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FREE STATE PROVINCE

[An Economic Intelligence Report]

[Selected Economic Indicators for South Africa, Free State and the BRICS Countries]

[April 2016]

[The purpose of this report is to identify the goods that constituted South Africa's exports in the first three months of 2016 and the countries to which the exports were destined.

Focus therefore will be on the economic outlook for the industrialised countries, emerging and developed economies as well as South Africa and the Free State Province.]

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The issue of the *Economic Intelligence Report* focuses mainly on the three months quarter ending *April 2016*.

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1. Introduction

The sluggish global economic growth continues to impact negatively on the economy of South Africa and efforts to address the triple challenge of unemployment, poverty and inequality. The low global commodity prices are affecting the production volumes in the mining sector. Minerals are essentially the mainstay of South Africa's export earnings. In this context, the purpose of this report is to identify the goods that constituted South Africa's exports in the first three months of 2016 and the countries to which the exports were destined. This is important because the traditional South African trading partners in the European Union, Asia and the US are experiencing economic challenges. There is therefore a need to diversify the trading partners and strengthen South-South trade relations. The BRICS trading block presents an opportunity in this regard. However, the BRICS countries are also currently experiencing economic challenges due to among other factors, low commodity prices.

Before looking into the trade patterns, we look first into the economic outlook for the industrialised countries, emerging and developed economies as well as South Africa and the Free State Province. The report ends with some BRICS countries selected statistics.

2. Economic Outlook

2.1 Domestic Focus

Annualised GDP growth in South African was only 1.3% in 2015. To compound the bleak picture, National Treasury forecasts economic growth to be below 1% in 2016 and the South African Reserve Bank expects growth to be below 2% in both 2017 and 2018. In the first quarter of 2016 real GDP contracted at an annualised rate of 1.2%. Effectively, the country is teetering on the brink of a recession. The economy is said to be in recession if it experiences negative growth in two consecutive quarters.

Furthermore, real production in the primary sector declined sharply in the first quarter of 2016, due to drought having a devastating impact on the agricultural sector and mining output, which declined on the back of weak global demand and historically low commodity prices.

This prevailing economic environment is impacting negatively on efforts to reduce the high rate of unemployment in the Free State. The recent Labour Force statistics show that the Free State economy shed about 35 000 jobs in the first three months of 2016. The table below indicates that employment absorption in the province during Q1: 2016 was the highest in Community and Social Services followed by Trade, Private Households and Agriculture. These industries recorded a workforce of 201 000, 166 000, 99 000 and 72 000, respectively. The situation a year ago (Q1: 2015) was the same for the first two industries, followed by Agriculture and Private Households (with 200 000, 167 000, 82 000 and 75 000 respectively).

Table 1: Employed by industry, Free State

	Jan-Mar 2015	Oct-Dec 2015	Jan-Mar 2016	Qtr-to-qtr change	Year-on-year change	Qtr-to-qtr change	Year-on-year change
	Thousand					per cent	
Total	**802**	**825**	**790**	-35	-12	-4.2	-1.5
Agriculture	82	64	72	8	-10	12.3	-12.3
Mining	34	35	35	0	0	-0.7	0.6
Manufacturing	71	69	59	-9	-12	-13.5	-16.7
Utilities	11	9	10	1	-1	8.3	-6.3
Construction	57	53	57	5	0	8.7	0.0
Trade	167	187	166	-21	-1	-11.1	-0.4
Transport	35	38	34	-4	-1	-11.2	-2.6
Finance	71	65	57	-8	-14	-12.9	-19.8
Community & Soc	200	213	201	-11	2	-5.4	0.9
Private Households	75	93	99	6	24	6.7	31.8

For all values of 10 000 or lower, the sample size is too small for reliable estimates.
Due to rounding, numbers do not necessarily add up to totals.
Source: Stats SA QLFS Q1, 2016

The highest employment gains quarter-to-quarter (Q1: 2016 to Q4: 2015) were observed in Agriculture, Private Households and Construction contributing 8 000, 6 000 and 5 000 jobs respectively. Job losses were observed in five industries with the highest job losses in Trade (21 000), Community & Social Services (11 000) and Manufacturing (9 000).

It is expected that Free State Province's real output growth will grow at an average annual rate of less than 2 percent from 2016 to 2019. The expected sluggish growth is due to the impact of ongoing drought (only 30 percent of hectares planted in 2015), livestock deaths, increased prices of feed and thus increased food prices.

For 2019, Free State's forecasted real output growth is estimated to be R 174 billion or 5.1 percent of the total South African GDP. When looking at the regions within the Free State Province, it is expected that from 2015 to 2019 the Xhariep District Municipality will achieve the highest average annual growth rate of 3.6 percent. The region that is expected to achieve the second highest average annual growth rate is that of Fezile Dabi District Municipality, averaging 2.4 percent in the coming three years. On the other hand, the region that is expected to perform the poorest relative to the other regions within the Free State Province is the Lejweleputswa District Municipality with an average annual growth rate below one per cent.

2.2 Advanced Economies

Table 2 below shows that the International Monetary Fund (IMF) projected an average of 2% growth in GDP for advanced economies for the period 2015 to 2017. The US economy is expected to grow on average by 2.5% while Euro Area is expected to grow by 1.6%. The UK and Japan are expected to grow on average by 1.8% and 0.6%respectively in the same period. These are traditional trading partners of South Africa and their lacklustre performance economically is bound to affect the South African economy; hence the bleak picture painted in the previous section of this report.

Table 2: Annual % change in GDP & CPI inflation: selected advanced economies

Region/Country	2014	2015	2016	2017	2014	2015	2016	2017
% GDP Projections					**CPI Projections**			
Advanced economies	3.1	1.9	2.1	2.1	1.4	0.3	1.2	1.7
United State	2.4	2.5	2.6	2.6	1.6	0.1	1.1	1.8
Euro Area	0.9	1.5	1.7	1.7	0.4	0.2	1.0	1.3
UK	2.9	2.2	2.2	2.2	1.5	0.1	1.5	2.0
Japan	0.0	0.6	1.0	0.3	2.7	0.7	0.4	1.6

Source: IMF 2014 – 2017 forecasts

2.3 Emerging Markets and Developing Economies

Compared to advanced economies, the emerging and developing economies together are expected to experience an average GDP growth of 4% in the period 2015 to 2017. This is double the expected GDP growth in advanced economies in the same period. However, India and China are going to be the key drivers of this projected GDP growth. As table 3 below indicates, India is projected to grow by more than 7% on average between 2015 and 2017. China's forecast average GDP growth is expected to be more than 6% in the same period.

On the other hand, Brazil and Russia are expected to drag down the growth prospects in this group of emerging and developing economies. On average, Brazil's GDP is projected to contract by an average of -2.4% between 2015 and 2017. In the same period, Russia is expected to experience an average GDP contraction of -3.7%.

Brazil, Russia, India, China and South Africa constitute a block of countries called the BRICS. Later in this report a brief reflection on the implications of this growth forecast on the prospects of trade diversification will be done.

Table 3: Annual % change in GDP & CPI inflation: selected emerging markets & developing economies

Region/Country	2014	2015	2016	2017	2014	2015	2016	2017
% GDP Projections					**CPI Projections**			
Emerging Markets & Developing Economies	4.6	4.0	4.3	4.7	5.1	5.6	5.1	4.9
Brazil	0.1	-3.8	-3.5	0.0	6.3	8.9	6.3	5.2
Russia	0.6	-3.7	-1.0	1.0	7.8	15.8	8.6	7.3
India	7.3	7.3	7.5	7.5	5.9	5.4	5.5	5.4
China	7.3	6.9	6.3	6.0	2.0	1.5	1.8	2.2

Source: IMF 2014 – 2017 forecasts

3. South Africa's Export Performance: short-term view

3.1 January 2016 to February 2016

In the previous section of this report we focused on GDP projections for the period 2015 to 2017. These projections have serious implications for South Africa's growth prospects as they will affect the country's exports. In this section of the report we look briefly into the country's export performance in the first three months of 2016 in the context of ongoing global economic crisis.

The South African Revenue's trade statistics paints a promising picture in relation to South Africa's export performance despite the not-so-good GDP growth projections highlighted in the previous section of this report. Of course it should be taken into account that the projections are medium to long-term while the trade statistics considered here are for only for the first three months of 2016.

The trade statistics show that the value of South Africa's exports increased by 27% to R90.68bn in February 2016 from R71.39bn in January 2016. This short-term positive export performance was mainly due to:

- higher sales of vehicles and transport equipment which contributed about 109%;
- precious metals and stones which contributed about 52%;
- vegetable products which contributed about 35%; and
- machinery and electronics which contributed about 28%.

In this regard, the major export destinations were Germany (8.2%), the US (8%), China (7.4%), Botswana (5.3%) and Japan (4.9%).

Other exports included iron ore (14%), motor vehicles and car parts (9%), machinery and mechanical appliances (7%), gold (7%), coal (6%) and diamonds (2%). The main export partners were China (13%), US (8%), Japan (7%), Botswana (5%) and Germany (5%). Other partners included Namibia, Netherlands and the UK.

It should be noted that export of mineral products decreased by 8%. This is not surprising given the facts indicated in the section dealing with domestic economic outlook.

3.2 Trade highlights by world zone: February 2016 to March 2016

In table 4 below a synopsis of the balance of trade per South Africa's trading zones is made. Between February and March 2016, South Africa only experienced a trade surplus in its trade with Africa. The country experienced a trade surplus of 12.4%; meaning it exported more to Africa than it was importing. This is not surprising given the fact that the country remains an industrial hub of Africa. When it comes to other trading zone - America, Asia, Europe and Oceania – the country experienced trade deficit. However, while the trade deficit increased by 58.4% in relation to the Europe trading zone between February and March; it decreased in relation the other trading zones – America, Asia and Oceania.

Table 4: Balance of Trade per Trading Zone (February-March 2016)

Africa	America	Asia	Europe	Oceania
Exports: R25 883 million – an increase of R1 041m from February 2016.	**Exports:** R10 318m – an increase of R1 642m from February 2016.	**Exports:** R27 560m – an increase of R2 322m from February 2016.	**Exports:** R21 980m – a decrease of R1037m from February 2016.	**Exports:** R1 013m – a decrease of R 485m from February 2016.
Imports: R 9 819m –a decrease of R 728m from February 2016.	**Imports:** R11 766m – an increase of R479m from February 2016.	**Imports:** R37 648m –a decrease of R1468m from February 2016.	**Imports:** R32 619m – an increase of R2886m from February 2016.	**Imports:** R1 110m– an increase of R130m from February 2016.
Trade surplus: R16063m – a 12.4% increase from the R14 295m surplus recorded in February 2016.	**Trade deficit:** R148m – a 44.5% decrease from the R2 611m deficit in February 2016.	**Trade deficit:** R10 088m –a 27.3% decrease from the R13 878m deficit in February 2016.	**Trade deficit:** R10 639m – a 58.4% increase from the R6 716m deficit in February 2016.	**Trade deficit:** R 97m – a decrease from the R 518m surplus in February 2016.

Source: SARS: SA Trade Statistics for March 2016

4. Prospects for Trade Diversification

As indicated above, South Africa is part of the BRICS. Given the growth volatility within South Africa's traditional trading partners, there is a need strengthen trade relations among emerging and developing economies. South Africa stands to benefit from strengthen trade relations among the BRICS countries. Table 5 below shows that among the BRICS countries, South Africa is not doing well to address the problems of unemployment and inequality as measured by Gini-coefficient. While Brazil, Russia, India and China were having an unemployment rate of 6.5%, 5.2%, 3.4% and 4.1% respectively between 2013 and 2014, South Africa's unemployment rate was at staggering 25.1%. This unemployment rate is more than the combine unemployment rate among the other BRICS countries.

In relation to inequality, South Africa's Gini-coefficient was at 0.650 while in other BRICS countries it was between 0.416 and 0.497. This is despite South Africa's share of the world population being only at 0.7% while Brazil, Russia, India and China's share of the world population was at 2.8%, 2.0%, 17.1% and 19.0% respectively.

Table 5: Selected BRICS Indicators

Country	Unemployment	Year	Gini-coefficient	Year	Share of World Population	Year
Brazil	6.5	2013	0.497	2013	2.8	2013
Russia	5.2	2014	0.416	2014	2.0	2013
India	3.4	2013/14		2011-12	17.1	2013
China	4.1	2014	0.469	2014	19.0	2013
SA	25.1	2014	0.650	2011	0.7	2013
World					58.4	2013

Source: BRICS Joint Statistical Publication 2015

When the trade relation within the BRICS countries gets strengthened, the composition of that trade should shift from trade in commodities to trade in high valued added goods. This in turn will boost the manufacturing sector, which is an engine of growth, in these countries. Brazil and Russia are projected to have a negative GDP growth as indicated in under the section of this report dealing with economic outlook in emerging and developing economies. The low global commodity prices have a big role to play in this regard.

Table 6 below shows a worrying trend in relation to the performance of the manufacturing sector when it comes to job creation. Only China shows a significant growth in manufacturing sector jobs although there was a slight decline in 2014. While in 2000 the proportion of people working in the manufacturing sector was at 22.5%, it increased 30.3% in 2012 only to decline marginally to 29.9% in 2014.

Table 6: BRICS: % of persons in secondary industries

Country	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Brazil	-	15.0%	14.9%	15.3%	15.3%	14.8%	-	13.5%	14.0%	13.5%	-
Russia	24.1%	22.9%	22.8%	22.2%	21.4%	20.5%	20.5%	20.2%	20.3%	20.2%	19.9%
India	12.6%	18.1%	18.8%	-	18.7%	-	21.5%		24.3%	-	-
China	22.5%	23.8%	25.2%	26.8%	27.2%	27.8%	28.7%	29.5%	30.3%	30.1%	29.9%
SA	20.6%	22.6%	22.6%	23.0%	23.4%	22.9%	22.1%	21.8%	20.9%	20.7%	20.6%

Source: BRICS Joint Statistical Publication 2015

5. Conclusion

The global economic crisis is not going to recede anytime soon. This means South Africa's exports will continue to find a market in the medium term. It is important therefore that government should continue with economic interventions that will boost economic growth and create jobs. The key intervention in this regard is investment in economic infrastructure. Spending in infrastructure cushioned the country from the impact of the 2008/09 global financial crisis. As a result, the economy bottomed up quickly out of the negative growth territory. This is particularly important in the light of the fact the economy experienced a negative GDP of -1.2% in the first quarter of 2016.