

THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

PROVINCIAL REVIEW 2016

Provincial Review 2016: Eastern Cape

The real economy of the Eastern Cape is characterised by a relatively high share of manufacturing, but an economy that lags the national economy in productivity terms. This arose largely from the co-existence of:

- A strong manufacturing sector centred on the auto industry in the coastal metros, and
- The incorporation of two large apartheid “homeland” regions, which were historically heavily deprived of resources, infrastructure and public services.

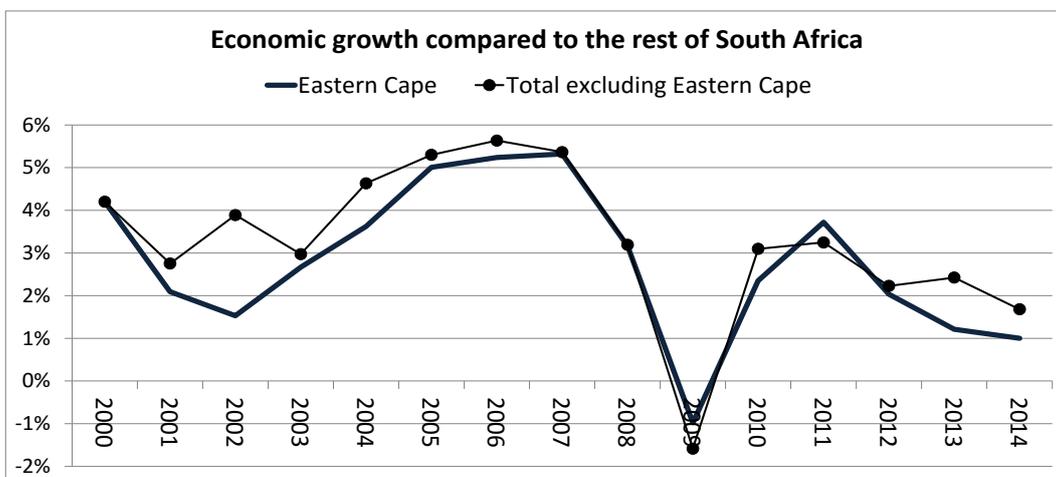
In this context, the province has seen relatively slow employment growth and low pay, especially in the past four years. Since the transition to democracy, it has also experienced unusually high levels of migration out of the province.

The real economy in the Eastern Cape: Structure and growth

The Eastern Cape, with 6,9 million residents, accounted for 13% of South Africa’s population in 2014/2015. But it contributed just 8% of the GDP. In 2014 – the latest available data – the real economy (represented here by agriculture, mining, manufacturing and construction) made up 17% of the Eastern Cape’s output.

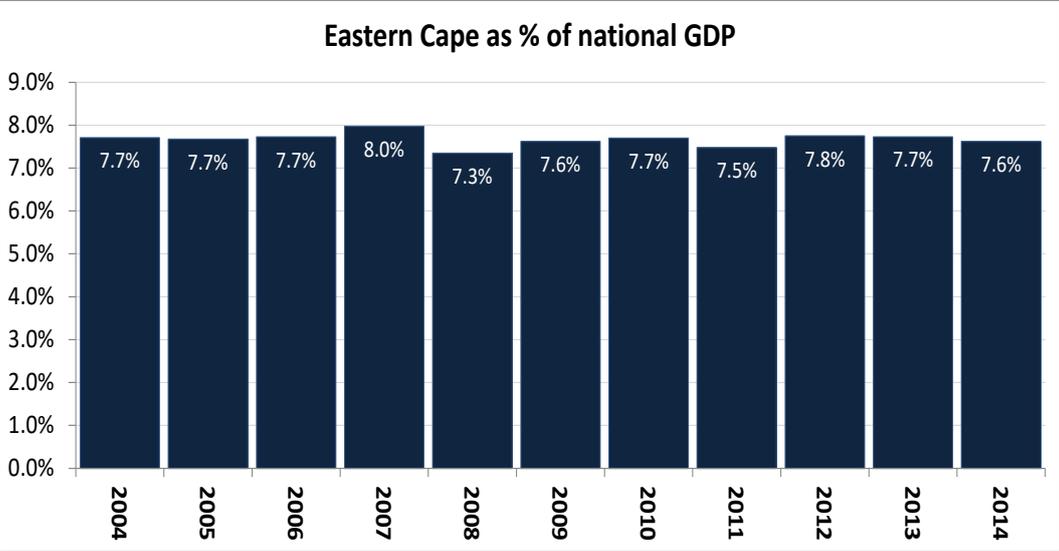
The largest real-economy sector was manufacturing, at 11% of the provincial economy, followed by construction at 4%, agriculture at 2%, and mining at 0,2%. Still, the Eastern Cape contributed just 7% of national manufacturing. It accounted for 9% of national construction but just 6% of national agriculture and less than 0,3% of national mining.

The Eastern Cape benefited from South Africa’s faster growth during the commodity boom from 2003 to 2011, although it had very little mining itself. It saw a rapid recovery from the 2008/2009 Global Financial Crisis, but since then its growth has slowed more than the rest of the country, averaging 1,4% a year from 2011 to 2014.



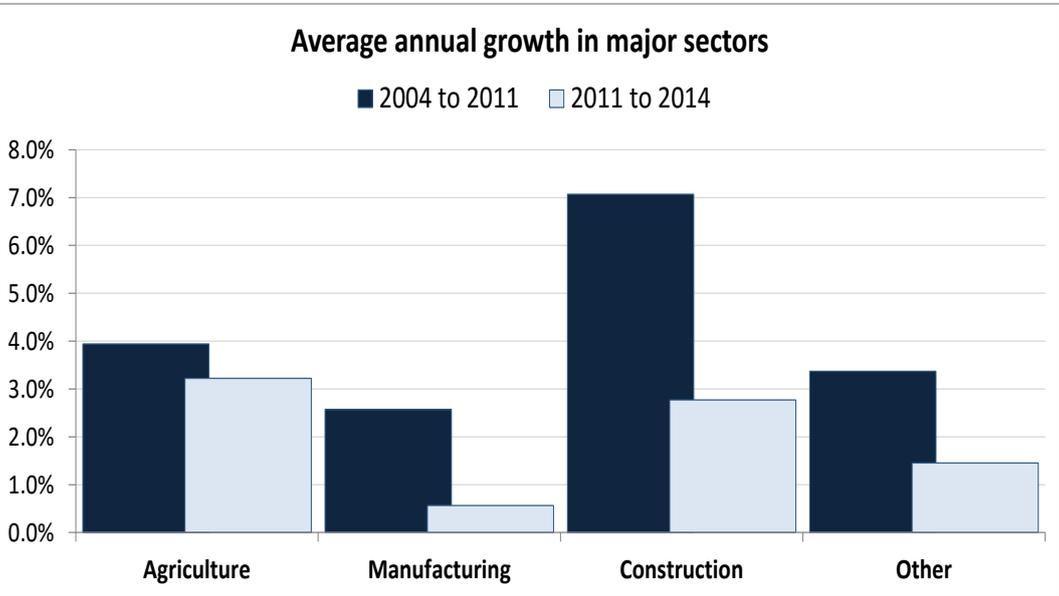
Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

Overall, the share of the Eastern Cape in the national economy (in current rand) fell sharply during the Global Financial Crisis in 2008/2009. It then recovered somewhat, but lost ground again from 2012 to 2014.



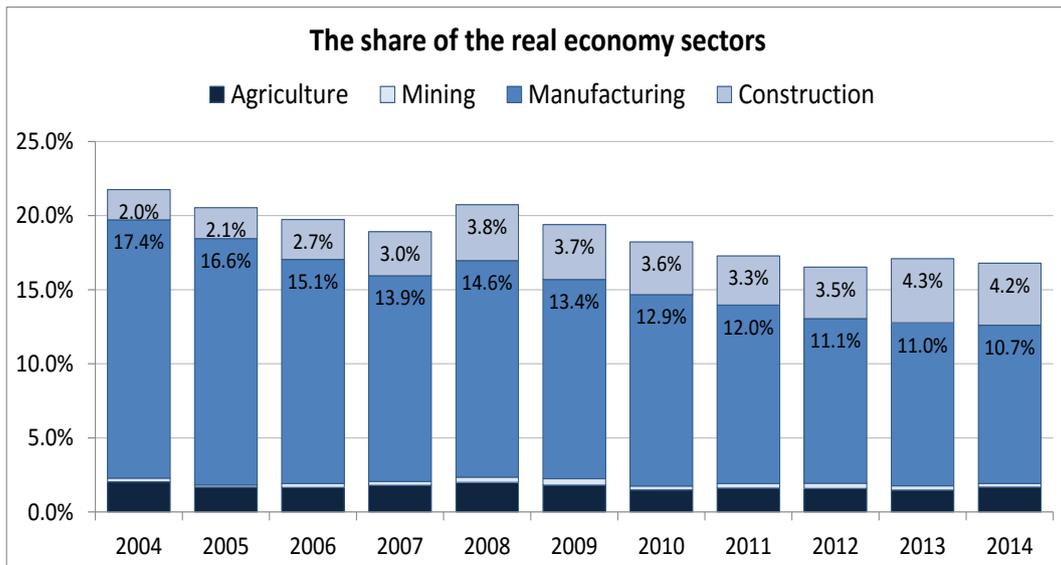
Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

The following table shows growth rates for the main sectors of the real economy of the Eastern Cape from 2004 to 2011 and from 2011 to 2014. For most of the period, construction was the fastest growing sector in volume terms. By this measure, it expanded 5,8% a year over the past decade. In contrast, the much larger manufacturing sector /grew just 2,0% a year and agriculture 3,7%.



Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

Slower growth in manufacturing means it has fallen steadily as a share of the provincial economy, falling from 17% in 2004 to 11% a decade later. In contrast, the share of construction increased from 2% to 4% in the same period.



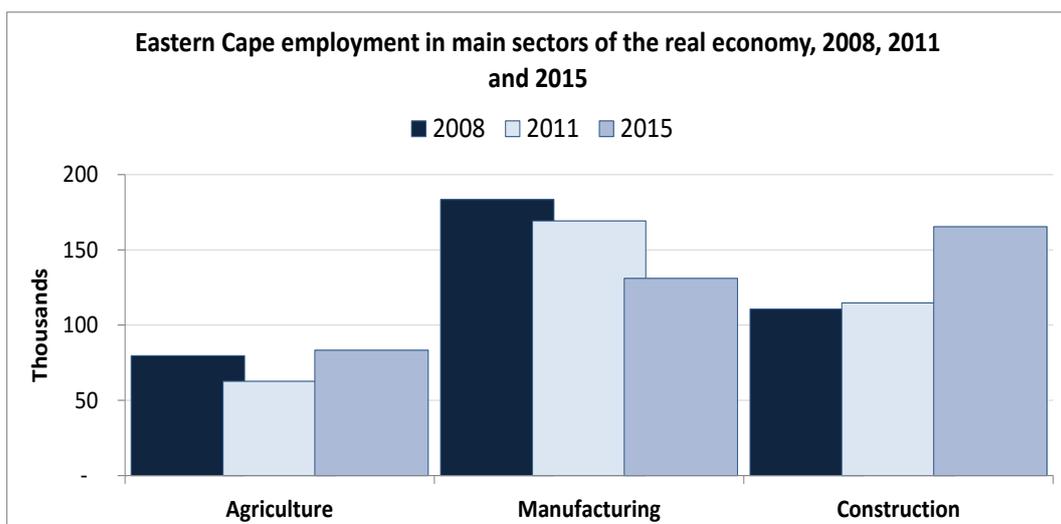
Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

The employment data shed further light on the structure of the economy in the Eastern Cape. In 2015 (using the average for the year from the Quarterly Labour Force Survey - QLFS), the province accounted for 9% of total employment in South Africa. Some 383 500 people were employed in the real economy sectors, which contributed 28% of total provincial employment.

Of employed people in the real economy in the Eastern Cape in 2015:

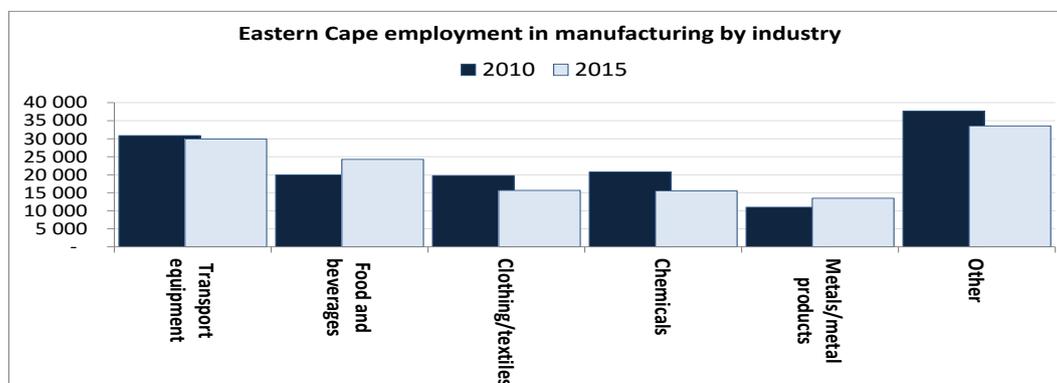
- 165 000 were in construction
- 131 000 were in manufacturing
- 83 000 were employed in agriculture
- 1 500 were in mining (in 2014)

The chart below shows the employment change by major sector in the real economy in 2008, 2011 and 2015, using the average of quarterly figures for each year. Employment tended to decline steadily, while construction increased rapidly from 2011 to 2014.



Source: Statistics South Africa, QLFS Trends 2008-2016. Excel spreadsheet.

The Eastern Cape accounted for 7% of South African manufacturing employment. The top five manufacturing industries in the province, in employment, were transport equipment; food and beverages; clothing, textiles and footwear; chemicals and plastics; and basic iron and steel plus metal products. The province accounted for 28% of all South African employment in transport equipment, its largest manufacturing industry.



Source: For 2010, Statistics South Africa, Labour Market Dynamics 2010. Electronic database. For 2015, average of four quarters, Statistics South Africa, QLFS for relevant quarters. Electronic database.

Major public and private projects announced in the real economy sectors of the Eastern Cape over the past three years included the following.

Large recent public and private real-economy projects in the Eastern Cape

Project Name	Company	Value	Sector	Industry
VWSA Investment Plan	VWSA	R 4,5 billion	Private	Manufacturing
Uitenhage Tyre Manufacturing Plant Expansion	Goodyear South Africa	R 670 million	Private	Manufacturing
Graaf-Reinet-based Fresh Water Fishing Farm and Processing Initiative	Karoo Catch and the Eastern Cape Development Corporation	R 100 million	Public	Agriculture
Agro-processing Multiuser Facility	Coega Development Corporation	R 86 million	Public	Manufacturing

Employment and unemployment

The Eastern Cape has relatively high levels of joblessness. Just 31% of the working-age population was employed in 2015 – well below the national average of over 40% (again using the average of the QLFS for 2015). The international norm is around 60%. In the rest of the country, employment climbed from 2010, when it hit a low point following the 2008/2009 global financial crisis. In the Eastern Cape, in contrast, employment was lower in 2015 than in 2010, when 33% of provincial adults were employed.

In 2014, the median formal wage in the Eastern Cape was R3 300 and the median wage for domestic, informal and agricultural workers was R1 213. That compared to R4 000 nationally for formal workers, and R1 500 for other employees. Yet 73% of total employment was in the formal sector, compared to the national average of 69%.

Limited job creation combined with poor pay help explain relatively high outmigration from the Eastern Cape. Its population grew only 13% from 1996 to 2015, compared to a national average of 35%.

The Eastern Cape economy and the national spatial economy

Apartheid geography has a significant impact on economic structures, and especially on access to economic opportunities for ordinary South Africans. The Eastern Cape has:

- A relatively high share of former so-called “homeland” areas within its borders. In 2015, 45% of the population lived in former “homeland” regions, compared to 27% for the country as a whole.
- Two metro areas and no secondary cities, out of a total of 45 municipalities. Metros and secondary cities account for 27% of the province’s population. That compared to 40% of the national population living in metro areas and secondary cities.
- A relatively small share of non-Africans in the total population, at 13% compared to 20% nationally.

These factors help explain the province's economic structure and key constraints on growth. Under apartheid, African areas and especially the former “homeland” regions typically excluded natural resources, and for decades were largely deprived of infrastructure and government services. Some indicators of the implications for the Eastern Cape are:

- In 2015, according to the General Household Survey, the median household income was R2 400 a month, compared to R3 260 nationally. In the former “homeland” regions in the Eastern Cape it was R1 860 a month, compared to R3 300 in the rest of the province.
- In 2015, only 17% of working-age people in the former “homeland” regions were employed, compared to 43% in the rest of the Eastern Cape. That means employment in the province’s former “homeland” regions was lower than the national average, while employment in the rest of the province was close to the norm.
- According to Census data, the population in the former so-called “homeland” regions in the Eastern Cape shrank by 3% from 1996 to 2011, while the rest of the province saw population growth of 20%.
- In 2015, matric degrees were held by 22% of the province's working-age population aged over 20, but by only 15% in the former “homeland” regions. The share of adults in the Eastern Cape with matric had climbed from 11% in 1996. Still, for the country as a whole, 29% of adults had matric. Moreover, just 9% of the Eastern Cape’s adult population had a degree, compared to 13% nationally.
- The provincial government struggled with infrastructure backlogs entrenched under apartheid. According to the 2015 General Household Survey, 46% of households in the Eastern Cape had running water in their houses or yards, compared to 36% in 1996.

Some 82% had electricity, up from 33% in 1996. Nationally, however, 73% of households had running water and 85% electricity.

- Municipal expenditure continued to reflect apartheid realities. In 2015/2016, it came to R4 400 per person in the Eastern Cape, compared to R5 900 nationally. The metros and secondary cities, with 27% of the population, spent R7 600 per person compared to R3 100 per person in other Eastern Cape municipalities. They raised 69% of all municipal rates and tariffs in the province, although they received only 28% of current and 31% of capital transfers and subsidies, most of which from the national government.

Economic policy initiatives

The main national industrial policy and development initiatives that affected the Eastern Cape included the following.

In terms of Department of Trade and Industry (the dti) support, from 2013/2014 to 2014/2015, 55 projects were approved under the Manufacturing Competitiveness Enhancement Programme (MCEP) in the Eastern Cape, for a total value of R159 million. A further 40 projects were approved under the Manufacturing Investment Programme (MIP), with a value of R219 million.

The Eastern Cape also benefited strongly from the auto industry support programmes included in the Industrial Policy Action Plan (IPAP). Moreover, under the dti programme to support black industrialists, it helped organise funding for a R75 million plant to produce hypodermic disposable syringes and needles at Coega, which will employ 300 people.

It is also piloting a programme to support growth in small saw mills in the Eastern Cape.

- The Eastern Cape had three designated and/or proposed Industrial Development and Special Economic Zones.

Industrial Development and Special Economic Zones in the Eastern Cape

IDZ/SEZs	Focus	Designation Date
Coega	Automotive; agro-processing; chemicals; general manufacturing; business process outsourcing; and energy	2001
East London	Automotive, renewable energy, ICT, and agro-processing sectors	2002
Mthata	Agro-processing	Proposed

- The dti will also spend more than R44 million during the first phase of the revitalisation and refurbishment of industrial parks at Vulindlela Heights and Queenindustria.
- The Industrial Development Corporation (IDC) invested 6.7% of its total spending in the Eastern Cape in 2015, including in a number of wind farms for the national grid as well as to save 600 jobs at Good Hope Textiles in Zwelitsha.
- The following table summarises the major infrastructure projects in the Eastern Cape that were included in the 2016/2017 national Budget Review. In addition, the province was expected to benefit from programmes to upgrade schools, clinics and hospitals; extend access to broadband; and develop renewable energy, especially from wind and photovoltaic technologies.

Major existing or planned national infrastructure projects in the Eastern Cape as of 2016/2017

Project name	Implementing agent	Project cost (R billion)	Project description
Manganese rail and terminal (Hotazel to Ngqura port)	Transnet	19,9	Double exports to 14 million tonnes p.a. by 2020
Mthombo refinery at Coega (feasibility study)	Department of Energy	200	Construct 3 000 kilo barrel per day oil refinery at Coega with supporting infrastructure of R100 billion
Biofuels refinery (Design)	IDC	2	Construct 90 million litres per annum plant at Cradock using sugar, beet and sorghum
OR Tambo, Mthatha and King Sabata Dalindyebo district municipality bulk water supply and sanitation	Municipal project	2,7	Augment existing bulk water scheme
Lusikisiki regional water supply scheme: Zalu Dam on Xura River (feasibility study)	Departmental agencies	5	Develop bulk water and wastewater infrastructure for municipal reticulation infrastructure

The Eastern Cape budget totalled R53 billion in 2015/2016. Per person, the province spent R7 700, compared to an average for all the provincial budgets of R7 000. In constant 2015 rand (deflated by CPI), the budget had climbed by 1,7% from 2014/2015. From 2011/2012, it had fallen by 0,3%. The decline resulted from adjustments when the 2011 Census showed that population growth had been slower than anticipated essentially due to out-migration.

Some 90% of the Eastern Cape's budget went for education and health. That was equal to the average for all the provinces taken together.

The Eastern Cape spent less on infrastructure than other provinces. In 2015/2016, the provincial budget set aside R3,5 billion, or 6,6% of the total, for investment in buildings and public works. As a group, the provinces budgeted R35 billion, or 8% of their total expenditure, for these purposes. In addition, transfers to households for housing came to R2 billion, or 3,7% of the Eastern Cape's 2015/2016 budget. The provinces as a whole expected to provide R18 billion in housing subsidies, or 5% of their spending.

The economic departments in the provincial government in 2015 were Economic Development, Environmental Affairs and Tourism, and Rural Development and Agrarian Reform. In 2015/2016, their combined budgets came to around R3 billion, or about 6% of the provincial budget. The provinces as a group spent an average of 5% of their budgets on these functions, with the lowest share of spending, at 3%, in the most industrialised provinces of Gauteng and the Western Cape.