effects of the 2015/16 drought subside. However, the disinflationary effects are projected to

subside in 2019. Also, the global crude oil prices are projected to rise further in 2019 (World Bank, 2018), and therefore pose an upside risk to the inflation outlook.

The current account deficit is projected to worsen from 2.5 per cent in 2017 to 3.2 per cent in 2018 and 3.5 per cent in 2019. South Africa is an oil-importing country and the continuously rising oil prices will be to the detriment of the current account balance. Also, the terms of trade of the country is being disadvantaged by exporting mainly primary commodities and importing modified goods, which carry higher prices in general. When the Rand weakens in response to external shocks such as the tightening monetary policy in the USA in 2018 and 2019, the current account balance deteriorates.

The official unemployment rate of South Africa is projected to worsen from 27.5 per cent in 2017 to 27.9 per cent in 2018, which might deteriorate further to 28.3 per cent in 2019. The recession of the 2nd quarter of 2018 and overall weaker economic growth of 2018 may have an impact on job creation in 2018. In general, South Africa faces both structural constraints in the labour market as well as external shocks which detriment the economy and job creation.

Nigeria

Nigeria grew economically by 0.8 per cent in 2017, and this growth is projected to accelerate to 1.9 per cent in 2018 and 2.3 per cent in 2019, mainly due to rising oil prices as well as increasing oil production in the country. In the 2nd quarter of 2018, oil accounted for 76 per cent of all exports of the country.

The inflation rate of Nigeria is projected to decline from 16.5 per cent in 2017 to 12.4 per cent in 2018. However, the indicator may slightly rise to 13.5 per cent in 2019. In general, the lower inflation of 2018 and 2019 relative to 2017 is due to tighter monetary policy implemented in the country as well as the continued moderation of food price increases post the 2015/16 drought.

In spite of rising oil prices and an expectant better current account balance, the current account surplus of Nigeria is projected to deteriorate from 2.8 per cent in 2017 to 2.0 per cent in 2018, and thereafter decline further to 1.0 per cent in 2019. The deteriorating current account deficit in 2018 and 2019 could be due to rising interest rates of the USA, which may weaken Nigeria's

currency. Also, oil production might fall, partly owing to pipeline closures in mid-2018 (World Bank, 2019).

The official unemployment rate of Nigeria was 16.5 per cent in 2017. The country does not provide unemployment statistics for the current year and forecasts. However, with rising oil prices and an improving growth rate, the likelihood is that unemployment has declined in 2018.

1.1.3 Global Inflation Outlook

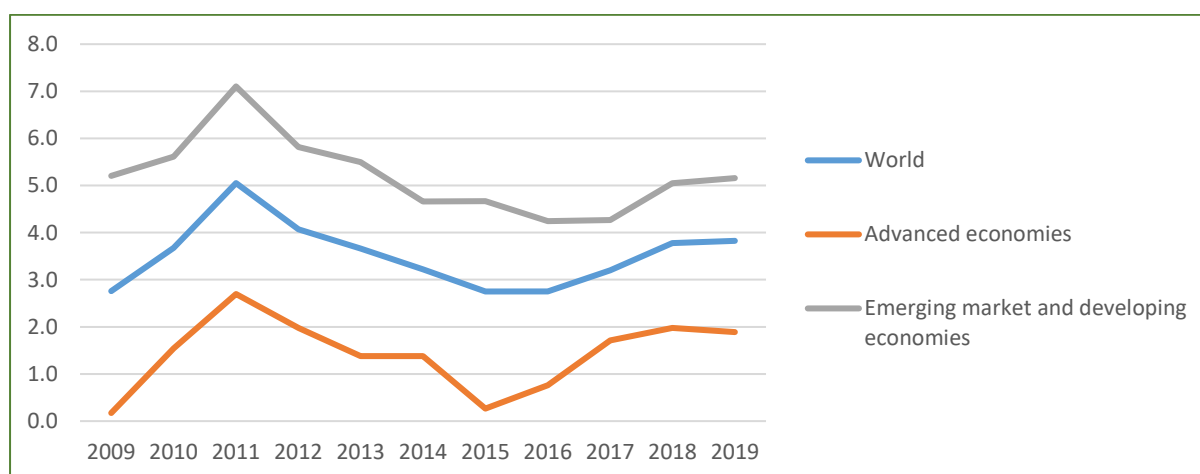
The analysis of global inflation can be broken down into three periods: firstly, the commodity boom era, which led to global inflation peaking at 5.1 per cent in 2011. Secondly, China's economic restructuring and the commencement of the commodity slump in 2012, which led to global inflation declining to its trough of 2.8 per cent in 2015/16 and OPEC (and non-OPEC) members' intervention to boost global oil prices from 2016 onwards, which led global inflation to rise to 3.2 per cent in 2017. Lastly, the decreased oil output has led to rising oil prices, and global inflation is projected to have risen from 3.2 per cent in 2017 to 3.8 per cent in 2018 and 2019.

In particular, global inflation in 2018 is driven by heterogeneity factors across countries, depending on their cyclical positions as well as the impact of currency depreciations and rising oil prices (IMF, 2018).

Global inflation is mainly driven by EMDEs, with a collective inflation rate of 7.1 per cent in 2011, which has declined to 4.2 per cent in 2016. The inflation rate of these group of countries has risen slightly to 4.3 per cent in 2017, and is projected to rise further to 5.0 per cent in 2018 and 5.2 per cent in 2019. Amongst advanced economies, the collective inflation rate has declined from 2.7 per cent in 2011 to 0.3 per cent in 2015. However, the indicator rose to 1.7 per cent in 2017, and is projected to climb further to 2.0 per cent in 2018 and thereafter decline slightly to 1.9 per cent in 2019.

Although the inflation rates of countries also consider their idiosyncratic factors, monetary policy tightening by the USA in 2018 and 2019 may result in weaker exchange rates of EMDEs and monetary policy tightening globally in general. Therefore, inflation globally in 2019 may be determined by rising oil prices versus tightening monetary policy.

Figure 1.1: Global Inflation (% Change)



Source: IMF, World Economic Outlook Database, October 2018

The difference between an economy's actual output and its potential output at full capacity is an output gap and is expressed as percentage of GDP. A negative output gap indicates the actual output of the economy is below its maximum potential output and a positive output gap indicates that an economy is outperforming expectations because its actual output is higher than the economy's recognized maximum capacity output (it is operating above its potential).

Table 1.4 below shows that the output gaps of advanced economies improved from negative 0.8 per cent in 2015 to negative 0.1 per cent in 2017. Thereafter, these group of countries have been operating above their potential, with an expected positive output gap of 0.5 in 2018, which is projected to rise to 0.8 per cent in 2019. Given that output gap of advanced economies has been improving since 2015, the collective unemployment rate of these countries has declined from 6.7 per cent in 2015 to 5.6 per cent in 2017, and is projected to decline further to 5.2 per cent in 2018 and 5.0 per cent in 2019.

The 2018 PERO explains that the improving output gap may be a reflection that potential growth has declined due to e.g. crisis legacies, aging population in Japan and Euro Area, and that actual growth is growing above potential growth in some countries e.g. USA, and Euro Area.

In general, a positive output with a declining unemployment rate coupled with a relatively constant inflation rate between 2018 and 2019 reflects that wage and core-price inflation remain weak. Real wage growth in most advanced economies remains muted, even as labour markets tighten and output gaps close (IMF, 2018). Over the medium term, growth in most advanced economies is expected to decline to potential rates well below the averages reached before the global financial crisis of a decade ago, as outputs gap will close and monetary policy normalises.

Table 1.4: Output gaps and unemployment rates in advanced economies

Advanced economies	2015	2016	2017	2018	2019
Output gap	-0.8	-0.7	-0.1	0.5	0.8
Unemployment Rate	6.7	6.2	5.6	5.2	5.0

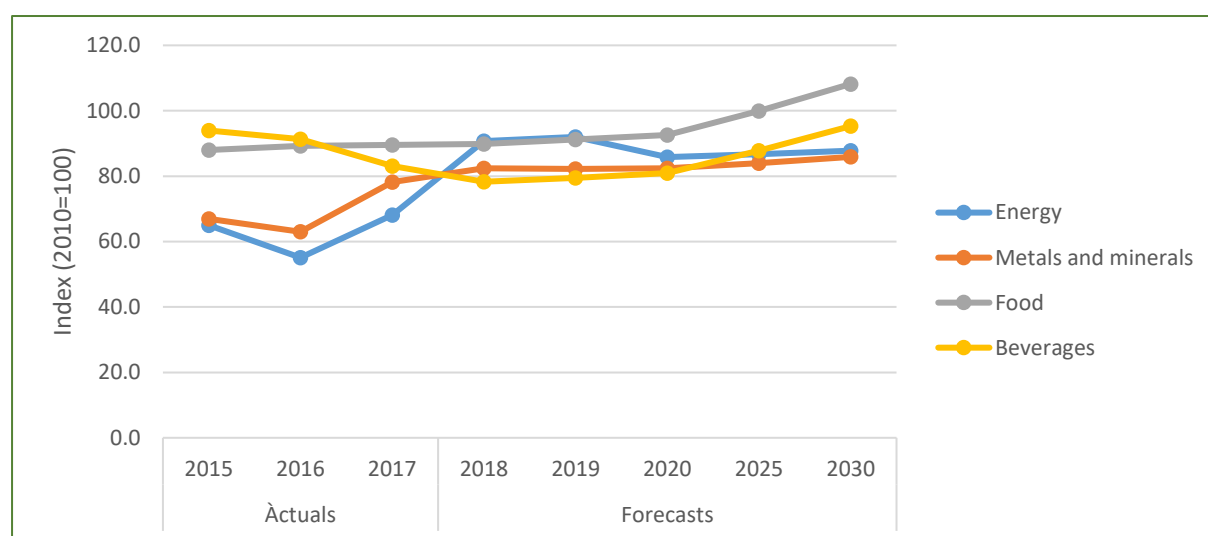
Source: IMF, World Economic Outlook Database, October 2018

1.1.4 Commodity Prices

As indicated in section 1.1.3 above, commodity prices have played a huge role in the movement of global inflation during the commodity boom, during the commodity slump and after policy interventions such as OPEC's agreement to reduce oil output to boost oil prices. The global commodity market is facing another challenge in 2018, in the form of trade tensions between the USA and China, and between the USA and other countries. For example, the USA imposed an import tariff on steel and aluminium products from China and other countries such as South Africa, whilst China retaliated by imposing tariffs on soybeans and other food products from the USA. The impact of trade war through tariffs is two-fold. Firstly, the direct impact of commodity-specific tariffs has led to widening price differentials of the affected commodities and trade diversion. Secondly, the general impact of broad-based tariffs has indirectly affected global supply chains, trade, and economic growth, and therefore the demand outlook for several commodities. There have also been terms-of-trade effects given the size of the countries affected by tariffs (World Bank, 2018).

Other challenges faced by the commodity market in 2018 include increased sanctions on e.g. Iran, deteriorating growth prospects for EMDEs and an appreciating USA dollar. Against this backdrop, figure 1.2 shows global trend in commodity prices of energy, metals & minerals, food as well as beverages.

Figure 1.2 Global Trend in Commodity Prices (2010 = 100)



Source: World Bank, Commodity Markets Outlook, October 2018

Energy

Figure 1.2 above shows that the energy index fell from 65.0 in 2015 to 55.1 in 2016. Thereafter, the index rose to 68.1 in 2017. The crude oil index accounts for 85 per cent and therefore the decline in the energy index between 2015 and 2016 may largely reflect the performance of oil prices, which fell from 2014 until late 2016. It was only in 2016 that OPEC (and non-OPEC) members agreed to reduce oil output to boost oil prices, which have been climbing since the intervention. As a result, the energy index between 2016 and 2017. The energy index is projected to have risen from 68.1 in 2017 to 90.7 in 2018, and it is projected to rise further to 92.0 in 2019. Average crude oil prices are projected to have also risen from \$52.8 per barrel (bbl) in 2017 to \$72.0 per bbl in 2018 and may rise further to \$74.0 per bbl in 2019. In 2018, oil prices have been volatile, but mostly trending upwards due to concerns over the re-introduction of sanctions by the USA on Iran and its impact on Iranian oil production and

exports. Also, Venezuela has incurred production losses in oil, which helped push oil prices further. However, the World Bank (2018) states that other OPEC members and Russia have been increasing oil production in 2018, which may partly offset the upside risk to oil prices.

Coal prices have also helped push the energy index upwards in recent years. Australian coal prices have increased from \$58.9 per metric ton (mt) in 2015 to \$88.5 per mt in 2017, and are projected to rise further to \$108.0 per mt in 2018. In 2016, China decided to reduce its own coal production and subsequently increased its external demand for coal. However, the rise of coal prices in 2018 is due strong demand for electricity from Europe and Asia due to unusual hot temperatures (World Bank, 2018). Australian coal prices are projected to decline from \$108.0 per mt in 2018 to \$100.0 per mt in 2019.

Upside risks to the energy index in 2019 include the impact of U.S. sanctions on Iranian oil exports, a further deterioration of production in Venezuela, and an inability or unwillingness of other OPEC members to significantly expand production. Prices are likely to peak in the first half of 2019 and decline thereafter as U.S. production bottlenecks ease. Over the long term, the energy index is forecasted to decline from 92.0 in 2019 to 87.8 in 2030. Similarly, average crude oil prices are projected to decline from \$74.0 per bbl to \$70.0 per bbl whilst Australian coal prices are also predicted to fall from \$100.0 per mt to \$60.0 per mt over the same period.

Metals

The metal index temporarily declined from 66.9 in 2015 to 63.0 in 2016, and thereafter surged to 78.2 in 2017. As explained in the 2018 PERO, the notable surge of the metal index in 2017 was due to iron ore prices, which increased from \$58.4 per dmt in 2016 to \$71.8 per dmt in 2017 due to strong demand and restocking in China, which was evident in the 1st quarter of 2017. Also, copper prices also increased from \$4868 per mt in 2016 to \$6170 per mt in 2017, mainly due to supply disruptions. Labour strikes have taken place in Chile and Peru, whilst contractual disagreements in Indonesia have reduced copper output. There is a strong demand for zinc to galvanize steel, therefore as the demand for steel increases, so will the demand for zinc. Also, there has been closure of large zinc mines in recent years, which will decrease output.

The metal index is projected to increase from 78.2 in 2017 to 82.4 in 2018 and 82.2 in 2019. The World Bank (2018) attributes this surge of the metal index in 2018 to supply constraints, including the closure of the world's largest supplier of alumina and environmentally driven reductions in production in China, which helped support prices of some metals. The upside risks to the metal index include stronger demand from China due to policy stimulus, and tighter environmental constraints and policy actions that limit production, notably in China. The downside risk to the outlook of the index include the worsening of trade tensions between the USA and China, and weaker global growth.

Over the long term, the metal index is projected to rise from 82.2 in 2019 to 85.9 in 2030. The increase in the index over the medium term may be supported by 1) infrastructure development for the Tokyo 2020 Olympics in Japan, and 2) USA's future investment in infrastructure under the current administration.

Food

The food index has increased from 88.0 in 2015 to 89.6 in 2017. The index is projected to climb further to 89.9 in 2018 and 91.2 in 2019, until it reaches 108.2 in 2030. Between 2015 and 2017, the food index increased due to rising oil prices which are inputs costs to food production, as well as good crop conditions in the 2017/18 crop season. The minute or almost non-existent increase of the food index from 89.6 in 2017 to 89.9 in 2018 is caused by several challenges faced by the global agricultural industry in 2018, such as ample supplies for most oilseeds and grains (except wheat), trade tensions which affected a range of agricultural prices (notably soybeans) and EMDE currency depreciations (especially the Brazilian real).

However, the index is projected to climb from 89.9 in 2018 to 91.2 in 2019, as agricultural prices gain 2 per cent in 2019. The 2019 outlook will be supported by rising input costs (oil and fertilizers) as well as increasing biofuels production, which might lift energy-intensive crops such as grains and oilseeds. The downside risk to agricultural prices is the current trade tensions globally.

Beverages

The beverages index declined from 94.0 in 2015 to 83.1 in 2017, due to an oversupply of coffee in the market between 2014 and 2016, and a large supply of cocoa between 2016 and 2017.

The index might have declined further from 83.1 in 2017 to 78.3 in 2018, as prices of both Arabica and Robusta declined by 7 per cent and 8 per cent respectively in 2018. These declines reflect upward revisions to the coffee production estimates for Brazil and Vietnam (the two largest global suppliers) and downward revisions of consumption estimates (World Bank, 2018).

The index might recover and increased from 78.3 in 2018 to 79.5 in 2019, and rise further to 95.3 in 2030. The rise of the beverages index in 2019 is explained by cocoa consumption exceeding production, as well as weather-related poor tea crop production in Kerala, one of India's key tea producing regions.

1.2 SUB-SAHARAN AFRICA'S ECONOMIC PERFORMANCE

The Sub-Saharan Africa (SSA) has faced a number of challenges in recent years. Countries of this region are primary commodity exporters and faced declining growth prospects post the commodity boom era. The commencement of the general commodity slump in 2012 and global oil price decline in 2014 resulted in many SSA countries facing lower export revenue and economic growth. However, OPECs' intervention to decrease oil output to boost global oil prices in 2016 resulted in oil exporters benefitting economically from this intervention going forward. The region has also recovered post the 2015/16 drought, with inflation easing post this period. The growth of non-resource intensive countries was also propelled by investments in infrastructure during a period of accommodative external financing.

Both the IMF and World Bank predict a strengthening economic growth of the region in 2018 and 2019. The SSA region grew by 2.6 per cent in 2017, and its growth is projected to accelerate to 3.1 per cent in 2018 and 3.5 per cent in 2019. The 2018 upswing reflects rising oil and metals production, which have been encouraged by higher commodity prices. The 2018 growth has also been boosted by improving agricultural conditions as well as increasing domestic demand. The strengthening growth of the region in 2019 reflects the strengthening of the SSA3, which is South Africa, Nigeria and Angola. However, the IMF (2018) states that the economic outlook of the SSA region may be clouded by 1) rising trade tensions, 2) monetary policy tightening in the USA and its spill over to the rest of the world as well as 3) volatility in asset markets. These downside risks may overshadow the benefits SSA can reap from a high

global growth. The domestic risks faced by the region include heightened tensions, delayed fiscal adjustments and weak implementation of structural reform (World Bank, 2018).

A closer focus of the SSA3 reveals that Nigeria's growth is projected to surge from 0.8 per cent in 2017 to 1.9 per cent in 2018 and 2.3 per cent in 2019 due to rising oil prices. However, this growth is weaker than previously forecasts due to capacity constraints in oil production as well as weak non-oil sector performance based on structural constraints which hinder investment efforts to attract long-term investments. Angola's recession is projected to subside from 2.5 per cent in 2017 to 0.1 per cent in 2018, whilst a positive growth of 3.1 per cent will emerge in 2019. The country's economic recovery will be supported by a more efficient allocation of foreign exchange, rising natural gas production, and improved business sentiment would help support the rebound in economic activity. The economic growth of South Africa is expected to have temporarily dipped from 1.3 per cent in 2017 to 0.8 per cent in 2018. However, this growth is projected to accelerate to 1.4 per cent in 2019, as business confidence recovers post governments several economic reforms e.g. The 2018 Investment Summit and the 2018 Job Summit.

Private consumption in SSA is projected to have increased from 2.0 per cent in 2017 to 2.6 per cent in 2018, and it is projected to rise further to 2.8 per cent in 2019. The improving private consumption may be benefitting from higher economic growth of the region and the globe, as well as easing inflation of the region post the 2015/16 drought. Inflation of the region is projected to ease from 11.0 per cent in 2017 to 8.6 per cent in 2018 and 8.5 per cent in 2019. In non-resource countries, low inflation, a rebound in private sector credit growth, and rising remittance flows are expected to boost consumer spending.

Public consumption is projected to have slightly declined from 2.6 per cent in 2017 to 2.5 per cent in 2018. However, the indicator is projected to rise from 2.5 per cent in 2018 to 2.9 per cent in 2019. Fiscal consolidation in general is continuing in many countries e.g. South Africa, whilst fiscal consolidation in the region thus far largely reflects the oil price rebound for oil exporters coupled with sharp cuts in capital spending in a number of countries (IMF, 2018). However, many countries have delayed adjusting domestic fuel prices in response to the recent oil price increase, resulting in the re-emergence of wasteful energy subsidies. SOEs are also becoming a major fiscal risk in some countries where budgetary resources are used to keep inefficient SOEs afloat.

Fixed investment is projected to continuously grow, from 6.0 per cent in 2017 to 6.8 per cent in 2018. The indicator is projected to rise further to 7.4 per cent in 2019. Mining production has risen in metals exporters, with new mines coming on stream and investment into existing mines increasing, encouraged by higher metals prices e.g. Democratic Republic of Congo and Zambia. Non-resource intensive countries have also continued to invest in infrastructure e.g. Rwanda and Uganda. South Africa may also boost fixed investment in the region, as a R400 billion new infrastructure fund was announced by President Ramaphosa as part of the Economic Stimulus and Recovery Plan in 2018. Furthermore, South Africa has attracted R290 billion in investment thus far following the 2018 Investment Summit and part of that money will be allocated towards infrastructure.

Exports in the region are projected to accelerate in growth from 3.1 per cent in 2017 to 3.2 per cent in 2018 and 3.5 per cent in 2019. Simultaneously, import growth is projected to rise from 2.5 per cent in 2017 to 3.0 per cent in 2018 and 3.3 per cent in 2019. The rise in export growth of the SSA may be reflecting rising commodity prices for commodity exporters such as oil, whilst rising import growth may reflect rising commodity prices for non-resource intensive countries. The World Bank (2018) states that current account deficits are rising, but there are significant differences between countries. Among oil exporters, current account deficits are expected to narrow further this year as the terms-of-trade continue to improve. In metals exporters, current account deficits are narrowing moderately, reflecting the effects of a pickup in import-intensive mining investment in some countries. Among non-resource-intensive countries, current account deficits are widening, as import growth remains strong due to high public investment levels and rising fuel imports.

Table 1.5: Sub Saharan Africa forecast summary

Annual percentage changes (unless indicated otherwise)	2017	2018	2019	2020
	Estimate	Forecast		
EMDE SSA, GDP	2.6	3.1	3.5	3.7
GDP per capita (U.S. dollars)	-0.1	0.4	0.8	1.0
PPP GDP	2.9	3.4	3.7	3.9
Private consumption	2.0	2.6	2.8	2.9
Public consumption	2.6	2.5	2.9	3.0
Fixed investment	6.0	6.8	7.4	7.6
Exports, GNFS	3.1	3.2	3.5	3.8
Imports, GNFS	2.5	3.0	3.3	3.4
Net exports' contribution to growth	0.2	0.1	0.1	0.2
Memo items: GDP				
SSA excluding South Africa, Nigeria and Angola	4.7	4.9	5.3	5.5
Oil exporters	1.5	2.3	2.6	2.8
CFA countries	3.3	4.1	4.5	4.9
SSA3 (South Africa, Nigeria and Angola)	1.0	1.7	2.0	2.2
South Africa	1.3	1.4	1.8	1.9
Nigeria	0.8	2.1	2.2	2.4
Angola	1.2	1.7	2.2	2.4

Source: World Bank, Global Economic Prospects, June 2018

The average growth rate of the SSA was 5.1 per cent between 2010 and 2015, a period which captures the commodity boom until 2012, the general commodity slump post 2012 (which affected iron ore, coal, copper, platinum and gold, amongst others) and the huge decline of oil prices from 2014. The decline of global oil prices has a huge impact on the growth of the region, which resulted in the decline of the region's growth from an average of 5.1 per cent between 2010 and 2015 to 1.4 per cent in 2016. During the oil slump, the average crude oil price dropped from \$96.2 per bbl in 2014 to \$42.8 per bbl in 2016. As explained in the 2018 PERO, OPEC and non-OPEC oil producers took a decision in November 2016 to cut oil production in 2017 to boost global oil prices and their own revenue. As a result, the average crude oil price rose from \$42.8 per bbl in 2016 to \$52.8 per bbl in 2017, which assisted growth of the SSA region to surge from 1.4 per cent to 2.7 per cent over the same period. The price of other commodities such as coal, iron ore and copper also increased in 2017, with coal and iron ore prices being assisted by China's decision to reduce its own output and increase its external demand for the commodity. Copper prices increased in 2017 due to supply disruptions: labour strikes took place in Chile and Peru, whilst contractual disagreements in Indonesia reduced copper output.

The growth of the SSA is projected to have strengthened from 2.6 per cent in 2017 to 3.1 per cent in 2018, and might surge further to 3.8 per cent in 2019. The IMF (2018) predicts that

average crude oil prices might have strengthened from \$52.8 per bbl in 2017 to \$72.0 per bbl in 2018, due to market reaction in relation to the impact of USA sanctions on Iranian oil export, as well as supply disruptions in Venezuela and concerns about the level of spare capacity in OPEC countries. The prices of copper and coal prices are also projected to strengthen in 2018 and remain high in 2019.

Based on the analysis above in relation to the performance of the average crude oil price between 2010 and 2019, the average growth of oil-exporting countries was high at 5.3 per cent between 2010 and 2015. The impact of the oil price slump was most visible in 2015 and 2016 and as a result, the collective growth of these group of countries declined from 5.3 per cent between 2010 and 2015 to a recession of 1.7 per cent in 2016. With OPEC and non-OPEC's decision to decrease oil output in late 2016, average crude oil prices recovered together with the growth of oil-exporting countries, which recovered to a positive growth of 0.2 per cent in 2017. With the price of oil predicted to continue to strengthen in 2018 and 2019, the aggregate growth of oil-exporting countries is projected to rise from 0.2 per cent in 2017 to 1.6 per cent in 2018 and 2.4 per cent in 2019.

The average growth of oil importing countries declined from 4.9 per cent between 2010 and 2015 to 3.6 per cent in 2016. Although oil importers benefitted from the oil price slump which commenced in 2014, the IMF (2017) explains that this benefit was partially reduced by most SSA governments setting their own prices for fuel, which are not based on automatic formula adjustments or on a discretionary basis. The windfall gains of lower oil prices have allowed oil-importing countries to increase fixed investment. As a result, the growth of these group of countries is projected to have strengthened from 3.6 per cent in 2016 to 4.4 per cent in 2017. Perhaps the slight decline of growth to 4.0 per cent the strengthening oil prices in 2018 whilst the 4.4 per cent growth in 2019 may take into account the OPEC's increasing oil production since 2018.

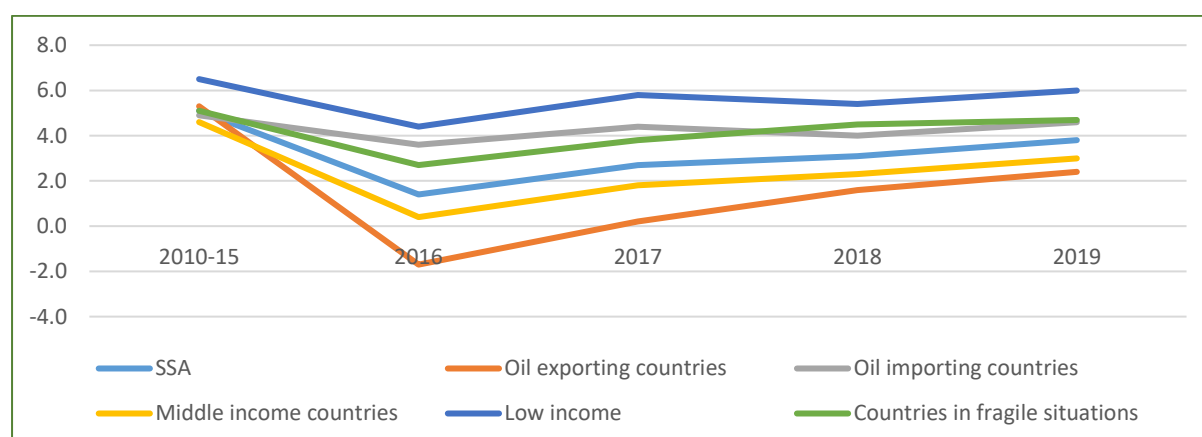
The growth of middle-income countries diminished from 4.6 per cent between 2010 and 2015 to 0.4 per cent in 2016. However, the growth of these countries recovered from 0.4 per cent in 2016 to 1.8 per cent in 2017, and may have recovered further to 2.3 per cent in 2018. The recovery in commodity prices will play a role in the recovery of middle income countries, as evident in countries such as Nigeria and Angola, which are oil exporters as well as South Africa, which exports various primary commodities. The growth of middle-income countries is projected to strengthen from 2.3 per cent in 2018 to 3.0 per cent in 2019, as oil prices continue

to strengthen and benefit oil-exporters, and South Africa benefits from increased business confidence post various economic interventions made in 2018.

The growth of low income countries declined from an average of 6.5 per cent between 2010 and 2015 to 4.4 per cent in 2016. The number of low-income countries in debt distress or facing a high risk of debt distress increased from 7 in 2013 to 12 in 2016 (IMF, 2017). Also, these countries could have been negatively affected by the 2015/16 drought. However, these group of countries recovered and grew by 5.8 per cent in 2017. Although this growth is anticipated to have slightly dipped to 5.4 per cent, it may recover to accelerate to 6.0 per cent in 2019, as the SSA continues to enjoy easing inflation and increasing domestic demand.

The average growth of countries with fragile economies declined from 5.1 per cent between 2010 and 2015 to 2.7 per cent in 2016. The IMF (2017) explains that the impact of lower commodity prices in sub-Saharan Africa has been more negative in countries in fragile situations than in other countries, often exacerbated by socio-political, governance, and security problems.” However, these group of countries recovered from 2.7 per cent in 2016 to 3.8 per cent in 2017 and this growth is projected to accelerate further to 4.5 per cent in 2018 and 4.7 per cent in 2019. The stronger growth over the forecast period might be based on strengthening commodity prices as well as the improvement of economic policy in some of these countries.

Figure 1.3: Real GDP Growth in Sub Saharan Africa



Source: IMF, Regional Economic Outlook: Sub Saharan Africa, October 2018

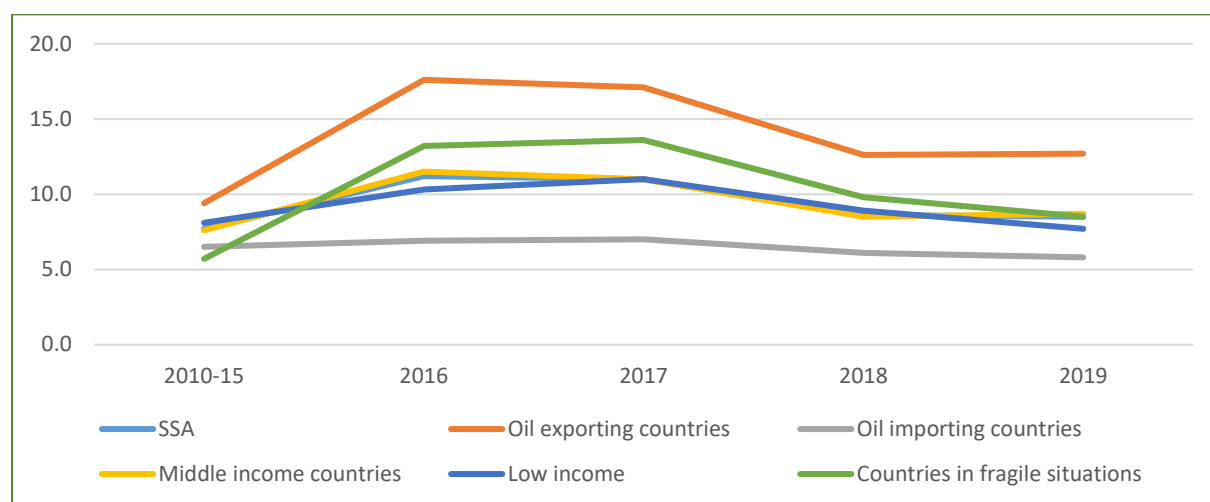
The inflation rate of the SSA region rose from an average of 7.7 per cent between 2010 and 2015 to 11.2 per cent in 2016, reflecting 1) the pass through of large currency depreciations in several resource-intensive countries, 2) negative investor sentiment towards risky assets of EMDEs in 2015 and the effects of the 2015/16 drought. Post this period, CPI in the region declined to 11.0 per cent in 2017 and is projected to have declined further to 8.6 per cent in 2018. The inflation rate of SSA in 2018 is still high but has declined, reflecting different dynamics at play. In general, food prices have been declining in the region, prompting central banks in some countries to cut interest rates further e.g. Uganda and Zambia and signalling a gradual monetary policy easing cycle in others e.g. Kenya. However, inflation remained double digits in several countries, owing to currency depreciations (e.g. Angola and Ethiopia) as well as high food inflation due to supply disruptions (e.g. Nigeria and Sudan). In these countries, policy has been tight (World Bank, 2018). The inflation rate of the region is projected to ease further from 8.6 per cent in 2018 to 8.5 per cent in 2019.

Post the impact of the oil price slump, negative investor sentiments, subsequent currency depreciations and the 2015/16 drought, inflation amongst oil-exporting countries is projected to have eased from 17.6 per cent in 2016 to 12.6 per cent in 2018, owing also to the recovery in oil prices and the subsequent better performance of those countries. Although oil prices are projected to rise further from an average of \$72.0 per bbl in 2018 to \$74.0 per bbl in 2019, inflation amongst oil-exporting countries may rise from 12.6 per cent to 12.7 per cent over the same period, owing to possible currency depreciations as monetary policy continues to tighten in the USA. Amongst oil-importers, inflation also eased from 6.9 per cent in 2016 to 6.1 per cent in 2018, although it rose briefly in 2017 as oil prices began rising. Inflation in these group of prices is projected to ease further from 6.1 per cent in 2018 to 5.8 per cent in 2019, perhaps due to monetary policy tightening in response to rising oil prices and monetary policy tightening in the USA.

The inflation rate of middle income countries has eased from 11.5 per cent in 2016 to 8.5 per cent in 2018. This may reflect higher agricultural production post the drought e.g. South Africa or monetary policy tightening e.g. Nigeria. Inflation may rise amongst middle income countries from 8.5 per cent in 2018 to 8.6 per cent in 2019, for various reasons e.g. rising oil prices in South Africa's context and general currency depreciation as the USA tightens monetary policy further. Inflation has declined amongst low-income countries and countries with fragile economies between 2016 and 2018 despite a rise in oil prices, perhaps due to better agricultural

performance and a decline in food prices. This indicator has decreased from 10.3 per cent in 2016 to 8.9 per cent in 2018 for low income countries, and has decreased from 13.2 per cent to 9.8 per cent over the same period from countries with fragile economies. Inflation is projected to ease further in 2019 for both categories of countries.

Figure 1.4: Consumer prices in Sub Saharan Africa



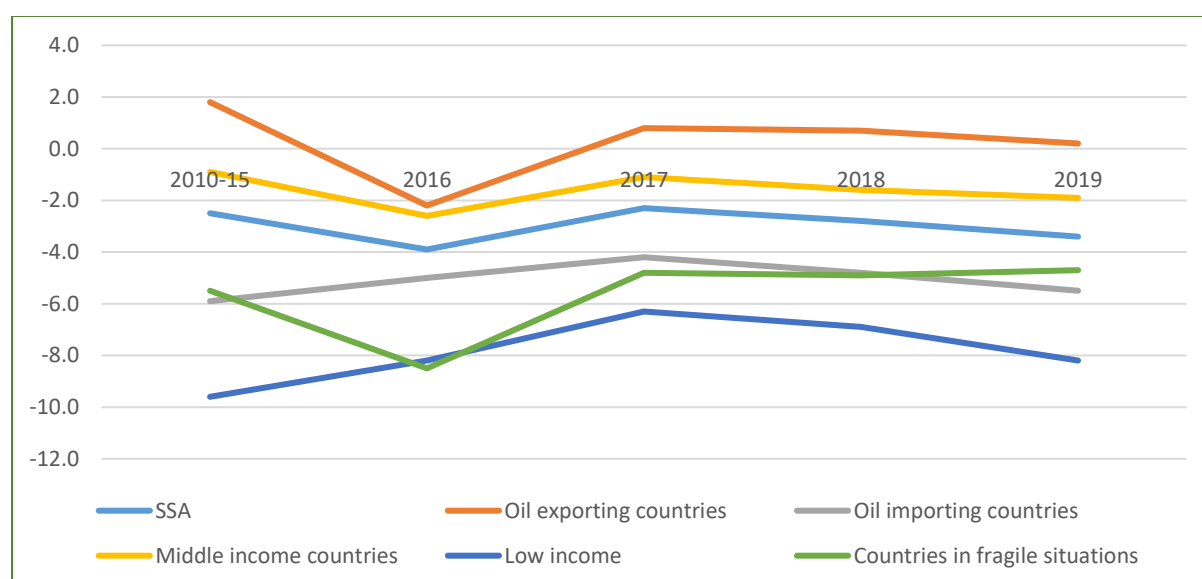
Source: IMF, Regional Economic Outlook: Sub Saharan Africa, October 2018

The SSA region has a current account deficit which has been erratic between 2010 and 2017, and that pattern is set to continue in 2018 and 2019. The current account deficit of the region averaged 2.5 per cent between 2010 and 2015, and worsened to 3.9 per cent in 2016, which reflects the commodity slump involving several commodities e.g. oil, copper and coal. Although iron ore prices started recovering in 2016, most prices of the commodities mentioned only started recovering in 2017, which explains the improvement of the current account deficit from 3.9 per cent in 2016 to 2.3 per cent in 2017. However, the deficit is projected to have worsened to 2.8 per cent in 2018, although current account balances performed differently for different countries e.g. current account balances of oil exporting countries may have improved whilst those of oil-importing countries could have deteriorated in 2018. Oil importers are not affected by rising oil prices but also by strong import growth due to high public investment which are continuing from windfall gains from previously low oil prices. The current account balances of metals exporters could have also improved due to a pickup in import-intensive mining investment in some countries (World Bank, 2018). The current account deficit of SSA is projected to worsen further from 2.8 per cent in 2018 to 3.4 per cent in 2019, with possible currency exchange depreciations also playing a role.

Together with the 2015 currency depreciation, the negative impact of declining oil prices resulted in the current account surplus of 1.8 per cent between 2010 and 2015 for oil-exporters turning into a deficit of 2.2 per cent in 2016. However initial import compression following the oil price slump and rising oil prices caused the current account deficit of oil-exporters to improve from 2.2 per cent in 2016 to a surplus of 0.8 per cent in 2017. In 2018, the current account surplus is projected to have slightly deteriorated to 0.7 per cent, and may decline further to 0.2 per cent in 2019, in spite of rising oil prices.

The current account deficit of oil-importing countries improved from an average of 5.9 per cent between 2010 and 2015 to 4.2 per cent in 2017. Oil-importers benefitted from low oil prices, however the windfalls gains were directed towards investment, which might have increased imports. The current account deficit of these group of countries is projected to have deteriorated from 4.2 per cent in 2017 to 4.8 per cent in 2018; the indicator is projected to worsen further to 5.5 per cent in 2019. Oil prices are set to continue to rise while import growth remains strong for oil-importers as public investment remains strong. Most low income countries and countries with fragile economies are oil-importers, therefore their current account deficits will follow the same trend as oil-importers.

Figure 1.5: Current account (% of GDP) in Sub Saharan Africa



Source: IMF, Regional Economic Outlook: Sub Saharan Africa, October 2018

The SSA region has positive fiscal balance of 1.7 per cent between 2010 and 2015. However, the commodity slump resulted in the region having a negative fiscal balance of 4.5 per cent in 2016, as export revenue fell and government revenue declined for commodity exporters. The

negative fiscal balance of the region deteriorated from 4.5 per cent in 2016 to 4.8 per cent in 2017, due to as non-resource intensive countries also continued to pursue infrastructure investment from the windfall gains of the commodity slump. The indicator is projected to have improved from 4.8 per cent in 2017 to 4.2 per cent in 2018. Among oil-exporters, the improvement reflects the recovery in oil prices and expenditure adjustments in countries in the CEMAC region (e.g. Chad and Republic of Congo). In non-resource-intensive countries, where commodity revenues represent a small share of total revenues, domestic revenue has increased, helping to reduce the fiscal deficit. However, in metals exporters, fiscal deficits are widening, due to weaker domestic revenue mobilization and rising expenditure (World Bank, 2018). The negative fiscal balance is projected to improve further from 4.2 per cent in 2018 to 3.9 per cent in 2019.

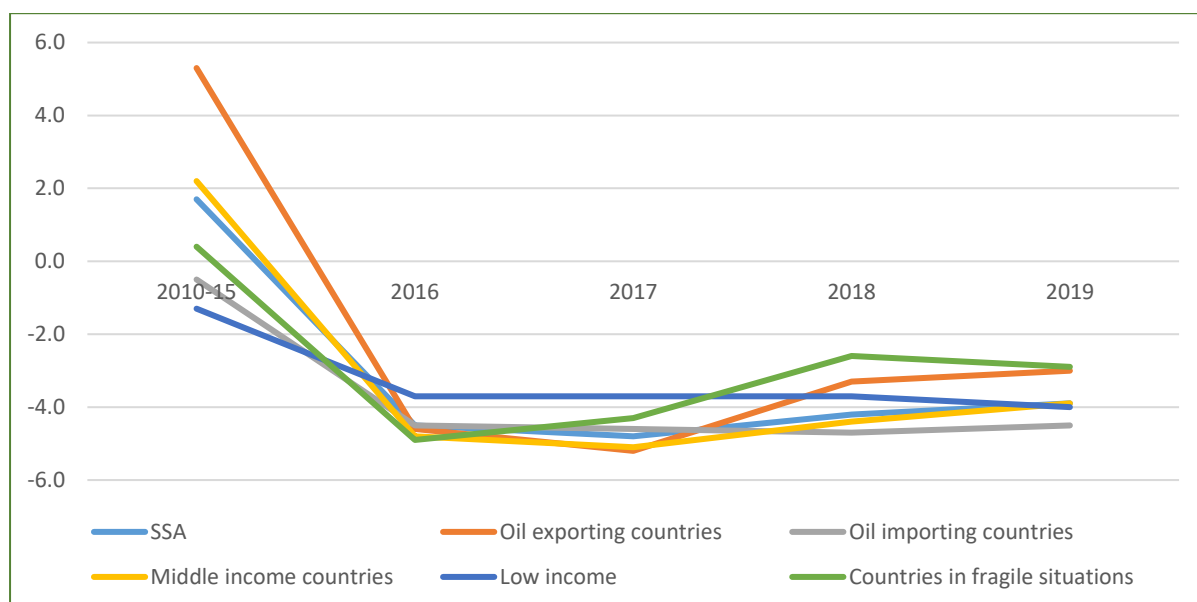
The oil price slump and its negative impact on revenue for oil-exporters explains why the fiscal balance of oil-exporters deteriorated from a positive balance of 5.3 per cent between 2010 and 2015 to a negative balance of 4.6 per cent in 2016. Although annual oil prices started recovering in 2017, the negative fiscal balance of these group of countries worsened from 4.6 per cent in 2016 to 5.2 per cent in 2017, possibly due to the pass-through effects of low revenue from previous years. The aggregate negative fiscal balance of these countries is projected to have improved from 5.2 per cent in 2017 to 3.3 per cent in 2018; it may improve further to 3.0 per cent in 2019, as oil prices continue to rise.

Non-resource intensive countries such as oil importers may have benefitted from declining crude oil prices between 2014 and 2016, however their aggregate negative fiscal balance worsened from 0.5 per cent between 2010 and 2015 to 4.5 per cent in 2016. Other factors contributed to the worsening of the fiscal balance over their period. A lot of currency depreciations occurred in 2015, which increased the debt-service costs of these countries. The 2015/16 drought also increased inflation, which resulted in increased interest rates, dampened demand, growth and taxes. Lastly, non-resource intensive countries utilized the windfall gains of low oil prices to pursue infrastructure investment, which could have increased their budget deficit. As annual oil prices have been rising since 2017, the negative fiscal balance is predicated to have worsened from 4.5 per cent in 2016 to 4.7 per cent in 2018. Low public saving rates and high public investment are contributing to an increase in debt levels in some non-resource-intensive countries such as Ethiopia whilst governance issues are an important

contributory factor .e.g. Gambia. The negative fiscal balance of oil-importers will remain elevated at 4.5 per cent in 2019.

The fiscal balance of middle income countries, low income countries and countries with fragile economies deteriorated in 2016 relative to 2010-2015 due the commodity slump, exchange rate depreciations of 2015 and the 2015/16. This indicator has improved for all three groups of countries in 2018, and it may improve for middle income countries in 2019, however it will worsen for low income countries as well as countries with fragile economies. One factor which may play a role in the fiscal balances of these group of countries is monetary policy tightening in the USA, which will likely weaken exchange rates of countries in SSA, increase debt levels for countries whose debts are dominated by the dollar, increase interest rates in SSA countries and dampen demand, growth as well as revenue.

Figure 1.6: Fiscal Balance including grants (% of GDP) in Sub Saharan Africa



Source: IMF, Regional Economic Outlook: Sub Saharan Africa, October 2018

1.3 THE SOUTH AFRICAN ECONOMY

The South African economy is projected to have grown by 0.8 per cent in 2018, which is 0.5 percentage points below the preceding year's economic growth of 1.3 per cent in 2017. South Africa experienced a technical recession in the 2nd quarter of 2018, following the contraction of the economy by 2.6 per cent in the 1st quarter and by 0.4 per cent in the 2nd quarter of the year. The performance of agriculture, amongst other industries, played a huge role in the performance of the economy in the 1st half of 2018, as the industry contracted by 33.6 per cent and 31.9 per cent over the two quarters respectively. A positive economic growth for the country is still foreseeable, as the economy recovered and grew by 2.2 per cent in the 3rd quarter of 2018. Agriculture grew by 6.5 per cent in the same quarter, and less industries declined in the same quarter. In general, South Africa has faced downside risks in 2018, such as 1) rising global crude oil prices, 2) risk-aversion by investors following the Turkish lira crisis 3) import tariffs imposed by the USA on SA's steel and aluminium products, 4) Listeriosis and its impact on trade between SA and other African countries, 5) currency depreciation relative to 2017, 6) higher taxes (fuel and VAT), 7) increasing inflation above the 4.5 mid-point and 8) a start to the interest rate-hiking cycle of the USA. Albeit, the economy is projected to recover and grow by 1.4 per cent in 2019, mainly due to various economic interventions announced in 2018 and the subsequent improvement in investor confidence.

1.3.1 GDP growth of SA

In April 2018, the IMF (2018) projected that the South African economy would grow by 1.5 per cent in 2018. However this estimate has since been revised to 0.8 per cent, mainly due to the performance of the agricultural industry in the 1st and 2nd quarters of 2018, amongst others. Agriculture declined by 33.6 per cent and 31.9 per cent in the 1st and 2nd quarters of 2018 respectively. The SARB (2018) attributes the contraction of the agriculture in the 1st quarter to lower field crop and horticultural production. In the 2nd quarter, agriculture declined due to the decrease in horticulture production and delays in the harvesting of maize, which outweighed animal products output despite the rebuilding of herds post the 2015/16 drought.

The mining industry declined by 10.3 per cent and 8.8 per cent in the 1st and 3rd quarters of 2018 respectively; conversely, the industry grew by 8.1 per cent in the 2nd of the same year. In the 1st quarter, 10 out of 12 mineral groups contributed towards the decline of the industry, with platinum group metals (PGMs), iron ore, copper, nickel, other non-metallic minerals and gold contributing the most to the industry's contraction. In terms of gold mining, production

was adversely affected by the closure of some loss-making operations together with the lower rand price of gold. In the 3rd quarter, the contraction of the mining industry was lesser relative to the 1st quarter, as 7 of the 12 mineral groups declined, including PGMs, iron ore, gold and copper. The decline in platinum production was caused by the closure of five mining shafts and the planned reduction in mining of Generation 1 shafts. However, increased demand from Eskom to alleviate coal shortages at some coal-fired power stations supported the production of coal.

Some of the challenges faced by the mining industry in 2018 included 1) ageing infrastructure, 2) reserve depletion, 3) regulatory and policy uncertainty in the earlier part of the year, 4) mining accidents, 5) the imposition of import tariffs on steel by the US as well as 6) lower commodity prices and higher operating costs.

Although manufacturing recovered and grew by 0.6 per cent as well as 7.5 per cent in the 2nd and 3rd quarters of 2018, the industry declined by 6.7 per cent in the 1st quarter of the year. The SARB (2018) attributes the decline in the 1st quarter to the decrease in production in 6 of the 10 manufacturing subsectors, with the most pronounced decline in the petroleum, chemical products, rubber and plastic products subsector. Also, non-durable manufacturing goods production decreased sharply while durable goods production increased marginally. Overall manufacturing production was constrained by slower business activity, lower sales orders, continued domestic cost pressures, and lower manufactured export earnings following the appreciation in the exchange value of the rand in the first quarter of 2018.

Two other industries which are worth discussing is the decline of the trade by 3.1 per cent in the 1st quarter, and the decline of transport by 4.9 per cent in the 2nd quarter of 2018. The performance of trade weakened in the 1st quarter due to the decline of activity in the retail, wholesale and motor trade subsectors. With regards to the performance of retail, several factors could have been at play, such as the base effect of a strong 'Black Friday' sales in the fourth quarter of 2017, the listeria outbreak at the beginning of 2018, weak formal sector employment, and subdued growth in household credit extension. Transport declined in the 2nd quarter of 2018 due to decreased activity in rail and road freight transport as well as a noticeable decline in road passenger transport due to the three-week nationwide bus strike.

In spite of the country's overall growth challenges in the 1st and 2nd quarter of 2018, South Africa grew by 2.2 per cent in the 3rd quarter of 2018, with the highest growth rates recorded in manufacturing (7.5 per cent), agriculture (6.5 per cent) and transport (5.7 per cent). The performance of manufacturing was supported increased production of motor vehicles, parts and accessories due to high export demand following a weaker Rand. Agriculture recovered and grew by 6.5 per cent in the 3rd quarter of 2018, assisted by higher production of field crops, horticulture and animal products. The SARB (2018) states that increased foreign demand for citrus products boosted horticultural production, while the increase in animal products partially reflected the recovery in the livestock subsector following 2015/16 drought. The low base effect from the 2nd quarter nationwide three-week bus strike caused increased activity in road freight and passenger transport, to the benefit of the transport industry in the 3rd quarter.

Table 1.6: GDP growth in SA (including sectors)

	2017: Q1	2017: Q2	2017: Q3	2017: Q4	2018:Q1	2018:Q2	2018:Q3	2018:Q4
Primary industries								
Agriculture	25.6	36.9	41.7	39.0	-33.6	-31.9	6.5	
Mining	12.6	7.8	6.2	-4.4	-10.3	8.1	-8.8	
Secondary industries								
Manufacturing	-4.1	2.9	3.7	4.3	-6.7	0.6	7.5	
Electricity	-5.6	8.1	-6.1	3.3	0.2	2.2	-0.9	
Construction	-1.2	-0.7	-1.2	-1.4	-1.9	2.1	-2.7	
Tertiary industry								
Trade	-5.6	0.9	-0.1	4.8	-3.1	-1.4	3.2	
Transport	-1.3	2.6	0.8	2.8	0.9	-4.9	5.7	
Finance	-0.5	3.1	1.9	2.5	1.1	1.9	2.3	
General government	-0.5	-1.9	1.1	1.4	1.9	-0.4	1.5	
Personal services	0.3	1.7	1.2	1.0	1.2	0.8	0.7	
GDP at market prices	-0.5	2.9	2.3	3.1	-2.6	-0.4	2.2	

Source: Statistics South Africa, Third Quarter, 2018

1.3.2 Domestic expenditure

From an expansion of 5.6 per cent in the last quarter of 2017, real gross domestic expenditure (GDE) grew by 0.7 per cent in the 1st quarter of 2018. The minute expansion in the 1st quarter was caused by a minor expansion of 1.4 per cent by government expenditure, a 1.0 per cent surge by household consumption as well as a faster accumulation of inventories to the value of R8.8 billion. These expansions were countered by the 3.4 per cent decline of gross fixed capital formation in the same quarter.

SARB (2018) attributes the minute growth of final government expenditure in the 1st quarter of 2018 was due to weaker spending growth on non-wage goods and services as government expenditure is currently limited by the current fiscal space and a high public sector wage bill. The boost in consumer confidence following political changes did not translate into higher household expenditure growth in the 1st quarter of 2018. The indicator grew minutely due to the base effect of the previous quarter's high growth based on the Black Friday shopping spree. Also, household consumption expenditure was limited by the slower pace of real disposable income. Lastly, real outlays by households on non-durable goods increased at a slower pace, although real spending on services increased more quickly. The faster accumulation of inventories in the 1st quarter of 2018 came from a large contraction in the exports of manufactured goods, which resulted a build-up of inventories in the manufacturing sector and high stock levels. Although expenditure on GFCF contracted for all role players in capital expenditure, a notable decline of 9.3 per cent occurred within the general government category, mainly due to lower spending on construction works by local government.

GDE worsened and contracted by 2.6 per cent in the 2nd quarter of 2018, as growth of final household consumption and GFCF contracted, together with the de-accumulation of inventories in that same quarter. Only government consumption expanded in the 2nd quarter, by 0.8 per cent.

Final household consumption growth contracted by 1.1 per cent in the 2nd quarter due to an increase in the VAT as well as successive fuel price hikes, which resulted in consumers reducing their discretionary expenditure, within the context of declining real disposable income. Also, household spending was suppressed by diminishing wealth effects in the first

eight months of 2018, as the FTSE/JSE All-Share Price Index trended gradually lower amid heightened volatility caused by 1) increased risk aversion towards emerging economies, 2) weak domestic economic activity and 3) policy uncertainty, particularly regarding land expropriation without compensation. In addition, annual growth in nominal house prices remained subdued and negative in real terms. GFCF continued to decline in the 2nd quarter of 2018, at a lesser rate of 0.7 per cent compared to the preceding quarter. GFCF contracted in the 2nd quarter due to a contraction in capital spending by government and public corporations, although capital spending by the private sector increased. SARB (2018) notes that the decline in capital spending by public corporations reflects the financial, operational and governance challenges faced by many state-owned companies in the country. Lastly, real inventory holdings contracted by R9.1 billion in the 2nd quarter of 2018 mainly due to the mining sector as mining exports increased notably. By contrast, government expenditure grew by 0.8 per cent in the 2nd quarter mainly due to the acceleration of growth in real outlays on non-wage goods and services.

From a decline in the 2nd quarter of 2018, GDE growth accelerated to 3.2 per cent in the succeeding quarter, assisted by the accelerated growth final consumption expenditure (households and government) as well as well as an accumulation of inventories in the 3rd quarter.

Final government expenditure grew at a faster pace of 2.2 per cent in the 3rd quarter of 2018 due to an increase in the level of employment in the general government, which increased wages. Also, real outlays on non-wage goods and services edged higher (SARB, 2018). Final consumption expenditure by households also grew by 1.6 per cent in 2018, due to a 0.7 per cent increase in the real disposable income, relative to a contraction in the previous quarter. Also, expenditure for semi-durable and non-durable goods expanded in the same quarter. The accumulation of inventories amounted to R12.7 billion in the 3rd quarter of 2018, due to increased production and imports of manufactured products.

In contrast, GFCF declined by 5.1 per cent in the 3rd quarter of 2018, having declined since the beginning of 2018. Real fixed investment by private business enterprises and public corporations contracted noticeably. Although fixed capital outlays by the general government sector increased, the rate of expansion was slower. In general, poor performance of GFCF in the first three quarters of 2018 reflects a struggling construction industry. Group Five's share have declined by 98 per cent since the beginning of the year whilst Esor Construction has filed

for business rescue. Construction companies which are cash-strapped include Aveng and Basil Read. Construction companies have not been able to adjust since the infrastructure boom before the 2010 Fifa World Cup, followed by the global recession and lower domestic infrastructure investment, in particular as a result of fiscal consolidation.

Table 1.7: Percentage change in real gross domestic expenditure

GDE Growth	2017				2018		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Final consumption expenditure							
Final household consumption	0.9	3.8	2.4	3.6	1.0	-1.1	1.6
Final government consumption	-1.2	0.6	1.3	1.6	1.4	0.8	2.2
Gross fixed capital formation	-3.1	-0.2	-2.7	7.4	-3.4	-0.7	-5.1
Domestic final demand.	-0.3	2.4	1.2	3.9	0.2	-0.6	0.4
Change in inventories (R billions)	-6.1	6.3	-12.0	4.4	8.8	-9.1	12.7
Gross domestic expenditure	0.0	4.1	-1.2	5.6	0.7	-2.6	3.2

Source: SARB, Quarterly Bulletin, December 2018

The South Africa economy contracted by 2.6 per cent in the 1st quarter of 2018, as net exports subtracted 3.3 percentage points from the country's economic growth, together with GFCF (0.1 percentage point). Conversely, both the final household expenditure as well as the accumulation of inventories added 0.6 percentage point towards the GDP growth rate, whilst the expenditure by general government added only 0.3 percentage point.

In the 2nd quarter of 2018, the economy of the country declined by a lesser rate of 0.4 per cent relative to the preceding quarter. The de-accumulation of inventories in the 2nd quarter subtracted 2.3 percentage points from South Africa's economic growth, followed by final household expenditure (0.7 percentage point) and GFCF (0.1 percentage point). Contrariwise, net exports added 2.3 percentage points towards the nation's economic growth, as well as the residual (0.3 percentage point) and general government expenditure (0.2 percentage point).

Lastly, the economy of South Africa recovered and grew by 2.2 per cent in the 3rd quarter of 2018. The accumulation of stock added 2.8 percentage points towards the country's economic growth in the 3rd quarter, followed by household expenditure (1.0 percentage point) and general

government expenditure (0.4 percentage point). Conversely, GFCF subtracted 1.0 percentage point from the country's economic growth rate in the 3rd quarter of 2018, followed by net exports (0.9 percentage point).

Table 1.8: Contribution of expenditure components to growth in real gross domestic product

GDE Share	2017				2018		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Final consumption expenditure							
Households	0.5	2.3	1.5	2.2	0.6	-0.7	1.0
General government.	-0.3	0.1	0.3	0.3	0.3	0.2	0.4
Gross fixed capital formation	-0.6	0.0	-0.5	1.4	-0.7	-0.1	-1.0
Change in inventories	0.1	1.6	-2.4	2.1	0.6	-2.3	2.8
Net exports	-0.5	-1.2	3.5	-2.5	-3.3	2.3	-0.9
Residual	0.3	0.1	0.0	-0.5	0.0	0.3	0.0
Gross domestic expenditure	-0.5	2.9	2.3	3.1	-2.6	-0.4	2.2

Source: SARB, Quarterly Bulletin, December 2018

1.3.3 Inflation trends in South Africa

In recent years, the inflation rate of South Africa faced upside risks such as the 2015 currency depreciation and its effect going into 2016, as well as the 2015/16 drought. Whilst annual average inflation rate of the country exceeded the upper target band at 6.4 per cent in 2016, the effects of the currency depreciation and the drought dissipated and resulted in the inflation rate to average at 5.3 per cent in 2017. The IMF (2018) projects that the inflation rate of South Africa declined from 5.3 per cent in 2017 to 4.8 per cent in 2018, which is closer to the midpoint of 4.5 per cent preferred by the SARB. The inflation rate is projected to have declined in 2018 post the drought effects, however it may revert back to 5.3 per cent in 2019 as temporary disinflationary effects subside.

Although the average inflation rate of South Africa is lower in 2018 relative to the preceding year, the indicator faced many upside risks that year, including 1) rising global crude oil prices, 2) VAT increase from 14 per cent to 15 per cent in 2018, together with fuel levy increase, 3) currency depreciation as a result of the USA's trade tensions with various countries and 4)

monetary policy tightening by the USA in 2018, which may continue in 2019, amongst others. Table 1.9 below shows the performance of South Africa's inflation rate in 2018.

The inflation rate of the country eased from 4.4 per cent in January 2018 to 3.8 per cent in March 2018, benefitting from the disinflationary effects post the drought as well as a currency appreciation as the Rand had strengthened from R14.46 per dollar mid-November 2017 to R11.58 per dollar at the end of February 2018. However, the inflation rate surged from 3.8 per cent in March 2018 to 5.1 per cent in July 2018 following a surge in crude oil prices from \$64.2 per bbl to \$72.7 per bbl over the period. More significantly, the USA doubled import tariffs on steel and aluminium from Turkey, and Turkey retaliated by also imposing import tariffs on some products from the USA. The resultant trade war caused the Turkish Lira to depreciate, causing the Turkish Lira crisis and risk aversion by investors away from risky EMDEs assets and weakening their currency. Also, import tariffs on steel and aluminium products were imposed by the USA on products from China and SA products, amongst other countries. The general trade war caused by the USA resulted in the weakening of the SA's currency from R11.58 per dollar at the end of February 2018 to R13.54 per dollar on the 23rd of July 2018.

Although the inflation rate of South Africa temporarily declined from 5.1 per cent in July 2018 to 4.9 per cent in September 2018, it deteriorated to 5.2 per cent in November 2018, mainly due to the performance of crude oil prices and its impact on transport inflation. Although the Rand strengthened from \$15.55 per dollar at the beginning of September 2018 to R13.72 per dollar at the end of November 2018, global crude oil prices have remained elevated above \$70 per bbl. Also, on the 5th November 2018, the USA re-imposed sanctions on Iran, which include "buying from or selling to Iranian oil firms and the sale of any petrol-based products from Iran". Such sanctions may have an upside risk to crude oil prices because oil output may decline in Iran. Due to the performance of crude oil prices, transport inflation rose from 8.7 per cent in September to 10.7 per cent in November 2018.

Table 1.9: Headline inflation in South Africa (% change over 12 months)

	2018												
	Weights	January	February	March	April	May	June	July	August	September	October	November	December
All items	100	4.4	4.0	3.8	4.5	4.4	4.6	5.1	4.9	4.9	5.1	5.2	
Food and non-alcoholic beverages	17.24	4.5	3.9	3.5	3.9	3.4	3.4	3.4	3.5	3.9	3.4	3.4	
Alcoholic beverages and tobacco	5.82	5.3	6.1	5.2	6.0	6.2	6.0	6.0	4.6	4.2	4.2	4.8	
Clothing and footwear	3.83	1.7	1.6	1.5	1.6	1.7	1.8	1.8	1.9	1.9	2.0	1.8	
Housing and utilities	24.62	4.4	4.5	4.6	4.8	4.8	4.1	5.2	5.3	5.3	5.2	5.2	
Household contents and services	4.35	1.5	1.9	2.0	2.6	2.4	2.7	2.8	2.9	3.0	3.0	3.4	
Health	1.40	6.0	5.7	5.1	4.8	4.8	4.7	4.4	5.2	5.4	5.0	5.1	
Transport	14.28	4.4	3.2	2.8	5.0	5.0	7.3	10.0	9.5	8.7	10.5	10.7	
Communication	2.63	-1.6	-1.6	-1.0	1.0	1.1	1.1	1.1	1.2	1.1	1.2	1.4	
Recreation and culture	5.16	0.7	0.5	0.3	1.4	1.3	0.6	0.4	0.3	0.5	0.7	0.9	
Education	2.53	7.0	7.0	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	
Restaurant and hotels	3.09	3.6	3.0	2.8	4.3	5.0	4.5	4.2	4.0	4.6	4.2	4.1	
Miscellaneous goods and services	15.05	7.0	6.2	6.2	6.1	6.2	6.2	5.7	5.6	5.5	5.4	5.5	

Source: Statistics South Africa, Consumer Price Index, November 2018

Box 1.1: Structure of fuel price in South Africa

The transport inflation rate in South Africa was within the target band at the beginning of 2018, but has risen from a low of 2.8 per cent in March 2018 to 10.7 per cent in November 2018, far above the upper target band of 6 per cent. Together with the effects of the currency depreciation in 2018, the price of 95 unleaded petrol for inland regions has risen from R13.76 per litre in March 2018 to R17.08 per litre in November 2018.

The rising of fuel prices in South Africa in 2018 has decreased consumers' disposable income and consumer welfare, which raised various arguments that the weight of the fuel prices lies in fuel price levies, and that neighbouring countries have cheaper fuel due to such.

The table below depicts the fuel price per litre in terms of its four main elements in April 2018

Component of petrol price (inland 93 Unleaded)	Amount	Weight
The General Fuel Levy	R 3.37	24%
The RAF Levy	R 1.93	14%
The Basic Fuel Price (freight and insurance costs, cargo dues, storage and financing),	R 5.81	41%
Wholesale & retail margins, distribution and transport costs.	R 3.12	22%
Total price per litre	R 14.23	100%

Government also temporarily intervened in September 2018 by limiting the fuel price increase in that particular month. Also, government (and the Department of Energy in particular) came up with an proposals to reduce the burden of fuel prices through changing its structure, such as:

- Making Singapore the main reference market for the basis price of petrol, diesel and paraffin,
- Removing a premium on the freight rate and
- Reducing the coastal storage element in the calculation
- Capping the price of 93-octane petrol by the end of January 2019

Although proposals by government do not include making changes to the fuel levy, they may assist to reduce the burden of rising crude prices on consumers.

Source: Automobile Association of South Africa, Petrol price breakdown, April 2018

1.3.4 Interest rates in South Africa

The mandate of the South Africa Reserve Bank is to target inflation, and the instrument utilised to keep inflation within a sound target band of 3-6 per cent is interest rate. Although monetary policy tightening may potentially reduce internal demand, one of its benefits is reducing the cost of capital for private and public sectors through a reduction in inflation. Also, when monetary policy tightens, it reduces the chances or the size of currency depreciation and therefore reduces upside risks to the inflation through imports. In 2018, the SARB also highlighted that the positive bi-directional impact of monetary policy and reduced inflation e.g. in an instance where tighter monetary policy is needed and applied, it leads to a lower inflation rate and a subsequent lower interest rate. The Governor of SARB pointed out Japan and the euro are, where low inflation has kept their borrowing rates closer to 0 per cent. The opposite

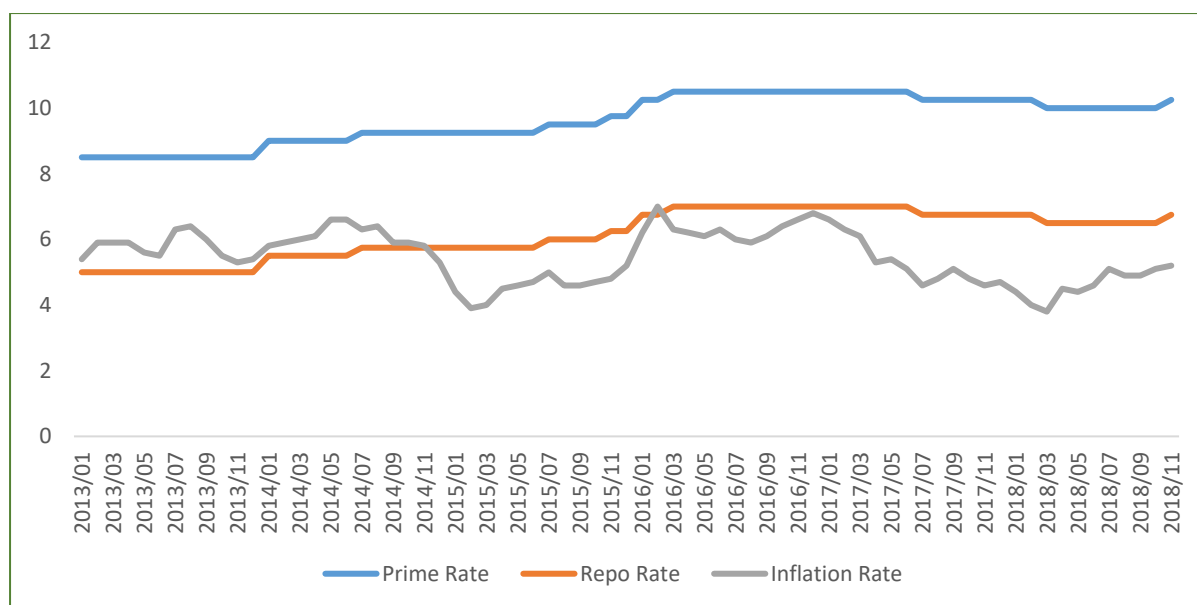
case would be Turkey, where inflation may have averaged 15 per cent in 2018, and the interest rate have been raised to 24 per cent. Monetary policy also prevents the occurrence of run-away or hyper-inflation, which brings major distortions such as alternative ways to seek and store value e.g. Zimbabwe and Venezuela.

Figure 1.7 below shows the performance of the inflation rate and interest rates in South Africa. The inflation rate of the country rose erratically from 5.4 per cent in January 2013 to 7.0 per cent in February 2016 due to the 2015 currency depreciation as well the effects of the 2015/16 drought. Over the same period, the repo rate was raised from 5.0 per cent to 6.75 per cent. Although the inflation rate eased a bit for the rest of 2016, the indicator remained elevated above the upper target band between February 2016 and March 2017; over this period, the inflation rate declined from 7.0 per cent to 6.1 per cent. The elevated inflation rate, which was also caused by rising crude oil prices, required the SARB to increase the repo rate from 6.75 per cent in February 2016 to 7.0 per cent in March 2017.

Although annual global crude oil prices have been rising since 2017, the disinflationary effects post the 2015 currency depreciation and the 2015/16 drought caused the inflation rate of South Africa to decline into the target band at 5.3 per cent in April 2017. The indicator eased further from 5.3 per cent in April 2017 to 3.8 per cent in March 2018, which resulted in the gradual reduction of the repo rate from 7.0 per cent to 6.5 per cent over the same period.

However, the inflation rate of South Africa has faced upside risks in 2018, including 1) rising global crude oil prices, 2) the trade war and its negative effects on the exchange rates of EMDEs 3) the rising of USA interest rate, 4) the depreciation of the Rand, 5) rising VAT, fuel levy and RAF, amongst others. Consequently, the inflation rate rose from 3.8 per cent in March 2018 to 5.2 per cent in November 2018, which resulted in the raising of the repo rate from 6.5 per cent to 6.75 per cent over the same period. The inflation and interest rate outlooks in South Africa are tilted to the upside in 2019, based rising crude oil prices and continue interest rate hikes in the USA.

Figure 1.7: South Africa's Repo, Prime and Inflation Rates



Source: SARB, Online Statistical Query, 2018; Statistics South Africa, Consumer Price Index, November 2018.

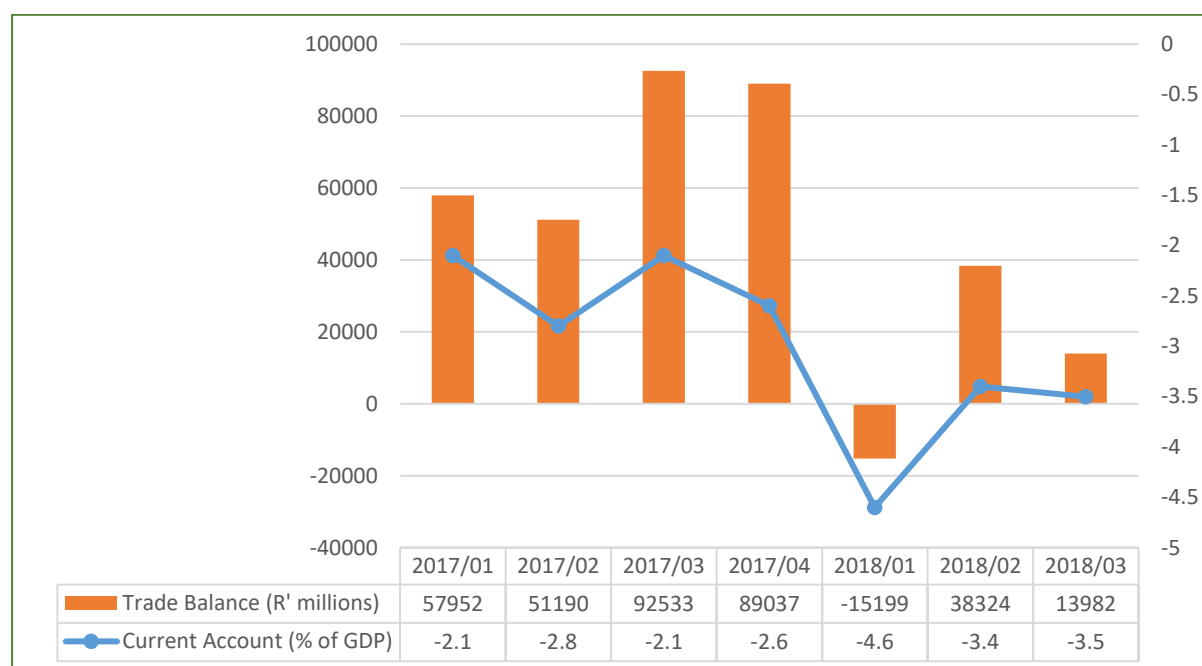
1.3.5 Current account and trade balance

Figure 1.8 below displays the performance of the trade balance and current account deficit of South Africa. Flowing into 2018, the trade balance deteriorated from a surplus of R89.0 billion in the 4th quarter of 2017 to a deficit of R15.2 billion in the 1st quarter of 2018. Similarly, the current account deficit worsened from 2.6 per cent to 4.6 per cent over the same period. The SARB (2018) the poor performance of the trade balance in the 1st quarter of 2018 to the steeper decrease in export value of the net gold and merchandise relative to the merchandise imports. Mining exports receded markedly, due to the sharp decline in the rand price of mining commodities, which contributed to a significant deterioration in South Africa's terms of trade. As a result, the current account also worsened in the 1st quarter of 2018.

Trade balance switched from a deficit of R15.2 billion in the 1st quarter of 2018 to a surplus of R38.3 billion in the succeeding quarter. Over the same period, the current account deficit narrowed from 4.6 per cent to 3.4 per cent. The value of net gold and merchandise exports increased much more than merchandise imports, mainly due to the volume exported. The value of mining exports increased significantly in the second quarter, while agricultural and manufactured exports also increased (SARB, 2018).

However, the trade surplus receded from R38.3 billion in the 2nd quarter of 2018 to R14.0 billion in the 3rd quarter. Also, current account deficit increased slightly from 3.4 per cent to 3.5 per cent over the same period. The value of merchandise imports increased more than that of merchandise and net gold exports. The trade balance deteriorated more than the narrowing of shortfalls on the services, income and current transfer account, which caused the current account deficit to worsen in the 3rd quarter of 2018.

Figure 1.8: Trade Balance (R'million), Current account (% of GDP)



Source: SARB, Online Statistical Query, 2018

1.3.6 Key risks and opportunities for the South African economy

Global Risks

The IMF (2018) estimated global economic growth to be 3.7 per cent in 2018 and 2019, maintain the same growth rate as 2017. However the World Bank (2019) predicts a decelerating global growth rate in 2018 and 2019, which can dampen demand for SA products in 2019. The trade tension started by the USA is having a negative impact on international trade and global growth prospects: the USA has imposed import tariffs on steel and aluminium products of South Africa. The recovery in trade and manufacturing activity is losing momentum, therefore the declining growth prospects as well as heightened trade tensions have weighed on investor

sentiment and contributed to declines in global equity price, which will negatively affect EMDEs such as South Africa.

Also, borrowing costs for EMDEs have also increased due to monetary policy tightening in the USA. A strengthening U.S. dollar, heightened financial market volatility, and rising risk premiums have intensified capital outflow and currency pressures in some large EMDEs including SA. The tightening monetary policy of the USA may weaken the currency of South Africa in 2019, raising inflation through imports. As an importer of oil, the rising annual crude oil price will may raise the inflation rate further, and increase the chances of interest rate hiking in the country, which may further dampen consumer demand and growth.

The World Bank (2019) states that other commodity prices, particularly metals, have also weakened, posing renewed headwinds for commodity exporters such as SSA.

Domestic Risks

South Africa's economy emerged from a technical recession in the second half of 2018, in part due to improved activity in the agricultural and manufacturing sectors. However, growth remains subdued, as challenges in the mining sector and weak construction activity are compounded by policy uncertainty and low business confidence.

Another domestic risk is socio-economic challenges in the country, such as the unemployment rate, which is projected to increase from 27.9 per cent in 2018 to 28.3 per cent in 2019 (IMF, 2018). The rising unemployment rate increase the number of people depended on government in various manners (social grants, health care, education, etc.) and together with SOEs' that continuously need government bail-outs, pose an upside risk to the already-high debt level.

Opportunities

The recovery of the agricultural industry from a decline in the 1st two quarters of 2018 to a growth of 6.5 per cent in the 3rd quarter of the year, as well as the strong growth of 7.5 per cent

by manufacturing in the 3rd quarter resulted in the economy exiting the recession of the 1st bi-annual of 2018. These two industries are also important for increasing agro-processing and their continuous positive growth will benefit the country.

Although business confidence is generally weaker than it should be in South Africa, the conclusion of the amended Mining Charter in 2018 has created greater policy certainty and may benefit the industry in the long run.

South Africa has also created an economic stimulus and recovery plan in 2018, which includes reprioritised spending and creating an infrastructure funding grant. Post the holding of the South African Investment Summit in October 2018, the country attracted investment to the value of R290 billion in areas such as mining, forestry, manufacturing, telecommunications, transport, energy, agro-processing, consumer goods, pharmaceuticals, infrastructure, financial services, energy, ICT and water (The Presidency, 2018). Lastly, South Africa faces a high and rising unemployment rate. Therefore, a Job Summit was also held in October 2018 to tackle the unemployment rate, through creating and retaining jobs. Amongst the achievements of the Jobs Summit, a framework agreement was signed to create 275 000 direct jobs annually, above the 300 000 jobs that would be created without the intervention.

1.3.7 Policy implications to mitigate the key risks in the economy

Economic Stimulus and Recovery Plan with 2018 MTBPS explanations

As outlined in this chapter, South Africa has faced several headwinds in 2018 which included 1) rising global crude oil prices, 2) risk-aversion by investors following the Turkish lira crisis 3) import tariffs imposed by the USA on SA's steel and aluminium products, 4) Listeriosis and its impact on trade between SA and other African countries, 5) currency depreciation relative to 2017, 6) higher taxes (fuel and VAT), 7) increasing inflation above the 4.5 mid-point and 8) a start to the interest rate-hiking cycle of the USA. Also, the country fell into a recession in the 2nd quarter of 2018 due to the economy's contraction by 2.6 per cent and 0.4 per cent in the 1st two quarters of the year. Therefore President Ramaphosa announced the South African Economic Stimulus and Recovery Plan on the 21st of September 2018 to 1) ignite economic activity, 2) restore investor confidence, 3) prevent further job losses and create new jobs and 4) address urgent challenges which affect vulnerable groups in SA.

Investopedia (2018) defines a stimulus package as a package of economic measures put together by a government to stimulate a floundering economy. The objective of a stimulus package is to reinvigorate the economy and prevent or reverse a recession by boosting employment and spending

Seven key economic reforms were outlined in the stimulus package, and briefly described in the following manner:

1. Immediate changes to visas

To boost the tourism industry, various obstacles regarding visas will be removed. These relate to the travelling of minors and reducing the number of countries that require visas to enter the country. Also, these changes will allow highly skilled foreigners to enter the country more easily.

2. Revised mining charter

Post extensive consultation, cabinet has approved a revised mining charter that would provide certainty to investors. A separate legislation for the regulation of the oil and gas industry will be drafted through the government's legislative process.

3. Review of the cost of doing business

South Africa aims to reduce the cost of doing business. Government would review administrative prices charged for electricity, as well as reduce ports and rail tariffs. The Finance Minister, through the MTBPS (2018), notes that the restructuring of the electricity sector includes the restructuring of Eskom, dealing with its debt obligations and reviewing the current Electricity Pricing Policy.

Also within the electricity industry, power-purchase agreements have been concluded, which will create an investment of R56 billion and created approximately 61 000 jobs. Through the renewable energy IPPs, equity has been secured for local communities, who will receive approximately R29.3 billion in net dividend income over the life span of the projects.

4. Rapid roll-out of radio spectrum

High-demand radio spectrum will be rolled out to enable licencing to reduce data costs and increase the overall competitiveness of the South African economy. The Finance Minister (2018) has also stated that the proposed policy for the licensing of high –demand spectrum has been gazetted.

5. Reprioritisation of R50 billion in spending

Government will reprioritise the existing budget to focus on agriculture, the township economy and rural areas as well as land reform. The focus on agriculture will include support measures for black commercial farmers whilst experts have been appointed to advice on land reform. A township and rural entrepreneurship fund will also be created. Reprioritisation of existing budgets will also focus on hospital beds, equipment and sanitation in schools.

The Finance Minister (2018) explained further that emerging farmers will be supported through the Land Bank, and that the Bank will conclude transactions worth R16.2 billion over the next 3-5 years. A large portion of this funding will go towards export-oriented crops which are labour intensive.

R15.9 billion will be reprioritised towards infrastructure programmes, supporting industrialisation and the Expanded Public Works Programme. An additional R16.5 billion will be directed at various programmes such as restoring the capacity of the South African Revenue Service (SARS) whilst R1 billion will be centralised within housing subsidies to assist low and middle income households to access affordable home loans. Lastly, R668 million will be spent over the MTEF to revitalise government-owned industrial parks in townships.

In terms of addressing urgent matters in health and education, funds will be added to the provincial equitable share to enable provinces to provide free sanitary pads in school, in addition to the zero-rating of sanitary pads in SA from the 1st April 2019. Also, R350 million will be reprioritised towards adding 2 000 health professionals into public health facilities whilst R150 million will be reprioritised for purchasing beds and linen for hospitals in dire need.

6. A R400bn new SA infrastructure fund

The infrastructure fund will be blended, leveraging more money from banks and investors to incite private sector participation in infrastructure. A dedicated infrastructure investment team

with project management experience to identify and quantify shovel-ready projects such as roads and dams.

The Finance Minister (2018) has stated that a partnership between the Development Bank of Southern Africa, the Government Technical Advisory Centre and the Presidential Infrastructure Coordinating Commission will be formed and financed to strengthen project preparations. Government will also establish an execution unit consisting of engineers, quantity surveyors, architects and other professionals to address challenges of the Vaal River System and the Giyani Water project. Also, government will develop a framework for investors to assess the potential long-term returns on public infrastructure projects.

7. Other economic measures to be implemented

Procurement from small business and cooperatives will be expanded, as well as using trade measures – within WTO rules – to protect poultry and other sensitive sectors and a vigorous crackdown on illegal imports.

Investment Summit

One of the biggest challenges facing the economy of South Africa is low business confidence and the resultant low investment. One of the ways that this challenge is evident is through observing the dismal performance of the GFCF in 2017 and in 2018 as depicted in table 1.7 above. In April 2018, President Ramaphosa set an ambitious goal of raising \$100bn in investment over the next five years. Unlocking investment opportunities for South Africa should not only come through Foreign Direct Investment (FDI), but also through South African businesses investing in the country. As such, President Ramaphosa also held the South Africa Investment Conference in October 2018 to attract investment for the economy.

The South Africa Investment Conference was convened under the theme “Accelerating Economic Growth by Building Partnerships”, and was attended by leaders in government and business, members of the diplomatic corps, fund managers and entrepreneurs. The investment conference successfully attracted R290 billion from companies in the following industries: mining, forestry, manufacturing, telecommunications, transport, energy, agro-processing, consumer goods, pharmaceuticals, infrastructure, financial services, energy, ICT and water. Also, the prominent focus of these investment announcements are in the areas of value addition,

beneficiation, innovation and entrepreneurship. What is pleasing to note is that the majority of these investment announcements come from South African enterprises and entities or multinationals based in the country.

The R290 billion investment attracted through the investment summit is complemented by the R400 billion investment pledges which arose from the engagements the President had with the President's Investment Envoys in preceding months.

Africa Investment Forum

The African Development Bank also convened the inaugural Africa Investment Forum in in South Africa in November 2018, where the President of the African Development Bank laid a vision for the forum, which is to tilt the flow of capital into Africa. The Forum is a platform for African governments and businesses, continental and international financial institutions, as well as other development partners to focus on the critical task of making Africa the next global frontier in investment. The Forum was attended by approximately 300 institutional investors from 53 countries, including 23 non-African countries and a solid pipeline of projects and wealth of opportunities ready for investors. After a final review of all boardroom projects, investor interest stood at close to US\$40 billion.

During his address at the Open Plenary of the forum, President Ramaphosa highlighted not only what the forum means for SA, but general issues that Africa needs to address to attract investment. These include

- Investing in the skills, capabilities and well-being of its people
- Improving governance and promote peace and stability
- Within governance, removing policy uncertainty, financial mismanagement and corruption
- Acting against corruption both within the public institutions and the private sector.
- Driving the economic reforms necessary to create an enabling business environment
- Dealing with burdensome red tape, providing policy and regulatory certainty, and strengthening financial institutions

1.4 CONCLUSION

The global economy is projected to maintain an economic growth rate of 3.7 per cent from 2017 to 2019. However, this growth is facing many downside risks, such as 1) the current trade tensions between the USA and China as well as several other countries, 2) risk aversion by investors from EMDEs with weaker fundamentals and higher political risk, 3) tighter financial conditions e.g. rising interest rates in the USA and 4) rising oil import bills, amongst other reasons.

Although growth amongst advanced economies might have increased from 2.3 per cent in 2017 to 2.4 per cent in 2018, it is projected to regress to 2.1 per cent in 2019. As the biggest advanced economy, the USA will follow a similar growth trajectory between 2017 and 2019, as it might have benefitted from the fiscal stimulus in 2018 while the neutral impact of the fiscal policy and the current trade tensions may reduce growth for the country in 2019. Elsewhere amongst advanced economies, growth will also weaken between 2017 and 2019 e.g. euro area, Japan and the UK. Similar to the global growth trajectory, the economic growth of EMDEs will be maintained at 4.7 per cent between 2017 and 2019. China's growth is declining to a more sustainable level, whilst India's growth is rising post the currency exchange initiative and the Goods and Service tax transitory shocks. Brazil and Russia have been growing post the 2016 recessions whilst South Africa growth remains low due to structural constraints as well as external pressures.

The economic growth of the SSA is projected to accelerate from 2.6 per cent in 2017 to 3.5 per cent in 2019, as commodity prices recover e.g. crude oil prices, coal and copper. The 2018 upswing reflects rising oil and metals production, which have been encouraged by higher commodity prices. The 2018 growth has also been boosted by improving agricultural conditions as well as increasing domestic demand. The strengthening growth of the region in 2019 reflects the strengthening of the SSA3, which is South Africa, Nigeria and Angola.

In particular, the economic growth of South Africa is projected to strengthen from 0.8 per cent in 2018 to 1.4 per cent in 2019. A number of policy interventions have already been presented in 2018, which may begin to bear fruit in 2019 and onwards. However, the pace of structural reform implementation and the level of policy credibility will determine the extent of economic recovery.

CHAPTER 2: FREE STATE PROVINCE'S ECONOMIC STRUCTURE AND PERFORMANCE

Key findings

- The structure of the Free State economy is dominated by the tertiary industry's whose size is collectively increasing.
- On the contrary, the size of primary industries has decreased, whilst the secondary industries have largely remained unchanged.
- Although agriculture has faced challenges of drought in 2015/16, its size rose from 4.6 per cent in 2016 to 5.0 per cent in 2017.
- Free State is the second most diversified provincial economy, after Mpumalanga
- The province has comparative advantage in agriculture (2.17), mining (1.29), electricity (1.28) and community services (1.07).
- The provincial economy has been on a downward growth trend post the recession, similar to the country's growth trend.
- Following the 2015/16 drought and declining commodity prices, the provincial economy was in a recession in 2015 and 2016, when the economy declined by 0.1 per cent over both years.
- However, the province recovered and grew by 2.9 per cent in 2017, due to the strong performance of agriculture, which grew by 74.8 per cent post the drought. Also, mining benefitted from recovering commodity prices and grew by 5.3 per cent in 2017.
- The Free State economy might have reverted back into a recession by a decline of 1.4 per cent in 2018, due to the decline of agriculture (14.7 per cent), mining (10.2 per cent), construction (2.1 per cent) and trade (0.6 per cent), as well as weak growth of other industries in 2018.
- Quarterly provincial performance show that Free State might have declined by 8.0 per cent and 2.5 per cent in the first two quarters of 2018 respectively, whilst the economy might have recovered by a minute 0.9 per cent growth in the 3rd quarter of the year.
- In 2019, the Free State economy is projected to recover and grow by 0.9 per cent, supported mainly by transport (3.2 per cent), agriculture (2.9 per cent) and finance (2.8 per cent).
- Over the medium term, the economic growth rate of the province will average 1.2 per cent between 2020 and 2022. This growth rate is far below the growth target of 5.4 per cent to significantly reduce unemployment, and requires implementation of the policy interventions the country and province have formulated.

2.1. INTRODUCTION

The Free State provincial economy has faced a torrid post-recession period, registering poor growth performance, as well as shedding much needed jobs, and thus new innovations are needed to chart a new inclusive growth trajectory premised on the creation of sustainable jobs, as envisioned in the Free State Growth and Development Strategy: Vision 2030. In order to chart this new trajectory, it is important to take stock of the past performance of the provincial economy and its evolving structure thereof. This chapter will do exactly that, by analysing the structure and performance of the provincial economy over a ten year period and also provide short-term forecasts as well policy implications.

The chapter is, thus, divided into five sections as follows:

- The first section analyses the structure of the provincial economy between 2008 and 2017.
- The second section provides a brief overview of the performance of the provincial economy over the past ten years.
- The third section, which makes up the bulk of the chapter, is the analysis of each of the five priority sectors of the provincial economy.
- The chapter will also sketch the economic outlook for the province.
- Lastly, policy implications in support of the Free State economic outlook will be outlined.

2.2. STRUCTURAL COMPOSITION OF FREE STATE ECONOMY

Economic structure is a term that describes the changing balance of output, trade, incomes and employment drawn from different economic sectors, ranging from primary (farming, fishing, mining etc.) to secondary (manufacturing, utilities and construction industries) to tertiary sectors (trade, finance, personal services, etc.). Changes in economic structure are a natural feature of economic life, but they bring challenges in terms of reallocating factors of production. For example, a shift in production and jobs in one sector can lead to problems of structural unemployment.

The relationship between changes in economic structure and growth has attracted the interest of economists for quite a long time. It is widely accepted that economic advancement is supplemented by a shift from agriculture towards manufacturing and in turn towards services.

Recent decades have, if anything, provided substantial amount of empirical evidence in favour of such reasoning (Brown, 1988; Jasinowski, 1992; Kollmeyer, 2009; Rowthorn and Coutts, 2013; Rodrik, 2015). Across the developed world one sees once predominantly manufacturing landscapes being transformed into pools of service activities. This phenomenon, commonly known as deindustrialization, has been widely discussed and analysed by both academics and policy makers. While for some its occurrence is a consequence of a common development path of nations, others are more concerned with its growth implications. It is being argued, in that context, that manufacturing offers much stronger growth potential than the service sector (Stojčić, Bezić, and Galović, 2016).

One of the main objectives for policy-makers across the world is to increase the ability of their nations to grow and to provide their citizens with a better standard of living. The accomplishment of this task requires an underlying economic structure capable of generating a sufficient amount of jobs, withstanding the pressure of competition in a globalized world and yielding sustainable rates of growth. This section of Chapter 2 provides a comprehensive analysis of the structure of the Free State economy to enhance decision-making by policy-makers. Challenges and opportunities stemming from the transformation of the provincial economy will therefore give direction to policy-making.

A study by Mosala (2016) found that the structural change in the Free State provincial economy can be characterized in the main, by a move away from primary sector, towards a greater emphasis on output in the services sector. Table 2.1 below looks at this structural transformation of the Free State economy over the past ten years (i.e. 2008 to 2017).

Table 2.1: Composition of the Free State economy by sector, 2008 - 2017

Industry	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017*
Primary Industries	18.8	17.6	17.4	16.6	16.2	15.7	15.3	13.1	14.0	14.3
Agriculture, forestry and fishing	5.8	5.5	4.5	4.3	4.1	4.1	4.3	4.1	4.6	5.0
Mining and quarrying	13.0	12.1	12.8	12.3	12.0	11.7	11.0	9.0	9.4	9.3
Secondary Industries	16.7	16.7	15.5	15.4	15.2	15.2	15.1	16.7	16.7	16.9
Manufacturing	12.1	10.9	9.9	9.6	9.2	9.2	9.0	10.2	10.4	10.4
Electricity, gas and water	2.0	2.7	3.1	3.2	3.5	3.3	3.6	4.1	4.1	4.3
Construction	2.6	3.1	2.6	2.7	2.5	2.6	2.4	2.4	2.3	2.2
Tertiary industries	55.3	56.6	57.9	57.8	58.6	58.6	59.1	59.7	58.5	58.7
Trade, catering and accommodation	12.3	13.3	15.4	14.1	13.9	13.3	12.9	12.9	12.6	12.5
Transport, storage and communication	9.1	8.5	7.9	8.3	8.9	9.0	9.5	9.5	9.3	9.5
Finance, real estate and business services	14.3	14.1	13.9	13.7	13.5	13.7	14.2	14.8	14.0	14.2
Community services	19.6	20.7	20.7	21.7	22.3	22.5	22.4	22.5	22.6	22.6

All industries at basic prices	90.8	90.9	90.8	89.9	90.1	89.6	89.4	89.5	89.2	89.9
Taxes less subsidies on products	9.2	9.1	9.2	10.1	9.9	10.4	10.6	10.5	10.8	10.1
GDPR at market prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Statistics South Africa, GDP, 4th Quarter 2017 and IHS Markit, 2019

Over the past ten years, the share of the primary industries has continued to decline unabated. The industries contributed 18.8 per cent to the provincial economic output in 2008, declining to 14.3 per cent in 2017; representing a contraction of 4.5 percentage points. The decline of the primary industries can be largely attributed to the fall of the mining and quarrying sector, whose share declined by 3.7 percentage points over the period under review. Within the mining and quarrying sector, the mining of gold and uranium ore sub-sector was the biggest contributor to the decline, decreasing by 3.4 percentage points. Mining as whole is negatively affected by declining commodity prices, low confidence levels, electricity-supply constraints, rising input costs and infrastructure constraints. The share of the agriculture, forestry and fishing industries on the other hand declined 0.8 percentage points, solely attributed to the decline in the agriculture and hunting sub-sector. The agricultural sector is still faced with the challenge of a persistent draught although there was some relief in 2017 to some extent.

The share of the secondary industries has remained stagnant at around 16 per cent. What is rather concerning is the declining share of the manufacturing sector (from 12.1 per cent in 2008 to 10.4 per cent in 2017). Manufacturing is recognised as one of the priority sectors in the Free State, therefore the apparent decline of the sector is a major concern. A deeper look points at the fuel, petroleum, chemical and rubber products sub-sector as the foremost cause of the decline in the sector. The share of this sub-sector has declined by 1.2 per cent during the review period.

Tertiary industries are the beneficiaries of the transforming structure of the Free State economy. The share of the tertiary industries increased from 55.3 per cent in 2008 to 58.7 per cent in 2017; an increase of 3.4 percentage points. The growth of the tertiary industries is largely due to the growth of the community services (government and personal services), whose share increased by 3.0 percentage points, from 19.6 per cent to 22.6 per cent. This growth is driven by the increase in the share of the public administration and defence activities sub-sector by 1.7 percentage points.

The biggest sectors in the Free State in 2017 were the community services (22.6 per cent), finance, real estate and business services (14.2 per cent), trade, catering and accommodation (12.5 per cent) and manufacturing (10.4 per cent). The smallest sectors were construction (2.0 per cent), electricity, gas and water (4.3 per cent) and agriculture, forestry and fishing (5.0 per cent).

It is evident that an important structural shift has taken place in the Free State provincial economy during the period under review. The structural change in the provincial economy can be characterised in the main, by a move away from primary and manufacturing production, towards a greater emphasis on output in the services sector. The key loss in production share though, lay in the primary sectors, with manufacturing production remaining largely unchanged. This reflects not only that the economy has been mimicking national and global trends, but also that the economy is well placed to exploit opportunities in a sector that is growing faster than any other in the world economy.

Table 2.2: Provincial contribution to national GDP

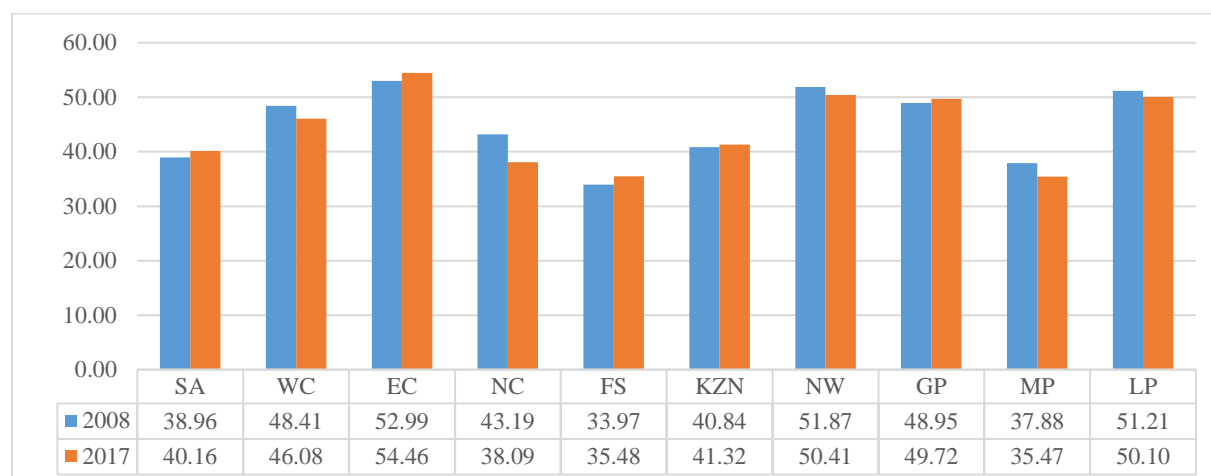
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Western Cape	14.0%	13.7%	13.6%	13.7%	13.7%	13.8%	13.6%	13.6%	13.7%	13.6%
Eastern Cape	7.3%	7.6%	7.7%	7.5%	7.8%	7.7%	7.7%	7.8%	7.6%	7.5%
Northern Cape	2.3%	2.2%	2.2%	2.1%	2.1%	2.0%	2.2%	2.1%	2.1%	2.2%
Free State	5.5%	5.4%	5.4%	5.2%	5.0%	5.0%	5.0%	5.1%	5.0%	5.0%
KwaZulu-Natal	16.6%	16.3%	15.8%	15.9%	16.0%	15.9%	16.0%	16.0%	15.9%	15.8%
North-West	5.9%	5.9%	6.0%	6.1%	5.9%	6.3%	6.0%	6.0%	5.9%	5.9%
Gauteng	34.4%	34.4%	34.7%	34.6%	34.4%	34.4%	34.7%	34.7%	35.2%	35.3%
Mpumalanga	7.2%	7.3%	7.4%	7.5%	7.8%	7.6%	7.6%	7.5%	7.4%	7.4%
Limpopo	6.9%	7.3%	7.4%	7.4%	7.3%	7.3%	7.2%	7.1%	7.2%	7.2%

Source: IHS Markit, Regional eXplorer, 2019

Table 2.2 above shows the contribution of all the provinces to South Africa's GDP over a ten year period. The biggest contributors in 2017 were Gauteng (35.3 per cent), KwaZulu-Natal (15.8 per cent) and Western Cape (13.6 per cent). On the other hand, the smallest economies were Northern Cape (2.2 per cent), Free State (5.0 per cent) and North West (5.9 per cent). Over the review period, the biggest increase in the contribution share was in Gauteng (0.9 of a percentage point) and Limpopo (0.3 of a percentage point), whilst the largest shrinkages were in KwaZulu-Natal (0.8 of a percentage point) and Free State (0.5 of a percentage point).

The Free State's share has been decreasing steadily, from 5.5 per cent in 2009 to 5.0 per cent in 2017. The decline of the Free State's share of the national economy over the reference period may reflect the decline of mining, manufacturing, transport, finance and personal services industries in the province. Free State faces an ailing mining industry together with reduced commodity prices, the province's main manufacturing activity depends on the price of oil and the performance of the dollar, whilst low consumer and business confidence, fiscal consolidation and subdued domestic economy have negatively impacted on the performance of the Free State economy in recent year. Overall, the Free State economy has expanded at a much slower pace relative to other provinces, hence the decrease in its share of national output.

Figure 2.1: Tress Index

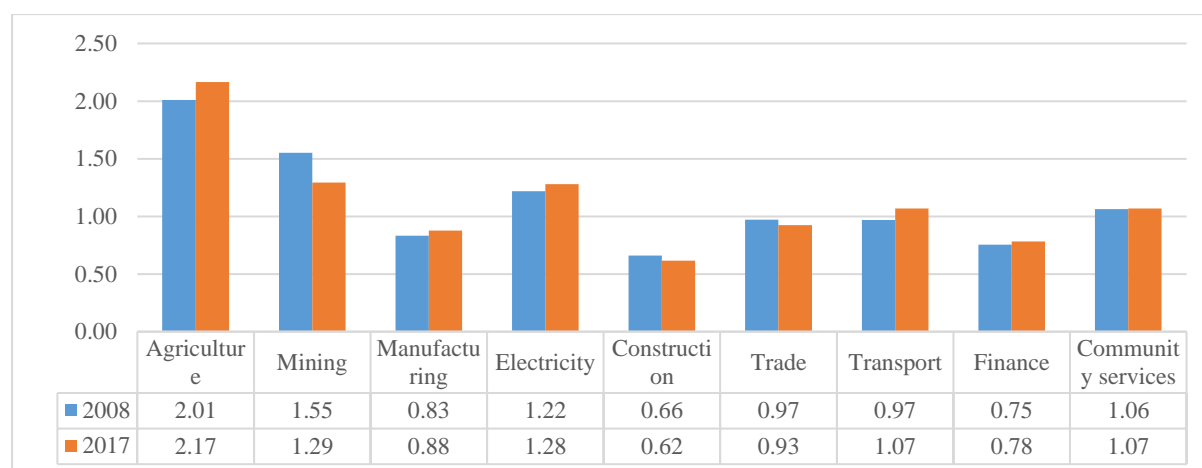


Source: IHS Markit, Regional eXplorer, 2019

The Tress Index provides insight into the level of concentration (or diversification) within an economic region. A Tress Index value of 0 means that all economic sectors in the region contribute equally to GVA, whereas a Tress Index of 100 means that only one economic sector makes up the whole GVA of the region. An increase in the tress index of a region reflects an increase in the dependence of the local economy on a single or a few economic activities and is an ostensibly negative trend. Figure 2.1 above shows the changes in the Tress Index for South Africa and its provinces over a ten year period. South Africa's index decreased from 38.96 in 2008 to 40.16 in 2017. This effectively means that the country has become less diversified over the period. This trend can be explained by the declining share of the primary industries and simultaneous dominance of the tertiary industries, in particular the community services sector whose share has increased to just under a quarter of GDP. This decreasing level of diversification makes the country more vulnerable to external shocks.

Free State's Tress Index has also increased, from 33.97 in 2008 to 35.48 in 2017. This increase can be explained largely by the declining mining and agricultural sectors and the emergence of the tertiary industries. During this period the value of the primary industries, in constant 2010 prices, only increased by about R1.4 billion; whilst that of the tertiary industries increased by R13.5 billion. These uneven increases led to the 4.5 percentage points decline in the share of the primary industries to total provincial GDP and a 3.4 percentage points increase in the share of the tertiary industries. The Free State provincial economy has thus become less diversified, with an increasing reliance on the tertiary industries and more in particular on the government sector. This heavy reliance on the tertiary industries (increased concentration of the economy on a fewer sectors) exposes the provincial economy to external shocks. It is however, worth noting that the Free State (35.48) is the second most diversified provincial economy in South Africa, closed behind Mpumalanga (35.47).

Figure 2.2: Location quotient



Source: IHS Markit, Regional eXplorer, 2019

A specific regional economy has a comparative advantage over other regional economies if it can more efficiently produce the same good. The Location Quotient (LQ) is one way of measuring this comparative advantage by taking into account production and employment. If the location quotient is larger than one for a specified sector and region, then that region has a comparative advantage in that sector. This is because the share of that sector of the specified regional economy is greater than the same sector in the national economy. LQ are, therefore, an excellent tool for economic and workforce development planners to use in recruiting prospective employers to areas that have concentrations of workers with transferable skills and

other key resources, or in directing them to areas where local demand is exceeding current supply of a product or service.

According to figure 2.2 above, Free State has a comparative advantage in agriculture (2.17), mining (1.29), electricity (1.28) and community services (1.07). An LQ of at least 1.25 is required to consider classifying an area industry as an exporter. Still, an LQ greater than 1.25 does not necessarily mean that an area industry is exporting; there may simply be excessive local demand.

An LQ significantly less than 1.0 may indicate an opportunity to develop businesses in the local area to meet area demand. In the Free State sectors that fall under this category are construction (0.62) finance (0.78) and manufacturing (0.88).

Industries with high LQ, such as agriculture and mining in the Free State, are typically (but not always) export-oriented industries, which are important because they bring money into the region, rather than simply circulating money that is already in the region (as most retail stores and restaurants do). Industries which have both high LQ and relatively high total job numbers typically form a region's economic base. Policy-makers need to pay particular attention to these industries not only for the jobs they provide, but also for their multiplier effect; the jobs they create in other dependent industries like retail trade and food services.

2.3. ECONOMIC PERFORMANCE OVERVIEW

Economists use many different methods to measure how fast the economy is growing. The most common way to measure the economy is real gross domestic product, or real GDP. GDP is the total value of all goods and services produced in our economy. The word "real" means that the total has been adjusted to remove the effects of inflation. This section makes use of GDP to measure the performance of the Free State economy over a ten year period.

Figure 2.3 below shows the GDP growth rates of South Africa and the Free State for the period 2008 to 2017. As illustrated in the figure, the economies of both the country and the province have been very fragile and on a decline post the 2009 economic recession. South Africa's economic growth between 2010 and 2017 has averaged only 1.8 per cent, whilst that of the Free State averaged a meagre 1.4 per cent. During this period, only Gauteng, Western Cape

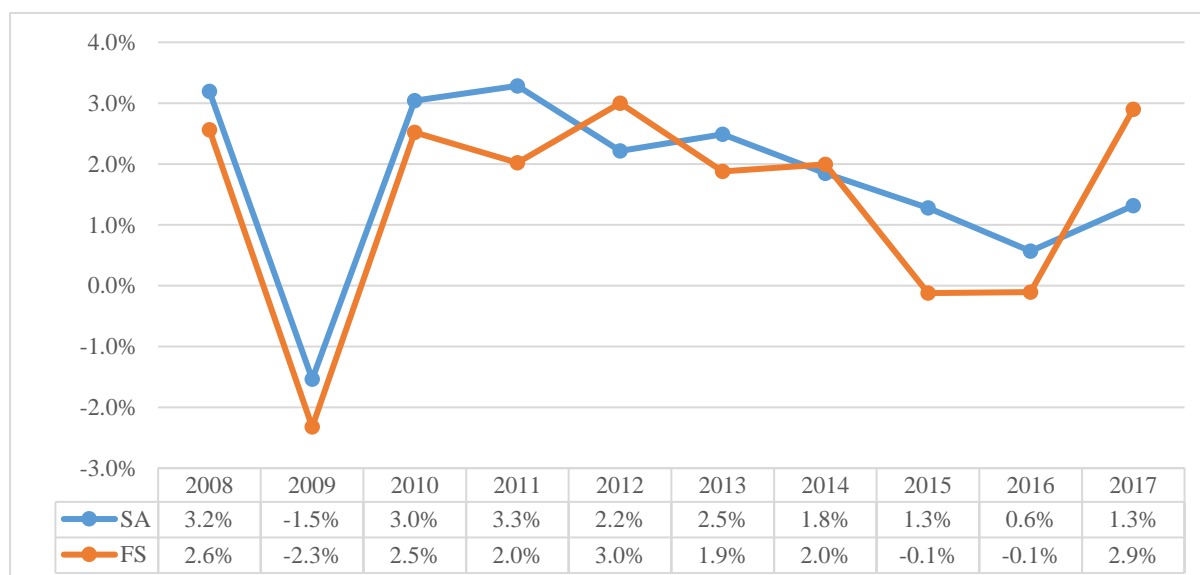
and KwaZulu-Natal grew at rates above the national average; all averaging 2.0 per cent. The worst performer was North West with average economic growth of 0.8 per cent (IHS Markit, 2019).

The Free State provincial economy has not recovered from the 2009 economic recession, recorded further negative annual growth rates in 2015 and 2016, largely due to the draught and declining commodity prices. In the five years preceding the 2009 recession, the provincial economy grew by 3.6 per cent on average, compared to just 2.3 in the following five years and 0.9 per cent in the three years after that.

The poor growth rate of the provincial economy is primarily informed by the following factors:

- The slowdown in the agriculture sector mainly as a result of drought;
- Declining output and low prices for commodities coming from our province;
- Stagnated manufacturing; as well as
- Marginal growth in the government and community services sector.

Figure 2.3: South Africa and Free State GDP growth rates



Source: Statistics South Africa, GDP, 4th Quarter 2017 and IHS Markit, 2019

Free State's quarterly GDP growth rates is illustrated in figure 2.4 below. The year 2018 started on a dreadful note for the Free State economy with negative growth in the first two quarters of 2018, -8.0% and -2.5% respectively. The majors contributors to the negative growth in Q1:2018 were agriculture (-56.5%), mining (-25.1%) and manufacturing (-7.7%). Mining in

the province was affected by the performance of gold, as gold mining production was adversely affected by the closure of some loss-making operations, exacerbated by the lower rand price of gold.

Major contributors to the decline in the second quarter was agriculture (-40.1%), due to the continued effects of the prolonged draught. Transport and trade also shrank by -4.7% and -2.5% respectively.

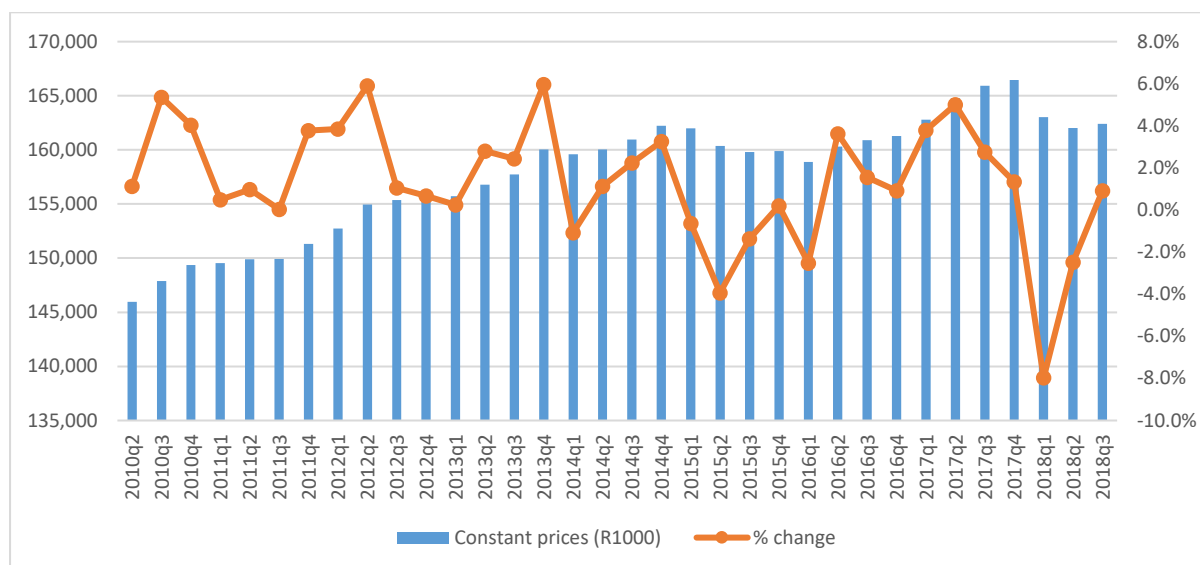
The provincial construction industry is estimated to have contracted by 4.2 per cent and 3.3 per cent in the first and third quarters of 2018 respectively, and likely suffers the same challenges as the national industry, which are persistent weak building and construction confidence and the absence of significant fixed capital investment.

The dismal performance of the trade industry in the first quarter could have been due to the base effect of the strong Black Friday sales in the fourth quarter of 2017, the Listeriosis outbreak, weak formal sector employment as well as the subdued growth in household credit extension. In the 2nd quarter, retail activity declined in the food, beverages & tobacco, hardware, paint & glass as well as pharmaceutical & medical goods sub-industries. The lower sales of new and used vehicles over the period also contributed to the deterioration in activity in the motor trade subsector. Also, the depreciation in the exchange value of the rand could have negatively affected new vehicle sales through higher price increases.

Lastly, the transport industry declined by 4.7 per cent in the second quarter of 2018 as activity declined in the rail and road freight transport, whilst the nation-wide bus strike had a negative impact on road passenger transport.

The Q3:2018 performance was relatively better with positive growth; only mining, construction and electricity recorded negative growth of -12.4%, -3.3% and -0.8% (IHS Markit, 2019).

Figure 2.4: Free State quarterly GDP



Source: IHS Markit, Regional eXplorer, 2019

Table 2.3 below depicts Free State's GDP growth rates by industries from 2008 to 2017. On average the fastest growing industries were agriculture (5.8 per cent), construction (2.3 per cent) and community services (2.3 per cent). The average growth rate of agriculture is, however, distorted by the unusually high rate recorded in 2017 due to the base effect after two years of consecutive contractions largely attributed to the effects of a draught. Excluding the year 2017, agriculture's average growth rate fall to -1.8 per cent. On the other hand, the worst average growth rates between 2008 and 2017 were in mining (0.0 percent) and electricity (-0.6 per cent). The fact that the mining sector, as one of the priority sectors for economic development in the Free State, has underperformed is a big concern for the provincial economy. The poor performance of the mining sector is entirely attributed to the decline in the mining of gold and uranium which contracted by 2.7 per cent on average over the period under review. Subdued commodity prices has played a major role in the weak performance of this sector.

In 2017, the primary industries grew by 17.7 percent, again this can be explained by the 74.8 per cent growth seen in agriculture. The average growth rate of the primaries industries over the ten year period is 0.8 per cent.

The secondary industries only managed a growth rate of 0.4 per cent in 2017, due to the decline in the construction sector which shrank by 1.0 per cent in the same year. On average, over the review period, the secondary industries grew by 0.7 per cent. The major contributor to this

miniature growth rate is the electricity sector which contracted by 0.6 per cent. These industries have struggled particularly in the past three years with growth rates of 0.3 per cent, 0.2 per cent and 0.4 per cent respectively.

The tertiary industries have become the mainstay of the Free State economy, constituting just under a quarter of the provincial output. The average growth rate of the tertiary industries over the review period was estimated at 1.9 per cent; over a percentage point higher than the primary and secondary industries. The biggest contributor to this relatively impressive growth is the community services with an average growth of 2.3 per cent. The diver of growth within the community services was the public administration and defence activities sub-sector growing by 3.4 per cent on average. The government has, thus, been at the heart of economic growth in the Free State.

Table 2.3: GDP growth rates by industries

Industries	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Agriculture	26.4%	-3.5%	1.0%	-8.6%	1.8%	4.3%	6.9%	-25.0%	-19.8%	74.8%
Mining	-5.9%	-5.8%	4.7%	-1.4%	1.1%	2.1%	2.5%	-0.8%	-2.1%	5.3%
Primary Industries	0.9%	-5.2%	3.7%	-3.3%	1.3%	2.6%	3.6%	-7.1%	-5.8%	17.7%
Manufacturing	1.9%	-7.9%	5.7%	1.3%	0.9%	0.9%	2.6%	0.2%	0.7%	0.7%
Electricity	-4.2%	-2.9%	2.5%	1.6%	0.2%	0.2%	-0.8%	-0.7%	-2.1%	0.6%
Construction	7.0%	11.2%	-5.7%	0.6%	2.7%	4.0%	2.2%	1.6%	0.6%	-1.0%
Secondary Industries	1.4%	-4.0%	3.0%	1.3%	1.0%	1.3%	1.9%	0.3%	0.2%	0.4%
Trade	1.2%	-3.1%	3.5%	2.8%	7.9%	1.6%	1.1%	1.1%	0.8%	-1.3%
Transport	3.5%	-1.7%	1.0%	2.4%	1.6%	1.4%	2.3%	1.7%	0.4%	1.0%
Finance	4.3%	0.1%	0.4%	2.8%	3.2%	0.1%	2.0%	1.7%	2.1%	1.2%
Community services	4.6%	1.2%	1.7%	3.9%	2.7%	3.5%	1.9%	1.6%	1.6%	0.5%
Tertiary Industries	3.4%	-0.6%	1.8%	3.2%	4.1%	1.9%	1.7%	1.5%	1.4%	0.3%
Total Industries	2.6%	-2.1%	2.3%	1.6%	3.0%	1.9%	2.1%	-0.3%	-0.1%	3.1%

Source: IHS Markit, Regional eXplorer, 2019

2.4. PRIORITY SECTOR ANALYSIS OF THE PROVINCIAL ECONOMY

The Free State Growth and Development Strategy (FSGDS) provides a vision for the Free State Province towards 2030. The vision is based on six pillars, which are 1) Inclusive growth and sustainable job creation, 2) Education, innovation and skills development, 3) Improved quality of life, 4) Sustainable rural development, 5) Building social cohesion and 6) Good governance. The industries to be discussed in this section are derived from Pillar 1, which has 5 drivers which will contribute towards realising the vision in 2030. These drivers are:

Driver 1: Diversify and expand agricultural development and food security,

Driver 2: Minimise the impact of the declining mining sector and ensure that existing mining potential is harnessed

Driver 3: Expand and diversify manufacturing opportunities

Driver 4: Capitalise on transport and distribution

Driver 5: Harness and increase tourism potential and opportunities

2.4.1. Primary Industries

The primary industries collectively contribute 15.9 per cent towards the economy of the Free State, with the contribution of the agricultural industry equivalent to 5.5 per cent and the contribution of the mining industry equivalent to 10.4 per cent in 2017. The performance of agriculture in the province is affected by the occurrence of dry spells or drought, as well as diseases such as the Foot-and-Mouth Disease (FMD) to be discussed in the succeeding paragraphs. Gold, coal and diamonds feature amongst other commodities mined in the Free State (PERO, 2018). The South African Market Insights (2017) indicates that in general, the commodity South Africa is best known for was Gold, which contributed around 30 per cent of total commodity sales in 2003. However, these sales have been drastically reduced to 18 per cent in 2016. In contrast, the total sales of coal has increased over the same period, from 21 per cent in 2003 to 32 per cent in 2016. Coal has faced several headwinds in recent years, such as the reduction in price during the commodity slump as well as its place within the context of environmental sustainability.

2.4.1.1. Agriculture, forestry and fishing

One of the biggest challenges facing the agricultural industry in South Africa (and the world) is the occurrence of extreme weather patterns. South Africa has had several dry spells since 2011, as well as the 2015/16 drought, which have had a negative impact on agricultural production, the export of these agricultural products into other African countries as well as the inflation rate and consumer welfare e.g. in 2016/17. The previous chapter has highlighted how the unusual hotter summer and the colder winter of 2018 in the United Kingdom may have had a negative impact on agriculture through crop and cattle, as well unintended consequences on infrastructure. Due to unusual or extreme weather patterns that the globe is facing, scientists in developing nations (including Bangladesh, Brazil, China, Ethiopia, India, Jamaica and

Thailand) took the initiative in 2018 to present an idea to undertake research on 'solar geo-engineering', which would mimic big volcanic eruptions that can cool the earth by masking the sun with a veil of ash. This research into dimming sunshine to curb climate change will allow scientists to determine if the man-made chemical sun shield will be less risky than allowing global temperatures to rise.

The solar geo-engineering studies might be helped by a new \$400,000 research project, the Solar Radiation Management Governance Initiative (SRMGI), which issued a first call for scientists to apply for finance in April 2018. The fund could help scientists in developing nations study regional impacts of solar geo-engineering, such as droughts, floods or monsoons. The benefits and risks associated with certain methods within solar geo-engineering are worth following and noting as more extensive research takes place in this field.

Linked to the different ways to curb extreme weather patterns and/or global warming is the need to reduce carbon emissions into the atmosphere, by adhering to the Paris Climate Agreement which was formulated at the 2015 COP 21. South Africa will be introducing a carbon tax in 2019, however the implementation of this tax has been postponed from the 1st January 2019 to the 1st June 2019 (MTBPS, 2018). National Treasury has noted concerns raised by business and labour in the country, and one of the solutions created was to align the carbon budgeting system and the carbon tax, to ensure that a higher tax rate is imposed as a penalty for emissions exceeding the carbon budget.

With 2015/16 drought almost forgotten and food inflation currently within the target band, South Africa is still facing other challenges in the agricultural industry. The South African poultry industry is still facing dumping of chicken portions from countries such as Brazil, which is hurting local production. In the 2018 RCL Foods' annual report, it is noted that advances in agriculture and technology have resulted in countries producing food surplus. This global surplus causes countries to look for unprotected markets to dump the surplus, causing imbalances and damage to local industries and farming communities in the unprotected markets. As a result, the SA poultry industry has applied for a 82 per cent import tariff on frozen chicken portions in 2018 as cheap chicken imports (mainly from Brazil) hurt the competitiveness of local producers. South Africa is not the only country facing this challenge as countries such as Mexico, Japan and Korea had set tariffs of between 109% and 193% for Brazilian poultry imports. The same challenge of dumping is noted in the local sugar market.

The impact of reducing or eliminating competition should be noted. Whilst the local poultry states that job creation and retention would be ensured, any elimination of competition normally increases product prices, which would affect consumer welfare given that chicken is a staple amongst South Africans.

Another challenge which has arisen in the agricultural industry of South Africa is the breakout of the foot-and-mouth disease (FMD) in the Vhembe District (Limpopo) in January 2019. FMD is an infectious disease which affects cloven-hoofed animals such as cattle. The disease has very severe implications for animal farming, since it is highly infectious and can be spread by infected animals comparatively easily through contact with contaminated farming equipment, vehicles, clothing, feed, and by domestic and wild predators. Its containment demands considerable efforts in vaccination, strict monitoring, trade restrictions, quarantines and occasionally the culling of animals. Knight-Jones, T.J.D & Rushton, J. (2013) note separate the economic losses of FMD into two components: 1) direct losses due to reduced production and changes in herd structure and 2) costs of FMD control, poor access to markets and limited use of improved production technologies. Therefore not only does the disease affect the agricultural industry, it also negatively impacts the trade industry. Through its breakout, the World Organisation for Animal Health temporarily suspended SA's foot-and-mouth disease-free zone status. However, strides are being made to re-open markets for South African deboned matured beef, processed dairy products and processed hides and skins to the other African countries, the Middle East and the Far East. Nonetheless, the table 2.4 and figure 2.6 display the performance of the Free State agricultural industry relative to other provinces and South Africa

Table 2.4 below displays the contribution of each province towards the national agricultural industry. The Free State agricultural industry is the 3rd highest contributor towards the national industry with an average contribution of 10.3 per cent between 2008 and 2017. Free State falls behind KwaZulu-Natal and Western Cape, which have contributed an average of 26.0 per cent and 22.1 per cent respectively over the same period. Contrariwise, Eastern Cape, Gauteng and Northern Cape contributed the least towards the national agricultural industry, with average contributions of 5.6 per cent, 6.3 per cent and 6.5 per cent respectively between 2008 and 2018. Several noticeable advantages of the KwaZulu-Natal agricultural industry is 1) reliable rainfall and a larger area of high quality agricultural land, 2) a more diversified agricultural industry, including forestry, 3) topography and 4) a significant number of small scale farmers. Western

Cape agriculture may be benefiting from the 1) high value export crop e.g. grapes, olive, aloe, etc. and 2) irrigation water. Nevertheless, the Crop Estimates Committee (2018) estimates that Free State was the biggest producer of maize (42.4 per cent) and sunflower (56.7 per cent) in 2018, whilst it was the 2nd biggest producer of soybeans (35.6 per cent) and wheat (19.6 per cent) in the same year.

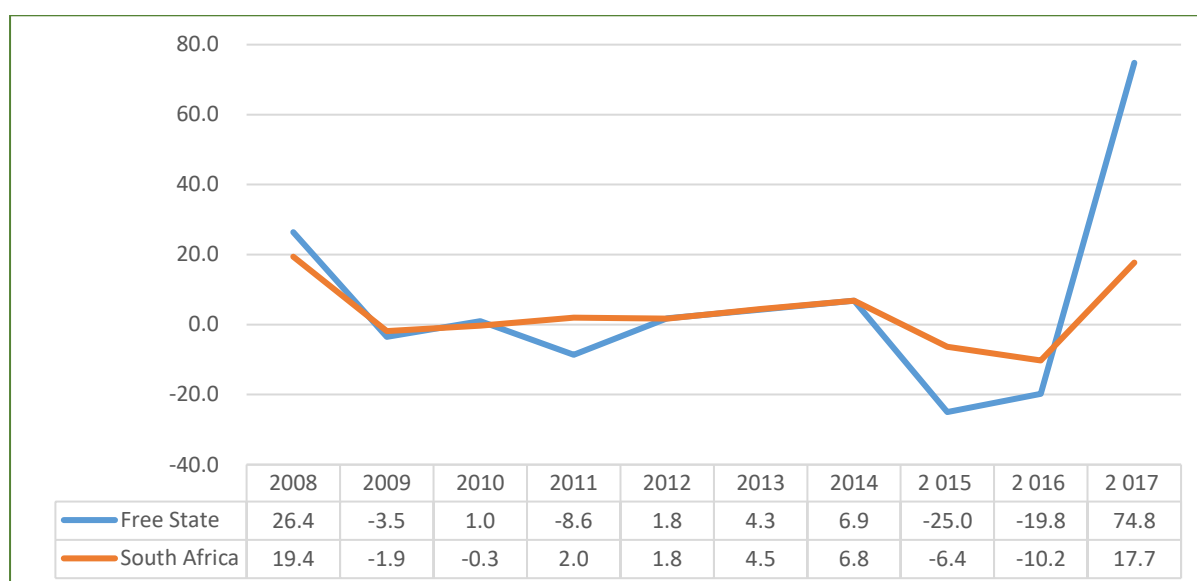
Table 2.4: Contribution by province to agriculture, forestry and fishing (%)

Province	2008	2009	2010	2011	2012	2013	2014	2 015	2 016	2 017
Western Cape	22.0	21.9	22.1	22.6	22.3	22.3	22.0	21.9	22.0	21.9
Eastern Cape	5.1	5.1	4.8	5.3	5.7	5.5	5.9	6.1	6.0	6.2
Northern Cape	6.4	6.4	6.5	6.4	6.6	6.3	6.8	6.9	6.3	6.2
Free State	11.1	11.0	10.2	9.8	9.6	9.7	9.9	10.0	10.6	10.9
KwaZulu-Natal	26.2	26.8	27.0	26.6	26.1	26.4	25.5	25.6	25.2	24.8
North West	6.3	6.1	6.2	6.6	6.8	6.7	7.2	6.8	7.0	6.9
Gauteng	5.9	5.8	5.9	6.1	6.2	6.2	6.6	6.6	6.7	7.1
Mpumalanga	9.2	9.1	9.0	9.0	9.1	9.3	9.2	9.0	8.7	8.5
Limpopo	7.8	7.8	8.2	7.7	7.8	7.5	7.1	7.3	7.4	7.4

Source: Statistics South Africa, Gross Domestic Product, First Quarter 2018; IHS Markit, Regional eXplorer, 4th quarter 2018

The Free State's agriculture, forestry and fishing industry grew by an average growth rate of 5.8 per cent between 2008 and 2017, which is above the national industry's average growth rate of 3.3 per cent over the same period. The agricultural industry experiences extreme volatility in growth rates annually, due to extreme weather patterns as well as the base effect post those extreme weather patterns. A review of the past three years shows that agriculture declined by 25.0 per cent and 19.6 per cent in 2015 and 2016 respectively in the Free State, whilst the same industry declined nationally by 6.4 per cent and 10.2 per cent in the same years. The extreme decline of the industry was due to the 2015/16 drought, which resulted in lower field crop- and horticulture production, as well as herd culling. However, agriculture in the Free State is estimated to have recovered and grown by 74.8 per cent in 2017, whilst the national industry is estimated to have grown by 17.7 per cent in the same year. The end of the 2015/16 drought benefited field crop production as reflected by the 2017 bumper maize crop, and had a positive base effect on the growth of the industry in 2017.

Figure 2.5: South Africa and Free State agriculture, forestry and fishing sector growth rates



Source: Statistics South Africa, Gross Domestic Product, First Quarter 2018; IHS Markit, Regional eXplorer, 4th quarter 2018

2.4.1.2. Mining and quarrying

The need to balance economic and environmental goals may also be felt in the mining and electricity industries. Globally, banks are coming under increased pressure from society, shareholders and some national governments regarding funding of new coal-fired power stations, as well as the management and disclosure of their climate risks and opportunities. South African banks appear to be falling in line with new Organisation for Economic Co-operation and Development (OECD) country protocols, which prohibit the construction of all new coal-fired power plants other than those using the latest ultra-supercritical (USC) steam generating technology, which provides increased efficiency (typically greater than 45%) and lower CO₂ emissions. Such prohibitions will not only negatively affect the electricity industry, but also the domestic demand for coal from these power stations.

The strikes in the mining industry of South Africa generally have significant negative implications for the economy, the effects of the gold strike of the Sibanye-Stillwaters mining company which commenced in November 2018 have been neutralised by two factors. Sibanye-Stillwaters has diversified away from gold mining and into the PMGs, with its key asset being its Stillwater mine in the US state of Montana. Also, although the price of platinum has declined from its recent peak of \$990.1 per troy oz. in January 2018 to \$791.2 per troy oz. in December

2018, Sibanye-Stillwaters has a significantly larger exposure to palladium, which has been performing well in terms of price.

Although the mining industry of South Africa is facing several challenges stated above, the conclusion of the revised Mining Charter in 2018 has brought greater certainty for the industry. The revised mining charter has solved some previous issues which were deemed contentious. For example, in relation to the “once empowered, always empowered” issue, the revised charter allows a holder of an existing mining right who has already achieved a minimum 26 per cent black shareholding to be deemed compliant, even if the empowerment partner has since exited. Also, the recognition of continuing consequence of previous BEE transactions is for the duration of the mining right but is not applicable upon renewal or transferable upon sale. Table 2.5 below displays the provinces’ contribution towards the South African mining industry whilst figure 2.7 shows the performance of the Free State mining relative to the country over a 10-year period.

Table 2.5 below shows that North West contributes the most towards the mining industry in South Africa, with an average share of 25.6 per cent between 2008 and 2017. North West is followed by Limpopo and Mpumalanga, with average contributions of 24.0 per cent and 21.3 per cent respectively towards national industry over the same period. Conversely, Eastern Cape, Western Cape and KwaZulu-Natal contribute the least towards the national mining industry, with average shares of 0.3 per cent, 0.4 per cent and 3.3 per cent respectively between 2008 and 2017. Free State is the 5th largest contributor towards the industry, as its average share was equivalent to 7.4 per cent over the reference period.

Table 2.5: Contribution by province to mining and quarrying (%)

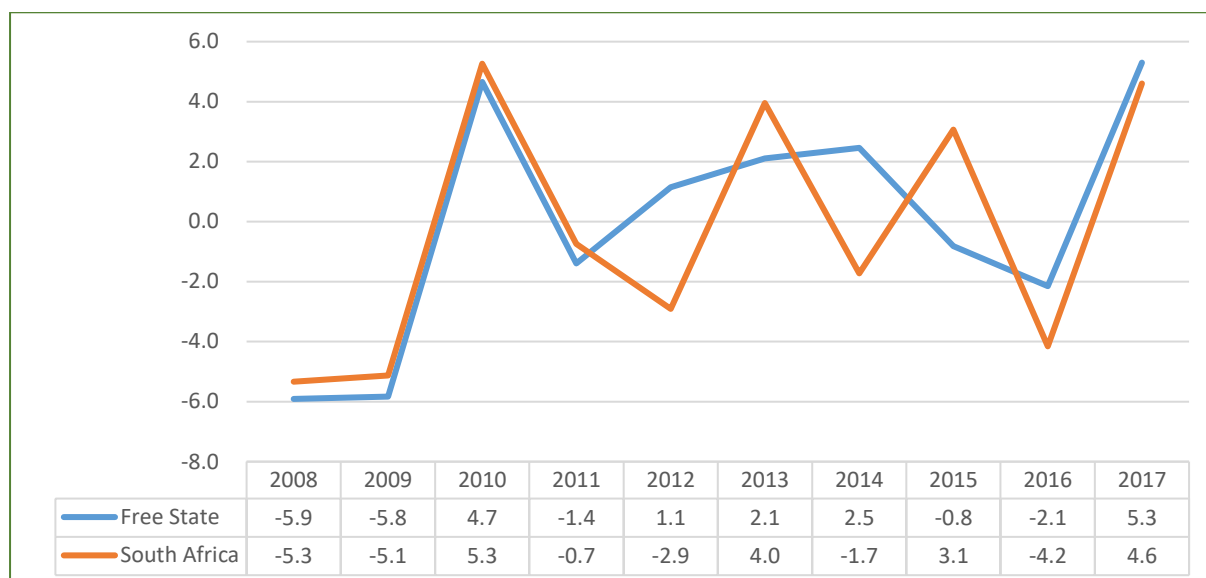
Province	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Western Cape	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.4	0.4
Eastern Cape	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.2	0.1	0.1
Northern Cape	6.7	6.5	6.5	5.8	6.0	6.1	6.1	5.5	5.6	5.6
Free State	8.6	8.2	8.2	7.4	7.4	7.2	7.3	6.5	6.7	6.5
KwaZulu-Natal	3.6	3.4	3.5	3.1	3.4	3.3	3.5	2.9	3.0	2.9
North West	25.3	25.5	25.4	26.4	22.7	26.6	26.1	27.7	26.9	23.5
Gauteng	12.2	12.1	12.1	11.5	12.0	11.0	10.9	10.3	11.0	14.4
Mpumalanga	19.8	20.1	20.4	21.5	24.1	21.6	21.8	21.8	21.1	21.0
Limpopo	23.2	23.3	23.2	23.6	23.7	23.6	23.8	24.6	25.1	25.6

Source: Statistics South Africa, Gross Domestic Product, First Quarter 2018; IHS Markit, Regional eXplorer, 4th quarter 2018

The average growth rate of the mining industry in the Free State province was 0 per cent, whilst the South African mining industry declined by 0.3 per cent on average over the same period. The most significant declines in growth for the province and the country occurred pre-recession. However, post the recession, the biggest declines of the mining industry in the province and nationally occurred in 2016, by 2.1 per cent and 4.2 per cent respectively. The SARB (2016) states that there was a decline in the production of iron ore as well as the necessary safety stoppage at a platinum refinery due to a fire. These two factors affected the national mining industry. However in the 4th quarter of 2016, the growth of all major mineral groups declined, in particular gold, platinum, coal and iron ore. Gold and coal production not only affect the national mining industry, but also Free State's industry.

The mining industries of the province and country recovered and grew by 5.3 per cent and 4.6 per cent respectively in 2017. SARB (2018) attributes the recovery of the mining industry nationally to marked increases in the production of iron ore, manganese ore, diamonds and other non-metallic minerals. The industry benefited from higher global economic growth and the recovery in international commodity prices. The World Bank's Commodity Market Outlook (2019) shows that the prices of the South African coal, aluminium, iron ore, copper and gold recovered in 2017, benefiting the South Africa. The recovery of gold and coal prices also benefitted the Free State province in the same year.

Figure 2.6: South Africa and Free State mining and quarrying sector growth rates



Source: Statistics South Africa, Gross Domestic Product, First Quarter 2018; IHS Markit, Regional eXplorer, 4th quarter 2018

Box 2.1: The gold and coal extracted in SA vs. the years to depletion

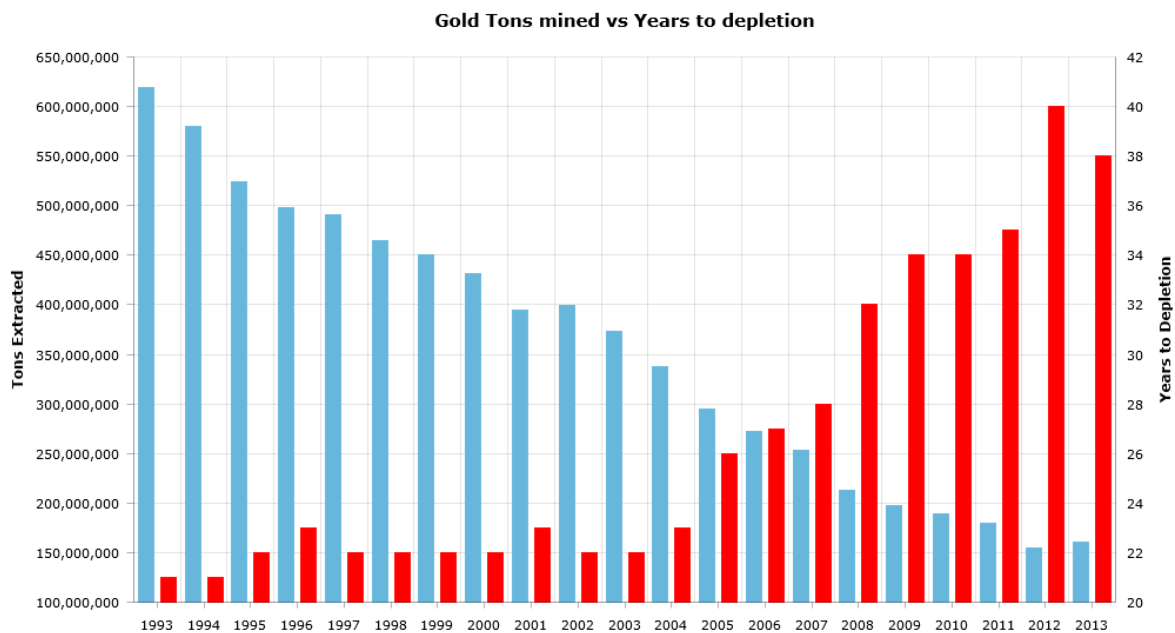
Introduction

South Africa is estimated to have the world's fifth-largest mining sector in terms of GDP value. Its total reserves are estimated at R20.3 trillion (Brand South Africa, 2012). The country has the world's largest reserves of manganese and platinum group metals (PGMs), and among the reserves of gold, diamonds, chromite ore and vanadium. South Africa is also a major producer of coal, manganese and chrome.

Gold and Coal

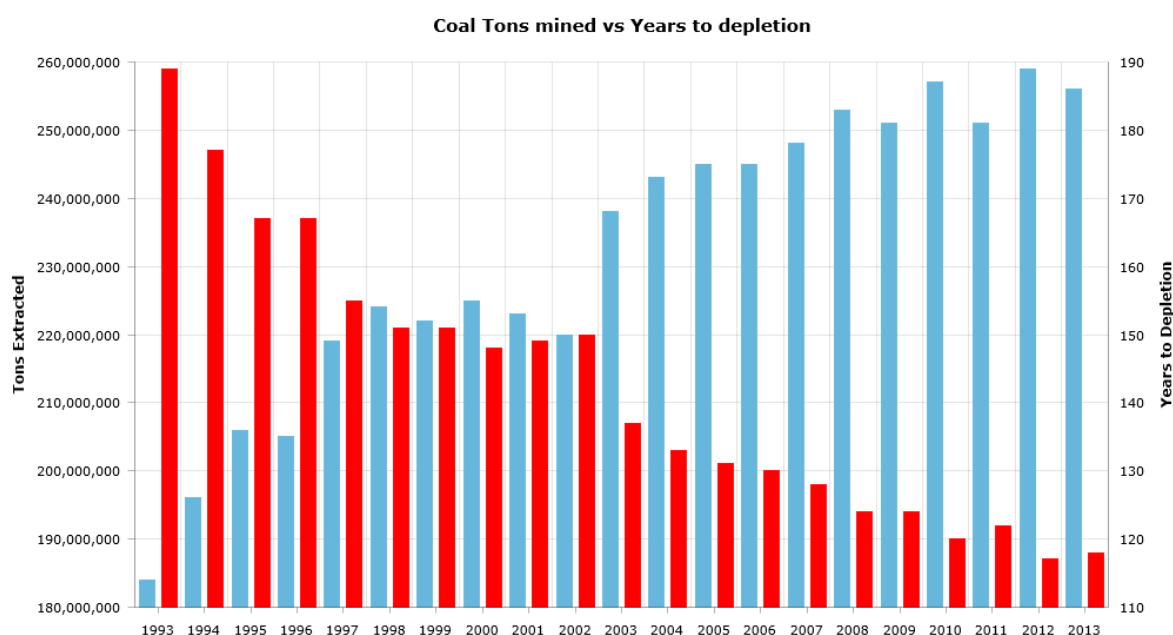
Gold and coal are two of the some of the mining commodities which are found in both South Africa and the Free State province. Gold plays an important role in South Africa as a foreign exchange earner whilst coal played an important role during the commodity boom and still plays an important role as an input to the production of electricity in South Africa. As such, it is interesting to analyse the extraction of these two commodities historically, and to analyse future trends in relation to their reserves, in order to determine the correct expectations around the mining of these products in the country and province.

Over a 20-year period, the amount of gold which has been extracted on an annual basis in South Africa has declined from 619 million tons in 1993 to 160 million tons in 2013, which represents a 74.2 per cent decline in the extraction of gold over the period. Due to the slowdown in the rate of extraction of the on an annual basis, the years to depletion for gold has increased from 21 years in 1993 to 38 years in 2013. Perhaps the implications of the nearing depletion of gold in South Africa is more evident through Welkom in the Free State. In its heyday these mines produced 21% of the world's gold. Once declared a city, Welkom is now a shadow of its former self and is now considered a secondary city.



Contrary to gold mining, the extraction of coal has increased from 184 million tons in 1993 to 256 million tons in 2013, which represents a 39.1 per cent surge in the extraction of coal over the period. Due to the increase in the rate of extraction of coal over the reference period, the numbers of years to depletion has declined from 189 in 1993 to 118 in 2013. Having a long period until depletion for the coal industry has implications from two perspectives: the move towards an environmentally-sustainable world by reducing carbon dioxide emissions might reduce the external demand for coal in the future. However, coal remains part of the energy mix in South Africa and since we have an abundance of the commodity, will likely continue to be utilised for energy production in the country. The coal that is found in the Free State, Bituminous coal, is mined and converted into petrochemicals at Sasolburg. Sasolburg plays the greatest role in the manufacturing industry of the province, as the fuel,

petroleum, chemical and rubber products sub-industry accounts for 69.5 per cent towards the manufacturing industry of the province.



Source: The South African Markets Insights, SA's mineral resources, Blog 18 of February 2017

2.4.2. Secondary industries

The secondary industries collectively account for 18.8 per cent of all the total industries, with manufacturing, electricity and construction contributing 11.6 per cent, 4.8 per cent and 2.4 per cent towards the provincial economy in 2017. Amongst the three industries, manufacturing forms part of the five priority sectors outlined in the FSGDS. In nominal terms, the fuel, petroleum, chemical and rubber products sub-industry dominates the manufacturing industry and accounts for 69.5 per cent of the industry. A more rapidly growing manufacturing sector can play an important role in indirect employment (in addition to direct employment). In addition to the well-known role of stimulating backward linkages to primary sectors, growth in manufacturing also promotes growth and employment in services sectors. The backward linkages stimulated by manufacturing to the primary industries is import for Free State, as the province seeks to capitalise on both the link between agriculture and manufacturing through agro-processing.

2.4.2.1. Manufacturing

The most notable negative event which has happened to the commodity market in 2018 is the trade war initiated by the USA and the reciprocal actions of the some of the affected countries. The World Bank (2018) notes that commodity-specific tariffs cause widening price differentials of the affected commodities and diverted trade among countries whilst broad-based tariffs negatively affect the commodity market through their impact on global trade, global supply chain and growth e.g. for China, which is a major source of global metals and energy demand. In relation to the manufacturing industry, the commodity-specific tariffs directed towards steel and aluminium by the USA on all countries has made importing these products more expensive and may be encouraging domestic production. However, it also means that demand from the USA to countries such as South African for these products might have reduced.

The World Bank (2018) also notes that the broad-based tariffs (equivalent to \$34 billion) on a variety of products from China in June 2018 coincided with the metal prices drop by 14 per cent between June and October 2018. China accounted for 80 percent of the increase in metals consumption and 50 percent of the increase in energy consumption over the past 20 years, and now accounts for roughly half of global demand for metals and coal. A 1 percentage point decline in China's growth could result in a decline in average commodity prices of about 6 percentage points after two years, although the impact is likely to be much larger for commodity markets where China is particularly prominent, such as metals. In simpler terms, it means that although the broad-based tariffs of \$34 billion were directed to China, any further slowdown in the growth of China than we have previously anticipated will negatively affect the demand and price of metals from countries such as South Africa. When the demand for and the price of metals falls, it will negatively affect metal exports from SA, as well as revenue and growth.

South Africa launched another special economic zone (SEZ) through the Atlantis Special Economic Zone in the Western Cape Province in December 2018, which joins the list of other SEZs which have already been launched e.g. The Maluti-A-Phofung SEZ in the Free State Province, which was launched in 2017. The Special Economic Zone programme has been identified as one of the critical economic policy instruments for promoting industrialisation.

All nine SEZs which form part of the Special Economic Zone programme have the following characteristics:

- They are located in areas both of need and opportunity to tackle deep poverty and unemployment challenges
- They can contribute much to reshaping the spatial landscape of the apartheid economy.
- They have close proximity to ports, logistics hubs, related industry or raw materials
- Most of the SEZs focus on a specific industry, encouraging the development of clusters of suppliers and service providers

SEZs attract foreign and domestic direct investment through a range of benefits e.g. the SEZ programme is supported by a competitive incentive package, which includes, among others, a 15% corporate tax incentive, employment tax incentive, accelerated depreciation allowance, VAT and customs exemption, and infrastructure support (The Presidency, 2018).

One of the biggest successes in relation to incentive packages to boost manufacturing relates to the automotive industry. South Africa adopted new plans in the automotive industry to increase local content of assembled cars from the current 38 per cent to 60 per cent in 2035. The new plan, which will come into effect in 2021, seeks to provide stability for one of SA's main manufacturing sectors, where car makers have invested billions of dollars to upgrade factories to supply the export market from Africa's biggest car-making hub. The new plan aims to bolster competitiveness and expand vehicle production in SA to 1 per cent of global output.

Lastly, Toyota SA and Pretoria University's Gordon Institute of Business Science have partnered to create Africa's first specialist manufacturing Masters in Business Administration (MBA) in an attempt to boost the sector, which forms part of the key priorities of the country. The course will be introduced in 2019 after the launch of the Durban-based Toyota Wessels Institute for Manufacturing Studies in 2018. Such a step aligns education to the needs of the economy and the country's policies. Table 2.6 and figure 2.8 accompany an analysis related to the contribution of provinces to the country's manufacturing industry as well as the performance of the industry in the Free State relative to South Africa's industry between 2008 and 2017.

Table 2.6 below shows that Gauteng had the largest average contribution of 39.6 per cent towards South Africa's manufacturing industry between 2008 and 2017, which was followed

by KwaZulu-Natal (21.2 per cent) and Western Cape (15.5 per cent), On the contrary, Northern Cape, Limpopo and North West had the least average contribution towards the national manufacturing industry over the review period, equivalent to 0.5 per cent, 1.6 per cent and 2.7 per cent respectively. The Free State province contributed an average of 4.2 per cent towards the national manufacturing industry between 2008 and 2017, and is the 4th least contributor towards the industry amongst all provinces.

Table 2.6 Contribution by province to manufacturing sector (%)

Province	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Western Cape	15.3	15.2	15.4	15.5	15.9	15.9	15.2	15.6	15.6	15.5
Eastern Cape	7.4	7.5	7.6	7.5	7.3	7.3	6.7	7.1	7.2	7.2
Northern Cape	0.6	0.6	0.5	0.4	0.5	0.6	0.5	0.5	0.6	0.6
Free State	4.6	4.3	4.1	4.2	4.0	4.0	3.7	4.3	4.3	4.4
KwaZulu-Natal	21.0	21.2	20.9	21.0	21.0	21.0	21.4	21.5	21.5	21.6
North West	2.4	2.6	2.7	2.9	2.8	2.7	2.7	2.6	2.6	2.4
Gauteng	40.1	39.9	40.1	39.6	39.8	39.8	40.3	38.8	39.0	38.9
Mpumalanga	7.0	7.2	7.1	7.2	7.2	7.2	7.7	7.8	7.8	8.0
Limpopo	1.5	1.4	1.5	1.6	1.5	1.5	1.7	1.7	1.6	1.6

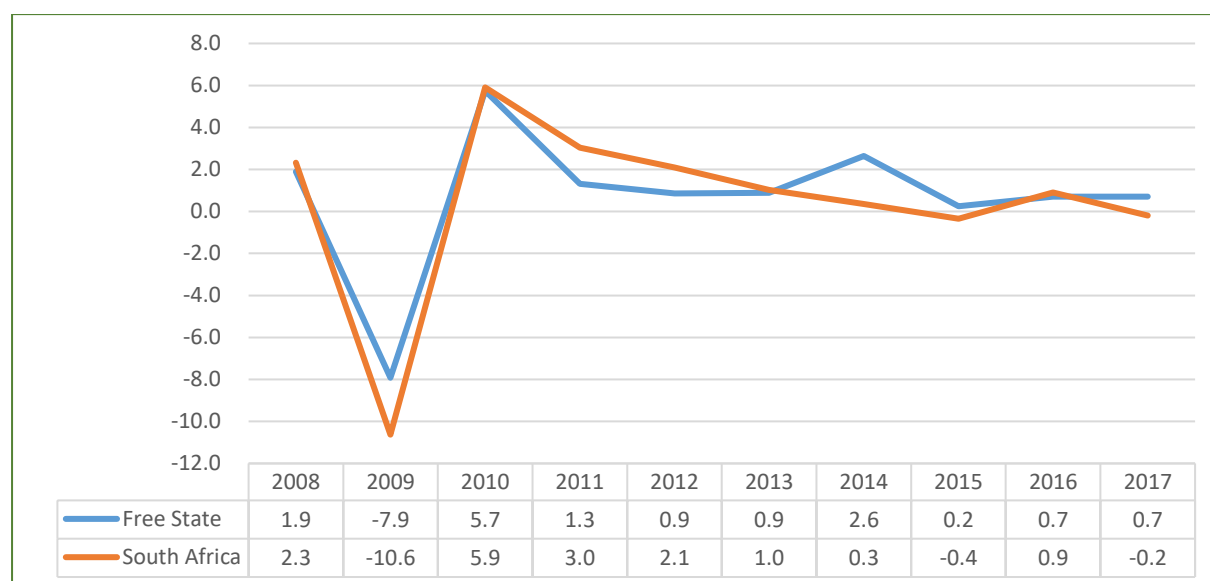
Source: Statistics South Africa, Gross Domestic Product, First Quarter 2018; IHS Markit, Regional eXplorer, 4th quarter 2018

Over the 10-year review period, the manufacturing industry of the Free State grew by an average of 0.7 per cent, which is a 0.3 percentage point above the national average growth over the same period. A post-recession analysis excluding the 2009 and 2010 outliers shows that the provincial industry grew by an average of 1.1 per cent between 2011 and 2017 whilst the national industry grew by an average of 1.0 per cent over the period. The 2017 and 2018 PEROs have mainly attributed the higher growth of the provincial industry in 2014 to increased production in manufacturing subsectors such as petroleum, chemical products, rubber and plastic products. Meanwhile, the national industry was negatively affected by industrial strikes in the steel, engineering sector and the platinum sector, the unsteady electricity supply and an increase in input costs such as electricity as well as declining commodities prices of commodities such as steel.

A three year review period shows that manufacturing in the Free State increased its growth rate from 0.2 per cent in 2015 to 0.7 per cent in 2017. However, the national industry's growth rate was volatile of the same period, declining by 0.4 per cent and 0.2 per cent in 2015 and 2017

respectively, whilst showing a positive growth of 0.9 per cent in 2016. The growth of the national manufacturing industry declined in 2015 mainly due to the slowdown in China as well as sluggish domestic and global demand, dwindling commodity prices, ongoing electricity constraints, and higher production costs (SARB, 2015). The positive growth in the manufacturing industry of the country in 2016 resulted largely from increased production of motor vehicles, supported by firm export demand in the second quarter of the year, as well as sufficient electricity supply and the absence of prolonged industrial action in the sector in that year (SARB, 2016). In 2017, manufacturing deteriorated nationally due to a contraction in the production volumes of petroleum, chemical products, rubber and plastic products, wood and wood products, paper, publishing and printing. Although the growth of manufacturing provincially was minute between 2015 and 2017, it was positive over the period due to the performance of petroleum, chemical, rubber and plastic products over the period.

Figure 2.7 South Africa and Free State manufacturing sector growth rates



Source: Statistics South Africa, Gross Domestic Product, First Quarter 2018; IHS Markit, Regional eXplorer, 4th quarter 2018

2.4.3. Tertiary Industries

The tertiary industries consist of trade, transport, finance and the community services industries, which collectively contributed 65.3 per cent towards the provincial economy in 2017. Amongst these industries, tourism (which is a sub-component of trade) and transport are priorities sectors contained in the FSDGS towards vision 2030. The importance of tourism

arises from the numerous benefits and advantages it brings to any host country. The industry contributes towards the complete growth and development of a country in two ways: 1) by bringing numerous economic value & benefits and 2) by helping in build country's brand value, image and identity. Transport, on the other hand, is important for specialization, by allowing production and consumption of products to occur at different locations. Throughout history transport has been a spur to expansion because better transport allows more trade and a greater spread of people. Economic growth has always been dependent on increasing the capacity and rationality of transport (Wikipedia, 2019).

2.4.3.1. Wholesale, retail and motor trade; catering and accommodation

The negative impact of the trade war between the USA and other countries such as South Africa has been emphasised in Chapter 1 as well as in the previous sub-sections. From a trade perspective, the trade war through a specific-product import tariff can cause product price differentials across the globe and cause trade diversion. When import tariffs are applied across a range of products, they can negatively affect global supply chains, trade and economic growth. Also these broad-based tariffs can affect the demand outlook for several commodities as well as countries terms of trade in a significant way, depending on the size of the country. In general, trade war and trade protectionism hamper globalization and may potentially slow the economic growth of the globe.

However, countries do take measures to protect local industries if the competition from other countries is deemed unfair. In December 2018, Germany lowered the threshold for screening and even blocking purchases of stakes in German firms by non-Europeans, in a move to fend off unwanted takeovers by Chinese investors in strategic areas. The threshold for purchasing a stake in a German company by a non-European has been reduced from 25 per cent to 10 per cent. There is rising concern that China's state-backed companies are gaining too much access to key technologies in Europe's biggest economy while Beijing shields its own companies. The measures are meant to protect vital infrastructure in the areas of energy, water, food supply, telecommunications, finance and transportation.

Another huge challenge the global economy has faced in 2018/2019 is the possibility of a “No-deal” Brexit. The United Kingdom is set to exit the European Union on the 29th of March 2019, and a no-deal Brexit would mean that UK and the EU could not reach a withdrawal agreement

and therefore there will be no 21-month transition period. The UK will revert back to the World Trade Organisation rules on trade and no longer be bound to EU rules. With regards to trade, some of the implications would include the prices of goods in the UK increasing as the country faces import tariffs on goods from the EU. Some British-made products may be rejected by the EU as new authorisation and certification might be required. Manufacturers could move their operations to the EU to avoid delays in components coming across the border. A no-deal Brexit is not ideal as Brexit has implications on trade, immigration, laws, etc. what is worthy to note that South Africa has put measures in place to avoid negative effects of Brexit e.g. the Southern African Customs Union (Sacu), of which SA is part, is close to finalising a deal with the UK to replicate the existing economic partnership agreement which the customs union has with the EU.

The domestic challenges the trade industry of South Africa has faced include the outbreak of Listeriosis in 2018 as well as the foot n mouth disease in 2019. Both these outbreaks undermine efforts to boost intra-African trade, even if the suspensions on goods related to these outbreaks are temporary.

Table 2.7 below shows that Gauteng, KwaZulu-Natal and Western Cape contribute the most towards the trade industry of South Africa, with average contributions equivalent to 30.5 per cent, 17.2 per cent and 15.5 per cent respectively between 2008 and 2017. However, the average contributions of Northern Cape, North West and Free State towards the national industry were least over the same period, equivalent to 1.7 per cent, 5.1 per cent and 5.3 per cent respectively.

Table 2.7 Contribution by province to wholesale, retail and motor trade; catering and accommodation (%)

Province	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Western Cape	15.8	15.4	14.5	16.2	14.7	15.7	15.6	15.6	15.8	15.8
Eastern Cape	9.0	9.6	10.1	9.2	10.7	10.7	10.6	10.6	10.4	10.4
Northern Cape	2.0	1.7	1.8	1.7	1.5	1.6	1.8	1.8	1.7	1.7
Free State	5.4	5.7	6.1	5.5	5.2	5.0	4.9	4.9	4.7	4.7
KwaZulu-Natal	20.4	18.0	16.5	17.3	17.3	16.6	16.2	16.2	16.4	16.3
North West	5.1	5.0	5.1	5.0	5.0	5.4	5.2	5.2	5.1	4.6
Gauteng	29.5	29.1	31.0	31.2	30.4	29.8	31.1	31.0	31.3	32.2
Mpumalanga	6.7	7.3	7.4	7.2	7.5	7.8	7.2	7.3	7.3	7.2
Limpopo	6.1	8.1	7.6	6.8	7.7	7.5	7.4	7.4	7.3	7.2

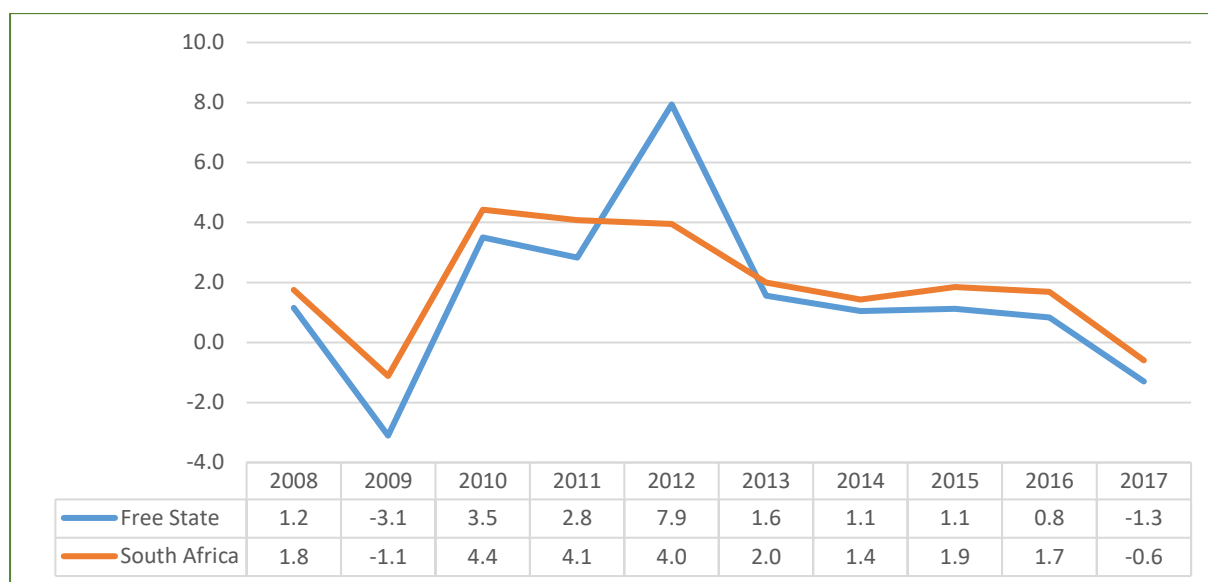
Source: Statistics South Africa, Gross Domestic Product, First Quarter 2018; IHS Markit, Regional eXplorer, 4th quarter 2018

Figure 2.8 below depicts that the trade industry of South Africa have been declining after 2012. The average growth of the provincial trade industry between 2013 and 2017 was 0.7 per cent, whilst the average growth rate of the national trade industry over the same period was 1.3 per cent. Over the same reference period, the contraction of the national and provincial trade industries by 0.6 per cent and 1.3 per cent respectively in 2017 are worth noting. The decline of the trade industry in South Africa was most pronounced in the 1st quarter of 2017, as SARB states that the industry contracted by 5.9 per cent in that quarter. The sector was adversely affected by the subdued business and consumer confidence, weak employment creation as well as a decline in real household disposable income, amongst other factors (SARB, 2017). Activity contracted in the wholesale, retail and the catering and accommodation sub-industries. Wholesale trade activity was negatively affected by lower sales of solid, liquid and gaseous fuels, machinery and equipment as well as agricultural raw materials and livestock whilst retail trade was weighed down by lower sales of textiles, clothing, leather and footwear products as well as hardware, paint and glass (SARB, 2017).

It is worth mentioning that the provincial trade industry displayed enormous growth rates of 3.5 per cent and 7.9 per cent in 2010 and 2012 respectively, whilst the national trade industry grew significantly by 4.4 per cent in 2010. The growth rates of the provincial and national industries in 2010 can be linked to the 2010 FIFA World Cup whilst the growth rate of the provincial trade industry in 2012 can be linked to the 2012 ANC Centenary events. In both

years, the tourism sub-industry played a huge role in the growth rates of the industry, which would have also benefitted other sub-industries wholesale and retail trade.

Figure 2.8: South Africa and Free State wholesale, retail and motor trade; catering and accommodation sector growth rates



Source: Statistics South Africa, Gross Domestic Product, First Quarter 2018; IHS Markit, Regional eXplorer, 4th quarter 2018

Table 2.8 shows that the largest number of trips made to the Free State was made by individuals visiting friends and relatives in 2008, which was equivalent to 66.3 per cent. However, this share has declined to 58.8 per cent in 2017. Conversely, all other categories of trips made to province have increased in their shares: the share of trips done for leisure increased from 14.4 per cent in 2008 to 18.2 per cent in 2017, the share of trips made for business purposes increased from 9.2 per cent to 12.8 per cent over the reference period, the share of trips made for other reasons such as medical and religious increased from 10.1 per cent to 10.3 per cent over the same period.

Table 2.8: Number trips by purpose of trip (% share)

	Free State			
	2008	% Share	2017	% Share
Leisure / Holiday	302 918	14.4	422 517	18.2
Business	193 067	9.2	296 594	12.8
Visits to friends and relatives	1 395 281	66.3	1 365 875	58.8
Other (Medical, Religious, etc)	211 788	10.1	239 657	10.3
Total	2 103 054	100.0	2 324 642	100.0

IHS Markit, Regional eXplorer, 4th quarter 2018

Relative to the rest of South Africa, the Free State province increased its share of trips made for leisure purposes, which increased from 4.6 per cent in 2008 to 5.4 per cent in 2017. The share of trips made for business purposes relative to the country also increased from 5.8 per cent to 7.3 per cent over the same period. However, the share of trips made to visit friends and relatives to Free State compared to South Africa declined from 6.7 per cent in 2008 to 5.0 per cent in 2017, whilst the share of trips made to Free State for other purposes such as medical and/or religious declined from 7.0 per cent to 6.1 per cent over the same period. Overall, the number of trips made to Free State relative to the rest of South Africa declined from 6.2 per cent in 2008 to 5.4 per cent in 2017.

Table 2.9: Number of trips by purpose of trip (% share of South Africa)

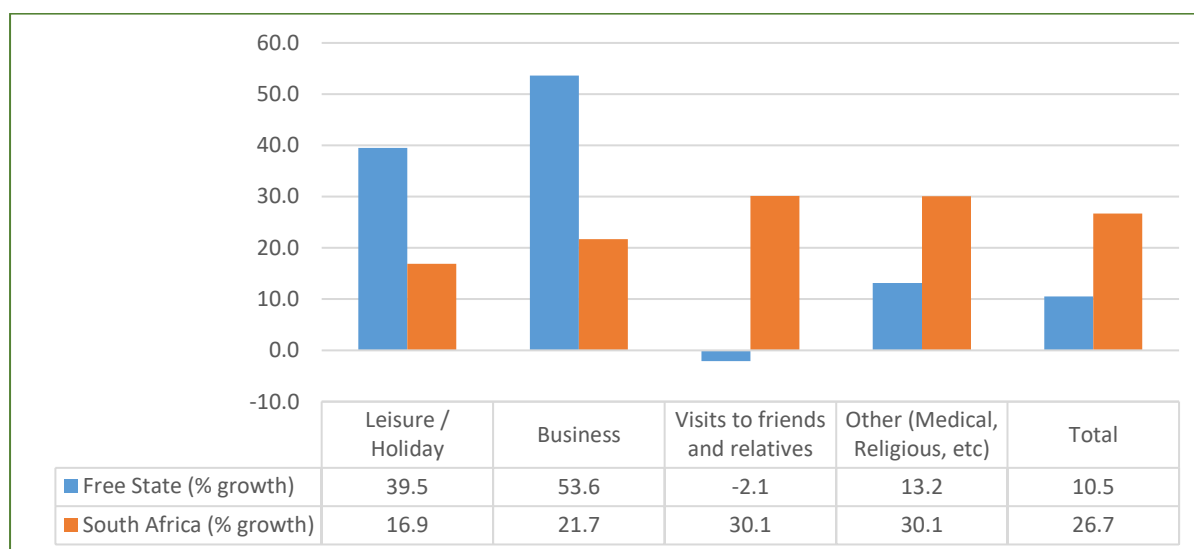
	2008			2017		
	Free State	South Africa	% Share	Free State	South Africa	% Share
Leisure / Holiday	302 918	6 641 766	4.6	422 517	7 764 598	5.4
Business	193 067	3 344 207	5.8	296 594	4 069 397	7.3
Visits to friends and relatives	1 395 281	20 855 540	6.7	1 365 875	27 135 136	5.0
Other (Medical, Religious, etc)	211 788	3 029 407	7.0	239 657	3 940 323	6.1
Total	2 103 054	33 870 920	6.2	2 324 642	42 909 454	5.4

IHS Markit, Regional eXplorer, 4th quarter 2018

Congruent with the previous tables, the growth rate of the trips made to the Free State for leisure and business purposes exceeded the national growth rates in the same categories between 2008 and 2017. Trips made to the province for business purposes grew by 53.6 per cent over the review period relative to the 21.7 per cent growth for the same category of trips nationally. Trips made for leisure purposes to the Free State also grew by 39.5 per cent over the review period, compared to the 16.9 per cent increase for the same category in South Africa.

However, the number of trips for other reasons (medical, religious, etc.) in the entire South Africa grew by 30.1 per cent, which is 16.9 percentage points above the growth rate of the category for the Free State between 2008 and 2017. Also, the number of trips made for visiting friends and relatives grew by 30.1 per cent national over the entire reference period, whilst the same category declined by 2.1 per cent in the Free State between 2008 and 2017.

Figure 2.9: Number of trips by purpose of trip (% growth 2008-2017)



IHS Markit, Regional eXplorer, 4th quarter 2018

Table 2.10 below shows that the number of trips made by domestic tourists who travelled to the Free State declined by 14.5 per cent between 2008 and 2017. Also, the share of trips made by domestic tourists relative to the total tourists declined from 77.4 per cent in 2008 to 59.9 per cent in 2017. However, the number of trips made by international tourists to the Free State province almost doubled and increased by 96.5 per cent over the reference period. Also, the share of trips made by international tourists to Free State compared to trips by all tourists increased from 22.6 per cent in 2008 to 40.1 per cent in 2017. Overall, the total number of trips to the Free State by tourists increased by 10.5 per cent between 2008 and 2017.

Table 2.10 Number of trips by origin of tourist

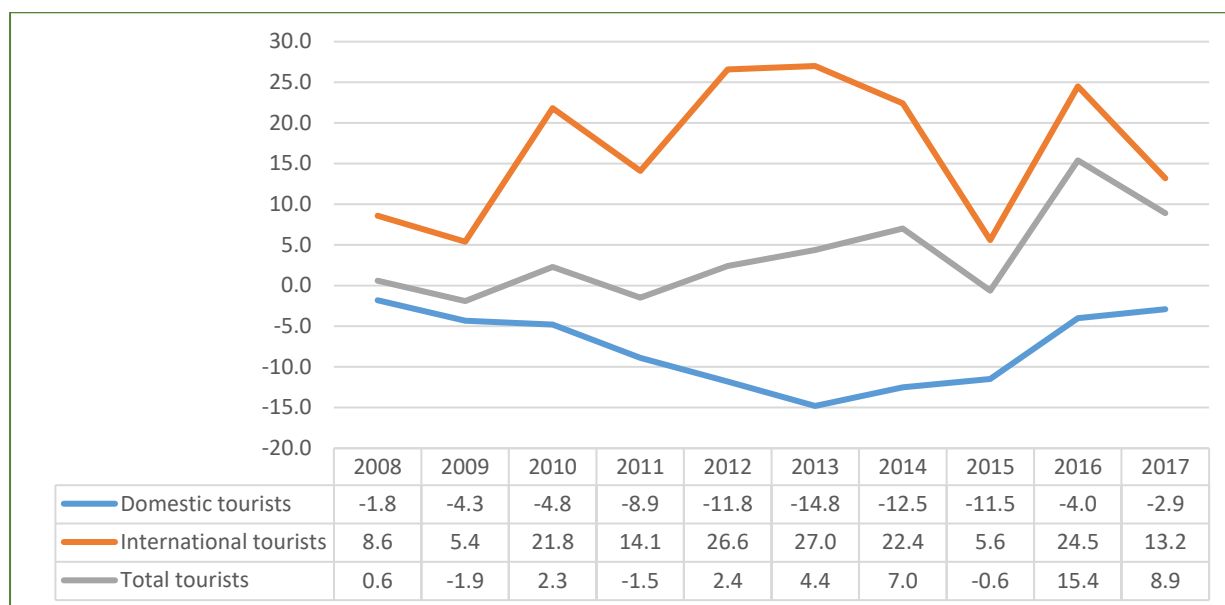
	Free State				
	2008	2017	% growth (2008-2017)	% share in 2008	% share in 2017
Domestic tourists	1 628 511	1 392 281	-14.5	77.4	59.9
International tourists	474 543	932 361	96.5	22.6	40.1
Total tourists	2 103 054	2 324 642	10.5	100.0	100.0

IHS Markit, Regional eXplorer, 4th quarter 2018

Lastly, figure 2.11 below depicts the nominal growth rate of total tourism spend in the Free State between 2008 and 2017. The tourism spend by domestic tourists has declined throughout the reference period, with sharp declines of 11.8 per cent, 14.8 per cent, 12.5 per cent and 11.5 per cent in 2012, 2013, 2014 and 2015 respectively. These sharp declines in tourism spend by domestic tourists is in line with the performance of the economy both nationally and provincially. Nationally, the economic growth rate declined from 2.2 per cent in 2012 to 1.3 per cent in 2015, whilst the provincial economic growth rate also declined from 3.0 per cent to a recession of 0.1 per cent over the same period.

Conversely, the nominal growth rate of tourism spend by international tourists has been growing positively between 2008 and 2017, with the growth rates of 21.8 per cent, 26.6 per cent, 27.0 per cent, 22.4 per cent and 24.5 per cent recorded in 2010, 2012, 2013, 2014 and 2016. It can be concluded that the 2010 FIFA World Cup attracted more international domestics, benefitting the province post the event. Also, the growth of tourism spend in the Free State is boosted by international tourists between 2008 and 2017. The average nominal growth rate of tourism spend by international tourists was 16.9 per cent between 2008 and 2017, whilst the tourism spend by domestic tourists declined by an average of 7.7 per cent over the same period.

Figure 2.10: Total tourism spend in Free State (% growth at current prices)



IHS Markit, Regional eXplorer, 4th quarter 2018

2.4.3.2. Transport, storage and communication sector

Table 1.9 in Chapter 1 displays the headline inflation rate per category and per month in 2018. The table shows that the average inflation rate of transport was 7.0 per cent in 2018, and that the indicator surged from 4.4 per cent in January 2018 to 10.7 per cent in November 2018. The rise in transport inflation rate in 2018 was mainly due to rising average crude oil price from \$66.2 per bbl in January 2018 to \$76.7 per bbl in October 2018, although OPEC members increased oil output later in 2018. Also, the domestic currency was weaker in 2018 relative to 2017, which contributed to the increasing price of petrol given that South Africa is an oil-importer. Other components of fuel e.g. Fuel levy and RAF also increased in the same year, whilst the increase of VAT also contributed to rising fuel costs in South Africa. These challenges have resulted in government proposing interventions to reduce the cost of fuel, which are outlined in Box 2 in Chapter 1 and will be discussed under policy implications in this chapter.

What is worthy to note is that the average crude oil price declined from R76.7 per bbl in October 2018 to \$54.0 in December 2018, mainly due to OPEC's decision to increase output in September 2018 (although the sanctions imposed by the USA on Iran in November 2018

pose an upside risk to the average price of crude). Overall, the price of petrol in SA declined in December 2018 and January 2019, which will benefit the land transport of the country.

In 1999, African ministers responsible for civil aviation adopted the Yamoussoukro Decision, a decision which will open skies for Africa and allow deregulation of air services and to promote competition within regional air markets. The Yamoussoukro Decision will create greater options for travellers and lower fares. Although slow progress has been made with regards to the implementation of the decision across the country, it is worthy to note that tourists from Africa accounted for 70.5 per cent of all tourists into South Africa in November 2018. However, only 9.9 per cent of these tourists from Africa utilised air transport to visit South Africa. Therefore the benefits of the Yamoussoukro Decision may encourage more airfare use for passengers and trade in Africa.

Lastly, Huawei is building two distribution warehouses and a research & development lab in South Africa. Such a project will benefit the telecommunication industry of South Africa as Huawei seeks to become the biggest seller of high-end smartphones in the country by the end of 2019. The warehouses will reduce stock delivery times from three weeks to three days as products from Huawei for SA and other African countries are distributed via Dubai. Huawei also intends to have an innovation programme in SA in 2019 which partly focuses on encouraging local start-ups to develop artificial intelligence-enabled applications for its global platforms.

Table 2.11 below displays that Gauteng has the highest average contribution towards the South African transport industry, which is equivalent to 36.0 per cent between 2008 and 2017. Gauteng's high average contribution towards the national industry is followed by KwaZulu-Natal and Western Cape, which average contributions equivalent to 21.4 per cent and 15.0 per cent respectively between 2008 and 2017. However, the share of the transport industries in Northern Cape, Limpopo and North West relative to the national industry are the smallest, as these provinces' average contributions were equivalent to 2.5 per cent, 3.7 per cent and 4.1 per cent respectively between 2008 and 2017.

Over the same period the Free State province contributed, on average, 5.2 per cent towards the South African transport industry, and ranks at 5th position amongst all provinces.

Table 2.11: Contribution by province to the transport, storage and communication sector (%)

Province	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Western Cape	15.2	15.3	15.3	15.0	15.0	14.7	15.0	15.1	15.0	15.0
Eastern Cape	7.1	7.2	7.2	7.2	7.3	7.3	7.1	7.0	7.2	7.2
Northern Cape	2.4	2.3	2.3	2.4	2.4	2.4	2.6	2.7	2.6	2.6
Free State	5.3	5.2	5.0	5.1	5.1	4.9	5.2	5.3	5.3	5.4
KwaZulu-Natal	20.8	20.6	21.0	21.2	21.6	21.8	21.9	21.8	21.7	21.7
North West	4.2	4.1	4.1	4.1	4.1	4.2	3.9	4.1	4.2	3.9
Gauteng	36.5	36.9	36.5	36.2	35.6	35.8	35.5	35.2	35.5	35.7
Mpumalanga	4.7	4.7	4.8	4.9	5.0	5.1	5.0	5.1	5.0	4.9
Limpopo	3.8	3.8	3.7	3.8	3.8	3.8	3.8	3.7	3.6	3.6

Source: Statistics South Africa, Gross Domestic Product, First Quarter 2018; IHS Markit, Regional eXplorer, 4th quarter 2018

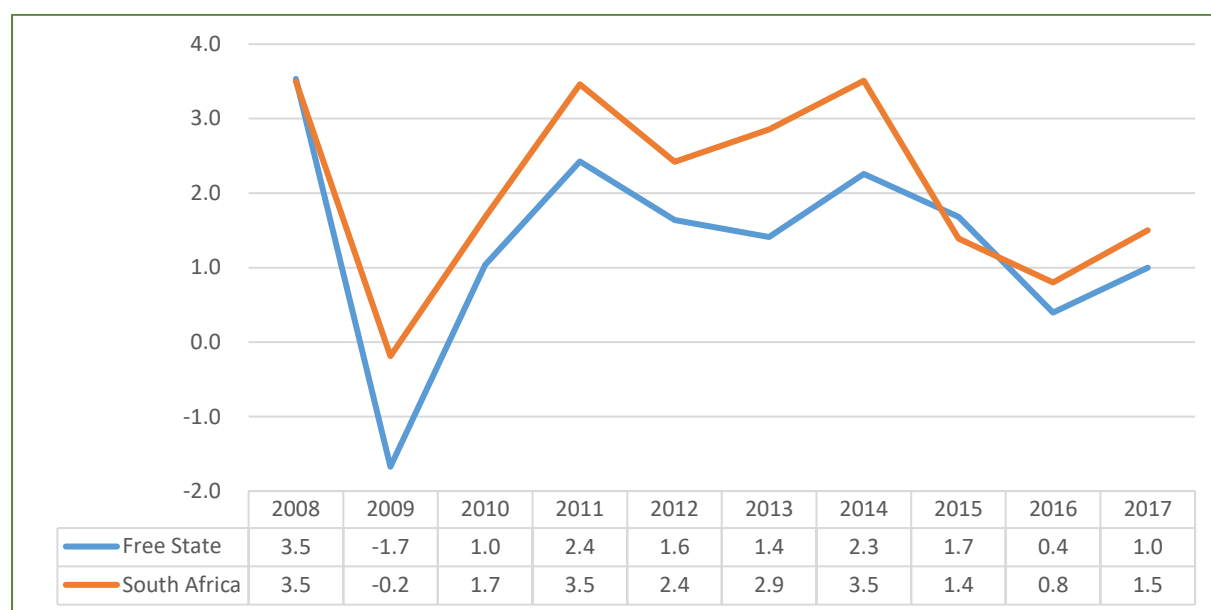
Post the recession, the growth of the transport industry of the Free State and South Africa had two noticeable peaks in 2011 and 2014, and thereafter declined. The Free State transport industry grew by 2.4 per cent in 2011, and thereafter this growth decelerated to 1.4 per cent in 2013, reverting back to a growth rate of 2.3 per cent in 2014. Subsequently, the growth rate of the provincial transport industry decelerated from 2.3 per cent in 2014 to 1.0 per cent in 2017. The provincial transport industry's growth trajectory was congruent with the growth pattern of the national industry, which experienced a peak of 3.5 per cent in 2011 and 2014, and thereafter declined to 1.5 per cent in 2017.

As explained in the 2018 PERO, the 2011 peak of the transport industry is attributed to the improved performance of freight and passenger transportation, a steady growing communications sub-industry as well as high volumes of import and export goods in the 2nd quarter of that year. The SARB (2015) attributes the 2014 peak of the transport industry to increased activity in both land transport and the communications sub-industry. The latter benefitted from attractive data promotions and improved network quality which overshadowed the adverse impact of labour strikes in the postal services industry during 2014.

As already mentioned, post the 2014 peak, the growth rates of the provincial and national transport industries have declined, from 2.3 per cent in 2014 to 1.0 per cent in 2017 for the provincial industry, and from 3.5 per cent in 2014 to 1.5 per cent in 2017 for the national industry. Although the transport industry has been benefitting from the communications sub-industry through 1) technological innovations, 2) data promotions and increased subscribers,

in recent years, it is the performance of the land transport that has determined the weaker performance of the entire transport industry in 2017. The entire transport industry grew weaker in 2017 compared to the 2014 peak due to reduced activity in road and rail passenger transport in the 1st quarter of 2017, as well as the slower rate of increase in the land freight transport due to a decline in import and export volumes in the 3rd quarter of 2017 (SARB, 2017).

Figure 2.11: South Africa and Free State transport, storage and communication sector growth rates



Source: Statistics South Africa, Gross Domestic Product, First Quarter 2018; IHS Markit, Regional eXplorer, 4th quarter 2018

2.5. OUTLOOK OF THE FREE STATE ECONOMY

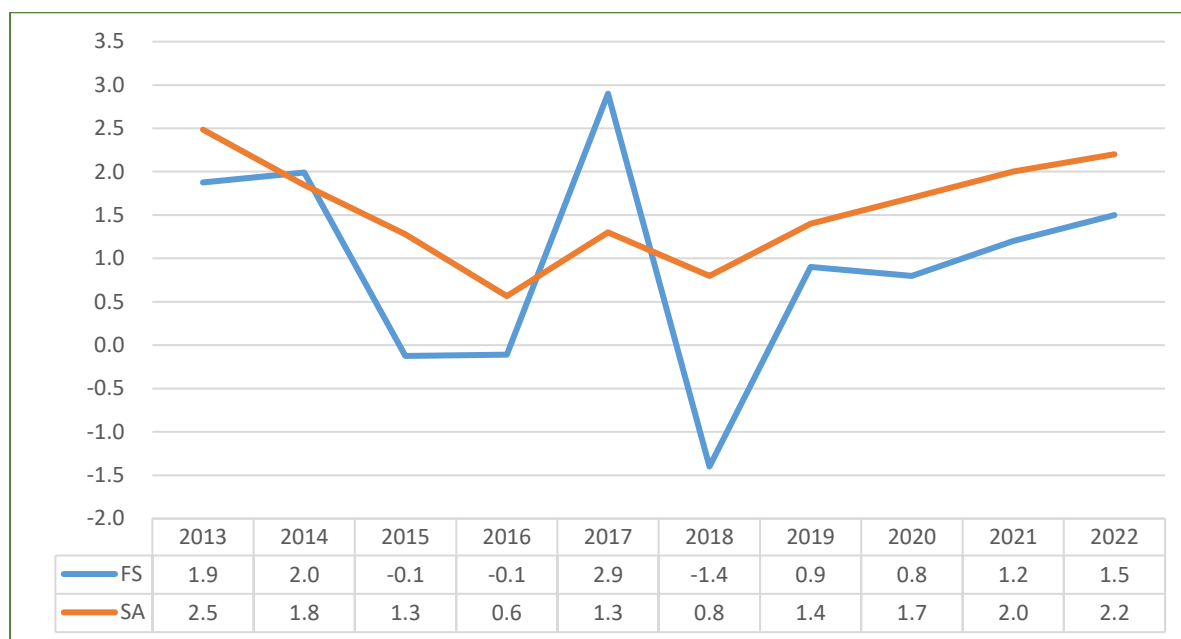
Figure 2.12 below depicts the growth rates of the South African and Free State economies between 2013 and 2017, the estimated growths in 2018, as well as the growth rates of the for the forecast period 2019-2022. As previous explained, the economic growth rate of South African deteriorated from 2.5 per cent in 2013 to 0.6 per cent in 2016 due to the 2015/16 drought. The country also faced several headwind between 2013 and 2016, including the 2014 platinum strikes, the general global commodity slump which began in 2013, the 2015 currency depreciation and inflation rate exceeding the upper target in 2016. Although Free State was not affected by the 2014 platinum strikes, the occurrence of 2015/16 drought resulted in the decline

of the provincial economic growth rate from 1.9 per cent in 2013 to the economic recession by 0.1 per cent in 2015/16.

In 2017, both the national and provincial economic growth rates recovered and reached 1.3 per cent and 2.9 per cent respectively. The end of the 2015/16 drought as well as the recovery of annual commodity prices in 2017 benefitted both South Africa and the Free State. Data from Statistics South Africa (2018) shows that the highest growth by industry occurred in agriculture and mining in 2017, which are equivalent to 17.7 per cent and 4.6 per cent respectively. Similarly, IHS Market (2018) estimates that the agriculture and mining in the province grew the most in 2017, by 74.8 per cent and 5.3 per cent respectively. Agriculture not only benefitted from higher agricultural output in 2017, but also from the low base effect of 2015/16.

The improved economic growth rates of 2017 were short lived, as the South African economic growth rate is estimated to have retreated from 1.3 per cent in 2017 to a minute 0.8 per cent in 2018. Also, the provincial growth rate is projected to have deteriorated from 2.9 per cent to a recession (-1.4 per cent) in 2018. As explained in the previous Chapter, the South African economy has faced several challenges in 2018, including the 1) the trade war initiated by the USA, 2) the Turkish Lira crisis and the resultant risk aversion of investors from EMDEs assets, 3) monetary policy tightening in the USA, 4) rising annual crude oil prices, 5) rising costs related to the components of fuel in SA 6) currency depreciation relative to 2017, and 7) Listeriosis and its impact on trade between SA and other African countries, amongst other challenges. Free State, as part of South Africa, could not be exempted from the effects of the challenges stated above. Moreover, the provincial agriculture and mining industries might have declined the most in 2018; further details are explained in table 2.12 below.

Figure 2.12: Free State and South Africa's GDP projections



Source: Statistics South Africa, Gross Domestic Product, First Quarter 2018; IMF, World Economic Outlook Update, January 2019; IHS Markit, Regional eXplorer, 4th quarter 2018

Table 2.12 displays the estimated quarterly growth rate of the Free State in 2018, taking table 1.6 in Chapter 1 into account, which is the country's quarter growth rates in the same year. As previously stated, the South African economy is projected to have grown by a minute 0.8 per cent in 2018 and the provincial economy is estimated to have reverted back into a recession in 2018, with an economic decline of 1.4 per cent. The provincial recession could have been caused by the estimated economic decline of 8.0 per cent in the 1st quarter of 2018, and 2.5 per cent in the succeeding quarter. In relation to the 2018 recession, performance of industries in the Free State that are worth noting are related to the economic decline as well as the priority industries.

Agriculture

Congruent with national agricultural industry's decline in the first two quarters of 2018, the Free State agricultural industry is projected to have decreased by 56.5 per cent and 40.1 per cent in the 1st and 2nd quarters of 2018 respectively. Whilst the national agricultural industry recovered and grew by 6.5 per cent in the 3rd quarter of 2018, the provincial industry remained stagnant in the same quarter. The performance of agriculture in the first two quarters of 2018 was affected by lower production of horticulture and field crops, as well as delayed harvesting

of maize in the 2nd quarter of 2018. However, the improved performance of agriculture both nationally and provincially in the 3rd quarter relative to the two preceding quarter relates to improved production of horticulture, field crop and animal products. The Crop Estimates Committee (2018) estimates that it is mainly the production of maize in the Free State which might have declined in 2018, from 7 362 000 tons in 2017 to 5 486 600 tons in 2018, which represents a 25.5 per cent decline between the two years.

Unlike the South African mining industry, mining in the Free State declined uninterruptedly for the first three quarters of 2018, by 25.1 per cent, 0.7 per cent and 12.4 per cent respectively. The production of gold mining fell in South Africa over this period, which could have been in concurrent with the Free State province. Gold mining production was adversely affected by the closure of some loss-making operations, exacerbated by the lower rand price of gold.

Manufacturing

The manufacturing industry of the Free State province is likely to have followed the same growth trajectory as the South African manufacturing in 2018, with a particularly large drop of the growth rates in the 1st quarter, equivalent to 7.7 per cent and 6.7 per cent respectively. There was a pronounced decline in the subsector supplying petroleum, chemical products, rubber and plastic products in the 1st quarter of 2018, which could negatively affected the Free State province more than the country given the province's heavy dependence on the sub-industry within the manufacturing industry.

Similar to the national manufacturing industry, the Free State manufacturing industry is projected to have recovered and grew by 0.3 per cent and 7.4 per cent in the 2nd and 3rd quarters of 2018 respectively. The provincial industry benefitted from a solid production growth of petroleum and chemical products in the 2nd quarter, which could have also occurred in the 3rd quarter of the year.

Construction

Although construction is not a priority industry in the Free State, its estimated decline of 2.1 per cent in 2018 has likely contributed to the projected provincial recession in 2018. The provincial industry is estimated to have contracted by 4.2 per cent and 3.3 per cent in the 1st

and 3rd quarters of 2018 respectively. The SARB (2018) summarizes the performance of construction in the country as having not made a meaningful contribution to overall economic growth since the first quarter of 2015 due to persistent weak building and construction confidence and the absence of meaningful fixed capital investment. The same explanation might be applicable to the Free State province, accompanied by the effects of fiscal consolidation.

Trade

Given that tourism industry is a sub-industry within the trade industry, it is worrisome that the trade industry of the province declined by 5.1 per cent and 2.5 per cent in the 1st and 2nd quarters of 2018 respectively. However, the provincial trade industry recovered and grew by 2.7 per cent in the succeeding quarter. The dismal performance of the trade industry in the 1st quarter was due to the base effect of the strong Black Friday sales in the 4th quarter of 2017, the Listeriosis outbreak, weak formal sector employment as well as the subdued growth in household credit extension. In the 2nd quarter, retail activity declined in the food, beverages & tobacco, hardware, paint & glass as well as pharmaceutical & medical goods sub-industries. The lower sales of new and used vehicles over the period also contributed to the deterioration in activity in the motor trade subsector. Also, the depreciation in the exchange value of the rand could have negatively affected new vehicle sales through higher price increases.

Transport

Although the transport industry of the province grew by 1.5 per cent and 5.8 per cent in the 1st and 3rd quarters of 2018, the industry declined by 4.7 per cent in the 2nd quarter of 2018. Activity declined in the rail and road freight transport. Also, the nation-wide bus strike resulted in the decline of road passenger transport. The low base effect of the previous quarter's nation-wide bus strike contributed to the 5.8 per cent growth of the provincial transport industry in the 3rd quarter of 2018.

Table 2.12: 2018 South Africa and Free State quarterly growth rates

	Free State			South Africa		
	2018:Q1	2018:Q2	2018:Q3	2018:Q1	2018:Q2	2018:Q3
Agriculture	-56.5%	-40.1%	0.0%	-33.6%	-31.9%	6.5%
Mining	-25.1%	-0.7%	-12.4%	-10.3%	8.1%	-8.8%
Manufacturing	-7.7%	0.3%	7.4%	-6.7%	0.6%	7.5%
Electricity	0.1%	2.3%	-0.8%	0.2%	2.2%	-0.9%
Construction	-4.2%	0.7%	-3.3%	-1.9%	2.1%	-2.7%
Trade	-5.1%	-2.5%	2.7%	-3.1%	-1.4%	3.2%
Transport	1.5%	-4.7%	5.8%	0.9%	-4.9%	5.7%
Finance	1.5%	1.9%	2.3%	1.1%	1.9%	2.3%
Community services	0.3%	-0.8%	1.0%	1.7%	-0.1%	1.3%
Total GDP Growth	-8.0%	-2.5%	0.9%	-2.6%	-0.4%	2.2%

IHS Markit, Regional eXplorer, 4th quarter 2018

Figure 2.11 and table 2.13 display the forecasted economic growth rates of South Africa and the Free State from 2019 to 2022. The South African economy is projected to accelerate in growth from 0.8 per cent in 2018 to 1.4 per cent in 2019, and to accelerate further to 2.2 per cent in 2022. From a negative growth rate of 1.4 per cent in 2018, the provincial economic growth rate is projected to accelerate to 0.9 per cent in 2019 and reach 1.5 per cent in 2022.

The South African economy may benefit from the performance of agriculture in 2019 as well as monthly oil prices which have been reducing since the October 2018 forecasts. The Crop Estimates Committee (2018) expects more hectares of land will be utilised for planting in 2019 relative to 2018 for the following summer crops: maize (6% more land), soybeans (8.2 per cent more land), sorghum (49.3 per cent more land) and dry beans (12.4 per cent more land). Also, although the October 2018 forecasts by the IMF (2018) estimated that the annual average crude oil prices will rise from \$72.0 per bbl in 2018 to \$74.0 per bbl in 2019, average monthly oil prices have fallen from \$76.7 per bbl in October 2018 to \$54.0 per bbl in December 2018. Whilst OPEC members have increased their oil output later in 2018, the USA issued sanctions to Iran, which include a sanction directed towards the importing of oil from Iran. The price of crude oil in 2019 will be a balance between increased oil output by OPEC members, and the impact of sanctions on oil output in Iran. Nonetheless, the improved growth of SA in 2019 is far below the NDP growth target of 5.4 per cent, and remains challenged by rising trade tensions, tightening monetary policy in the USA, domestic political noise and policy uncertainty, low business confidence, foot and mouth disease outbreak which may have

negative impact on trade, high unemployment rate and slow growth in household credit extension. Beyond 2019, the higher economic growth rate of South Africa reflects positive effects of government's structural reform agenda and investment growth, as policy uncertainty recedes and investor sentiment improves (World Bank, 2019).

The recovery of the Free State economy from a negative growth rate of 1.4 per cent in 2018 to a positive growth rate of 0.9 per cent in 2019 reflects the minute improvements in growth by all industries except community services, with the highest growth rates expected in transport (3.2 per cent), agriculture (2.9 per cent) and finance (2.8 per cent). The growth rate of transport in 2019 could be reflecting the recently receding crude oil prices, which might have a positive impact on land transport as well as the general good performance of the communication sub-industry.

Table 2.13: Economic growth projections of Free State economy by industry

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
GDP-R (Constant 2010 prices - R'million)	157 573	160 710	160 512	160 337	164 984	162 627	164 042	165 382	167 423	169 903
Real GDP-R per cent growth	1.9	2.0	-0.1	-0.1	2.9	-1.4	0.9	0.8	1.2	1.5
GDP-R by industry (real growth)										
Agriculture	4.3	6.9	-25.0	-19.8	74.8	-14.7	2.9	2.7	2.4	2.5
Mining	2.1	2.5	-0.8	-2.1	5.3	-10.2	-3.0	-5.2	-4.2	-4.4
Manufacturing	0.9	2.6	0.2	0.7	0.7	0.1	1.3	1.7	1.6	1.8
Electricity	0.2	-0.8	-0.7	-2.1	0.6	0.4	1.1	1.0	1.7	2.2
Construction	4.0	2.2	1.6	0.6	-1.0	-2.1	0.2	0.9	1.6	2.0
Trade	1.6	1.1	1.1	0.8	-1.3	-0.6	0.3	0.3	1.7	1.7
Transport	1.4	2.3	1.7	0.4	1.0	0.7	3.2	3.8	3.1	3.4
Finance	0.1	2.0	1.7	2.1	1.2	1.3	2.8	3.2	3.0	3.1
Community services	3.5	1.9	1.6	1.6	0.5	0.9	-0.3	0.0	0.1	0.7
Total industries	1.9	2.1	-0.3	-0.1	3.1	-1.8	0.7	0.6	1.0	1.3

Source: Statistics South Africa, Gross Domestic Product, First Quarter 2018; IHS Markit, Regional eXplorer, 4th quarter 2018

2.6. POLICY IMPLICATIONS IN SUPPORT OF THE FREE STATE ECONOMIC OUTLOOK

The policy implications in this chapter will be sector-specific, based on the different policy formulations that were set in South Africa in 2018/19. These policy implications will likely benefit both the country and the Free State.

In agriculture

Part of the announcements by President Ramaphosa in the Economic Stimulus and Recovery Plan include reprioritisation of some funds towards the agricultural industry. The central element of the economic stimulus and recovery plan is the reprioritisation of spending towards activities that have the greatest impact on economic growth, domestic demand and job creation, with a particular emphasis on township and rural economies, women and youth. A package will be created for support black commercial farmers in order to increase their entry into food value chains through access to infrastructure such as abattoirs and feedlots. Blended finance will be mobilised through the Land Bank, Industrial Development Corporation and commercial banks will assist to fund this package and most of this funding will be utilised for export-oriented crops that are highly labour intensive in the industry. The Land Bank will conclude transactions worth R16.2 billion over the next 3-5 years. Also, experts have been appointed to advice on issues of land reform.

Through the 2019 State of the Nation Address, President Ramaphosa emphasised targeted skills development and capacity building programmes for smallholder and emerging black farmers. The high-value agricultural products with export potential that were previously hinted in the stimulus package and the 2018 MTBPS include fruit, wine, vegetable, poultry and red meat.

In the Free State Province, a Radical Economic Transformation Fund has been created to support rural and township based enterprises in the priority sectors as identified in the Free State Growth and Development Strategy (FSGDS). The enterprises are assisted with the acquisition of equipment, raw material and refurbishment of their premises to so that they are more competitive and attractive to the target market. The fund was allocated R16.7 million in 2018/19.

In mining

The revision of the Mining Charter, which commenced in 2018, has been finalised to bring greater certainty in the industry and to encourage investment. The Minister of Finance (2018) also announced in the 2018 MTBPS that the Mineral and Petroleum Resources Development Amendment Bill will be withdrawn.

Another great development in the mining industry is the link between the industry and education. In line with Framework for Skills in a Changing World, educators and learners will be trained to respond to emerging technologies including the internet of things, robotics and artificial intelligence. Several new technology subjects and specialisations will be introduced, such as mining sciences, technical mathematics and technical sciences, maritime sciences, aviation studies and aquaponics (SONA, 2019).

Mining (together with agro-processing and manufacturing) in the Free State is benefitting from the Risk-Sharing Facility, a co-funding model between DESTEA and DFIs such as SEFA, IDC, NEF, and FDC to support enterprises in the province. This strategy has enabled enterprises to the province to access over R30m in funding in 2017/18.

In manufacturing

Nationally, the manufacturing industry is set to benefit from the Public-Private Growth Initiative, which will facilitate focused investment plans of leading companies across 19 sectors of the economy, such as manufacturing, agriculture, mining and renewable energy (SONA, 2019).

In the Free State Province, the Maluti-a-Phofung SEZ was launched in April 2017 to attract local and foreign investors in various industrial sectors. Thus far, the SEZ has attracted more than 14 investors within various trade sectors from countries such as China, Russia, Croatia, Denmark, India, Belarus, Bulgaria, and The United Arab Emirates. The total investment value for these investors is estimated at R2.6 billion which will be realized in the next five to ten years.

Also, Phuthaditjhaba and Botshabelo are benefitting from the revitalisation of industrial parks in South Africa. The DTI has upgraded Botshabelo and QwaQwa industrial parks which were launched in 2017/18 and 2018/19 respectively. The second phase is to establish clusters in the industrial parks and apply to the DTI for cluster funding that will support enterprises within the park. The Botshabelo and Phuthaditjhaba Industrial Parks were revitalised for R50 million and R49 million respectively.

In tourism

Through the Economic Stimulus and Recovery Plan (2018), President Ramaphosa announced the changes to the administration of visas to remove any hindrances which are negatively affecting the country, within the context of tourism safety. The changes to be made relate to the travelling of minors and reducing the number of countries that require visas to enter the country. Also, changes to be made will allow highly skilled foreigners to enter the country more easily. Therefore an eVisa regime will be launched in 2019 with the desired changes.

President Ramaphosa has stated that due to the tourism industry's potential and ability to expand, South Africa's aim is to increase the number of foreign tourists visiting the country from 10 million in 2018 to 21 million in 2030, focusing on fast growing markets of India and China, as well as the strong African market. The tourism industry of the country has the potential to generate 2 million more jobs in food, agriculture, construction, transport, retail, as well as the creative and cultural industries by 2030.

The Free State Province has a number of tourism promotion events which are on-going. Many of these events are linked to the agricultural industry, which has the highest comparative advantage in the province. These include:

- Bloem-Show – variety of activities with agriculture and other sector dominating the show – (April)
- NAMPO – agricultural show that attract international tourists – (May)
- Fauresmith Endurance – international event attracting international and SADC countries (July)
- Macufe – regional cultural event that attract the country and SADC countries (October)
- Cherry Festival – celebration of cherry harvesting period it attracts national and international tourists (November)
- Free State Madeira Flower Festival – show of flowers celebrating the flora of the province and encouraging PDI's to consider trading in flower farming due to its international export value the industry carries. – (December)
- Kasi Tourism – Supporting rural and township based enterprises through promotion of major tourist/historical places in various townships.
- Youth Hospitality Programme (Tourism Buddies)

- Tourist Guiding Programme

In transport

In the country, the transport industry is one of the various industries that will benefit from the R290 billion investments attracted post the South African Investment Summit in 2018.

Various proposals to reduce the burden of fuel prices have been made by the South African government in order to change the structure of fuel, such as:

- Making Singapore the main reference market for the basis price of petrol, diesel and paraffin,
- Removing a premium on the freight rate and
- Reducing the coastal storage element in the calculation
- Capping the price of 93-octane petrol by the end of January 2019

Reducing the cost of fuel in South Africa (and the Free State Province) will benefit both passenger- and freight transportation, as well as reduce input costs of businesses and benefit consumers.

A policy that benefits the communications sub-industry in South Africa is the SA foreign film and television incentive programme. The latest iteration of the incentive programme has a requirement to procure a minimum of 20 per cent of qualifying goods and services from entities that are 51 per cent black-owned. Such a requirement plays a huge role in transforming the economy of the country.

Overall, the five urgent tasks announced by President Ramaphosa (2019) in building a better South Africa are congruent with some of the pillars of the FSGDS. The five urgent tasks to be implemented by all government departments in 2019/20 are:

- Accelerate inclusive economic growth and create jobs (Congruent with Pillar 1)
- Improve the education system and develop the skills that we need now and into the future (Congruent with Pillar 2).
- Improve the conditions of life for all South Africans, especially the poor (Congruent with Pillar 3)

- Step up the fight against corruption and state capture (Congruent with Pillar 6)
- Strengthen the capacity of the State to address the needs of the people (Congruent with Pillar 6)

2.7. CONCLUSION

An important structural shift has taken place in the Free State economy. This structural change can be characterised in the main, by a move away from primary and manufacturing production, towards a greater emphasis on output in the services sector. The key loss in production share though, lay in the primary sectors, with manufacturing production remaining largely unchanged. The provincial economy is increasingly becoming more and more services driven.

The Free State economy recovered from the 2015/16 recession with a growth of 2.9 per cent in 2017, mainly due to the extremely high growth rate of agriculture (74.8 per cent) as well the recovery of annual commodity prices, which benefitted mining (5.3 per cent). However, similar to the decline of the South African economy in the first two quarters of 2018, the provincial economy is estimated to have declined by 8.0 per cent and 2.5 per cent in the 1st and 2nd quarters of the year respectively, mainly due to the decline of agriculture. Although the Free State recovered and grew by 0.9 per cent in the 3rd quarter of 2018, the economy is projected to decline by 1.4 per cent for the entire 2018.

However, the provincial economy is projected to recover and grow by 0.9 per cent in 2019, and this growth is expected to accelerate to 1.5 per cent in 2022. This growth rate over the MTEF period remains way below the 5.4 per cent target to significantly reduce unemployment rate by 2030. The Free State province faces challenges such a volatility in the performance of the agricultural industry as well as the commodity markets, structural challenges in the mining industry such deep-seated gold reserves, a struggling GFCF and consequent weak performance of the construction industry and a chronically high unemployment rate which negatively affects the demand within other industries.

Nonetheless, various interventions contained in Chapter 1 and 2 have been pronounced nationally as well as provincially to grow investment in order to boost inclusive growth and reduce unemployment (as well as poverty).

CHAPTER 3: AN OVERVIEW OF THE FREE STATE LABOUR MARKET

KEY FINDINGS

- Globally, the total number of unemployed people is estimated at above 192 million with an unemployment rate of 5.5 per cent in 2018.
- In 2019, the global rate of unemployment is anticipated to remain essentially unmoved, whereas the number of unemployed is projected to grow by 1.3 million people.
- South Africa's labour force is characterised by high levels of unemployment, low participation, and a large number of discouraged unemployed
- Around 6.2 million of the narrow labour force was unemployed in South Africa, as were about 9.7 million of the expanded labour force.
- South Africa's narrow unemployment rate in Q3:2018 was estimated at 27.7 per cent, whilst the broad unemployment rate was much higher at 36.8 per cent.
- There were 2.7 million discouraged work-seekers in the country in Q3:2018, 12.2 per cent more than in Q3:2017.
- The high unemployment rate and the lack of job opportunities in South Africa has led to very long unemployment spells. In 2016, around 57.0 per cent of the unemployed in South Africa had been out of a job for a year or more, compared with the OECD average of 33.8 per cent.
- Owing to a lack of training and skills development, a large share of the Free State's workers do not possess the skills required to fill the job openings requiring highly skilled workers across the province.
- During the period 2008 to 2018 the number of employed people in the Free State decreased from 834 thousand to 774 thousand; representing a fall of 60 thousand or 7.2 per cent, whilst the unemployed increased by 199 thousand from 242 thousand to 441 thousand.
- Free State has the highest provincial unemployment rate in South Africa based on the official definition of unemployment.
- The province's unemployment rate increase by 13.8 percentage points from 22.5 per cent in 2008 to 36.3 per cent in 2018.

KEY FINDINGS

- About 79 thousand jobs were lost during the 2009 recession in the Free State and the province has since struggled to recover to pre-recession levels as the provincial economy remained largely stagnant.
- The absorption rate has worsened from 4.6 per cent in 2008 to 40.7 per cent in 2018, whilst the LFPR has increased slightly from 60.2 percent to 63.9 per cent during the same period.
- Free State is the worst performing province when it comes to job creation in the country, shedding 14 thousand and 48 thousand jobs quarter to quarter and year on year respectively.
- The biggest employers in the Free State in Q3:2018 were community and social services (25.4 per cent), trade (18.2 per cent), private households (11.9 per cent) and agriculture (9.6 per cent).
- The smallest employers were utilities (1.4 per cent), mining (3.1 per cent) and transport (4.5 per cent).
- About 47.1 per cent are employed in the semi-skilled occupation, 37.2 per cent in the low-skilled occupations and only 15.7 per cent in the skilled occupation.
- The most affected by unemployment in the province are those between 25 and 34 years of age, estimated at 185 thousand young people in Q3:2018. Approximately 41.9 per cent of the unemployed belong to this age group.
- In Q3:2018 about 62.0 per cent of the unemployed were the youth (i.e. 15 to 34 years of age)
- The most vulnerable to unemployment are the youth, women and Africans.
- In the Free State Province, 779 thousand people are said to be NEET; about 60 percent of those are females and half are the youth.
- The age group 55-64 years has the highest NEET rate in the Free State estimated at 58.5 per cent in Q3:2018, down from 61.5 per cent in Q3:2017. Those between the ages of 24 and 34 years have the second highest rate of NEET at 47.4 per cent in Q3:2018.
- Skills development and rapid economic growth that's pro-jobs remains a priority for the Free State

3.1. INTRODUCTION

South Africa has made significant strides in economic and social development since its first democratic elections just over two decades ago. Growth averaging 2.6 per cent since 1996 and social assistance that now reaches more than half of all households have resulted in a 40 per cent increase in real per capita GDP and a 10 percentage point drop in the poverty rate. The National Development Plan (NDP) recognises job creation as a key driver for accelerated growth and a higher standard of living. The NDP set the targets to reduce the unemployment rate to 14 per cent by 2020 and to a further 6 per cent by 2030. The NDP highlights that workforce capabilities must improve, bargaining and labour relations should be stabilised, a move away from resource-intensive to more energy efficient labour-absorptive industries should be promoted and economies with high potential for job creation should be supported

Yet South Africa's economy faces important structural challenges; the two most important being the high levels of unemployment and inequality. The Gini coefficient at about 65 is one of the highest in the world. The unemployment rate is 27.5 per cent in Q3:2018 (37.3 percent including discouraged workers), with the youth (age 15-34) unemployment rate being even higher, despite one of the lowest participation rates in the world. The Free State province is facing similar socio-economic challenges. The province has the highest official unemployment rates in the country estimated at 36.3 per cent in Q3:2018, whilst the expanded unemployment rate was at 41.5 per cent in the same quarter. The young, women and Africans bear the brunt of unemployment in the province at morally unacceptable levels. Large skill mismatches, poor educational outcomes, and the apartheid legacies have hurt job growth and perpetuated inequality (Anand et al, 2016).

Youth unemployment is one of the major challenges facing the Free State. According to Mosala (2018), unemployment in the Free State among the youth is caused by four major problems, namely weak economic performance, growing size of the youth population, poor quality of youth labour supply (lack of appropriate skills) and socio-economic backgrounds of the youth. High youth unemployment means young people are not acquiring the skills or experience needed to drive the economy forward. This inhibits the province's economic development and imposes a larger burden on government to provide social assistance.

Chapter three of this publication makes use of Stats SA's Quarterly Labour Force Survey to shed light on the factors affecting the province's labour market. An overview of the global and national labour market trends is also provided to give context to the provincial labour market environment.

3.2. GLOBAL AND NATIONAL TRENDS

3.2.1 Global Labour Market Trends

Global economic growth increased to 3.6 per cent in 2017, after recording a six-year low of 3.2 per cent in 2016. The recovery was broad based, driven by expansions in developing, emerging and developed countries alike. According to the ILO (2018), future growth is likely to stay below 4 per cent, as economic activity normalizes in most major economies without significant stimulus and fixed investment remains at a moderate level. The latest developments in global unemployment are also mixed. As illustrated in table 3.1 below, the global unemployment rate is expected to fall slightly to 5.5 per cent in 2018 (from 5.6 per cent in 2017), marking a turnaround after three years of rising unemployment rates. However, with a growing number of new entrants in the labour market, the total number of unemployed people is expected to remain stable in 2018, above 192 million. In 2019, the global rate of unemployment is anticipated to remain essentially unmoved, whereas the number of unemployed is projected to grow by 1.3 million people.

The world continues to experience diverse trends in employment outcomes. Developed countries are projected to enter their sixth consecutive year of declining unemployment rates, falling to 5.5 percent in 2018, which is the lowest rate since 2007. However, a lot of countries continue to report high rates of labour underutilization, with large shares of discouraged work-seekers and growing incidence of involuntary part-time employment. By contrast, emerging countries have experienced a significant surge in unemployment rates between 2014 and 2017, driven by major economic downturns, in part due to the commodity price slump in many large economies, such as Brazil and the Russian Federation. The year 2018 marks a turning point, as the unemployment rate is anticipated to drop to 5.5 percent (from 5.6 percent in 2017), which would translate into an increase in the number of unemployed in emerging countries of around 400 thousand and 1.2 million in 2018 in 2019, respectively. Unemployment in developing countries is projected to rise by half a million per year in both 2018 and 2019, with the

unemployment rate remaining at 5.3 percent. For many developing and emerging countries, however, persistent poor-quality employment and working poverty pose the main challenges. Sub-Saharan Africa's unemployment rate stood at 7.2 per cent in 2017, essentially remaining unchanged. The number of unemployed increased by more than 1 million due to the region's strong labour force growth. While the unemployment rate is relatively low in comparison to the other developing regions, the rate masks the cross-country heterogeneity prevalent in the region: for instance, in South Africa, the unemployment rate stands at 27.7 per cent in 2017 (latest estimate from Statistics South Africa being 27.5 per cent in Q3:2018). Moreover, little progress has been made in narrowing the gender gap in sub-Saharan Africa over the past decade (ILO, 2018).

Table 3.1: Unemployment rate and total unemployment by region

Region	Unemployment rate				Unemployment (millions)			
	2016	2017	2018*	2019*	2016	2017	2018*	2019*
World	5.7	5.6	5.5	5.5	197.7	192.7	192.3	193.6
Developing countries	6.3	5.3	5.3	5.3	38.6	15.6	16.1	16.6
Emerging countries	5.6	5.6	5.5	5.5	143.4	143	143.4	144.6
Developed countries	5.6	5.7	5.5	5.4	15.7	34.1	32.8	32.4
Northern Africa	12.1	11.7	11.5	11.4	9	8.7	8.7	8.7
Sub-Saharan Africa	7.2	7.2	7.2	7.3	28	29.1	30.2	31.3
Latin American and the Caribbean	8.1	8.2	7.9	7.7	25.1	25.5	24.8	24.4
Northern America	5.1	4.7	4.5	4.6	9.4	8.5	8.3	8.5
Arab States	10.7	8.5	8.3	8.4	5.8	4.7	4.8	4.9
Eastern Asia	4.5	4.5	4.5	4.6	41.6	41.8	41.8	42
South-Eastern Asia and the Pacific	3.8	3.4	3.4	3.5	13.3	11.7	12	12.4
Southern Asia	4.1	4.1	4.1	4.1	29.5	29.5	29.7	30.2
Northern, Southern and Western Europe	9.3	8.5	8	7.8	20.2	18.6	17.7	17
Eastern Europe	6.2	5.5	5.3	5.1	9.1	8.1	7.6	7.3
Central and Western Asia	8.9	8.6	8.6	8.6	6.6	6.7	6.7	6.8

Source: ILO, World Employment Social Outlook: Trends, 2017 and 2018

Underlying these aggregate labour market and social trends are disparities across a number of demographic groups. Gender disparities are of particular concern. On average, women are less likely to participate in the labour market, facing a global gender gap in participation of over 26 percentage points, and are less likely to find a job when they do participate. These gaps are particularly wide in Northern Africa and the Arab States, where women are twice as likely to be unemployed as men. Once in employment, women face segregation in terms of the sector, occupation and type of employment relationship, resulting in restricted access to quality

employment. For instance, 82 per cent of women in developing countries are in vulnerable forms of employment in 2017, compared to 72 per cent of men (ILO, 2018).

The lack of employment opportunities for youth (i.e. those under 25 years of age) presents another major global challenge. Young people are much less likely to be employed than adults, with the global youth unemployment rate standing at 13 per cent, or three times higher than the adult rate of 4.3 per cent. The challenge is particularly acute in Northern Africa, where almost 30 per cent of young people in the labour market are without a job. Importantly, gender inequalities are already established among young workers, rendering future progress in reducing gender gaps even more difficult.

3.2.2. Performance of the South African Labour Market

South Africa's working age population has increased steadily in the past ten years under review. It increased from 31.8 million in Q3:2008 to 37.9 million in Q3:2018; representing a 19.3 per cent or 6.4 million people increase. The female population remains the majority, although it declined marginally from 51.4 per cent in Q3:2008 to 50.5 per cent in Q3:2018, as the number of males increased at a relatively faster rate than females.

In terms of race dynamics, the African working age population remain in the overwhelming majority with a share of 80.4 per cent, followed by Coloured (9.1 per cent), White (7.8 per cent) and lastly Indian/Asian (2.6 per cent). It is of interest to note that the share of Africans has increased in the ten year period by 2.9 percentage points from 77.6 per cent in 2008. Even more interesting is the fact that the Coloured population has surpassed the White as the second largest group in the province, due to the decline in the number of Whites of working age (-8.8 per cent). Only the white population showed a decline in the review period (see table 3.2 below).

The majority of the country's working age population are domiciled in Gauteng (26.9 per cent), followed by KwaZulu-Natal (18.5 per cent) and Western Cape (12.0 per cent) to complete the three biggest provinces. On the other end of the spectrum, the smallest provinces are Northern Cape (2.1 per cent), Free State (5.0 per cent) and North West (6.8 per cent). Over the ten year period, the largest growth was recorded in Gauteng (25.1 per cent or 2.04 million people) and Western Cape (24.3 per cent or 893 thousand people). These increases in these two provinces

can be partly explained by in-migration due to better economic opportunities as these are the leading provinces in terms of GDP share. According to Statistics South Africa (2017), Gauteng (981 thousand) and Western Cape (292 thousand) received the highest number of migrants between 2011 and 2016.

Table 3.2: South Africa's population of working age (15-64 years)

	Q3: 2008	Q3: 2009	Q3: 2010	Q3: 2011	Q3: 2012	Q3: 2013	Q3: 2014	Q3: 2015	Q3: 2016	Q3: 2017	Q3: 2018
Both sexes	31 839	32 435	33 033	33 640	34 253	34 868	35 489	36 114	36 750	37 373	37 985
Women	16 366	16 636	16 906	17 179	17 457	17 738	18 022	18 309	18 604	18 903	19 195
Men	15 472	15 799	16 128	16 461	16 795	17 130	17 467	17 804	18 145	18 471	18 790
Population groups	31 839	32 435	33 033	33 640	34 253	34 868	35 489	36 114	36 750	37 373	37 985
Black/African	24 693	25 244	25 800	26 368	26 947	27 532	28 125	28 726	29 341	29 950	30 550
Coloured	2 994	3 047	3 099	3 150	3 200	3 247	3 293	3 336	3 377	3 415	3 452
Indian/Asian	885	899	913	927	940	953	965	977	988	996	1 005
White	3 267	3 245	3 221	3 194	3 166	3 136	3 105	3 074	3 044	3 012	2 979
South Africa	31 839	32 435	33 033	33 640	34 253	34 868	35 489	36 114	36 750	37 373	37 985
Western Cape	3 681	3 761	3 844	3 929	4 017	4 108	4 200	4 293	4 389	4 483	4 574
Eastern Cape	3 823	3 875	3 924	3 969	4 012	4 048	4 081	4 115	4 153	4 203	4 253
Northern Cape	702	711	719	729	739	749	759	768	778	787	796
Free State	1 788	1 798	1 808	1 820	1 832	1 845	1 858	1 872	1 884	1 890	1 900
KwaZulu-Natal	6 041	6 139	6 238	6 336	6 432	6 527	6 619	6 715	6 815	6 921	7 029
North West	2 147	2 183	2 221	2 261	2 303	2 345	2 389	2 434	2 479	2 523	2 567
Gauteng	8 161	8 344	8 532	8 728	8 929	9 141	9 359	9 580	9 802	10 009	10 210
Mpumalanga	2 398	2 449	2 499	2 550	2 602	2 656	2 710	2 763	2 815	2 866	2 913
Limpopo	3 099	3 175	3 248	3 319	3 386	3 450	3 513	3 574	3 634	3 692	3 744

Source: Statistics South Africa, Quarterly Labour Force Survey, 3rd quarter 2018

According to a study by Statistics South Africa (2017), unlike most of Africa, South Africa is already almost done with what is called the demographic transition. Almost all societies undergo this at some point – where both birth and death rates fall and the working-age population suddenly balloons as a proportion of the total. In South Africa, the white population already “peaked” through this transition and the black population is rapidly reaching the point where the number of working-age people starts to fall again as a proportion of the total.

The study further states that this transition has not had the theoretical economic effect it could have had. Under the right conditions, the transition can lead to a dividend that has two main features. If these working-age people find jobs, the dependency ratio will fall because the number of non-working people compared with working people falls. This includes children and old people. Over time, this leads to the lifting of what South Africans call the “black tax”,

where the first generation of professionals in a family have to financially help the children and other members of the extended family. That frees up money for other things, which creates demand in the economy. If all these working people also have proper jobs, they will be able to save or contribute to pension and provident funds. This, theoretically, also increases the country's capital and leads to increased investment – the second part of the “dividend”. The demographic dividend has been raised as a major explanation for the economic “miracle” of east Asian economies, starting with Japan and South Korea. However, the sudden bulge in working-age people in those countries was far more extreme than it is in South Africa or the rest of Africa. According to this study the conditions to turn the transition into a dividend are lacking, and thus, the transition has not been accompanied by growing savings or investment, the study shows.

Table 3.3: South Africa's labour market overview

	Q3:2014	Q3:2015	Q3:2016	Q3:2017	Q3:2018	Absolute change (2017-2018)	Relative change (2017-2018)
Population 15-64 yrs.	35 489	36 114	36 750	37 373	37 985	612	1.6%
Employed	15 117	15 828	15 833	16 192	16 380	188	1.2%
Narrow Unemployed	5 151	5 418	5 873	6 210	6 209	-1	0.0%
Narrow Labour Force	20 268	21 246	21 706	22 402	22 589	187	0.8%
Expanded Unemployment	8 436	8 304	9 016	9 422	9 759	337	3.6%
Expanded Labour Force	23 552	24 133	24 849	25 614	26 139	525	2.0%
Discouraged work-seekers	2 514	2 226	2 291	2 436	2 733	297	12.2%
Unemployment Rate							
Narrow Unemployment rate	25.4	25.5	27.1	27.7	27.5	-0.2	
Expanded Unemployment rate	35.8	34.4	36.3	36.8	37.3	0.5	
Labour Force Participation Rate (LFPR)							
Narrow LFPR	57.1	58.8	59.1	59.9	59.5	-0.4	
Expanded LFPR	66.4	66.8	67.6	68.5	68.8	0.3	

Source: Statistics South Africa, Quarterly Labour Force Survey, 3rd quarter 2018

The fact that South Africa has an unemployment problem is undisputed. By the narrow definition of unemployment (did not work in the last seven days, but actively looked for work), the unemployment rate in South Africa is was estimated to be 27.7 per cent of the labour force in the third quarter of 2018. By a broader definition of unemployment, which includes the narrowly unemployed, plus those who were not working but would accept a suitable job if one

were offered even though they are not now looking for work (and in some cases includes seasonal workers and contract workers as well), the unemployment rate rises to a staggering 36.8 percent in the same quarter.

The latest statistics from Statistics South Africa reveal that the South African labour force is characterised by high levels of unemployment, low participation, and a large number of discouraged unemployed. Table 3.3 gives a broad view of the South African labour market for the third quarters of 2014 to 2018. In Q3:2018, there were 37.9 million individuals in the working age population, having increased by 1.6 per cent from a year earlier (as also illustrated in table 3.2 above). Employment levels increased by 188 thousand (1.2 per cent). During the same period, around 6.2 million of the narrow labour force was unemployed, as were about 9.7 million of the expanded labour force. Narrow unemployment virtually remained unchanged from a year earlier. However, broad unemployment increased by 3.6 per cent (337 000). This increase in broad unemployment is primarily driven by growth in the number of searching unemployed rather than by the non-searching unemployed. During the same quarter, there were 2.7 million discouraged work-seekers, 12.2 per cent more than in Q3:2017.

In Q3:2018, the labour force participation rate (LFPR) remained virtually unchanged under both definitions over the 12-month period. Of the working age population, nearly three-fifths (59.4 percent) were part of the narrow labour force, while about two-thirds (68.8 percent) were part of the broad labour force.

With the labour force growing at no more than two percent under both definitions and employment only increasing slightly from the previous year (1.2 percent), unemployment rates have experienced virtually no movement. In Q3:2018, the narrow unemployment rate stood at 27.5 percent (a decrease of -0.2 percentage point from the previous year), whilst the expanded unemployment rate rose by 0.5 percentage points to 37.3 percent. Although the level of unemployment remains unacceptably high, the 12-month period under review has seen no significant changes within the national labour market.

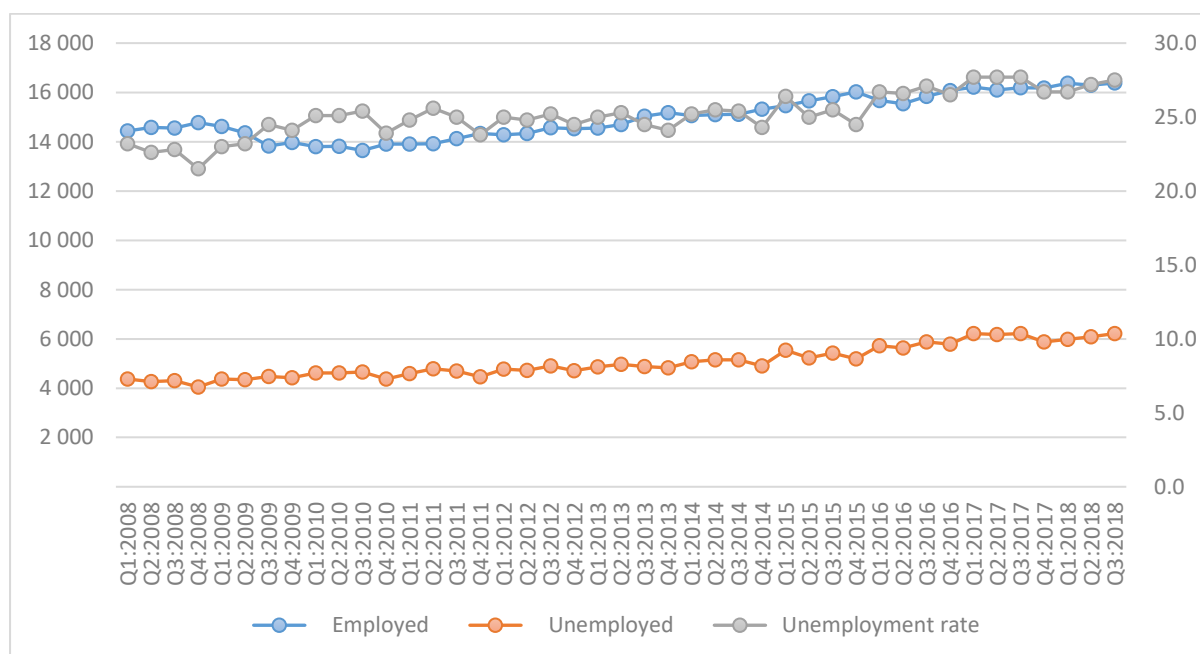
South African employment and unemployment quarterly trends are illustrated in figure 3.1 below, using data from the Quarterly Labour Force Surveys (QLFS) from Q1:2008 to Q3:2018. The South African economy saw a decline in employment of 178 thousand or 1.2 percent from

Q1:2008 to Q1:2009 sparked by the local effects of the global financial crisis. Subsequently, employment increased steadily, peaking at 16.3 million jobs in Q3:2018.

The unemployment level has followed an upward trend over the review period. In Q4:2008, unemployment was at its lowest level, estimated at 4.0 million. Since then, the level of unemployment increased continuously, peaking at 6.2 million in Q1:2017. The unemployment rate too has increased unabated since the 2009 global recession, reaching a high of 27.7 per cent in Q1:2017, before marginally declining to 27.5 per cent in Q3:2018. As figure 3.1 indicates, there has been a consistent inability of the economy to generate a sufficient quantum of jobs for the unemployed. Despite government's various efforts to tackle this problem, unemployment remains one of the greatest challenges faced by a significant number of South Africans, particularly the youth (Mosala, 2018).

The high unemployment rate and the lack of job opportunities has led to very long unemployment spells. In 2016, around 57.0 per cent of the unemployed in South Africa had been out of a job for a year or more, compared with the OECD average of 33.8 per cent (ILO, 2017).

Figure 3.1: Quarterly estimates of labour market aggregates (strict definition)



Source: Statistics South Africa, Quarterly Labour Force Survey, 3rd quarter 2018

3.3. FREE STATE LABOUR MARKET ANALYSIS

The efficiency of the labour market in the Free State Province is currently undermined by a number of issues. One fundamental problem stems from the provincial economy's low capacity to absorb labour, the current employment to population ratio is just 40.7 per cent. This modest labour absorption rate is primarily a product of the mismatch between the skills of the workforce and those demanded by industry. Owing to a lack of training and skills development, a large share of the Free State's workers do not possess the skills required to fill the job openings requiring highly skilled workers across the province. This problem has been exacerbated by changes in the sectoral composition of employment in the province and the country at large, where a shift towards a more capital- and skill-intensive economy has meant that fewer and fewer new low-skilled jobs are becoming available. Inadequate vocational skills training and a poor quality education system have only worsened the skills deficit.

This section of the publication will pay particular attention to trends in the Free State labour market over a ten year period, i.e. 2007 to 2018.

3.3.1. Working age population

The Free State's working age population was estimated at 1.9 million in Q3:2018; an increase of 10 thousand (or 0.5 percentage point) year on year. The population of working age in the province is just about equally divided between males (49.2 per cent) and females (50.8 per cent). The male working age population has decreased by 15 thousand year on year, resulting in a trivial 0.4 percentage point decline in the share of the males of working age (see table 3.3 below).

Africans constitute about 92.4 per cent of the province's working age population, following by Whites (4.9 per cent), Coloureds (2.2 per cent) and least Indian/Asian (0.5 per cent). Year on year, the number of the population of working age that is African increased by 79 thousand whereas all the other races showed declines; this resulting in a 3.7 percentage points increase in the share of Africans.

Table 3.3: Population of working age (15-64 years) - Free State

	Jul-Sep 2017	Oct-Dec 2017	Jan-Mar 2018	Apr-Jun 2018	Jul-Sep 2018	Qrt to Qrt change	Year on year change	Qrt to Qrt change	Year on year change
	Thousand					Percent			
Both sexes	1 890	1 892	1 895	1 897	1 900	2	10	0.1	0.5
Women	951	950	945	964	976	12	25	1.3	2.6
Men	939	943	950	934	924	-10	-15	-1.1	-1.6
Population groups	1 890	1 892	1 895	1 897	1 900	2	10	0.1	0.5
Black/African	1 676	1 717	1 716	1 708	1 756	47	79	2.8	4.7
Coloured	55	49	56	55	41	-14	-14	-25.1	-25.1
Indian/Asian	18	14	14	16	9	-8	-9	-46.9	-51.6
White	140	113	109	117	94	-23	-46	-19.9	-33.0

Source: Statistics South Africa, Quarterly Labour Force Survey, Q3 2017 - Q3 2018

3.3.2. A labour market overview

The Free State's labour force has been increasing steadily over the past ten year under review. It increased from 1.07 million in 2008 to 1.21 million in 2018; a 6.3 per cent increase. The labour force as a percentage of the working age population increased by 3.8 percentage points from 60.2 per cent in 2008 to 63.9 per cent in 2018.

During the period under review, the number of employed people in the Free State decreased from 834 thousand to 774 thousand; representing a fall of 60 thousand or 7.2 per cent, whilst the unemployed increased by 199 thousand from 242 thousand in 2008 to 441 thousand in 2018. The combined effect has been a 13.8 percentage points increase in the unemployment rate; from 22.5 per cent in 2008 to 36.3 per cent in 2018. About 79 thousand jobs were lost during the 2009 recession in the province, and the province has since struggled to recover to pre-recession levels as the economy remained largely stagnant.

The absorption rate has worsened from 4.6 per cent in 2008 to 40.7 per cent in 2018, whilst the LFPR has increased slightly from 60.2 percent to 63.9 per cent during the same period. These statistics are indicative of an economy that is not creating jobs for its increasing labour force, thus resulting in a perpetually increasing unemployment rate.

Table 3.4: Labour force characteristics, 3rd quarter 2008 – 3rd Quarter 2018

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Population 15-64 yrs.	1 788	1 798	1 808	1 820	1 832	1 845	1 858	1 872	1 884	1 890	1 900
Labour Force	1 076	1 050	1 084	1 096	1 068	1 111	1 154	1 161	1 186	1 205	1 215
Employed	834	755	762	822	730	737	755	795	781	821	774
Unemployed	242	295	322	274	338	374	399	366	405	384	441
Not economically active	712	748	724	724	764	734	705	711	699	685	685
Discouraged work-seekers	67	87	85	101	85	78	78	69	85	81	70
Other	645	660	639	623	679	656	627	642	614	604	615
Rates (%)											
Unemployment rate	22.5	28.1	29.7	25.0	31.6	33.7	34.6	31.5	34.2	31.8	36.3
Employed / population ratio (Absorption)	46.6	42.0	42.2	45.2	39.9	40.0	40.6	42.5	41.4	43.5	40.7
Labour force participation rate	60.2	58.4	60.0	60.2	58.3	60.2	62.1	62.0	62.9	63.8	63.9

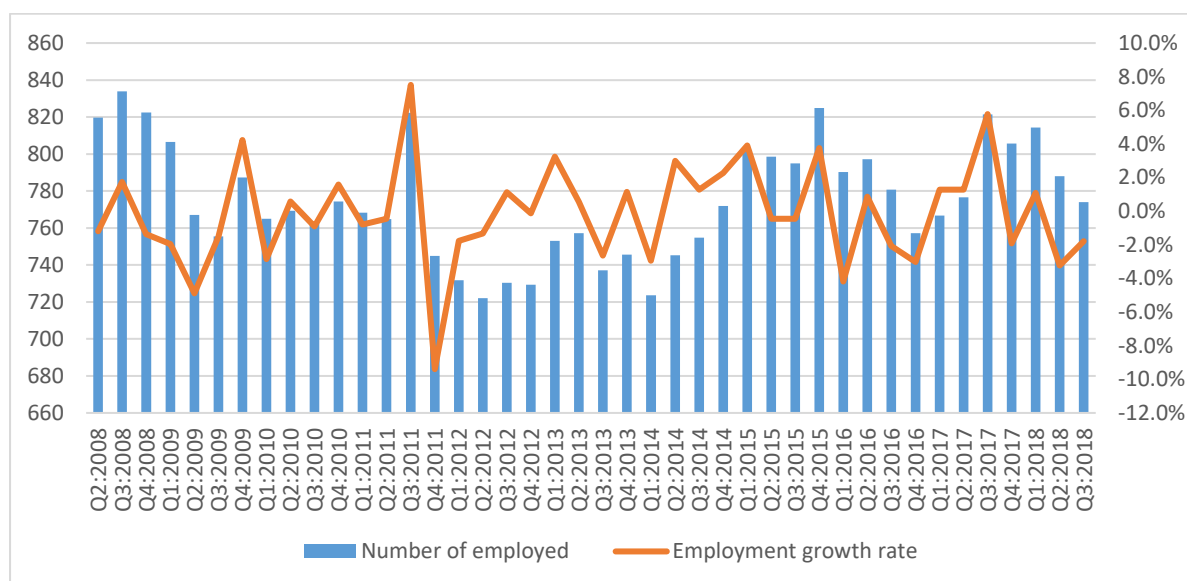
Source: Statistics South Africa, Quarterly Labour Force Survey, Q3 2017 - Q3 2018

3.3.3. Employment trends

The Free State economy has struggled to create jobs since the 2009 economic recession. In fact the provincial economy has only managed to grow by 1.3 per cent on average since 2009, recording negative growth in 2009, 2015 and 2016. This poor growth trajectory is largely reflected in the poor employment outcomes. Employment growth rates has averaged -0.1 per cent during the same period. In fact, the province has lost jobs in 23 of the 42 quarters under review. The largest job losses were in the middle of the recession in Q2:2009 and also in Q4:2011, Q1:2016 and Q3:2017 due to a slowdown in the provincial GDP growth and contraction in the latter two years (see figure 3.2 below).

The number of employed people in the province decreased from 820 thousand in Q2:2008 to 774 thousand in Q3:2018; a decrease of 46 thousand or 5.6 per cent. The Free State has, therefore, been unable to recoup the number of jobs lost during the 2009 economic recession, largely due to protracted sluggish economic growth since.

Figure 3.2: Employment number and growth rates, Free State



Source: Statistics South Africa, QLFS, Quarter 2 and Quarter 3, 2018

Table 3.5 below provides a cross provincial comparison of employment trends in South Africa. What the table indicates is that the Free State is the worst performing province when it comes to job creation in the country, shedding 14 thousand and 48 thousand jobs quarter to quarter and year on year respectively. It is also of interest to note that the contribution of the Free State to national employment has decreased by 0.4% of a percentage point year on year, from 5.1 per cent in Q3:2017 to 4.7 per cent in Q3:2018; this also correlates with decreasing share of the provincial economy. These statistics indicate a worsening situation in the Free State relative to other provinces, and therefore necessitates urgent intervention.

According to table 3.5 employment gains were recorded in seven of the nine provinces in Q3:2018. The largest employment increases were recorded in Limpopo (41 000), Gauteng (22 000) and Mpumalanga (20 000). Free State (-14 000) and Eastern Cape (-13 000) were the only provinces that recorded employment losses.

Compared to Q3:2017, employment increased in six of the nine provinces, with KwaZulu-Natal recording the largest employment increase of 98 000 persons, followed by Western Cape with 95 000. During the same period, employment losses were recorded in Free State (48 000), Eastern Cape (31 000) and North West (4 000).

Table 3.5: Employment by province

	Q3: 2017	Q2: 2018	Q3: 2018	Qtr-to-qtr change	Year-on- year change	Qtr-to-qtr change	Year-on- year change
	Thousands				Per cent		
South Africa	16 192	16 288	16 380	92	188	0,6	1,2
Western Cape	2 399	2 480	2 494	14	95	0,6	3,9
Eastern Cape	1 421	1 402	1 390	-13	-31	-0,9	-2,2
Northern Cape	307	317	323	5	16	1,7	5,2
Free State	821	788	774	-14	-48	-1,8	-5,8
KwaZulu-Natal	2 536	2 620	2 635	15	98	0,6	3,9
North West	983	977	979	2	-4	0,2	-0,4
Gauteng	5 068	5 055	5 077	22	9	0,4	0,2
Mpumalanga	1 204	1 212	1 231	20	27	1,6	2,3
Limpopo	1 452	1 436	1 478	41	26	2,9	1,8

Source: Statistics South Africa, QLFS, 3rd quarter 2018

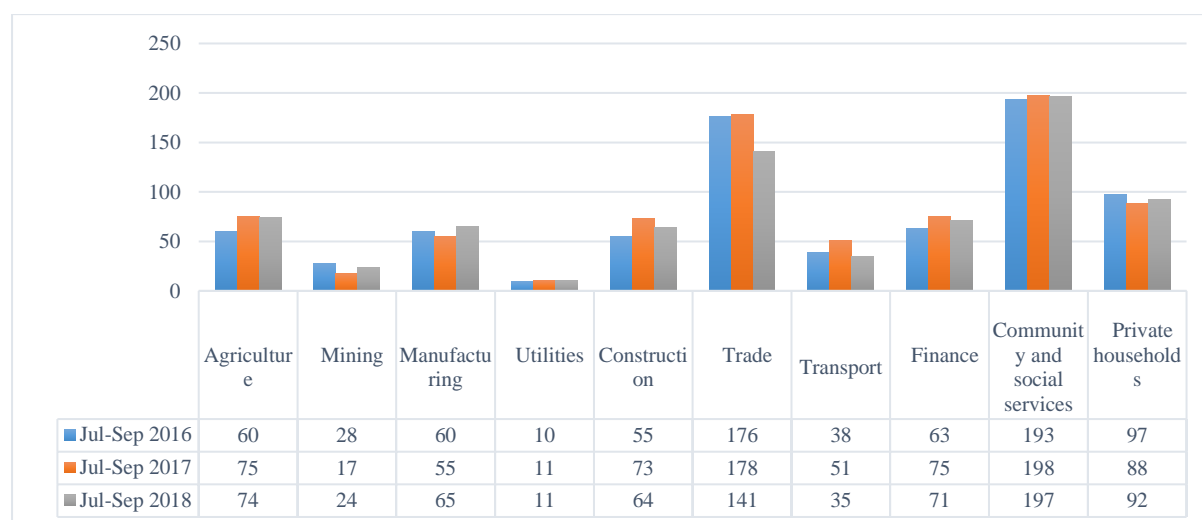
The structural change in the provincial economy has been accompanied by the transfer of resources to the services sectors. These changes have indeed necessitated the need to reskill the human capital in skills demanded by the now dominant tertiary industries. The service sector jobs that have increased in importance differ in some significant respects from traditional manufacturing and low-skills jobs typically found in the primary industries. Service industries have a higher incidence of part-time and temporary workers, rely more on unpaid overtime and make greater use of flexible work arrangements. At the same time, the proportion of workers with at least a university degree is, on average, higher in services than in manufacturing, suggesting that work is becoming more knowledge-intensive. An examination of the labour market indicates that structural change is indeed supporting the province's evolution towards a knowledge-based economy (Mosala, 2016).

The biggest employers in the Free State in Q3:2018 were community and social services (197 thousand or 25.4 percentage share), trade (141 thousand or 18.2 percentage share), private households (92 thousand or 11.9 percentage share) and agriculture (74 thousand or 9.6 percentage share). On the other hand, the smallest employers were utilities (11 thousand), mining (24 thousand) and transport (35 thousand). The government sector (community and social services) continues to be the dominant employer in the province with its share increasing

by 0.7 percentage point from 24.7 percent in Q3:2016, whilst the share of mining continues on a declining trend (0.5 percentage point). However, it is the trade sector that recorded the biggest decline in terms of percentage share at -4.3 percentage points. It is a concern that as the third largest sector in terms of GDP contribution and also a labour intensive sector, trade has lost 35 thousand jobs during this period. Mining (-4 thousand), transport (-3 thousand) and private households (-7 thousand) are the only other sectors that shed jobs during this period.

Over the past three years, the share of the primary sector increased marginally from 11 per cent in Q3:2016 to 12 per cent Q3:2018; increasing by 10 thousand in nominal terms. The share of the secondary industries also increased by 2 percentage points (or 15 thousand) over the same period. Surprisingly, the share of the tertiary industries has decreased from 72 per cent to 69 per cent during the review period, largely due to 35 thousand jobs lost in the trade sector.

Figure 3.3: Employment levels by industry ('000)

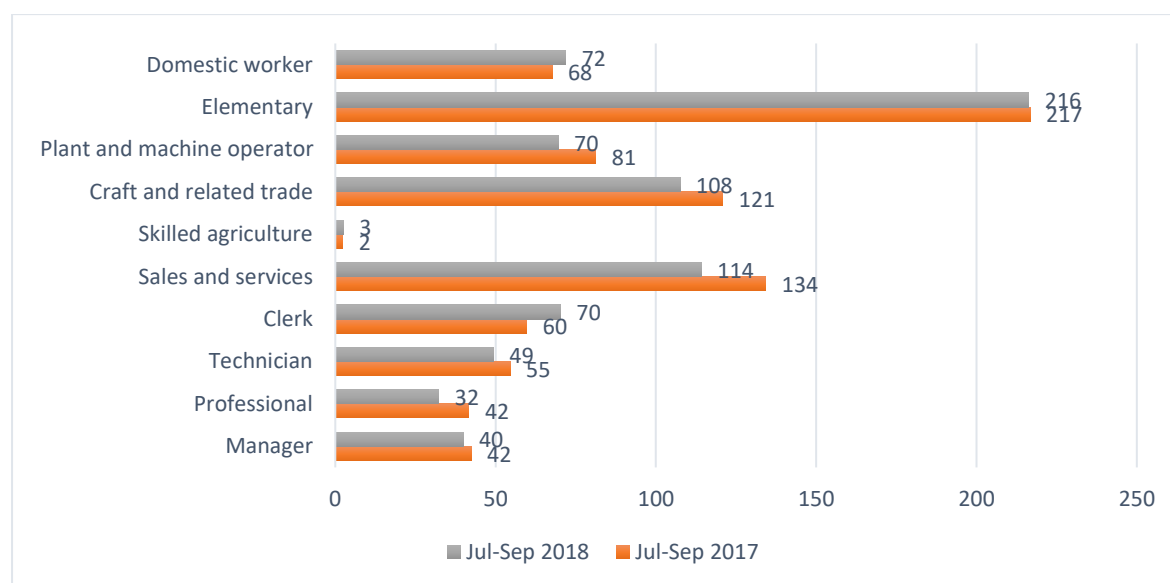


Source: Statistics South Africa, Quarterly Labour Force Survey, Q3 2017 - Q3 2018

To have employment disproportionately favouring the skilled is a huge long-run concern for an economy like Free State's, which has an excess supply of labour, as well as serious challenges in improving access to and quality of secondary and higher education. It is clear that the tradable sectors have adopted production techniques that are increasingly capital intensive. Essentially, the mismatch between labour demand and labour supply goes to the heart of what is wrong with the structure of the province's growth pattern.

Figure 3.4 below illustrates the level of employment by occupation in the Free State over the past year. About 216 thousand people were employed in the elementary occupation in Q3:2018, which equates to 28.0 per cent share, making it the largest employer in the province. The second biggest share goes to sales and services (14.8 per cent), followed by craft and related trade (13.9 per cent) and domestic work (9.3 per cent). The smallest employers in term of occupation type is skilled agriculture (0.3 per cent), professional (4.2 per cent) and managerial (5.1 per cent). In terms of skills levels, an estimated 47.1 per cent are employed in the semi-skilled occupation, 37.2 per cent in the low-skilled occupations and only 15.7 per cent in the skilled occupation. Compared to the same period last year, the share of skilled occupations decreased by 1.2 percentage points, whilst that of the low-skilled increased by 2.6 percentage points. This trend is contradictory to the needs of the provincial economy which demands skilled over unskilled workers.

Figure 3.4: Employment by occupation ('000)



Source: Statistics South Africa, Quarterly Labour Force Survey, Q3 2017 - Q3 2018

The shift from the primary to the tertiary sectors normally result in growing demand for highly skilled professionals, technicians and managers to develop, implement, operate and maintain new technologies associated with the services economies. At the same time, this technology is replacing the unskilled and low skilled labourers, farming workers, production workers and basic service workers. The declining share in production of these workers has also has the effect of increasing the share of the non-production workers; namely transport workers and clerical and sales workers. Therefore, the main beneficiaries of this structural change are the more

highly skilled occupations and those associated with service sectors. The losers are the more low skilled occupations and those associated with the primary sectors. It is therefore fitting to conclude that the shift in the Free State economy's structure to a more knowledge-based economy has increased the need for workers with reasoning, problem-solving, and behavioural skills; a positive cognitive style; and specific occupational and professional competencies. This structural transformation in the provincial economy poses a real risk of increased marginalization of low-skilled workers in the labour market, but also creates an opportunity for the reskilling of the low skilled workers (Mosala, 2016).

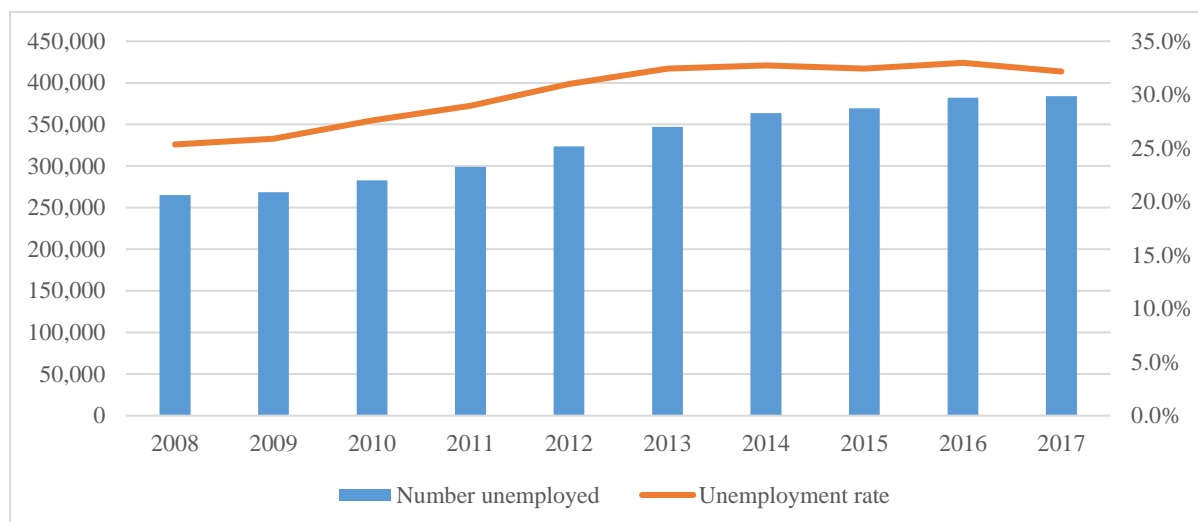
3.3.4. Unemployment trends

The latest South African jobs statistics continue to reflect a shockingly high unemployment rate which will take some doing to reverse. Concerns about the high levels of youth unemployment and the social upheaval this might cause have been widely expressed. However, a deeper analysis of the numbers reveals an even scarier picture of large sections of the population suffering from chronic joblessness and worrying details about the country's youth unemployment statistics that haven't been sufficiently highlighted. These include the fact that 39 per cent of all unemployed South Africans have never worked before. Among young people this figure is even higher, at 60.3 per cent. The numbers also highlight that many young people struggle to find their first job. In contrast, the elderly face the problem of long-term unemployment after they lost their jobs. A greater share of them last worked more than five years ago. This share was the highest at 47.4 per cent for the 50-65 year-olds. What is even more worrying is that the annualised unemployment growth rate of 4.8 per cent is double that of employment growth (2.4 per cent) over the past ten years.

The unemployment rate has increased unabated despite policies being adopted that promised to cut joblessness. These included the New Growth Path (NGP) which was adopted in 2011 and promised to create 5 million jobs and reduce unemployment to 15 per cent by the end of 2020. Most recently the National Development Plan (NDP) which promised to reduce the unemployment rate to 6 per cent by 2030 slashed its target in half. In its latest report on the economy (*The Crossroads: Accelerating progress towards the NDP's Vision 2030*), the National Planning Commission said "a 6 per cent unemployment rate by 2030 is impossible. The best South Africa can hope to achieve is a job-less rate of 14 per cent by then".

This section of the chapter provides a deeper analysis of the dynamics of the problem of unemployment in the Free State within the context provided above.

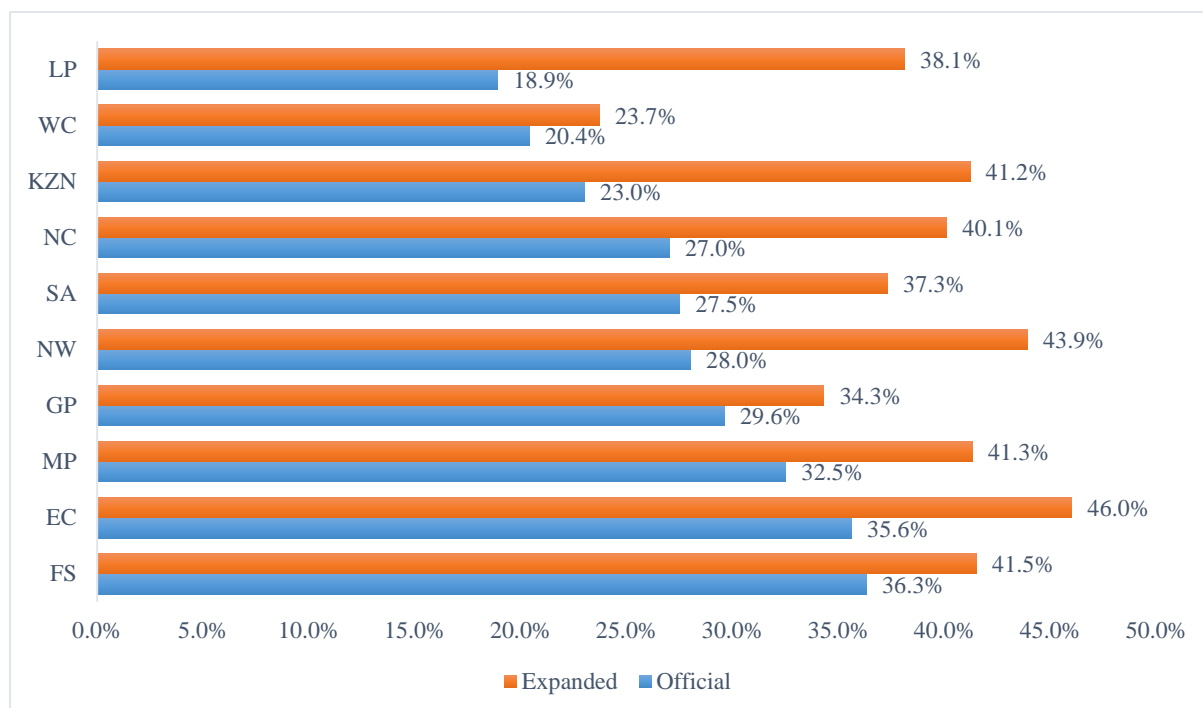
Figure 3.5: Unemployment overview



Source: IHS Markit, Regional eXplorer, 2018

As shown in figure 3.5 above, the number of unemployment in the Free State has been on a consistent increase during the review period. It went from 265 thousand in 2008 to 383 thousand in 2017; an increase of 118 thousand. During this period the unemployment rate increased by 6.8 percentage points, from 25.4 per cent to 32.2 per cent. The unemployment rate peaked at 33.0 per cent in 2016, before declining marginally to 32.2 per cent in 2017. The number of unemployed people increased substantially since the 2009 economic recession due to poor economic performance of the provincial economy. Post the recession, the provincial economy only managed growth of 1.8 per cent on average, contracting in 2015 and 2016 by 0.1 per cent in both years, and 0.2 percentage point below the national average of 2.0 per cent. The province needs to speed up economic growth in order to create jobs and reduce the number of unemployed work-seekers and thus the unemployment rate. It is however, crucial that the province not only increase economic growth but that growth is pro-jobs, and that job-seekers have the necessary skills to participate in this pro-jobs growth.

Figure 3.6: Provincial unemployment rate: Official vs. Expanded, Q3:2018



Source: Statistics South Africa, QLFS, 3rd quarter 2018

According to Statistics South Africa, as illustrated in figure 3.6 above, Free State has the highest unemployment rate based on the official definition of unemployment, whilst the Eastern Cape recorded the highest expanded unemployment rate. Limpopo, KwaZulu-Natal, North West and Northern Cape all have more than 13 percentage points difference between their expanded and official unemployment rates, indicative of the high number of discouraged work-seekers in those provinces. Although the Free State is ranked first in terms of the highest official unemployment, it is ranked third highest when the expanded definition is applied.

Since figure 3.6 above only looks at a static picture of Q3:2018, table 3.6 below shows a year-long trend of official and expanded unemployment rate by province to provide a much more comprehensive analysis.

Table 3.6: Unemployment rate by province

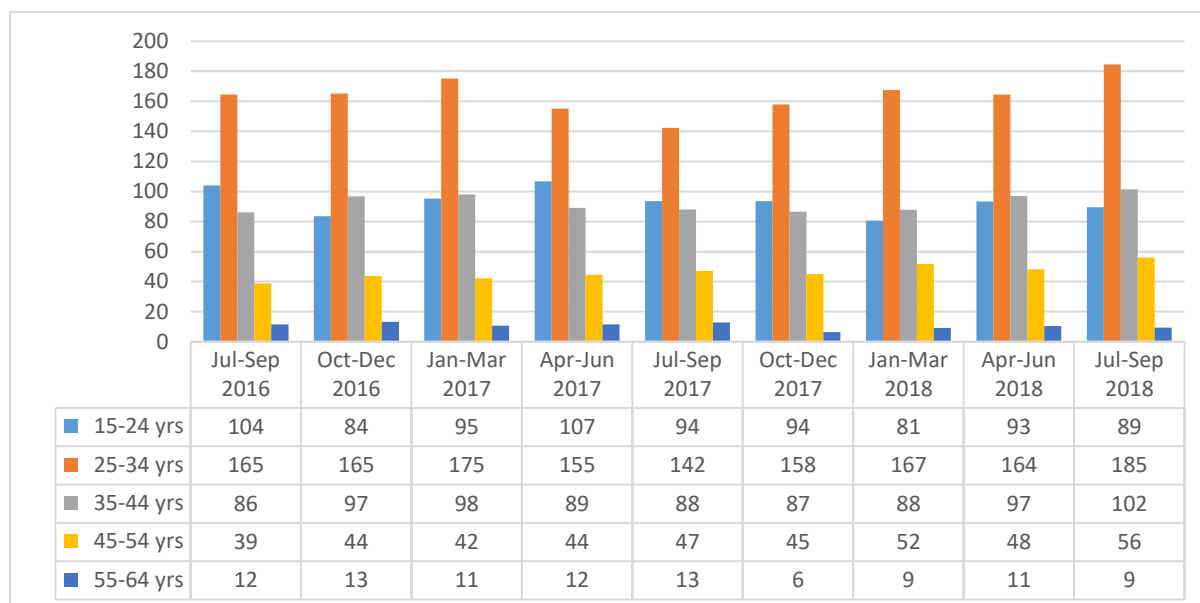
	Official unemployment rate					Expanded unemployment rate				
	Q3: 2017	Q2: 2018	Q3: 2018	Qtr-to- qtr change	Year- on-year change	Q3: 2017	Q2: 2018	Q3: 2018	Qtr-to- qtr change	Year-on- year change
	Per cent			Percentage points		Per cent			Percentage points	
South Africa	27.7	27.2	27.5	0.3	-0.2	36.8	37.2	37.3	0.1	0.5
Western Cape	21.9	20.7	20.4	-0.3	-1.5	25.2	23.2	23.7	0.5	-1.5
Eastern Cape	35.5	34.2	35.6	1.4	0.1	45.3	45.8	46	0.2	0.7
Northern Cape	29.9	28.9	27	-1.9	-2.9	43.1	42.4	40.1	-2.3	-3
Free State	31.8	34.4	36.3	1.9	4.5	38.5	40.1	41.5	1.4	3
KwaZulu-Natal	24.6	21.8	23	1.2	-1.6	41	40.9	41.2	0.3	0.2
North West	26.2	26.1	28	1.9	1.8	42.5	43.4	43.9	0.5	1.4
Gauteng	30.2	29.7	29.6	-0.1	-0.6	33.3	34.4	34.3	-0.1	1
Mpumalanga	30.7	33.2	32.5	-0.7	1.8	41.5	41.7	41.3	-0.4	-0.2
Limpopo	19.1	19.3	18.9	-0.4	-0.2	35.8	37.4	38.1	0.7	2.3

Source: Statistics South Africa, QLFS, 3rd quarter 2018

The official unemployment rate increased by 0.3 of a percentage point in Q3:2018 compared to Q2:2018. The official unemployment rate decreased in five of the nine provinces, with the largest declines in the unemployment rate recorded in Northern Cape (down by 1.9 percentage points), Mpumalanga (down by 0.7 of a percentage point), and Limpopo (down by 0.4 of a percentage point). However, the declines were offset by increases in the unemployment rate in four provinces. Year-on-year, the official unemployment rate declined by 0.2 of a percentage point. The largest declines were recorded in Northern Cape (2.9 percentage points), followed by KwaZulu-Natal (1.6 percentage points) and Western Cape (1.5 percentage points).

Compared to Q2:2018, the expanded unemployment rate increased by 0.1 of a percentage point in Q3: 2018 to 37.3 per cent. The largest increases were recorded in Free State (1.4 percentage points), followed by Limpopo (0.7 of a percentage point). Compared to Q3:2017, the expanded unemployment rate also increased by 0.5 of a percentage point, with Free State recording the largest increase of 3.0 percentage points, followed by Limpopo with 2.3 percentage points (see table 3.6 above).

Figure 3.7: Unemployment number by age group



Source: Statistics South Africa, QLFS, 3rd quarter 2018

Unemployment also has a strong age dimension to it. The most affected by unemployment in the province are those between 25 and 34 years of age, estimated at 185 thousand young people in Q3:2018. Approximately 41.9 per cent of the unemployed belong to this age group. An even more worrying statistics is that in Q3:2018 about 62.0 per cent of the unemployed were the youth (i.e. 15 to 34 years of age), although this has declined from 66.2 per cent in Q3:2016. High youth unemployment means young people are not gaining the skills or experience needed to drive the economy forward. This lack of skills can have long-term adverse effects on the provincial economy. According to Mosala (2018), about 38.6 per cent of South Africans between the ages of 15 and 34 were unemployed in the first quarter of 2017. For the Free State Province youth unemployment rate is even higher, estimated at 47.6 per cent in the same quarter. The situation has worsened over the past ten years despite a great deal of policy attention and the implementation of a range of public and private interventions. The Free State youth unemployment rate was also estimated to be 13.7 percentage points higher than the total provincial unemployment rate in Q1:2017. Persistently high youth unemployment levels suggests a lack of effective policy interventions that need to be looked into as a matter of urgency.

Box 3.1: Youth unemployment in the Free State

Unemployment is possibly the single most significant hindrance to poverty and inequality reduction in the Free State. The incidence of unemployment falls most severely on the young, who are generally low-skilled and have little to no experience of formal employment. It is exceedingly difficult for these unemployed young people to exit unemployment, and it is expected that a significant number of today's unemployed youth will never achieve formal sector employment (National Planning Commission, 2012).

If the Free State is to increase the absorption and retention of young people into the provincial economy, it needs to prioritise practical, demand focused and solutions driven policy interventions. These need to be short, medium and long term solutions that focus on sustainable jobs and processes that address both the access barriers that impede young work-seekers, and the challenges employers face in finding and keeping entry level young employees with the work-readiness and requisite skills.

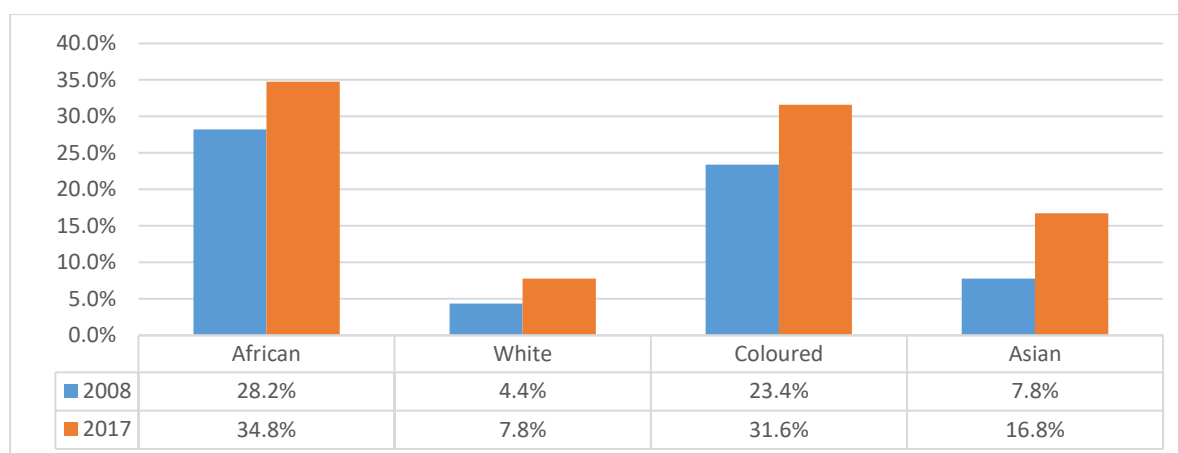
It is evident that the Free State faces a serious problem of extremely high unemployment amongst young people. This is primarily due to the weak economic performance and the structure of the provincial economy (which is moving towards becoming more skills-intensive, while a significant number of its participants have little to no hard skills). Youth unemployment is a massive problem requiring structural changes to the provincial economy. If not addressed as a matter of urgency, the situation is expected to increase levels of frustration and impatience among the youth. In addition to this, the situation will contribute to a cycle of chronic unemployment and poverty: these young people are likely to become the parents of children who will then also grow up in a context of poverty. Long term remedies to this youth unemployment problem are in education development (labour force skilling and/or reskilling), inclusive economic growth, and promotion of youth entrepreneurship, amongst others. In the short term, local-level youth employability programmes are another possible intervention. They can help young people access information about jobs and support them to be more effective in looking

The labour market statistics suggest the presence of two extreme groups of unemployed in South Africa. The first consists of youth who struggle to find the first job despite actively searching through and answering job advertisement. Most have a Grade 12 qualification. The second group comprises of the elderly with previous work experience, but who have been

seeking work mainly via their social networks for more than 3 years. Most have not completed 12 years at school. Therefore, it stands to reason that the government should put more focus on these two groups of unemployed, particularly young people.

Figure 3.8 below depicts the share of unemployment by race. The Africans, at 34.8 per cent in Q3:2018, have the highest level of unemployment compared to other race groups, largely explained by the historical policy of marginalisation of the African population. What is also a concern is the 6.6 percentage point increase in the unemployment rate among African between 2008 and 2017. Given that Africans constitute about 92.4 per cent of the province's working age population, this percentage point increase is very significant. Unemployment rate increased by 8.2 percentage points among Coloureds and 3.4 percentage points among Whites. The 9.0 percentage points increase among Asians is not as significant in numbers given that this group represent a relatively small proportion of the working age population.

Figure 3.8: Unemployment by race group (quarter 3)



Source: IHS Markit, Regional eXplorer, 2018

Women play a critical role in driving economic development throughout the world. The increase in female employment has been the main driving force of economic growth in the last few decades. Empowering women economically can lift entire families and communities out of poverty. Women in poor countries are more likely than men to spend their income on food, education and healthcare for their children – creating powerful, positive and measurable benefits to society.

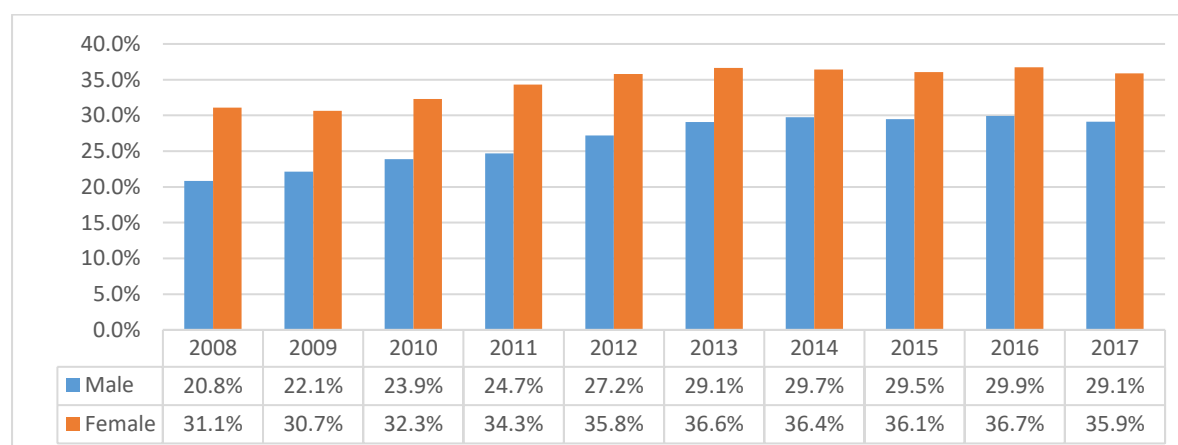
In the Free State, the unemployment level by gender has remained largely unchanged with the female population suffering more from the scourge of unemployment. The gender gap in

unemployment rate has decreased from 10.3 percentage points in 2008 to 8.8 percentage points in 2017. This means the female-male unemployment rate differential is continuing to narrow. However, this decline is not due to decreasing female unemployment rate but rather ascribed to a faster increase in the male unemployment rate. As illustrated in figure 3.9 below, unemployment among females in the Free State was estimated at 35.9 per cent in 2017, having increased by 4.8 percentage points since 2008. During the same period, the male unemployment rate increased by 8.3 percentage points to 29.1 per cent in 2017. It is clear from the table that females are still disproportionately affected by unemployment in the province, as is the case nationally.

What can be done?

- Make the existing inequalities visible through adequate measurements and statistics.
- Promote active public policies within the labour market that eliminate structural, institutional and cultural restrictions that affect women's entry into the labour market.
- Progressively diminish horizontal segregation in the labour market and expand remunerated labour opportunities for women.
- Promote and create access to job protection mechanisms (unemployment insurance, training, workforce reinsertion, etc.) (UN, 2014).

Figure 3.9: Unemployment by gender



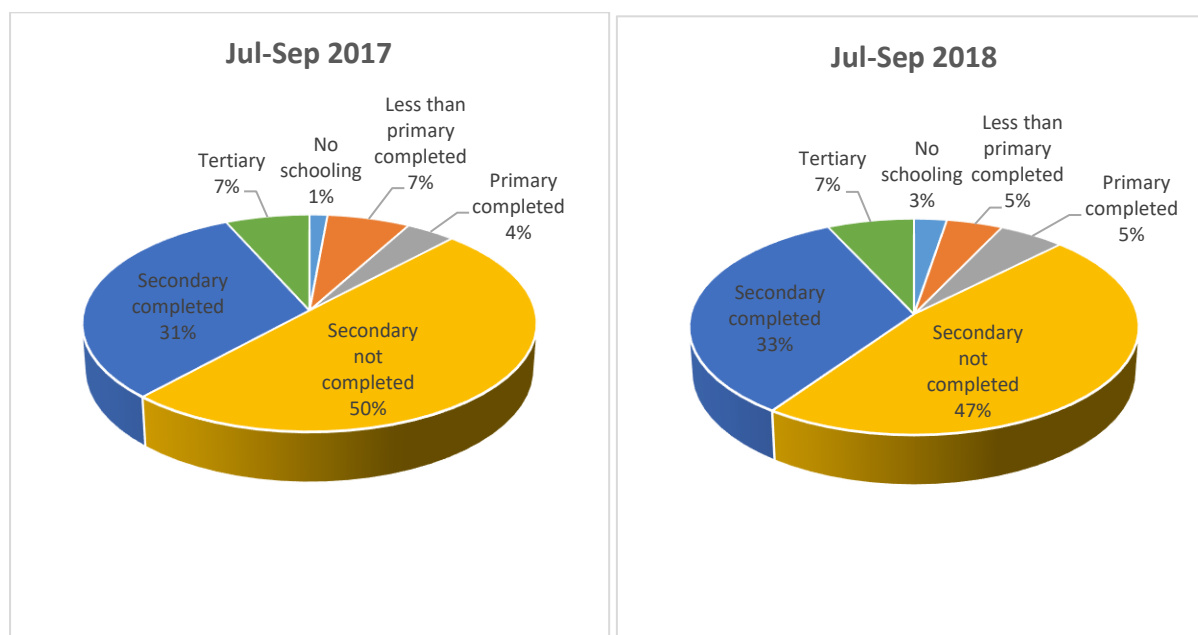
Source: IHS Markit, Regional eXplorer, 2018

Figure 3.10 below shows the share of unemployment by level of education. Almost half of the unemployed are those who have not completed a secondary education. A third of these unemployed people have completed a secondary education. The supply of labour in the

unskilled labour market is huge, while the demand for labour in that market is low. An estimated 93 per cent of the unemployed has matric or less, while only 7 per cent has post-secondary school qualification. It is, therefore, clear that the supply of labour in the unskilled labour market in the Free State is huge, while the demand for labour in that market is low. Supply is renewed through simple population growth in the absence of good education and skills training. Demand decreases as technology provides more efficient ways of performing the tasks. On the opposite end of the scale, the supply of labour in the highly skilled labour market is very limited and the demand very high.

Education is key to unemployment and growth. Unless it is recognised that education is the most important long-term solution to structural unemployment, and steps are taken the problem of unemployment will continue to persist in the province. Skilled labourers are by and large employed in the province, whereas unskilled labourers are unemployed at 30 per cent to 40 per cent levels (Mosala, 2016).

Figure 3.10: The share of unemployment by educational level



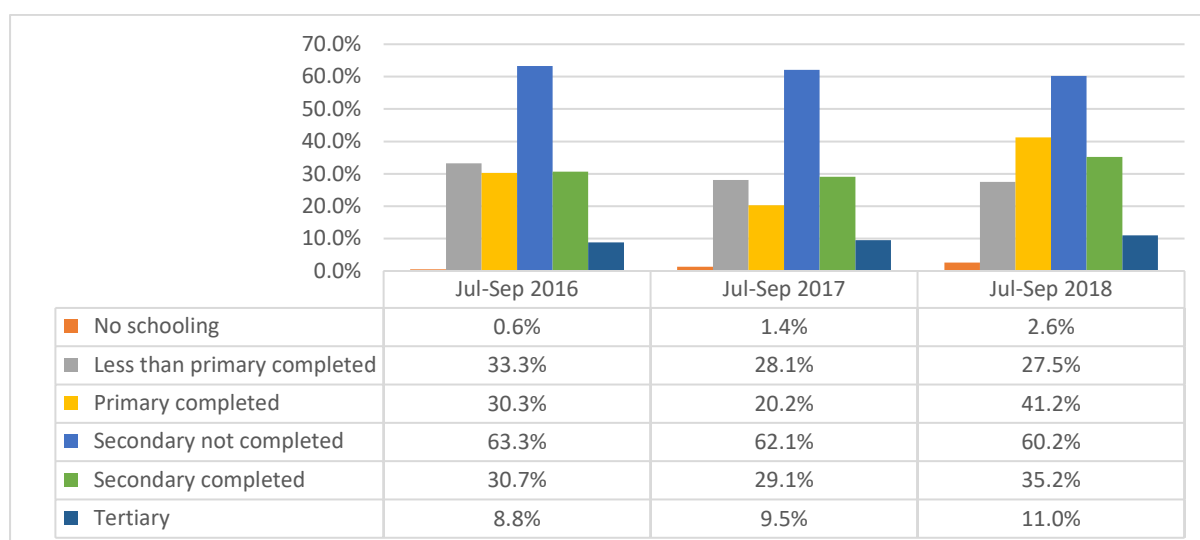
Source: Statistics South Africa, QLFS, 3rd quarter 2018

Higher levels of education are also associated with lower rates of unemployment. In the Free State, as illustrate in figure 3.11 below, unemployment is highest amongst those who have not completed secondary education at 60.2 per cent in Q3:2018, down from 63.3 per cent in

Q3:2016. For those with a tertiary qualification, the unemployment rate was estimated at 11.0 per cent in Q3:2018, which is an increase of 2.2 percentage points from 8.8 per cent in Q3:2016.

What is evident from these statistics is that unemployed people tend to be unskilled and inexperienced. The pool of the employed has tended to become more skilled, while the less skilled have more often become relegated to the ranks of the unemployed. This is a global phenomenon and is in no way unique to the Free State, and South Africa at large. Many economists attribute these sectoral changes to technical change that biases labour demand toward more skilled workers (Banerjee et al, 2007). Education is, therefore, a crucial factor in combating unemployment in the province. A better educated and more highly skilled workforce should be the most pressing long-term priority for the Free State.

Figure 3.11: Unemployment rates by level of education

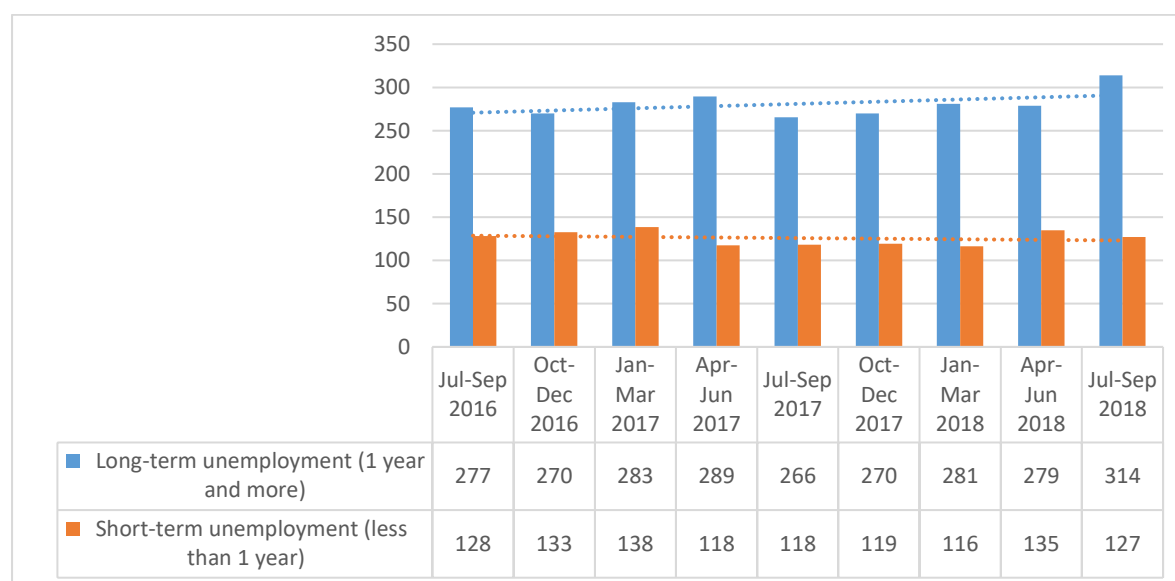


Source: Statistics South Africa, QLFS, 3rd quarter 2018

Figure 12 below looks at the duration of unemployment in the Free State over the past three years. In Q3:2018, 71.2 per cent (314 thousand) of the unemployed were in long term unemployment. This percentage has increased from 68.3 per cent in Q3:2016. The structural nature of the unemployment problem is evidenced by the large number of people in long-term unemployment, which increased from 277 thousand in Q3:2016 to 314 thousand in Q3:2018. Long term unemployment has also increased as a proportion of the labour force from 23.3 per cent in Q3:2016 to 25.9 per cent in Q3:2018; an increase of 2.6 percentage points.

There is no scenario where long-term unemployment can simply be shrugged off as one of the glitches in society. As more and more people become unemployed, there is a greater risk of them becoming permanently detached from the labour market. The scarring effects of long-term unemployment on the worker can be directly linked to two important features of their role in the labour market – (i) the loss of skills over time, and (ii) that even upon finding work the individual may accept lesser wages than previously earned

Figure 3.12: Unemployment duration



Source: Statistics South Africa, QLFS, 3rd quarter 2018

Table 3.7 below looks at the characteristics of the unemployed in the Free State. In Q3:2018, the majority of the unemployed were the new entrants (38.2 per cent), followed by job losers (32.1 per cent). Year-on-year, about 19 thousand jobs were lost in the province and the number of new entrants who could not find employment increased by 17 thousand jobseekers. Therefore, not only is the provincial economy not creating new jobs but it is shedding already existing jobs. The province needs to simultaneously preserve existing jobs and create new employment opportunities.

Table 3.7: Characteristics of the unemployed

	Q3: 2016	Q4: 2016	Q1: 2017	Q2: 2017	Q3: 2017	Q4: 2017	Q1: 2018	Q2: 2018	Q3: 2018	Qrt to Qrt change	Year on year change	Qrt to Qrt change	Year on year change
Job losers	135	136	143	129	123	135	136	139	142	3	19	2.0	15.2
Job leavers	22	26	18	25	20	22	21	16	30	13	9	81.8	46.1
New entrants	160	139	158	155	152	146	139	157	169	13	17	8.1	11.1

Re-entrants	11	8	6	12	8	6	7	7	8	1	0	12.4	-0.8
Other	78	95	96	86	80	81	93	95	93	-2	12	-2.4	15.4

Source: Statistics South Africa, QLFS, 3rd quarter 2018

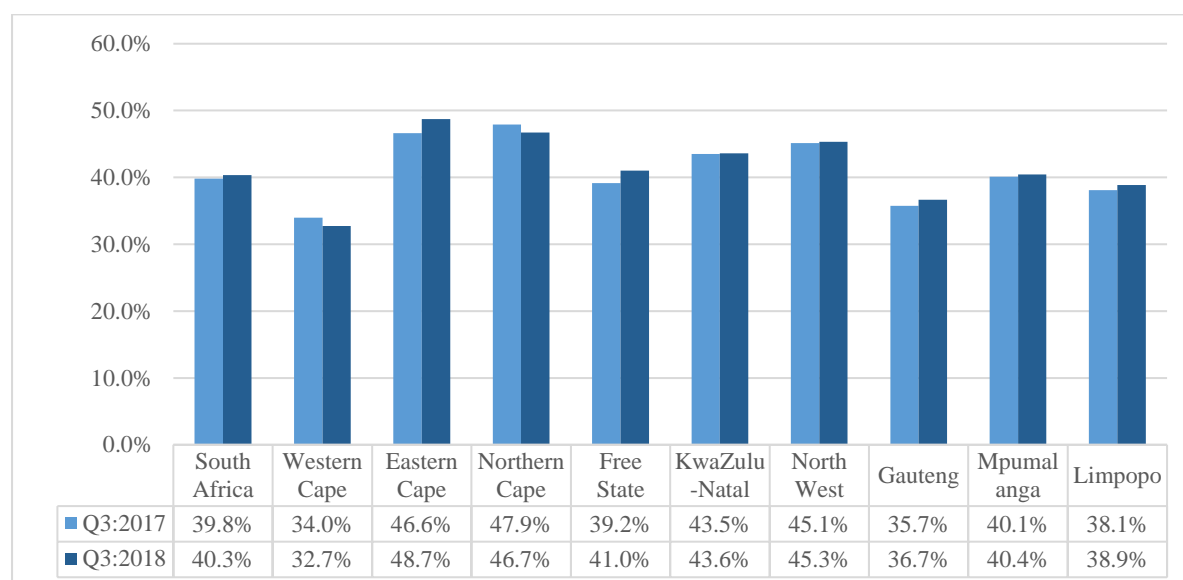
3.3.5. Not in Employment, Education or Training (NEET)

A group that is receiving increasing attention is the so-called ‘NEETs’—individuals that are not employed or in education or training. This group, which is neither engaged in the labour market nor preparing for engagement in the labour market, is regarded as an important threat to social stability in South Africa (HET, 2014). Researchers frequently raise the spectre of idle youth as a ticking social time bomb, there is now heightened awareness of the young people who are NEET to cause serious social disruption. In South Africa, the impact of NEET is brought to the fore by crime statistics that reveal that the average age of house robber is between 19 and 25 years and that all arrested robbers, 90 per cent had not passed Grade 12 and/or were unemployed. Consequently, the monitoring of NEET trends and strong interventions to address the challenge of NEETs are key to promoting peace and stability in a society (Department of Higher Education and Training, 2018).

Currently, it is estimated that approximately 15.3 million of South Africans are NEET, and about 7.9 million of those are the youth between the ages 15 – 34 years. The majority of NEETs are actually female at 8.8 million, with males estimated at 6.5 million. In the Free State Province, 779 thousand people are said to be NEET; about 60 percent of those are females and half are the youth.

Figure 13 below shows the NEET rate by province over the past year. In Q3:2018, Eastern Cape had the highest NEET rate at 48.7per cent, followed by Northern Cape (46.7 per cent) and North West (45.3 per cent), whilst those with the lowest rate were Western Cape (32.7 per cent), Gauteng (36.7 per cent) and Limpopo (38.9 per cent). Free State’s NEET was 41.0 per cent, up from 39.2 per cent in the same quarter of the previous year. During the review period, only Western Cape (-1.3 percentage points) and Northern Cape (-1.2 percentage points) recorded shrinkages in NEET rates, thus resulting in the national NEET rate increasing marginally by 0.5 of a percentage points.

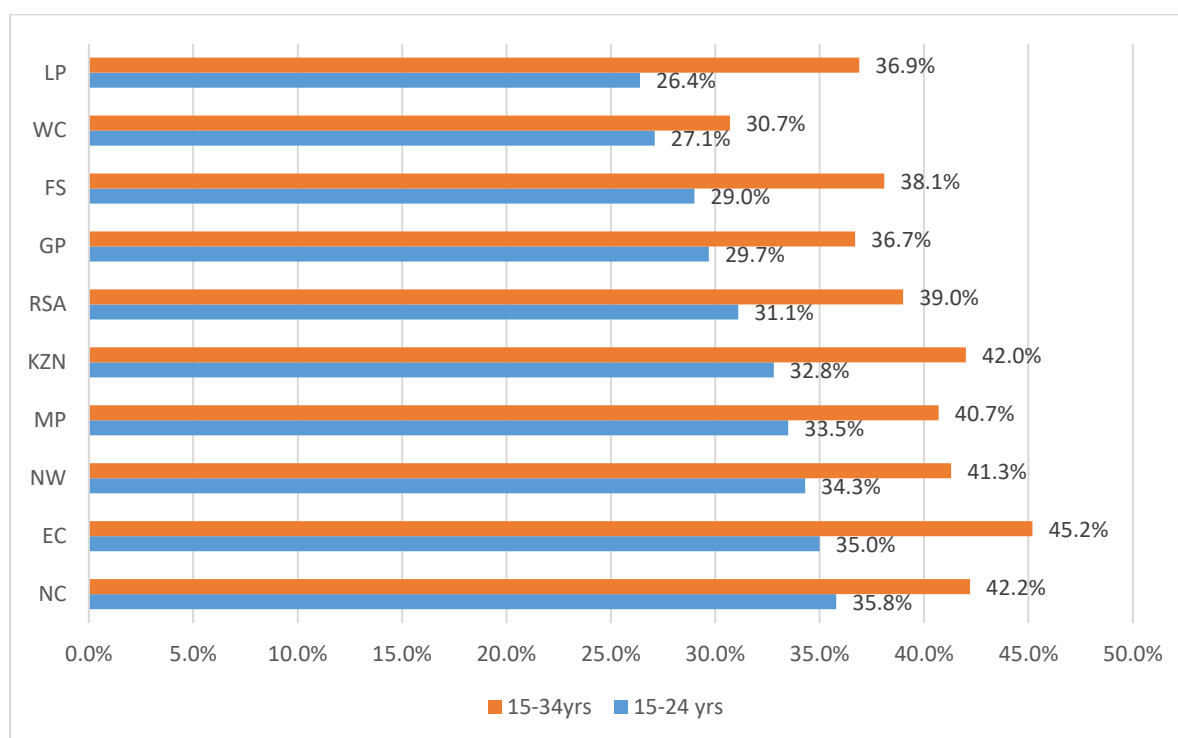
Figure 3.13: Total NEET rate by province



Source: Statistics South Africa, QLFS, 3rd quarter 2018

Figure 14 below provides a gloomy picture of the NEET rates of youth, by international (15-24 years) and national (15-34 years) definitions, across the nine provinces of South Africa for Q3:2018. For the country as a whole the NEET rate among the youth (15-34 years) was estimated at 39.0 per cent, which is slightly lower than the 40.3 per cent for the total working-age population. According to Statistics South Africa (2018) the Northern Cape recorded the highest rate of young people aged 15-24 years not in employment, education or training in Q3:2018, although it is 5 percentage points lower than in Q3:2017. On the other hand, the Eastern Cape had the highest NEET rate of young people aged 15-34 years. This rate increased by 3.4 percentage point year-on-year. The Free State had the fourth lowest NEET rate among those aged 15-34 years and third lowest among the 15-24 age group.

Figure 3.14: Cross-provincial youth NEET rate

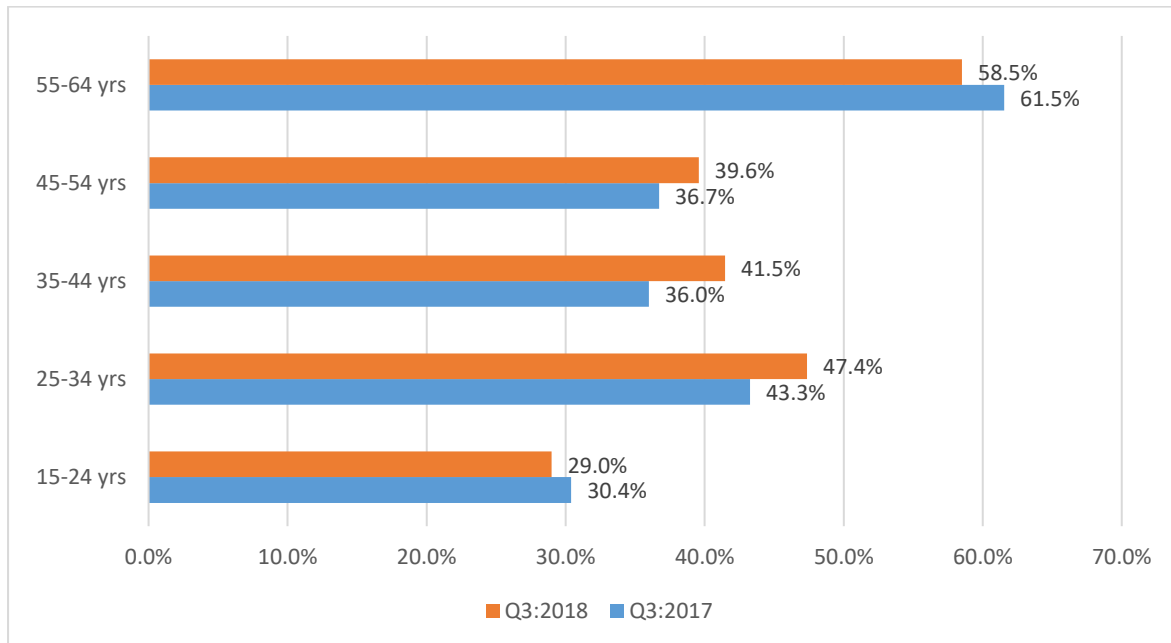


Source: Statistics South Africa, QLFS, 3rd quarter 2018

A further breakdown of people who are NEET in the Free State is provided in figure 15 below. The age group 55-64 years has the highest NEET rate in the Free State estimated at 58.5 per cent in Q3:2018, down from 61.5 per cent in Q3:2017. Those between the ages of 24 and 34 years have the second highest rate of NEET at 47.4 per cent in Q3:2018. This group of people is a major concern because they have become discouraged and they are also not building on their skill base education and training and thus are likely to remain disengaged throughout their lives. The NEET rate, seen in conjunction with the youth unemployment rates close to 50 per cent, suggests that young people in the Free State face extreme difficulties engaging in the labour market. Certain factors such as lack of experience and length of unemployment may increase the vulnerability of these young people in the labour market.

This presents the social backdrop against which the Post-school Education and Training (PSET) system has to determine its priorities since many young people lack the appropriate skills, work-related capabilities and the necessary qualifications required for existing occupations in the workplace. Additionally, on the demand-side, the economy is not growing enough to absorb new entrants into the labour market.

Figure 3.15: Free State NEET rate by age group



Source: Statistics South Africa, QLFS, 3rd quarter 2018

Box 3.2: Research findings - Consequences, risk factors, and geography of young people not in education, employment or training (NEET) in Scotland

Consequences of NEET status

- Young people, who were NEET, remained disadvantaged in their level of educational attainment 10 and 20 years later. More than one in five of NEET young people in 2001 had no qualifications in 2011, compared with only one in twenty five of non-NEETS.
- There is a 'scarring effect' on economic activity. In comparison with their non-NEET peers, NEET young people in 2001 were 2.8 times as likely to be unemployed or economically inactive 10 years later.
- The scarring effect is also evident in the occupational positions that NEET young people take up, if they entered employment. For example, NEET young people in 2001 were 2.5 times as likely as their non-NEET peers to work in a low status occupation in 2011, if they found work.
- NEET experiences are associated with a higher risk of poor physical health after 10 and 20 years. The risk for the NEET group was 1.6-2.5 times that for the non-NEET group, varying with different health outcomes.
- NEET experiences are associated with a higher risk of poor mental health after 10 and 20 years. The risk of depression and anxiety prescription for the NEET group is over 50% higher than that for the non-NEET group.
- Young people who were NEET in 1991 and remained economically inactive in 2001 consistently demonstrated significantly poorer outcomes in 2011 than those who were non-NEET in 1991 and economically active in 2001 and those who were engaged in employment or education in either 1991 or 2001. This suggests that there is a cumulative effect of being out of employment or education on later life chances and this group is the most disadvantaged that need continuing support.
- Young people who changed from NEET status in 1991 to employment or education in 2001 have lower risks of poor life outcomes compared with those who were consistently in disadvantaged positions. However, the negative effect of NEET status in 1991 was not fully discounted by the later engagement in employment or education, indicating the long-lasting detrimental effect of NEET experiences.
- Young people who changed from being non-NEET in 1991 to being economically inactive or unemployed in 2001 have higher risks of poor life outcomes compared with those who were consistently in employment or education. This suggests that economic activity in 2001 (when this group are in their late twenties) is also predictive of later labour market and health outcomes regardless of NEET status in 1991.

Risk factors of becoming NEET

- Educational qualification is the most important risk factor. No qualifications increased the risk of being NEET by 6 times for males and 8 times for females (for those born in the 1980s). No qualifications at SCQF level 5 or higher obtained by school stage S4 increase the risk of being NEET by 10 times for males and 7 times for females (for those born in the 1990s).
- Risk factors are consistent across the two cohorts studied and between males and females.
- Other school factors are important, including time absent from school and number of exclusions.
- Two factors are important for females: being an unpaid carer for more than 20 hours per week and teenage pregnancy.
- Household factors are also important. Living in a social renting household, living in a family that is not headed by a married couple, living in a household with no employed adults, and having a large number of siblings all increased the risk of becoming NEET.
- Local NEET rate is an important factor for both cohorts and genders, with the risk of NEET increasing with local NEET rate.
- A risk score derived from the statistical modelling has potential to identify young people who are at risk of becoming NEET and perhaps guide interventions.

Source: Scottish Government, 2015

Box 334: The policy recommendations for the Free State labour market

The labour market analysis clearly shows that Free State has a huge unemployment rate and that intervention is needed to reduce this indicator and improve the livelihoods of the provincial citizenry. DESTEA (2018) states that when the economy has spare capacity, increasing investment will cause a multiplier effect. The initial increase in investment will stimulate economic growth further, which will in turn stimulate reinvestment, create income for households and increase demand in the economy. Linked to the interventions proposed for increasing economic growth through local municipal areas, DESTEA (2018) is endorsing a number of investment projects which cut across various industries such as manufacturing, tourism, transport and trade. These projects include:

- Resuscitating the Ladybrand Agro-processing Centre
- Increase agribusiness value chains from Vrede to Ladybrand
- Market MAP-SEZ to attract FDI
- Phakisa Raceway Park to obtain a permit to host international events
- Resuscitating Jim Fouché Resort and Bloemfontein Horse Racecourse
- Upgrading Kroonstad through Kroonpark, Phomolong Shopping Complex as well as repurposing and
- re-brand Constantia Park Shopping Centre
- Developing an island resort in Metsimaholo
- Developing a Cargo Airport in Matjhabeng
- Expanding and improving the FS Global Investors Trade Bridget in 2018 and beyond

Mosala, S. (2017) found that factors that have an impact on youth unemployment in the Free State are 1) weak economic performance, 2) the size of the youth population, 3) the quality of youth labour supply vs. demanded and 4) the socio-economic background of the youth. The proposed policy interventions from the study include:

- Policy creation that supports accelerated and sustained economic growth
- Raise the quality of basic and higher education, re-engage drop-outs with the education system and provide an environment that cultivates academic, technical and vocational skills
- Promote training programmes in which the jobs created are likely to survive long term
- Policy intervention should be aimed primarily at these vulnerable groups, focus on race and gender inequalities
- Promote entrepreneurship amongst the youth

A focus on youth development in the Free State by Kruger, B. M. & Mathe, P. N. (2017) highlights initiatives already implemented by the provincial government to address youth unemployment, which include 1) 7525 bursaries awarded to both undergraduate and post-graduate students, 2) R 70 000 to be awarded to 2000 citizenry to open spaza shops, 3) Tabalaza pitching sessions and Township Support Enterprises, amongst other. Beyond these initiatives, the following recommendations are made from the study:

- Consultations before implementation of youth development programmes must be done for sustainability
- More access to bursaries is needed by the youth
- In the face of high unemployment, arts, culture and sporting activities need government support to combat substance abuse

Source: Free State Province, Medium Term Budget Policy Statement, 2018

3.4. CONCLUSION

Unemployment remains a major challenge globally and locally. An estimated 192 million people were unemployed globally in 2018. About 6.2 million and 441 thousand people were unemployed in South Africa and Free State, respectively, in Q3:2018. It is also disheartening that the unemployment numbers are increasing, whilst those who are employment are decreasing or increasing at a much slower pace thus resulting in the perpetually increasing unemployment rates. The latest statistics puts unemployment at 27.5 per cent and 36.3 per cent for the country and province respectively. The most vulnerable to unemployment remains Blacks, women and the youth. These persistent trends have resulted in the revision of the NDP unemployment target as it was clear that the 6 per cent unemployment rate target by 2030 was now unachievable

There are lots of obstacles to job creation in South Africa. The most recent global competitiveness report shows that the country's labour market is hobbled by inefficient hiring and firing practices, little cooperation between employers and employees as well as a poor relationship between pay and productivity. This tempts employers to replace labour (particularly the less skilled and experienced ones) with capital and discourages them from hiring new workers. In both cases, the youth are the most vulnerable. However, on a provincial level lack of and/or mismatch of skills were identified as causes of high unemployment on the supply-side, with insufficient economic growth identified as the major cause on the demand-side. It is therefore prudent that the province pursue an aggressive skills development programme to meet the demands of the labour market on the one hand and implement the provincial economic strategy clearly articulated in Chapter 2 to revive the provincial economy on the other hand.

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