THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

FOURTH QUARTER 2018

The Real Economy Bulletin is a TIPS review of quarterly trends, developments and data in the real economy, together with a comprehensive analysis of the main manufacturing industries and key data in Excel format.*

GDP growth

South Africa's GDP grew by an estimated 0.3% in the fourth quarter of 2018, after expanding 0.6% in the third quarter. For the year, the GDP grew 0.8%. Manufacturing and agriculture continued to grow, but construction and mining struggled.

The GDP grew modestly in the fourth quarter, at 0.3%. As Graph 1 shows, this fits the pattern of slow and volatile economic growth since 2015. For the year, GDP growth came to just 0.8%, with growth in the past two quarters offset by declines in the first half of the year. That compared to 1.4% in 2017 and 0.4% in 2016, which was the slowest annual growth since the global financial crisis in 2008/9.

As Graph 2 indicates, the continued recovery in manufacturing and agriculture drove growth in the past quarter. The contribution of manufacturing to the GDP climbed 1.1% for the quarter in seasonally adjusted terms. As a result, manufacturing expanded by 1.0% for the year, its fastest rate of growth since 2013. In contrast, mining contracted some 1.1% in the quarter, for an annual decline of 1.7%. Construction also continued to shrink, by 0.2% for the quarter and 1.2% for the year – its second straight year of decline. The rest of the economy expanded, although retail trade and government services contracted slightly in seasonally adjusted terms.

*Available at www.tips.org.za/
the-real-economy-bulletin

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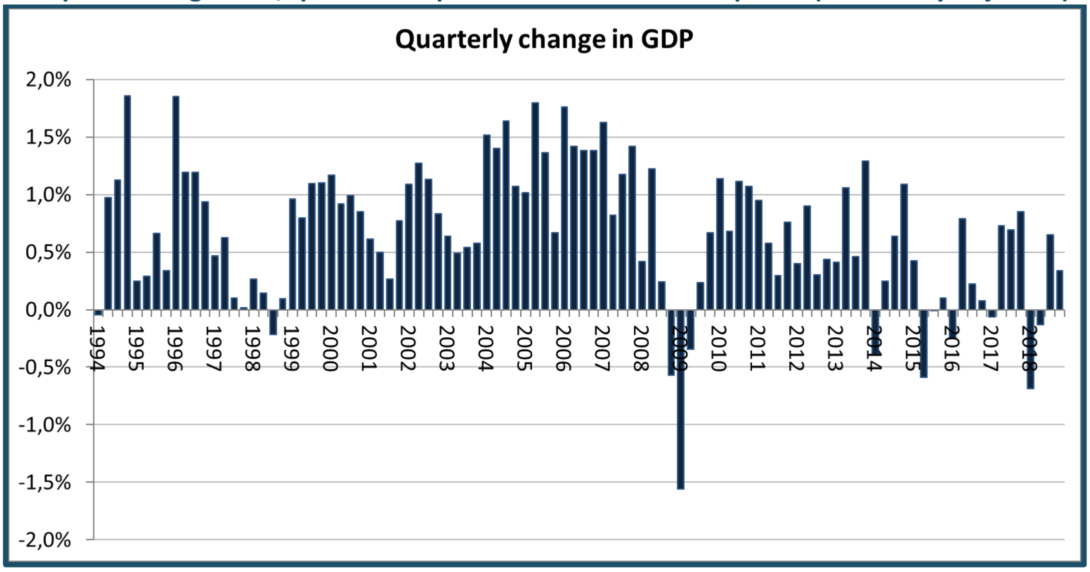
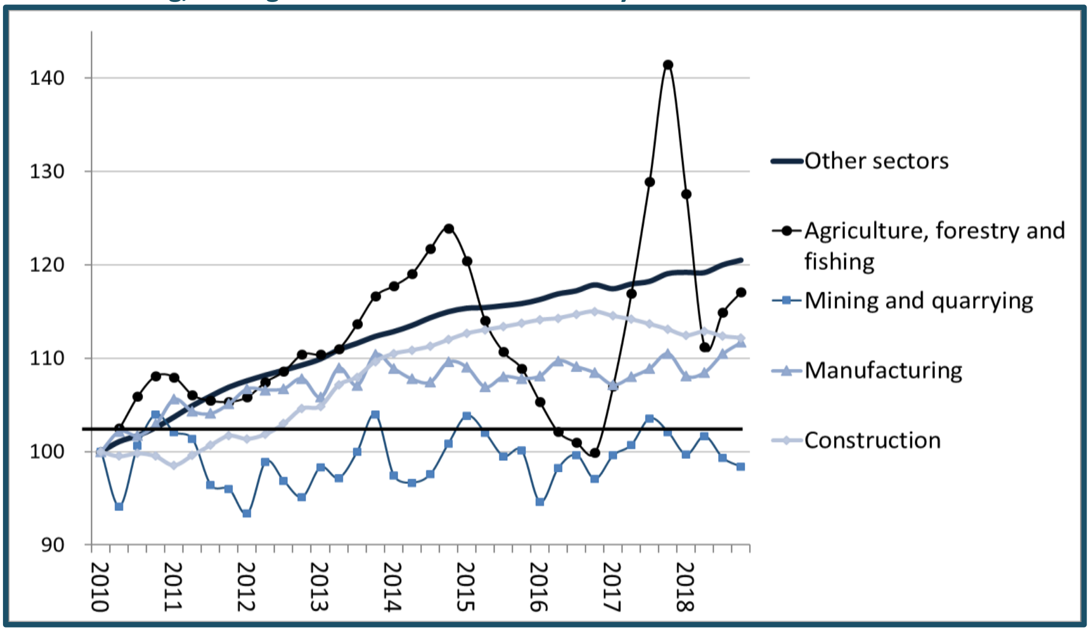
Graph 1: GDP growth, quarter on quarter in constant 2010 prices (seasonally adjusted)



Source: Stats SA GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za in March 2019.

Graph 2: Indices of quarterly seasonally adjusted economic growth for agriculture, manufacturing, mining and the rest of the economy from 2010

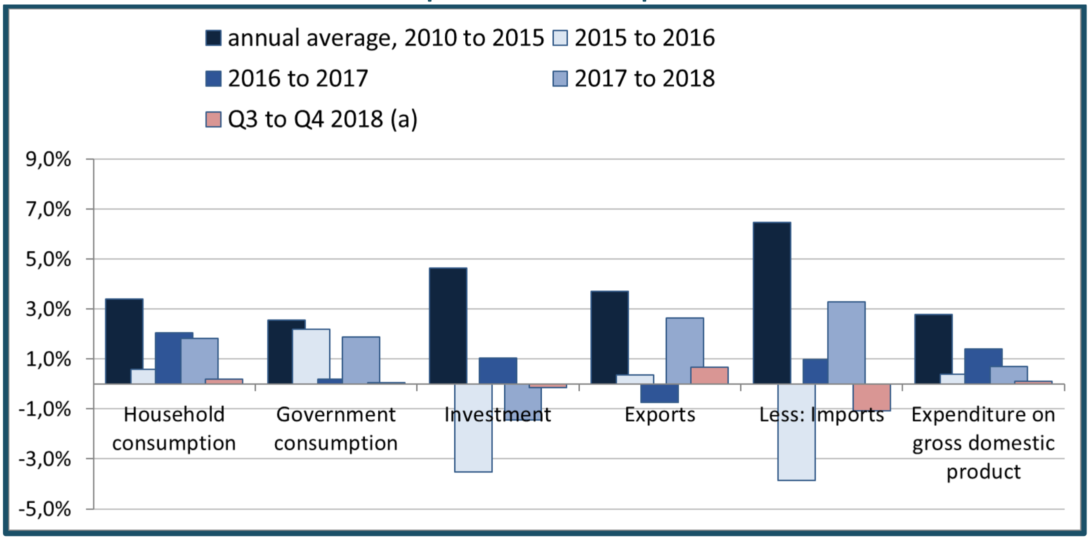


Source: Stats SA GDP quarterly figures. Excel spreadsheet downloaded www.statssa.gov.za in March 2019.

In terms of expenditure, investment continued to fall in the quarter. That was offset by improvements in the balance of trade as well as modest gains in household and government consumption. For the year as a whole, stagnant investment (mostly due to falling public investment, as discussed in the *Investment and profitability* subsection) formed a significant drag on the GDP, aggravated by more rapid growth in imports than exports.

In contrast, government consumption recovered from the very low levels of 2016/7, and household consumption remained fairly strong.

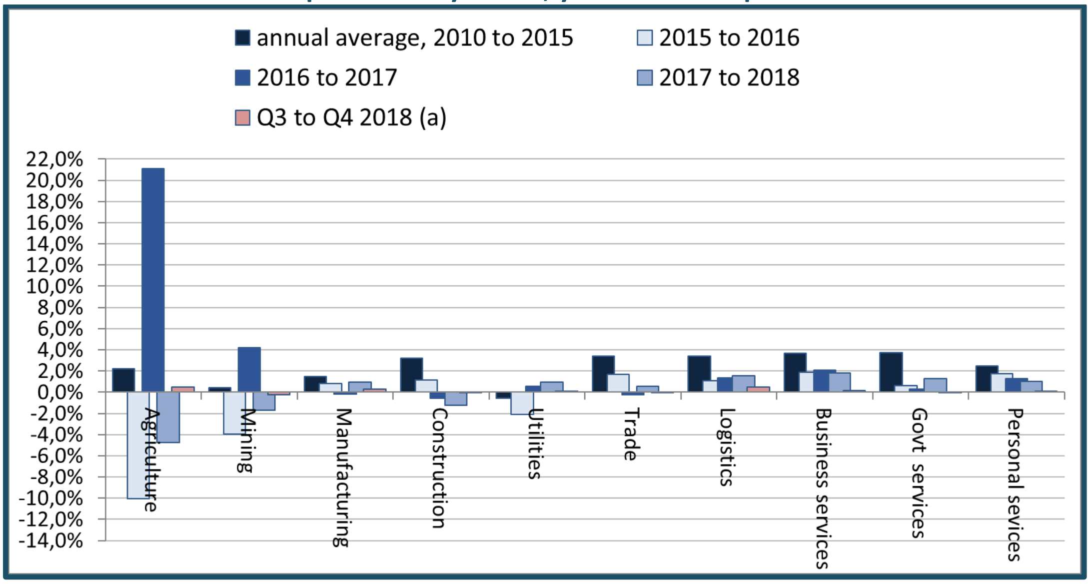
Graph 3. Change in expenditure on the GDP, year to fourth quarter and third quarter to fourth quarter 2018



Note: (a) seasonally adjusted. Source: Stats SA GDP quarterly figures. Excel spreadsheet downloaded www.statssa.gov.za in March 2019.

As Graph 4 shows, in 2018 the most robust growth emerged in the services, followed by trade and utilities. In the real economy, as noted, mining and construction contracted while manufacturing grew. Agriculture continued to be the most volatile sector, which meant it had a disproportionate impact on the GDP as a whole.

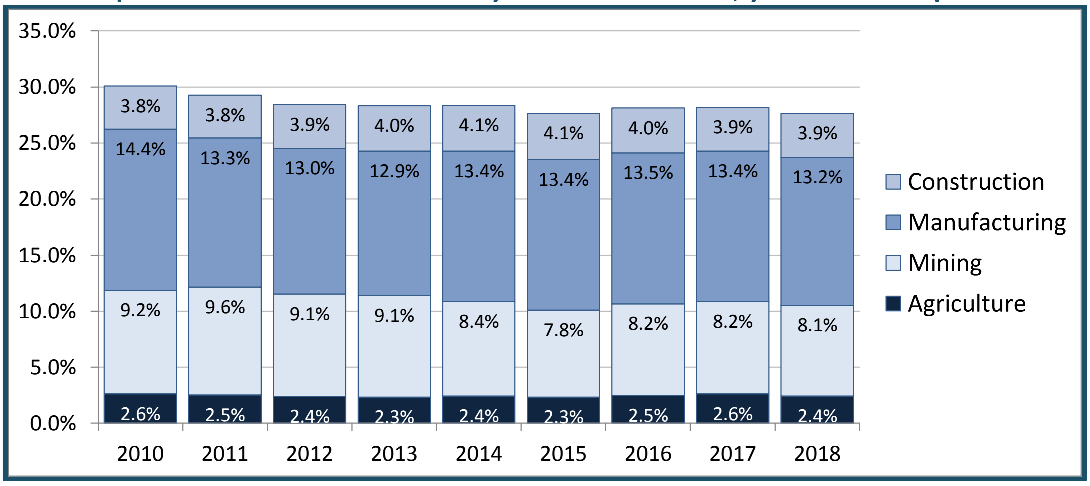
Graph 4. GDP by sector, year to fourth quarter



Note: (a) seasonally adjusted. Source: Stats SA GDP quarterly figures. Excel spreadsheet downloaded www.statssa.gov.za in March 2019

For the year, the share of the real economy in the GDP declined marginally. It stabilised at just over 27% for the past five years, after falling from around 30% in 2010. The relative decline in value added over the year was driven by manufacturing and mining, which each fell around 1% as a share of the economy.

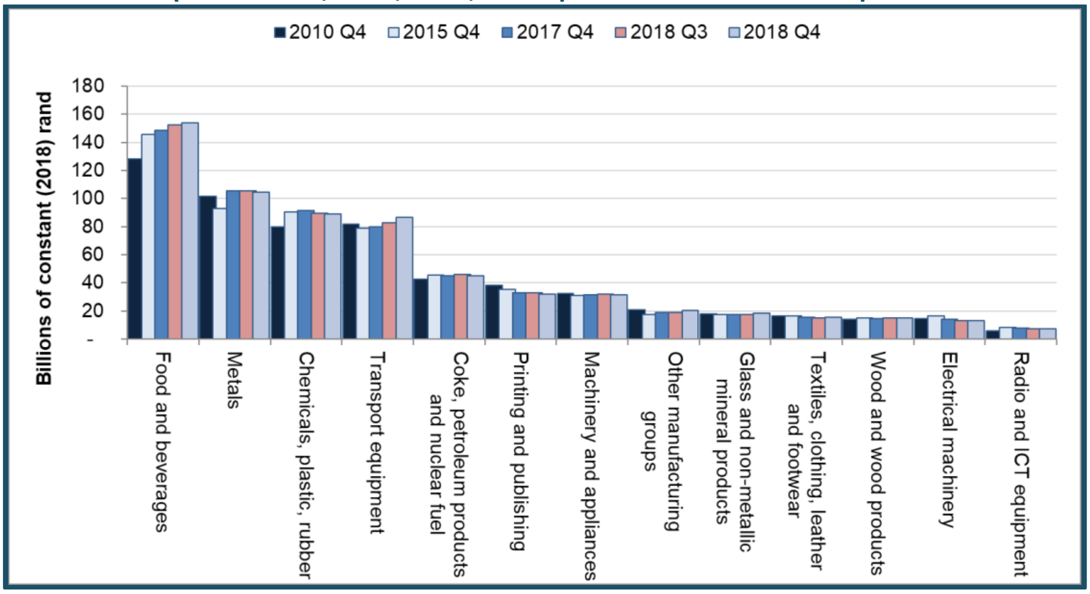
Graph 5. Share of the real economy sectors in the GDP, year to fourth quarter



Source: Stats SA GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za in March 2019.

In the year to the fourth quarter of 2018, most of the growth in manufacturing sales emerged in transport equipment, followed by food and beverages and glass and non-metallic mineral products. Metals, chemicals and machinery and equipment saw falling sales, while most other industries flattened out.

Graph 6. Manufacturing sales in constant (2018) rand (a), fourth quarter 2010, 2015, 2017, third quarter 2018 and fourth quarter 2018



Note: (a) Deflated with CPI rebased to third quarter 2018. Source: Stats SA. Manufacturing volume and sales. Excel spreadsheet. Downloaded in February 2019.

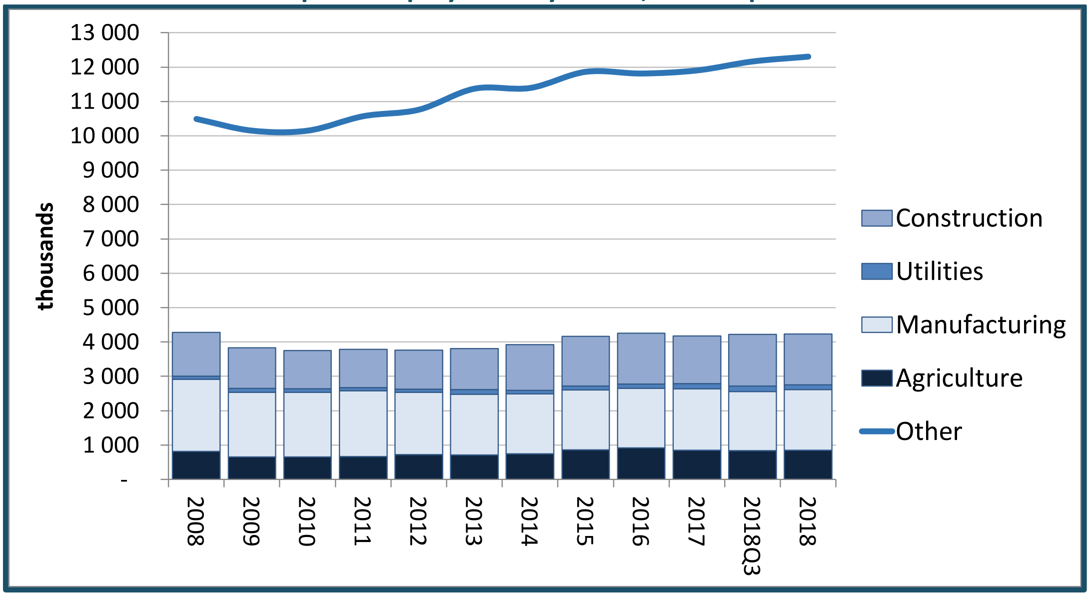
Employment

The economy as a whole generated 360 000 jobs in the year to the fourth quarter of 2018, mostly in the informal sector and domestic work. Employment in manufacturing, mining and agriculture remained essentially flat, while construction reportedly created 90 000 mostly informal jobs over the year.

Employment continued on an upward trend despite slow economic growth. These data are not seasonally adjusted, however, which makes it difficult to interpret quarter-on-quarter changes.

In the year to the fourth quarter of 2018, the economy as a whole gained 360 000 jobs, almost entirely in business services (mostly cleaning and security) and domestic work. As shown by Graph 7, employment in manufacturing, agriculture, construction and utilities has remained almost unchanged over the past four years. Only construction experienced significant employment growth, with some 90 000 new jobs – but they were entirely in the informal sector.

Graph 7. Employment by sector, fourth quarter

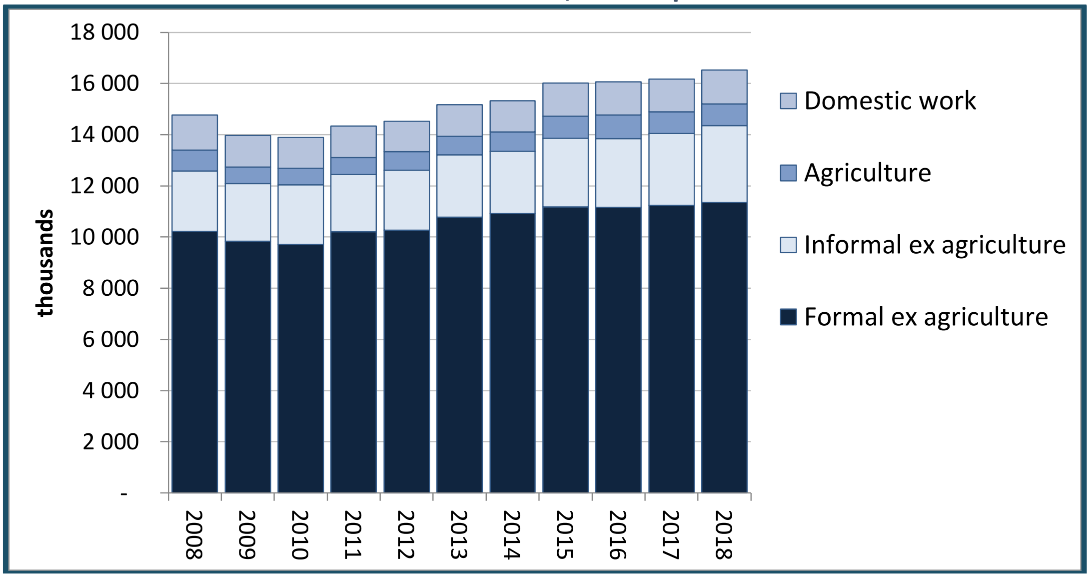


Source: Stats SA. QLFS trends 2008 - 2018Q4. Downloaded from www.statssa.gov.za in February 2019.

Since 2015, the bulk of reported employment growth has taken place in the informal sector. From the December 2010 to December 2015, formal and informal jobs expanded at around the same rate, totalling 15% over the five years; agriculture grew 30%; and domestic work, 7%. Over the three years to December 2018, in contrast, formal employment grew just 1%, but the informal sector reportedly saw a 12% increase in employment and domestic work climbed 3%. From December 2017 to December 2018, the informal sector and domestic work, which together account for a quarter of total employment, reportedly contributed 71% of the growth in employment.

The data suggest they added some 255 000 jobs, compared to just 100 000 in the much larger formal sector of the economy (see Graph 8). This anomalous situation may arise at least in part because of the often fluctuating and imprecise nature of employment relations in informal and domestic work, which may affect the reliability of findings (which derive from a large household survey).

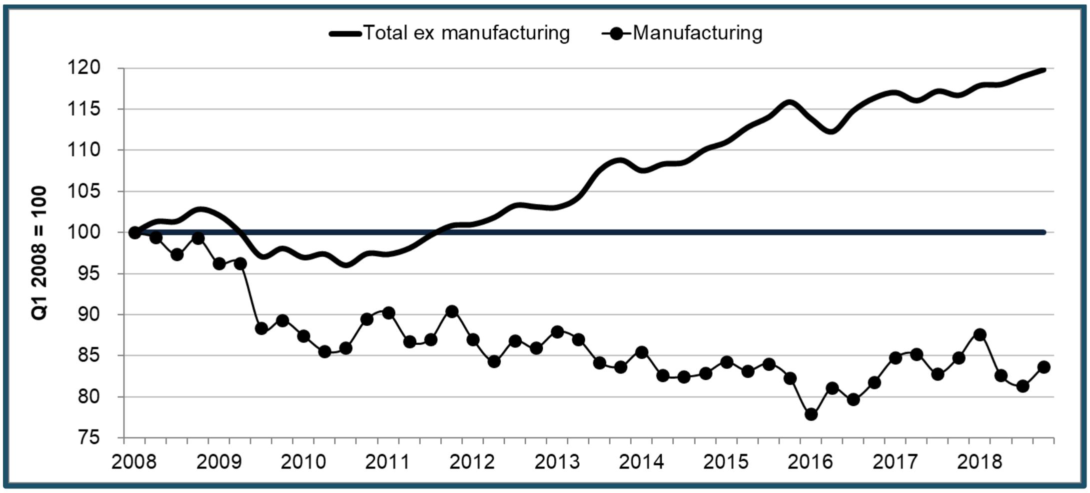
Graph 8. Employment in the formal and informal sector, agriculture and domestic work, fourth quarter



Source: Stats SA. QLFS trends 2008 - 2018Q4. Downloaded from www.statssa.gov.za in February 2019.

As Graph 9 indicates, employment in manufacturing as a whole ticked up in the last quarter of 2018, which is in line with normal seasonal trends. Virtually all the reported growth took place in informal manufacturing, with no significant job creation in formal manufacturing. Overall, manufacturing employment has fluctuated around 1.5 million since 2010.

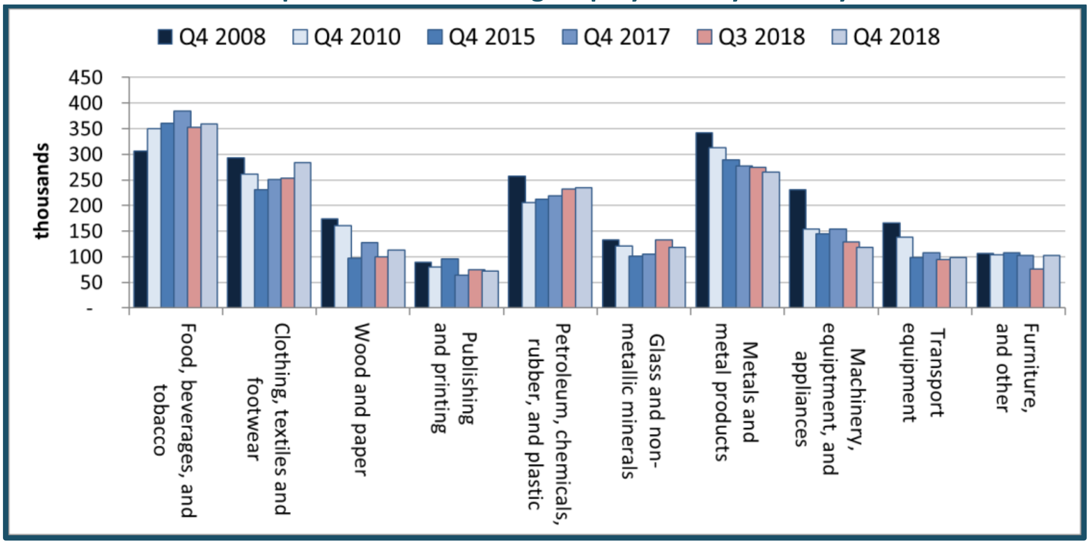
Graph 9. Index of quarterly change in manufacturing and other employment



Source: Stats SA. QLFS trends 2008 - 2018Q2. Downloaded from www.statssa.gov.za in October 2018.

In the year to December 2018, employment growth in most of manufacturing remained largely unchanged. Clothing saw some growth, with a reported gain of over 30 000 jobs; food and machinery each lost around the same number (Graph 10).

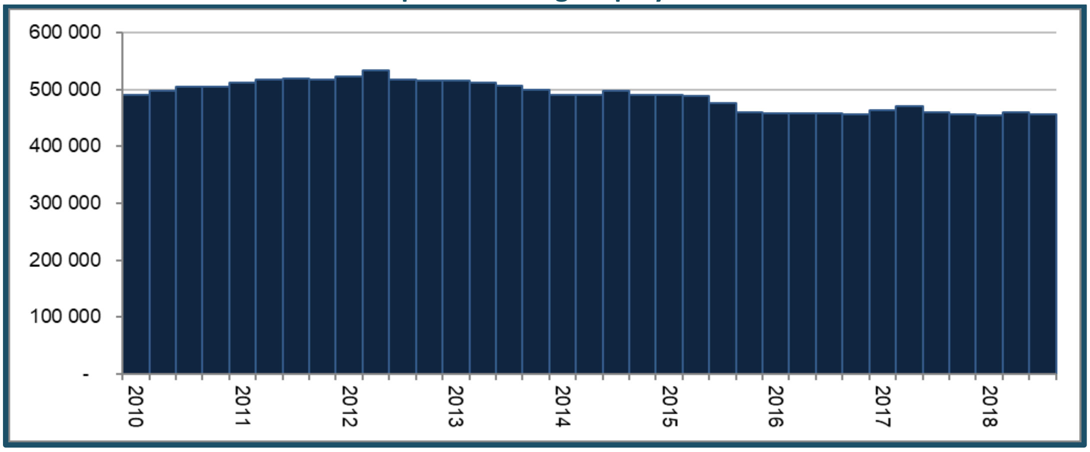
Graph 10. Manufacturing employment by industry



Source: Stats SA. QLFS trends. Electronic database. Downloaded from www.statssa.gov.za in October 2018.

An employer survey, the Quarterly Employment Survey, is considered more reliable for mining, but it provides figures only through the third quarter of 2018. As Graph 11 shows, in the year to September 2018, employment in mining remained virtually unchanged at just under 460 000. The industry has lost 65 000 jobs, or almost 15% of the total, since the end of the global commodity boom in 2011/12.

Graph 11. Mining employment



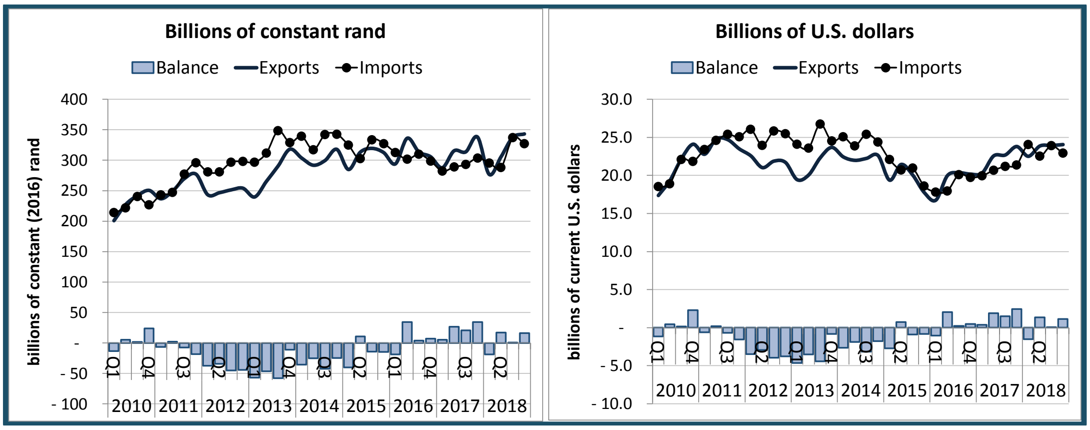
Source Stats SA. Quarterly Employment Statistics. October 2018.

International trade

South Africa's balance of trade strengthened in the fourth quarter, mainly due to a fall in imports while exports increased. The economy typically runs surpluses during periods of slow growth, as seen in the past three years.

The fourth quarter of 2018 saw a positive balance of trade at R18 billion. In constant rand, exports rose to R343 billion from R337 billion in the previous quarter. Imports dropped from R337 billion to R327 billion. The increase in exports in rand terms was mainly due to depreciation, as they remained flat in dollar terms (see Graph 12).

Graph 12. Exports, imports and balance of trade in constant (2018) rand (a) and current US dollars

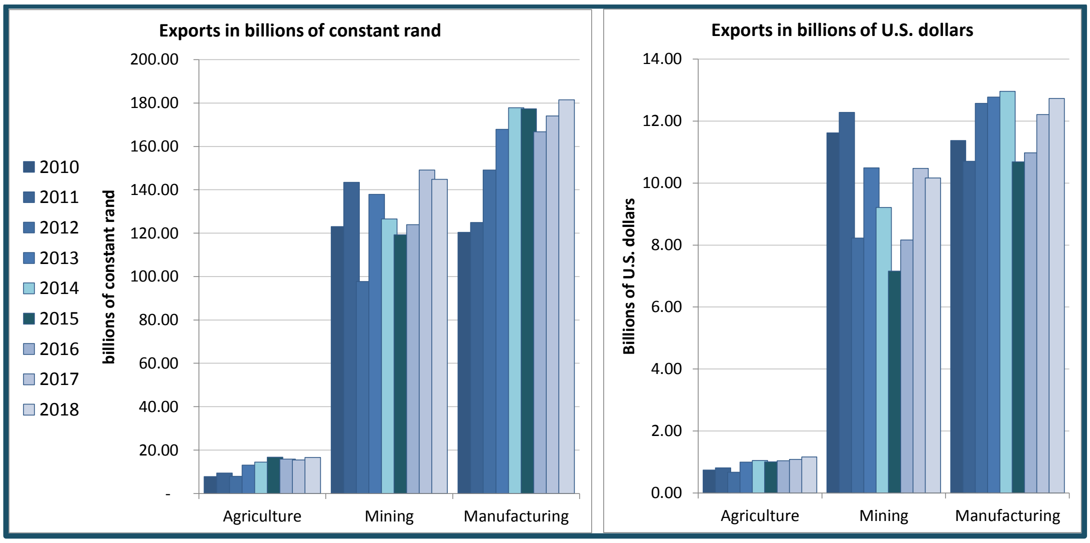


Note: (a) Deflated with CPI rebased to fourth quarter 2018. Source: South African Revenue Service (SARS) monthly trade data.

As Graph 12 shows, in both constant rand and US dollars manufactured exports were sharply higher but mining exports declined in the fourth quarter of 2018 compared to the fourth quarter of 2017. Manufactured exports, which are dominated by cars and refined metals, rose from R174 billion in 2017 to R182 billion in 2018 in constant rand.

In the same period, mining exports declined from R149 billion to R145 billion. The downtick followed significant growth over the previous three years as prices for platinum, gold and diamonds recovered somewhat from their steep fall in 2011, when the commodity boom ended. In dollar terms exports of ores, coals and metals were still lower than they were in the early 2010s.

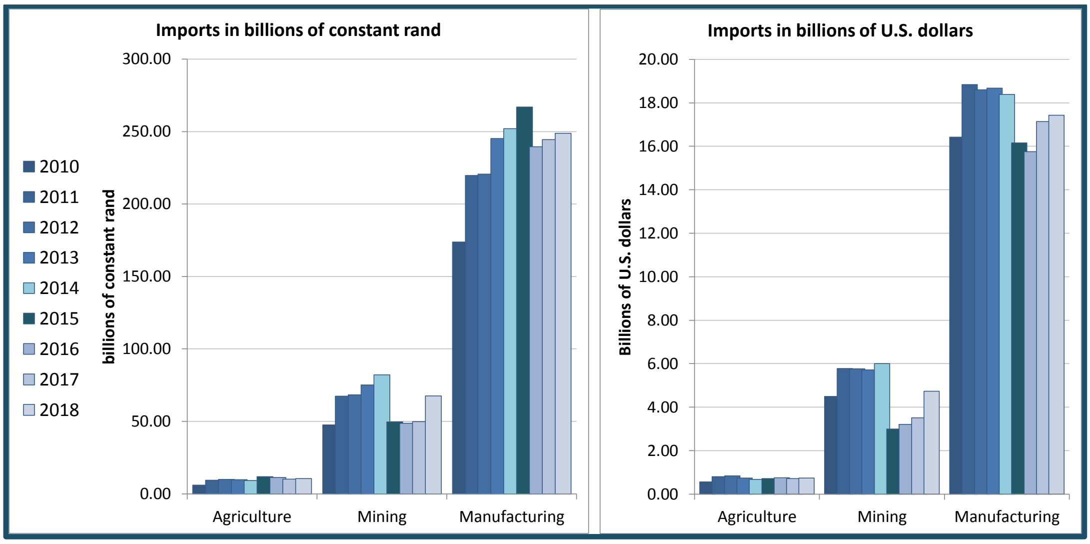
Graph 13. Fourth quarter exports in billions of constant (2018) rand (a) and current US dollars



Note: (a) Deflated with CPI rebased to fourth quarter 2018. Source: SARS monthly trade data.

A fall in manufactured and agricultural imports from the fourth quarter of 2017 to the fourth quarter of 2018 was offset by the rising rand price of petroleum, which constitutes the bulk of South African mining imports. In 2018, South Africa paid R145 billion for crude oil imports plus another R65 billion for refined products. That equalled 17% of all imports, up from 13% in 2016 but much lower than the peak of 23% in 2014. The unit price South Africa paid for petroleum imports in 2018 in constant rand was almost 50% higher than in 2016, although it was still below the rand price from 2012 to 2015. The increase mostly reflected rising dollar prices on the global market.

Graph 14. Third quarter imports in billions of constant (2018) rand (a) and current US dollars



Note: (a) Deflated with CPI rebased to fourth quarter 2018. Source: SARS monthly trade data.

As Table 1 shows, growth in exports in the fourth quarter of 2018 compared to a year earlier was almost entirely due to a surge in the auto industry, which increased foreign sales by R7.7 billion or some 20%.

The rest of manufacturing saw more modest gains, with the exception of clothing and metals, where exports declined. In terms of imports, a R5 billion fall in machinery and appliances followed from slowing investment. Imports of transport equipment climbed R2.6 billion, partially offsetting the growth in exports by the industry.

Table 1. Trade by manufacturing subsectors

Industry	Value (billions)		% change from Q4 2017		Change in millions	
	USD	Rand	USD	Rand	USD	Rand
Exports						
Food and beverages	1.1	16.2	1.0%	1%	12	172
Clothing and footwear	0.5	7.5	-7.7%	-8%	-44	-630
Wood products	0.2	2.2	15%	15%	20	289
Paper and publishing	0.4	6.3	4%	4%	15	237
Chemicals, rubber, plastic	2.0	28.2	3%	3%	51	729
Glass and non-metallic mineral products	0.1	1.8	6%	6%	7	106
Metals and metal products	2.7	39.2	-1%	-1%	-23	-325
Machinery and appliances	2.1	29.8	1%	1%	16	224
Transport equipment	3.2	46.3	20%	20%	541	7 706
Imports						
Food and beverages	0.9	13.0	-1%	-1%	-5.5	-72
Clothing and footwear	1.2	16.7	8%	8%	85.6	1 212
Wood products	0.1	1.4	5%	4.9%	4.6	64
Paper and publishing	0.7	9.8	14%	14%	82.2	1 203
Chemicals, rubber, plastic	3.6	51.4	6%	6%	199.2	2 862
Glass and non-metallic mineral products	0.3	3.9	14%	14%	33.3	471
Metals and metal products	1.1	15.2	6%	6%	63.6	892
Machinery and appliances	5.6	80.0	-6%	-6%	-352.4	-4 993
Transport equipment	3.6	51.2	5%	5%	185.4	2 601

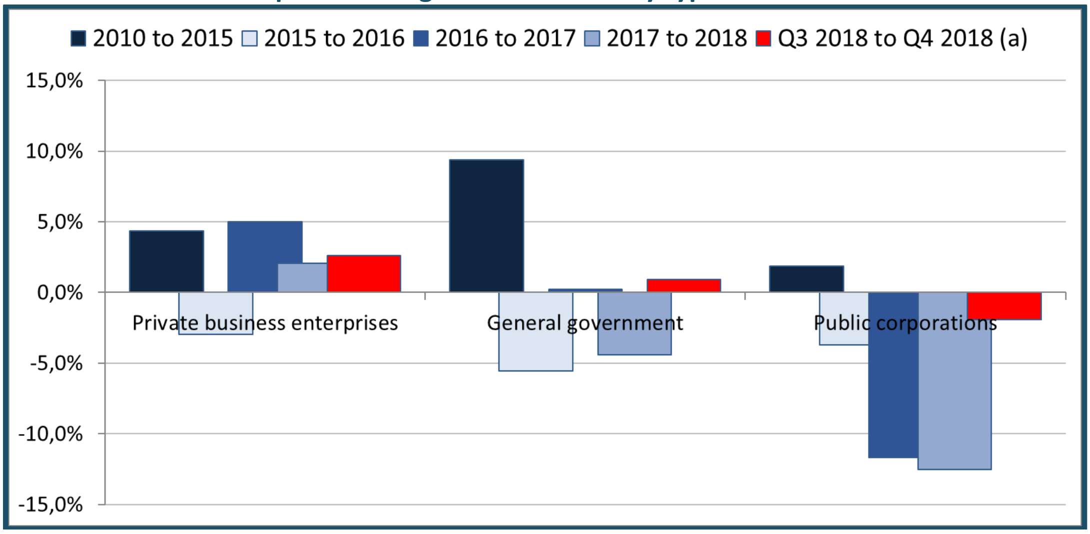
Note: (a) Deflated with CPI rebased to fourth quarter of 2018. Source: SARS monthly trade data.

Investment and profitability

The decline in public investment, which has contributed to slower GDP growth since 2015, continued in 2018. In contrast, private investment picked up somewhat, although it remained below levels achieved before the commodity boom ended in 2012.

Private investment increased 2.1% in 2018, after a 5% rise in 2017. In contrast, public investment fell 8.5%, with government investment down by 4.4% and state-owned companies by 12.5%. From 2015 to 2018, public investment fell a total of 18%, with state-owned companies alone down by 25.6%. The fall in public investment contributed to the relatively precarious state of the economy since 2015 (see Graph 15).

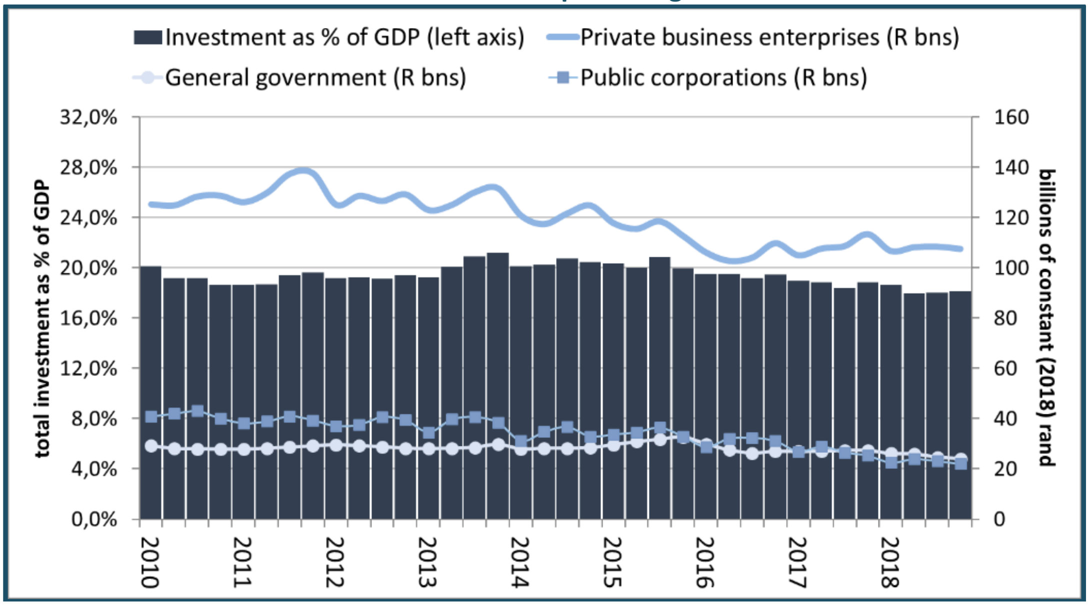
Graph 15. Change in investment by type of investor



Note: (a) seasonally adjusted. Source: Stats SA GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za in March 2019.

As a percentage of GDP, investment in 2018 fell to 18% – well below the 20% to 25% normally required for rapid growth, although on a par with most upper-middle-income economies outside of East Asia (see Graph 16). It ticked up slightly in the final quarter due to the growth in private investment. In contrast, investment by both government and state-owned corporations declined steadily over the year. These trends meant that the share of private investment in national investment climbed from 64% in 2015 to 69% in 2018.

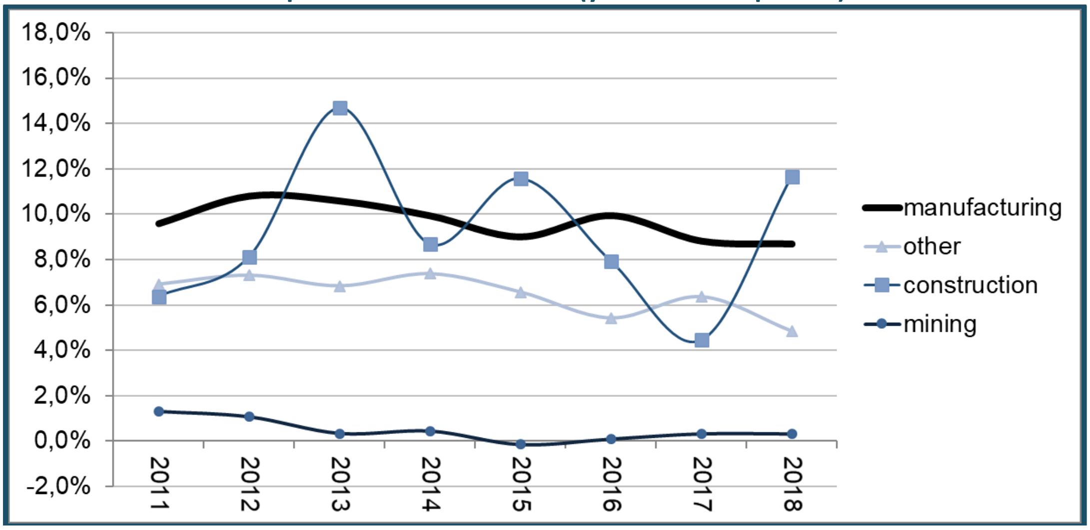
Graph 16. Quarterly seasonally adjusted investment by type of organisation in constant rand and as percentage of GDP



Source: Stats SA GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za in March 2019.

Data on the return on assets are available through the third quarter of 2018. While the construction sector continued to shrink in the year to the third quarter, it showed a significant improvement, with its return on assets rising from 4.4% to 11.7%. In contrast, manufacturing and mining profitability levelled out, and in other sectors of the economy return on assets dropped (see Graph 17).

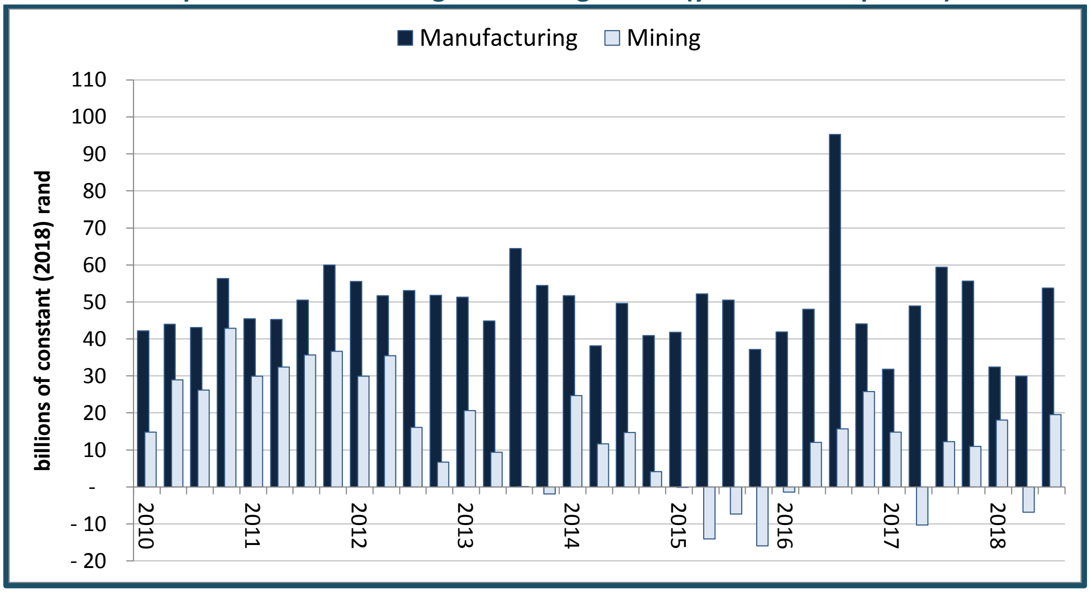
Graph 17. Return on assets (year to third quarter)



Source: Stats SA, Quarterly Financial Statistics.

Figures for profitability are not seasonally adjusted. Profits for manufacturing in the third quarter were lower than a year earlier. In contrast, mining returns have improved since the start of the year compared to the equivalent period in 2017 (see Graph 18).

Graph 18. Manufacturing and Mining Profits (year to third quarter)



Source: StatsSA. Quarterly Financial Statistics.

Foreign Direct Investment projects

Eighteen new projects were added to the TIPS Foreign Direct Investment (FDI) Tracker in the past quarter. Some of these projects were announced during the Investment Conference held in October 2018 while others date back before it.

President Ramaphosa's Investment Conference in October 2018 set a target of achieving US$100 billion in new foreign and domestic investment over five years. Monitoring progress toward this goal requires both tracking the implementation of companies' pledges to initiate projects, and keeping an eye on the actual increase in investment that results, since some of the pledges were already in the pipeline. The tendency in some cases to blend new and existing commitments in pledges for the investment conference complicated the categorisation of projects for the Investment Tracker this quarter. Projects that expanded existing project plans are here classed as "new". That said, four projects announced at the conference (from Mercedes-Benz, Ivanplats, Sumitomo, and ACWA Power) were already captured in the Tracker, and were excluded for this quarter.

Twelve of the 18 projects included this quarter, with a value of R135 billion, were newly announced. Three projects were under construction, adding R 37.7 billion. Another three projects were completed, for R1.5 billion. The projects span seven industries, with six in manufacturing. Ten were expansion projects.

Table 2: New FDI Projects Captured in Quarter 4, 2018

	Announced	Under construction	Complete
Number of projects	12	3	3
Value (R billions)	134. 9	37.7	1.5
Industries	Utilities (1 Project) Retail (1 Project) Services (2 Projects) Mining (2 Projects) Manufacturing (6 Projects)	Construction (1 Project) Mining (1 Project) Utilities (1 Project)	Construction (2 Projects) Transport (1 Project)
Type	2 Greenfield 8 Expansion 2 Upgrades	2 Greenfield 1 Upgrade	1 Greenfield 2 Expansion
Companies	McDonald's Corporation Building Energy Liquid Telecom Marriot International Anglo American Vedanta Zinc International Mondi Mara Corporation Nestle Procter & Gamble BPSA Agni Steel SA	UEM Sunrise Anglo American Platinum Building Energy	Liquid Telecom South Africa Data Centre (SADC) Rolls-Royce SAAT Lease Storage Facility Bosch Rexroth Hytec Unified by Bosch (HUBB)

Of the new projects added to the Tracker this quarter, six were announced at the Investment Conference. Only one large project was entirely new – the commitment by Mara Corporation. Other pledges build on pre-existing initiatives, blending old and new plans. For two projects, information is limited and may reflect older completed projects (Procter & Gamble and Nestlé South Africa).

The largest single commitment was Anglo-American's plan to invest US$6 billion (R86,9 billion as of October 2018)[1] in mining through 2022. The project aims to extend the life of Anglo's operations in South Africa, but details were not available. It allocated US$2 billion (R29 billion) to expansion of the Venetia diamond mine in Limpopo, which was already captured in the Tracker. Its plans also include operations in Mpumalanga, the North West, Northern Cape and Gauteng. In effect, these investments represent a general commitment to invest in Anglo's core assets following years of restructuring from the end of the commodity boom.

Vedanta's R21.4 billion investment in two zinc mines in the Northern Cape forms part of the company's Gamsberg Mine megaproject. While it is difficult to establish exactly what the R21.4 billion investment entails, it appears to refer to Phase 2 of the project as well as a smelter complex that is undergoing a feasibility study. Phase 2 has an estimated value of between US$350 million and US$400 million, plus around US$700 million for the smelter complex. Feasibility is also being conducted on projects that will link Gamsberg to the Black Mountain Mining site nearby and to Skorpio-Zinc in Namibia.

In manufacturing, Mondi has pledged R8 billion to expand capacity in KwaZulu Natal. Details on the project are limited, but the investment follows its decision to reduce pulp production at Richards Bay and newsprint at the Merebank facility in KwaZulu Natal, while scaling up production of uncoated paper.

In addition, the Mara Corporation announced plans to build a R1.5 billion facility in South Africa to produce the company's first mobile phone, the Mara X. Mara originated in Uganda but has partnered with the Rwanda government and Google to start producing smartphones in Rwanda and South Africa. Production appears to have been delayed from the original launch date in 2018, but further details on progress are not available.

Manufacturing projects announced at the Investment Conference also included projects by Procter & Gamble and Nestlé SA. Proctor & Gamble intends to invest R300 million to increase sanitary pad facilities and to add 300 workers to its existing workforce of 3 000. It is not clear what the Nestlé SA investment entails with one report suggesting an investment

[1] This figure is taken from a public comment by Anglo American's Executive Head, Andile Sanqu; see https://www.iol.co.za/business-report/companies/anglo-american-to-invest-r715bn-in-extending-lives-of-sa-operations-17655217. In the media this is widely reported as R71.5 billion, but the Tracker's rand value was calculated based on the US$6 billion figure with the average exchange rate for October 2018.

in capital expenditure initiated in 2017[2], while another report indicates plans to implement green technologies and strength the brand[3].

Two of the largest projects captured this quarter were not part of the Investment Conference. The first is a R35.5 billion mixed-use property development at eThekwini's Point Waterfront area by the Malaysian group UEM Sunrise, which is under construction. This long-term development will be rolled out in three phases and includes residential units, restaurants, retail outlets, luxury hotels, and office blocks.

The second project is BP South Africa's R13 billion refineries upgrade. It will introduce cleaner fuel standards such as D50 and D10, in which South Africa has long lagged behind. It will require the plant to shut down between May and June 2019.

Anglo Platinum is implementing a R2.5 billion sulphur dioxide abatement project at its smelter in Polokwane. The plant will implement new wet sulphuric acid technology, which should reduce sulphur emissions by approximately 92%. The project is required to comply with the new Minimum Emissions Standards issued by the Department of Environmental Affairs.

Two new retail investments were also announced. McDonalds will be expanding its local operations, pledging R3 billion to establish 120 new restaurants over the next five years, supporting 7 000 jobs. It also intends to open a "Hamburger University" in Johannesburg, which will provide additional training for the company's 12 000 local employees. Marriott International announced a US$250 million expansion across several African countries, including South Africa. Details of the plans are unavailable but they include the acquisition of five new hotels.

Liquid Telecom plans to establish a 4G/LTE mobile network to supply its own mobile network service to internet service providers. The value of the investment was not made public. It also plans to increase space at its data centres five-fold, starting with construction of two facilities in Johannesburg and Cape Town with a total investment of R1.3 billion. It hosts around 100 customers globally, including large enterprises, internet service providers and other telecoms operators. The Johannesburg facility spans 3 000 m^2 of rack space with a total power capacity of 7 megawatts (MW) while Cape Town covers 1 800 m^2 of rack space with a 5.5 MW capacity. The facilities are referred to as South African Data Centre (SADC) and are meant to be carrier neutral.

Manufacturing company Angisteel announced a continuation of the expansion of its facility (Phase 2) at the Coega Industrial Development Zone, investing R100 million. Phase 2 entails the addition of a ladle furnace and two more induction furnaces that will double production

[2]https://city-press.news24.com/Business/not-so-rosy-r95bn-was-pledged-before-ramaphosa-was-president-20181120.

[3]https://www.businesslive.co.za/bd/economy/2018-10-26-sa-to-get-more-than-r290bn-in-investment-as-business-comes-to-the-party/.

and allow for production of 180 000 tons of steel billets a year. Phase 1 has been completed, while details for Phase 3 were not reported.

The Tracker captured two greenfield projects in electricity – the Roggeveld wind farm in the Karoo and the Kruisvallei small hydroelectric plant in the Free State Province. The combined investment value of these projects is R340 million. Both are being developed by Italian energy firm Building Energy. The firm was granted preferred bidder status in the fourth round of the South African Department of Energy’s Renewable Energy Independent Power Producer Programme (REIPPP) in April 2015. The 147 MW wind farm will comprise 47 wind turbines that will generate about 613 GWh of electricity – enough to power roughly 49 200 households. The small hydroelectric plant is a 4.7 MW power plant that can generate approximately 28 GWh of energy and power more than 2 330 households.

The German-owned Bosch Rexroth South Africa – an industrial machinery, hydraulics and technology company – launched the Rexroth Hytec Unified by Bosch (HUBB) with completion of its R200-million high-tech facility. It includes centralised training space, engineering, sales and support offices, and houses the entire Bosch Roxroth group of companies.

In the transport industry, Rolls Royce civil aerospace division completed its investment with the opening of a lease-engine storage facility at O.R. Tambo International Airport. The facility will offer additional servicing to engine-lease customers. An outcome of the investment is a training programme to help SAA Technical staff conduct inspections and on-wing servicing of Rolls-Royce engines.

Four of the projects announced at the Investment Conference were already captured in the Tracker. They were Mercedes-Benz’s R10 billion investment in its East London plant, Ivanplat’s R4,5 billion Platreef project, Sumitomo’s R963 million investment in a new Ladysmith manufacturing facility, and ACWA’s solar power plant investments.

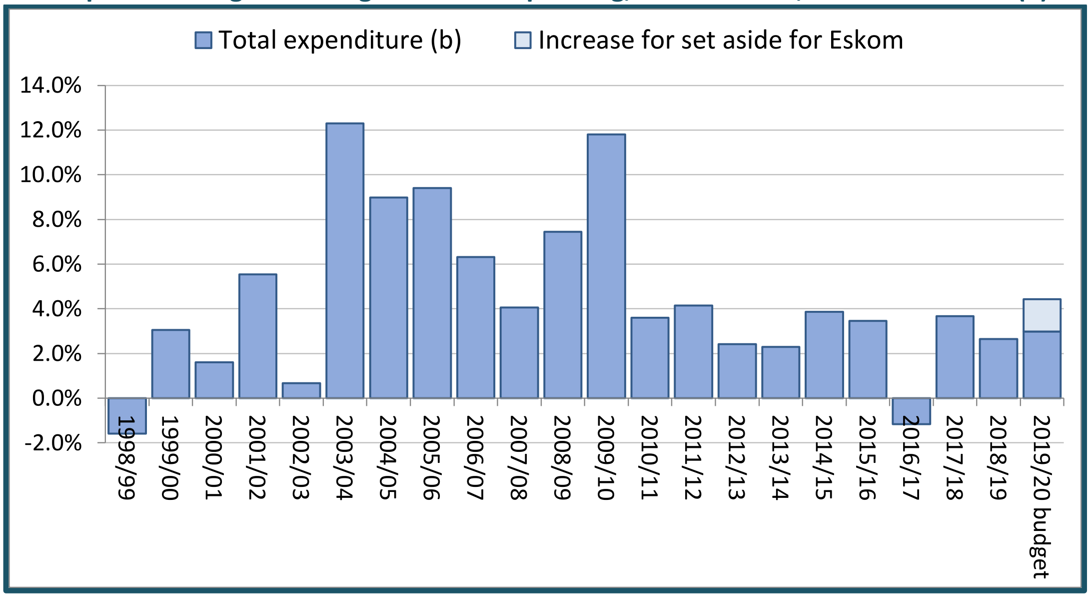
Briefing Note: The 2019 budget and industrialisation

The 2019 Budget faced tough choices. In the end, National Treasury prioritised core social services, infrastructure, and rescuing Eskom while avoiding an excessive increase in the national debt. The trade-off is a squeeze on industrial policy programmes, which will see cuts in real terms. This reality increases the importance of ensuring that other areas of state spending, especially on infrastructure, education and procurement, do more to support industrialisation and inclusive economic development.

As the following graph shows, in constant terms state spending rose an average of 7.5% a year from 2002 to 2009, financed effectively by soaring tax revenues during the commodity boom. The 2008/9 stimulus package in response to the global financial crisis raised the deficit significantly, however, and in response Treasury reined spending growth in to an average of 2.8% a year from 2010 to 2018 – still well above population growth, but far below the expansive 2000s.

The 2019 budget foresees an increase of 4.4% above inflation in total spending – the largest percentage hike since 2010. But a third of the projected growth goes into a contingency fund for restructuring Eskom, leaving an increase of 3.0% above inflation, or around R40 billion, for the rest of government spending.

Graph 19. Change in total government spending, 1997 to 2019, in constant rand (a)



Notes: (a) Deflated with March CPI and Treasury projection for 2019/20. (b) Excluding funds set aside for Eskom in 2019/20. Source: National Treasury. Budget Review 2019.

The increase in 2019/20 goes almost exclusively to the main government services – education, social grants, health and infrastructure, including Eskom. Since much of this spending goes through provinces and municipalities, their share in the total budget will rise 4.4% above inflation in 2019/20, while national departments will see an increase of only 1.2%.

In this context, the main economics departments get little in the way of additional resources, with some facing substantial cuts. The national departments responsible for overall economic governance and development – Trade and Industry and Economic Development – will jointly see a budget cut of 0.5%, mostly borne by Economic Development while Trade and Industry gets a marginal increase in constant terms. The budget for Agriculture, Forestry and Fisheries drops almost 6% in real terms, while Mineral Resources rises 0.8% and Tourism 0.6%. An additional R1 billion will go to the Small Enterprise Finance Agency (sefa) as a transfer through the Department of Small Business Development, but the department's own spending climbs just 0.2%. As a group, excluding the transfer to sefa, the budget for these core economics departments falls by 0.1%.

Trade and Industry accounts for over half the budget of the core economics departments, with a total of R10 billion in 2019/20. Of that, the bulk goes to the Incentive Development and Administration Division (IDAD), which gets R6 billion, and the Industrial Development Division (IDD), with R2 billion.

In constant rand, IDAD's budget allocation will climb by 2.9% in 2019/20. Some R3.4 billion of its spending supports industry through the Manufacturing Incentives Programme, with almost 40% of the programme going to the clothing industry. Trade and Industry's assistance to the auto industry involves a substantially larger cost to the fiscus, estimated at over R5 billion a year, but takes the form of tax savings and therefore does not appear in the budget. IDAD's programme to support services, mostly Business Process Services (BPS), will fall by 17% to R0.7 billion. In contrast, its financing of infrastructure will climb 18% in real terms, to R1.4 billion.

The IDD's budget is projected to fall by 1.6% in 2019/20 in real terms. Its Industrial Competitiveness programme, which centres on the Industrial Policy Action Plan, will have a R1 billion budget, a drop of 4% in real terms, while its Customised Sector Programme budget will be slightly higher, for a gain of just under 1%.

Table 3. Department of Trade and Industry budget

Programme	% change	Constant 2018 R bns. (a)	
		2018/19	**2019/20**
1. Administration	-8.8%	0.8	0.8
2. International Trade and Economic Development	-0.7%	0.1	0.1
3. Special Economic Zones and Economic Transformation	11.4%	0.1	0.2
4. Industrial Development	-1.6%	2.0	2.0
5. Consumer and Corporate Regulation	-5.5%	0.3	0.3
6. Incentive Development and Administration	2.9%	5.6	5.7
7. Trade and Investment South Africa	1.7%	0.4	0.4
8. Investment South Africa	-34.2%	0.1	0.1
Total	*0.3%*	*9.5*	*9.6*

Note: Deflated with Treasury projected CPI for 2019/20. Source: National treasury, Budget Review, 2019, Vote 34, Trade and Industry.

The Jobs Summit and the State of the Nation Address both point to the importance of government measures to promote industrial deepening, economic diversification and broader ownership as the basis for inclusive growth and the creation of decent work. These aims require both direct spending to incentivise innovative producers and indirect support through improved education and training as well as infrastructure, in addition to conducive macroeconomic policies. The shrinkage in fiscal space since the commodity boom ended makes alignment of all government strategies and decisions in support of industrialisation increasingly critical for achieving sustained inclusive growth.

Briefing Note: Unlocking the potential of renewable energy for the public sector and communities

Historically, South Africa's electricity mix has relied heavily on cheap and readily accessible coal, with the country's electricity being provided through Eskom's vertically-integrated model. In 2011, the country opened up space in the electricity generation sector for private sector participation, through the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP). While this policy move introduced renewable energy technologies into South Africa, the approach effectively locked renewable energy in the private sector, excluding Eskom, municipalities and consumers from renewable energy generation. Indeed, the existing policy framework hinders the public sector and consumers from investing in renewable energy-based solutions.

The Draft 2018 Integrated Resource Plan (IRP) for electricity acknowledged that a mix of renewable energy- and gas-based generation would be the least cost pathway for the country. More broadly, energy systems are rapidly evolving the world over by:

- Shifting to renewable energy technologies which are more environmentally-sustainable and now economically cheaper than fossil fuels;
- Building modular and smart systems that are easy to construct, manage and control, allowing generation sources to match demand as closely as possible; and
- Decentralising production by enabling consumers to generate electricity and become prosumers.

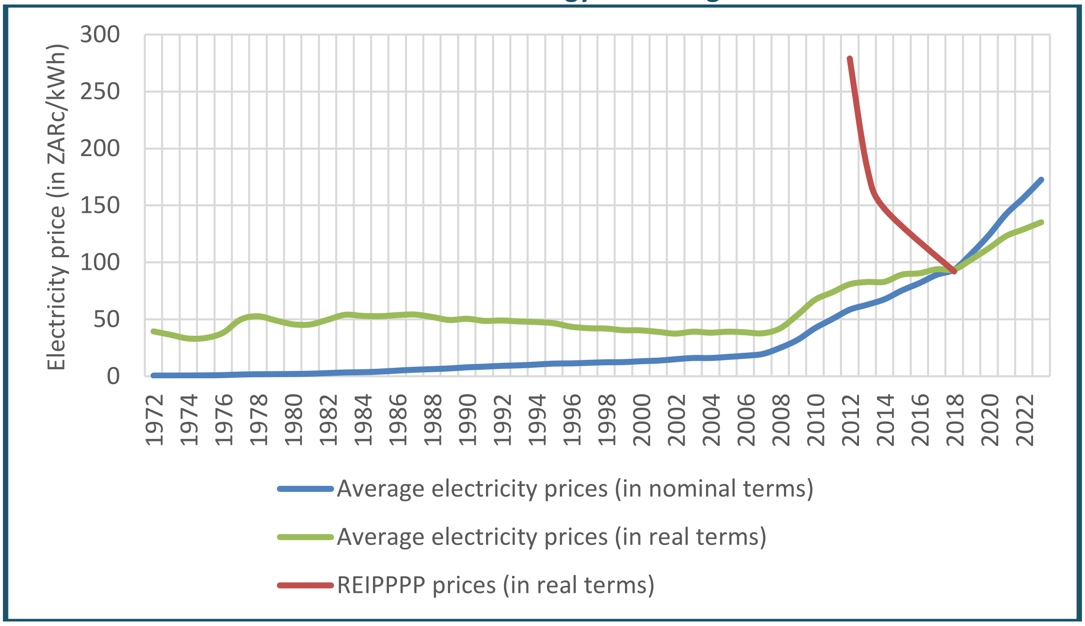
Counterintuitively, South Africa has invested further in coal through the construction of new coal capacity in the form of the Mepudi and Kusile plants. The substantial capital expenditure on these power stations has resulted in a near-quadrupling (in nominal terms) of South Africa's average electricity prices over the 2008-2018 decade and has moved South Africa backwards from a climate policy point of view.

In the meantime, the cost of renewable energy technologies has plummeted. As illustrated in Graph 20, 2018 constituted a turning point with renewable energy technologies reaching R0.92 /kWh, i.e. price parity with the electricity coming from the grid (R0.94/kWh). Renewable energy energies technologies are also much cheaper than the Medupi

(R1.34/kWh) and Kusile (R1.01/kWh) power stations, even without accounting for the negative socio-environmental externalities associated with coal burning.

With additional price increases in the pipeline and prices of renewable energy technologies falling further, the competitive edge of renewable energy technologies is evident. Allowing the national utility to invest in renewable energy technologies would enable the country to harness the benefits of new clean technologies while maintaining financial benefits in the public sphere. By comparison, projects under the REIPPPP are only 48% locally-owned.

Graph 20. South Africa's average electricity price compared to renewable energy technologies

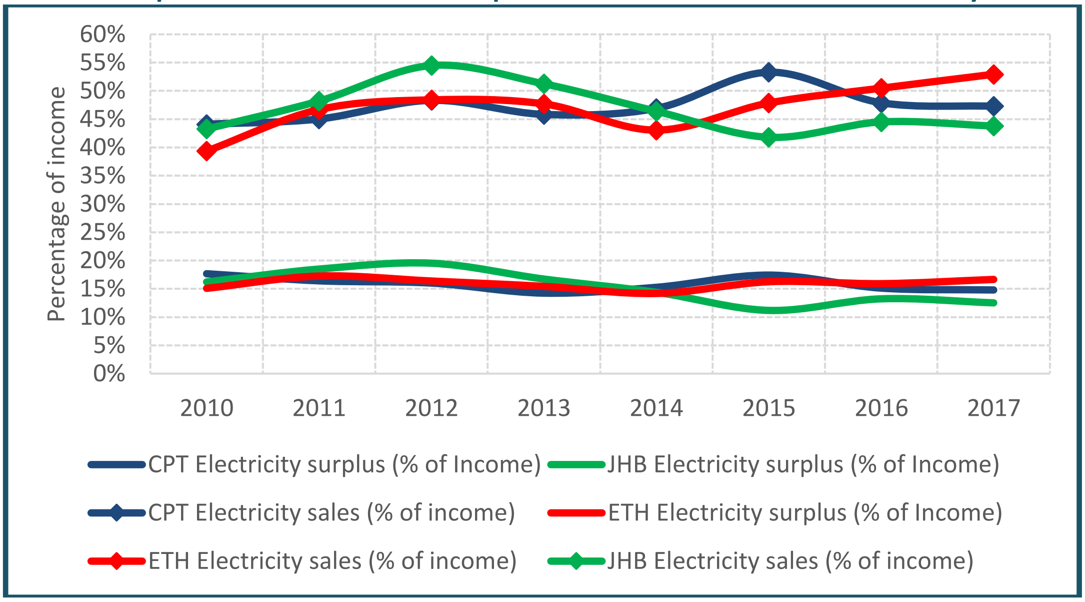


Sources: electricity prices for Eskom, producer price index from Statistics South Africa, REIPPPP prices from the DoE-NT IPP office. Note: real prices in 2018 terms.

Furthermore, the rollout of small-scale embedded generation (SSEG) would bring multiple benefits to the country. SSEG allows consumers to generate (essentially solar-based) electricity for their own consumption as well as feeding excess supply back into the grid. Enabling consumers to turn into prosumers would enable the utility and municipalities to reduce both capital and operational expenditure. As less grid-tied electricity would need to be generated by the utility, less investment in new infrastructure would be required in the long run. In addition, SSEG provides access to cheap and clean electricity. Prosumers can remain responsible for the upfront capital investment, the installation of the smart meters (allowing bidirectional metering), and the maintenance of the systems and the network charges, while Eskom and municipalities have significant liberty to determine the tariff at which they are prepared to buy the electricity from small-scale embedded generators.

The financial benefits are particularly evident for municipalities. In 2018/19, municipalities buy electricity from Eskom at an average tariff of R0.93/kWh, which they resell at a margin. As shown in Graph 21 this operation is a material part of municipal finances. Electricity sales accounted for 44% of municipal revenues on average in 2017, while the gross margin from electricity sales still constituted 11% of municipalities' incomes in that year. Despite potentially decreasing sales, renewable energy technologies would provide municipalities with a source of extremely cheap electricity, in turn having a positive impact on the margin and revenues. Multiple avenues exist for municipalities of the future, from procuring electricity from SSEG to entering the energy services space.

Graph 21: South African municipalities' share of income from electricity



Note: JHB = Johannesburg; CPT = Cape Town; ETH = eThekwini. Source: Statistics South Africa, Financial Census of Municipalities, downloaded from Quantec in February 2019.

Renewable energy technologies have multiple benefits. These benefits have so far been directed to the private sector. A just and truly sustainable transition requires that the public sector and communities are enabled to enter the renewable energy field.