

THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

PROVINCIAL REVIEW 2022

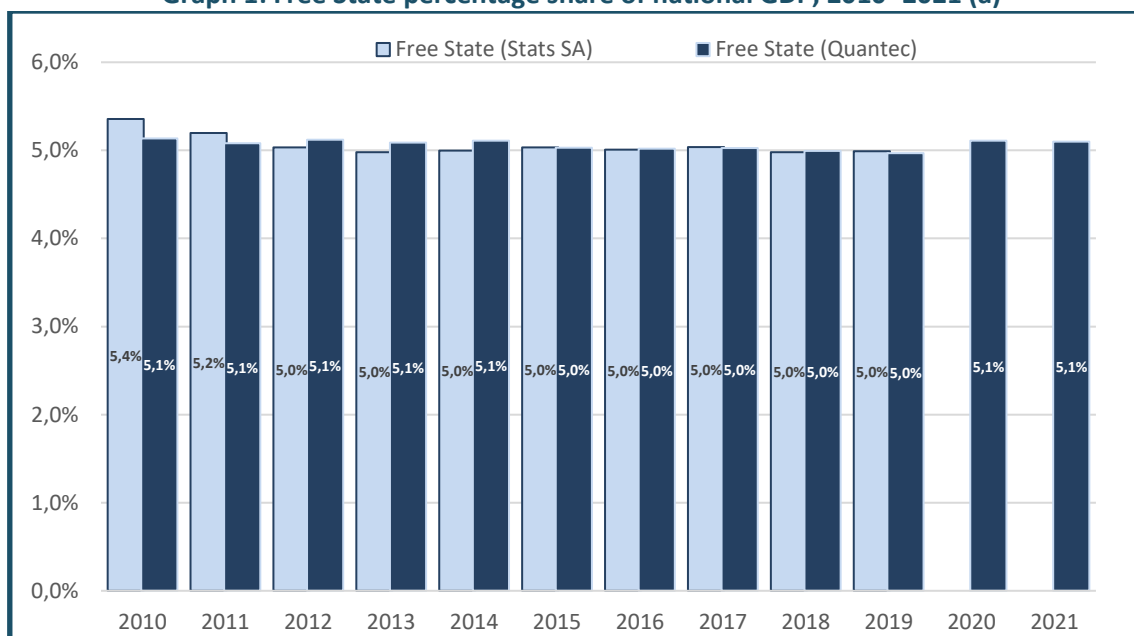
Provincial Review 2022: Free State

The Free State province in South Africa has a slow-growing population and it is the second-lowest contributor to the national output after Northern Cape, with its contribution to GDP remaining flat over the past decade. The lacklustre contribution to GDP and growth rate is often attributed to the waning mining sector in the province. In 2021, the real economic sectors in Free State accounted for 29.2% of the provincial output compared to 27% at the national level. Mining is the largest real economic sector in Free State, accounting for 11% of the provincial GDP in 2021, followed by manufacturing and agriculture. The province experienced a strong rebound in 2021, recording a growth rate of 6.3%. Despite this, it is still among the least-performing provinces.

The real economy in the Free State: structure and growth

Located at the heart of South Africa, Free State is a sparsely populated province with 2.9 million residents in 2020. The province accounts for 5% of the national population. Similar to the Eastern Cape, Free State population growth has been slow, increasing at an average of 0.6% per year. Regarding economic contribution, Free State is the second lowest contributor to national output after Northern Cape. Graph 1 shows that the province's contribution to the GDP has remained flat over the past decade, with only marginal variance. In 2021, Free State contributed 5.1% to the national GDP, according to Quantec estimates. This represents an increase from the pre-pandemic contribution.

Graph 1: Free State percentage share of national GDP, 2010 -2021 (a)

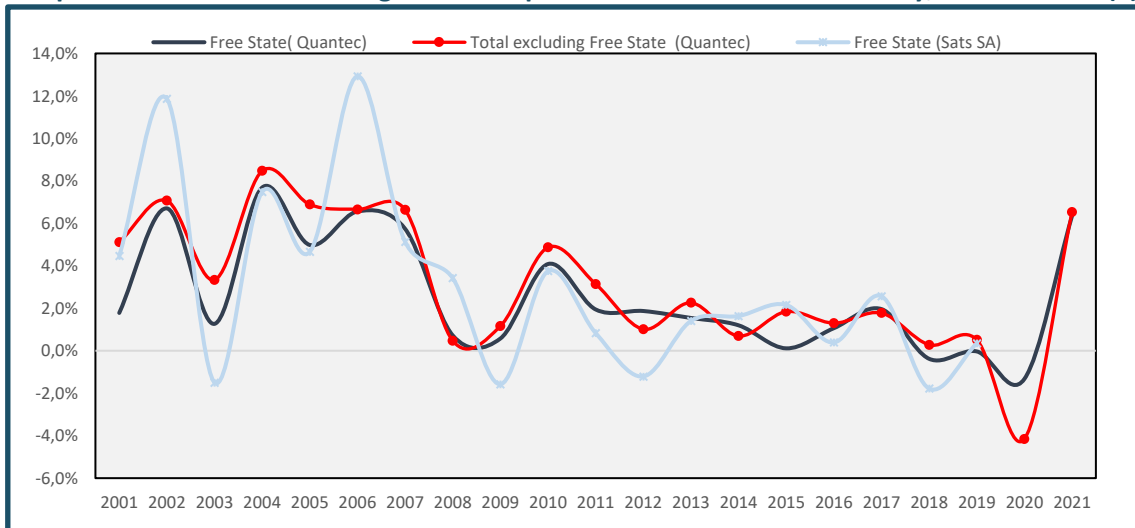


Source: Statistics South Africa and Quantec. Note (a): % of national GDP is calculated at GVA basic prices at constant 2021 prices.

After a strong rebound from the 2008/9 global financial crisis, Free State's growth rate steadily declined and eventually recorded a negative growth rate of 0.4% in 2018 (see Graph 2). In 2019, the province did not generate any growth. While other provinces experienced the steepest

decline in growth due to the effects of the pandemic, Free State experienced a modest decline of 1.3% in 2020. In addition, Quantec estimates indicate that the province experienced a strong rebound in 2021, recording a growth rate of 6.3%. Although the region seems to have fared well during the pandemic, it is still among the least-performing provinces. The lacklustre contribution to GDP and growth rate is often attributed to the waning mining sector in the province.

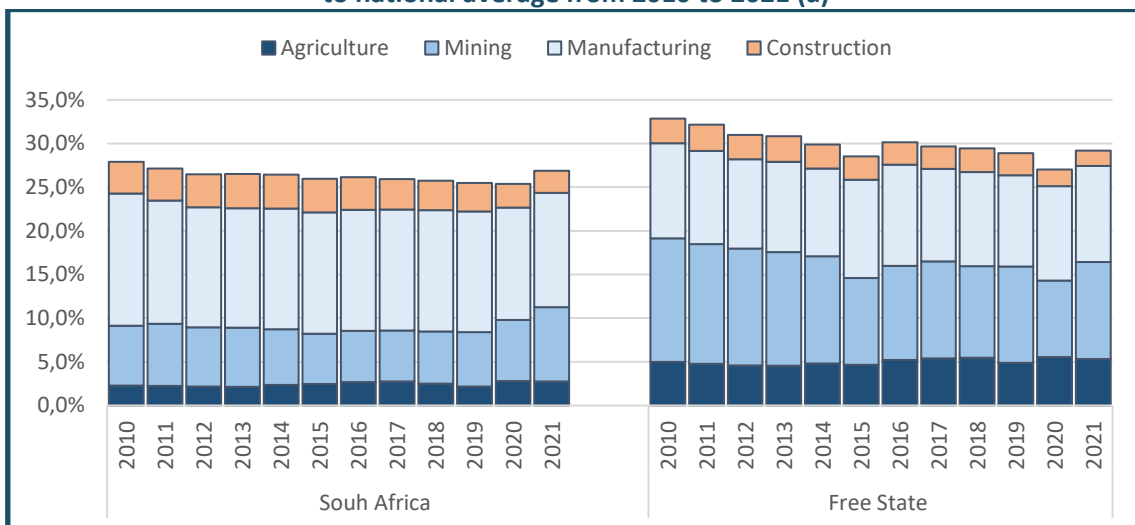
Graph 2: Free State economic growth compared to the rest of the economy, 2000 to 2021 (a)



Source: Calculated using Quantec and Stats SA data. Note (a): Growth rates are calculated at GVA basic prices at 2021 constant prices.

In 2021, the real economic sectors in Free State accounted for 29.2% of the provincial output compared to 27% at the national level. Mining is the largest real economic sector in Free State, accounting for 11% of the provincial GDP in 2021, followed by manufacturing and agriculture. Construction is the smallest sector among real economic sectors, accounting for 1.8% of the provincial GDP. Indeed, mining's contribution to the provincial GDP declined from 14.2% in 2010 to 11.1% in 2021. In contrast, agriculture's to GDP contribution has increased from 5% in 2010 to 5.3% in 2021 (see Graph 3), while manufacturing's contribution has remained the same over the same period.

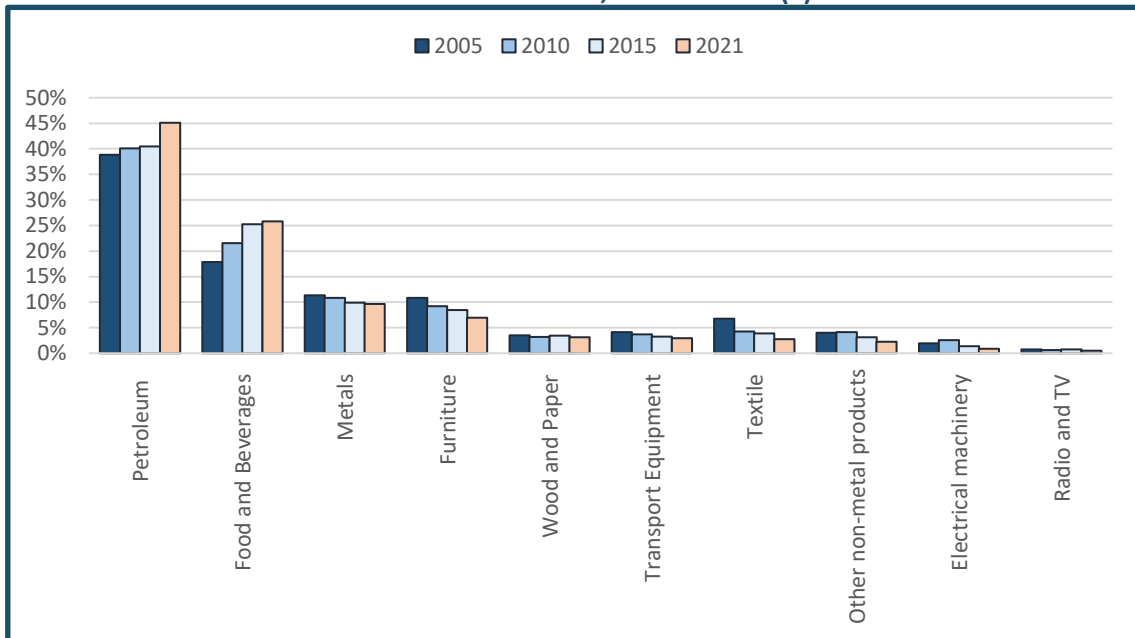
Graph 3: Real economy sectors as a share of Free State GDP compared to national average from 2010 to 2021 (a)



Source: Calculated using Quantec estimates and Stats SA data. Downloaded from www.easydata.co.za. Note: (a) Calculation based on GVA at basic prices in constant 2021 prices.

Petroleum products are the largest contributor to the manufacturing output in the Free State, accounting for 45% in 2021 (see Graph 4). It is followed by the food and beverage industry, which accounts for 26% of manufacturing value added and metals with 10%. Notably, the share of petroleum and food and beverage has risen over time while the share of metal has declined (see Graph 4)

Graph 4: Manufacturing subsectors as a percentage share of total manufacturing GVA in the Free State, 2005 to 2021 (a)



Source: Calculated using Quantec estimates. Downloaded from www.easydata.co.za. Note (a): Calculation based on GVA at basic prices in constant 2021 prices.

Graph 5: Average growth rate in real economic sectors of Free State (a)

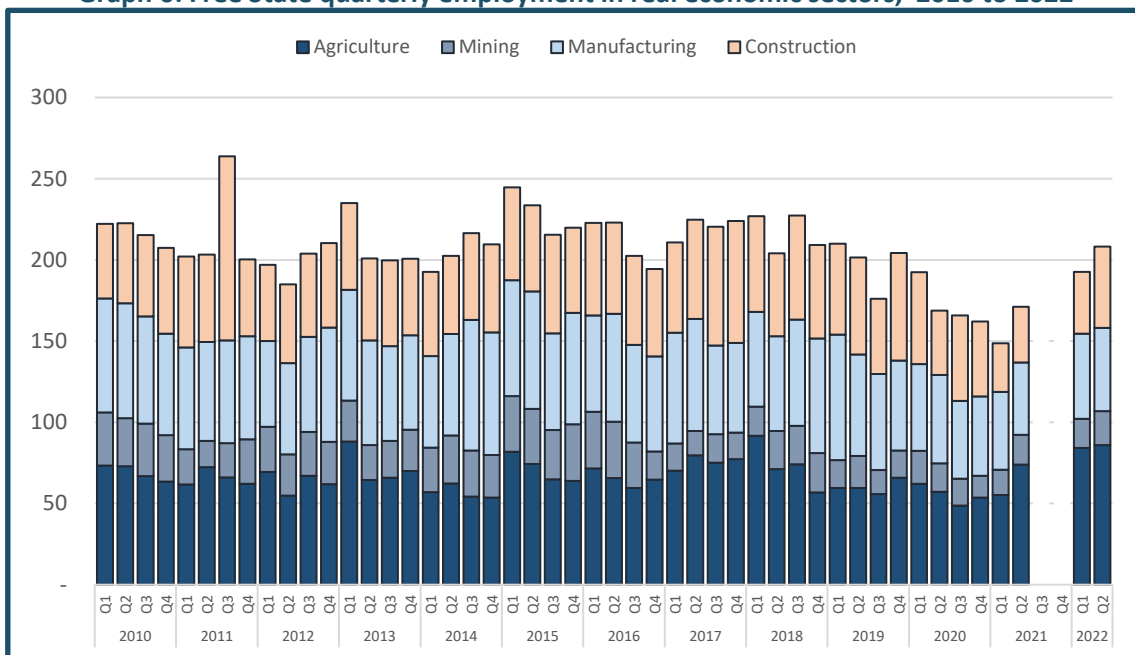


Source: Calculated using Quantec data. Downloaded from www.easydata.co.za. Notes (a): Calculation based on GVA at basic prices in constant 2021 prices

Graph 5 shows the average growth of real sectors in Free State between 2010-2014 and 2015-2019. To exclude the extraordinary effects of COVID-19 that would heavily skew the average growth of the sectors, 2020 and 2021 were included as separate categories. Mining was the fastest-growing sector between 2010 and 2014 in the Free State, growing at an average of 3.3% per annum. In contrast, agriculture and manufacturing experienced a decline over the same period. However, between 2015 and 2019, all real sectors except for manufacturing were declining. Manufacturing was increasing at an average of 1% per annum. During the pandemic, manufacturing experienced a decline of 7.9%, followed by construction with a decline of 12%. At the same time, mining and agriculture recorded significant growth rates. In 2021, all real economic sectors experienced growth, with mining growing faster than any other sector, with an increase of 34.7%.

In 2021, the real economic sectors in Free State employed a total of 157 000 workers, which is about 8% of the total number of people employed in the province. Agriculture was the biggest employer in the real sector, with 67 000 workers in 2021, followed by manufacturing, with 39 000 workers. Mining accounts for the least number of workers in the real economic sector, with 19 000 workers in the same period. From 2010 to 2019, employment in the real sector declined by 8%. Mining, in particular, experienced the most significant decline – 44% – in employment over the same period. In addition, the pandemic exacerbated the employment problem in the province, with all real sectors experiencing a decline in employment except agriculture. Between Q1 2020 and Q1 2022, employment in construction declined by 33%. Meanwhile, mining and manufacturing experienced a decline of 12% and 2 % respectively over the same period.

Graph 6: Free State quarterly employment in real economic sectors, 2010 to 2022



Source: Stats SA Quarterly Labour Force Survey. Downloaded from www.statssa.gov.za Note: Q3 and Q4 2021 are excluded because during the pandemic Stats SA suspended the QLFS for those quarters due to low response rate.

Table 1 shows large public and private real-economy projects in the Free State between 2010 and 2021.

Table 1: Large public and private real-economy projects in the Free State 2010-2021

PROJECT NAME	COMPANY	VALUE	SECTOR
The revitalisation of Lace Diamond Mine	Diamond Corp	R384 million	Mining
Kruisvallei small hydroelectric plant	Building Energy	R102 million	Utilities
Renegen Gas Project	Renegen	R583 million	Utilities
Draslovka facility upgrades	Draslovska Holding Company	R797 million	Manufacturing
Sasol Fischer Tropsch Wax Expansion Project	Sasol	R13.6 billion	Manufacturing
Sasolburg Green Hydrogen Project	Sasol	R350 million	Utilities

Source: Compiled by Kelello Mashiane and Lebogang Pheto, using FDI data. TIPS FDI Tracker available at <https://www.tips.org.za/manufacturing-data/fdi-tracker>

Employment

Employment levels in Free State are similar to the national average. In 2021, the absorption rate in Free State was 37.3%, while the national average was sitting at 37%. Notably, employment levels in the province have risen over the past decade, with the absorption rate increasing from 32.2% in 2010 to 37.2% in 2021.

Economic policy initiatives

The main national industrial policy and development initiatives that have influenced the Free State economy include:

- In 2019/20, the dtic approved projects worth R15 million in the Free State, which was anticipated to yield a projected investment of R78.7 million and create 72 jobs. This investment by the dtic is significantly small compared to the department's 2016/17 investment of R402 million.
- Regarding the MCEP, Free State received an investment of R104 million.
- In 2017/18, Free State received R310 000 for the Manufacturing Investment Programme
- Regarding the Black Industrialists Scheme, Free State received the least investment related to the programme compared to the eight other provinces. In 2021, Free State received R85 million for the initiative. NEF contributed R88 million, and IDC contributed R80 million to BIS in the Free State.
- Free State is a host to one Industrial Development Zone – Maluti-A-Phofung, which was designated in 2015.

Table 2: Major existing or planned national infrastructure projects in Free State 2016-2022

PROJECT NAME	IMPLEMENTING AGENT	PROJECT COST	PROJECT DESCRIPTION
Orange Riet Canal increase of bulk raw water supply	Department of Public Works and Infrastructure	R450 million	An upgrade of this scheme will ensure that additional water can be conveyed through to Rooigrond
Vista Park II & III: Free State	Human Settlements Infrastructure	R6 billion	The project aims to build 10 563 mixed-used housing in Bloemfontein
Rustfontein Water Treatment Works	Bloem Water	R500 million	The project consists of an extension of Rustfontein Water Treatment Works that will assist with the future water demand in Mangaung Metropolitan Municipality
N1 Winburg Interchange	SANRAL	R417 million	The rehabilitation and upgrading of National Route 1 between Winburg interchange and Winburg Station
N1 Ventersburg to Kroonstad	SANRAL	R704 million	The project consists of the reconstruction of a 43km road stretch from Ventersburg to Kroonstad.

Free State's national spatial economy

The Free State has a relatively low share of non-urban areas within its borders. In 2021, 9% of the population lived in non-urban areas; this has been consistent since 1998. In addition, 84% of the Free State's population lived in urban areas in 2021, up from 74% in 1994. The province has a metro and a secondary city, which account for 44% of the province's population. In terms of education, 30% of adult population in Free State had matric, increasing from 15% in 1996. Moreover, 11% of adults in the Free State had a degree compared to 13% nationally.

In 2021, 86% of households in the Free State had running water in the house and yard, up from 71% in 1996. However, share of households with running inside the house alone was 37% in 2021. Furthermore, 94% of households had electricity including generators.

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