

# THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

PROVINCIAL REVIEW 2016

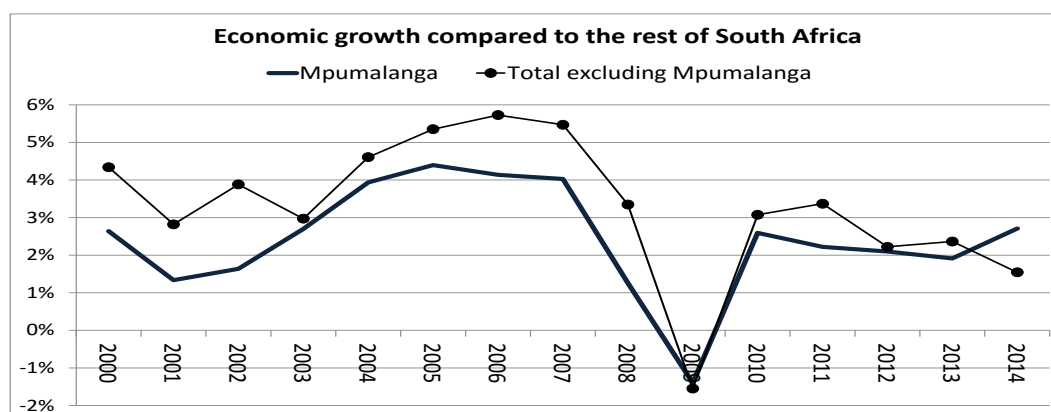
## Provincial Review 2016: Mpumalanga

Mpumalanga's economy is dominated by mining, mostly coal for the Eskom power plants that are also located in the province. As a result, it benefited from the commodity boom that lasted from 2003 and 2011, and has experienced much slower growth since it ended. Mpumalanga also has extensive heavy industry, which forms part of the long-standing Highveld complex, and a strong commercial agricultural sector. These industries have driven its growth since 2011. The strength of Mpumalanga's major sectors has meant the province has been mainly at, or above, the national average for employment levels and pay. Still, two fifths of the population – substantially more than the national average – live in former homeland regions, where infrastructure, employment and incomes lag behind national norms.

### The real economy in Mpumalanga

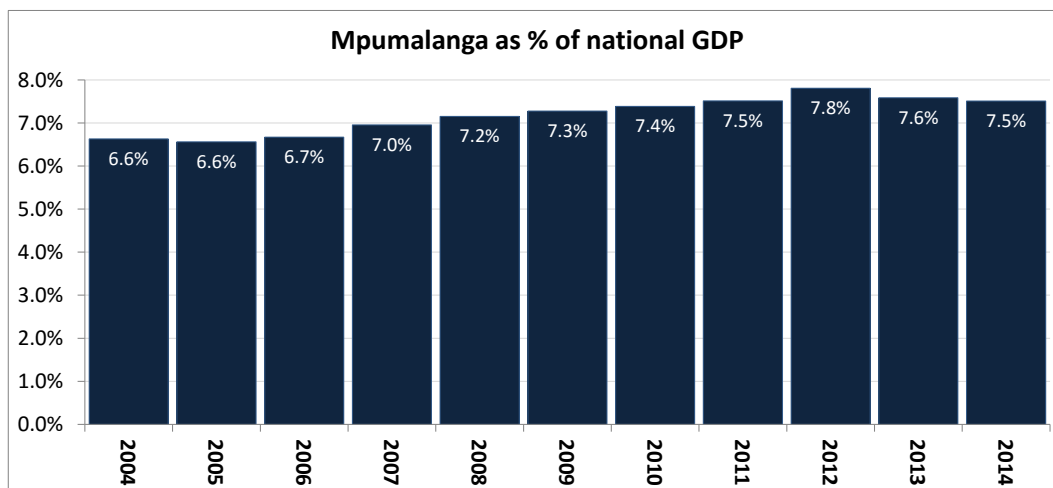
While Mpumalanga, with 4,3 million residents, accounted for 8% of South Africa's population in 2014/5, it contributed 7% of the GDP. In 2014 – the latest available data – the real economy (represented by agriculture, mining, manufacturing and construction) made up 40% of Mpumalanga's output. The real-economy sector was dominated by mining, at 22% of the provincial economy, followed by manufacturing at 12%, construction at 3%, and agriculture at 3%. Mpumalanga contributed 22% of national mining, 8% of national manufacturing, 9% of agriculture and 6% of construction.

The rapid increase in mining prices compared to other products during the commodity boom, and their subsequent sharp decline, makes it more difficult to assess GDP growth at provincial level. Looking only at the volume of production understates the benefits for mining-dependent provinces during the boom as well as the slowdown afterwards, and exaggerates the relative performance of provinces without much mining activity. The following chart shows growth in Mpumalanga using standard figures that show only the volume of production, effectively ignoring the impact of changes in prices on the purchasing power of the province. By this measure, Mpumalanga mostly lagged national economic growth, especially during the commodity boom.



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

In contrast, as a share of the national GDP, which uses current values of output, Mpumalanga's fortunes more closely tracked the commodity boom. Overall, Mpumalanga's share in the national economy (in current rand) increased from 6,6% in 2004 to a high of 7,8% in 2012 – a year after metals prices began to fall - then declined to 7,5% in 2014.



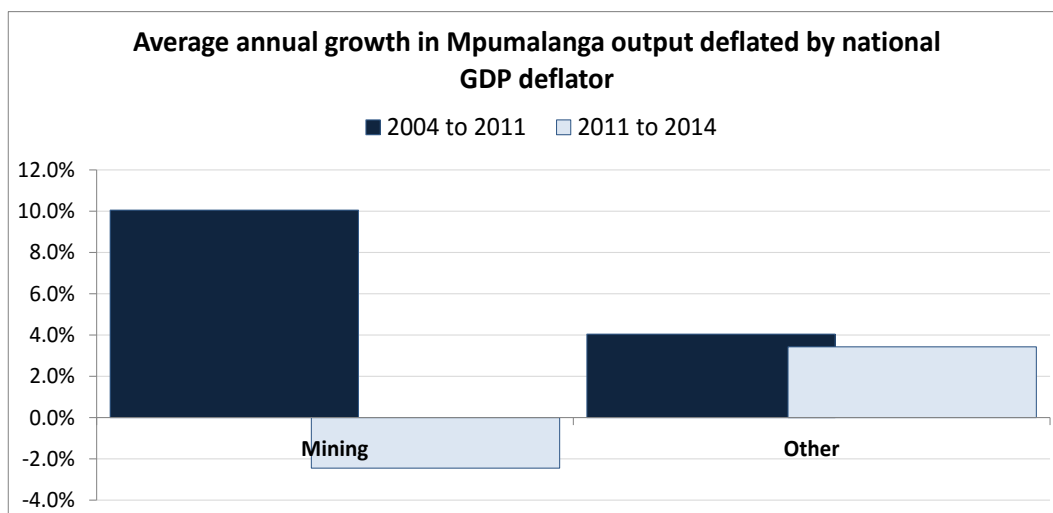
Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

A similar paradox emerges from the figures for growth by sector over the past decade. In volume terms, as the following chart shows, mining output in Mpumalanga fell during the commodity boom. In terms of volume, the fastest-growing sector was construction, which benefited from major national infrastructure projects around transport and energy in the province. Manufacturing performed well compared to most provinces, with growth at over 3% a year during the boom, and almost 2% from 2011 to 2014.



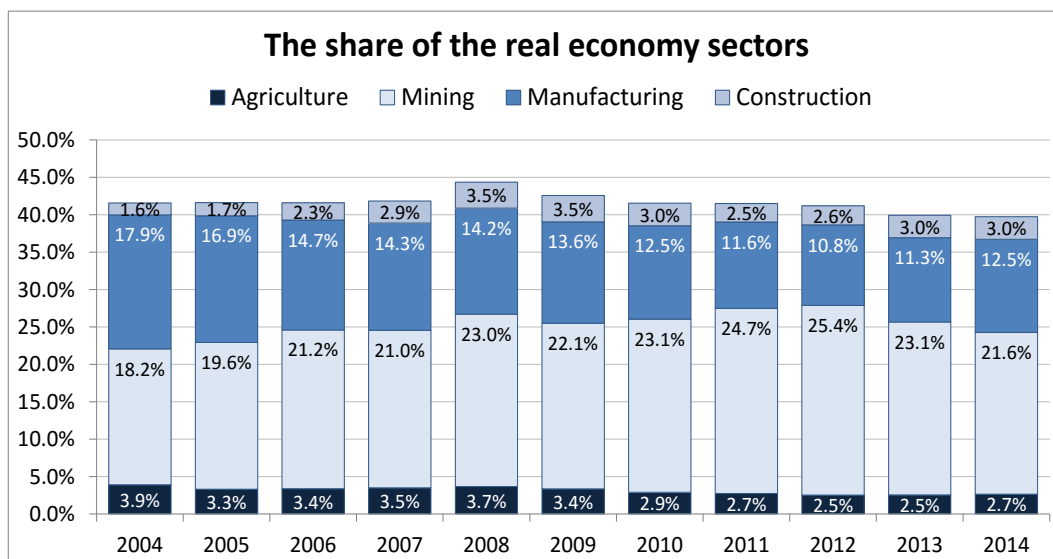
Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

The impact of higher metals prices on mining becomes clear if we compare the change in mining output deflated by the GDP deflator with the figures for growth in the volume of production. As the following chart shows, by this measure mining production climbed 10% a year from 2004 to 2011, but then fell 2,4% a year through 2014. In purchasing power, as measured by the deflated rand value of production, mining growth far outstripped the rest of the Mpumalanga economy during the commodity boom.



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

The importance of mining for Limpopo emerged from its dominant share in the provincial economy. During the commodity boom, its contribution climbed from 18% in 2004 to 25% in 2011 and 2012. It then fell back to 22% in 2014 as coal prices collapsed.

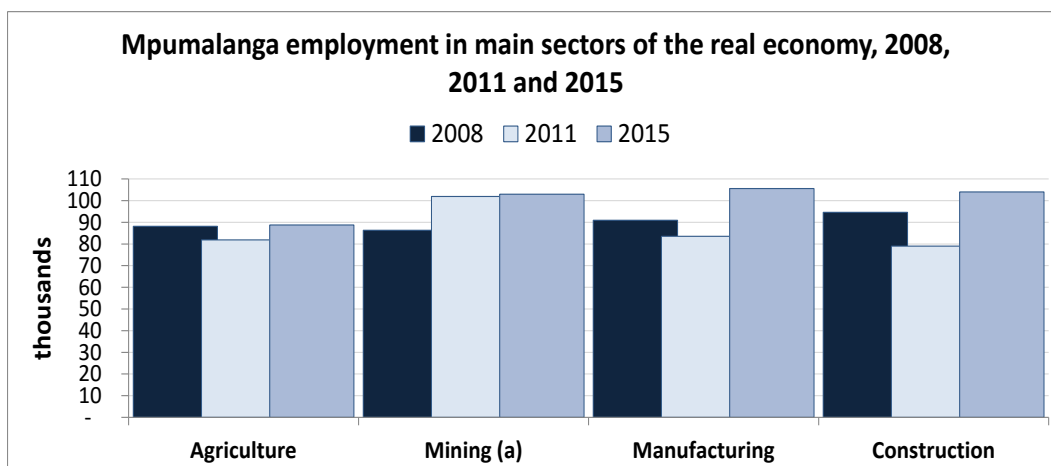


Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

The employment data shed further light on the structure of the Mpumalanga economy. Of employed people in the real economy in Mpumalanga in 2015:

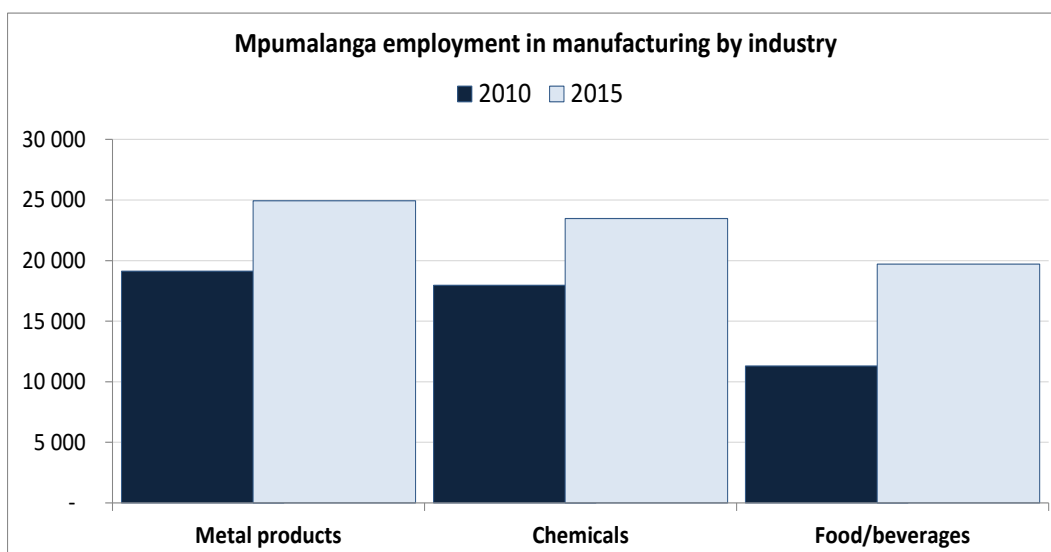
- 106 000 were in manufacturing
- 104 000 were in construction
- 103 000 were in mining (in 2014)
- 89 000 were in agriculture

The following chart shows the change in employment by major sector in the real economy from 2008 to 2015. It suggests that all the main sectors of the Mpumalanga economy saw employment gains from 2011 to 2015.



Notes: (a) 2014. Source: Except for mining, Statistics South Africa, QLFS Trends 2008-2016. Excel spreadsheet. Average of four quarters for the year. For mining, Department of Mineral Resources. B1 Statistical Tables. Excel spreadsheet.

Mpumalanga accounted for 6% of South African manufacturing employment. The top five manufacturing industries in Mpumalanga, in terms of employment, were basic iron and steel plus metal products; chemicals and plastic; food and beverages; glass and non metallic minerals; and clothing, textiles and footwear. The province accounted for 9% of employment in basic iron and steel and metal products, its largest manufacturing industry. Its manufacturing was closely integrated into the Gauteng industrial sector.



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.

Coal dominated mining employment in Mpumalanga, producing mainly to supply Eskom as well as for export. Generally, gold mining saw job losses during the commodity boom, while platinum mining, coal and iron ore created employment. According to Department of Mineral Resources data, which is more reliable for mining, total mining employment in Mpumalanga climbed from 53 500 in 2003 to 102 000 in 2011, while sales rose from 22% of the national total to 26%. From 2011 to 2014, the number of Mpumalanga miners increased slightly to 103 000, while sales rose further, reaching 29% of the national total.

Major private projects announced for the real economy of Mpumalanga over the past three years included the following.

### Large recent private real-economy projects in Mpumalanga

Sector	Project Name	Company	Value
Construction	York Timbers Biomass Plant Project	York Timbers	R1, 4 billion
Mining	Tweedraai Coal Project	Sasol Mining	R1, 4 billion
Mining	Shondoni Coal Project	Sasol Mining	R3, 09 billion
Mining	Impumelelo Replacement Coal Project	Sasol	R4, 6 billion
Mining	Exxaro	Belfast Coal Project	R3, 8 billion

### Employment and unemployment

Mpumalanga has average levels of joblessness for South Africa, with 43% of the working-age population employed in 2015, compared to the national figure of over 40%. The international norm is around 60%. The share of working-age people with employment had risen from 39% in 2010, when employment hit a low point following the 2008/2009 global financial crisis.

Wages in Mpumalanga were somewhat higher than in most other provinces, with the exception of Gauteng and the Western Cape. In 2014, the median formal wage in the province was R4 200 and the median wage for domestic, informal and agricultural workers was R1 800. That compared to R4 000 nationally for formal workers, and R1 500 for other employees. Some 67% of total employment in the province was in the formal sector, compared to the national average of 69%.

Relatively high employment levels and pay help explain a fairly high degree of in-migration into Mpumalanga. Its population grew 37% from 1996 to 2015, compared to a national average of 35%.

### The Mpumalanga economy and the national spatial economy

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

Mpumalanga has:

- A relatively high share of former so-called “homeland” areas within its borders. In 2015, 49% of the population lived in former “homeland” regions, compared to 27% for the country as a whole.
- No metro areas, but four secondary cities out of a total of 21 municipalities. Secondary cities account for 32% 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 7% compared to 20% nationally.

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. In Mpumalanga, however, these backlogs were offset both by strong mining and agriculture, and by relatively advanced industrialisation in the Western parts of the province. As a result, despite the relatively large share of former “homeland”

regions, the province's level of economic inclusion and social development largely mirrored the national average, as the following indicators suggest.

- The 2015 General Household Survey found that the median household income in Mpumalanga was R3400 a month, compared to R3260 nationally. In the former "homeland" regions in Mpumalanga it was R2700 a month, compared to R4700 in the rest of the province.
- In 2015, some 32% of working-age people in the former "homeland" regions were employed, compared to 46% in the rest of Mpumalanga. That means that employment was higher than the national average for each category of region.
- According to Census data, the population in the former so-called "homeland" regions in Mpumalanga increased by 14% from 1996 to 2011, while the rest of the province saw population growth of 49%.
- In 2015, matric degrees were held by 29% of the province's working-age population aged over 20, but only by 24% in the former "homeland" regions. For the country as a whole, the figure was 29%. The share of adults in Mpumalanga with matric had climbed from 14% in 1996. Only 10% of Mpumalanga's adult population had a degree, however, while the national average was 13%.
- Despite the relatively strong economy, Mpumalanga struggled with the backlogs in household services left by apartheid. In 2014, 69% of households in Mpumalanga had running water in their houses or yards, compared to 58% in 1996. Some 88% had electricity, up from 51% in 1996. Nationally, 73% of households had running water and 85% electricity.
- Municipal expenditure per person in Mpumalanga came to only R3800 in 2015/6, compared to R5900 nationally. The metros and secondary cities, with 32% of the population, raised 68% of all municipal rates and tariffs in the province. They only received 28% of current and 36% of capital transfers and subsidies, mostly from the national government. Still, they spent R5000 per person, compared to R3100 per person in the other municipalities in Mpumalanga.

### **Economic policy initiatives**

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

- In terms of Department of Trade and Industry (the dti) support, from 2013/2014 to 2014/2015, a total of 19 projects were approved under the Manufacturing Competitiveness Enhancement Programme (MCEP) in Mpumalanga, for a total value of R75 million. A further 16 projects were approved under the Manufacturing Investment Programme (MIP), with a value of R156 million.
- Mpumalanga planned a Special Economic Zone at Nkomazi as a general logistics hubs.
- The Industrial Development Corporation invested 4.3% of its total spending in Mpumalanga.
- While national industrial initiatives in Mpumalanga seemed limited, the province benefited from major logistics, water and electricity infrastructure projects. These

large investments, which were planned at the height of the commodity boom, aimed to support Eskom's new electricity plants, especially by facilitating access to coal and water. These projects may be negatively affected by the end of the commodity boom and the consequent reduction in mining demand for electricity, water and freight transport. The following table summarises the major projects that were included in the 2016/7 national Budget Review. In addition, the province should benefit from investments in hospitals, clinics, schools and colleges, as well as the roll out of broadband to poor communities.

**Major infrastructure projects planned for Mpumalanga as of 2016/7**

<b>Project name</b>	<b>Agent</b>	<b>R bn</b>	<b>Project description</b>
Kusile power station	Eskom	161	4764MW coal plant to come on line in 2018
Coal freight line expansion	Transnet	18	Upgrade coal lines from Mpumalanga to coast and to electricity plants
Swaziland rail link (concept phase)	Transnet	19	New and upgraded rail to Swaziland
De Hoop regional bulk water (feasibility)	Municipality	4	Link communities in Sekhukhuniland with De Hoop Dam

Mpumalanga itself undertook comparatively high levels of infrastructure investment. In 2015/2016, the provincial budget set aside R3,1 billion, or 10,8% 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 R1.3 billion, or 4.4% of Mpumalanga's 2015/6 budget. The provinces as a whole expected to provide R18 billion in housing subsidies, or 5% of their spending.

The Mpumalanga budget totalled R29 billion in 2015/2016. Per person, the province spent R6 700, compared to an average for all the provincial budgets of R7 000. In constant 2015 rand (deflated by CPI), the budget had risen by 2,1% from 2014/2015. From 2011/2012, it had climbed 8,7%.

Some 93% of Mpumalanga's budget went for education and health. That compared to 90% for provincial budgets as a whole.

The economic departments in the provincial government in 2015 were Economic Development and Tourism, and Agriculture, Rural Development, Land and Environmental Affairs. In 2015/2016, their combined budgets came to around R1,8 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.