

# PROVINCIAL ECONOMIC REVIEW & OUTLOOK

## 2007

Gauteng Provincial Government



The Provincial Economic Review Outlook 2007 is compiled using the available information from different sources. Some of this information is subject to revision.

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**Paul Mashatile**

MEC for Gauteng Treasury

## Foreword

Indeed as a province we have come out of age, we are thrilled that we are presenting our first Provincial Economic Review Outlook (PERO). This underscores some of our major successes in the province. The purpose of the PERO is to provide an in-depth analysis of the regional economy, labour markets and issues around equity within the province. This Report primarily focuses on the sectoral description of the Gauteng economy and future prospects of the province.

Ben Okri, said “The greatest stories are those that resonate our beginnings and intuit our endings, our mysterious origins and our numinous destinies and dissolve them both into one.” As we present this Report we are aware that our greatest story begun in 1994 at the attainment of our democracy, and it has culminated to where we are today. This journey has not been easy, however we find comfort in knowing that the realities of our age have been manufactured realities, and our duty has been to re-dream our world, as creative participants in our universe. This is evident in the successes in service delivery in the province.

In 2004, we entered into a contract with our people, who gave us a resounding mandate to ensure that we grow our provincial economy to create jobs and alleviate poverty. To ensure that we stay on course to fulfill our mandate, the province developed different initiatives to accelerate the pathway to accelerated growth and prosperity. The Gauteng Global City Region’s vision was conceived as one of the key initiatives to improve economic growth, job creation and social conditions of the people of Gauteng. The development of the GCR also ensures that there is a more even development across the province. This Report sets out an in-depth analysis of our economy, which is critical in the GCR.

Gauteng plays a critical role in ensuring that as a country we meet the objectives of ASGISA. Indeed our province is best positioned to play a critical role in the fulfillment of ASGISA objectives. The Report provides a useful platform to inform decision makers on potential areas which could maximise returns in line with targets and objectives of ASGISA. Having said this, we are as well aware of many challenges that still ahead of us.

As a province we remain committed to ensuring that our transparency and accountability is unwavering. We present this Report under the backdrop that our democracy is indeed vibrant, and also allows for an open engagement.

We trust that you will find this Report, which will be published on an annual basis useful in the contribution to the understating of the provincial economy. Furthermore, this Report should be seen as a contribution to the knowledge “stock” available for the policy-making within the province.

Thanks to the HOD; Ms Nomfundo Tshabalala and her team for the diligence in ensuring that we remain on course on our journey of success.

MEC: Gauteng Treasury

A handwritten signature in black ink, appearing to read 'P. Mashatile', written over a light-colored background.

Paul Mashatile

# Acknowledgements

This is our first Provincial Economic Review Outlook (PERO) Report; the preparation of this Report should not have been possible without the valuable contributions of a number of individuals and their respective organizations.

My sincere appreciation goes to the Head of Sustainable Resource Management, Dr Julian Naidoo from Gauteng Treasury, for his intellectual advice and guidance through out this process. I would also like to give a special word of thanks to the core project management team under the stalwart leadership of Mr. Jeff Mashele; Ms Mmatshopo Maudi, Ms Tumi Sebusi and Ms Kim Adonis who worked tirelessly to ensure that the Report is sound and coherent and that it gets published.

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Head of Treasury

Ms Nomfundo Tshabalala

# Table of contents

## Chapter 1: Economic Outlook

|   |    |
|---|----|
| 1.1 Introduction  | 1  |
| 1.2 Recent trends in the national and provincial economy        | 1  |
| 1.2.1 Production  |    |
| 1.2.2 Domestic Expenditure                                      |    |
| 1.2.3 Household Consumption, Debt and Saving Levels             |    |
| 1.2.4 Gross National Saving                                     |    |
| 1.2.5 Monetary Aggregates                                       |    |
| 1.2.6 Prices  |    |
| 1.2.7 Foreign Trade Position and Balance of Payments            |    |
| 1.3 Forecast Summary  | 10 |
| 1.3.1 National Policy Assumptions and International Environment |    |
| 1.3.2 The National Economy                                      |    |
| 1.3.3 Gauteng   |    |
| 1.4 Conclusion  | 21 |

## Chapter 2: Gauteng Sectoral Growth and Employment

|   |    |
|---|----|
| 2.1 Introduction  | 23 |
| 2.2 Gauteng's Performance Relative to the Rest of South Africa, 1995-2005 | 24 |
| 2.3 Primary Industries  | 24 |
| 2.4 Secondary Industries  | 25 |
| 2.4.1 Manufacturing   |    |
| 2.4.2 Construction  |    |
| 2.4.3 Water and Electricity   |    |
| 2.5 Tertiary Industries   | 29 |
| 2.5.1 Wholesale, Retail Trade and Catering and Accommodation              |    |
| 2.5.2 Transport and Communication   |    |
| 2.5.3 Finance and Business Services                                       |    |
| 2.5.4 Community, Social and Personal Services                             |    |
| 2.5.5 Government Services   |    |
| 2.6 Gauteng Trade Patterns  | 35 |
| 2.6.1 Imports from the World  |    |
| 2.6.2 Imports from Other Provinces  |    |
| 2.6.3 Exports   |    |
| 2.7 Spatial Patterns of Growth and Development within Gauteng             | 43 |
| 2.8 Conclusion  | 47 |

## Chapter 3: Labour Market

|   |    |
|---|----|
| 3.1 Introduction  | 49 |
| 3.2 Gauteng Labour Market Data, 2000 - 2005   | 50 |
| 3.2.1 Labour Market Participation   |    |
| 3.2.2 Labour Market Demographics  |    |
| 3.2.3 Labour Market Analysis by Sector  |    |
| 3.2.4 Labour Market Analysis by Occupation  |    |
| 3.2.5 Contribution of the Informal Sector   |    |
| 3.3 Conclusion  | 65 |
| Appendix 3.1: A short account of factors affecting the labour market before apartheid |    |
| Appendix 3.2: A short account of factors affecting the labour market after apartheid  |    |

## Chapter 4: Equity

|   |    |
|---|----|
| 4.1 Introduction  | 69 |
| 4.2 Indicators of Equity  | 70 |
| 4.2.1 The Human Development Index                                       |    |
| 4.2.2 Income and Inequality   |    |
| 4.2.3 Household Expenditure   |    |
| 4.3 Inequality and the Quality of Life                                  | 74 |
| 4.4 Informal Small and Micro Businesses (non-Vat registered businesses) | 75 |
| 4.5 Conclusion  | 77 |

# List of figures

## Chapter 1

|  |    |
|--|----|
| Figure 1.1: Comparison of Real GDP: Gauteng and South Africa, 1996-2004                    | 2  |
| Figure 1.2: Comparison of Annual Economic Growth Rate: Gauteng and South Africa, 1997-2004 | 2  |
| Figure 1.3: Gauteng's Share in National Output, 1997-2005                                  | 3  |
| Figure 1.4: Sectoral Contribution to Gauteng's Provincial Output, 2005                     | 4  |
| Figure 1.5: Gauteng's Contribution to National Sectoral Output, 2005                       | 5  |
| Figure 1.6: Growth in Gauteng's Sectoral Output to National Sectoral Output, 2005          | 5  |
| Figure 1.7: Trends in Household Debt Levels  | 7  |
| Figure 1.8: Ratio of Household Saving to Disposable Income                                 | 7  |
| Figure 1.9: Comparison of National Saving Ratios   | 8  |
| Figure 1.10: Ratio of Current Account Balance to GDP                                       | 9  |
| Figure 1.11: Trends in Merchandise Exports and Imports                                     | 9  |
| Figure 1.12: Trends in Gauteng's Exports compared to South African Exports, 2005           | 10 |
| Figure 1.13: National and Provincial Sectoral Contributions to Output                      | 15 |
| Figure 1.14: Disaggregation of Provincial Sectoral Contributions                           | 16 |
| Figure 1.15: Forecast of Sectoral National and Provincial Growth, 2006 – 2010              | 18 |
| Figure 1.16: Forecast of Overall National and Provincial Growth, 2006–2010                 | 19 |
| Figure 1.17: Forecast of Growth in Final Demand, Gauteng and South Africa, 2006-2010       | 19 |
| Figure 1.18: Forecast of Export Growth, Gauteng and South Africa 2006 – 2010               | 20 |

## Chapter 2

|   |    |
|---|----|
| Figure 2.1: Sector Shares in Regional GDP, 2005                                       | 23 |
| Figure 2.2: Annual GDP Growth Rate Trends for Gauteng, SA and Rest of SA              | 24 |
| Figure 2.3: Annual Growth in Manufacturing Value-Added, Gauteng & South Africa        | 25 |
| Figure 2.4: Employment in the Manufacturing Sector, Gauteng and Rest of SA, 1995-2004 | 26 |
| Figure 2.5: Gauteng Manufacturing Sector Output, 1995-2004                            | 27 |
| Figure 2.6: Gauteng Manufacturing Sector Employment Trends, 1995-2004                 | 27 |
| Figure 2.7: Construction Employment Trends, Gauteng and Rest of SA                    | 28 |
| Figure 2.8: Gauteng Output for the Wholesale, Retail, Catering & Accommodation Sector | 30 |
| Figure 2.9: Gauteng, Retail, Catering and Accommodation Sector Employment             | 30 |
| Figure 2.10: Gauteng Transport and Communication Sector Output                        | 31 |
| Figure 2.11: Gauteng Finance and Business Sector Output                               | 32 |
| Figure 2.12: Gauteng Finance and Business Services Employment                         | 32 |
| Figure 2.13: Gauteng Community, Social and Personal Services Sector Employment        | 33 |
| Figure 2.14: Gauteng Government Services Sector Output Trends, 1995-2004              | 34 |
| Figure 2.15: Gauteng Government Services Sector Employment Trends, 1995-2004          | 34 |
| Figure 2.16: Gauteng vs. Rest of SA Import Trends, 1995-2005                          | 35 |
| Figure 2.17: Gauteng Imports from the World, 1995                                     | 35 |
| Figure 2.18: Gauteng Imports from the World, 2005                                     | 36 |
| Figure 2.19: Gauteng Import Trends, 1995-2005   | 36 |
| Figure 2.20a: Gauteng Imports from other Provinces, 1995                              | 38 |
| Figure 2.20b: Gauteng Imports from Other Provinces, 2005                              | 38 |
| Figure 2.21: Gauteng Export Trends, 1995-2005   | 39 |
| Figure 2.22: Gauteng vs Rest of SA Export Trends, 1995-2005                           | 40 |
| Figure 2.23a: Gauteng Exports to the World, 1995                                      | 41 |
| Figure 2.23b: Gauteng Exports to the World, 2005                                      | 41 |
| Figure 2.24: Gauteng vs. Rest of SA Trade Balance, 1995-2005                          | 42 |
| Figure 2.25: Gauteng Trade Balance, 1995-2005   | 43 |
| Figure 2.26 A: Municipal Share of Gauteng Output, 2004                                | 43 |
| Figure 2.26B: Municipal Share of Employment in Gauteng, 2004                          | 43 |
| Figure 2.27: Sectoral Shares of Output and Employment, by Municipality, 2004          | 44 |

## Chapter 3

|  |    |
|--|----|
| Figure 3.1: Labour Market Variables, 2000 & 2005                                 | 51 |
| Figure 3.2: Labour Market Participation Rate, 2000 & 2005                        | 52 |
| Figure 3.3: Education Levels of the Working Age Population                       | 54 |
| Figure 3.4: Narrow Unemployment Rates by Age Group, 2000 & 2005                  | 55 |
| Figure 3.5: Gauteng Employment Share by Sectors, 2005                            | 56 |
| Figure 3.6: Employment Share by Sector in Gauteng and South Africa, 2005         | 58 |
| Figure 3.7: Percentage of Blacks per Occupation                                  | 60 |
| Figure 3.8: Gauteng Sectoral Employment in the Informal Sector, 2000 & 2005      | 61 |
| Figure 3.9: Gauteng Formal Sector Employment by Population Group, 2000 & 2005    | 62 |
| Figure 3.10: Gauteng Informal Sector Employment by Population Group, 2000 & 2005 | 62 |
| Figure 3.11: Informal Workers by Sector, 2005                                    | 63 |
| Figure 3.12: Share of Workforce in the Informal Sector                           | 64 |

## Chapter 4

|  |    |
|--|----|
| Figure 4.1a: Household Income Groups by Expenditure, 2005                  | 73 |
| Figure 4.1b: Household Income Groups by Expenditure, 1999                  | 73 |
| Figure 4.2: Gauteng Household Expenditure Groups by Population Group, 2005 | 74 |



# List of tables

## Chapter 1

|  |    |
|--|----|
| Table 1.1: Basic Value Added per Production Sector, 1998–2005                      | 4  |
| Table 1.2: Forecast of selected indicators for the national economy, 2006-2010     | 13 |
| Table 1.3: Gauteng Sectoral composition, 2004 – 2010 (percentages)                 | 15 |
| Table 1.4: Forecast of Gauteng Sectoral Exports (R millions, Constant 2000 prices) | 20 |

## Chapter 2

|   |    |
|---|----|
| Table 2.1: Average Annual Growth Rates for Gauteng Import Categories                            | 37 |
| Table 2.2: Gauteng Internal Import Profile, 1995-2005   | 39 |
| Table 2.3: Gauteng national share and Average Annual Growth Rates for Gauteng Export Categories | 42 |
| Table 2.4: Output and Employment Profile of Gauteng Municipalities, 1995-2004                   | 45 |

## Chapter 3

|  |    |
|--|----|
| Table 3.1: Labour Market Statistics for Gauteng and South Africa, 2000 & 2005          | 51 |
| Table 3.2: Snapshot of the Working Age Population in Gauteng, 2005                     | 53 |
| Table 3.3: Snapshot of the Employed Workforce in Gauteng                               | 53 |
| Table 3.4: Narrow Unemployment Rates by Education Levels in Gauteng, 2005              | 55 |
| Table 3.5a: Previous Work Experience among the Unemployed in Gauteng, 2000 & 2005      | 56 |
| Table 3.5b: Previous Work Experience among the Working Age Population in Gauteng, 2005 | 56 |
| Table 3.6: Gauteng Employment by Sector, 2000 & 2005                                   | 57 |
| Table 3.7: Gauteng Employment by Occupation  | 59 |
| Table 3.8: Black and Total Employment by Occupation in Gauteng, 2005                   | 60 |
| Table 3.9: Black Employment by Skill Level in Gauteng, 2000 & 2005                     | 61 |

## Chapter 4

|  |    |
|--|----|
| Table 4.1: Human Development Index for South Africa and the provinces, 1993-2003 | 70 |
| Table 4.2: Constraint and Unconstraint Gini Coefficients, 1996 & 2001            | 72 |
| Table 4.3: Location of the non-VAT Registered Businesses                         | 76 |

# List of Abbreviations

|         |  |
|---------|--|
| AHFF    | Agriculture, Hunting, Forestry and Fishing                             |
| ASGISA  | Accelerated and Shared Growth Initiative for South Africa              |
| BBBEE   | Broad Based Black Economic Empowerment                                 |
| CPIX    | Consumer Price Index   |
| DTI     | Department of Trade and Industry                                       |
| EU      | European Union   |
| FDI     | Foreign Direct Investment  |
| FIIREBS | Financial Intermediation, Insurance, Real Estate and Business Services |
| GDE     | Gross Domestic Expenditure   |
| GDP     | Gross Domestic Product   |
| GGP     | Gross Geographic Product   |
| HDI     | Human Development Index  |
| HDR     | Human Development Report   |
| ICT     | Information and Communication Technology                               |
| LFS     | Labour Force Survey  |
| LRA     | Labour Relations Act   |
| MTEF    | Medium Term Expenditure Framework                                      |
| NP      | National Party   |
| NTC     | National Technical Certificate   |
| OEM     | Original Equipment Manufacture   |
| PHRDS   | Provincial Human Resource Development Strategy                         |
| PERO    | Provincial Economic Review Outlook                                     |
| PPI     | Producer Price Index   |
| PPP     | Purchasing Power Parity  |
| PSCE    | Private Sector Credit Extension  |
| R&D     | Research and Development   |
| SARB    | South African Reserve Bank   |
| SESE    | Survey of Employers and Self Employed                                  |
| SMME    | Small, Micro and Medium Enterprises                                    |
| STATSSA | Statistics South Africa  |
| UNDP    | United Nations Development Programme                                   |
| UIF     | Unemployment Insurance Fund  |

# Executive summary

The Gauteng Provincial Treasury (GPT) presents its first Provincial Economic Review and Outlook (PERO). The purpose of the PERO is to provide an in-depth analysis of the regional economy, labour markets and the socio-economic challenges within the province. This document primarily focuses on the sectoral description of the Gauteng economy and future prospects of the province as outlined in the Gauteng Growth and Development Strategy (GDS). The analysis provided in the document will serve as a tool to identify sources as well as constraints to the growth of the economy.

Geographically, Gauteng is the smallest province in South Africa, yet it is a hub of economic activity. The province is contributing about 34% to the national economy and approximately 9% to the Gross Domestic Product (GDP) of the African economy. Gauteng is the province that contributes most to the GDP of the country. The economic growth for the province is projected to have grown at 5.1% for the year 2006.

The national government has embarked on the Accelerated Shared Growth Initiative for South Africa (ASGISA) with the objective of growing the economy and halving poverty and unemployment by 2014. The ASGISA initiative aims to achieve an economic growth rate of 6% in this period. The Gauteng province has also adopted the ASGISA initiative and has set out objectives to grow the economy by 8% for the same period.

The PERO 2007 consists of four chapters. Chapter 1 outlines the economic outlook of the country and of the province. A comparison between the performance of the national economy and that of the province is provided in order to place our performance within the context of the global economy.

In 2005 the world economy grew at 5%. The growth for the African continent was at 5.5%. It was quite an achievement for the continent's growth to exceed that of the world. South African economy is projected to have grown at 5.1% for 2006 which is on par with the world economic growth. This shows the performance of the national economy was comparative to the world economy and cannot be bad in world standards. However South Africa finds itself in a difficult position where it is unable to create more jobs even though it is experiencing relatively higher economic growth. The country is experiencing skills shortages and is therefore hindered to realise its true economic growth potential. Gauteng being the province that contributes highest to the GDP, it is also expected to come up with a higher annualised regional growth for 2006.

The trends in the national and provincial economy show the provincial sectoral production almost on line with the national sectoral production for 2005. This gives more proof that the Gauteng province is the highest contributor to the national production. However the calculations were done as averages of each separate region (i.e. for the national economy and the provincial economy). The output of production for 2005 in the three sectors of primary, secondary and tertiary production is shown in the graph below. The output is for both the provincial and the national economies.

South Africa experienced higher levels of private consumption expenditure this past year. These high levels of consumption expenditure were fuelled by relatively lower interest rates that made credit to be easily affordable. The SARB increased the repurchase (repo) rate by 200 basis points in the latest four meetings of the Monetary Policy Committee (MPC) to curb the growth in credit. The inflation rate (CPIX) has remained within the target band of 3 to 6% and averaged to 4.6% for the year. The average increase in the CPIX was from a low of 3.9% from the year 2005.

South Africa is generally a nation of non-savers. The ratio of total savings to the GDP has generally been low. In 2006 the country's average savings ratio was 13.3% which was lower than the sub Saharan African average of 20%.

The importance of the Gauteng economy in the international market is also highlighted. The province is a major player in the imports and export market to the world. There is also internal trading of exports and imports amongst provinces and the Gauteng province is a major role player in that market. The spatial patterns of growth and development are also discussed.

The chapter concludes with a forecast summary of the national and the provincial economies. The national policy

assumptions are referred to cast light on issues around ASGISA and the national government's commitment to provide for the needs of the poor. A brief forecast of the international environment is also analysed.

Chapter two unpacks the structure, composition, trends and positioning of each sector in the regional economy. The sectoral contribution to the Gross Geographic Product (GGP) and employment sheds important light in terms of planned sectoral interventions and the impact on the regional economy. The three sectors of the economy; primary sector, secondary sector and the tertiary sectors are analysed to show the importance of each towards the total production output in the province.

The primary industry is a dwindling industry in Gauteng. The importance of this sector has been declining in the recent past. The share of agriculture in Gauteng as a whole declined from 9.4% in 2005 to 6.3% in 2006. Historically, the mining sector was the main driver of economic growth within Gauteng and was regarded as the pillar of the economy. However the recent performance of this sector has declined from 19.8% from 1995 to 14% in a decade.

The secondary industry is showing high growth potential. From 1995 to 2005, the manufacturing sector recorded an average growth of 2.7% per annum. The national government has recognised the importance of an internationally competitive and diversified manufacturing sector. The massive infrastructural developments to be undertaken by the state-owned enterprises will largely be located in Gauteng if not imported. The Gauteng province is therefore faced with the challenge of rising to the occasion and being able to deliver.

Construction is one of the fastest growing industries in the region. This sector has grown by approximately 10% every year since 2001. The boom in this sector has outstripped the performance of the construction sector nationally, as Gauteng accounted for 41.9% of all construction activity in South Africa for 2005. The Water and electricity sector is relatively small within the secondary sectors and only contributes around 2% of the GGP of the province.

The tertiary industry is another sector that has shown resilience with increases in both output and employment. Wholesale, retail trade and catering and accommodation are regarded as the sector that has majority of activity in the province, with increasing employment as well. Transport and communication has undergone some restructuring leading to shedding of jobs. It also becomes difficult to track employment in this sector because of the unregulated taxi industry.

The finance and business services sector is one of the best performing sectors in the regional and the national economy. Employment within this sector also increased by 4.8% in 2005, this is slightly lower than the increase for South Africa as a whole which amounted to 6%. The community, social and personal services sector accounted for 3% of provincial output for 2004. The government services sector accounted for 39.7% of provincial output in 2005.

Gauteng is regarded as the driver of the South African trade, accounting for over 60% of the country's imports and exports. The goods exported range from low value less sophisticated goods to more sophisticated goods such as transport equipment. The trade deficit of the province mirrors that of the country and seems to be influencing the country's deficit.

Spatial development in Gauteng is characterised by wealthy cities. The province consists of three metropolitan municipalities with the City of Johannesburg accounting for the largest share of the province's output and employment. The second and the third productive municipalities after Johannesburg are Ekurhuleni and the City of Tshwane respectively.

The concluding remarks for this chapter highlight the fact that Gauteng's economy faces the same challenges as those of South Africa in that the economy is handicapped by the fact that it does not produce enough tradable goods that enable, sustained economic growth and employment. Therefore, the province will have to make a serious effort to support downstream, value added sectors that are less reliant on the minerals resource comparative advantage.

Chapter three focuses on the challenges within the labour market in the province, mainly the high unemployment rate and the prevalence of high levels of poverty. The labour market is also characterized by dualism. There are both formal sector and informal sectors with the informal sector being the lower end of the market and employing mainly Black unskilled labour.

The working age population grew by almost 10% in the province between the years 2000 and 2005. The labour force in Gauteng forms a larger percentage of the South African total labour force. In 2000 the province accounted for about 25% of all people employed in South Africa. By 2005 the figure had grown to 28%.

According to the Labour Force Survey, 2006 (LFS) 3.4 million people were employed in the province in 2005, of which 2.5 million were Blacks, followed by Whites at 740, 000, 108, 000 Coloured and 98, 000 Indians. The analysis is further categorised into employment by gender and education levels.

Employment by sector in Gauteng shows that the wholesale and retail sector employed 24.5%, finance and business services sector 17%, the community, social and personal services sector 5.4% and manufacturing sector 15.2%. The electricity, gas and water supply, agriculture, hunting, forestry and fishing and mining and quarrying sectors accounted for the least employment.

The informal sector represents the lower end of the job market and salaries are not competitive in that market. The employment level in the informal sector has increased from 15% in 2000 to 18% in 2005. Though this sector is not paying competitive salaries, it is contributing to the economic welfare of people outside the formal sector. Disaggregating employment further into population groups reveal that the majority of employees in this sector are Black. In 2000 about 80% of employees in the informal sector were Black, which increased to 90% in 2005. Coloured employment decreased to 2% for the same period, Indian remained at 2% between 2000 and 2005, while White employment decreased from 16% to a low of 7%.

This chapter concludes by discussing the high level of unemployment amongst the working age population and highlights the structural challenges that are the root cause of this high unemployment rate. In addition, the development of the informal sector and the implications thereof are outlined. Policy interventions with regard to education for the working age population are also encouraged.

Chapter four unpacks the issues of equity in the province. The high unemployment rate that exists in the province and the country as a whole has lead to the unequal distribution of income and expenditure in South Africa.

The indicators of equity are discussed under four headings of; the Human Development Index (HDI), household expenditure and income and inequality. The HDI measures the country's economic and social wellbeing. It is measured on a scale of zero to one. An HDI of zero shows the lowest level of development and one the highest level. The HDI is furthermore measured by the combination of three equally weighted indices. The analysis of the HDI status of the South African population groups carried out in 2000 reveals inequalities that exist in the country. Whites population group constitutes the highest HDI at 0.88 and the lowest being Blacks at 0.65, Indians and Coloureds made the second and third highest with 0.82 and 0.75 respectively.

The Gini coefficient is another measure used to calculate the levels of inequality. It ranges between zero and one, with zero indicating equal distribution of income and one indicates unequal distribution. Countries that have a Gini of 0.5 and more indicate high levels on income inequality. South Africa is regarded as one of the countries that have an extreme level of income inequality. The Gini coefficient for Gauteng deteriorated from 0.65 in 1996 to 0.78 in 2001. The analysis in this chapter highlights the high levels of inequality that still exist in Gauteng.



# Chapter 1: Economic Outlook

## 1.1 Introduction

This chapter contains a thorough review and outlook of the national and provincial economy and provides forward-looking projections of certain key macroeconomic variables, both on a national and provincial level.

The first section of this chapter deals with the description of recent trends in such variables as production and expenditure for both the national economy and the Gauteng economy. This will provide not only a thorough understanding of existing trends in such variables on both levels, but also provide an indication of the magnitude of certain specific sectoral contributions to the overall economy. This section will also include certain areas of policy concern in the national context.

The final section provides a forecast up to 2010 for a number of the most important variables discussed in the first section, as well as a brief discussion of the expected future trends in these variables.

## 1.2 Recent Trends in the National and Provincial Economy

### 1.2.1 Production

#### National Production

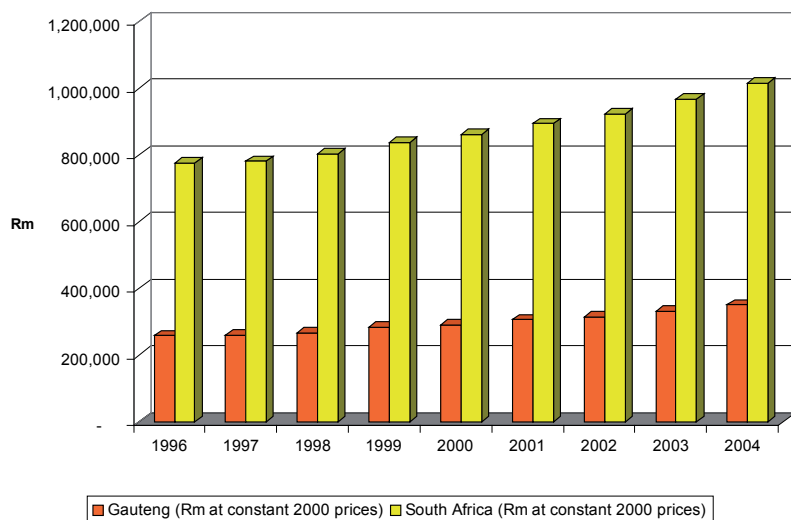
The South African economy retained its momentum in the last quarter of 2006 and recorded an expansion of 4.5% and 5.5% (at seasonally adjusted annualised rates) for the third and fourth quarters respectively. For 2006, South Africa experienced an economic growth rate of 5%. This is largely in keeping with the revised overall real economic growth of 5.1% and 4.8% for 2005 and 2004 respectively. National growth for 2006 has therefore bucked the trend of a slight slowdown in global economic growth – the most important reason being the resiliently high global commodity demand that favoured commodity exporting countries like South Africa.

#### Gauteng Production

Though Gauteng is geographically the smallest province in South Africa, it is a powerhouse, producing more than a third of the overall output generated in South Africa annually. Furthermore, it also boasts the highest per capita income levels of all provinces.

If one considers the annual output of the province compared to national output, the province has consistently been a main driver in the overall output of South Africa.

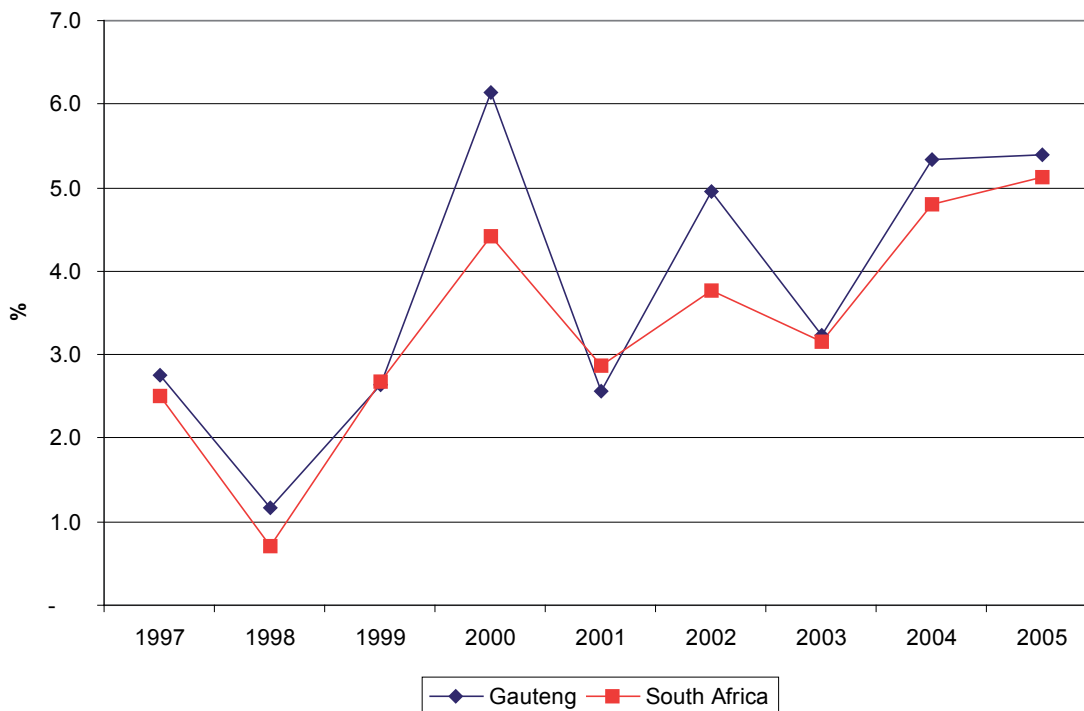
**Figure 1.1: Comparison of Real GDP, Gauteng and South Africa, 1996 - 2004**



Source: Quantec Research, 2006

A comparison of the growth in GDP for Gauteng compared to that of the national economy reiterates the importance of the regional economy to overall economic prosperity. From Figure 1.2 a closer analysis of the comparative annual year-on-year growth rate for the period 1997 to 2005 reveals that in every year but 2001, Gauteng has at least equalled or otherwise outperformed the national economy's growth rate. With this noticeably better performance than national average growth, combined with the significant share of Gauteng's output to national output (which has consistently accounted for at least a third of overall output), Gauteng can rightly be described as an important driver of the South African growth engine. This will be discussed more in details in chapter two.

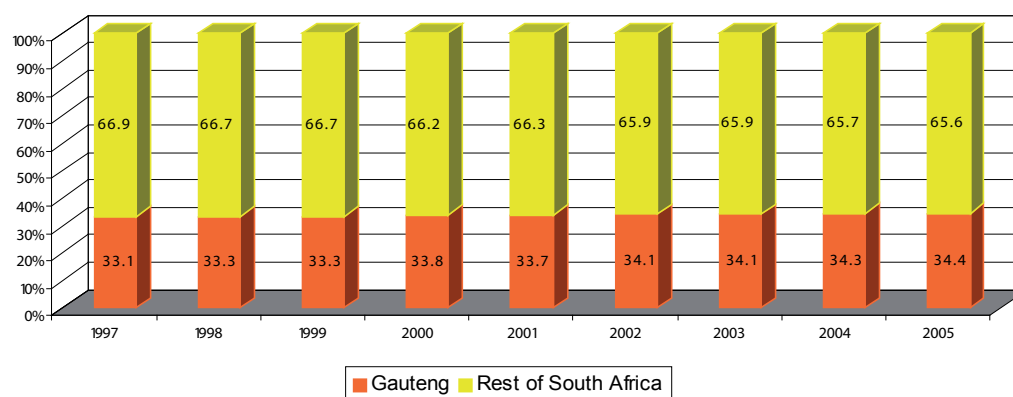
**Figure 1.2: Comparison of Annual Economic Growth Rate, Gauteng and South Africa 1997 -2004**



Source: Quantec Research, 2006

Figure 1.3 shows that the share of Gauteng's output to overall output, it has consistently been contributing at least a third of overall output, with its share in national output even increasing from 2002 to 2005.



**Figure 1.3: Gauteng's contribution to National Output, 1997 -2005**

Source: Quantec Research, 2006

## National Sectoral Production

Revised quarterly real production growth seemed to have gained significant momentum in the second quarter, increasing from 5% to 5.5%. In the third quarter of 2006, growth however slipped back slightly to 4.5%. The growth momentum was retained on the back of healthy manufacturing and construction sector expansion and was further boosted by healthy increases in the real value added in the tertiary and secondary sector. This more than offset the decline in real production in the primary sector over the corresponding period. Mining and quarrying contributed just 0.3% to overall GDP growth in the fourth quarter of 2006, but the real value added rose by 4.6% compared with no growth in the third quarter. Mining activity could be boosted in 2007 by long-awaited investment into the sector, with the caveats being a firmer rand and higher production costs. However, expectations of slower Chinese economic growth could have an adverse impact on the demand for metal products, thereby weighing on domestic mining production. Although transparency and clarity on mining policy has reduced the uncertainty over regulations faced by domestic mines and should allow for more fluidity in production. Nevertheless, given the mining sector's relatively small weighting in GDP, it is unlikely to contribute significantly to economic growth.

Real value added in the primary sector at an annualised rate declined by 7.3% in the second quarter and 4% in the third quarter of 2006 and then increased marginally by 1% in the fourth quarter of 2006, thus creating an overall contraction in primary sector GDP by 4.5% in 2006. This contraction was mainly caused by a corresponding contraction within the agriculture sector by 13% in 2006. Agricultural output contracted (i.e. grew at negative rates) by 18.8%, 30%, 15% and 8.5% for all four quarters of 2006 respectively. This was due to a significantly smaller maize crop for 2006. The mining sector rebounded from the negative growth of 5.5% in the first quarter of 2006 to a real expansion at annualised rates of 3.5%, 0.3% and 4.5% for the last three quarters respectively. Thus, the overall growth rate for the mining sector in 2006 was recorded as a contraction of 0.8%.

Real value added in the secondary sector accelerated in the fourth quarter of 2006. Real output in this sector grew at a brisk pace of 7.3% and 5.5% (at annualised rates) during the second and third quarter respectively. In the third quarter, real value added in the secondary sector contracted by 1.3% to a growth rate of 5.5%. Expansion of the construction sector continued unabatedly in 2006, with real value added increasing by 13.3%, this growth being marginally higher than the real value added growth of 12% for 2005. This high level of growth within the construction sector can be attributed to the growth of both non-residential and residential building activity.

Real value added in the manufacturing sector also accelerated at annualised rates from approximately 4.3% in the third quarter to 8.3% in the last quarter of 2006. All major manufacturing sectors recorded positive growth during 2006, backed by a weaker rand. The noticeably strongest expansions in this period were recorded in the export-oriented manufacturing sectors. The manufacturing sector recorded an overall expansion of 4.8% for 2006, this reflects a marginal decrease from 2005 (in which expansion was recorded at 5%).

Real growth in the tertiary sector also declined marginally during the first three quarters of 2006, showing early signs of reacting to higher interest rates. A decline from 6.3% in the second quarter to 4.8% in the third quarter

was recorded. The fourth quarter showed a marginal improvement with an increase to 5.3%. Growth in the trade sector decreased from 6.3% in the third quarter to 5.5% in the fourth quarter. Overall growth within the tertiary sector was recorded at 6% for 2006, an increase in comparison to the 5.3% expansion recorded for 2005.

**Table 1.1: Basic Value Added per Production Sector, 1998–2005 (Constant 2000 prices)**

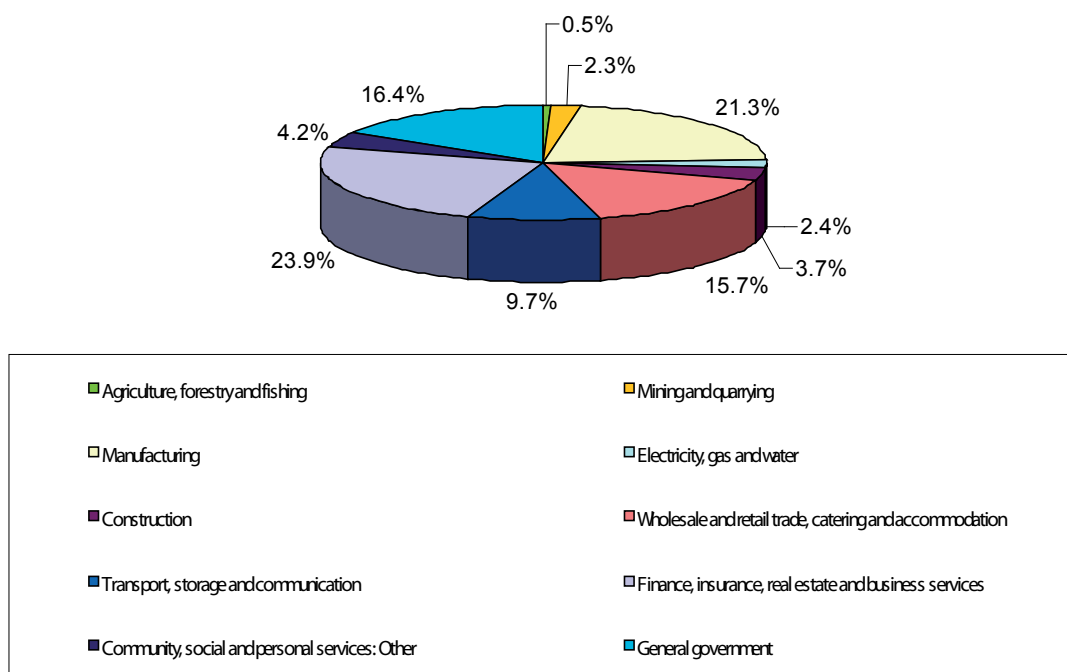
|                               | 1999    | 2000    | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    |
|-------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Primary Sectors (Rm)</b>   | 90,329  | 90,842  | 89,883  | 92,219  | 94,202  | 95,446  | 98,219  | 93,926  |
| <b>Change</b>                 | 0.70%   | 0.60%   | -1.10%  | 2.60%   | 2.20%   | 1.30%   | 2.90%   | -4.40%  |
| <b>Secondary Sectors (Rm)</b> | 189,261 | 203,008 | 208,241 | 214,892 | 214,609 | 225,862 | 238,511 | 252,121 |
| <b>Change</b>                 | 0.20%   | 7.30%   | 2.60%   | 3.20%   | -0.10%  | 5.20%   | 5.60%   | 5.70%   |
| <b>Tertiary Sectors (Rm)</b>  | 523,118 | 544,368 | 564,129 | 587,594 | 614,155 | 645,897 | 680,020 | 720,581 |
| <b>Change</b>                 | 3.90%   | 4.10%   | 3.60%   | 4.20%   | 4.50%   | 5.20%   | 5.30%   | 6.00%   |

Source: SARB Quarterly Bulletin, March 2007

## Gauteng Sectoral Production

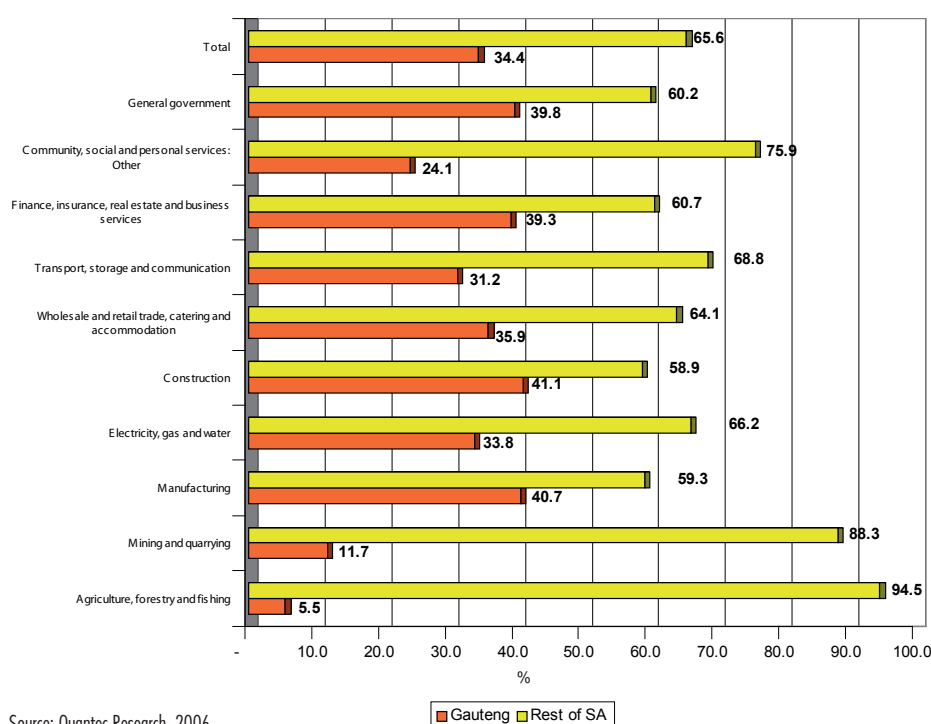
Gauteng possesses one of the most diversified regional economies in South Africa. Consider the information contained in Figure 1.4. During 2005, the three largest sectoral contributions to provincial output were made by the finance, insurance, real estate and business services sector (nearly 24 %), manufacturing sector (21.3%) and general government sector (16.4%). Though there were marginal changes in the past with respect to sectoral contributions to overall output, these three sectors have consistently contributed the most to provincial output.

**Figure 1.4: Sectoral Contribution to Gauteng's Provincial Output, 2005**

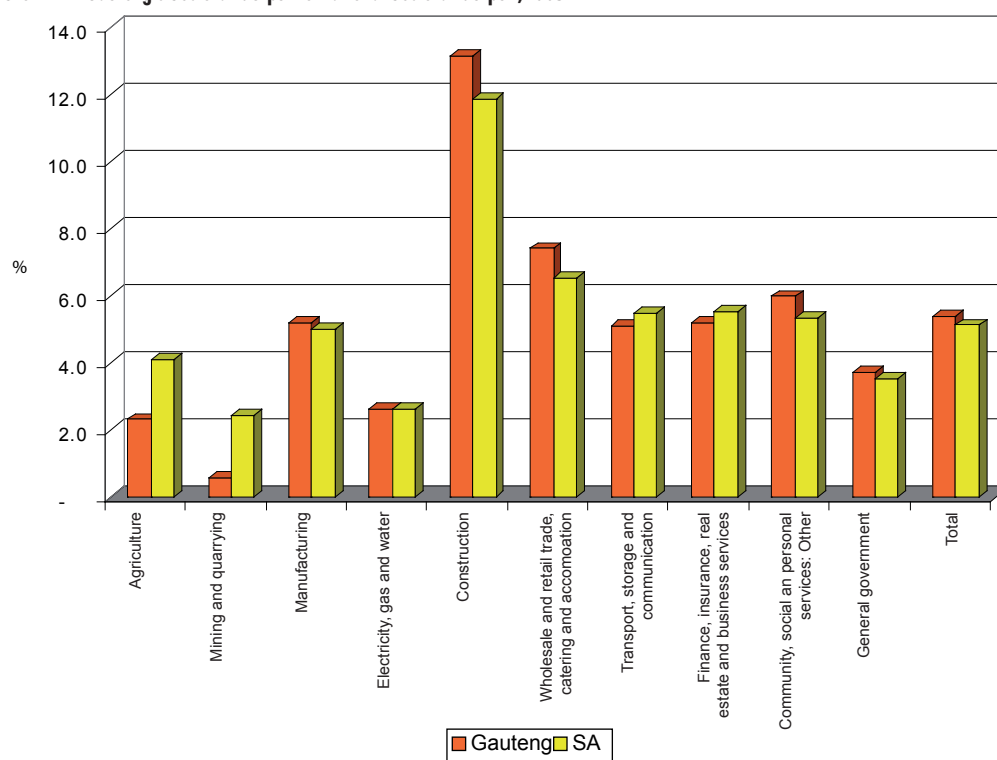


Source: Quantec Research, 2006

Gauteng's sectoral output can also be compared to the national sectoral output, with some interesting results. From Figure 1.5, it is evident that as far as sectoral contributions are concerned, Gauteng dominates national output in a number of sectors. In six of the ten institutional sectors, Gauteng contributed more than a third of the overall sectoral production in 2005.

**Figure 1.5: Gauteng's Contribution to National Sectoral Output , 2005**

Similarly, a comparison of provincial sectoral economic growth rates to national sectoral growth rates for 2005 also reveals some interesting information. Consider the information contained in Figure 1.6. Gauteng has clearly outperformed national output in a number of important production sectors (given the Gauteng share to national output – again refer to Figure 1.5). Particular mention should be made of the robust growth in a number of the key secondary sectors (construction, manufacturing) as well as some key tertiary sectors (wholesale and retail trade, as well as community and social services).

**Figure 1.6: Growth in Gauteng's Sectoral Output to National Sectoral Output ,2005**

## 1.2.2 Domestic Expenditure

### National Domestic Expenditure

On the back of marginally decelerating growth in final consumption expenditure by households, a marked decline in final consumption expenditure by general government in the first three quarters, and an expansion in gross fixed capital formation, growth in aggregate real Gross Domestic Expenditure (GDE) slowed in the third quarter of 2006 to 1.5%, down from 9% in the second quarter. The most notable contributor to the substantial drop in GDE in the third quarter was a significant slowdown in final consumption expenditure by general government – with its growth down from 15.8% in the second quarter to a contraction (i.e. negative growth) of 4.3% in the third quarter of 2006. The most notable contributor to the substantial drop in GDE in the third quarter was a significant slowdown in final consumption expenditure by general government – with its growth down from 16% in the second quarter to a contraction (i.e. negative growth) of 4% in the third quarter of 2006. The substantial fourth quarter expansion was similarly fuelled by strong increases in real final consumption expenditure by general government and strong inventory accumulation, mainly caused by a surge in oil imports in the fourth quarter. During the middle two quarters of 2006, the GDE growth dropped to below that of the GDP growth rate for the corresponding period, for the first time since 2001. However, this was again undone in the fourth quarter of 2006. Overall GDE expanded by 8.75% in 2006, compared to an expansion of 6% in 2005.

### Gauteng Domestic Expenditure

Gauteng Domestic Expenditure also expanded at a brisk pace since 2004, with private household expenditure in all categories of consumables: Durables, semi-durable and non-durable consumption as well as household consumption of services recording a healthy expansion. Though the rates of increase for these years were marginally lower than the national growth rates in private household consumption, it still outstripped expansion in production by a substantial margin, with Gauteng recording a real expansion in all consumption categories of 6.3% and 6.2% in 2004 and 2005. Overall provincial GDE expanded by 7.0% and 6.1% respectively for 2004 and 2005. National GDE expanded by 7.7% and 6.1% over the corresponding periods respectively.

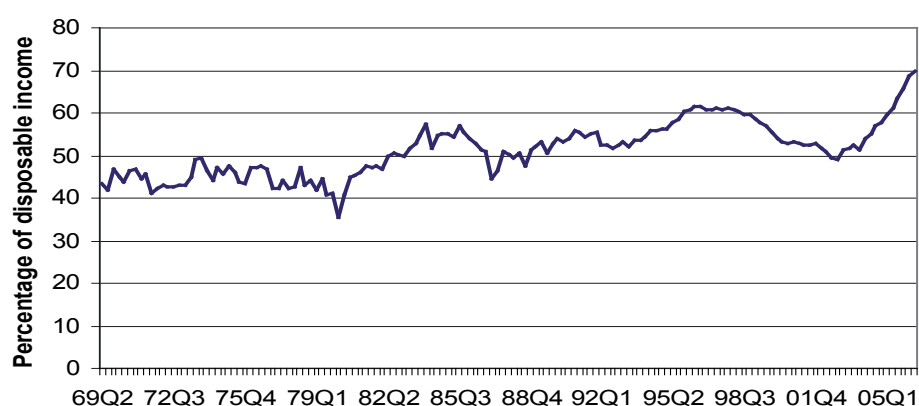
## 1.2.3 Household Consumption, Debt and Saving Levels

Real private consumption expenditure by households expanded vigorously during 2006, increasing at rates of 7.5% and 7.8% during the third and fourth quarters respectively – the former rate being the highest quarter-on-quarter growth in consumption since the first quarter of 1995. The overall growth rate for 2006 was recorded at 7.3%, this represents an increase in the 2005 growth rate by 0.8%. These higher levels of household consumption expenditure were especially evident in the consumption of semi-durable goods, which grew by 23.8% in the first quarter of 2006, and by a blistering 26.5% and 24% in the second and third quarter respectively. This expenditure was predominantly on clothing, footwear, furnishings and recreational goods. However, this growth slowed to 8% in the fourth quarter as a result of slower spending growth in all categories of semi-durable goods. The introduction of newer automobile models, along with lower prices and appealing deals, contributed to an increase in consumption of durable goods by 19.75% in the first quarter of 2006, followed by growth in the second quarter of 13%. Spending growth then slowed to 7% in the third quarter and marginally increased to a level of 8.5% in the last quarter of 2006.

The sizeable expansion in private consumption expenditure by households can be attributed to augmented disposable incomes, higher levels of consumer confidence, lower real interest rates (prior to subsequent repurchase rate hikes), and lower prices of semi-durable goods. Increasing disposable income (growing at rates of 6.4% and 4.1% during the third and fourth quarter of 2006 respectively) the moderate reduction in the growth rate for the fourth quarter could be due to lower income within the agricultural sector during this period. The concern abounding from these high levels of private consumption expenditure by households, however, is that they are not matched by disposable income growth. Therefore, as household expenditure growth continues to consistently exceed the growth in disposable income, the consequentially high household debt and low household saving levels should be a cause for concern.

Household debt are at their highest level ever, in the fourth quarter of 2006 it amounted to 73% of household disposable income. Though debt servicing cost amounted to some 9% of disposable income in the fourth quarter of 2006, it remains a cause for concern, not only for its impact on prices but also for its implication for national savings levels. These trends in the national economy were echoed by the Gauteng provincial figures.

Figure 1.7: Trends in Household Debt Levels, South Africa

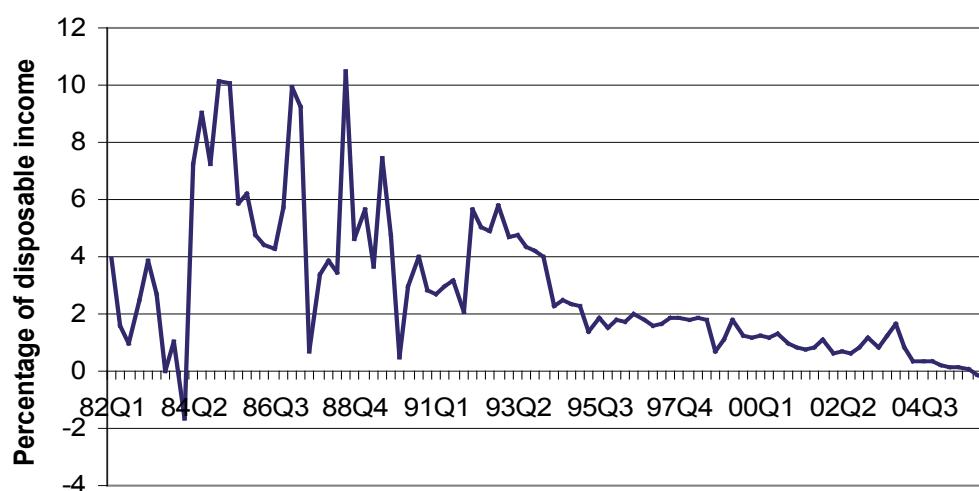


Source: SARB, Quarterly Bulletin

The ease of access to household debt, along with attractive payment options and relatively low real interest rates, contributes to the problem of burgeoning household debt levels, which in turn threaten South Africa's inflationary and growth outlook. Private sector credit extension, dominated by mortgage advances, monthly mortgage advances for October 2006 were at an all-time high of R15.9 billion. The impact of the recent increases in the prime lending rate will put private households under further pressure regarding debt servicing costs. The rapid rise in the number of repossessions and liquidations already bears witness to the unsustainably high levels of personal debt.

The household saving ratio decreased from 1.75% in 2005 to 1.25% in 2006. For the first time household consumption expenditure exceeded household income, thus resulting in net dissaving. These unacceptably low levels of saving not only provide less funding for gross fixed capital formation and hence constrict economic growth possibilities, but will additionally increase vulnerability to external shocks.

Figure 1.8: Ratio of Household Saving to Disposable Income, South Africa



Source: SARB, Quarterly Bulletin

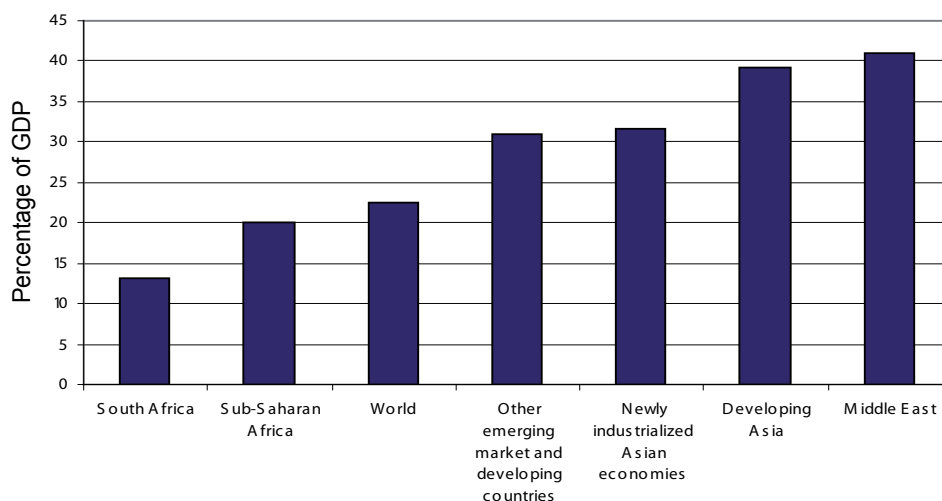
### 1.2.4 Gross National Saving

The ratio of total gross saving to GDP (the national saving ratio) worsened from 14.3% in the third quarter of 2006 to an all-time low of 13.8% in the fourth quarter of 2006. Robust economic activity and the weakness of the Rand against the currencies of its major trading partners and lower dividend payments by companies, contributed to elevated gross operating surpluses, which in turn enabled expanded corporate saving. According to the South African Reserve Bank (SARB), the implication of the low gross domestic saving levels currently experienced, is that 32% of South Africa's capital formation was financed by foreign capital. Due to the volatile nature of foreign investment, this is clearly a major concern.

Government dissaving as a percentage of GDP strengthened from 1.5% in 2005 to 2.3% in 2006. This stronger saving ratio was helped along by strong increases in current income from taxes, which comfortably outstripped increases in current government expenditure during the third quarter.

This stronger saving ratio was helped along by strong increases in current income from taxes, which comfortably outstripped increases in current government expenditure during the third quarter.

**Figure 1.9: Comparison of National Saving Ratios**



Source: SARB, Quarterly Bulletin

When comparing South Africa's national saving ratio with other developing and emerging economies, the results are startling. China's saving rate of approximately 45% is perhaps a high benchmark to consider, as is Botswana's rate of roughly 38%. However, it would not be unreasonable to consider comparing South Africa to countries such as Korea and Thailand with saving rates of around 32% of GDP, or to Brazil and India with saving rates of approximately 22%. South Africa's average saving ratio for 2006 of 13.3% is substantially below the predicted 2006 sub-Saharan African average of 20%, as well as the predicted 2006 average for emerging and developing economies of 31%.

### 1.2.5 Monetary Aggregates

Growth in broad money supply increased from 16.2% in 2005 to 22.9% in 2006, . Annualised quarterly growth in M3 money supply fluctuated between 16.7% and 31.4%. The rapid expansion in money supply was primarily caused by strength in income and expenditure, as well as positive wealth effects due to inflated values of financial assets and real estate, and the volatility of financial markets resulting in a speculative demand for deposits.

### 1.2.6 Prices

Despite remaining within the target band of 3% to 6% for CPIX inflation (consumer price index inflation excluding the interest costs on mortgage bonds), domestic price pressures mounted steadily. CPIX inflation has increased from an annual rate on a monthly basis of 3.7% in April 2006, CPIX inflation remained constant in the last three months of 2006 at 5%. The average CPIX inflation was reported at 4.6% in 2006, this shows an increase in the average reported for 2005 which amounted to 3.9%. One of the predominant contributors to the higher CPIX inflation figures were food, which, after a high of 9.4%, has declined somewhat to 7.7%. Increases in the price of meat have been cited as the main contributor to the increase in food prices, specifically, the increase was reported at 16.6% for December 2006.

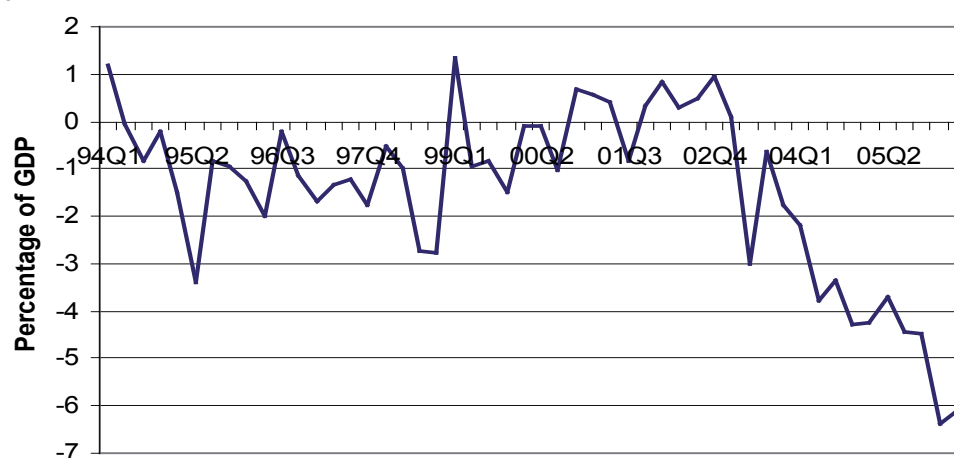
Despite a marginal decline in the oil price of late and hence petrol price cuts from September 2006 onwards, transport costs remain high. Higher oil prices not only deteriorated South Africa's domestic inflation outlook, but also that of the rest of the world – producer price inflation in South Africa's main trading partners increased by 5.1% on average by June 2006. Furthermore, the depreciation of the Rand against all major currencies served to increase the cost of importing not only fuel, but other goods, resulting in the average import price level increasing by 10.4% over the twelve months prior to October 2006 – well above the inflation target range.

The effect of higher oil and import prices, along with increased prices of mining products, non-ferrous basic metals, agricultural food products, electrical machinery and alcoholic beverages, drove domestic producer price inflation to rates of 9.3% and 9.8% respectively in December 2006 and January 2007. The production price of locally produced commodities rose by an annualised rate of 9.5% in January 2007, whilst the prices of imported commodities used in the production process increased by 10.9% in the same period.

### 1.2.7 Foreign Trade Position and Balance of Payments

The current account of the balance of payments has consistently recorded deficits since the second quarter of 2003. The largest deficit in the post-1994 era was recorded in the fourth quarter of 2006, amounting to R143 billion, or 7.8% of GDP. The overall position of the current account for 2006 was a deficit of R111.1 billion which amounted to 6.4% of GDP compared to the deficit of 3.8% recorded in 2005.

Figure 1.10: Ratio of current account balance to GDP

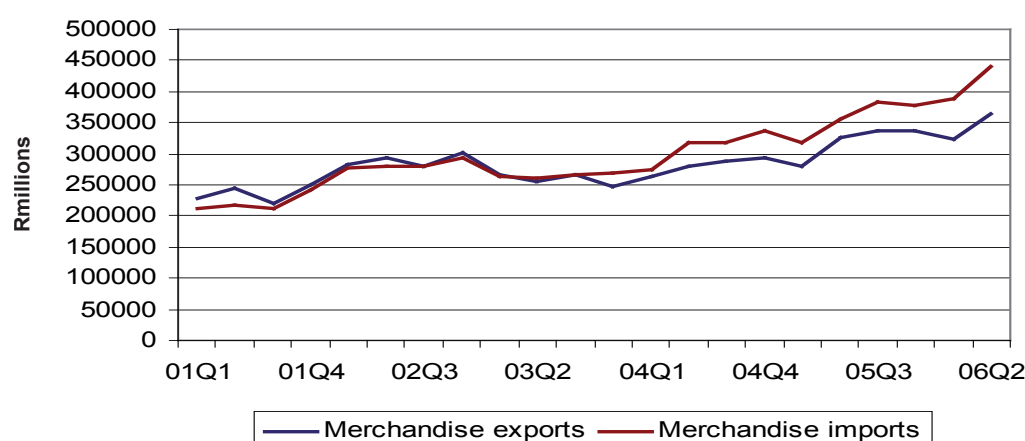


Source: SARB, Quarterly Bulletin

The current account deficit will continue to put pressure on South African monetary policy. The South African Reserve Bank (SARB) has increased the repurchase rate four times in 2006 due to mounting inflationary pressures, in part caused by the escalating deficit on the current account. The effect of this deficit on the exchange rate of the Rand has also been felt, with the currency depreciating by 15.4% in 2006 – the largest annual decline recorded since 2001.

Merchandise exports (in terms of both volume and earnings) increased strongly in all four quarters of as a direct consequence of the weaker external value of the rand. Overall export volumes were up by 6% in 2006.

Figure 1.11: Trends in Merchandise Exports and Imports



Source: SARB, Quarterly Bulletin

The main cause for concern regarding the escalating deficit on the current account is the uncertainty regarding



the financing thereof. The aversion of foreign investors to emerging market economies in the second quarters of 2006 led to a decline in the surplus on the financial account of the balance of payments from R32.3 billion to R28.5 billion. Direct investment however continued to reflect net outflows in the corresponding period.

Foreign direct investment (FDI) recorded net inflows of R12.2 billion in the first two quarters of 2006, but net outflows to the tune of R14.3 billion in the last two quarters. Portfolio investment however compensated for any FDI instability by maintaining net inflows for 2006 to the sum of R144.3 billion, despite the unease of foreign investors regarding emerging markets. South Africa has therefore been able to finance the deficit of the current account using financial account surpluses, but is increasingly dependent on portfolio investment. However, this course of action has certain risks attached in a changing investment environment.

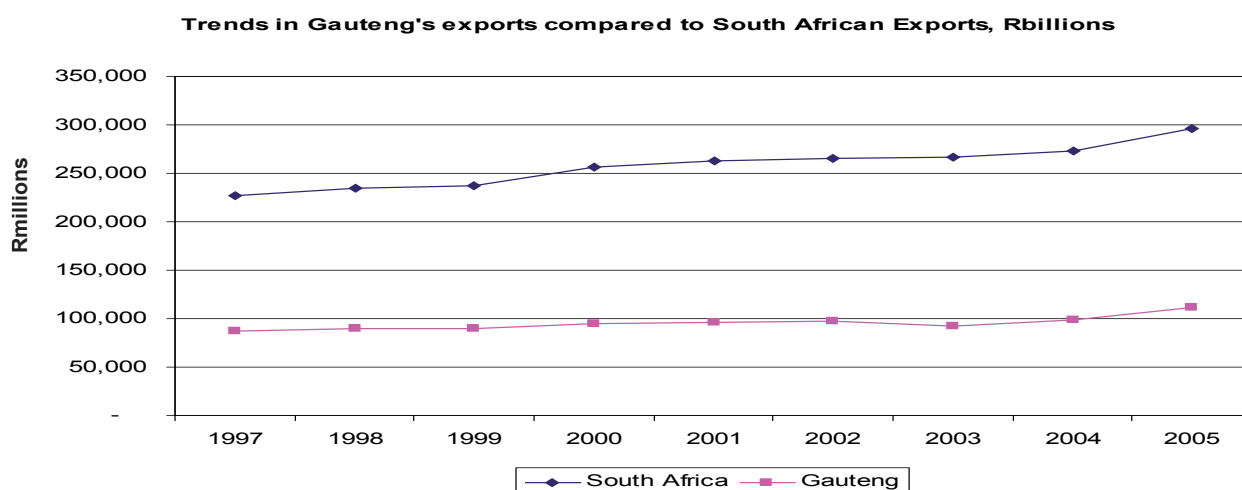
Due to the steady portfolio capital inflows during this period, the SARB was able to improve its international liquidity position from US\$17.2 billion in the fourth quarter of 2005 to US\$23.7 billion at the end of February 2007. The SARB was additionally able to increase its gross international reserves from US\$25.6 billion at the end of December 2006 to US\$26.3 billion at the end of February 2007.

The effects of the depreciation of the exchange rate of the Rand and increased commodity prices resulted in export prices rising by 17 % higher in the fourth quarter of 2006 than the level recorded for the same period in the preceding year. South Africa's terms of trade decreased in the fourth quarter of 2006 due to the fact that increases in import prices outpaced the increases in export prices. The decreases in the oil price also impacted directly on the somewhat reduced trade deficit recorded in the latter part of 2006.

## Gauteng's export position

When one considers the exports performance of the Gauteng province, it displays a healthy state of affairs. Gauteng's provincial exports contributed almost 38% of overall exports in 2005. The absolute level of exports, as depicted in Figure 1.14 also increased during 2004 and 2005, following a slight contraction in 2003. In the recent past, Gauteng's export performance was further boosted by the weakening of the R/US\$ exchange rate.

Figure 1.12: Trends in Gauteng's Exports compared to South African Exports, 2005 (R millions, Constant 2000 prices)



Source: SARB, Quarterly Bulletin and Quantec Research, 2006

## 1.3 Forecast Summary

This section focuses on providing a national and provincial outlook for the forecasting horizon from 2006 to 2010. Formulating a realistic forward-looking outlook requires insight into the key drivers of economic performance, how these factors are likely to change and how they may be influenced by international factors and government action. The forecast results are therefore presented against the backdrop of a set of national policy assumptions and assumptions regarding the international environment.



### 1.3.1 National Policy Assumptions and the International Environment

National economic policy in South Africa at the macroeconomic level is guided by ASGISA (the macroeconomic plan for Accelerated and Shared Growth Initiative). It was first announced at the beginning of 2006 and sets out to halve poverty and halve unemployment by 2014.

The Minister of Finance again confirmed the government's commitment to provide for the social needs of the poor in the country and stated during the latest Budget Speech that the steady economic growth laid the platform for more aggressive policies to reduce poverty in the country. Accordingly, more resources will be channelled to areas of priority as identified by ASGISA. The recent Budget again focused on transfers to the poor and also oriented towards enhancing the quality of both physical and human capital in the country.

Government again acknowledged shortcomings to the quality of public sector service delivery and allowed specified additional allocations in the budget to improve capacity in this respect.

Nevertheless, in the budget for 2007/08, the Minister of Finance emphasised that the key task for the future is to accelerate the pace of economic growth and job creation and to extend the scope of development and empowerment. Government consumption expenditure is budgeted to continue rising steadily, coupled with higher levels of investment expenditure, with specific focus on infrastructure provision in preparation for the Soccer World Cup in 2010. The budget also set out to achieve expanded access to social services, improving conditions for the poor and again improving efficiency of service delivery.

A considerable increase in allocations for capital expenditure was announced averaging an increase of 10% over the next three years. This is done to improve economic infrastructure with the aim of enhancing the growth capacity of the economy and included spending on transport and logistical infrastructure, electricity generation and appropriate telecommunication linkages. Investment, both private and public, is therefore envisaged as the basis for growth creation.

On the back of heightened inflation concerns, the SARB raised the repurchase (Repo) rate by 200 basis points during 2006. The SARB cited the change in the international environment, the high oil prices and robust domestic expenditure on imported products as the root causes for the current account deficit on the balance of payments and as such some of the main drivers of the inflationary concerns.

Although the 3% to 6% inflation target is still likely to be met in 2006 and 2007, underlying potential inflationary pressures remain, in particular due to higher domestic expenditure levels, and the economy operating at levels closer to full capacity. Further exposure in terms of the current balance of payments position in terms of the capital inflow mix and heavy dependency on portfolio inflows, coupled with declines in fixed capital inflows, is a further source of concern as it substantially increases the vulnerability of the South African economy to external shocks.

Internationally, assumptions are that gross world product will for 2007 will increase by 3.2%, a noticeable decline from the 3.8% recorded for 2006. With the slowdown already manifesting in the United States economy, it is expected to have a ripple-effect throughout the rest of the world. With the global economic development generally favouring the commodity-exporting developing world so far, this effect is expected to wane against the backdrop of more volatile commodity prices, a slowdown in the hereto brisk expansions Chinese and Indian economies and the increasingly complicated geopolitical environment.

Monetary policy is expected to remain mildly contractionary to neutral in both the United States and Europe. Global fiscal policy stances are also expected to continue to be guided by budget policies or other general policy statements.

The assumptions underlying the forecast include a slow recovery in world growth from 2007 onwards due to monetary tightening and fiscal discipline. In spite of short-run volatility, fairly stable commodity prices are assumed over the longer term, with a continuation of sound and prudent domestic fiscal and monetary policy, thereby supporting investment sentiment.

### 1.3.2 The National Economy

Forecast values for a selection of macroeconomic indicators over the forecasting horizon 2006 to 2010 are presented in Table 1.2. A discussion of the results contained in the table follows.

Domestic expenditure, fuelled by increased credit extension, is expected to expand from an average rate of 5.9% to 7% in 2006. The imports of goods and services are subsequently expected to grow at a rate of 11% for 2006, while growth in the exports of goods and services, hampered by a relative slow recovery in the world economy and a strong Rand, is expected to slow down from 7.9% to 5.2% in 2006.

The deficit of the balance of payments is also expected to increase to almost 6% of GDP in 2006. As a result, the rand exchange rate is expected to break its strong recovery since 2003 and start depreciating against the major currencies from 2006 onwards. This turnaround has created expectations for a series of interest rate hikes from 2006 onwards.

Economic growth, which has primarily been boosted by strong domestic demand, is unsustainable at levels exceeding 4.3% given the current output potential and available capacity of the South African economy. Real GDP growth is therefore expected to marginally slow down to an average rate of 4.93% for 2006 and 4.14% for 2007.

In addition, levels of domestic demand exceed those of production, causing increasing, yet manageable rates of domestic inflation and higher interest rates, thereby hampering economic growth over the medium term. After expanding at a rate of 4.9% in 2006, economic growth is expected to slow down further to grow between 4% and 4.5% over the forecast period. Although the stronger rand initially hampered the price competitiveness of South African goods and services exports, resulting in poorer export performance, stronger global trade and relatively firm commodity prices are forecast to marginally boost both export volumes and earnings. This, alongside increased investment expenditure in preparation for the 2010 FIFA World Cup, will counteract some of the domestic downward pressures and provide a moderate, yet increasing impetus for output growth over the latter part of the forecasting period.

The growth in domestic demand will primarily be fuelled by continued strong increases in gross fixed capital formation, mainly as a result of South Africa's hosting of the Soccer World Cup in 2010. Gross fixed capital formation is expected to grow at robust levels of between 6% and 9% over the forecast period. However, the slow increases in gross national saving, averaging 14% of GDP, serve as a considerable impediment to sustained increases in fixed capital formation and thereby productive economic growth.

Real government consumption, which is expected to grow at 5.7% in 2006, will also provide some stimulus – a result made possible by higher levels of government revenue on the back of more efficient tax collection. Government consumption is expected to continue growing at levels around 6% over the forecasting period, reflecting a moderately expansionary fiscal policy. The government will continue to increase spending on law and order, infrastructure, education, the HIV/Aids programmes and other social sectors, but will also continue with plans to increase the efficiency and accountability of fiscal expenditure. Private consumption growth is forecast to increase by 6.93% in 2006, up from an already high rate of 6.64% in 2005, thereafter, slowing down to between 4.5% and 5% for the major part of the forecast horizon. This growth in consumption in 2006 is primarily stimulated by liberal credit expansion and high real income growth.

The current account deficit of 5.9% of GDP in 2006 resulted from weak export earnings relative to strong increases in imports ascribed to a stronger domestic currency, a sluggish recovery in the world economy and high levels of domestic demand. This trend is expected to continue, with the current account deficit forecast to widen to almost 6% of GDP in 2006 and exceeding 7% in 2010. Due to a stronger Rand, exports are expected to grow at a slower rate of 5.2% in 2006, but pick up some momentum to grow at a rate of 7% over the forecast horizon. Export growth will be fuelled by a stable but slowly depreciating rand, a recovery in world trade and firm commodity prices, and supported by relative stronger terms of trade, resulting in export earnings counterbalancing the strong increases in imports. Import growth, supported by a relative healthy domestic GDP, is expected to increase quite significantly, averaging between 7% and 9% over the forecast horizon.

The deficits on the services and income accounts are also expected to grow towards the end of the forecasting period, mainly driven by interest and higher dividend payments abroad. Strong growth in net capital inflows is expected to outweigh the deficits on the current account. However, being primarily portfolio in nature, a reliance on continued and sustained support from the financial account poses underlying risks in terms of the rand exchange rate and domestic price stability. External debt is expected to increase only modestly, due to the country's conservative external borrowing policy. However, South Africa should maintain adequate access to external funds, given the recent upgrade in the country's long-term foreign currency debt rating.

On average, the rand is expected to appreciate again by almost 8% against the dollar in 2006, following appreciations

of 14.7% and 1.3% recorded during the two preceding years. A depreciation of 5.9% is forecast for 2007.

The relatively stable macroeconomic background and improved economic prospects are expected to protect the Rand against excessive volatility. Furthermore, even though some commentators hold that the Rand is overvalued according to Purchasing Power Parity (PPP) measures, the analysis supporting the results in this report suggest there is only minimal downward pressure on the Rand in the short term. The rand is expected to weaken slightly against the US dollar near the end of 2007, averaging R7.26/US\$ for the year. Further depreciations for 2008 and 2009 are also expected, namely to R7.52/US\$ and R7.78/US\$, respectively.

After inflation figures have been reigned in to a mere 1.4% and 3.4% average for 2004 and 2005 respectively, CPIX inflation is expected to increase to 4.5% in 2006, thereafter moderately slowing down over the rest of the forecasting period. The slight upward trend in prices is in line with the analysis that the South African economic growth potential is only 4.3%. At growth rates exceeding 4.3%, representing production beyond full capacity, upward pressure will be exerted on price and wage inflation. However, in line with the relative stability of the rand, CPIX inflation is expected to stay within the inflation target range of 3% to 6%.

Even though the economy is expected to grow at rates in excess of 4%, the alarming characteristic of this growth is its inability to resolve the severe unemployment problem in South Africa. Due to capacity constraints in the South African economy, primarily as a consequence of structural constraints associated with the labour market, South Africa experiences a divergence of economic growth and employment creation. Employment rate growth (based on total employment including both the formal and informal sectors) will hardly, if at all, be supported by the demand-driven output growth and is not expected to break the shackles of the one to two-range over the forecast period, compared to output growth in excess of 4% over the forecast period. It is evident that the unemployment problem, although partly cyclical in nature, is primarily hampered by structural impediments retarding the ability of the wage-price mechanism to resolve the problem.

Furthermore, although we have seen income shifts between population groups over the past decade, the generally skew distribution of wealth and income in South Africa is unlikely to change substantially in the near future, especially when viewed against the backdrop of continuing high levels of unemployment.

Entering an era of hope based on a stable and buoyant first economy, the major challenge for government is the successful implementation of ASGISA towards generating sustainable growth and significant poverty reduction.

**Table 1.2: Forecast of selected indicators for the national economy, 2006-2010**

|  |    | 2004      | 2005      | 2006      | 2007      | 2008      | 2009      | 2010      |
|--|----|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>Gross Domestic Product</b>          | Rm | 1,061,768 | 1,115,875 | 1,170,855 | 1,219,329 | 1,268,102 | 1,320,094 | 1,375,538 |
| % change                               |    | 4.84      | 5.1       | 4.93      | 4.14      | 4         | 4.1       | 4.2       |
| <b>Gross Domestic Expenditure</b>      | Rm | 1,088,365 | 1,152,737 | 1,235,158 | 1,305,882 | 1,372,269 | 1,447,749 | 1,538,378 |
| % change                               |    | 7.87      | 5.91      | 7.15      | 5.72      | 5.08      | 5.51      | 6.26      |
| <b>Total expenditure by households</b> | Rm | 684,502   | 729,983   | 780,607   | 818,731   | 855,906   | 897,902   | 949,992   |
| % change                               |    | 6.68      | 6.64      | 6.93      | 4.88      | 4.54      | 4.91      | 5.8       |
| <b>Expenditure by Gen. government</b>  | Rm | 203,939   | 214,501   | 226,740   | 239,721   | 255,435   | 272,179   | 290,021   |
| % change                               |    | 6.34      | 5.18      | 5.71      | 5.72      | 6.56      | 6.56      | 6.56      |
| <b>Gross fixed capital formation</b>   | Rm | 179,236   | 196,382   | 219,785   | 239,217   | 252,927   | 268,594   | 288,919   |
| % change                               |    | 9.59      | 9.57      | 11.92     | 8.84      | 5.73      | 6.19      | 7.57      |
| <b>Exports of goods &amp; services</b> | Rm | 273694    | 295564    | 307682    | 328512    | 343259    | 357504    | 371376    |
| % change                               |    | 2.87      | 7.99      | 4.1       | 6.77      | 4.49      | 4.15      | 3.88      |
| <b>Imports of goods &amp; services</b> | Rm | 300291    | 332426    | 371985    | 406899    | 436583    | 474489    | 519229    |
| % change                               |    | 14.5      | 10.7      | 11.09     | 9.39      | 7.3       | 8.68      | 9.43      |
| <b>Balance on the current account</b>  | Rm | -47465    | -64374    | -90441    | -107653   | -116516   | -129761   | -146904   |

|   |      | 2004   | 2005    | 2006    | 2007    | 2008    | 2009    | 2010    |
|---|------|--------|---------|---------|---------|---------|---------|---------|
| % of GDP  |      | -3.42  | -4.23   | -5.85   | -6.46   | -6.53   | -6.83   | -7.26   |
| <b>Disposable income of households per capita</b>             |      | 14694  | 15447   | 16157   | 16826   | 17499   | 18217   | 18982   |
| % change  |      | 4.17   | 5.12    | 4.6     | 4.14    | 4       | 4.1     | 4.2     |
| <b>Consumer Price index</b>                                   |      | 1.238  | 1.28    | 1.338   | 1.384   | 1.426   | 1.459   | 1.489   |
| % change  |      | 1.39   | 3.39    | 4.5     | 3.5     | 3       | 2.3     | 2.1     |
| <b>Production Price index</b>                                 |      | 1.301  | 1.339   | 1.437   | 1.513   | 1.582   | 1.633   | 1.671   |
| % change  |      | 2.28   | 2.92    | 7.3     | 5.3     | 4.6     | 3.2     | 2.3     |
| <b>M3-money supply</b>  | Rm   | 914150 | 1096241 | 1331714 | 1560768 | 1801127 | 2044279 | 2304720 |
| % change  |      | 13.13  | 19.92   | 21.48   | 17.2    | 15.4    | 13.5    | 12.74   |
| <b>Short term interest rate</b>                               | %    | 7.33   | 6.93    | 7.6     | 7.97    | 7.4     | 7.18    | 6.5     |
| <b>Long term interest rate</b>                                | %    | 8.38   | 7.57    | 8.3     | 8.6     | 8       | 7.6     | 6.9     |
| <b>Average Exchange rate</b>                                  | R/\$ | 644.99 | 636.23  | 686     | 726.47  | 751.9   | 778.22  | 805.45  |
| % change  |      | -14.74 | -1.36   | 7.82    | 5.9     | 3.5     | 3.5     | 3.5     |
| <b>Wage rate (Formal sector) at current prices</b>            | 100  | 120.48 | 125.54  | 131.82  | 137.49  | 142.71  | 147.14  | 151.4   |
| % change  |      | 3.78   | 4.2     | 5       | 4.3     | 3.8     | 3.1     | 2.9     |
| <b>Real consumption wage rate (Formal sector)</b>             |      | 97.32  | 98.08   | 98.86   | 99.66   | 100.45  | 101.26  | 102.07  |
| % change  |      | 2.36   | 0.78    | 0.8     | 0.8     | 0.8     | 0.8     | 0.8     |
| <b>Employment, formal sector</b>                              | Rm   | 8.757  | 9.172   | 9.576   | 9.911   | 10.228  | 10.596  | 10.988  |
| % change  |      | 5.44   | 4.74    | 4.4     | 3.5     | 3.2     | 3.6     | 3.7     |
| <b>Employment rate (formal and informal sectors) (LFS)</b>    | %    | 0.72   | 0.73    | 0.74    | 0.76    | 0.76    | 0.77    | 0.79    |
| % change  |      | 1.25   | 2       | 1.8     | 1.4     | 1.2     | 1.3     | 1.5     |
| <b>Labour productivity (formal and informal sectors)</b>      |      | 97.78  | 97.91   | 98.09   | 98.7    | 99.46   | 99.94   | 100.43  |
| % change  |      | -0.92  | 0.13    | 0.19    | 0.62    | 0.78    | 0.48    | 0.48    |
| <b>Nominal unit labour cost (formal and informal sectors)</b> |      | 0.45   | 0.45    | 0.48    | 0.48    | 0.48    | 0.49    | 0.49    |
| % change  |      | -0.8   | -0.65   | 8       | 0.15    | 0       | 0.3     | 0.3     |
| <b>Gross National Saving</b>                                  | Rm   | 197140 | 213361  | 225309  | 237025  | 248403  | 261071  | 274908  |
| % change  | 0.46 | 8.23   | 5.6     | 5.2     | 4.8     | 5.1     | 5.3     |         |
| <b>% of GDP</b>   |      | 14.22  | 14.01   | 14.57   | 14.22   | 13.91   | 13.73   | 13.59   |

Source: Afrim, February 2007

Note: Formal sector include both agricultural and non-agricultural sectors.

### 1.3.3 Gauteng

#### Sectoral composition

Although not geographically the largest province, the Gauteng provincial economy is responsible for generating a significant percentage of the national GDP. The historic average figure for the period 1995 to 2005 is 33.7%, and this is forecast to increase even further to an average of almost 36% over the forecast period.

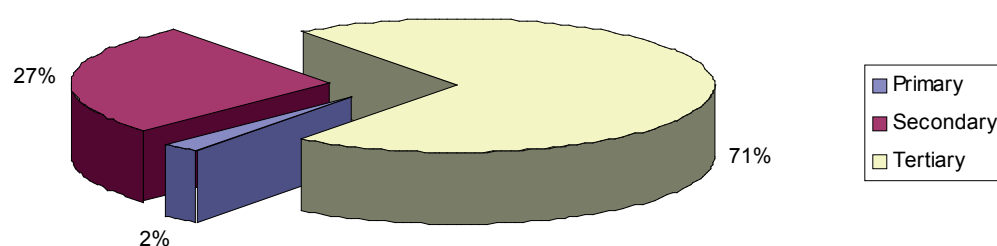
The regional economy displays a number of unique trends, giving rise to dynamic processes, posing its own strengths and challenges to policy makers. The sectoral composition is depicted in Table 1.3.

Although Gauteng is represented in the production outputs of all sectors, with the primary sector, and in particular, the agricultural sector contributing the least to gross provincial output. In line with the case nationally, the tertiary sector, comprising various service industries, produces the largest share in output. This historic trend is expected to continue, with an average share of 71% forecast for the period 2006 to 2010. The secondary sector is also in line with the national situation, with an average contribution of 27% forecast. Gauteng however has a much smaller primary sector (2% compared to 9% of national output) due to the absence of a meaningful agricultural sector and relatively low contributions from the mining sector in the province. A comparison of national and provincial sectoral contributions to output is depicted in Figure 1.15.

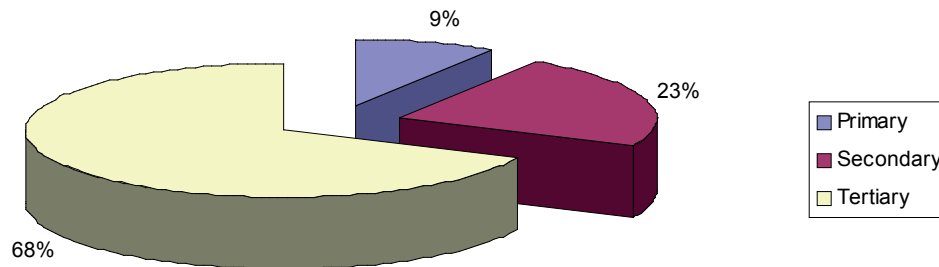
**Table 1.3: Gauteng Sectoral Composition, 2004 – 2010 percentages**

|   | 2004        | 2005        | 2006        | 2007        | 2008        | 2009        | 2010        |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Primary sector</b>                             | <b>2.9</b>  | <b>2.8</b>  | <b>2.6</b>  | <b>2.5</b>  | <b>2.4</b>  | <b>2.4</b>  | <b>2.9</b>  |
| Agriculture, forestry and fishing                 | 0.5         | 0.5         | 0.4         | 0.4         | 0.3         | 0.3         | 0.5         |
| Mining  | 2.4         | 2.3         | 2.2         | 2.1         | 2.1         | 2           | 2.4         |
| <b>Secondary sector</b>                           | <b>27.1</b> | <b>27.3</b> | <b>27.4</b> | <b>27.3</b> | <b>27.1</b> | <b>27</b>   | <b>27.1</b> |
| Food, beverages and tobacco                       | 2.4         | 2.4         | 2.4         | 2.3         | 2.3         | 2.2         | 2.4         |
| Textiles, clothing and leather goods              | 0.4         | 0.5         | 0.5         | 0.5         | 0.5         | 0.5         | 0.4         |
| Wood and paper; publishing and printing           | 2.1         | 2.1         | 2           | 2           | 2           | 1.9         | 2.1         |
| Petroleum products, chemicals, rubber and plastic | 4.7         | 4.6         | 4.5         | 4.6         | 4.7         | 4.8         | 4.7         |
| Other non-metal mineral products                  | 0.8         | 0.8         | 0.7         | 0.7         | 0.7         | 0.6         | 0.8         |
| Metals, metal products, machinery and equipment   | 5.8         | 5.7         | 5.6         | 5.5         | 5.4         | 5.3         | 5.8         |
| Electrical machinery and apparatus                | 0.7         | 0.8         | 0.8         | 0.8         | 0.8         | 0.8         | 0.7         |
| Radio, TV, instruments, watches and clocks        | 0.3         | 0.3         | 0.3         | 0.3         | 0.3         | 0.3         | 0.3         |
| Transport equipment                               | 1.9         | 2           | 2.1         | 2.1         | 2.1         | 2.1         | 1.9         |
| Furniture and other manufacturing                 | 2.2         | 2.2         | 2.2         | 2.1         | 2.1         | 2.1         | 2.2         |
| Electricity                                       | 2.1         | 2.1         | 2           | 1.9         | 1.8         | 1.8         | 2.1         |
| Water   | 0.3         | 0.3         | 0.3         | 0.2         | 0.2         | 0.2         | 0.3         |
| Construction                                      | 3.4         | 3.7         | 4.1         | 4.3         | 4.3         | 4.4         | 3.4         |
| <b>Tertiary sector</b>                            | <b>70.0</b> | <b>69.9</b> | <b>70.1</b> | <b>70.2</b> | <b>70.5</b> | <b>70.7</b> | <b>70.0</b> |
| Wholesale & retail trade                          | 14.4        | 14.7        | 15.2        | 15.6        | 15.9        | 16.2        | 14.4        |
| Catering and accommodation                        | 1           | 1           | 1           | 1           | 0.9         | 0.9         | 1           |
| Transport   | 5.2         | 5.3         | 5.2         | 5.2         | 5.2         | 5.2         | 5.2         |
| Communication                                     | 4.5         | 4.5         | 4.6         | 4.8         | 5           | 5.1         | 4.5         |
| Finance and insurance                             | 12          | 12.2        | 12.6        | 13          | 13.5        | 13.9        | 12          |
| Business services                                 | 12          | 11.7        | 11.9        | 12.1        | 12.2        | 12.4        | 12          |
| Community, social and other personal services     | 4.1         | 4.2         | 4           | 3.8         | 3.7         | 3.6         | 4.1         |
| General government services                       | 16.7        | 16.4        | 15.5        | 14.6        | 14          | 13.3        | 16.7        |

Source: Own Calculation Afrinem, 2007 and Quantec Research 2006

**Figure 1.13: National and Provincial Sectoral Contributions to Output**

RSA: Average contribution to value added at basic prices (constant 2000 prices), 2006-2010



Source: Own Calculation Afrimem, 2007 and Quantec Research 2006

At a more disaggregated level, certain sectors play a proportionately larger role in generating the provincial GDP over the forecast period. These include financial, insurance and business services responsible for 37% of tertiary sector output. General government services also plays an important role with an average contribution of 20%, while wholesale, retail, catering and accommodation is responsible for 23%.

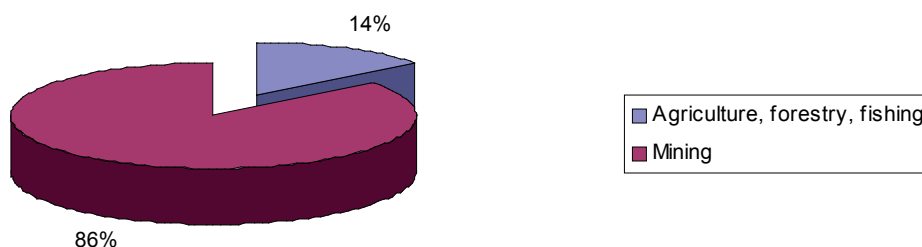
In the secondary sector, manufacturing overshadows the contributions of electricity gas and water and construction with a 77% share, while construction is responsible for 16% of output.

Within the manufacturing sector, the sector responsible for the largest contribution to regional output is the metal, metal products, machinery and equipment industry, followed by the sector for petroleum products, chemicals, rubber and plastic.

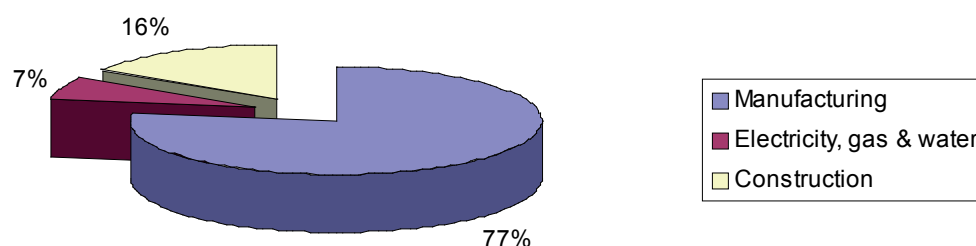
The overall contribution of the primary sector is very low, but within the sector, the contribution of mining is significantly greater than that of agriculture. The sectoral disaggregation discussed above is depicted in Figure 1.14 below.

Figure 1.14: Disaggregation of Provincial Sectoral Contributions

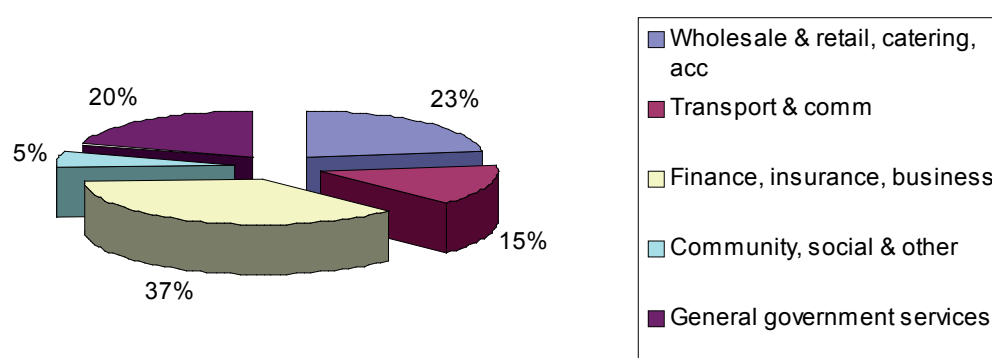
GAUTENG PRIMARY SECTOR: Average contribution to value added at basic prices (constant 2000 prices), 2006-2010



GAUTENG SECONDARY SECTOR: Average contribution to value added at basic prices (constant 2000 prices), 2006-2010



GAUTENG TERTIARY SECTOR: Average contribution to value added at basic prices (constant 2000 prices), 2006-2010



Source: Own Calculation Afrinem, 2007 and Quantec Research 2006

## Sectoral Output and Economic Growth

A forecast for sectoral output for Gauteng, as well as the national economy, based on the Afrinem macro-econometric forecast for the national economy and the 23 sector Input/output table for 2005 in constant 2000 prices (Quantec Research). Based on these gross value added figures, Figure 1.17 shows that the secondary and tertiary sectors of the Gauteng economy have outperformed the national economy over the historic period, and this trend is expected to continue over the forecasting period. The primary sector is expected to grow at lower rates than the other two sectors on the national level, with the primary sector of Gauteng displaying even lower growth. The expected contraction for 2006 should also be felt within the Gauteng province.

The secondary sector within Gauteng is expected to grow at an average rate of between 4% and 5% over the forecasting horizon, while this figure at the national level is lower, within the range of 3% and 4%. Slightly stronger growth is expected for the tertiary sector, both at provincial and national level. For the Gauteng province this figure might reach and even exceed levels of 6%, linked to the buoyant growth expected in the finance and business and wholesale and retail industries. The growth trend of the latter two sectors are in line with the overall macroeconomic forecast for the national economy as well as for Gauteng (see Figure 1.15). It is expected to follow the business cycle, slowing down for the first part of the forecasting period and picking up again towards the latter part.

Figure 1.15: Forecast of Sectoral National and Provincial Growth, 2006 – 2010

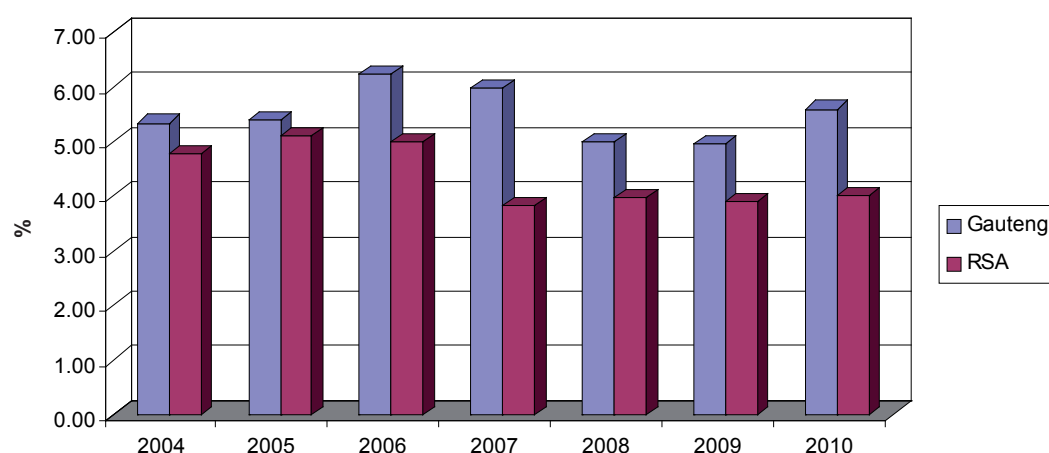


Source: Own Calculation Afrim, 2007 and Quantec Research 2006



**Figure 1.16: Forecast of Overall National and Provincial Growth, 2006–2010**

Total: Growth in gross value added at basic prices (constant 2000 prices)



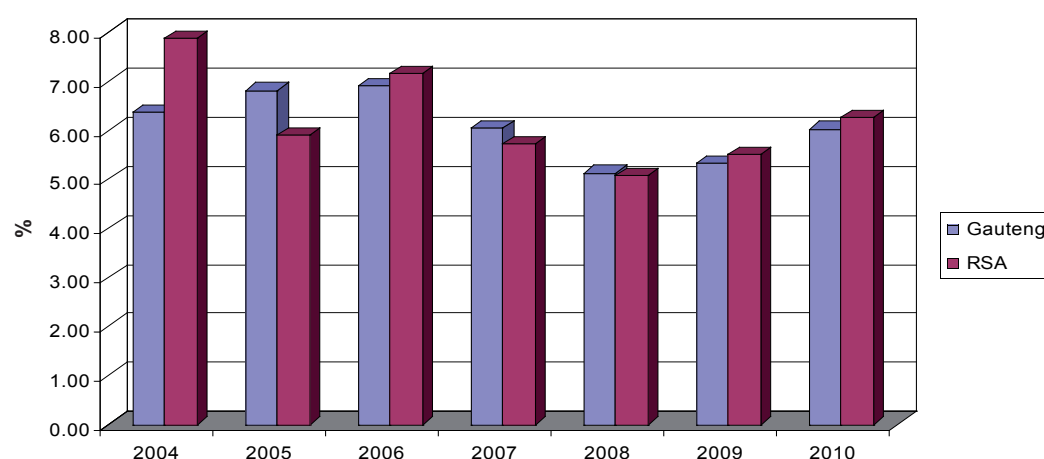
Source: Own Calculation Afrinam, 2007 and Quantec Research 2006

## Domestic Demand

The overall domestic demand outlook for Gauteng is similar to that of the national situation. GDE is expected to continue to grow stronger than expenditure on GDP over the forecasting horizon, exerting further pressure on domestic inflation and interest rates. All components of final demand are expected to contribute to this brisk rate of expansion, both nationally and provincially. Consumer expenditure is expected to remain lively with an increased propensity to utilise credit. Expansion in gross fixed capital formation, in the wake of the 2010 Soccer World Cup, is expected to remain robust, while government, on both national and provincial levels, is expected to add to the growth impetus through its accelerated roll-out of social welfare spending and infrastructural development.

**Figure 1.17: Forecast of Growth in Final Demand, RSA and Gauteng, 2006 – 2010**

Growth in final demand (GDE) (constant 2000 prices)



Source: Own Calculation Afrinam, 2007 and Quantec Research 2006

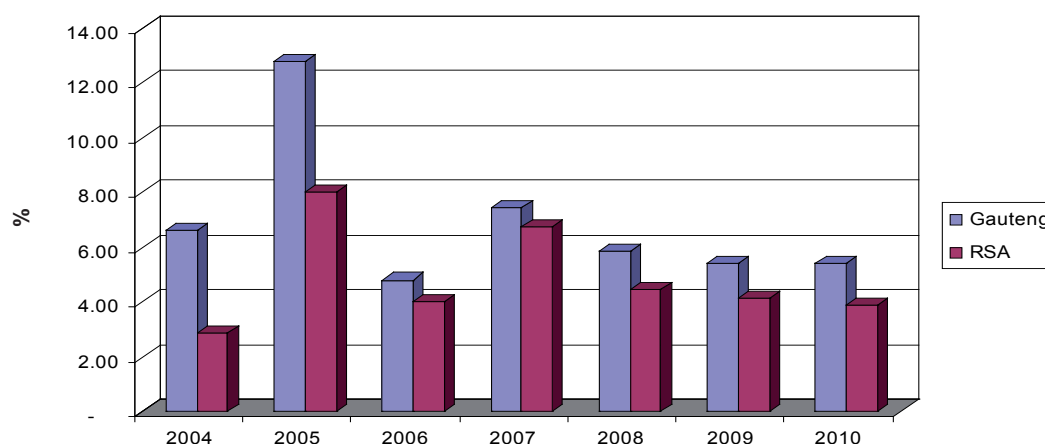
## Exports

Export growth is expected to decline slightly from its recovery in 2007 but retain a respectable annual expansion of between 5% and 6% over the forecasting period. The slightly lacklustre export performance is mainly driven by the assumptions of a slower global recovery as well a slower rate of expansion in the Chinese economy than experienced during the first part of the 2000s. Increased geopolitical tension will further hamper the rate of global recovery, leading to slightly softer commodity prices in future.

However, the growth in exports in Gauteng is expected to outshine the growth in export performance in the national economy. A detailed breakdown of expected sectoral exports over the forecasting period is provided in Table 1.4.

**Figure 1.18: Forecast of Export Growth, RSA and Gauteng, 2006 – 2010**

Growth in exports (constant 2000 prices), 2006 - 2010



Source: Own Calculation Afrinem, 2007 and Quantec Research 2006

**Table 1.4: Forecast of Gauteng Sectoral Exports (R millions, Constant 2000 prices)**

|   | 2004   | 2005   | 2006   | 2007   | 2008   | 2009   | 2010   |
|---|--------|--------|--------|--------|--------|--------|--------|
| Agriculture, forestry and fishing                 | 2,206  | 2,365  | 2,122  | 2,567  | 2,555  | 2,580  | 2,592  |
| Mining  | 11,813 | 10,324 | 11,338 | 11,949 | 11,988 | 12,042 | 12,000 |
| Food, beverages and tobacco                       | 2,206  | 2,862  | 2,746  | 2,952  | 3,131  | 3,298  | 3,490  |
| Textiles, clothing and leather goods              | 816    | 1,140  | 1,081  | 1,354  | 1,386  | 1,438  | 1,486  |
| Wood and paper; publishing and printing           | 2,583  | 3,721  | 3,601  | 4,402  | 4,586  | 4,823  | 5,068  |
| Petroleum products, chemicals, rubber and plastic | 12,170 | 11,542 | 10,365 | 10,622 | 11,477 | 12,218 | 13,096 |
| Other non-metal mineral products                  | 1,056  | 1,176  | 1,101  | 1,241  | 1,321  | 1,401  | 1,488  |
| Metals, metal products, machinery and equipment   | 29,692 | 38,671 | 42,657 | 48,285 | 51,087 | 54,042 | 57,339 |
| Electrical machinery and apparatus                | 1,576  | 1,664  | 2,194  | 2,070  | 2,226  | 2,344  | 2,492  |
| Radio, TV, instruments, watches and clocks        | 3,098  | 3,415  | 3,524  | 3,412  | 3,807  | 4,158  | 4,601  |
| Transport equipment                               | 7,973  | 9,912  | 10,915 | 10,765 | 11,965 | 13,033 | 14,368 |
| Furniture and other manufacturing                 | 7,000  | 6,455  | 6,954  | 7,402  | 8,016  | 8,631  | 9,417  |
| Electricity                                       | 116    | 129    | 136    | 158    | 163    | 169    | 174    |
| Water   | -      | -      | -      | -      | -      | -      | -      |
| Construction                                      | 16     | 18     | 21     | 27     | 27     | 28     | 28     |
| Wholesale & retail trade                          | 4,202  | 4,527  | 4,469  | 4,618  | 4,774  | 4,900  | 4,883  |
| Catering and accommodation                        | 1,503  | 1,654  | 1,596  | 1,685  | 1,783  | 1,870  | 1,908  |
| Transport   | 4,402  | 4,643  | 4,651  | 4,803  | 4,964  | 5,091  | 5,071  |
| Communication                                     | 1,746  | 2,093  | 2,154  | 2,256  | 2,371  | 2,474  | 2,513  |
| Finance and insurance                             | 2,477  | 2,660  | 2,605  | 2,224  | 2,374  | 2,457  | 2,492  |
| Business services                                 | 1,865  | 2,161  | 2,255  | 2,402  | 2,569  | 2,725  | 2,812  |
| Community, social and other personal services     | 295    | 332    | 341    | 343    | 352    | 359    | 355    |
| General government services                       | -      | -      | -      | -      | -      | -      | -      |

Source: Own Calculation Afrinem, 2007 and Quantec Research 2006

## 1.4 Conclusion

The national economy is set to continue on its present course with positive growth over the forecasting period ranging between 4% and 5% per annum. The true growth potential is however still hampered by capacity constraints on the supply side of the economy, which if addressed effectively, could unleash a much higher – and sustainable – real economic growth. Furthermore, the persistent outstripping of output by domestic expenditure culminates into an overheated economy, putting additional pressure on prices. Corrective measures in the form of contractionary monetary policy, will also contribute to a slightly lacklustre economic growth performance. Attainment of the ASGISA goals, especially regarding the poverty goals is critically depend on government's ability to improve the overall effectiveness of service delivery.

The outlook for Gauteng's economy is slightly more positive than for the national economy, with provincial growth rates expected to exceed that of the national economy. The star growth performers in the provincial economy are expected to be in the secondary and tertiary production sectors, the construction, manufacturing and retail sectors expect to record healthy expansions over the forecasting horizon.

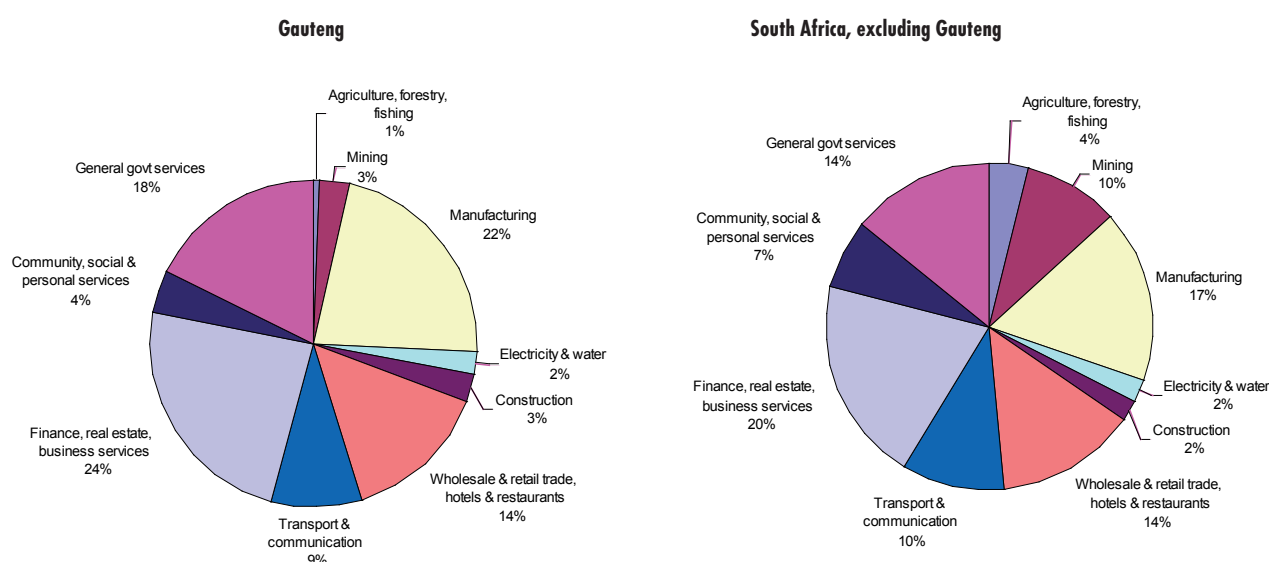


# Chapter 2: Gauteng Sectoral Growth and Employment

## 2.1 Introduction

The Gauteng economy is by far the largest provincial economy in South Africa. Indeed, Gauteng is the industrial and financial powerhouse of the southern African region. Gauteng accounted for 34% of South Africa's total GDP in 2005 (with 19.5% of the population and 24% of households in 2004), while the shares in sectors such as manufacturing and financial and business services are much higher at 41% and 37% respectively. This is reflected in the greater importance of these sectors in Gauteng as compared to the rest of the country (as shown in Figure 2.1). General government services are also more important in Gauteng, reflecting the location of the national government departments in Gauteng. Together with the inland position of the province, its sectoral composition is crucial for understanding the economic patterns over recent years, and the development challenges ahead.

Figure 2.1: Sector Shares in Regional GDP, 2005



Source: Derived from Quantec Regional Data, 2006

While Gauteng now has little activity in the primary sectors of agriculture and mining (with the province accounting for just 6.3% and 14% respectively of the country's GDP in these sectors) it also has a relatively low share of resource-intensive industries such as aluminium and stainless steel which tend to be export-oriented. In addition, it has not historically been a base for products such as clothing, textiles and footwear which have been decimated in the past decade by import competition.

Gauteng represents the hub of activity in diversified manufactures, whose competitiveness depends on production capabilities rather than simply labour or natural resource cost. The performance of these industries relies on a bundle of factors coming together, including investment in appropriate equipment and know-how, good infrastructure, skills, and efficient complementary services. While the main demand driver is undoubtedly domestic, it is essential that these sectors are internationally competitive given the openness of the South African economy.

It is similarly important to disaggregate the broad services grouping as this includes very diverse activities ranging from financial services, legal services and conference facilities through to security services and outsourced cleaning and catering. The information and communication technology (ICT) revolution is also a key factor in services growth. But, it is important to recognise that many services, including ICT, rely for their demand on activity elsewhere in the economy and are not standalone sources of income generation. The application of improved services enables us to be better at what we are doing already. In addition, some of the apparent growth is just a shifting of activity that was previously done in-house and is now outsourced and therefore recognised as a service.

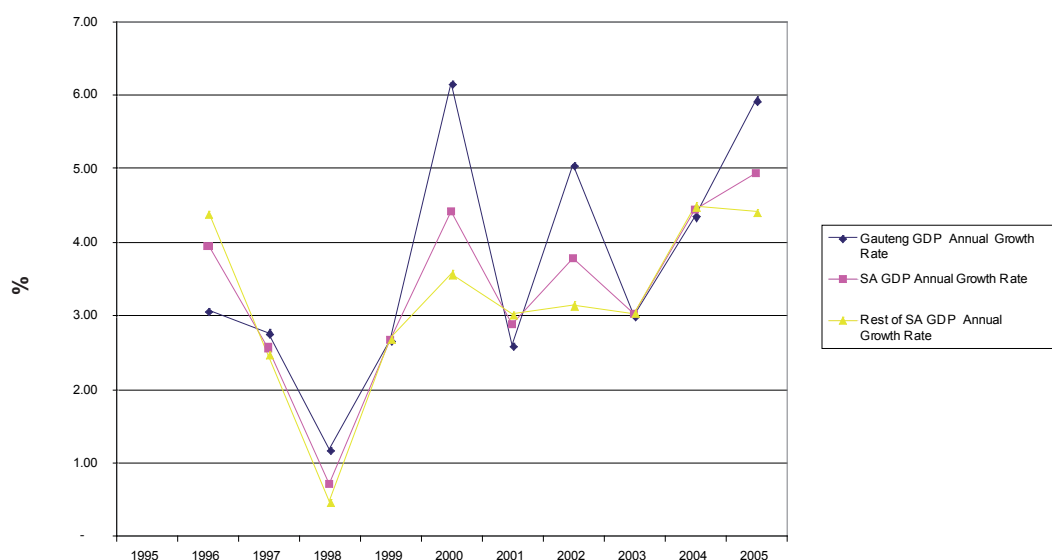
This chapter therefore disaggregates the performance of the Gauteng economy and explores what lies behind it. Recognising the structure of the Gauteng economy is important for interpreting the patterns of change and main influences at work in recent years, as well as in situating Gauteng in the broad thrusts of National Government policy. These include the ASGISA initiative, and the major infrastructure investment programme which is currently underway. Analysis of these patterns is an important part of anticipating the development challenges ahead, as well as in understanding the implications of different development paths for outcomes in terms of employment creation and poverty reduction.

## 2.2. Gauteng's Performance Relative to the Rest of South Africa, 1995-2005

Over the last decade, Gauteng has out-performed the national economy, growing at an annual average rate of 3.7% compared with 3.3% for the economy as a whole. As a result, Gauteng's GDP grew from R269 billion in 1995 to R384 billion in 2005 in real terms.

In some years, Gauteng substantially outperformed the rest of the country, such as in 2000, 2002 and 2005 (Figure 2.2). This is due to the greater importance of high growth sectors in the Gauteng economy, which have underpinned higher growth in recent years. In addition, the Gauteng economy has been less subject to the import competition following trade liberalisation which has negatively impacted on coastal industrial economies.

Figure 2.2: Annual GDP Growth Rate Trends for Gauteng, SA and Rest of SA



Source: Derived from Quantec Regional Data, 2006

In 2005, Gauteng contributed 34% of national output. With the exception of agriculture and mining which contributed only 6.3% and 14% respectively; all other sectors of Gauteng made up a substantial share of national output of 30% or more in 2005. Construction had the largest national share of 41.9% followed by manufacturing construction (40.1%), general government services (39.0%) and financial and business services (37.3%). The performance of Gauteng can evidently not be understood without assessing the factors which underpin the performance of these sectors nationally. To a very large extent these sectors underpin the Gauteng economy, as the largest industrial region on the continent. The construction boom in very recent years is also largely a Gauteng phenomenon, although the sector is still small in the overall picture.

## 2.3 Primary Industries

Agriculture in Gauteng is small and declining, while Gauteng has made a diminishing contribution to the nation's agricultural output. Gauteng's share in South Africa's agricultural GDP was just 6.3% in 2005 down from 9.4% in 1995. However, the poor output performance contrasts with better employment performance. Gauteng has grown agricultural employment, albeit at modest rates averaging just above 2% per annum in the past decade, while in the rest of South African agricultural employment has declined. This suggests more labour-intensive farming in the Province, such as the cultivation of fresh vegetables for delivery to urban supermarkets.

The Gauteng economy is historically based on mining, and specifically gold mining, which accounts for its inland location far from major waterways and ports. Mining is also at the heart of industrial development in South Africa, and of the southern African region.

In the past decade, mining has fared relatively poorly, with an average real decline in output of 2.4% per annum. Of great importance for Gauteng is that gold mining has declined steadily over the past decade, while other minerals led by platinum have gradually taken over. These minerals are found elsewhere in the country, with the result that Gauteng's share of national mining output has declined from 19.8% in 1995 to 14% by 2005.

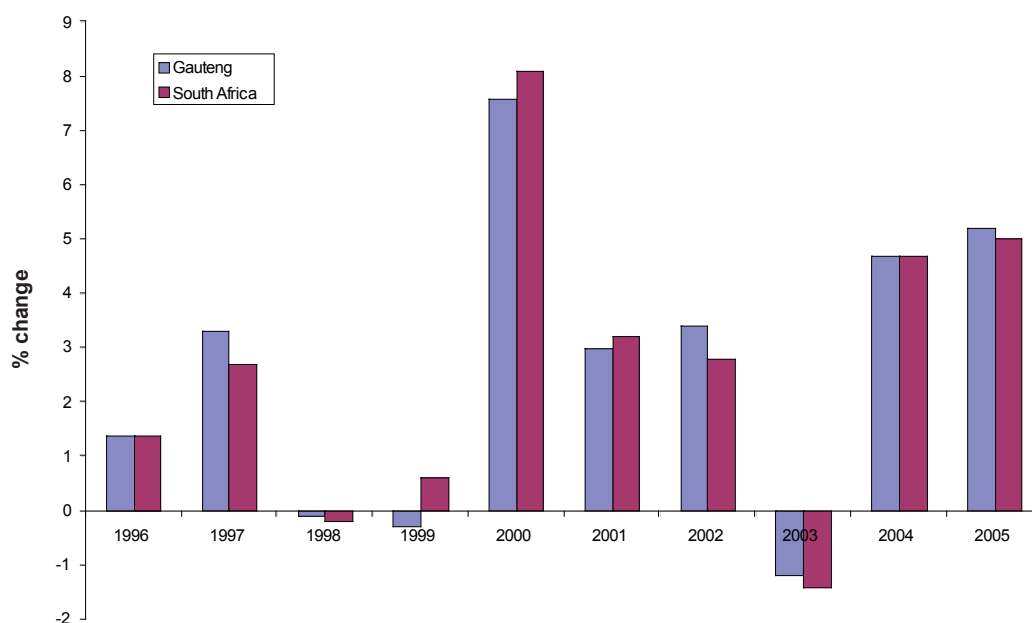
Gold is extracted in Gauteng through deep-level mining, in some of the deepest mines in the world. This also means it is relatively labour-intensive compared to the mining of other minerals. Since 1995 the poor performance of mining in general and gold mining in particular meant that approximately 62,000 jobs in the mining sector were lost in Gauteng, or almost one third of those employed in 1995. Gauteng, however, still accounted for 29% of South Africa's employment in mining in 2004, even after the large job losses.

## 2.4 Secondary Industries

### 2.4.1 Manufacturing

The importance of Gauteng in national manufacturing production and employment means that it has undergone the same roller-coaster that has characterised industry in the country as a whole under the far reaching liberalisation of the economy. While Gauteng manufacturing has recorded an average annual production growth of 2.7% per annum over the past decade, this average masks several high growth years and many years in which the sector stagnated or contracted (Figure 2.3). It performed particularly poorly from 1995 to 1999, with two years of recession. But, from 1999 to 2005 production has grown by 3% or more in each year but one, with growth in value added of 4.7% and 5.2% in 2004 and 2005 respectively.

Figure 2.3: Annual Growth in Manufacturing Value-Added, Gauteng & South Africa



Source: Derived from Quantec Regional Data, 2006

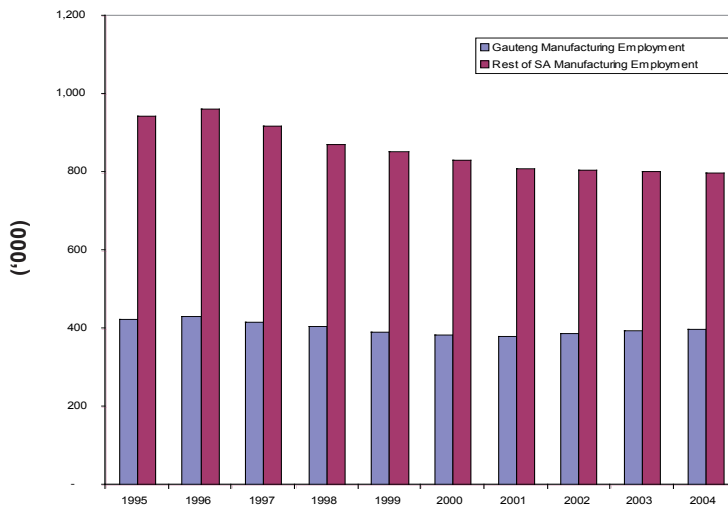
The importance of internationally competitive and diversified manufacturing for higher levels of sustained and shared growth has been recognised by government in the ASGISA initiative. It is also highlighted in recent analysis undertaken by the Harvard team of economists advising South Africa.<sup>1</sup> The ASGISA initiative further emphasises the importance of the massive infrastructure underway by government and state-owned enterprises such as Eskom and Transnet as stimulus to local manufacturing. The diversified machinery, equipment and other inputs required will largely be made in Gauteng if they are not to be imported. This represents a huge challenge

<sup>1</sup> See Rodrik, *Understanding South Africa's Economic Puzzles*, CID Working Paper no 130, August 2006; Hausman and Klinger, *South Africa's Export Predicament*, CID Working Paper no 129, August 2006

to the Province, and means successfully addressing the challenges of international competitiveness such as skills upgrading and investment in new production capacity.

In the past decade, however, the volatility in production linked to the far-reaching restructuring has been matched by poor employment outcomes, albeit less worse in Gauteng than nationally. Figure 2.4 below shows that manufacturing employment growth decreased on average by 0.7% per annum in Gauteng and by 1.8% per annum for the rest of South Africa in the last ten years.

**Figure 2.4: Employment in the Manufacturing Sector, Gauteng and Rest of SA, 1995-2004**

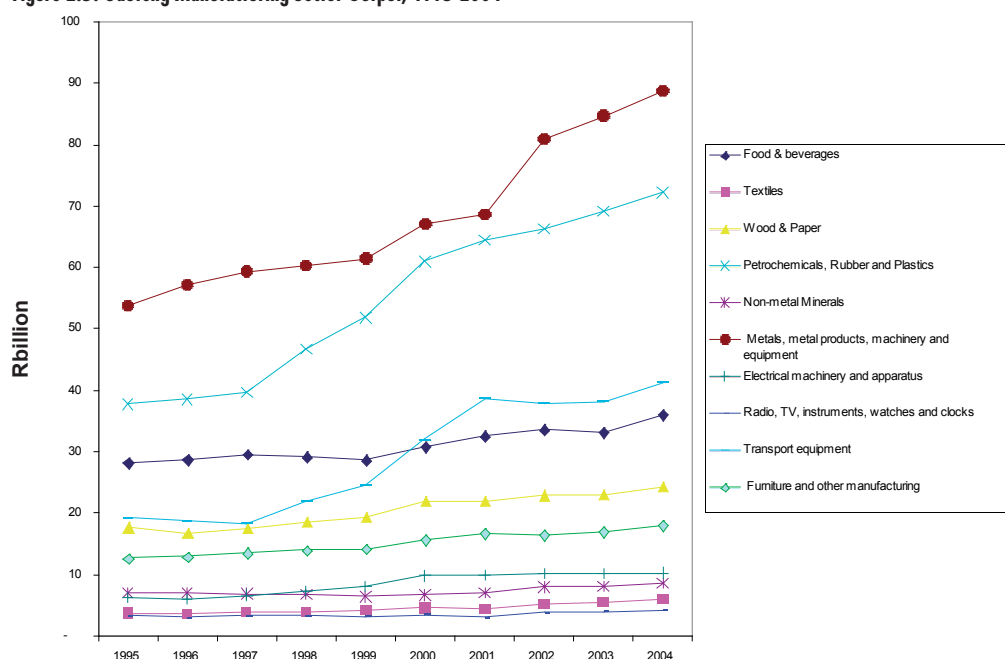


Source: Derived from Quantec Regional Data, 2006

To understand the patterns of change and likely future trends and opportunities it is necessary to disaggregate manufacturing to examine performance at the sectoral level.

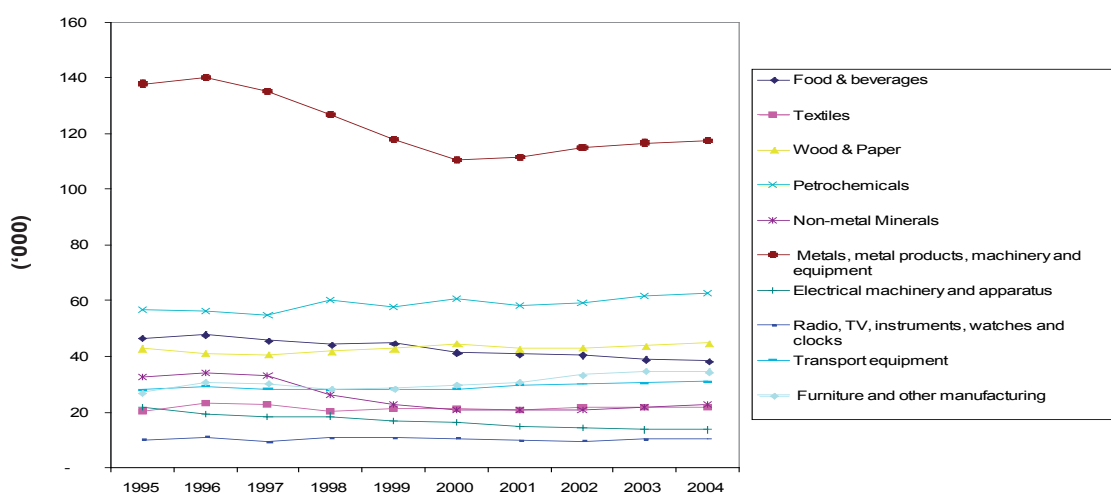
The largest sectors of metals, metal products and machinery, and of chemicals, rubber and plastic products have both increased output over the period in Gauteng (Figure 2.5). There has also been strong growth in automotive and other transport equipment, mainly due to growth in the motor vehicle industry in locations such as Rosslyn. However, while metals include the labour-intensive metals fabrication and machinery manufacturing activities it also includes the highly capital-intensive manufacture of basic steel products.



**Figure 2.5: Gauteng Manufacturing Sector Output, 1995-2004**

Source: Derived from Quantec Regional Data, 2006

The difference in performance of the metals, metals products, machinery and equipment sub-sector within the manufacturing sector have contributed in the massive retrenchments in the late 1990s in Gauteng and nationally (Figure 2.6). This was a period when the national data reveal that both metal products and machinery stagnated, while basic iron and steel grew value-added at an average annual rate of 9.6% from 1995 to 2000.

**Figure 2.6: Gauteng Manufacturing Sector Employment Trends, 1995-2004**

Source: Derived from Quantec Regional Data, 2006

In many ways the metals and machinery industry sector epitomises the challenges of reorienting industry to a more broad-based, shared growth path, that is, one that is labour-absorbing rather than based on capital-intensive sectors and competitive based on South Africa's minerals endowment and cheap energy. Much of basic steel production has been exported without further beneficiation, while South Africa imports finished metal products, and products with substantial metal components. The machinery sector is one that should benefit from increased investment levels if it can meet the challenges of international competitiveness vis-à-vis imports.

The chemicals, rubber and plastic product grouping has performed somewhat better in terms of employment, with some growth over the period (Figure 2.6). This industry has been identified as a priority sector by Government

thus reflecting the potential in chemicals and plastic products. This includes increasingly sophisticated products resulting from Research and Development (R&D), and the replacement of other materials such as glass and metal with plastics.

Wood and paper, automotive and transport equipment and furniture and other manufacturing have also all registered small absolute increases in employment over the past decade, while there have been large employment reductions in non-metallic minerals (which include bricks and cement manufacture) as well as in electrical machinery. Both of these developments reflect low levels of investment in infrastructure and electricity distribution which ASGISA seeks to rectify. The construction boom has already meant a turnaround in fortunes with demand outstripping supply in cement, and major expansions in production being planned as a result.

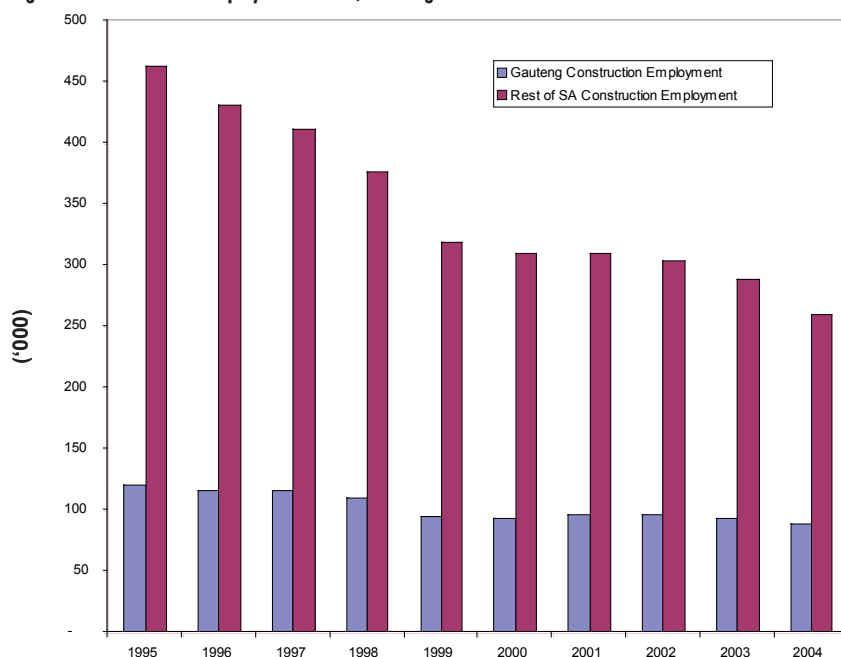
## 2.4.2 Construction

Nowhere is the effect of moving from a tight to a neutral macroeconomic policy (in terms of government spending and interest rates) more evident than in construction activity. Construction value-added has grown in excess of 10% per annum in Gauteng in every year from 2001, in real terms. This followed poor performance in the second half of the 1990s, including a contraction of almost 10% in one year, 1998. The Gauteng construction boom in recent years has also outstripped the national average growth rates. As a result, Gauteng accounted for 41.9% of all construction activity in South Africa in 2005, up from 35.6% in 2001.

Construction activity is effectively a dependent sector that is not self-sustaining. It is driven by aggregate spending, from income derived elsewhere in the economy, and confidence in the housing market and in commercial property such as shopping malls. For the sources of growth we must therefore look elsewhere, to understand the performance of the sector and whether it is sustainable or fragile.

A third driver of construction activity is investment spending by government and the private sector in physical infrastructure such as railways. This last area has also started to grow rapidly in the past year or so. Very surprisingly, there appears to be no job creation in construction in Gauteng or nationally, even in the recent high growth periods (Figure 2.7). A more plausible explanation is that, after retrenchments in the late 1990s recession in construction, firms have shifted from direct employment to labour broking contracts. Employment creation in these less secure jobs is not properly showing up in the formal construction employment figures. In addition, there is likely to be substantial employment in micro and small firms engaged in housing-related construction which is also not properly reflected in the data.

Figure 2.7: Construction Employment Trends, Gauteng and Rest of SA



Source: Derived from Quantec Regional Data, 2006

The challenge is for construction linked to fixed investment in infrastructure to take over as the core and for the development of the more specialised skills required in construction, including structural steel work, electrical installation and plumbing. These are not fostered by insecure labour-brokering arrangements but require improved training opportunities, supported by longer-term employment security. Sustained higher levels of growth require anticipation of demand growth by firms, which in turn depends on firms' confidence in the growth projections.

### **2.4.3 Water and Electricity**

The water and electricity sector is small, accounting for just 2% of Gauteng's total Gross Geographic Product (GGP) in 2005. Gauteng still accounted for 32.6% of national value-added in these activities, reflecting the large population and industry density in the province. However, here again some growth in production has been accompanied by job losses as firms have sought to restructure their operations and introduce efficiencies.

## **2.5 Tertiary Industries**

Overall growth in both output and employment has been much higher in tertiary sectors than in the primary or secondary sectors. This may suggest that South Africa can look to services, for a long-run growth in trajectory that could be characterised as 'post-industrial'. But, first it is necessary to understand whether the services growth is based on sources which are independent and self-sustaining or whether it is based on income and demand generated elsewhere in the economy to which we must look for the drivers of that growth.

It is also important to distinguish between growth due to the widespread adoption of ICT in the economy, whose use depends on the planning, production, distribution and retail of products, as well as the leisure consumption, entertainment and communication of individuals.

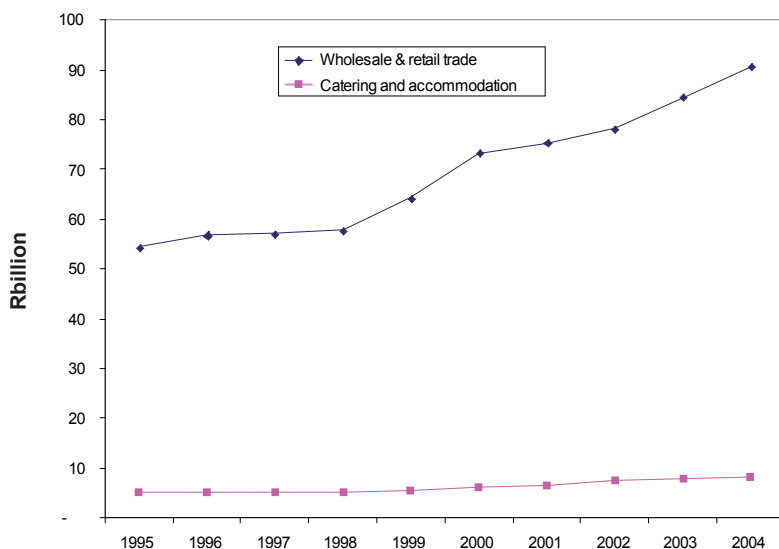
At the national level, where more disaggregated data are available, it is striking that the highest growth sectors (of finance and communication) have not been the ones generating employment. The employment creation has instead largely occurred in business services and in wholesale and retail trade. While financial services have gradually spread to the mass of the population, and there has been enthusiastic take-up of mobile telephony, this has been achieved mainly through more sophisticated information and communication technologies. Furthermore, while both make the economy function more efficiently, continued growth in their use depends on the overall health of the economy in terms of other income generating production activities.

In terms of the employment generators, the trade sector reflects the greater importance of distribution, marketing and retail activities in the economy, much of it is of imported consumer goods. The business services sector covers a wide range of activities from legal and accounting services to cleaning, security and labour contracting services. A clue as to where job growth has mostly occurred in this sector is provided by the trend in average remuneration. Over the past decade, the average remuneration per employee in the business services sector was just R21, 194 per annum in real terms, and has declined over the past decade as employment increased.

The big picture at national level is mirrored in Gauteng, as expected given its position as the economic hub and financial centre of the country and wider region.

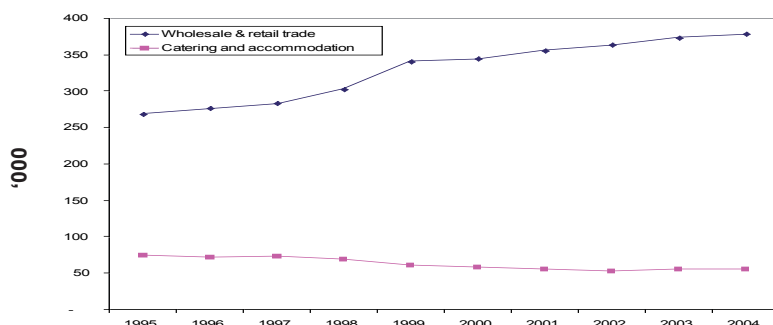
### **2.5.1 Wholesale, Retail Trade and Catering and Accommodation**

Gauteng's share in the national GDP for this sector has remained stable over the past decade at around 35%. The overwhelming majority of the activity in Gauteng is in the wholesale and retail trade sub-sector (Figure 2.8). Catering and accommodation has also grown strongly over the period but from a much lower base.

**Figure 2.8: Gauteng Output for the Wholesale, Retail, Catering & Accommodation Sector**


Source: Derived from Quantec Regional Data, 2006

There has also been substantial employment growth, at a slightly higher rate than in the country as a whole (an average annual growth of 2.6%). However, all of the job creation has been in wholesale and retail trade which increased employment from 268, 000 in 1995 to 378, 000 in 2004 (Figure 2.9). By comparison, catering and accommodation recorded fewer formal jobs.

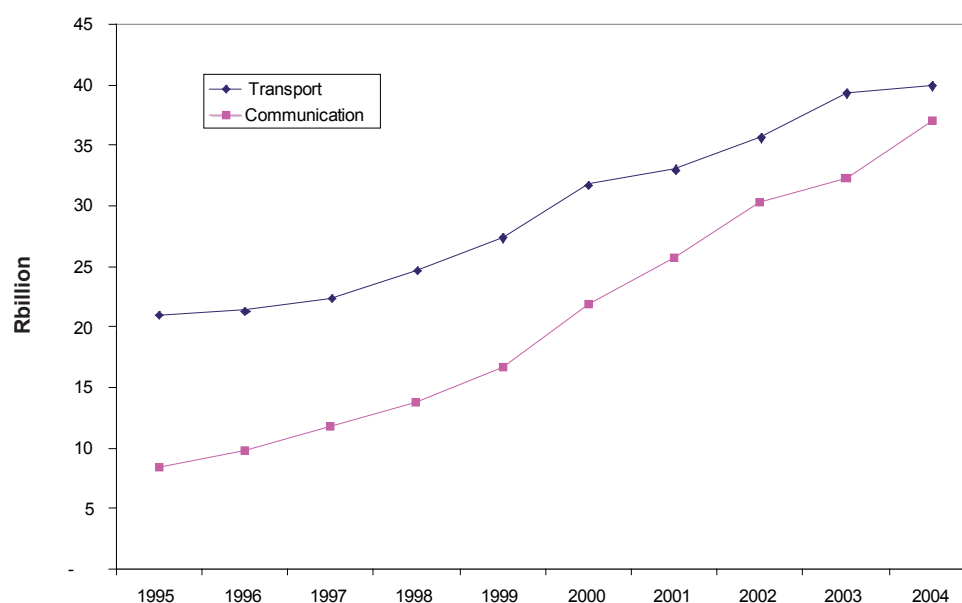
**Figure 2.9: Gauteng, Retail, Catering and Accommodation Sector Employment**


Source: Derived from Quantec Regional Data, 2006

## 2.5.2 Transport and Communication

Transport and communication has been the fastest growing sector, as reflected both in Gauteng and nationally over the past decade. Moreover, Gauteng's growth has outstripped the country as a whole, with growth rates above 5% in each and every year over the past decade, and a high of 12.9% in 2000. Gauteng accounted for 31.2% of national GDP in this sector in 2005, with KwaZulu-Natal second with a share of 22% due to the location of the main port in the country which is situated in Durban and the associated logistics, together with Richard's Bay harbour as well.

In Gauteng the rapid growth has been driven by communications, which has more than quadrupled in value in the past decade (Figure 2.10). While the transport sub-sector accounted for 71% of the output in 1995 and with communication accounting for 29%; by 2004 the communication sub-sector's share increased to 48% while that of transport decreased to 52%, this is to be expected especially under the backdrop of high cell phone usage.

**Figure 2.10: Gauteng Transport and Communication Sector Output**

Source: Derived from Quantec Regional Data, 2006

Overall between 1995 and 2004, the sector has shed almost 28, 000 jobs. While there has been growth in employment in areas such as cell phones and air travel, the two largest employers, Telkom and Transnet, have both undergone massive restructuring and down-sizing, especially in the late 1990s. Other areas, such as the taxi industry are not properly recorded meaning that employment in such activities is under-recorded.

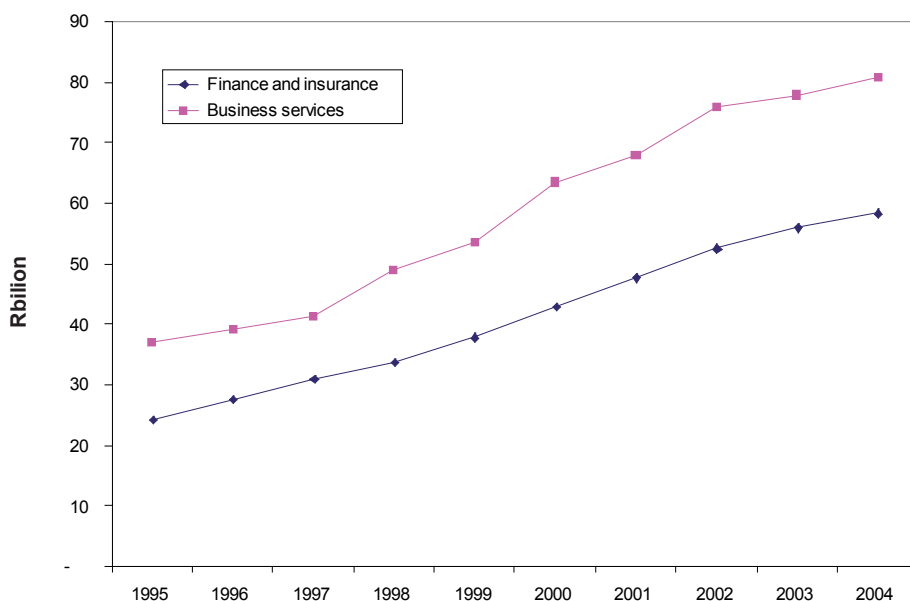
### 2.5.3 Finance and Business Services

As noted above, the sector is now the single largest grouping in terms of output both in Gauteng and in the country as a whole. Output of this sector experienced the second fastest growth amongst all sectors in South Africa and Gauteng. Gauteng's share of national output for this sector has grown from 34.9% in 1995 to 37.3% in 2005.

Employment within this sector has also grown very strongly, although at a slightly slower average annual rate of 4.8% for Gauteng, compared with 6.6% for the rest of South Africa. In Gauteng these activities recorded a net increase of 185, 000 jobs.

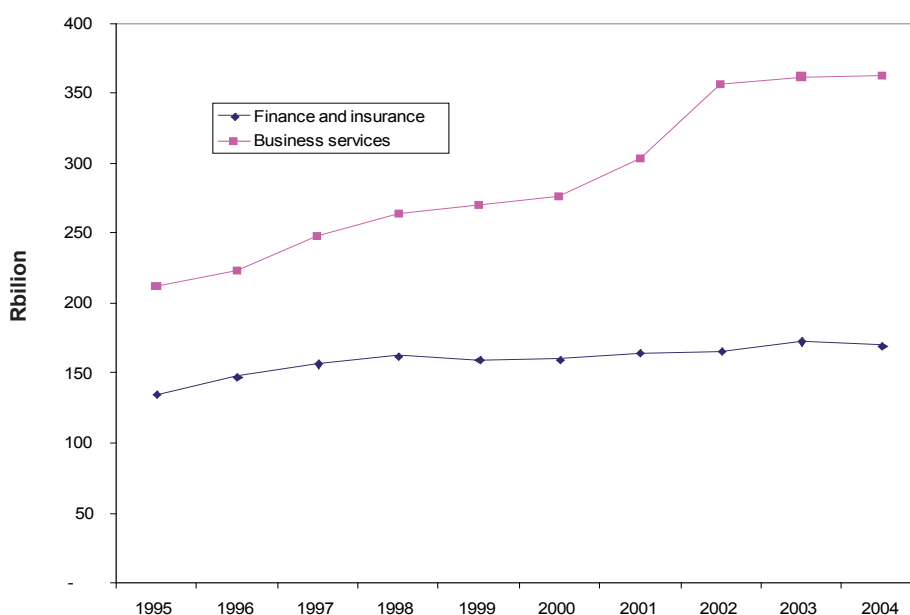
While strong output growth has been maintained in both finance and insurance and the business services sub-sectors (Figure 2.11), the employment growth is almost entirely in business services, which accounted for 150, 000 of the new jobs (Figure 2.12).

Figure 2.11: Gauteng Finance and Business Sector Output



Source: Derived from Quantec Regional Data, 2006

Figure 2.12: Gauteng Finance and Business Services Employment

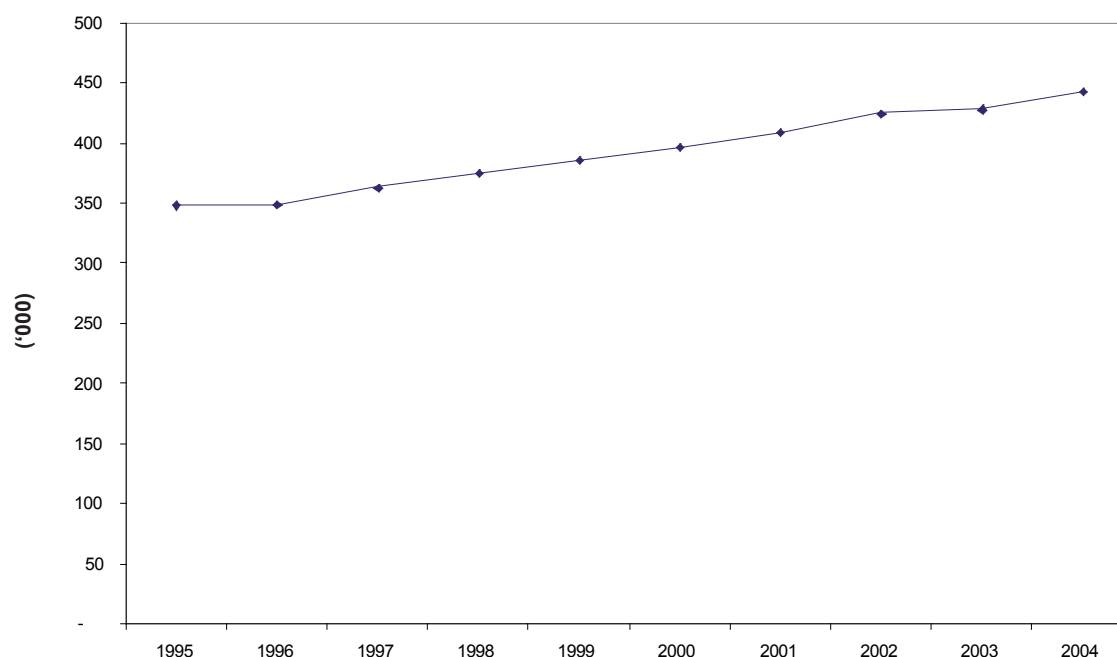


Source: Derived from Quantec Regional Data, 2006

## 2.5.4 Community, Social and Personal Services

Gauteng accounted for 24.1% of national GDP in this sector in 2005. The sector accounted for 3% of Gauteng's total output in 1995 and 2004. It also accounted for 33% of national sector output and 30% of national sector employment 2004. The value of output for the sector amounted to R16 billion and R28 billion in 1995 and 2004 respectively; which represents an increase of R12 billion. Its average annual output growth was 2.7% for the last ten years and 4.7% for the last five years and has outperformed that for the rest of SA.

This sector employed 349, 000 people in 1995; and 443, 000 people in 2004; creating 94, 000 additional jobs (Figure 2.13). Its average annual employment growth rates were 1.6% and 1.7% for the last ten and five years respectively. The annual average employment growth rate for this sector has outperformed that of the rest of SA over the period under review at 1.6% versus 0.05% for the rest of SA in the last ten years and 1.7% versus -0.22 % for rest of SA in the last five years.

**Figure 2.13: Gauteng Community, Social and Personal Services Sector Employment**

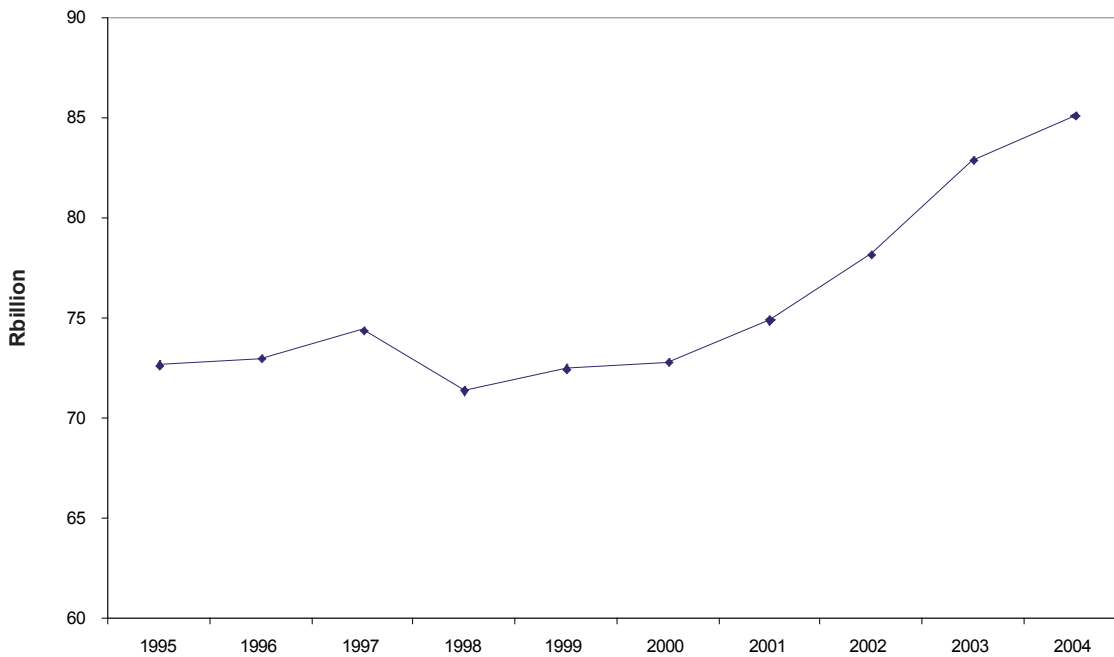
Source: Derived from Quantec Regional Data, 2006

### 2.5.5 Government Services

Gauteng accounted for 39.7% of national GDP in this sector in 2005. The sector accounted for 15% of Gauteng's total output in 1995 and its share decreased to 10.5% in 2004. It also accounted for 39.7% of the national sector contribution in 2005 and 26% of national sector employment 2004. The value of output for the sector amounted to R73 billion and R85 billion in 1995 and 2004 respectively; an increase of R12 billion.

Growth for this sector has increased relatively steadily since 2000. Its average annual output growth was 1.75% for the last ten years and 3.57% for the last five years and has been outperformed by that of the rest of SA with average annual output growth rates of 3.52% over the last ten years and 5.18% over the last five years.

**Figure 2.14: Gauteng Government Services Sector Output Trends, 1995-2004**

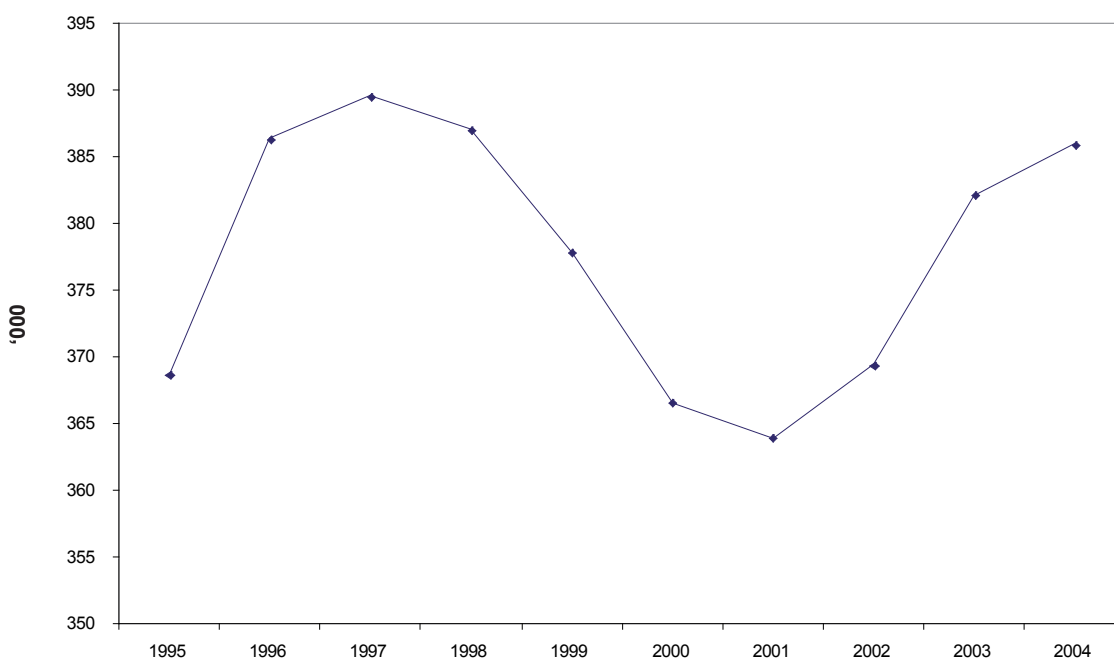


Source: Derived from Quantec Regional Data, 2006

This sector employed 369, 000 people in 1995; and 388, 000 people in 2004; creating 21, 000 additional jobs. Employment for this sector increased between 1995 and 1997. It started to decline from 1997 until 2001 when it started increasing again and continues to increase.

Its average annual employment growth rates were 0.46% and -1.03% for the last ten and five years respectively. Annual average employment growth rate for this sector has outperformed that of the rest of SA over the period under review at 0.46% versus -0.21% for the rest of SA in the last ten years and 1.03% versus 0.53% for rest of SA in the last five years.

**Figure 2.15: Gauteng Government Services Sector Employment Trends, 1995-2004**



Source: Derived from Quantec Regional Data, 2006



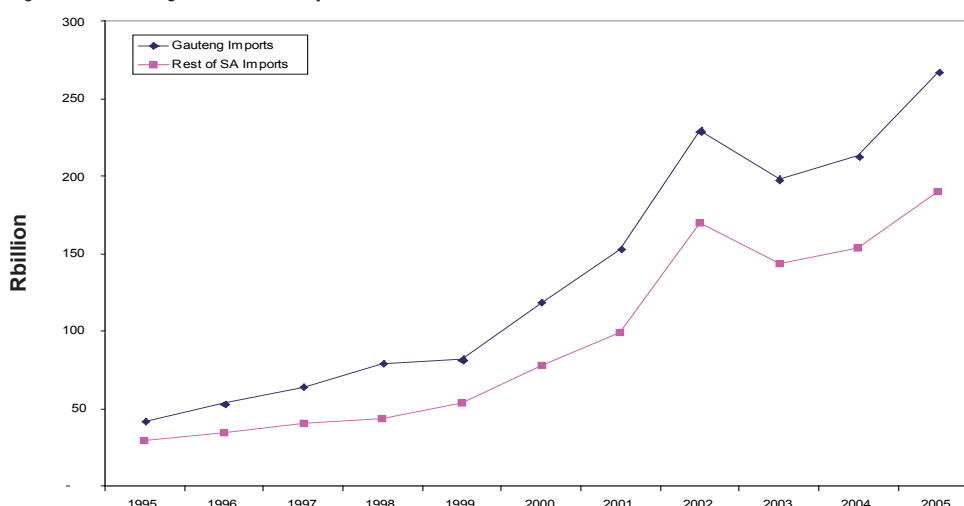
## 2.6 Gauteng Trade Patterns

Gauteng is the key driver of South African trade, accounting for over 60% of imports and exports. It is also the main centre of trade between the country's regions, importing inputs from other regions while exporting manufactured goods. Overall, Gauteng's main exports are low value less sophisticated products on the one hand and more sophisticated transport equipment. Imports are mainly sophisticated goods such as machinery, instrumentation; vehicles and transport equipment. Over the past ten years the province has mainly run a trade deficit with the exception of a few years. Its trade deficit has been much higher than the rest of SA. However, it appears that Gauteng mirrors the country's trade deficit pattern and is largely responsible for it.

### 2.6.1 Imports from the World

Gauteng accounts for about 60% of South Africa's imports from the world. In 1995 Gauteng imported goods to the value of R42 billion and by 2005 the value increased to R267 billion. This is an absolute increase in import value of R225 billion in just ten years.

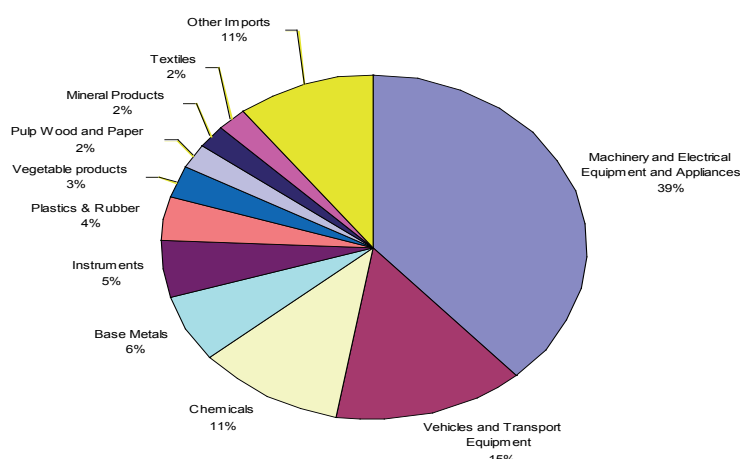
Figure 2.16: Gauteng vs. Rest of SA Import Trends, 1995-2005



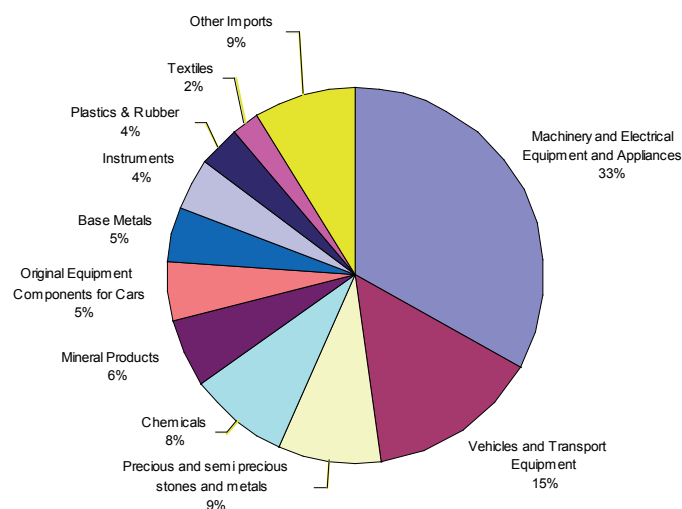
Source: Derived from Quantec data, 2006

In 1995, the major import categories were machinery and equipment (39%), vehicles and transport equipment and components (15%), chemicals (11%), base metals (6%), instrumentation (5%), plastic and rubber (4%), vegetable products (3%), paper products (2%), mineral products (2%), textiles (2%) and other categories (11%). See Figure 2.17 below.

Figure 2.17: Gauteng Imports from the World, 1995



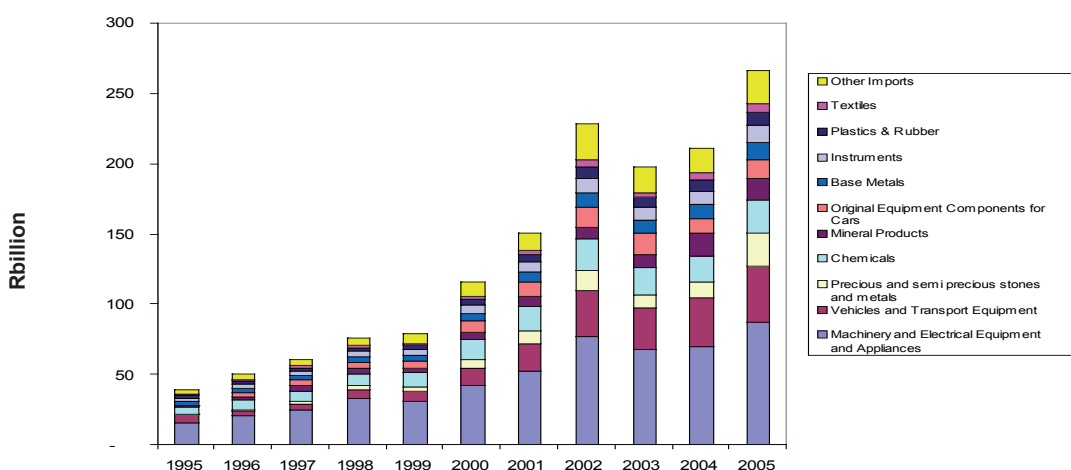
Source: Derived from Quantec data, 2006

**Figure 2.18: Gauteng Imports from the World, 2005**


Source: Derived from Quantec data, 2006

In 2005, the machinery and equipment and vehicles and transport equipment and components were still the top two categories by value as in 1995. However, the share of the former decreased from 39% to 33% while that of the latter increased from 17% to 20% from their 1995 levels. In addition, the precious and semi-precious stones and metal category which was not that significant in 1995 now took a 9% share of all imports taking the third position in major imports. Furthermore, the share of mineral product imports increased from 2% to 6% in the ten years. The share of textile imports remained the same at 2% while the shares of chemicals, base metals, instrumentation, plastic and rubber and paper products decreased from their 1995 levels. See Figure 2.19 below.

With the exception of the vegetable products and art and antiques categories, all other categories experienced positive average annual growth in the last five and ten years. Average annual import growth for Gauteng was 16% in the last ten years and 13% for the last five years and mirrors the national growth rates very closely.

**Figure 2.19: Gauteng Import Trends, 1995-2005**


Source: Derived from Quantec Regional Data, 2006

In the last five years Gauteng's average annual world import growth rates for eleven of the HS4 chapters exceeded those of South Africa with the exception of the chapters of animal products, vegetable products, food and beverages, footwear, base metals, machinery, vehicles and transport equipment and components, art and antiques, miscellaneous and unclassified.

The highest annual import growth rates in the last ten years were for precious and semi-precious stones and metals (47%), mineral products (29%), original equipment components (28%), miscellaneous manufactures (19%), footwear (16.5%), textiles (16.2%); and vehicles and transport equipment (16.1%). Likewise, the highest

annual import growth rates in the last five years were in precious and semi-precious stones and metals (27%), mineral products (22%), vehicles and transport equipment (20.3%), fat and oils (19%), textiles (18%), wood and basket ware (15%); and plastic and rubber (15%). See Table 2.1 below.

**Table 2.1: Average Annual Growth Rates for Gauteng Import Categories**

| Chapter   | 10 Yr SA<br>Import<br>from World<br>Growth Rate | 5 Yr SA<br>Import<br>from World<br>Growth Rate | 10 Yr Gauteng<br>Import from<br>World Growth<br>Rate | 5 Yr Gauteng<br>Import from<br>World Growth<br>Rate | Gauteng<br>Share of<br>Imports from<br>World 2005 |
|---|---|--|--|---|---|
| Total: All commodities                            | 22.8  | 18.4   | 22.7   | 17.6  | 58.5  |
| Animal Products                                   | 19.5  | 20   | 18.9   | 12.5  | 32.5  |
| Vegetable products                                | 13.2  | 10.5   | 7  | 2.7   | 39  |
| Fats and Oils                                     | 13.1  | 18.1   | 12.8   | 23.8  | 25.3  |
| Prepared Food & Beverages                         | 22.5  | 23.1   | 20.4   | 16.9  | 32.5  |
| Mineral Products                                  | 28.9  | 18.7   | 36.9   | 27.2  | 24.5  |
| Chemicals   | 19.8  | 13.1   | 18.9   | 10.3  | 58.5  |
| Plastic & Rubber                                  | 19.5  | 16.4   | 20.7   | 19.5  | 60.6  |
| Leather Products                                  | 14.9  | 9.2  | 18.4   | 10.1  | 55.4  |
| Wood and Basketware                               | 19.6  | 17.5   | 20.2   | 19.7  | 51.9  |
| Pulp Wood and Paper                               | 15.2  | 13.2   | 19.2   | 15.9  | 65.7  |
| Textiles  | 19.7  | 16.7   | 23.2   | 22.6  | 39.3  |
| Footwear  | 25.7  | 21   | 23.5   | 18.2  | 43.7  |
| Glass, Ceramics and stone                         | 21.2  | 14.6   | 18.6   | 14.7  | 53.9  |
| Precious and semi precious stones and metals      | 38.7  | 20.1   | 56   | 32.1  | 92.6  |
| Base Metals                                       | 19.2  | 18   | 18.7   | 17.3  | 67.8  |
| Machinery and Electrical Equipment and Appliances | 20.1  | 16.2   | 20.6   | 15.6  | 78.5  |
| Vehicles and Transport Equipment                  | 23.1  | 31.1   | 23.1   | 25  | 62.8  |
| Instruments                                       | 20  | 15.2   | 20   | 15.4  | 80.4  |
| Arms & ammunition                                 | -85.4   | -98  | -84.9  | -97.9   | -   |
| Miscellaneous manufactures                        | 26.6  | 19.2   | 26.2   | 18.5  | 62.7  |
| Art & antiques (97)                               | 21.2  | 5.6  | 22.2   | 5.1   | 89.7  |
| Other unclassifieds                               | -0.8  | -19.7  | -2.4   | -21.8   | 85.8  |
| Original Equipment Components for Cars            | 41.6  | 20.4   | 35.5   | 9.8   | 36  |

Source: Derived from Quantec Regional Data, 2006

From the data it seems that Gauteng imports consist mainly of sophisticated high technology products such as machinery, transport equipment, instrumentation on the one hand and mineral-based products on the other.

## 2.6.2 Imports from Other Provinces

The real value of imports from other provinces into Gauteng was R222 million and R2 billion in 1995 and 2005 respectively. The main imports from other provinces into Gauteng in 1995 were vehicles and transport equipment (59%), machinery and equipment (15%) and precious and semi-precious metals (14%). In 2005, the main import categories were precious and semi precious metals (61%), machinery and equipment (14%) and vehicles and transport equipment (8%). See Figure 2.20a below.

Gauteng accounted for 67.5% of internal imports in 2005. It imported particularly large shares of fats and oils (100%), art and antiques (99.9%), paper products (88.5%), base metals (80.4%), precious and semi-precious stones and metals (76.4%), instrumentation (74.3%), machinery and equipment (71.5%), unclassified manufactures (55.1%), glassware (54.4%), vegetable products (53.9%) and vehicles, transport equipment and components (50.9%). Similarly, it accounted for relatively large shares of miscellaneous manufactures (47.8%), wood products (31.9%), textiles (28.6%), animal products (22.3%) and chemicals (20.9%). Gauteng's share of internal imports was relatively small for mineral products (3%) and food and beverages (13.3%). See Figure 2.20b below.

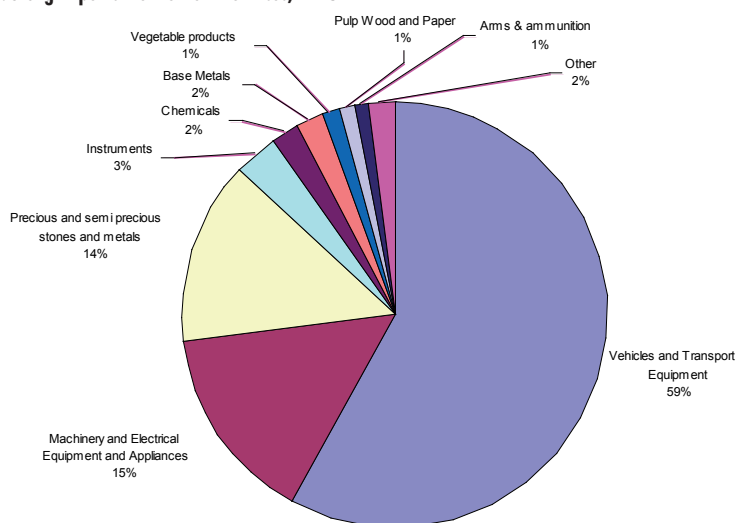
The City of Johannesburg, Tshwane and Ekurhuleni Municipality accounted for most of the imports from other provinces. In 1995 Ekurhuleni was the main importer in Gauteng accounting for 57% of all imports from other provinces while the cities of Johannesburg and Tshwane accounted for 24% and 19% respectively. In 2005 however,

the City of Johannesburg was the main importer instead of Ekurhuleni accounting for 58% of the provincial imports while Ekurhuleni and Tshwane accounted for 23% and 18.5% respectively.

The average annual internal import growth rate for Gauteng (127%) over the last ten years has been far more than that for the rest of SA (48%). However, while the internal import growth rate over the last five years has declined for the rest of SA that of Gauteng has grown at a rate of 9%. Gauteng experienced very high import growth rates for Original Equipment Manufacture (OEM) components over the last five to ten years. Similarly, domestic import growth rates for fats and oils as well as vegetable products increased in the last five years. See Table 2.2 below.

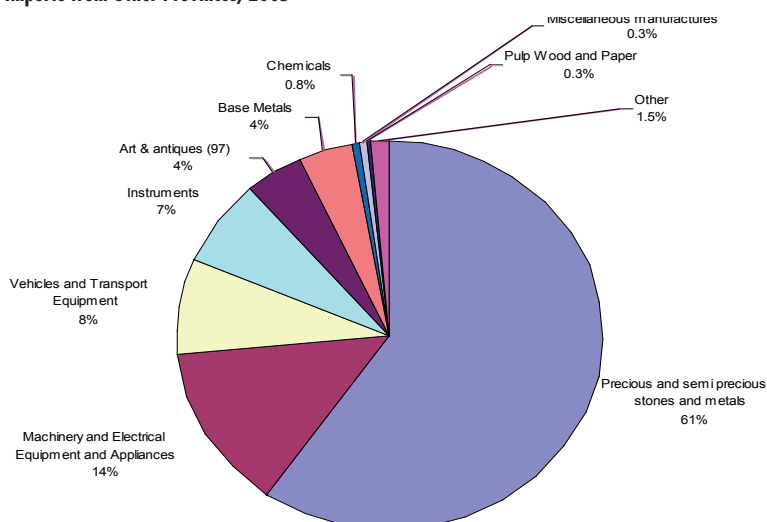
During the same period, the rest of SA saw a decline in the internal import growth for OEM car components, art and antiques, arms and ammunition, precious and semi-precious metals, textiles, paper products, leather goods, fats and oils; and vegetable products. See Table 2.2 below.

**Figure 2.20a: Gauteng Imports from other Provinces, 1995**



Source: Derived from Quantec Regional Data, 2006

**Figure 2.20b: Gauteng Imports from Other Provinces, 2005**



Source: Derived from Quantec Regional Data, 2006

Table 2.2: Gauteng Internal Import Profile, 1995-2005

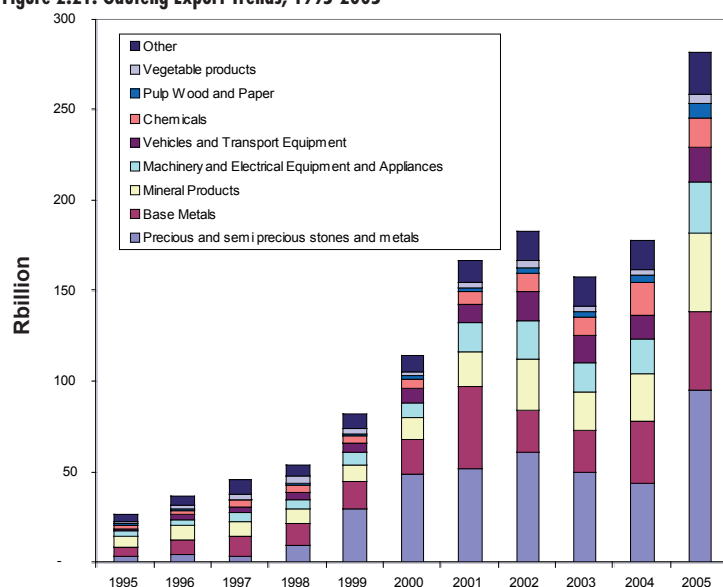
| Chapter Imported from other Provinces             | RoSA 10 Year Average Annual Import Growth | ROSA 5Year Average Annual Growth | Gauteng 10 Year Average Annual Growth | Gauteng 5Year Average Annual Growth | Gauteng % Share of SA Internal Imports 2005 |
|---|---|----------------------------------|---------------------------------------|-------------------------------------|---|
| Total   | 48.1                                      | -0.6                             | 27.4                                  | 9.6                                 | 67.5  |
| Animal Products                                   | 34.06                                     | 6.66                             | 20.3                                  | 1.9                                 | 22.3  |
| Vegetable products                                | 53.9                                      | 14.8                             | 5.6                                   | 33.9                                | 53.9  |
| Fats and Oils                                     | 10.15                                     | 7.62                             | 43.4                                  | 184                                 | 100   |
| Prepared Food & Beverages                         | 28.1                                      | 1.7                              | 41.1                                  | 2                                   | 13.1  |
| Mineral Products                                  | 43.38                                     | 101.13                           | 31.1                                  | 69.3                                | 4   |
| Chemicals   | 222.5                                     | -58.7                            | 14.4                                  | 0.4                                 | 20.9  |
| Plastics & Rubber                                 | 32.25                                     | 9.22                             | 19.5                                  | 0.8                                 | 38.6  |
| Leather Products                                  | 40.2                                      | 17.3                             | 26                                    | -9.9                                | 29.9  |
| Wood and Basketware                               | 70.8                                      | 150.52                           | 22.9                                  | -21.4                               | 31.9  |
| Pulp Wood and Paper                               | 93.3                                      | 181.4                            | 10                                    | 46.8                                | 88.5  |
| Textiles  | 31.19                                     | 15.32                            | 28.4                                  | -0.7                                | 28.6  |
| Footwear  | 57.5                                      | 29.9                             | 6.7                                   | -8.7                                | 16  |
| Glass, Ceramics and stone                         | 18.4                                      | 7.17                             | 27.9                                  | 12                                  | 54.4  |
| Precious and semi precious stones and metals      | 25.7                                      | 19.6                             | 49.5                                  | 6.6                                 | 76.4  |
| Base Metals                                       | 12.41                                     | -13.93                           | 37.1                                  | 31.8                                | 80.4  |
| Machinery and Electrical Equipment and Appliances | 16.8                                      | -10.3                            | 26.1                                  | 20                                  | 71.5  |
| Vehicles and Transport Equipment                  | 23.82                                     | -11.9                            | 2.4                                   | 2.8                                 | 41.4  |
| Instruments                                       | 32.7                                      | 2.1                              | 39.2                                  | 28.9                                | 74.3  |
| Arms & ammunition                                 | 10.7                                      | 26.86                            | -79.5                                 | -96.5                               | -   |
| Miscellaneous manufactures                        | 26.8                                      | -2.4                             | 32.2                                  | -10.7                               | 47.8  |
| Art & antiques (97)                               | 18.87                                     | -17.85                           | 73.1                                  | 46.9                                | 99.9  |
| Other unclassifieds                               | 24.3                                      | -16.7                            | 30.5                                  | -34.3                               | 55.1  |
| Original Equipment Components for Cars            | 21.69                                     | 22.96                            | 113.2                                 | 272.8                               | 9.5   |

Source: Derived from Quantec Regional Data 2006 and STASSA Historical PPI data

## 2.6.3 Exports

Gauteng accounted for 50% and 58% of South Africa's exports to the world in 1995 and 2005 respectively. In 1995 Gauteng exported goods to the real value of R27 billion and by 2005 the real value increased to R288 billion. This is an increase in real export value of R261 billion rand in ten years.

Figure 2.21: Gauteng Export Trends, 1995-2005



Source: Derived from Quantec Regional Data 2006 and STASSA Historical PPI data

With the exception of between 2003 and 2004, the value of Gauteng exports exceeded that of the rest of SA. Gauteng is thus a key driver of South African export sector. Gauteng's overall average annual export growth has outperformed that for the rest of SA in the last five to ten years.

In 1995, the major export categories for Gauteng were mineral products (21%), base metals (21%), precious and semi-precious metals and stones (13%), machinery and equipment (10%), chemicals (8%), vehicles and transport equipment and components (6%). In 2005, the main export categories were precious and semi-precious metals and stones (33%), base metals (15%), mineral products (15%), machinery and equipment (10%), vehicles and transport equipment and components (7%) and chemicals (5%). More than 60% of Gauteng's exports were mining products while just less than 20% consist of machinery and transport equipment, which are more sophisticated. See Figure 2.23 a and b.

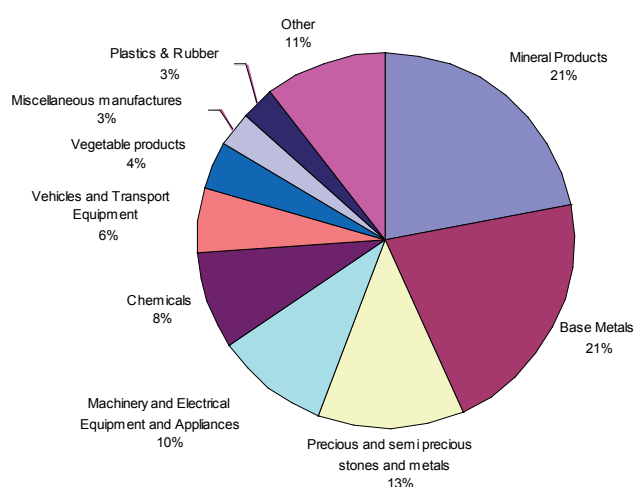
**Figure 2.22: Gauteng vs Rest of SA Export Trends, 1995-2005**



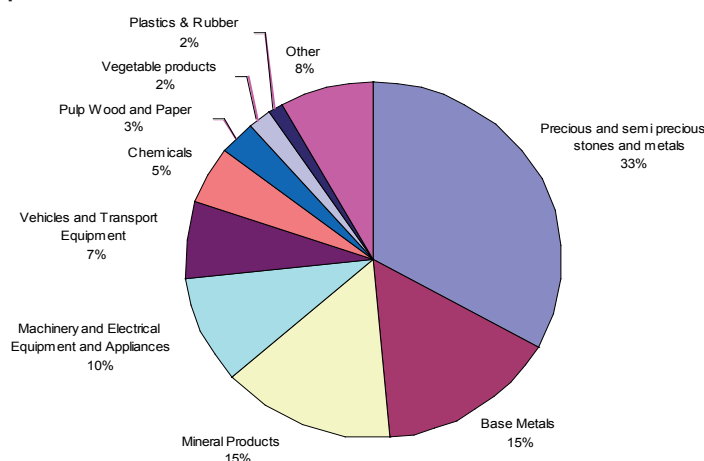
Source: Derived from Quantec Regional Data 2006 and STASSA Historical PPI data

In the last ten years, Gauteng export growth underperformed compared to the rest of SA in these categories: animal products, vegetable products, food and beverages, minerals, plastics, footwear, wood products, glassware, machinery and equipment, vehicles and miscellaneous manufactures. However it grew better than the rest of SA in the other categories. In the last five years it outperformed the rest of SA in exports of most chapters except animal products, vegetable products, food and beverages, minerals, plastics, footwear, wood products, glassware, leather goods, machinery and equipment, vehicles and base metals.

Gauteng's exports increased tremendously in 2005 mainly due to increased exports of precious and semi-precious metals, base metals and miscellaneous manufactures. The high export value of the precious and semi-precious metals category is probably due to the high price for gold due to increased world demand recently. With the exception of base metals export values of most of the other categories have remained relatively stable especially in the last five years. While the share of base metals and minerals has decreased by 2005 from their 1995 levels, that of precious metals increased by 20% making it the top export chapter.

**Figure 2.23a Gauteng Exports to the World, 1995**

Source: Derived from Quantec Regional Data 2006 and STASSA Historical PPI data

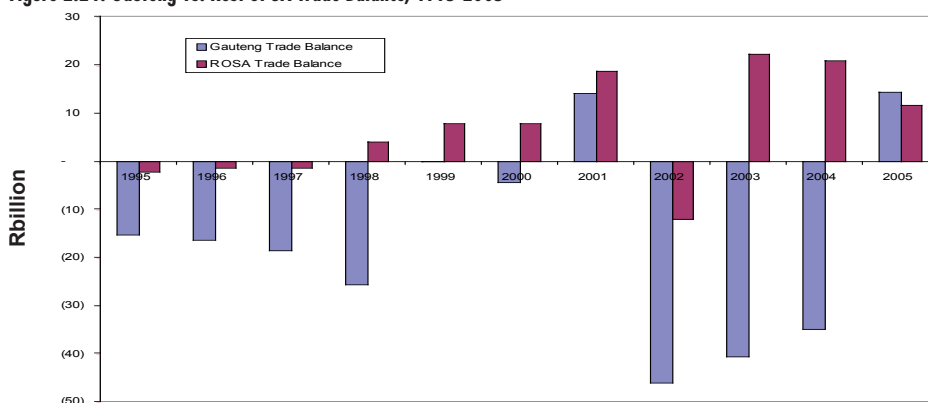
**Figure 2.23b: Gauteng Exports to the World, 2005**

Source: Derived from Quantec Regional Data 2006 and STASSA Historical PPI data

Gauteng tended to under-perform relative to the rest of SA in export categories related to agriculture and machinery and vehicles because these sectors are mainly located outside Gauteng. Gauteng's overall annual export growth was 30% compared to 25% for the rest of SA in the last ten years and 20% compared to 19% for the rest of SA in the last five years. The highest annual export growth rates for Gauteng in the last ten years were in OEM components (63%), precious and semi-precious stones and metals (44%), textiles (37%), art and antiques (36%), paper products (36%), instrumentation (35%), vehicles and transport equipment (32%). A few categories such as leather products, animal products and arms and ammunition experienced relatively low growth in the last ten years: See Table 2.3 below.

The high export growth categories for Gauteng in the last five years were: textiles (46%), paper products (41%), art and antiques (38%), instrumentation (36%), OEM components (32%) and mineral products (29%). The province experienced low or declining export growth in some chapters such as leather goods in the last five years. See Table 2.3 below.

From the data it seems that Gauteng exports consist mainly of mining products and some sophisticated products such as vehicles and machinery. The high growth in exports of OEM components and vehicles is due to the fact that the SA auto-industry is part of the global value chain of the car industry where some locations specialise in specific products to supply the world market.

**Figure 2.24: Gauteng vs. Rest of SA Trade Balance, 1995-2005**


Source: Derived from Quantec Regional Data 2006 and STASSA Historical PPI data

Although Gauteng's exports have grown over the last ten years, its imports have been relatively high resulting in a consistent trade deficit over the period under review with the exception of 2001. However, the trade deficit was reversed in 2005 resulting in a relatively high trade surplus. This is probably due to the recent high commodity prices due to high world demand. See Figure 2.24 above.

Gauteng had a large long-term trade surplus with the world in these chapters: precious and semi-precious metals and stones, mineral products and base metals. In addition since 2004, it had a trade surplus in paper products.

The province had relatively large trade deficits in machinery, vehicles, instrumentation, OEM components and miscellaneous manufactures over the period under review. See Gauteng chapter trade balance charts in Figure 2.25 below.

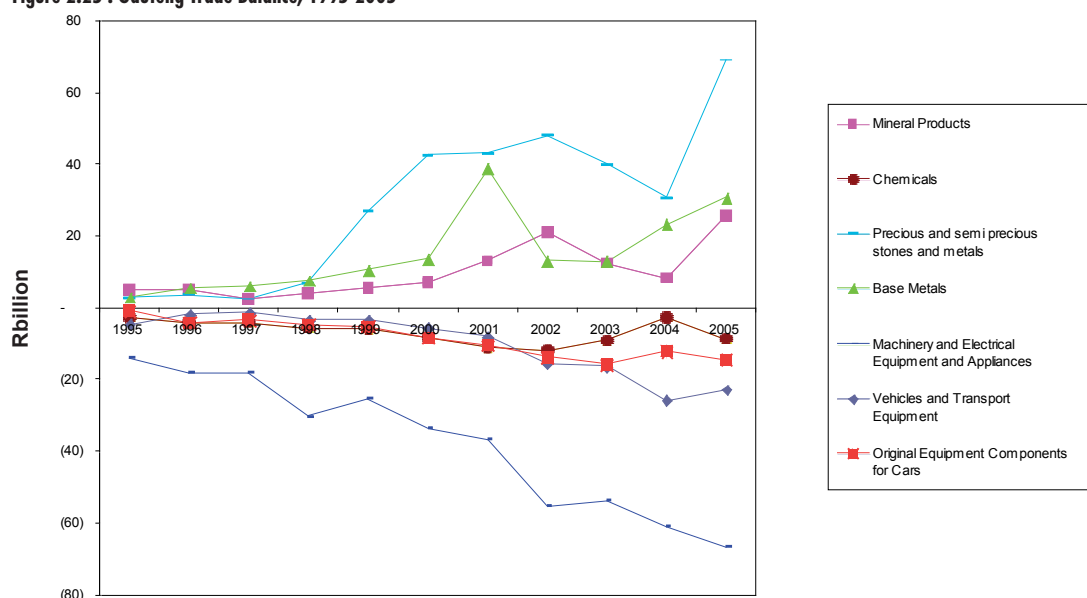
**Table 2.3: Gauteng national share and Average Annual Growth Rates for Gauteng Export Categories**

| Exports Chapter                                      | Gauteng Share of<br>National Exports<br>2005 | 10 Yr Average Annual<br>Export Growth Rate<br>for ROSA | 5 Yr Average Annual<br>Export Growth Rate<br>for ROSA | 10 Yr Average Annual<br>Export Growth Rate<br>for Gauteng | 5 Yr Average Annual<br>Export Growth Rate for<br>Gauteng |
|--|--|--|---|---|--|
| All Exports  | 58.3   | 24.8   | 18.6  | 29.6  | 19.7   |
| Animal Products                                      | 9.54   | 29.9   | 21.5  | 12.1  | 10.7   |
| Vegetable products                                   | 32.32  | 24.9   | 26.3  | 18.5  | 13   |
| Fats and Oils  | 42.47  | 16.8   | 15.5  | 16.8  | 18.1   |
| Prepared Food & Beverages                            | 18.57  | 30.6   | 27.9  | 20.8  | 25.1   |
| Mineral Products                                     | 70.15  | 25.2   | 6.5   | 24.6  | 29.1   |
| Chemicals  | 50.95  | 21.6   | 17  | 24.2  | 23.3   |
| Plastics & Rubber                                    | 53.01  | 29.1   | 22.2  | 23.1  | 25.2   |
| Leather Products                                     | 16.55  | 8.1  | 4.2   | 11.2  | 1  |
| Wood and Basketware                                  | 15.29  | 29.6   | 24.3  | 18.9  | 15.9   |
| Pulp Wood and Paper                                  | 56.12  | 11.1   | 5.3   | 35.6  | 41.3   |
| Textiles   | 29.92  | 46.8   | 60.4  | 36.7  | 46.2   |
| Footwear   | 42.09  | 17.7   | 12.6  | 17.2  | 19   |
| Glass, Ceramics and stone                            | 64.26  | 31.2   | 28.7  | 25.9  | 23.6   |
| Precious and semi precious stones and metals         | 77.04  | 20   | 9.9   | 44.5  | 14.3   |
| Base Metals  | 56.41  | 23.5   | 26.7  | 25.2  | 17.9   |
| Machinery and Electrical<br>Equipment and Appliances | 63.64  | 35.8   | 26  | 30.1  | 25.6   |
| Vehicles and Transport Equipment                     | 37.69  | 50.3   | 35.6  | 32.5  | 21.7   |
| Instruments  | 76.46  | 28.3   | 29.8  | 34.6  | 36.5   |
| Arms & ammunition                                    | 100  | -100   | -100  | -87.2   | -97.8  |
| Miscellaneous manufactures                           | 68.75  | 25.2   | 13.5  | 17.9  | 14   |
| Art & antiques (97)                                  | 78.82  | 37.1   | 18.8  | 35.8  | 38.2   |
| Other unclassifieds                                  | 87.57  | -6.5   | -23.3   | 16.1  | 11.2   |
| Original Equipment Components for Cars               | 94   | -20.1  | -7.6  | 62.7  | 32.3   |

Source: Derived from Quantec Regional Data 2006 and STASSA Historical PPI data



Figure 2.25 : Gauteng Trade Balance, 1995-2005



Source: Derived from Quantec Regional Data 2006 and STASSA Historical PPI data

## 2.7 Spatial Patterns of Growth and Development within Gauteng

Gauteng spatial development patterns are rooted in the history of South Africa. It is characterised by wealthy cities with a high concentration of relatively well off White populations and satellite townships aimed at servicing the neighbouring white cities and suburbs. These townships are until this day inhabited by Black population groups who are relatively less well off.

Municipalities with a lower concentration of Whites generally have smaller economies. The size and state of the economies of the various municipalities are affected by changes in their main sectors. Employment and social patterns in the various municipalities are again affected and shaped by their economies.

Gauteng is unusual in having three of the country's six metropolitan municipalities; along with a further six district municipalities. Moreover, the metros border one another and effectively form what is termed the Gauteng 'city region'. Of the all the municipalities, Johannesburg accounts for the largest share of Gauteng's output and employment, followed by Ekurhuleni and then Tshwane (Figure 2.26A and 2.26B). Also of note is that the West Rand has a much higher share of employment than of output, while in the case of Sedibeng, the employment share is slightly lower.

Figure 2.26 A: Municipal Share of Gauteng Output, 2004

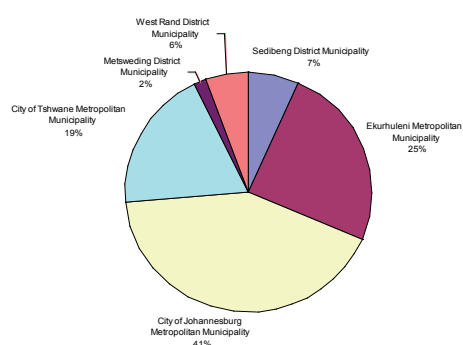
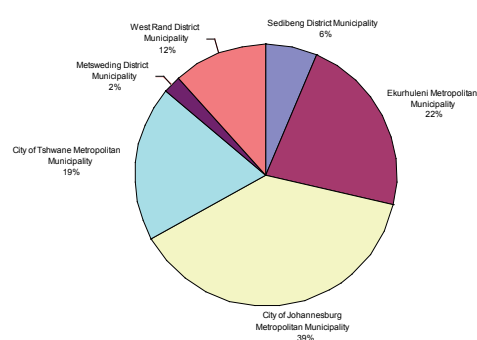


Figure 2.26B: Municipal Share of Employment in Gauteng, 2004



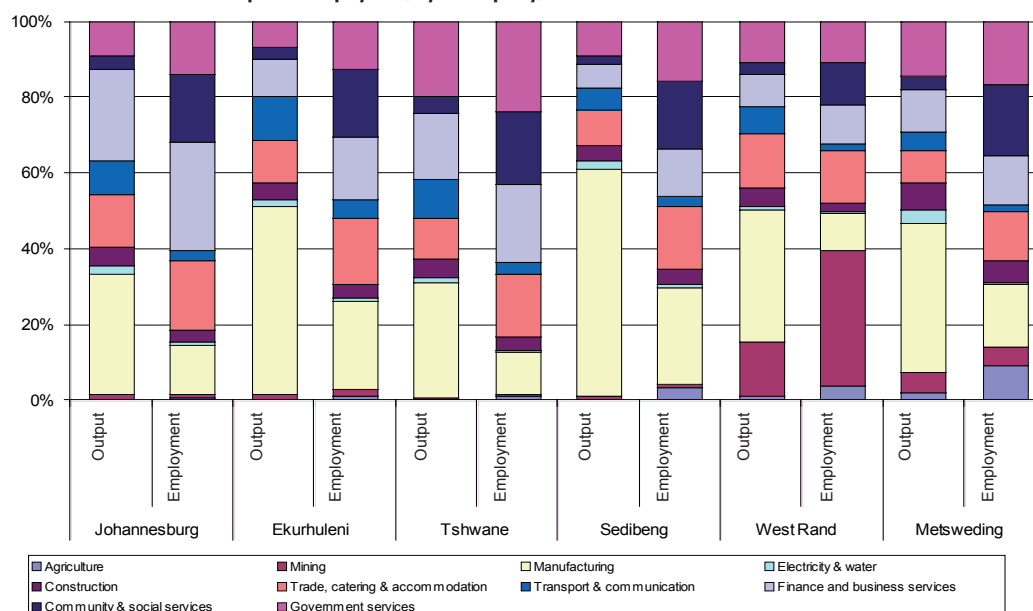
Source: Derived from Quantec Regional Data 2006 and STASSA Historical PPI data

The performance of all economies has improved in recent years, reflected in the better performance in the five years from 1999-2004, than over the period 1995-2004. However, while output growth has been relatively strong, led by the three metros and Metsweding, employment performance has been much poorer, with the best performance been in Metsweding, followed by Johannesburg. Employment growth has continued to be poor in Sedibeng, due mainly to substantial retrenchments in the heavy industries which make up its economic base. Employment in the West Rand, also an industrial economy, has been poor as well. In both of these economies there are now signs of a turnaround due to the substantial impetus provided by infrastructure investment, and new investments being made by major industries such as steel and chemicals.

In terms of output, the manufacturing sector is the key sector for all Gauteng municipalities accounting for 22-60% of their total output. However, the sector accounted for only 10-25% of these municipalities' total employment. Other key sectors in terms of municipal output are: government services, finance and business services, transport and communication, trade catering and accommodation; and mining.

The important sectors in terms of the share of people they employ in these municipalities and metros are the government services, community and social services, finance and business services, mining and manufacturing sectors, see Figure 2.27)

**Figure 2.27: Sectoral Shares of Output and Employment, by Municipality, 2004**



Source: Derived from Quantec Regional Data 2006 and STASSA Historical PPI data

The City of Johannesburg is the largest municipal economy in the province of Gauteng with an output value of R193 billion and R 342 billion in 1995 and 2004 respectively. Thus, output value increased by R149 billion in the period under review, an absolute increase of 77 %. The City of Johannesburg also employed 809 247 people in 1995 and by 2004 the number of jobs increased by 166 208 to 975 455.

The three major output sectors for the City of Johannesburg were manufacturing, finance and business services and trade, catering and accommodation in 2004. In the same year manufacturing accounted for 32% of City of Johannesburg's output while finance and business services accounted for 24%, retail and accommodation (14%), transport and communication (9%), government services (9%), construction (5%), community and social services (4%) electricity and water (2%), mining (1%) and agriculture less than 1%.

The City of Johannesburg's three main sectors in terms of employment were finance, property and business services (278, 000), trade, catering and accommodation (176, 000) and community and social services (175, 000) in 2004. Most sectors for this city experienced declining or low employment growth rates with the exception of finance and business sector (4.78%), community services sector (2.66%) and agriculture (4.19%). The highest declines in the 5 years were in the mining (4.52%), electricity and water (3.96%) and construction (1.55%).

Ekurhuleni is the second largest sub-economy in Gauteng. Its gross output was R123 billion and R202 billion

in 1995 and 2005 respectively in real values and made up 25% of Gauteng's gross output during both years. During the period under review this municipality's output increased by R79 billion, an absolute growth of 64%.

The key driver of the Ekurhuleni economy is manufacturing, accounting for 50% of output in 2004. The other significant sectors in 2004 were transport and communication (12%), trade and accommodation (11%), finance and business services (10%), government services (7%). Average annual output growth rates for the sectors in Ekurhuleni are closely related to those of Gauteng. Sectors with high average annual output growth rates in the last five and ten years were transport and communication, manufacturing, finance and business services, community services, trade and accommodation and construction. Sectors with declining outputs were mining and agriculture.

Ekurhuleni employed 516 217 and 569 273 people in 1995 and 2004 respectively. This is an increase of 53, 056 jobs in the period under review. The manufacturing was the largest employer in Ekurhuleni accounting for 23% of employment in 2004. The other major sectors in terms of employment were: community and social services (17.7%), trade and accommodation (17.6%), finance and business services (16.7%) and government services (12.6%). Employment in the manufacturing, mining, construction and electricity and water sectors declined while it has been growing in the finance and business sector, community services sector and agricultural sector has been growing. See Table 2.4.

**Table 2.4: Output and Employment Profile of Gauteng Municipalities, 1995-2004**

| Municipality                                   | Average growth of Output % |              | Average growth of Employment % |              |
|--|----------------------------|--------------|--------------------------------|--------------|
|  | Over 10 years              | Over 5 years | Over 10 years                  | Over 5 years |
| Sedibeng District Municipality                 | 4                          | 5.4          | -0.6                           | -0.1         |
| Ekurhuleni Metropolitan Municipality           | 5.6                        | 6.8          | 1.1                            | 1.5          |
| City of Johannesburg Metropolitan Municipality | 6.5                        | 7.5          | 2.1                            | 2.2          |
| City of Tshwane Metropolitan Municipality      | 6                          | 7.3          | 1                              | 1.2          |
| Metsweding District Municipality               | 5.9                        | 7.1          | 3.2                            | 3.4          |
| West Rand District Municipality                | 2.2                        | 3.2          | -0.7                           | 0.7          |

Source: Derived from Quantec Regional Data, 2006

City of Tshwane is the third largest sub-economy in Gauteng province. It had real output values of R92 billion and R 155.5 billion in 1995 and 2004 respectively. Thus its real output value increased by R63.5 billion in real terms in the period under review; an absolute increase on 69%. This city employed about 450 000 people in 1995 and this increased by about 43,000 to 493 000 by 2004. Its key employment sectors were government services, financial and business services, community, social and personal services, trade, retail and accommodation; and manufacturing. In 2004 the shares of Tshwane's employment for these sectors were as follows: 23.5% in government services, 20.3% in financial and business services, 19.4% in community, social and personal services, 16.4% in trade, retail and accommodation and 11.2% in manufacturing. Although the Tshwane share of output for manufacturing and transport and communication are high, their shares of employment are relatively low compared to other sectors.

Tshwane's three key sectors in terms of output were manufacturing (30.5%), government services (19.7%) and finance and business services (17.8%), wholesale, retail trade, catering and accommodation (11%) and transport and communication in 2004. Over the last ten years Tshwane's transport and communication sector had the highest average annual output growth rate at 12.59%, followed by financial and business services sector (9.09 %), community, social and personal services sector (7.37%), trade, retail and accommodation (5.78%), construction (4.65%).

Sedibeng had real gross output value of R37.4 billion and R53.3 billion in 1995 and 2004 respectively. Over the period under review, its output grew by R15.9 billion. It constituted 7% of Gauteng's gross output in 2004. The key driver of the Sedibeng economy is manufacturing, accounting for 60% of output and 25.5% of employment in 2004, making it the largest employment sector in the municipality. Sedibeng employed 161 000 people in 2004 amounting to 6.3% of Gauteng employment. The other major employment sectors were: community and social services (18%), trade and accommodation (16.9%), finance and business services (12.8%) and government services (15.3%). The other significant sectors with regard to output were transport and communication (5.9%), trade and accommodation (9.4%), finance and business services (6.1%), government services (8.7%).

Sedibeng sector output growth rates are relatively lower than for Gauteng for the period under review. The overall sectoral average annual output growth rate in the last ten years was 4% for Sedibeng compared to 6% for Gauteng; and in the last five years it was 5.5% for Sedibeng compared to 7% for Gauteng. See Table 2.4.

With the exception of the finance and business sector, community services sector and trade and accommodation sector employment declined in all other sector of this municipality. Overall average annual employment growth rates for Sedibeng have been negative in the last five to ten years compared to low but positive annual employment growth rates for Gauteng. See Table 2.4.

West Rand had real gross output value of R37.5 billion and R46 billion in 1995 and 2004 respectively growing by R8.5 billion. It constituted 6% of Gauteng's gross output in 2004. The key driver of the West Rand economy was manufacturing, accounting for 35% of output in 2004. The other significant sectors in 2004 were community and social services (18%), trade and accommodation (16.9%), finance and business services (12.8%), government services (15.3%). See Table 2.4.

West Rand employed 322, 000 and 301, 000 people in 1995 and 2004 respectively amounting to 6.3% of Gauteng employment in 2004. The mining sector is the largest employer in West Rand accounting for 36% of employment in 2004. The other major employment sectors were: community and social services (11%), trade and accommodation (14%), finance and business services (10.6%) and government services (10.6%).

With the exception of the finance and business sector, community services sector, trade and accommodation sector and agriculture, employment has been declining in all other sectors of the West Rand municipality. Overall average annual employment growth rates for this municipality were lower than for Gauteng in the last five to ten years, see Table 2.4.

The overall sector average annual output growth rate in the last ten years was 4% for Sedibeng compared to 6% for Gauteng; and in the last five years it was 5.5% for Sedibeng compared to 7% for Gauteng.

Metsweding was the smallest economy in Gauteng and it had real gross output value of R7.25 billion and R12.25 billion in 1995 and 2004 respectively. Over the period under review, its output grew by R5 billion. It constituted 1.5% of Gauteng's gross output in 2004. This municipality employed 38, 503 and 51, 358 people in 1995 and 2004 respectively amounting to 2% of Gauteng employment in 2004. The community and social services sector is the largest employer in West Rand accounting for 19% of employment in 2004. The other major employment sectors were: manufacturing (17%), trade and accommodation (12.7%), finance and business services (12.6%) and government services (16%).

In terms of employment growth, this municipality has outperformed Gauteng for all sectors with the exception of water and electricity sector. Overall average annual employment growth rates for this municipality have been higher than for Gauteng in the last five to ten years. The overall sector average annual employment growth rate in the last ten years was 3.22% for Metsweding compared to 1.11% for Gauteng; and in the last five years it was 3.42% for Metsweding compared to 1.52% for Gauteng, see Table 2.4.

The key driver of the West Rand economy is manufacturing, accounting for 40% of output in 2004. The other significant sectors in 2004 were trade and accommodation (8.7%), finance and business services (11.3%) and government services (14.2%), see Table 2.4.

Metsweding sectoral output growth rates were relatively higher than for Gauteng. The overall sector average annual output growth rate in the last ten years was 5.9% for Metsweding compared to 5.7% for Gauteng; and in the last five years it was 7.1% for Sedibeng compared to 6.9% for Gauteng, see Table 2.4.

## 2.8 Conclusion

Over the years, Gauteng's economy has steadily changed from a strong manufacturing and mining based economy to an increasingly service oriented economy with more jobs being created in the latter and being lost in the former. There is no doubt that the Gauteng economy makes a large and important contribution to the South African economy. Its role as a manufacturing and financial powerhouse within South Africa and the southern African region means that it is an important provider of goods and services to the other provinces in South Africa and other countries in the regional economy. However, there is much room for improvement in Gauteng to ensure a more diversified and sustainable economy that is more in line with the ASGISA objectives.

Despite Gauteng's relative endowment of skilled labour in the country and the region, the province remains an importer of high technology, value-added goods. At the same time, its manufactured outputs and exports are predominantly made up of relatively low value-added mineral and petrochemicals products. While Gauteng forms a hub of diversified manufacturing in South Africa, the pattern of outputs and exports indicate that the Province is still too reliant on the comparative advantage associated with its proximity to mineral resources. There has been success in some downstream manufacturing areas, such as vehicles and machinery. However, much of this success may be attributed to the automobiles and auto components sectors that are part of global value chains.

The province could be performing better in exporting higher value added products and by continuing to implement the existing strategies that will ensure that it can meet the ASGISA objectives and help steer the economy through the necessary structural changes necessary. Therefore, Gauteng Province will have to make a serious effort to support downstream, value added sectors that are less reliant on the minerals resource comparative advantage.

Structural economic change is hard and requires cooperation between the private sector and government. The massive infrastructure programme as part of the ASGISA initiative provides opportunities for developing domestic industries with the aim producing higher value goods and creating employment. Greater demand for locally sourced imports will help support investment and growth in downstream suppliers. An important challenge will be skills. The infrastructure programme will put more demand on the available skills and thus increase skills cost to industries that wish to expand.

An important constraint to promoting greater value added and dynamism to the manufacturing sector is the macroeconomic environment. The relative volatility of the exchange rate is not conducive to promoting long-term export relationships in value-added manufactured goods and services within global production chains. The uncertainty caused by the changing exchange rate of the Rand and the associated changes in interest rates also lead to uncertainty that may hamper long-term investment in production facilities. As a result, investors may prefer to keep their money in relatively liquid financial market assets. Part of the growth of the financial sector over the past decade may be associated with this liquidity preference.

The growth of commerce and trade, finance, and construction is positive for the Province in terms of generating growth in output and employment. However, there is the danger that growth could be skewed towards sectors where growth depends on consumer spending and debt creation. The growth in construction has been driven by residential developments and the boom in house prices over the past few years. The housing boom, expansion of the middle class and increased welfare grants to poor households has led to a consumption boom. While the infrastructure investment programme of ASGISA may offset reductions of growth if consumption and residential construction stops driving economic growth, it is necessary to realize that the infrastructure investment programme has a limited lifespan. A longer term perspective on growth is required and this vision should include a strategy for economic restructuring that emphasizes growth of downstream, value added productive capacity.

The longer term performance of the Gauteng and national economies depend on the ability to transform the current growth path of the economy to include a larger contribution from the higher value-added manufacturing and services sectors. The necessity of moving towards a more diversified and dynamic manufacturing sector was a key point made by the International Growth Panel appointed by the National Treasury headed by Dani Rodrik and Ricardo Hausmann.

Gauteng Province's output and sectoral profile indicate that the province is well placed to move towards building diversity and dynamism. Currently, Gauteng represents the hub of diversified manufacturing activity in South Africa and the southern African region. It should be possible for the Province to draw on lessons and expertise already present in the economy to develop a vision of deepening and diversifying the Province's industrial base.



# Chapter 3 - Labour Market

## 3.1 Introduction

The performance of an economy depends on the work of people in that economy. The application of their strength, ingenuity, entrepreneurship, experience and skills in conjunction with available technology and natural resources shape the performance of their economy. The place of an economy in a dynamic globally competitive environment ultimately depends on the effort of the people. Therefore, social conditions that negatively affect society or sections of society affect the performance and development of an economy and its ability to compete globally.

All else being equal, the condition of the population, including factors such as standard of living, health, education and levels of happiness, affect an economy's performance and pace of development. Further, a society with less inequality will be able to more fully draw on the skills and competencies of its entire population. Inequality leads to underdevelopment of the potential and economic contribution of a section of society and may lead to an economy performing below its potential.

South Africa is a developing country with a history of racial oppression. The conditions affecting the people working in the South African economy have been shaped by that history and the relatively brief period that the country has been free of racial oppression. The efforts to address the legacy of the past and to build a better future have yielded results but a dozen years of freedom cannot eradicate more than a century of oppression.

The reshaping of institutions and attitudes since the end of apartheid may seem fast. However, adaptation of these institutions and attitudes in the South African labour market occurs in a complex manner. The adaptation is influenced by both forward looking progressive policies and remnants of past attitudes. Further, the conditions of the majority of South Africans while improving remains unfortunate. High levels of poverty and unemployment, poor housing and shelter, the preponderance of illnesses such as tuberculosis and the HIV/AIDS pandemic, all affect the South African labour market and are huge challenges to empowering the workforce. Of course, addressing the legacy of apartheid education and the continuing challenge to improve the education system and access to education also has a huge impact on the workforce and labour market dynamics.

The ability of the economy to develop and meet development goals of eradicating poverty and inequality depends on the ability of South African people to meet these challenges. A large part of the development challenge is to fully mobilise and empower the workforce. The mobilisation and empowerment of the workforce depends on the interaction of supply and demand factors affecting the labour market.

Education and skills development play a large part in this process of mobilising the full capacity of the workforce. The growth of an educated and skilled population contributes to economic growth and development. On the other hand, the dynamism of the economic environment affects the demand for labour and influences the level of investment and effort individuals and enterprises put into education and skills development.

Reduction of poverty, improvement of access to better quality health and education systems and a growing economy will promote and enhance education and skills development. The perception that there are growing opportunities for education, skills and entrepreneurship in the economy will trigger more private investment by households and firms in education and skills development. This private investment should prove to be an important complement to the effort and resources invested by the state in education and training.

Therefore, development of the economy will be shaped by both supply and demand factors affecting the labour market and also the quality of life of the citizens. The progress of the economy will be shaped not only by reduction of the number of unemployed but also by the degree of empowerment, in terms of skills and education, of the workforce.

Gauteng Province has a special place in the South African economy. Therefore, empowerment of the workforce in the province will have national and regional benefits. In fact, Gauteng Province has performed best in increasing black employment overall and also black employment in highly skilled and skilled occupations.



Further, Gauteng Province is the financial and industrial powerhouse of South Africa and the southern African region. Gauteng Province contributed 34% to South Africa's GDP in 2005. One important aspect of the Gauteng economy that makes it important for the development of industry and empowerment of the workforce of South Africa and the southern African region is the sectoral composition of the economy.

The largest economic sectors that contribute to the province's economy are manufacturing and finance, real estate and business services. Therefore, Gauteng Province stands out in the South African economy which has a history of dependence on raw materials and the exploitation of cheap labour. The province's economy is more dependent on knowledge and skills development than most of the other provinces. It has to pay more attention to skills and training and improving the social and economic conditions affecting its workforce.

Gauteng is the hub of activity particularly in respect of diversified manufactures in the South African economy. The competitiveness of diversified manufacturing depends on production capabilities rather than simply labour or natural resource cost. The importance of Gauteng's services sector, especially finance and business services, which could be harnessed to promote further industrial development and investment also highlights the province's special place in South Africa and the southern African region. Therefore, the role of Gauteng Province in promoting the industrial and financial development as well as the empowerment of the workforce is crucial for the development of the entire South African economy.

There are huge challenges in the Gauteng labour market. The legacy of racial discrimination in the labour market has not totally disappeared. The unemployment rate is very high and there is dualism in the labour market. An important characteristic of this dualism (discussed below) is its racial character. There has been some progress as representation of Blacks in formal employment has grown from 2000 to 2005. Unfortunately, there seems to be increasing racial distinction within the informal sector where the composition of involvement of Blacks has grown from 80% in 2000 to 90% in Gauteng in 2005. In 2000 and 2005, Black workers made up 98% of the domestic workers in Gauteng. This very high percentage represents not only the limited opportunities for women in the province but also keenly highlights the racial division of labour. The inherited patriarchal relations within labour markets, especially informal labour markets continue.

## **3.2 Gauteng Labour Market Data, 2000 - 2005**

### **3.2.1 Labour Market Participation**

Table 3.1 provides some basic labour market statistics for Gauteng Province and South Africa calculated from the Labour Force Survey (LFS) for 2000 and 2005. During this period, the working age population grew almost 10% by 568, 000 people. Gauteng had 5.8 million people of working age in 2000 compared to 27.6 million for South Africa as a whole. The working age population for Gauteng grew to 6.4 million people by 2005 compared to 29.3 million for the Republic. The working age population of Gauteng as a percentage of the working age population in South Africa grew from 21.1% in 2000 to 21.8% in 2005.



**Table 3.1: Labour Market Statistics for Gauteng and South Africa, 2000 & 2005**

|                         | 2000<br>('000) | 2005<br>('000) | 5 year change |       |
|-------------------------|----------------|----------------|---------------|-------|
|                         |                |                | ('000)        | %     |
| <b>Gauteng</b>          |                |                |               |       |
| Working age population  | 5,813          | 6,381          | 568           | 9.77  |
| Narrow labour force     | 4,091          | 4,434          | 343           | 8.38  |
| Broad labour force      | 4,456          | 5,028          | 572           | 12.84 |
| Employed                | 3,006          | 3,422          | 416           | 13.84 |
| Narrow unemployed       | 1,085          | 1,012          | 416           | -6.73 |
| Broad unemployed        | 1,450          | 1,606          | 416           | 10.76 |
| Discouraged workseekers | 365            | 594            | 416           | 62.74 |
| <b>South Africa</b>     |                |                |               |       |
| Working age population  | 27,586         | 29,306         | 1,720         | 6.24  |
| Narrow labour force     | 16,339         | 16,687         | 348           | 2.13  |
| Broad labour force      | 18,553         | 19,990         | 1,437         | 7.75  |
| Employed                | 12,182         | 12,210         | 28            | 0.23  |
| Narrow unemployed       | 4,157          | 4,477          | 320           | 7.7   |
| Broad unemployed        | 6,371          | 7,780          | 1,409         | 22.12 |
| Discouraged workseekers | 2,214          | 3,303          | 1,089         | 49.19 |

Source: Own calculations, Labour Force Surveys, September 2000 and September 2005.

Table 3.1 also provides data on the size of the labour force for Gauteng and South Africa. The LFS provides different estimates for the “narrow labour force” and “broad labour force” as well as for “narrow unemployed” and “broad unemployed”. Box 3.1 explains the difference between broad and narrow unemployment, which is calculated using StatsSA’s estimates for the size of the narrow and broad labour force.

#### Box 3.1: Definitions of unemployment

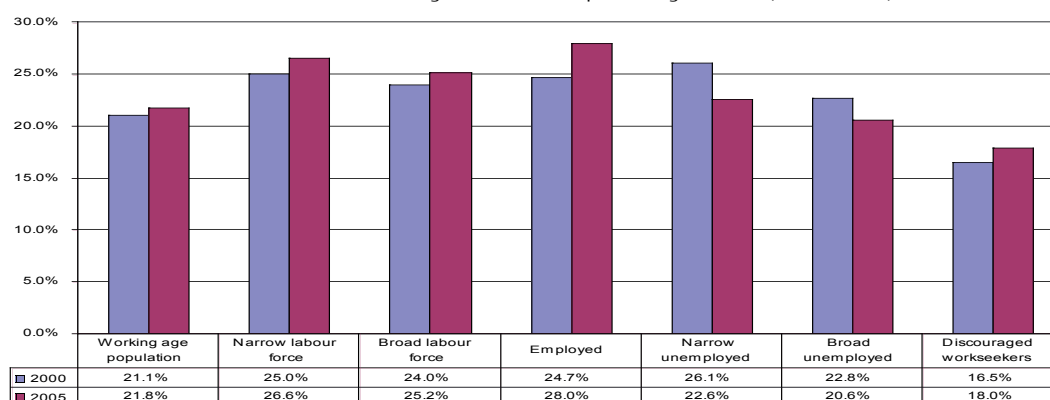
StatsSA uses the so-called narrow definition of unemployment to calculate the official unemployment rate. The difference between narrow and broad unemployment is that, for an individual to be counted as officially unemployed, an individual must be available for work within a week and have taken action to find work during the past month. A person who has not taken any steps to find employment or self-employment will be counted as out of the labour force under the official definition.

Those individuals who only fulfill the broad definition of unemployment are often referred to as discouraged workers because their lack of active job seeking may be due to a difficult labour market and low perspectives of successful search. Broad unemployment rates are frequently quoted alongside narrow unemployment rates and the fact that there is such a large gap between the rates calculated on the alternative definitions, indicates that discouragement in the South African labour market is large.

The employment rate is defined as the proportion of the number of individuals who are employed out of the total working age population of working age.

**Figure 3.1: Labour Market Variables, 2000 & 2005**

Labour market variables: Gauteng Province as a percentage of RSA (2000 & 2005)



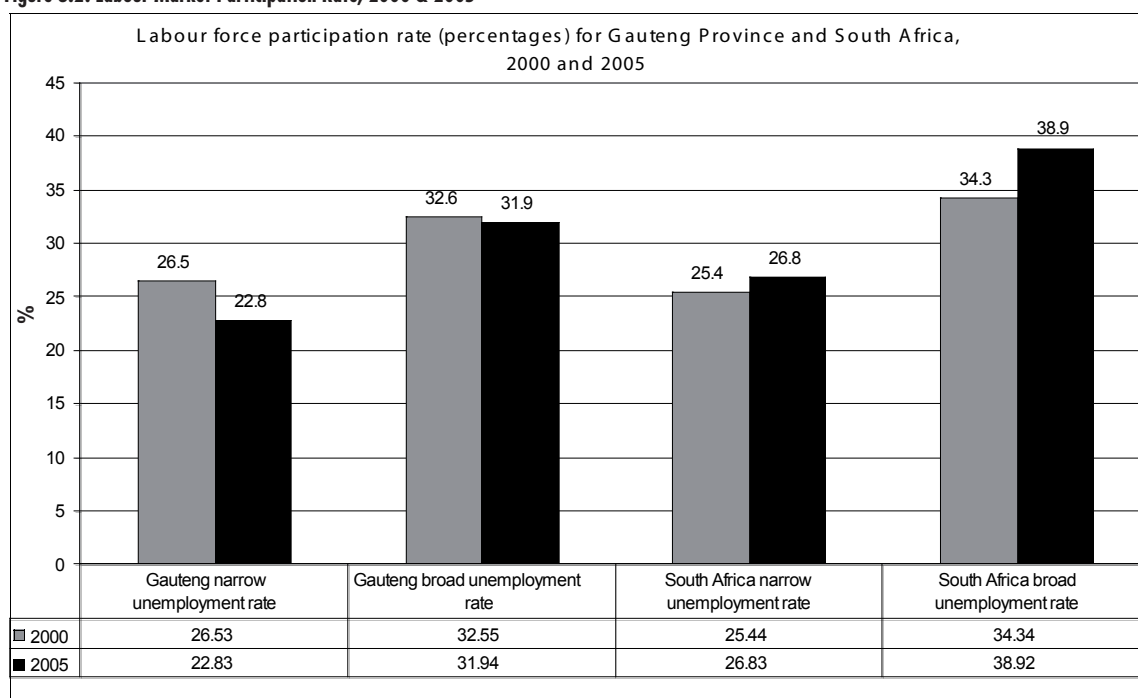
Source: Own calculations, StatsSA Labour Force Surveys September 2000 and September 2005.

Figure 3.1 provides a sense of the size of Gauteng’s labour market relative to that of South Africa as a whole. Gauteng’s variables are provided as percentages of the national variables for the categories provided in Table

3.1 above. The figure shows the change in percentages from 2000 to 2005. Gauteng's labour force (measured in narrow or broad terms) forms a larger percentage of the South Africa's labour force than Gauteng's working age population as a percentage of working age South Africans. In other words, Gauteng's labour force is proportionately larger than the working force for South Africa when one takes into account the relative size of the working age population in the province and the nation.

In 2000 Gauteng accounted for nearly one quarter of all people employed in South Africa and by 2005 this figure had grown to 28%. In both narrow and broad unemployment the component of Gauteng has shrunk from 2000 to 2005, indicating that Gauteng Province has performed better in reducing unemployment than the country as a whole. There has been relative growth in the size of discouraged job seekers in Gauteng as a percentage of the number of discouraged job seekers in South Africa from 2000 to 2005 but this may reflect the growth in the size of the broad labour force of Gauteng as a percentage of the South African broad labour force.

**Figure 3.2: Labour Market Participation Rate, 2000 & 2005**



Source: Own calculations, Labour Force Surveys, September 2000 and September 2005.

According to Table 3.1 above, Gauteng's narrow labour force grew by 8.4% from 2000 to 2005 compared to the 2.1% growth in the narrow labour force for South Africa. Even though the number of people in the narrow labour force of Gauteng Province grew from 2000 to 2005, the number of narrow unemployed for Gauteng declined by 6.7% from 2000 to 2005. The number of narrow unemployed in South Africa grew by 7.8%. In 2005 there were just over 1 million people classified as narrow unemployed in Gauteng and about 4.5 million people nationally. Therefore, while the number of people classified as narrow unemployed grew more in Gauteng than South Africa, the size of the narrow unemployed grew nationally but declined in Gauteng. Figure 3.2 shows that the rate of narrow unemployment declined from 26.5% in 2000 to 22.8% in 2005. The rate of narrow unemployment in South Africa grew from 25.4% in 2000 to 26.8% in 2005.

At the same time, Gauteng's broad labour force grew 12.8% compared to growth of 7.7% nationally. Broad unemployment in Gauteng grew 10.8% compared to 22.1% in South Africa from 2000 to 2005. The broad unemployment rate for Gauteng declined from 32.6% in 2000 to 31.9% in 2005, even though, the number of discouraged job seekers grew and the working age population grew by 9.8% for the period.

Considering that the national rate of broad unemployment grew from 34.3% in 2000 to 38.9% in 2005, one can argue that Gauteng Province is contributing to the fight against unemployment in South Africa. While Gauteng Province should be proud of its performance, one should stress that unemployment rates are high and that the Province still has an extraordinarily huge challenge ahead.

It is also worth noting that the unemployment challenge in Gauteng should be considered within the context of unemployment in South Africa as a whole. No single province can fight unemployment alone. Short-term reductions in the unemployment rate will not last long in one province but will lead to inflows and growth in the working age population and labour force of that province if jobs are not also created in other provinces.

### 3.2.2 Labour Market Demographics

**Table 3.2: Snapshot of the Working Age Population in Gauteng, 2005**

|                              | 2005(%)          |
|------------------------------|------------------|
| <b>By population group</b>   |                  |
| Black                        | 77.02            |
| Coloured                     | 3                |
| Indian                       | 2.74             |
| White                        | 17.28            |
| <b>By gender</b>             |                  |
| Male                         | 52.33            |
| Female                       | 47.67            |
| <b>By age group</b>          |                  |
| 15-24                        | 26.78            |
| 25-34                        | 31.83            |
| 35-44                        | 20.1             |
| 45-54                        | 12.94            |
| 55-64                        | 8.34             |
| <b>By education level</b>    |                  |
| No education                 | 3.29             |
| Primary schooling            | 14.08            |
| Secondary schooling          | 38.9             |
| Matric, NTCIII               | 31.05            |
| Diploma/Cert/Tertiary degree | 12.65            |
| <b>Total (number)</b>        | <b>6,380,551</b> |

Source: Labour Force Survey, 2005

**Table 3.3: Snapshot of the Employed Workforce in Gauteng**

|                                | 2000             | 2005             |
|--------------------------------|------------------|------------------|
| <b>By population group (%)</b> |                  |                  |
| Black                          | 69.05            | 72.27            |
| Coloured                       | 3.67             | 3.16             |
| Indian                         | 1.8              | 2.86             |
| White                          | 25.45            | 21.72            |
| <b>By gender (%)</b>           |                  |                  |
| Male                           | 61.28            | 61.59            |
| Female                         | 38.72            | 38.41            |
| <b>By age group(%)</b>         |                  |                  |
| 15-24                          | 10.18            | 11.56            |
| 25-34                          | 35.42            | 36.63            |
| 35-44                          | 28.95            | 26.87            |
| 45-54                          | 17.86            | 16.36            |
| 55-64                          | 7.95             | 8.59             |
| <b>By education level(%)</b>   |                  |                  |
| No education                   | 3.66             | 3.5              |
| Primary schooling              | 17.35            | 13.53            |
| Secondary schooling            | 32.25            | 30.99            |
| Matric, NTCIII                 | 25.28            | 32.91            |
| Diploma/Cert/Tertiary degree   | 21.45            | 19.08            |
| <b>Total (number)</b>          | <b>2,977,338</b> | <b>3,422,071</b> |

Source: Labour Force Survey, 2000 & 2005

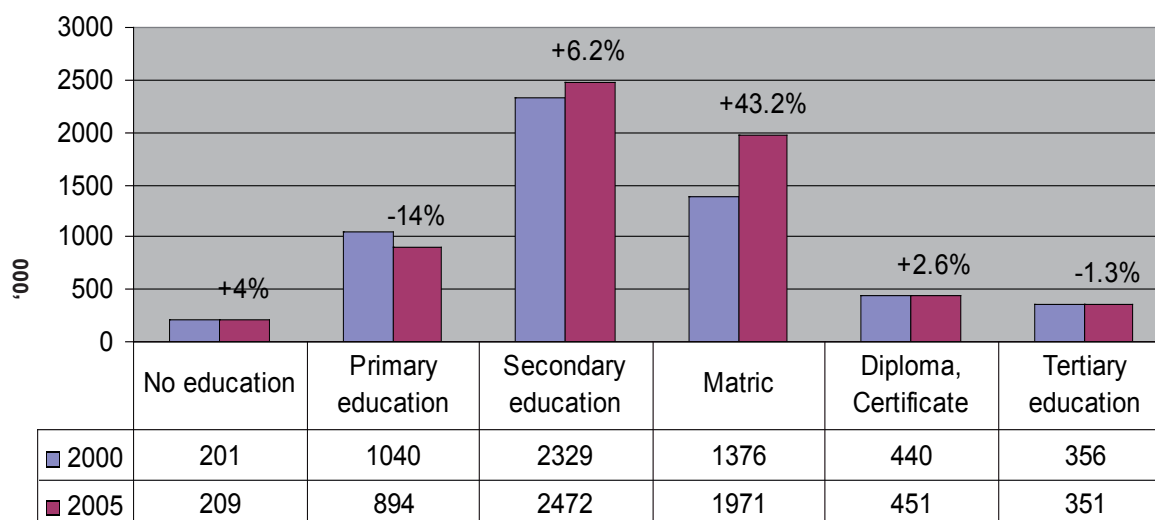
Table 3.2 provides detailed information about the composition of the Gauteng working age population and Table 3.3 provides information on Gauteng's workforce. Over a quarter of South African employment is in Gauteng (28%) and 30% of formal sector employment is with companies located in the province. The September 2005 LFS estimated about 3.4 million people were employed in Gauteng, of which approximately 2.5 million were Blacks, 740, 000 Whites, 108, 000 Coloureds and 98, 000 Indians. Total employment in South Africa according to the LFS was estimated to be 12.2 million in September 2005, of which 8.5 million were Blacks. The province has a similar importance for income generation among the White population group; 37.5% of White employment is in the province. Blacks and Whites make up 72% and 22% of the employed workforce respectively.

While women made up 47.7% of the working age population in 2005, there were more men than women employed in the Gauteng workforce. Women made up 38.4% of the employed workforce in Gauteng in 2005 a reduction from 38.7% in 2000. The relatively fewer women employed in Gauteng may reflect a continued traditional division of labour. In many cases where there are high unemployment rates, employers in sectors like manufacturing, mining, trade and transport will traditionally employ men. Especially construction, which was the fastest growing sector nearly doubling its workforce from 2000 to 2005 is traditionally seen as 'male work'. However, there was nearly 20% growth in wholesale and retail trade as sector where traditionally more women would be employed. The slight drop in the level of women employed from 2000 to 2005 may reflect the relative fast growth of construction.

The mean age of someone with employment in 2005 is 37 years, which is not significantly younger than the national average. Employment across the different age groups is also similar to national employment patterns. From 2000 to 2005 the percentage of workers in Gauteng aged between 35 to 44 and 45-54 declined from 29.0% to 26.9% and 17.8% to 16.4% respectively. At the same time, the employed workforce aged between 15 to 24 and 25 to 34 increased from 10.2% to 11.6% and 35.4% and 36.6% respectively. There seems to be a gradual trend towards a younger workforce.

Figure 3.3: Education Levels of the Working Age Population

### Education levels of working age population of Gauteng (in thousands)



Source: Derived from Labour Force Surveys, September 2000 and September 2005.

There was significant growth in the number of the working age population with matric qualifications (NTCIII) from 1.4 million in 2000 to almost 2 million in 2005, representing a growth rate of 43%. There was a 6% growth in people with secondary schooling (NTC I and II) from 2000 to 2005 and only 2.6% growth for people with a diploma or certificate. There was a decline of 1.3% for people with tertiary education for the same period.

In 2005, the largest group of the working age population in Gauteng were people with secondary schooling (38.9%), 14.1% had primary schooling and 3.3% had no education. The proportion of the working age population with matric or higher education was 43.7% in 2005. Thus, over half of the working age population have not achieved matric qualifications or above.

**Table 3.4: Narrow Unemployment Rates by Education Levels in Gauteng, 2005**

| Education level      | 2005 (%) |
|----------------------|----------|
| No education         | 17.22    |
| Primary              | 22.08    |
| Secondary            | 28.27    |
| Matric               | 25.33    |
| Diploma/ Certificate | 12.4     |
| Tertiary education   | 3.35     |

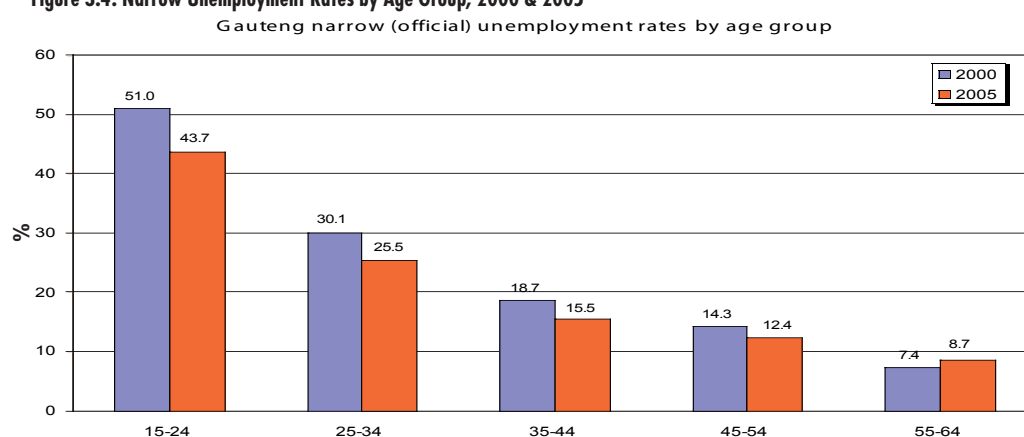
Source: Own calculations, Labour Force Survey, September 2005.

Table 3.4 provides interesting insights into narrow unemployment in Gauteng. About one quarter of people with matric qualifications were unemployed in 2005. Of those who had attained a post-matric qualification, 12.4% of people with a diploma or certificate were unemployed and 3.4% of people with tertiary education were unemployed. Of those who had not attained matric 28.3% of people with secondary education, 22.1% of people with primary education and 17.2% of people with no education were unemployed in Gauteng in 2005.

The lowest rates of narrow unemployment were (in ascending order): people with tertiary education, diplomas and certificates, no education and primary education. People with high school and matric had the highest levels of unemployment in 2005.

The number of people who have achieved secondary school and matric account for about 70% of Gauteng's working age population. The relatively larger size of this cohort may partially explain why their narrow unemployment rate is so high. However, what remains to be understood is why the narrow unemployment rate is lower for people with no education than people with some level of education.

A preliminary analysis of the data provides the impression that Gauteng employers are employing people with no education rather than those who have education. One may speculate that on the demand side some of the largest employers, such as wholesale and retail, manufacturing, construction and households may choose to employ people without education in the most menial jobs. On the supply side, people with education, especially those with high school and matric may choose to remain unemployed than to take on menial jobs. The discussion on the changing labour intensity of the economy from the 1970s in the next section of this chapter may shed some light on this matter. However, the possible reasons discussed are speculation. This phenomenon is an important area for more rigorous research in the future.

**Figure 3.4: Narrow Unemployment Rates by Age Group, 2000 & 2005**

Source: Own calculations, Labour Force Surveys, September 2000 and September 2005.

Figure 3.4 provides a breakdown of narrow unemployment by age group. The youngest people of working age had the highest levels of narrow unemployment. For people aged 55 to 64, unemployment rate was 8.7% in 2005. It was the only age group that registered an increase in the rate of unemployment from 2000 to 2005. The largest decline in unemployment from 2000 to 2005 was amongst the 15 to 24 age group but in 2005 they still registered the very high rate of 43.7% narrow unemployment. About 25% of the 25 to 34 age group, 15.5% of the 35 to 44 age group and 12.4% of the 45 to 54 age group were unemployed in 2005. The relatively higher rates of unemployment amongst the younger cohorts may help explain why those people with high school and

matric had higher rates of unemployment than people with no education (which may include a larger share of the older cohorts). Given the demographic age profile in South Africa where a larger percentage of the population is younger, it seems that over time the number of unemployed people without previous work experience will grow even more unless the pace of employment creation amongst people under 35 grows much faster (see Tables 3.5a and b below).

**Table 3.5a: Previous Work Experience among the Unemployed in Gauteng, 2000 & 2005**

| 2000(%)   | 2005(%) |       |
|---|---------|-------|
| Broadly unemployed who ever worked before (all) | 42.16   | 32.47 |
| Searching unemployed who worked before          | 44.64   | 33.83 |
| Non searching unemployed who worked before      | 34.79   | 30.16 |

Source: Own calculations, Labour Force Surveys, September 2000 and September 2005.

**Table 3.5b: Previous Work Experience among the Working Age Population in Gauteng, 2005**

|              | 2005(%)      |
|--------------|--------------|
| Black        | 32.56        |
| Male         | 36.22        |
| Female       | 29.66        |
| <b>Total</b> | <b>32.47</b> |

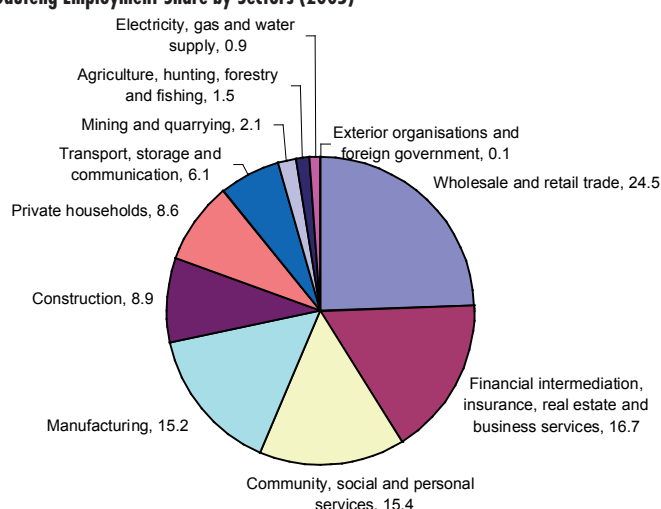
Source: Own calculations, Labour Force Survey, September 2005.

Tables 3.5a and b provide a breakdown of previous work experience amongst the unemployed (broad and narrow) of working age population. The number of unemployed with previous work experience declined quite a bit from 2000 to 2005.

Notwithstanding this decline, the proportion of unemployed with previous work experience in Gauteng was higher than in other metropolitan areas in the country (where the proportion was only 23.9%) in 2005. These trends are to be expected because of the poor employment creation levels in the South African economy over the past two decades. In addition, the higher unemployment rate amongst younger age cohorts leads to a situation where there are lower levels of work experience amongst the unemployed.

## 3.2.3 Labour Market Analysis by Sector

**Figure 3.5: Gauteng Employment Share by Sectors (2005)**



Source: Derived from Labour Force Survey, September 2005.

Figure 3.5 provides a breakdown of employment by sector for Gauteng Province in 2005. The largest sector in terms of employment share was wholesale and retail trade (24.5%). The resource based sectors, including agriculture, hunting, forestry and fishing (AHFF), electricity gas and water and mining and quarrying were the smallest employers in Gauteng in 2005.

**Table 3.6: Gauteng Employment by Sector, 2000 & 2005**

| Sector   | 2000      |      | 2005      |      | Change in employment |
|--|-----------|------|-----------|------|----------------------|
|  | Number    | %    | Number    | %    | %                    |
| Wholesale and retail trade   | 698,183   | 23.4 | 834,262   | 24.5 | 19.5                 |
| Financial intermediation, insurance, real estate and business services | 423,322   | 14.2 | 568,799   | 16.7 | 34.4                 |
| Community, social and personal services                                | 537,500   | 18   | 525,465   | 15.4 | -2.2                 |
| Manufacturing  | 473,703   | 15.9 | 520,006   | 15.2 | 9.8                  |
| Construction   | 149,057   | 5    | 305,043   | 8.9  | 104.6                |
| Private households   | 275,756   | 9.3  | 294,465   | 8.6  | 6.8                  |
| Transport, storage and communication                                   | 202,420   | 6.8  | 209,504   | 6.1  | 3.5                  |
| Mining and quarrying   | 142,797   | 4.8  | 69,948    | 2.1  | -51                  |
| Agriculture, hunting, forestry and fishing                             | 40,544    | 1.4  | 51,864    | 1.5  | 27.9                 |
| Electricity, gas and water   | 23,253    | 0.8  | 30,709    | 0.9  | 32.1                 |
| Exterior organisations and foreign government                          | 894       | 0    | 3,753     | 0.1  | 319.7                |
| Estimated total employment   | 2,981,142 |      | 3,412,113 |      | 14.5                 |

Source: Own calculations, Labour Force Survey, September 2005.

Table 3.6 provides an indication of the change in employment by sectors from 2000 to 2005. The largest growth was in construction, where employment doubled from roughly 150, 000 to 300, 000 workers from 2000 to 2005. South Africa and especially the large cities have experienced growth in residential property development and renovation over the past 5 years. More recently, non-residential construction, especially in commercial and office space development has taken off. The massive infrastructure development expenditure that is planned as part of Government's ASGISA initiative should further boost employment in construction over the next few years. There should be an opportunity for construction employment to boost employment of younger people with high school or matriculation. It could also play a role in reducing the number of people who have no work experience.

The next largest growth in employment was in financial intermediation, insurance, real estate and business service (FIIREBS) where employment grew 34.4% (from about 420, 000 to 570, 000 workers) from 2000 to 2005. The financial and real estate sectors' contributions to GDP have increased steadily over the past decade. The growth in importance in the finance sector globally and the increased integration of global financial markets have created much opportunity for the South African financial sector. The onset of democracy has increased access to financial services for a larger proportion of the population but has not gone far enough. The financial sector has benefited from the growth of its customer base, especially as the size of the South African middle class has grown. Democracy has opened opportunities for increasing incomes for more black people and the banks have reaped the rewards of this growth in their customer base.

The future growth of the financial sector should be guided by policies that increase access to financial services to poorer people. Policies should also encourage financial sector growth through increasing access to credit for investment in productive activities rather than the rampant promotion of consumer credit. The financial sector has an important role to play in the development of the provincial and national economies through the provision of financial services and credit but also through employment creation and skills development.

The wholesale and retail trade sector also increased employment from nearly 700, 000 to nearly 835, 000 workers, an increase of 19.5% from 2000 to 2005. The growth in the wholesale and retail trade sectors are closely linked to the increased provision of credit by the financial sector and the boom in construction.

The future growth of the trade sector will depend on the continuation of access to credit to households. Household debt levels have grown fast and there is pressure from policymakers for households to curb consumption and increase savings. Therefore, the trade sector may not continue growing at the same pace.

However, growth in infrastructure and other growth benefits that may emerge from the ASGISA initiative may boost employment in other sectors that could offset the discussed decline due to lower credit expansion and residential construction. The continued inflow of cheaper imported products could also continue to maintain a higher level of employment in the trade sector but could lead to further job losses in the manufacturing sector. The recent initiative by the Department of Trade and Industry (DTI) to negotiate a clothing and textile quota with China indicates the government's industrial policy concerns with cheaper imports flooding South African markets.

There was a huge decline in employment in mining and quarrying, where employment dropped by 51% from about 140, 000 to 70, 000 from 2000 to 2005. The increased mechanisation of the South African mining sector from the 1970s has led to huge job losses in the mining and quarrying sector. These job losses have continued over the past decade and seem to have been exacerbated by the declining levels of investment in the mining sector. Therefore, despite the commodities super cycle of the past few years, mining and quarrying employment has declined.

**Figure 3.6: Employment Share by Sector in Gauteng and South Africa, 2005**



Source: Own calculations, Labour Force Survey September, 2005

Figure 3.6 compares employment by sector in Gauteng and South Africa. The differences in employment that are significant are in the FIIREBS and AHFF sectors. Gauteng employs a larger component of its workforce in FIIREBS than South Africa. Gauteng employs fewer AHFF workers than South Africa. Gauteng also employs quite less people in the mining and quarrying sector than South Africa but have larger numbers in the manufacturing, construction and transport, storage and communication sectors. The employment pattern by sector provides an indication of the difference in the structure of the Gauteng economy compared to the rest of the country. As stated earlier, Gauteng is less dependent on resources and more involved in downstream manufacturing and value-added services.



### 3.2.4 Labour Market Analysis by Occupation

**Table 3.7: Gauteng Employment by Occupation**

| Occupation                               | 2000      | %      | 2005      | %      | Change <sup>1</sup> | %      | % change in share |
|--|-----------|--------|-----------|--------|---------------------|--------|-------------------|
| Legislators, senior officials & managers | 170,034   | 6.0%   | 302,396   | 8.9%   | 132,362             | 77.84  | 46.93*            |
| Professionals                            | 203,589   | 7.2%   | 211,267   | 6.2%   | 7,678               | 3.77   | -14.27            |
| Technical & associate professionals      | 321,456   | 11.4%  | 350,861   | 10.3%  | 29,405              | 9.15   | -9.82             |
| Clerks                                   | 334,709   | 11.9%  | 406,494   | 11.9%  | 71,785              | 21.45  | 0.34              |
| Service & sales workers                  | 411,408   | 14.6%  | 454,959   | 13.3%  | 43,551              | 10.59  | -8.64             |
| Skilled agricultural & fishery workers   | 57,524    | 2.0%   | 11,263    | 0.3%   | -46,261             | -80.42 | -83.82            |
| Craft & related trade workers            | 399,565   | 14.2%  | 507,520   | 14.9%  | 107,955             | 27.02  | 4.94              |
| Plant & machine operators, assemblers    | 293,822   | 10.4%  | 310,246   | 9.1%   | 16,424              | 5.59   | -12.76            |
| Elementary                               | 395,899   | 14.0%  | 622,881   | 18.2%  | 226,982             | 57.33  | 29.99             |
| Domestic workers                         | 231,505   | 8.2%   | 235,500   | 6.9%   | 3,995               | 1.73   | -15.96            |
| Total                                    | 2,819,511 | 100.0% | 3,413,387 | 100.0% | 593,876             |        |                   |
|  |           |        |           |        |                     |        |                   |
| Skill level <sup>2</sup>                 | 2000      | %      | 2005      | %      | Change              | %      |                   |
| Unskilled                                | 921,226   | 32.7%  | 1,168,679 | 34.2%  | 247,453             | 20.13  | 4.58              |
| Skilled                                  | 1,524,662 | 54.1%  | 1,731,020 | 50.7%  | 206,358             | 7.79   | -6.17             |
| Highly skilled                           | 373,623   | 13.3%  | 513,346   | 15.0%  | 139,723             | 30.84  | 13.9              |
| Total                                    | 2,819,511 | 100.0% | 3,413,045 | 100.0% | 593,534             |        |                   |

Source: Own calculations, Labour Force Surveys, September 2000 and September 2005.

Notes: The total of occupation by employment may be lower than estimated employment in above table due to unspecified occupations and observations with inadequate information.

<sup>1</sup> Changes indicated with \* are significant at the 95% level.

<sup>2</sup> Unskilled workers are classified as domestic and elementary workers, plant & machine operators, and assemblers; Skilled workers comprise craft & related trades workers, skilled agricultural & fishery, service and & shop/market sales workers, clerks, technical and associate professionals. Highly skilled occupations are assumed to be professionals, legislators, senior officials and managers.

Table 3.7 provides employment by occupation (as categorised by StatsSA in the LFS). The largest employment category in 2005 was elementary workers, which made up 18.3% of Gauteng employment. Elementary workers work in unskilled jobs, such as cleaning and packing. The number of workers categorised as elementary increased by 57.3% from nearly 400, 000 just over 620, 000 during the period 2000 to 2005.

The number of workers categorised as elementary may have increased because of the relative increase in the size of employment in business services (see Table 3.5 and Figure 3.6). While business services include professional services, the largest proportion of workers in business services are unskilled. Many of the employees categorised under business services are security guards and cleaners. Many people assume that business service employees are high skilled workers in high tech jobs such as information technology (IT) but this is incorrect. Much of the growth in the IT sector seems to have occurred without a proportional increase in employment.

The largest increase in the highly skilled worker category was the group classified as legislators, senior officials and managers. The number of people employed in this group increased from about 170, 000 in 2000 to about 300, 000 in 2005 (an increase of 77.8%). The largest decrease was in the group classified as skilled AHFF workers. Employment in this group collapsed from just over 57, 000 in 2000 to just above 11, 000 in 2005 (a decline of 80.4%). The actual number of domestic workers increased from about 230, 000 to close to 235, 000 from 2000 to 2005. Domestic workers made up 6.9% of Gauteng's employment in 2005, a decline from 8.2% in 2000.

In Table 3.7, we aggregated the occupational breakdown into highly skilled, skilled and unskilled workers. In

2005 there were more than 500, 000 people employed in highly skilled jobs, up from just below 400, 000 in 2000 (an increase of 30.8% from 2000 to 2005). The number of skilled workers increased by only 7.8% from 2000 to 2005 but since there are so many more skilled than highly skilled workers, the increase in skilled workers over the period was 125, 000 compared the increase in highly skilled workers of 121, 000. There were more skilled than unskilled workers in Gauteng in 2000 and 2005. The number of unskilled workers increased from almost 1 million to almost 1.2 million from 2000 to 2005 (an increase of 20%).

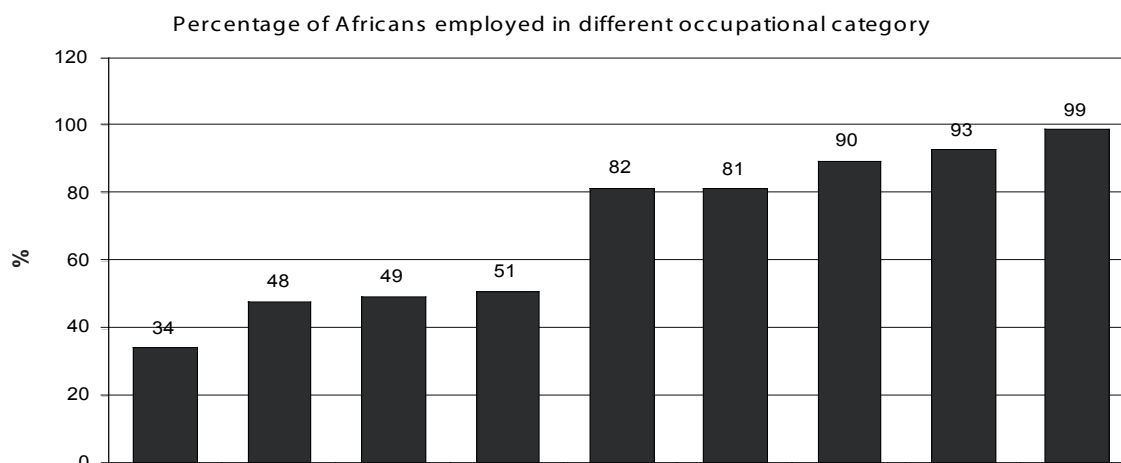
**Table 3.8: Black and Total Employment by Occupation in Gauteng, 2005**

| Occupation                               | Black     | %      | Gauteng   | %      |
|--|-----------|--------|-----------|--------|
| Legislators, senior officials & managers | 103,549   | 4.2%   | 302,396   | 8.9%   |
| Professionals                            | 101,380   | 4.1%   | 211,267   | 6.2%   |
| Technical & associate professionals      | 173,619   | 7.0%   | 350,861   | 10.3%  |
| Clerks                                   | 207,478   | 8.4%   | 406,494   | 11.9%  |
| Service & sales workers                  | 371,184   | 15.0%  | 454,959   | 13.3%  |
| Skilled agricultural & fishery workers   | 8,063     | 0.3%   | 11,263    | 0.3%   |
| Craft & related trade workers            | 412,039   | 16.7%  | 507,520   | 14.9%  |
| Plant & machine operators, assemblers    | 278,194   | 11.3%  | 310,246   | 9.1%   |
| Elementary                               | 578,368   | 23.4%  | 622,881   | 18.2%  |
| Domestic workers                         | 232,704   | 9.4%   | 235,500   | 6.9%   |
| Total                                    | 2,466,578 | 100.0% | 3,413,387 | 100.0% |

Source: Own calculations, Labour Force Survey, September 2005.

Table 3.8 compares employment by occupation for Blacks with employment by all population groups (including Blacks) for Gauteng in 2005.<sup>1</sup> Blacks are under-represented in the skilled (professionals and legislators, senior officials and managers) and highly skilled occupations and over-represented in the unskilled categories.

**Figure 3.7: Percentage of Blacks per Occupation**



Source: Derived from Quantec Research, 2006

Figure 3.7 shows the percentage of Blacks employed in each occupational category. It is interesting to note that the percentage of Black people increase as the categories become less skilled. The information in Table 3.8 and Figure 3.7 indicate that the legacy of apartheid racial oppression is still present in Gauteng.

The number of highly skilled Blacks employed in Gauteng increased by 56.1% from about 90, 000 to about 205, 000 from 2000 to 2005. The number of Blacks employed in skilled categories increased by 20.8% from about 928, 000 to about 1.17 million, see Table 3.9 below.

<sup>1</sup> A breakdown of the occupations for all population groups was not possible at the provincial level. The statistical significance of our results for other population groups (except Whites) were not acceptable because of the relatively small numbers in this component of the sample.

**Table 3.9: Black Employment by Skill Level in Gauteng, 2000 & 2005 (excluding agriculture and unspecified occupations)**

|                         | Sep 2000 | Change    | Sep 2005  | Change    | %      |
|-------------------------|----------|-----------|-----------|-----------|--------|
| Unskilled               | 896,778  |           | 1,095,726 | 192,488   | 17.7   |
| 95% Confidence Interval | 810,939  | 982,616   | 909,680   |           |        |
| Skilled                 | 928,073  |           | 1,172,384 | 244,312*  | 20.8*  |
| 95% Confidence Interval | 840,978  | 1,015,167 | 989,394   |           |        |
| Highly skilled          | 90,044   |           | 204,929   | 114,885** | 56.1** |
| 95% Confidence Interval | 70,015   | 110,072   | 150,560   |           |        |

Source: own calculations, LFS September 2000 and September 2005.

\*\* denotes a statistically significant change at the 95% confidence level. \* denotes a statistically significant change at the 90% confidence level.

The percentage increase in Black employment has been larger in Gauteng in any skill category than in the rest of South Africa. The increase in skilled employment for Blacks in Gauteng to about 1.17 million has notably been against the trend in these occupations at the national level. Within the occupations that are classified as skilled at a national level (technical/associate professionals, clerks, service/sales, craft) Black employment has not significantly changed; estimates actually suggest a slight (2.3%) decrease. In contrast, table 3.8 shows that in Gauteng, 20.8% more Blacks were employed in skilled occupations in 2005 than in 2000.

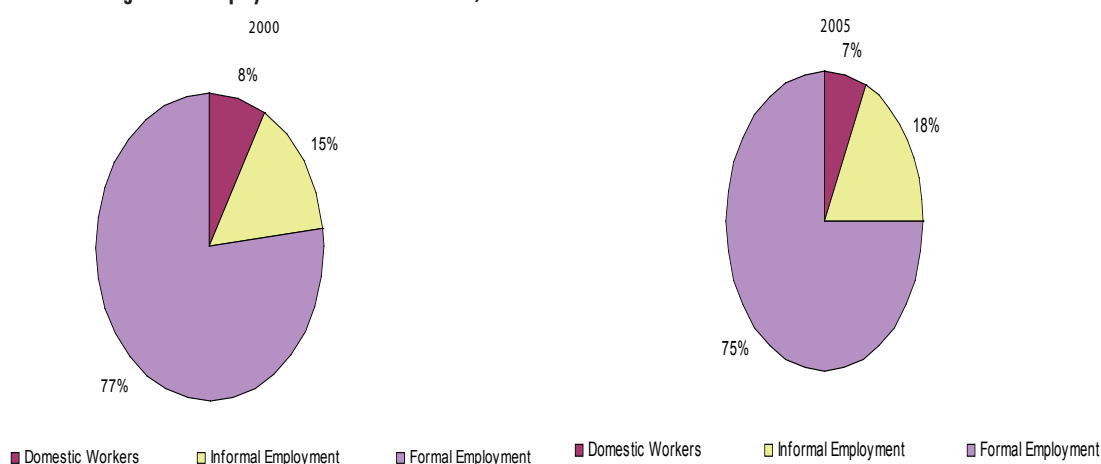
The increase in employment for Black people in Gauteng in highly skilled occupations of over 56% has also been larger than the national increase of 40%. Highly skilled employment has risen amongst all population groups but Whites are still over-represented in these occupation groups, with estimations of 680, 000 Whites, and 532, 000 Africans holding highly skilled employment in South Africa in 2005. Gauteng therefore represents a labour market within South Africa in which the advancement of Black South Africans occurs at a faster rate than the rest of the country.

There has been commendable change in occupational categories over the past five years. However, there is much work ahead to build equity in the occupational categories because the legacy of apartheid is still with us. The better performance of Gauteng in terms of transformation should provide an example for the rest of the country. However, the role of history and institutions should not be forgotten when considering the faster transformation in Gauteng Province. Black workers have a longer history of urbanization in Gauteng than elsewhere and have been employed in industry and services sectors over a longer period of time.

The positive developments in occupations should not leave us blind to the great disparities present in an economy with dual labour markets. The section below addresses this dualism by separating the labour force in formal and informal sectors.

### 3.2.5 Contribution of the Informal Sector

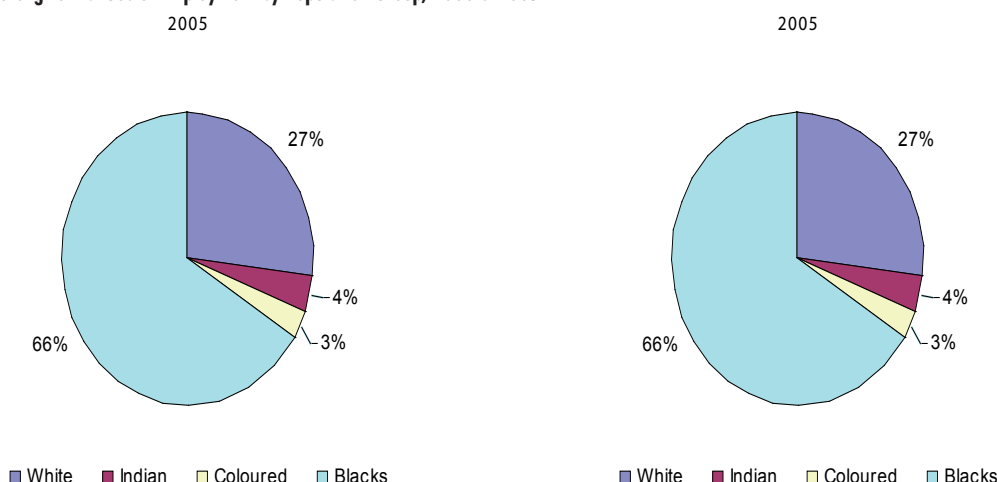
The share of employment provided by the informal sector has grown in Gauteng from 2000 to 2005. The section below will look at the contribution of the informal sector to employment by race and sector in Gauteng.

**Figure 3.8: Gauteng Sectoral Employment in the Informal Sector, 2000 & 2005**

Source: Quantec Research, 2006

Figure 3.8 provides a breakdown of formal, informal and domestic work for Gauteng Province. We have excluded the "other" and "not classified" sectors from these calculations and used only the data for the formal, informal and domestic work. Formal employment as a percentage of the total sum of formal, informal and domestic worker sectors has decreased from 77% in 2000 to 75% in 2005. At the same time the percentage of informal workers has increased from 15% in 2000 to 18% in 2005. The percentage of domestic workers has dropped from 8% in 2000 to 7% in 2005. There is evidence that the relative sizes of the formal and informal sectors have changed, with informalisation occurring in the provincial economy from 2000 to 2005. As discussed above, in the sector on occupations, the absolute number of domestic workers has increased slightly but the percentage of domestic workers relative to formal and informal workers has declined by 1%.

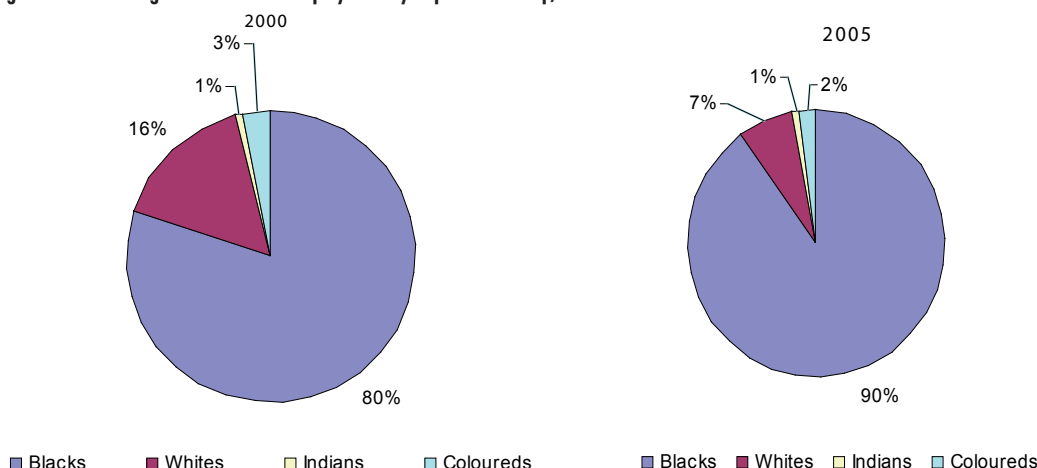
**Figure 3.9: Gauteng Formal Sector Employment by Population Group, 2000 & 2005**



Source: Quantec Research, 2006

Figure 3.9 provides a breakdown of formal sector employment for Gauteng Province for 2000 and 2005. Once again the "other" and not specified sectors are left out of calculations for total, as are the "other" population group classification. The proportion of Black participation in the formal sector relative to Coloured, Indian and White race groups have grown from 58% in 2000 to 66% in 2005. During the same period Coloured participation stayed constant at 3%, Indian participation grew from 2% to 4% and White participation declined from 37% to 27%. The transition from apartheid seems to have led to a relative change in especially Black and White formal sector employment. While Whites are still playing a large role in the formal economy, the movement of Black workers into more skilled sector occupations has affected the relative representation of each race group. At the same time, one expects that over time, with the dismantling of the legislated job colour bar and the 'informal, still existing' job colour bar will lead to a change in representation in the formal sector. However, one expects that the dualism in the labour market will persist to have a racial character for a while. The informal sector will appear to be largely Black, except for sectors such as construction, where White contractors that subcontract to larger construction companies will run informal sector, small businesses.

**Figure 3.10: Gauteng Informal Sector Employment by Population Group, 2000 & 2005**

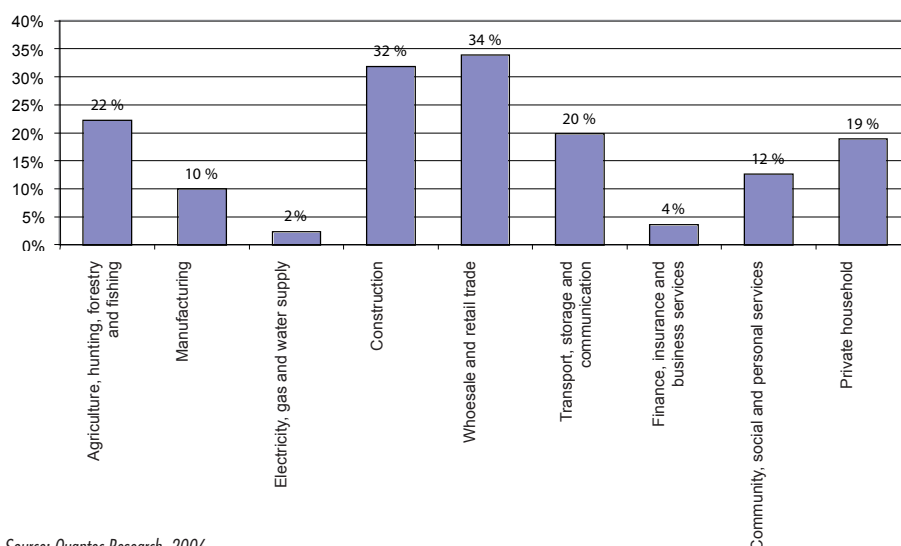


Source: Quantec Research, 2006

Figure 3.10 provides a breakdown of informal sector employment by population group. Black workers made up 80% of informal sector workers in 2000 and increased to 90% in 2005. On the other hand, the number of White workers in the informal sector declined from 16% in 2000 to 7% in 2005 and Coloured employment declined from 3% to 2% while Indian employment remained at 1%. It is clear that Black workers have become over-represented in the informal sector, while at the same time their relative representation in the formal sector has increased.

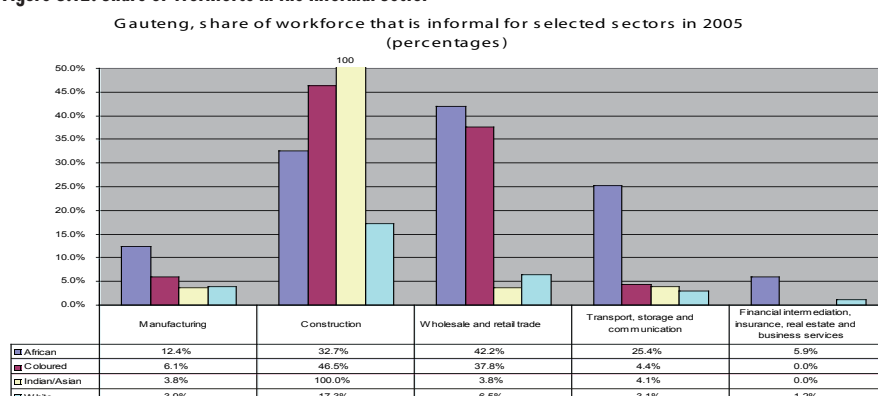
The domestic workers sector brings to the fore the intersection of race and gender in the Gauteng economy and highlights the continued legacy of apartheid. Just fewer than 5% of domestic workers were male in 2005. The racial breakdown is even starker. In 2005, 98% of Gauteng's domestic workers were Black, 1.7% Coloured and 0.3% White in 2005. Compared to 2000 when 98% were Black, 1% Coloured and 1% Indian. The dominance of women in domestic work developed not only because of the traditional gender division of work in the household but also because of the apartheid pass system. Under the pass system, Black people required a pass to be in urban areas. To get a pass they had to show that they had a job in the urban areas. Many women were refused passes because men were predominantly employed in industry.

**Figure 3.11: Informal Workers by Sector, 2005**



Source: Quantec Research, 2006

Figure 3.11 provides the percentage of the estimated informal workforce by sector. The mining and quarrying sector is not included in the chart above because its informal workforce is very close to 0%. The electricity, gas and water sector and the FIIREBS have small percentages of informal workers at 2% and 4% respectively. A relatively large share of informal workers is in the manufacturing sector (10%). The largest informal sectors in terms of employment are wholesale and retail trade (34%) and construction (32%). These are sectors where it is easier for informal and small businesses to compete. The AHFF (22%) and transport, storage and communication (20%) sectors also employ a large share of the total workers in their sector. Private households employ almost 8% of working people in Gauteng. Domestic workers make up 80% of the people employed by private households. In addition to domestic workers, about 1% of private household workers are categorised as formal and 19% as informal.

**Figure 3.12: Share of Workforce in the Informal Sector**

Source: Quantec Research, 2006

Figure 3.12 provides a further breakdown of the informal sector into the percentage of total workers in selected economic sectors that are informal sector workers in 2005. The sectors that were chosen were sectors where it is well known that informal work thrives. The FIIREBS sector was added because of the growth in informal small credit businesses. In all sectors except for construction, Black workers make up the largest share of informal workers. This phenomenon may be a legacy of the job reservation system, which may have entrenched certain racial attitudes and to some extent institutionalised views of the racial division of labour in sectors.

A large part of the construction sector is informal. It consists of many small businesses and employment is casual and often irregular. Over the past few years there has been a building boom and employment in construction has almost doubled. This boom would create opportunities for smaller, informal businesses because the larger formal sector building businesses contract out a lot of work to smaller businesses. Informal construction businesses employ a larger share of the workforce in a sector in each race group than any other sector. The racial breakdown of construction is 17% White, 47% Coloured, 100% Indian and 33% Black. Surprisingly, 100% of Indians employed in construction are employed in the informal sector. This may indicate that a large share of Indians operating in the construction sector is self employed or run small businesses that are informal.

Close to 40% of Coloured and Black workers employed in wholesale and retail trade worked in the informal sector in 2005. During that year only 7% of Whites and 4% of Indians employed in the sector worked in the informal sector. This racial division in the trade sectors reflects the spatial division of racial settlement in South Africa, which remains heavily influenced by apartheid special separation of the races, especially in the form of the Group Areas Act of 1950 and the creation of Bantustans (previously called homelands). A large part of the informal trade sectors probably operate within areas that are historically Coloured and Black. The relatively more affluent White and Indian communities shop in formal sector shops and probably frequent shopping malls. The wholesale and retail trade sector is an important employment category, which grew by close to 20% from 2000 to 2005. The special, racial division in Gauteng may also be reflected in the relatively larger share of Black workers in manufacturing, transport, storage and communications and FIIREBS informal businesses. In other words, the Black workers in these sectors may be operating in informal businesses based in areas that are historically Black.

The role of employment within the informal sector is important in Gauteng, especially in construction and wholesale and retail trade sectors. Both of these sectors have grown fast over the past few years and informal employment has moved apace in these sectors. The racial division of work in the formal and informal sectors highlights the legacy of apartheid. The fact that Black people's ability to own businesses was limited and their mobility was restrained is reflected in the relative over-representation of Blacks in the informal sector. The relative growth of Black informal sector employment from 2000 to 2005 may partly reflect growing opportunities for black informal businesses to grow because of the end of apartheid. It may also reflect the impact of slow creation of formal sector jobs and the persistence of high unemployment in the province.

### 3.3 Conclusion

The concern of an economy is to ensure that it promotes the empowerment of its population and that members of its workforce participate in the economy to the full extent of their desires and aspirations. The empowerment of the population, including the education and training of the workforce, and the growth and development of the economy are thus mutually reinforcing goals. The major concern for Gauteng Province is the continued high level of unemployment amongst the working age population. The unemployment problem in South Africa is a longstanding problem and the racial nature of this problem reflects the history of South Africa. The working age population is not empowered to the extent that it could be because of a history of racial oppression, which promoted the underdevelopment of the majority, and the continued challenges facing South African society. The challenges in the education and training system, the health care system, the provision of shelter and other areas hinder the potential contribution of the working age population to the workforce.

The challenges to the economy (as outlined in Chapter 2) indicate that the economy is not generating enough of the types of jobs that will lead to rapid absorption of the relatively large unemployed section of the workforce. The unemployment problem has a race and age character that reflects the legacy of apartheid and the age profile of the province. On the demand side, there will have to be investment and economic growth that is labour demanding to make a dent in the unemployment problem. On the supply side, the levels of education and skills of the workforce will have to be developed. There will have to be greater effort to educate and train the workforce. However, without growth in employment the effort and resources put into education and training will be severely under utilised

This chapter has analysed the composition of the Gauteng labour market and provided a breakdown of employment by sector, occupation and employment in both the formal and informal sectors. There has been progress in Gauteng Province with growth in the relative number of Black workers employed in the formal sector and also better representation of Blacks in highly skilled and skilled occupations. However, this growth is from a relatively low base. The unemployment rate is still too high. In addition, the under-representation of Black workers in skilled occupations and the spatial character of formal sector employment still indicate a strong legacy of apartheid on the Gauteng labour market.

The high level of unemployment has led to growth in the informal sector. Another reason for informal sector growth is the response of some employers to the new labour market legislation since the end of apartheid. The casualisation and informalisation of labour seems to be a trend in the economy that works against skills development and training. Therefore, a policy response would be to work towards increasing the size of the formal sector through supporting the formalisation of informal businesses and promoting a longer term relationship between employers and employees. In the long run, it is in the interest of society that more workers have the benefits associated with long-term, formal sector employment.



### 3.4. Appendices

#### **Appendix 3.1: A short account of factors affecting the labour market before apartheid**

*During the first quarter of the Twentieth Century, the introduction of the Native Land Act of 1913 (preceded by the Glen Grey Act of 1894) dispossessed Africans of most of their land forced and proletarianisation occurred.*

*Labour coercion policies and schemes were developed between the government, white farmers and mine owners to provide white employers with enough black labour. However, there was political pressure from white farmers and the mining industry not only for black labour but cheap black labour.*

*Very soon, the growing black urban labour force would raise new concerns for the white government and labour movement. Tension between white and black workers and white workers and employers would shape the future of South African politics. White businesses often employed black people because they were cheaper but faced resistance from white workers. These tensions led to violence during the 1922 mineworkers strike. White mineworkers went on strike and violently protested to stop Africans taking their jobs. The strike was violently suppressed by the Smuts government but later concessions were made to the white workers in the Industrial Conciliation Act of 1924.*

*The job colour bar was enforced and black workers were prevented from starting trade unions.<sup>2</sup> The efforts and voting power of white workers helped them to reserve certain jobs for whites and also helped the National Party (NP) to gain power in 1948.*

*A number of factors led to the victory of the NP and the hardening of racial discrimination and discriminatory policies towards black labour. There was a huge outflow of Afrikaaners from the farms to the urban areas to search for jobs during the 1940s. Many smaller Afrikaaner farmers went bankrupt and were forced to sell their land.*

*At the same time, there were attempts to control the urbanization of black people. The Development Trust and Land Act of 1936 prohibited Africans from acquiring land in urban areas. This act also called for the ending of black labour tenancy on white farmers as a way to ensure a better supply of cheap black labour to white farmers. It was also meant to provide white farmers more control over black workers. However, slow implementation of the Land Act of 1936 meant that the increasing movement of black people from rural to urban areas could not be curtailed and that white farmers were faced with shortages of cheap black labour.*

#### **Appendix 3.2: A short account of factors affecting the labour market after apartheid**

*There was an economic and production boom in South Africa at the time of the Second World War. Imports from Britain and the rest of Europe declined and war industries were established to build defence capabilities. The demand for labour led to increasing employment of black workers and dilution of the job colour bar. Many employers in the mining and manufacturing industry supported greater Black urbanisation. The Fagan Commission (1946-8) recommended slackening of measures to curb Black urbanisation and employment in certain jobs. Smuts' United Party had accepted most of the recommendations of the Fagan Commission but was defeated by the NP in 1948. The NP reversed any concessions to Black workers and implemented apartheid.*

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<sup>2</sup> The PACT government that succeeded Smuts introduced the 'civilised labour policy', the 1925 Wage Act (prescribed the same minimum wage for whites and blacks as a way to stop employers choosing black labour), the 1926 Mines and Works Amendment Act (introduced a colour bar on the mines in favour of white and coloured workers against African and Indian workers) and in 1927 the Native Administration Act (it entrenched the colonial policy of 'indirect' rule in the 'native reserves'; it also strengthened the Native Affairs Department and their ability to allocate cheap African labour to different sectors.)



The NP victory was in large part due to support from White workers who felt threatened by the growing Black urban population. Many Afrikaners who were forced to leave farming had low levels of skills and education. A large proportion of the Black population was forced to eke out an existence in the deteriorating reserves.<sup>3</sup>

An important development during the apartheid era was the Black Education Act of 1953 that removed Black schooling from Christian missions and put it in the hands of the state. The segregation of education with this act opened the path to 'Bantu education'.

Further important pieces of legislation during the apartheid era followed. The Black Labour Regulations Act of 1953 amended the definition of employee to exclude Black men and women as a way to prevent them from joining registered trade unions. This act put into law the oppression of Black workers that had developed during the colonial period.

This legislation was quickly followed by the 1956 Industrial Conciliation Act, which extended the job colour bar beyond the mining industry to manufacturing, construction and commercial employment. The act also extended aspects of the job colour bar to Coloureds and Indians.

These legislations changed the relative economic positions of different groups of workers that developed during World War Two. By the late 1950s, Black workers, even those that were allowed to remain in urban areas, were severely prejudiced, lost much of their position in the urban workforce and the skills development and educational opportunities associated with urban employment and settlement. Afrikaner workers and their trade unions were able to use their political and bargaining power to improve their living and working conditions. The lack of political rights, job reservation and influx control occurred at a time when there were more Black workers entering the labour market.

The world economy boomed during the 1960s and the South African economy benefited from the demand for more raw materials. The SA economy grew at an average of 5.5% per annum during the 1960s, leading to greater demand for labour and skills. The rapid growth once again led to calls by white business in mining and manufacturing for loosening of job reservation but these calls were opposed by white trade unions. Many white businesses illegally employed black workers. There was a slow erosion of job reservation and in 1973 the apartheid government said that it would allow Black people to do skilled work in white areas if white trade unions agreed. From the mid-1970s, as the economy slowed and inflation increased (stagflation), there was huge pressure on government from organized business to relax job reservation. The apartheid government conceded on job reservation in certain areas.

The strikes that started in Durban in 1973 were to prove important for changing conditions for black workers. The unions formed after these strikes played an important role in escalating the struggle against apartheid. Government refused to recognize the new Black trade unions formed after the strikes. However, they faced pressure from big business who felt that it would be in business's interest to have an organised forum in which to negotiate with Black labour.

In 1979 the apartheid government accepted some of the recommendations of the Wiehahn Commission (established in 1978) into the 1979 Industrial Conciliation Act. The Wiehahn Commission's report was published five years after its inception and in 1981 the new Labour Relations Act (LRA) was passed.

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<sup>3</sup> The Cavendish Commission (1943) found that the deterioration of the land and over-farming meant that the reserves were unable to support the people living there. The worsening conditions in the reserves were felt in the mining industry. The poor conditions in the reserves meant that migrant mineworkers required larger salaries to remit more money to their families in the reserves. The mine owners refused and the strike was violently squashed.



# Chapter 4: Equity

## 4.1 Introduction

The struggle against apartheid was fought to free the majority of South Africans not only from tyranny and oppression but from hunger and poverty. It was a struggle for freedom. The achievement of democracy opens the way to achieving the goals of addressing the legacies of the apartheid period and building more freedom in South African society through development.

Economics Nobel Laureate Amartya Sen argues that freedoms are the primary ends of development and that the way to achieve development is to increase freedom in society. He says, *“Development requires the removal of major sources of unfreedom: poverty as well as tyranny, poor economic opportunities, as well as systematic social deprivation, neglect of public facilities as well as intolerance and over activity of repressive states.”* (pp. 3-4)

Sen’s approach to development makes good sense because it does not reduce the assessment of development to measuring growth in GDP. It does not focus only on income distribution. In other words, his approach avoids the type of one-dimensional analysis so often present in economic analyses.

The approach of freedom as development takes into account the ability of people to act to improve their lives. However, this approach is not guilty of the mistaken and clichéd view that all that is required for success is hard work and determination. This approach recognizes that people live and function in a world made up of institutions, which hinder or facilitate their ability to achieve their goals.

The type of institutions that exist in society and how they work shape what the people in that society can achieve. The interaction of different institutions in society affects outcomes in that society. So while it is possible to change the institutions of a society, one also has to consider how the interactions of institutions affect outcomes.

The struggle against apartheid showed that people could act to change institutions that deprived them of political freedom. Many institutions have changed with the advent of democracy and some have remained unchanged or change more slowly. In addition, the legacy of apartheid means that some people are more able while others are less able to benefit from these institutional changes.

Some people have more access to resources and information today because of the inequality that existed under apartheid. Access to more resources give them an advantage and allow them to prosper in economic markets today. The majority of people lack the education, skills, networks, information and general preparedness to benefit from greater access to economic markets that have come about as a result of democracy. Increasing their education and skills would increase their freedom to participate in economic activity and to benefit from opportunities in markets.

Changing market institutions that benefit some at the expense of others by reducing the inherited wealth, power and information asymmetries present in South Africa’s economic markets will enhance freedom. Of course, the interaction of economic market institutions with institutions of democracy and governance, media and information, education and training and other institutions will shape the outcomes in the economic markets. Strengthening these institutions will also promote greater freedom.

Improving the overall wellbeing of the population increases not only their freedoms as citizens but also their freedoms as economic agents. The improvement in access to welfare, education, health, shelter and the myriad of other factors that affect the well being of the population is associated with greater freedom and, therefore, economic development. The reduction of poverty, unemployment and inequality in South African society should prove to be good for the economy and economic development. Therefore, striving for greater equity in South Africa is a way to increase not only freedom and strengthening democracy but will have economic benefits as well.

Gauteng Province has a very high degree of unemployment (see Chapter 3) and it will be shown below that there

is a high degree of inequality in terms of income and expenditure. Of course, much of the poverty and associated high levels of inequality are due to high levels of unemployment. However, it is not only unemployment but also casualisation and informalisation of work that has occurred from the 1980s that is affecting the earning ability of a huge section of Gauteng's population.

This chapter does not only look at inequality but also the type of dwelling people live in and the services and facilities available to household. Even when there is high unemployment and where there is poverty, government can help improve the quality of life of the poor by increasing their access to decent shelter and basic services. The democratic government in South Africa committed itself to improved access to housing and services delivery.

Starting from a very unequal base, much progress has been made. There is much still to be done, especially in housing where close to 40% of the population of Gauteng and 50% of Black households in the province did not live in formal dwellings. Better progress has been made in ensuring that people have basic services and a large percentage of the population has access to piped water, flush toilets and electricity, if not into their houses to the site where they have their dwelling. Access to these basic services improves living conditions for the poor and can be thought of as government helping increase the social wage of the poor as a way to cope with their low incomes.

## 4.2 Indicators of Equity

### 4.2.1 The Human Development Index

The United Nations Development Programme (UNDP) developed the Human Development Index (HDI) as a measure of a country's economic and social wellbeing. The HDI was introduced because the UNDP felt that conventional economic indicators used to assess the performance of a country were not viable for assessing the wellbeing of the people of a country. They say:

*Conventional measures and indicators do not, however, accurately reflect the development or quality of life of citizens. A high GDP does not imply equal distribution, nor does a growth in GDP mean an improvement in standards of living. Indeed, a higher GDP may even imply lower standards of living for the majority of the people. In many countries, economic growth has been followed by widespread inequalities, with the rich getting richer and the poor getting poorer.*

(Human Development Report 2000: Indicators of Development and Transformation, p.p. 45-5)

The HDI is a composite index of three equally weighted indices: the life expectancy index, the educational attainments index and the GDP index. The HDI is measured on a scale of 0 to 1, with 0 being the lowest level of development and 1 the highest level. An HDI of between 0 and 0.499 is regarded as a low level of human development, between 0.5 and 0.799 is regarded as a medium level of human development, and HDI of between 0.8 and 1 is regarded as a high level of human development.

**Table 4.1: Human Development Index for South Africa and the Provinces, 1993-2003**

|               | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---------------|------|------|------|------|------|------|------|------|------|------|------|
| Eastern Cape  | 0.66 | 0.67 | 0.67 | 0.67 | 0.67 | 0.66 | 0.65 | 0.64 | 0.63 | 0.63 | 0.62 |
| Free State    | 0.73 | 0.74 | 0.74 | 0.74 | 0.74 | 0.73 | 0.72 | 0.7  | 0.69 | 0.68 | 0.67 |
| Gauteng       | 0.81 | 0.81 | 0.81 | 0.81 | 0.8  | 0.8  | 0.78 | 0.77 | 0.76 | 0.75 | 0.74 |
| KwaZulu-Natal | 0.71 | 0.71 | 0.71 | 0.71 | 0.71 | 0.7  | 0.68 | 0.67 | 0.65 | 0.64 | 0.63 |
| Limpopo       | 0.64 | 0.64 | 0.64 | 0.64 | 0.64 | 0.64 | 0.63 | 0.62 | 0.61 | 0.6  | 0.59 |
| Mpumalanga    | 0.72 | 0.72 | 0.72 | 0.72 | 0.72 | 0.71 | 0.69 | 0.68 | 0.67 | 0.66 | 0.65 |
| North West    | 0.68 | 0.68 | 0.68 | 0.68 | 0.67 | 0.66 | 0.65 | 0.64 | 0.63 | 0.62 | 0.61 |
| Northern Cape | 0.72 | 0.72 | 0.72 | 0.72 | 0.72 | 0.71 | 0.71 | 0.7  | 0.69 | 0.69 | 0.69 |
| Western Cape  | 0.79 | 0.79 | 0.79 | 0.79 | 0.79 | 0.79 | 0.78 | 0.78 | 0.77 | 0.77 | 0.77 |
| RSA           | 0.73 | 0.73 | 0.73 | 0.73 | 0.73 | 0.72 | 0.71 | 0.7  | 0.69 | 0.68 | 0.67 |

Source: UNDP, 2003

Table 4.1 provides the UNDP's estimates of the HDI for South Africa and the provinces. South Africa and most of the provinces can be regarded as having medium levels of human development for most of the period. Gauteng Province had an HDI of 0.8 and over for the period 1993 to 1998, indicating a high level of human development in the province. From 1999 Gauteng drops out of the high level of human development category into the medium level of human development category. There is an overall decline in the HDI starting in 1997 for most of the country. The educational achievements index and the GDP index showed improvements throughout the 1993 to 2003 period. The main reason for the decline of the HDI in South Africa from 1997 is the decline in the life expectancy index. The decline in the life expectancy index reflected the estimates of life expectancy in South Africa based on projections of the impact of HIV/AIDS.

In a way the HDI calculation for South Africa proves the usefulness of HDI relative to a conventional economic measure of development such as GDP. The HDI shows that the consequence of the HIV/AIDS pandemic for South Africa is declining wellbeing even if there is better performance in GDP. The effect of HIV/AIDS on longevity (probability at birth that a child would not survive beyond 40 years old) and mortality rates has caused a significant decline in indices measuring human development and success in fighting poverty for South Africa.

The HDI measure is an aggregation across different races. The UNDP's Human Development Report (HDR) 2003 for South Africa shows that the HDI for Africans was 0.65 in 2000, which was much lower than any other race group in that year. The HDI for Coloured was 0.75, for Indians 0.82 and for Whites 0.88. The effect of HIV/AIDS deaths may have been larger for the Black population and may be partly responsible for the lower HDI for Blacks. However, the HDI difference between Blacks and other race groups indicates the higher level of poverty and deprivation of the Black population.

#### **4.2.2 Income and Inequality**

Development requires not only increasing the capabilities and freedoms of people but also building greater equality in society. The removal of inequalities in society promotes democracy, freedom and economic development. The needs of the wealthy few often lead to underdevelopment of those less well off. The wealthy are often able to use their influence to maintain underdevelopment and may even benefit from poor economic performance in a country. Greater equality leads to more equal influence over how power is practiced in a society and the needs of the wealthy few are less likely to be given precedence over the broader developmental goals of society.

The 2003 UNDP's HDR on South Africa stressed the importance of income equality for sustainable development. The report says, "...pronounced income and wealth inequality impedes sustainable development by contributing to a rise in poverty, distorting the utilisation of society's productive resources, frustrating the growth potential of a country and jeopardising the sustainability of its environmental well-being." (p.70)

The Gini coefficient is one of the most commonly used measures of income inequality. It is accepted as a relatively good measure of inequality because it takes every pair of income differences across a population into account. The value of the Gini will range from 0 to 1 with inequality growing worse the higher the Gini. In other words, a Gini of zero indicates no inequality between individuals in a certain group, whereas a Gini of under 0.5 is seen as intermediate inequality and a Gini of one indicate the most extreme case of inequality. Generally, countries that have a Gini of greater than 0.5 are seen as having high levels of inequality.

**Table 4.2: Constraint and Unconstraint Gini Coefficients, 1996 & 2001<sup>4</sup>**

|                   | 1996 | 2001 constrained | 2001 unconstrained |
|-------------------|------|------------------|--------------------|
| National          | 0,74 | 0,82             | 0,79               |
| <b>Race group</b> |      |                  |                    |
| African           | 0,71 | 0,78             | 0,75               |
| Coloured          | 0,55 | 0,66             | 0,63               |
| Indian            | 0,50 | 0,62             | 0,58               |
| White             | 0,46 | 0,60             | 0,53               |
| <b>Province</b>   |      |                  |                    |
| Western Cape      | 0,62 | 0,74             | 0,70               |
| Eastern Cape      | 0,78 | 0,83             | 0,81               |
| Northern Cape     | 0,69 | 0,77             | 0,74               |
| Free State        | 0,73 | 0,81             | 0,78               |
| KwaZulu-Natal     | 0,75 | 0,82             | 0,80               |
| North West        | 0,71 | 0,79             | 0,76               |
| Gauteng           | 0,65 | 0,78             | 0,74               |
| Mpumalanga        | 0,73 | 0,81             | 0,78               |
| Limpopo           | 0,77 | 0,81             | 0,79               |

Source: Western Cape Treasury, PER&O, 2005

South Africa's Gini coefficient is amongst the highest in the world, indicating that South Africa is one of the most unequal countries in terms of income distribution in the world. Table 4.2 provides estimates of the Gini for South Africa as a whole as well as Gini values by race and for each province for the years 1996 and 2001. The Gini coefficient for South Africa grew from 0.74 to 0.82 (constrained) and 0.79 (unconstrained), depending on how one measures it (see footnote 4). This growth in inequality is contrary to the development goals of a democratic South Africa. It represents even great disparities between rich and poor. One reason for the increase in the Gini from 1996 to 2001 is the high growth in narrow (official) unemployment rates from 16% in 1995 to 30% in 2000. The result was that the share of national income of the poorest 60% of households in South Africa dropped from 17% to 15%.

There was a decline in the Gini coefficient for all population groups from 1996 to 2001. The Black population had the highest Gini coefficient, followed by Coloured, then Indians and lastly Whites (during 1996 and 2001). This data reveals that inequality is highest in the poorest population groups. It also shows that inequality is growing within all the population groups. South Africa seems to be following global trends of growing inequality related to growing wealth of the rich and greater poverty amongst the poor.

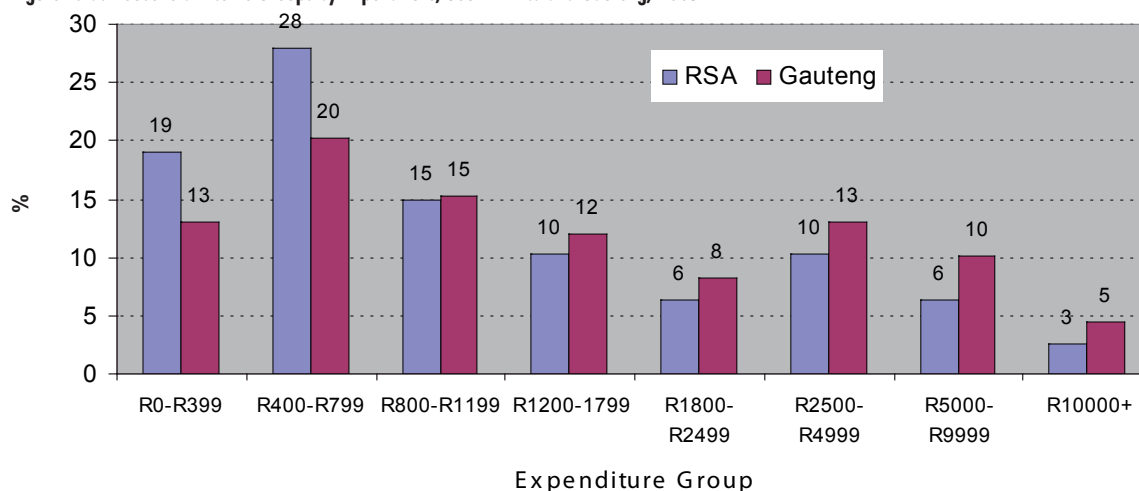
The Gini coefficient for all the provinces grew indicating that inequality grew within each of the provinces. The Gini coefficient was higher in all periods for poorer provinces such as Limpopo and Eastern Cape than richer provinces such as Gauteng and Western Cape for 1996 to 2001. The Gini coefficient for Gauteng grew from 0.65 in 1996 to 0.78 (unconstrained) and 0.74 (constrained) in 2001, indicating greater inequality in the province.

<sup>4</sup> Note: All estimates include zero incomes

In the two censuses, income is captured in categories rather than as actual values. The 1996 and 2001 categories are inconsistent, with the top band in 1996 being significantly lower than the top bands in 2001. Constrained income in 2001 in this table refers to a variable in which the top categories for income earners in 2001 were constrained to the upper 1996 values in real terms.

### 4.2.3 Household Expenditure

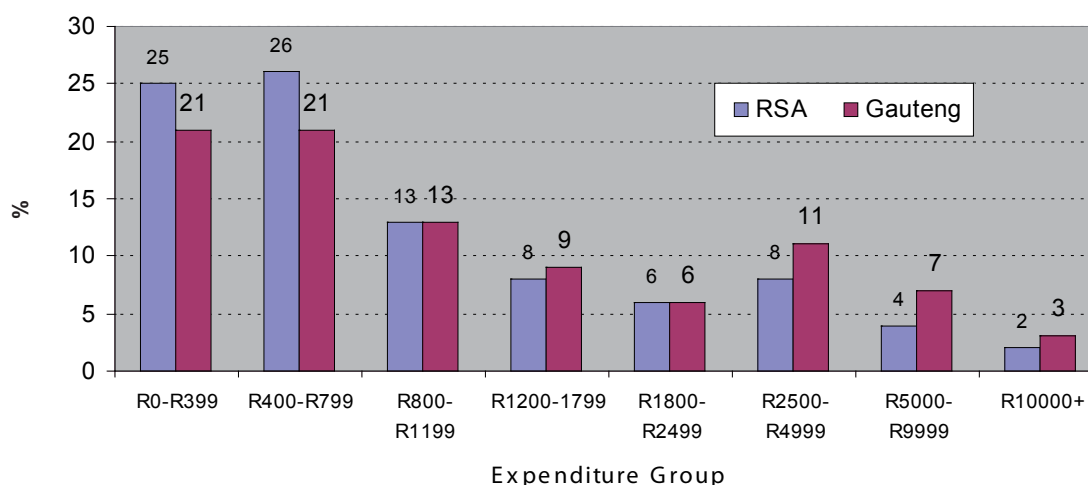
Figure 4.1a: Household Income Groups by Expenditure, South Africa and Gauteng, 2005



Source: Quantec Research, 2006

Figure 4.1a provides data on the income distribution amongst households by taking into account household expenditure for South Africa and Gauteng Province for 2005 from the Household Survey of 2005. According to the data 47.2% of South African households spent less than R800 per month in 2005. In Gauteng 33.4% of households spent less than R800 per month in 2005. During 1995 only about 20% of South African households spent R2500 or more per month compared to about 25% of households in Gauteng Province. The household expenditure figures represent the great disparity in household income level in the country and Gauteng in 2005.

Figure 4.1b: Household Income Groups by Expenditure, South Africa and Gauteng, 1999

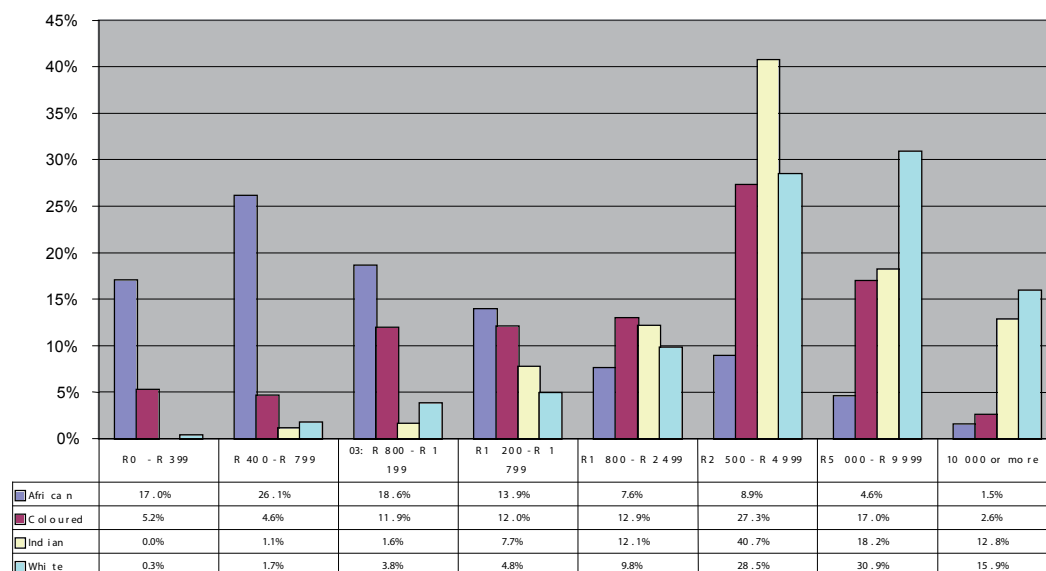


Source: Quantec Research, 2006

Figure 4.1b provides household expenditure number for the 1999 Household survey. The percentage of households for that spent less than R400 per month in 1999 was 4% higher in 1999 than in 2005 and for Gauteng that number reduced by 8% for that period. It should be borne in mind that these rand amounts have not been deflated to take into account inflation from 1999 to 2005, which means that R400 could have bought much more in 1999 than 2005. In real terms (i.e. by deflating) R400 in 2005 was only worth R297 in 1999. In other words, if a household that lived on R400 in 1999 was unfortunate enough to still be living on only R400 a month in 2005; by 2005 they would be only able to buy the equivalent of R297 worth what they bought in 1999. The impact of inflation reduced these households income by almost 36% from 1999 to 2005. Therefore, it is even more disturbing to find that the percentage of households in the country spending between R400 and R799 per month has dropped from 51% to 47% from 1999 to 2005 and for Gauteng the drop has been only 1% from 21% to 20%.

While there seem to be improvements based on percentages of households, one has to take into account the increase in the number of households from 2000 to 2005. In absolute terms the number of household spending less than R800 per month increased from about 5.6 million to 6 million. The number of households in Gauteng spending less than R800 per month stayed at about 1 million from 1999 to 2005. The levels of poverty and inequality in the country and Gauteng are increasing.

**Figure 4.2: Gauteng Household Expenditure Groups by Population Group, 2005**



Source: Quantec, Research, 2006

Figure 4.2 provides a more detailed look at Gauteng Province's household expenditure by providing expenditure by households for different population groups for 2005. An examination of this figure shows that there is a huge racial disparity in the province. Most of the poor are Black and Coloured. Most of the rich are White and Indian. The general trend is that the number of Black households declined as monthly expenditure grew above R800 per month in while the numbers of the other race groups increased as expenditure grows above R800 in 2005.

At the lowest income expenditure level of below R400, there were almost no white and Indian households, 5% of Coloured households and 17% of Black households. At the opposite end of the spectrum almost the reverse is true, 16% of White and 13% of Indian households spent more than R10, 000 per month and only 1,5% of Black and 2.6% of Coloured households spent more than R10, 000 per month in 2005.

Almost half of White households, 40% of Indian households, 20 % of Coloured households and only 6% of Black households spent R5, 000 or more per month in 2005. While at the opposite end of the spectrum, more than 40% of Black households spent under R800 per month while only 10% of Coloured, 1% of Indian and 2% of White households spent less than R800. About 75% of Black, 34% of Coloured, and 11% of Indian and White households spent under R1, 800 per month in 2005. The household income disparity by population group in Gauteng is clear.

### 4.3 Inequality and the Quality of Life

Since the end of apartheid the lives of South African people have changed as a result of freedom and government efforts to improve the provision of housing and basic services. However, the legacy of apartheid is still strongly felt in South Africa. In addition, the pace and effect of measures to address inequality and poverty is uneven and sometimes even unanticipated. Assessing whether people's lives have improved and whether there is more equity in society is a complex endeavour.

Cash income and patterns of expenditure do not provide a complete picture of the conditions of households. Especially, in a country such as South Africa where unemployment is high, income and expenditure provides only one dimension of the problem.



Data on the conditions of households will also be assessed. The quality of life, health, the ability to work or generate income from home, and the ability to learn and develop skills are affected by the type of shelter and the services available to the household occupying that shelter. Government has made a concerted effort to improve access to basic services to poor households. In this way, the government boosts the social wage of poor people. There is a direct benefit in terms of delivering services when government subsidises services by providing them free or below the cost of supply. There are also indirect benefits to household members who save time collecting water when they have access to piped water. They could use this time on activities that increase their income or skills and they can use this time to work in their communities. Another indirect benefit is that access to services such as sanitation and clean water can help families maintain better health.

#### 4.4 Informal Small and Micro Businesses (non-Vat registered businesses)

The role of small and micro businesses is important in South Africa because of the high levels of poverty and unemployment. A great many people rely on small and micro businesses to support their families. As mentioned earlier, the type of household and the services available to that household affects the ability of household member to work and run businesses from home. This section will consider the results of the September 2005 Survey of Employers and Self Employed (SESE) that measures important variables for small and micro businesses. The development of these businesses is often in response to stress and unemployment but can also be in response to opportunities that develop if there is increased income or economic growth. Over the past few years there has been increased demand for consumer goods, increased access to credit and an associated increase in economic growth. There may have been growth in small and micro businesses in response to this growth. However, one expects that many of those micro businesses that have come into existence since the end of apartheid may have been in response to stress due to unemployment growth and poverty.

The SESE provides information on the characteristics of micro and small businesses in South Africa and to gain an understanding of their operation and access to services. The criterion for surveying businesses for the SESE was that they were not registered to pay VAT (value added tax). The SESE was conducted in 2001 and 2005. StatsSA warns that the results are not comparable because of differences in surveying methods during each survey. Therefore, only the results from the 2005 survey will be presented here. The process of collecting the data for SESE is interesting. StatsSA used a research design used in Francophone African countries to measure the extent of the informal sectors there because there is no sampling frame on which to base weights and raising factors for small businesses in South Africa. The SESE report explains the methodology of the surveys:

*The methodology used for such surveys is known as the '1-2-3 methodology', consisting of three stages. The first stage involved identifying small and micro-businesses through a household survey. In South Africa, the LFS is used for this purpose. The definition of such businesses varies from country to country, depending on size, turnover and other criteria. In South Africa, the criterion of ownership of non-VAT-registered enterprises, i.e. an annual turnover of less than R300, 000, was applied for our selection. The second stage involved interviewing the owners of these businesses, to determine the nature of their business and their contribution to the economy. In South Africa, SESE was used for this purpose. The third phase involved asking consumers in households about their buying patterns from large, small and micro-businesses.*

According to the 2005 SESE there were approximately 1.7 million non-VAT registered businesses. At the time of the survey, Gauteng Province had 430, 000 non-VAT registered businesses, the largest of any of the provinces.<sup>5</sup> The next biggest province in terms of the presence of non-VAT registered businesses was KwaZulu-Natal (328, 000) and the Eastern Cape (234, 000). The ownership of non-Vat registered business is almost completely African. About 91% of non-VAT registered businesses were owned by Africans. The report on SESE for 2005 compiled by StatsSA says that an association can be made between unemployment and ownership of non-Vat registered companies. The reason provided by 67% of respondent in South Africa for starting a non-Vat registered business was unemployment, a further 4% said they started the business because they were retrenched and 5% said it was because of insufficient income. Only 9% of respondents said they started that kind of business because they liked the work. A very small percentage (5%) of persons owning a non-VAT registered business owned more than one non-VAT registered business.

A little above half of non-VAT registered businesses in South Africa were found in the wholesale and retail trade industry and the second largest industry for non-VAT registered businesses was manufacturing (12%). More women

<sup>5</sup> Note that while there were 430, 000 non-VAT registered businesses in Gauteng 16, 000 of these businesses belonged to a person who owned two non-VAT registered businesses (none of the respondents said they owned more than 2 non-VAT registered businesses.). Therefore, the rest of the section will refer to 413, 000 non-VAT registered businesses rather than 430, 000.

than men run non-Vat registered businesses in South Africa with 54.6% of these businesses owned by women. About 86% of these businesses in Gauteng had no license to operate compared to 89% unlicensed in the country. Approximately 98% of Gauteng non-VAT registered businesses were not registered for the Unemployment Insurance Fund (UIF).

**Table 4.3: Location of the non-VAT Registered Businesses, 2005**

|  | Gauteng    | %    | RSA          | %    |
|--|------------|------|--------------|------|
| Owner's dwelling                       | 168        | 40.7 | 667          | 38.2 |
| Structure attached to owner's dwelling | 32         | 7.7  | 144          | 8.2  |
| Another person's dwelling              | 11         | 2.7  | 33           | 1.9  |
| Non-residential building               | 21         | 5.1  | 54           | 3.1  |
| Taxi rank                              | 17         | 4.1  | 76           | 4.3  |
| Footpath, street, open space           | 61         | 14.8 | 180          | 10.3 |
| Market                                 |            | 0    | 18           | 1.0  |
| No fixed location                      | 98         | 23.7 | 288          | 16.5 |
| <b>Total</b>                           | <b>413</b> |      | <b>1,748</b> |      |

Source: Stats SA, SESE, 2005

Table 4.3 shows the location of the non-VAT registered businesses for Gauteng and South Africa. Nearly half (48%) of Gauteng and South African (46%) non-VAT registered businesses operated from the owner's dwelling or a structure attached to the owner's dwelling. The size of this figure reemphasizes the point that the type of dwelling a household occupies affects their ability to work from home and their ability to earn a living. Not having a fixed location for a business has many disadvantages related to safety, ability to carry stock and the amount of stock one can hold and also the types of equipment one can use. About 24% of Gauteng and 17% of South African non-VAT registered businesses had no fixed location. Since most non-VAT registered businesses were in retail and manufacturing, the disadvantage of no fixed location must have added to the cost and effort of the individuals running the business. Approximately 15% of Gauteng and 10% of South African non-VAT registered businesses operated from a footpath, street or open space. There seems to be an appropriation of public space for these businesses. The process of businesses using public space becomes institutionalised after a while in many cases. However, there are dangers and insecurities associated with this type of arrangement. The type of community and the business's entrenchment in the community (in terms of the owners place in the community and the service provided by the business to the community) affect the success, the costs and the efforts associated with these kinds of locations. About 8% of South African respondents answered that they were paying for the location from which they are operating. Therefore, it seems that many of these businesses are able to function because they operate from their owner's dwelling or in a space where they do not have to pay rent.

On the whole, access to services such as sanitation, telephones and electricity was better for non-VAT registered businesses that were run from a fixed location as opposed to those without fixed locations. The businesses access to services affects the operation of the business and also the quality and hygiene of the products sold. About 33% of respondents in South Africa reported that they had access to a flush toilet on site and 10% said they had no access to a toilet of any kind. About 28% had access to a pit latrine and the rest had access to some other form of sanitation.

More than half (55%) of non-VAT registered businesses in South Africa operating from a fixed site reported access to electricity. Only 14% of non-VAT registered South African businesses operating from mobile locations had access to electricity.

About 38% of South African non-VAT registered businesses had access to piped water within the structure or at least on the site where they were operating. About 6% of persons running non-VAT registered businesses did not have any access to water.

According to the 2005 SESE report, "Among the 1,7 million people who were owners of non-VAT registered businesses, only 15,7% had one or more employees, either paid or unpaid, working in their business and could therefore be defined as employer." (p.xiv) The larger portion of people owning non-VAT registered businesses were self-employed. In Gauteng 85% of owners were self employed compared to 87% for South Africa. It seems that in regions where unemployment is highest there are even higher levels of self employment. In the Northern

Cape about 96% of owners were self employed and in Kwazulu-Natal 94% were self employed but in the Western Cape it was much lower at 70%.

The ownership of small and micro businesses as represented by non-VAT registered businesses reported on in the SESE shows that these businesses are largely the product of unemployment. Most of the businesses are involved in trading and to a much lesser extent manufacturing and even fewer are involved in business and financial services. There may be many small and micro businesses involved in cooking and producing food, however it seems that most involved in trade are selling final goods and not really adding value to the goods produced. However, this does not mean that those involved in small and micro businesses are not providing an important service to their communities. It is important to note that the greater part of these non-VAT registered businesses are black owned and many operate from their owner's dwelling or site. During apartheid there were very few formal businesses operating in Black areas and one did not find well known supermarket chains in the townships. The retailers in the townships provided an important service and while formal retailing is growing in township areas. However, as the representation of formal retailers in historically Black communities increase there will be pressure on small and micro businesses and many may be forced out of businesses adding them to the ranks of the unemployed.

## 4.5 Conclusion

The equity issues in Gauteng should be considered in the context of the overall level of inequality and high level of unemployment in South Africa. It is clear that the legacy of apartheid is still with us and that, even though, much progress has been made some of those gains could be reversed. In that sense, the legacy of apartheid is a double edged sword.

While Gauteng's HDI is relatively high it has declined over the past few years, largely because of the effect of HIV/AIDS. The HDI indicates the impact of a disease such as HIV/AIDS on the wellbeing and human development of people. The Gini coefficient of Gauteng is better than that of poorer provinces in South Africa.

Surveys by StatSA in the next few years will provide valuable new data to update our estimates of the Gini coefficient and other poverty and inequality measures. Without this new data we draw on the Household Surveys to consider household expenditure and derive a perspective on inequality in Gauteng based on these surveys. The household survey data supports the Gini data and shows a huge inequality and also show that there is a strong racial dimension to this inequality.

In terms of dwellings and services, this chapter has shown that while progress can be relatively fast, inequality and poverty can also move faster. More households inhabit informal dwelling and not formal dwelling in 2005 than 2002. In terms of most services, the percentage of Black household's with access to those services has declined from 2002 to 2005. While there may be increases in the actual number of households with access to a service, the growth in the number of households in the provinces and the reduction in the percentage of households living in formal dwellings affect levels of household access to services.

The role of small and micro businesses as represented by non-VAT registered businesses in the SESE is relatively important in Gauteng. There are about 430, 000 of these businesses most of them are owner operated and most do not employ other workers. They provide employment and they provide services to their communities and add to GDP even if the output is not formally measured and included in the published GDP figures. The services available to these small and micro businesses are significantly affected by the type of dwelling available to the owner's household because a lot of these businesses operate out of or on the site of their owner's dwelling. It seems that the wellbeing of many of these households are tied very closely to the small and micro businesses they house. Many of these businesses have been formed because of unemployment. They are informal as most are not licensed and most are not on UIF. They are important from an equity perspective because so much of their existence seems to be related to poverty and unemployment that one expects that policy to help these businesses would contribute to equity.

