



**Quarterly  
Economic Bulletin  
2017/18 Q 4**

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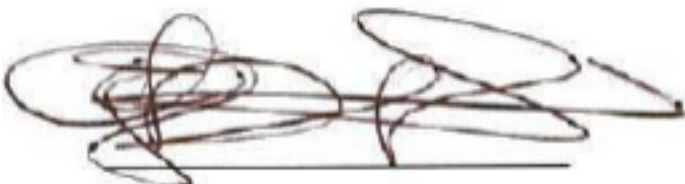
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## **Foreword**

This Quarterly Economic Bulletin is presented at a time when there is renewed hope in the South African economy, due to the outcome of the 52<sup>nd</sup> ANC elective conference where new leadership was elected and the recent rise to the throne of the new ANC President to be the President of the country. The positive impact of the recent cabinet reshuffle and the stabilisation of the SOEs cannot be overemphasised, as this gave new hope to the millions of South Africans and the rating agencies. The positive sentiment was also indicated in the recent appreciation of the Rand against the US Dollar.

The South African economy continued to surprise everyone with its relatively positive growth performance in the last quarter of 2017, as the economy showed some resilience. The exchange rate of the Rand against showed the best performance of all emerging countries in 2018. If this positive trend continues it will lower the inflationary pressures in the national economy, which in turn will entice the South African Reserve Bank to lower interest rates to relieve of the under pressure consumers.

The provincial economy is expected to have recovered in 2017 to a positive growth performance after the decline in 2016. The growth in the province will for the foreseeable future be based on the performance of the mining industry and the rise in international commodity prices therefore boasts well for the provincial economy. The higher levels of economic growth are a precondition to address the triple challenge of unemployment, poverty and inequality.

A handwritten signature in dark ink, consisting of several overlapping loops and a long horizontal stroke at the end, positioned above the printed name.

**PHUKUNTSI M.J.**

**DDG: SRM**

**LIMPOPO PROVINCIAL TREASURY**

## **1.1. Introduction**

The Global Economy continued to grow at more than 3 percent during 2017, as the majority of the governments have managed to normalize their fiscal policy situation in terms of the ratio of debt to GDP. The USA also managed to enter a sustained recovery after the 2009 global financial crisis. The Federal Reserve has started with policy normalization, implying rising interest rates in America.

The South Africa economy has surprised everyone with its 2017 growth performance of 1.3 percent. The 2017 growth and recent changes in the management of SOEs is expected to appease the rating agency as they have been waiting to see how the economy is stabilising to decide whether they need to change their views on South Africa's ratings. The recent political developments raised the positive investor sentiment and can assist to reach higher economic growth rates in future.

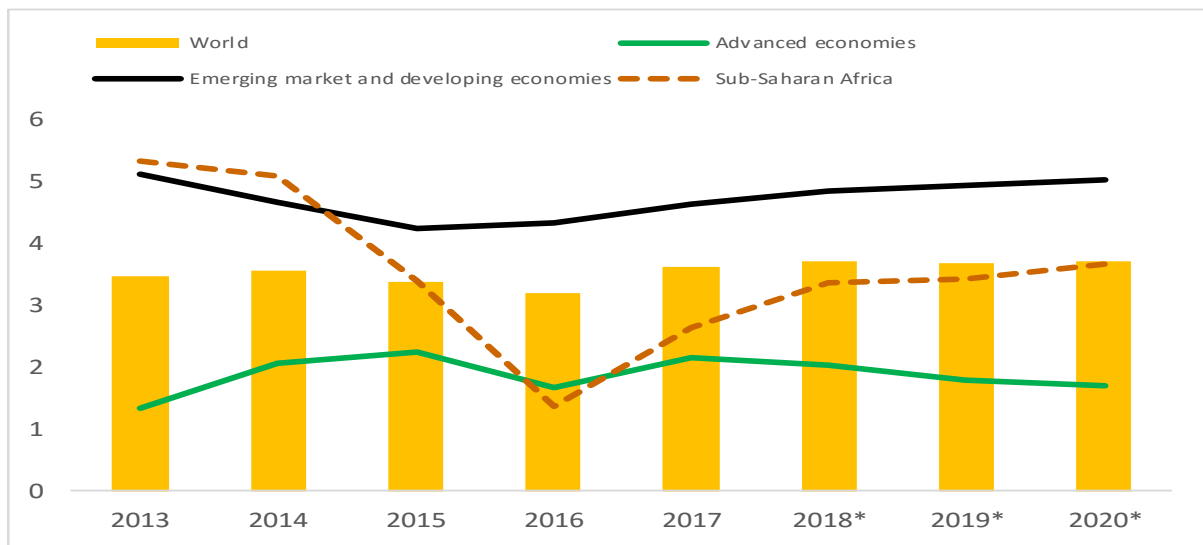
The Limpopo province is still facing the triple challenge of unemployment, inequality and poverty. The key policy to address these challenges is to create higher level of economic growth. The higher growth will lead to higher level of job creation, which in turn will help to address the concerns of poverty and inequality. The agricultural sector has been identified as one of the key economic sectors in South Africa and the Limpopo province to address the high unemployment challenges as sector has several advantages to the provincial economy given its highly labour intensive nature.

## **1.2. Economic Overview**

### **1.2.1. World Economic Outlook**

The global economic growth for 2017 was 3.6 percent and it is anticipated that it will continue to increase to 3.7 percent in 2018 and 2019. In 2017, the advanced economies recorded economic growth of nearly 2.2 percent and it is expected to marginally decline to 2.0 percent in 2018.

Figure 1: World Gross domestic product GDP, constant prices



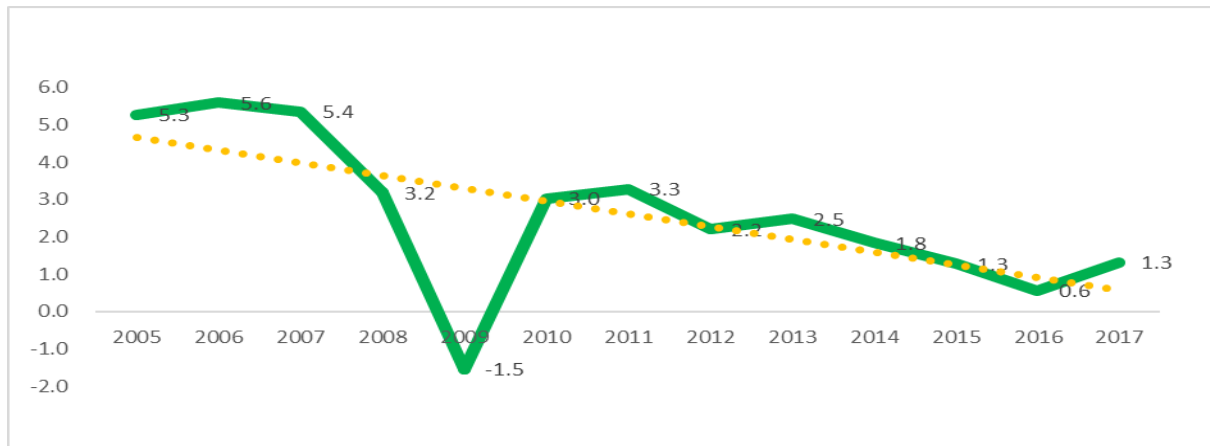
Source: International Monetary Fund (IMF)

The World economic growth is significantly boosted by the performance of the Emerging Market (EM) and Developing Economies (DE). EM and DE countries experienced growth of 4.6 percent in 2017 which is 2.5 percentage points above advanced economies. The Sub-Saharan economies have experienced a significant decline in economic growth from a 7.0 percent growth in 2010 to 2.6 percent in 2017. However, growth in the region is anticipated to reach 3.4 percent in 2018.

### 1.2.2. South African economy

The South African economic growth has exceeded expectations in 2017, with the economy growing by 1.3 percent. This unexpected growth was above the National Treasury's expectation of 1.0 percent growth for the year announced during the National Budget Speech in February 2018. The strengthening in economic activity over 2017 was partly driven by an agriculture industry bouncing back from one of the worst droughts in recent years.

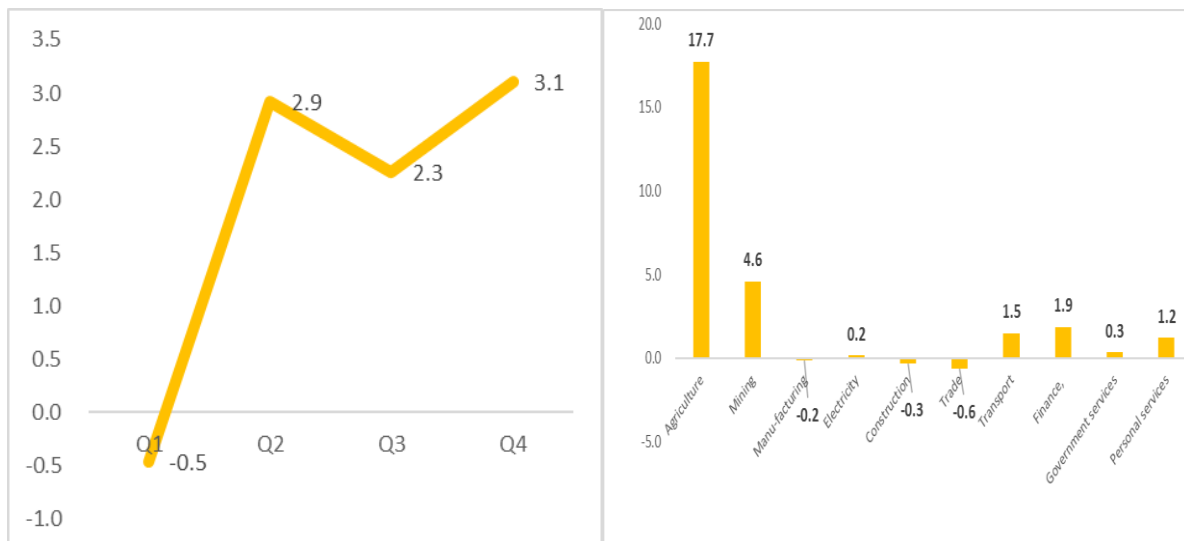
Figure 2: South African annual GDP Growth



Source: StatsSA GDP

After an unsteady start to 2017, which saw economic activity contract in the first quarter, the economy saw sustained growth for the remainder of the year, with the fourth quarter experiencing the highest economic growth rate of 2017 expanding by 3.1 percent quarter-on-quarter (seasonally adjusted and annualised). More than half of the growth number came from the primary sector with agriculture and mining expanding by 17.7 percent year-on-year (y/y) and 4.6 percent respectively.

Figure 3: South African GDP and Industry performance 2017



Source: StatsSA GDP

There were also strong showings by the transport, finance and personal services sectors, which expanded by 1.5 percent, 1.9 percent and 1.2 percent respectively during 2017 on an annual basis.

### 1.2.3. Limpopo Economic growth

The performance of the Limpopo economy is very important to determine the potential to address the triple challenge of unemployment, poverty and inequality. The provincial growth rate declined by 0.6 percent in 2016 after the positive growth rate of 2.0 percent in 2015. The volatile growth performance of the provincial economy can, to a large extent, be explained by the volatile growth performance in the mining industry and the relative size of the sector as compared to total production in the provincial economy.

Figure 4: GDP Average annual growth (Constant 2010 Prices) and 2016 Sector contributions



Source: StatsSA GDP

From the above diagram, the agricultural, mining and electricity sectors recorded a decline in 2016 of 8.2, 3.9 and 1.9 percent respectively. In terms of positive contributions to the provincial economy, the finance sector (1.9 percent) was the biggest contributor in 2016, followed by government services, personal services and trade at 1.4, 1.1, 1.0 percent respectively, while manufacturing and construction were both growing at 0.9 percent during the same period.

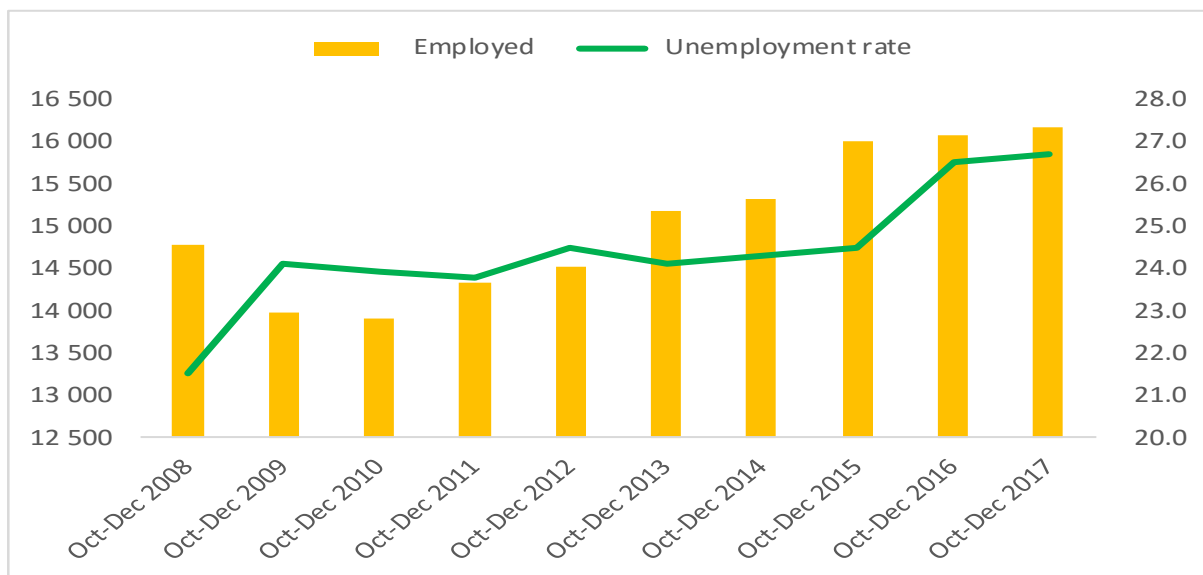


## 2. Labour Market Outlook

### 2.1. South African Labour Market

Unemployment is influenced by various factors including economic buoyancy, economic structural changes and the levels of education. The number of people getting jobs in the country is rising, however, it is not increasing fast enough to curb the pace in which joblessness is growing at. The number of employed people had risen from 14 million in the 4<sup>th</sup> quarter of 2008 to 16 million in the 4<sup>th</sup> quarter of 2017, Despite the improved numbers, the growth rate of those looking for jobs but cannot find them has risen from 21.5 percent in the 4<sup>th</sup> quarter of 2008 to 26.7 percent in 2017 4<sup>th</sup> quarter.

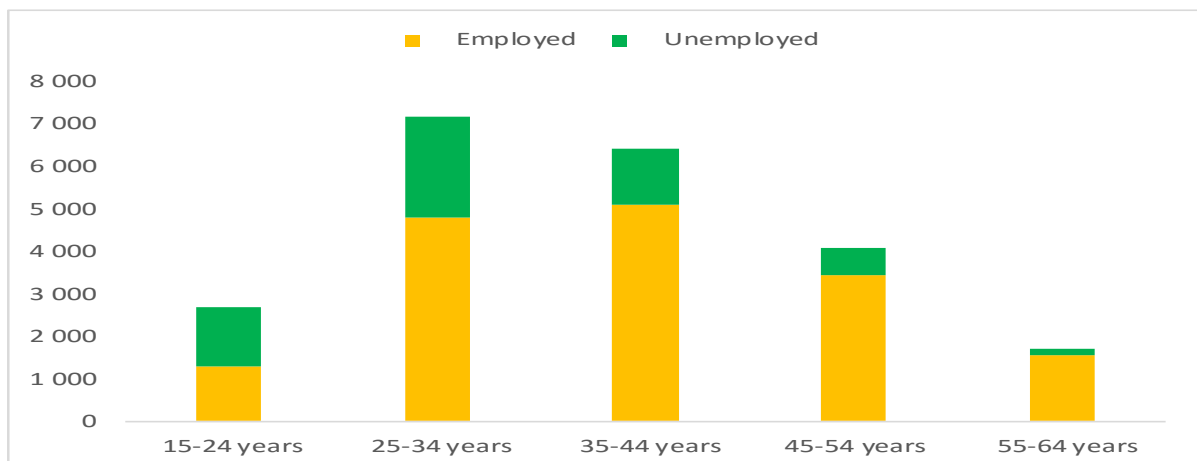
Figure 5: Number of unemployed people and unemployment rate in South Africa



Source: StatsSA QLFS 2017

Compared to adults the unemployment rate was highest among the youth irrespective of educational level. The largest number of people that are employed are concentrated between 25 -34 years, 35 – 44 years and 45 – 54 years old age cohort. Those that are unemployed are the largest in the 25 – 34 years' age cohort, which represent the youthful population of the country.

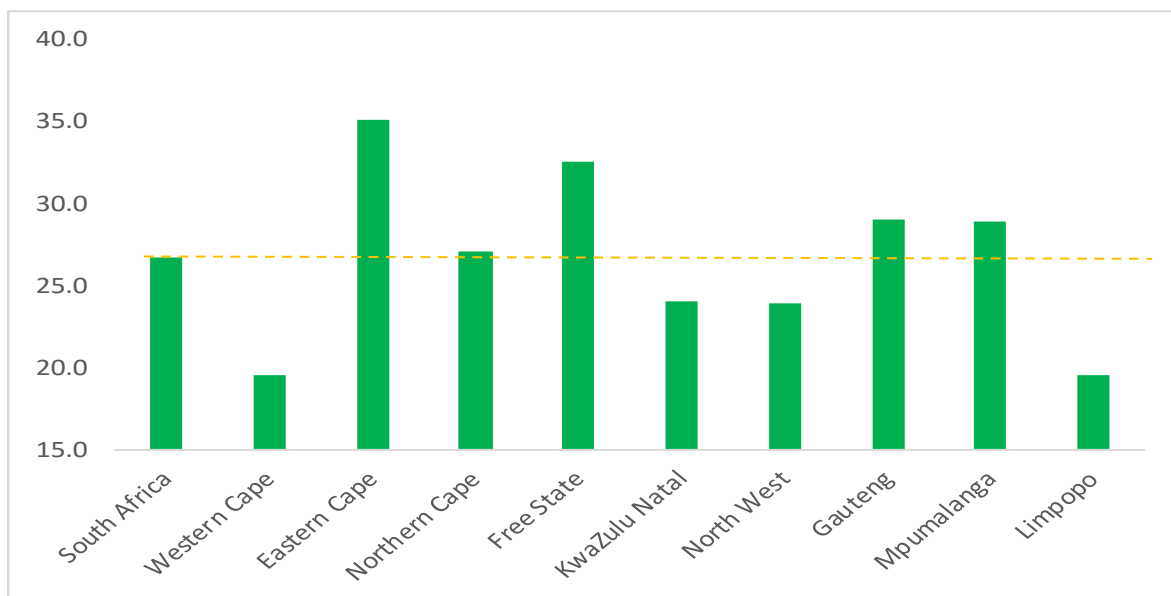
Figure 6: Number of people employed and unemployed in South Africa in 2017 Q4



Source: StatsSA QLFS 2017

The four provinces with unemployment rate above the national average of 26.7 are Eastern Cape, Free State, Gauteng and Mpumalanga reporting unemployment rate of 35.1, 32.6, 29.1 and 28.9 percent respectively. Western Cape and Limpopo province have the lowest unemployment rate in the country at 19.5 percent and 19.6 percent respectively.

Figure 7: Unemployment rate by provinces in 2017 Q4



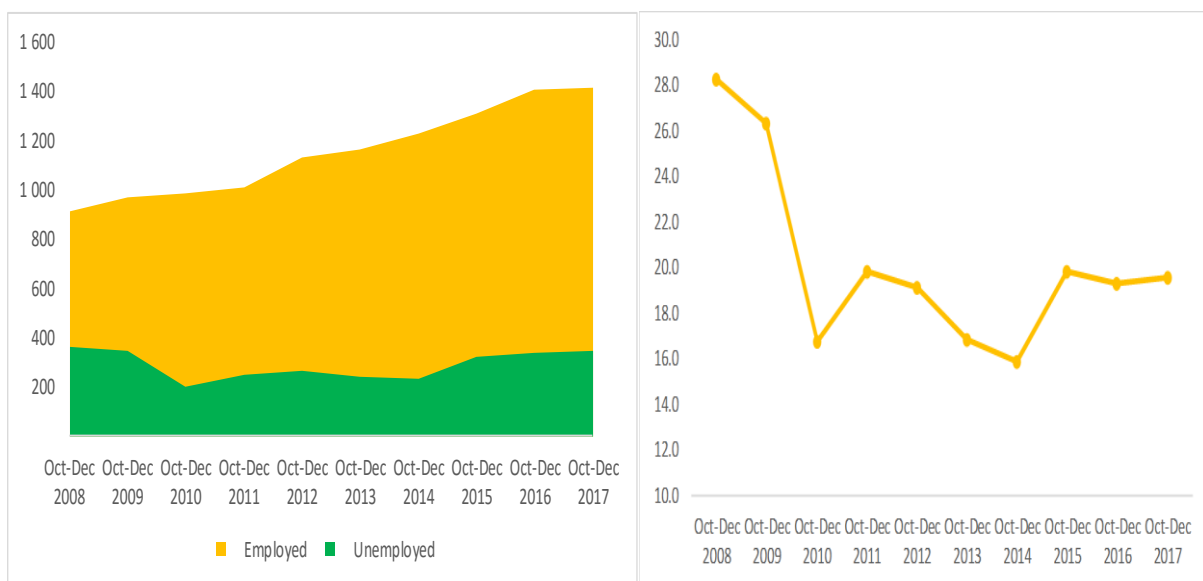
Source: StatsSA QLFS 2017

The National Development Plan anticipates unemployment to fall from 27 percent in 2011 to 14 percent by 2020 and 6 percent by 2030. In 2017, fourth quarter, unemployment rate was 26.7 percent. According to South African Institute of Race Relations (IRR) the low levels of education in the country is worsening the problem of unemployment. This is because many of those looking to enter the job market does not have the requisite abilities to perform high-skilled professions. Also, people without some form of tertiary education find it harder to find employment. The unemployment rate for work seekers with tertiary degrees is less than 5 percent.

## 2.2. Limpopo Labour Market

The number of employed people in the province has grown from 914 thousand in the 4<sup>th</sup> quarter of 2008 to 1 417 million in 2017 4<sup>th</sup> quarter. Interestingly, the number of the those unemployed showed relative limited changes over the years.

Figure 8: The number of employed people in Limpopo and the Unemployment rate.



Source: StatsSA QLFS 2017

The unemployment rate in the province has declined significantly from 28.3 percent in 2008 fourth quarter to 19.6 percent in 2017 fourth quarter. Despite this improvement the challenge of unemployment still exists in the Limpopo Province.

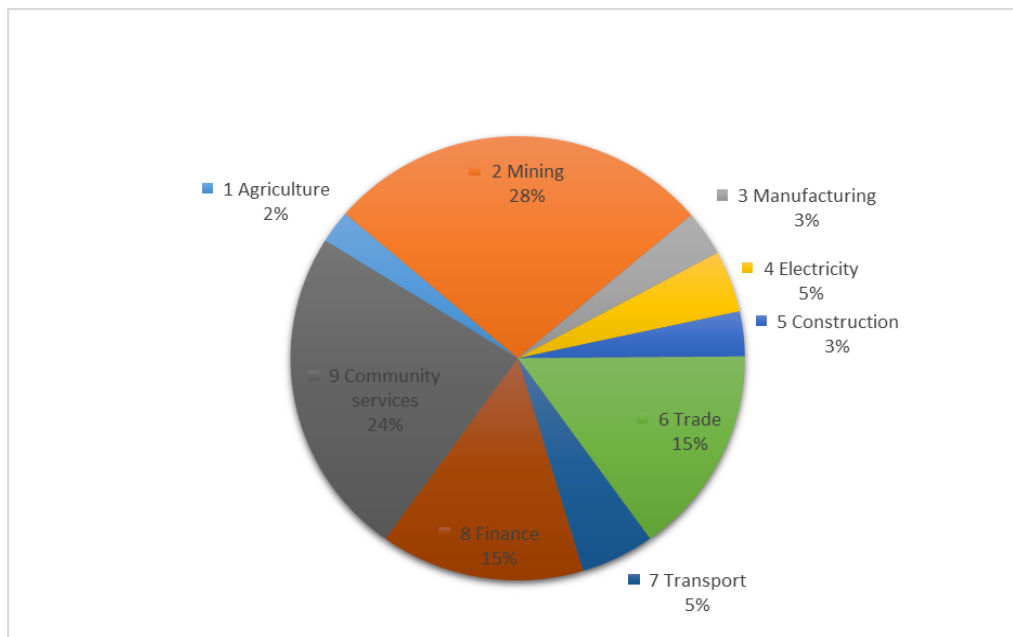
### 3. Limpopo Agriculture Sector

Agriculture has been identified as one of the key economic sectors in South Africa and the Limpopo province that can contribute significantly to economic development. The agricultural sector has several advantages to the provincial economy. The sector is highly labour intensive and according to the Limpopo SAM an R1 million increase in production in the citrus sector can increase the direct indirect and induced jobs in Limpopo with up to 18 jobs. The agricultural sector is also linked and integrated with the rest of the economy and procure various commodities like diesel, seed and agricultural equipment as inputs into the production process. The agro processing industry also provides a link between the manufacturing and agricultural sectors.

#### 3.1. Sectoral contribution to the Limpopo Economy

The real contribution of Agriculture to the Limpopo economy reduced from 4 percent in 1996 to 2 percent in 2016. The relative share of the different sectors in the Limpopo economy is indicated in Figure 9.

Figure 9: 2016 Sectoral contribution to the Limpopo Economy



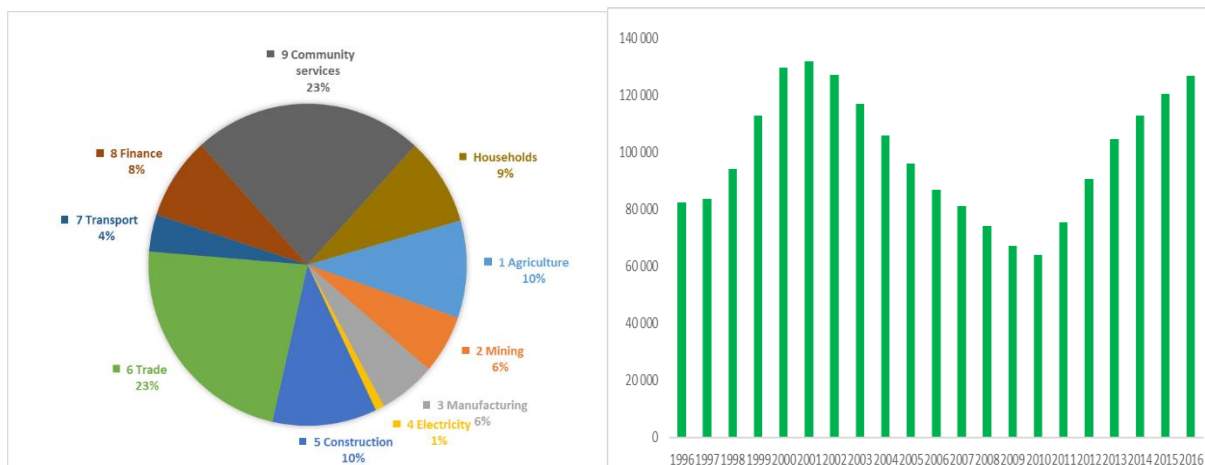
Source: Global Insight

The Limpopo agricultural sector is also a major contributor to the national agricultural output by contributing 8,6 percent of the national agricultural output in 2016. In terms of commodities the Limpopo province is a key producer of potatoes, tomatoes, avocado's and other sub-tropical fruit.

### 3.2. Job creation in agriculture.

The agricultural sector is the most labour intensive industry in the Limpopo province. Despite the fact that the sector only contributed 2 percent to the economic output in the province, it contributed 10 percent to the jobs in the province. The percentage contribution number of people employed in the agricultural is indicated in Figure10.

Figure 10: Job Creation in Limpopo and number of people employed in the agricultural sector



Source: Global insight (2016)

From figure 10 it is clear that the industry became more capital intensive since 2001. This trend was due to the implementation of minimum wages in the Limpopo

## 4. Inclusive growth

The notion of inclusive growth is discussed here as a possible practical approach to implementing radical economic transformation. The notion of radical economic transformation gained prominence with the announcement, during the January 8

statement of the ANC in 2017, that South Africa needs radical economic transformation. The notion has since been repeated in various forums, including the national budget speech. The challenge is that no general understanding of the concept radical economic transformation exists as it was never defined officially. Statements on radical economic transformation included growth being more inclusive, the redistribution of land and addressing the use of the “monopoly capital”. The same challenges exist with the definition of inclusive growth. It is often confused with pro-poor growth or broad-based growth. (Fourie, 2014).

#### **4.1. Definition of inclusive growth.**

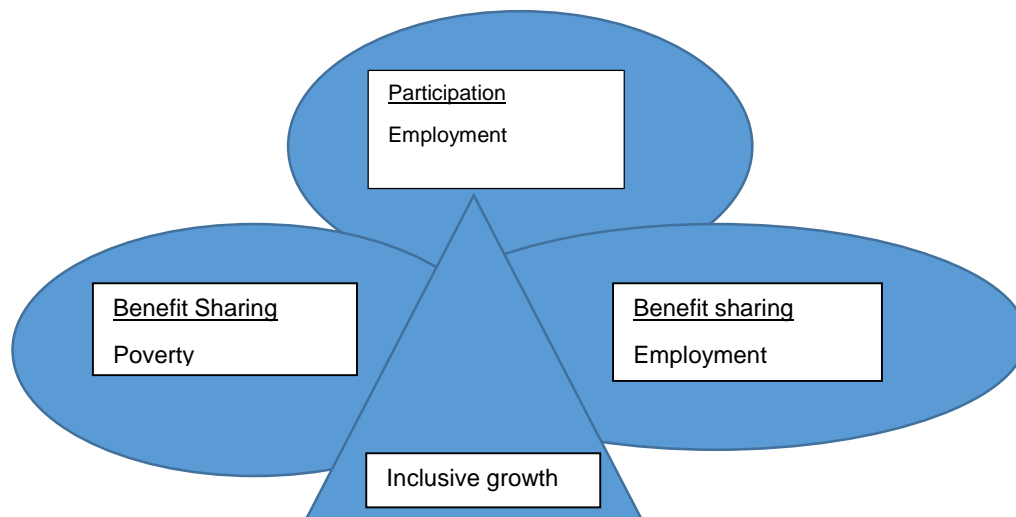
Klasen (2010:2) started the discussion on the definition of inclusive growth by first defining economic growth. He indicated that inclusive growth will always include the notion of higher economic growth, despite the fact that higher economic growth is a relatively narrow definition for growth. A distinction should then be made between period of economic growth that is inclusive and those that are not. Klassen (2010:2) stated that in defining these different periods one can look at process of economic growth or the outcomes of the process. In terms of the process of economic growth, growth will be inclusive if a larger number of people participated in the growth. Klassen also add another requirement namely that the growth must also be non-discriminatory in nature. The difference between inclusive growth and pro poor growth should also be clarified. Inclusive growth is more comprehensive than pro poor growth since it also implies that the people in the economy that is not below the poverty line should also benefit. The growth should be advantageous to everyone (Klasen, 2010:2).

#### **4.2. Measuring the level of inclusive growth**

Ramos (2013) compared the level of inclusive growth in 43 countries in 1996 and 2006. The analysis was conducted on two dimensions of inclusive growth namely

participation and benefit sharing. These two dimensions and the corresponding variables that was used to measure inclusive growth is indicated in Figure 11.

Figure 11: The two dimensions of inclusive growth



Source Ramos (2014:3)

In figure 11 it can be seen that inclusive growth was measured by two measures of benefit-sharing namely the level of poverty and the level of inequality. The measure for the level of poverty that was used in the study is the dollar a day measure of the World Bank. The level of inequality was measured by utilizing the Gini coefficient. The level of participation is measured by means of an employment measure namely the absorption rate.

### 4.3. Results

From the results of the study of Ramos it is clear that South Africa has a long way towards achieving inclusive growth. The first measure that Ramos reported was the change in inequality. South Africa was one of the worst performers in the group of 43 countries with a Gini that started at a relatively high 59 and increased by 8 percentage points to 67 percent in 2006. The second measure reported on was poverty. South Africa showed a small improvement between 1996 and 2006, improving from 40 percent to approximately 35 percent. If the result is however combined with the results

on inequality, South Africa is amongst the countries with the highest combined levels of inequality and poverty. The last measure that was reported on is the absorption rate. South Africa's labour absorption rate did not change between 1996 and 2006 and stayed at 40 percent which was below the average level of 57 percent of the total sample. Another challenge is the fact that South Africa is also a country with a very high unemployment rate of approximately 27 percent.

## **5. Conclusion and recommendations**

The performance of the South African economy continued to surprise everyone with its relatively positive growth in the last quarter of 2017, as the economy showed some resilience and the exchange rate of the Rand against major currencies in the world showed the best performance of all emerging countries in 2018. The national economy's performance is expected to have positive spill over to the provincial economy and as a result Limpopo's economy is expected to grow at a positive rate in 2017. The growth in the province will for the foreseeable future be based on the performance of the mining industry. In this regard, the rise in international commodity prices boasts well for the provincial economy. It is expected that the South African economy will grow by only 1.5 percent this year with a slight recovery in the outer years. Despite the expected recovery, South Africa is currently not even close to its long term average growth rate range of 3- 3.5 percent.

Reliance on the community, social, and personal services sector to create jobs is not a long-term solution as this cannot be sustained amid increasing government debt levels and the corresponding fiscal pressure on the national budget. Alternatively, better education and training, renewed industrialisation, higher levels of investment and economic growth should be strived for to combat unemployment. Another challenge that is being faced is the level of absorption or labour intensity of production. It is important that the recommendations in the national development plan be implemented. Other suggestions to address the issue of unemployment is to relook at the role that the informal sector is playing in the economy.



It is recommended that the provincial agro processing implementation plan be prioritized and implemented. In the process it is important to identify the gaps in the whole value chain- from the farmers, to the agro processor, to the market logistics to get the final product to the market. The agro processing plan identified the key commodities in which the Limpopo has a competitive advantage. The changing policy environment that caused the move to more capital intensive should be controlled and managed to ensure that jobs in the industry can be protected and that job creation in the agricultural industry is promoted.

The land claims in the province should be finalized as soon possible to provide more certainty to the farming community in terms of land ownership. Since the commercial farmers in Limpopo does not reflect the composition of the population, it is important to promote the transformation of the industry and to promote the sustainability of the emerging farmers in the province.

Enterprise development is one of the ways to increase the level of inclusiveness of growth. Government, on all spheres, can use preferential procurement to promote SMME development in the local economy. The prerequisite for success is that the SMME's must have the skills and business acumen to be ready to service the opportunities that will become available.