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# THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

PROVINCIAL REVIEW 2016

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## Provincial Review 2016: North West

The North West economy depends heavily on platinum mining, with limited manufacturing, agriculture and construction. As a result, over the past 20 years, its fortunes mainly tracked commodity prices, with a boom from 2003 to 2011 and a sharp slowdown from 2011 to 2014. But manufacturing in the province did not develop to support the platinum mines, which instead remained dependent on inputs from Gauteng and abroad.

Wages in the formal sector in the North West were high by national standards, in part because mining paid more than most other industries. But a relatively large share of the population lived in former “homeland” regions, where employment was low. As a result, employment levels were comparatively low and median incomes in the province lagged national levels. There was significant internal migration to the platinum belt especially during the commodity boom.

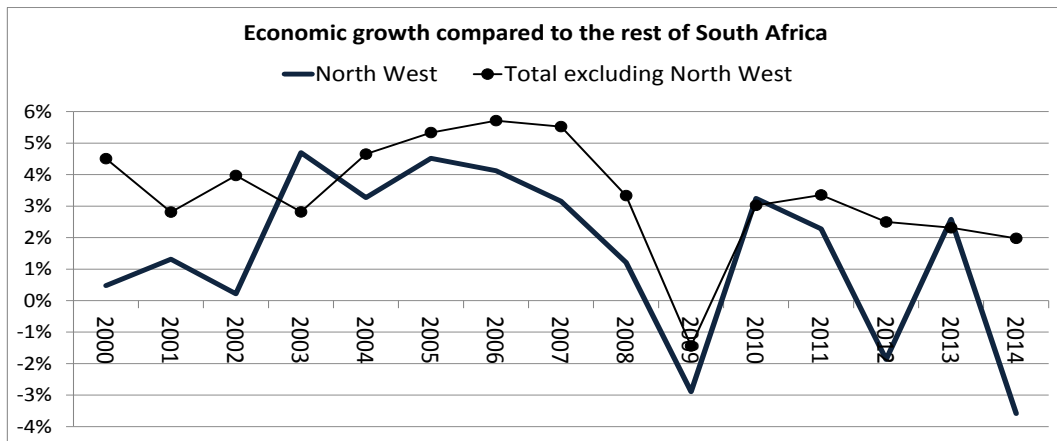
### The real economy in the North West

The North West, with 3,7 million residents, accounted for 7% of South Africa’s population in 2014/2015, and contributed the same proportion of the GDP. In 2014 – the latest available data – the real economy (represented by agriculture, mining, manufacturing and construction) made up 39% of its output.

The economy was dominated by mining, at 30% of the provincial economy, followed by manufacturing at 5%, agriculture at 2%, and construction at 2%. The North West contributed 26% of national mining and 7% of national agriculture, but only 3% of manufacturing and 4% of construction.

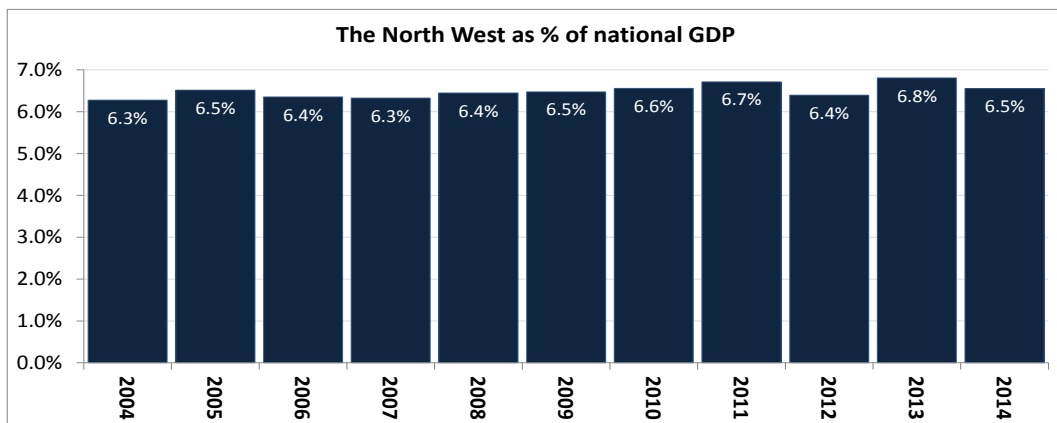
The rapid increase in mining prices compared to other products during the commodity boom, and their subsequent sharp decline, makes it more difficult to assess GDP growth at provincial level. Looking only at the volume of production understates the benefits for mining-dependent provinces during the boom as well as the slowdown afterwards, and exaggerates the relative performance of provinces that do not have much mining activity.

The following chart shows growth in the North West 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, the North West mostly lagged national economic growth, especially during the commodity boom. In 2012, its growth dipped sharply as a result of the prolonged strike on the platinum mines.



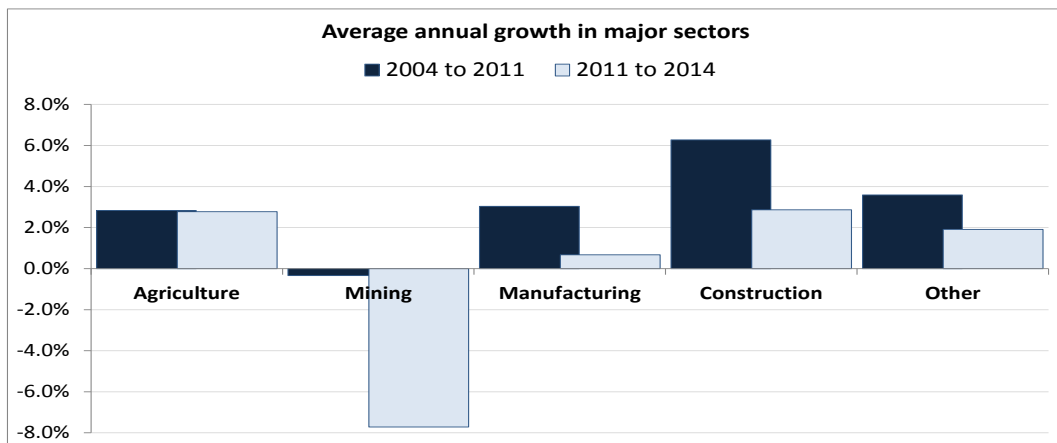
Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

In contrast, as a share of the national GDP, which uses current values of output, the North West's output climbed steadily during the commodity boom from 2004 to 2011, then saw some decline as platinum prices fell.



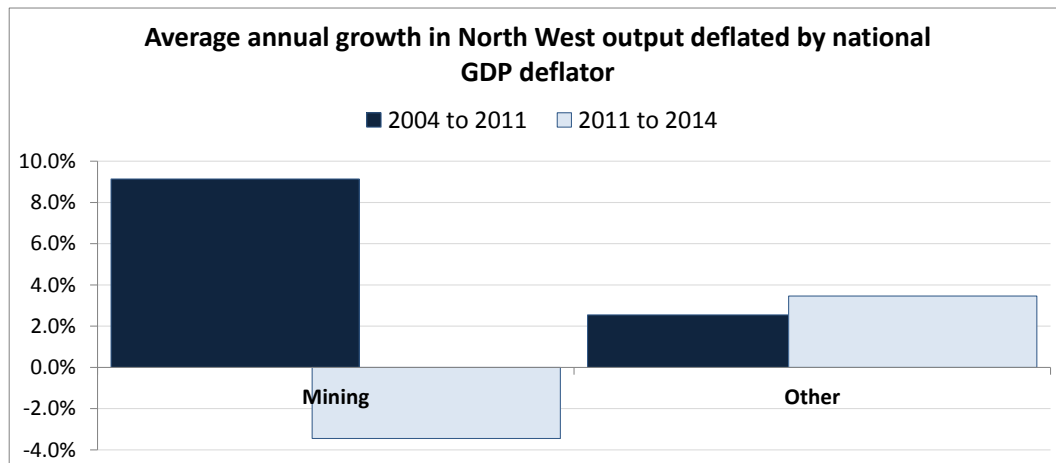
Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

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 the North West reportedly declined during the commodity boom. In terms of volume, the fastest-growing sector was construction. Manufacturing performed reasonably well during the commodity boom, but grew by only 0,7% a year from 2011 to 2014.



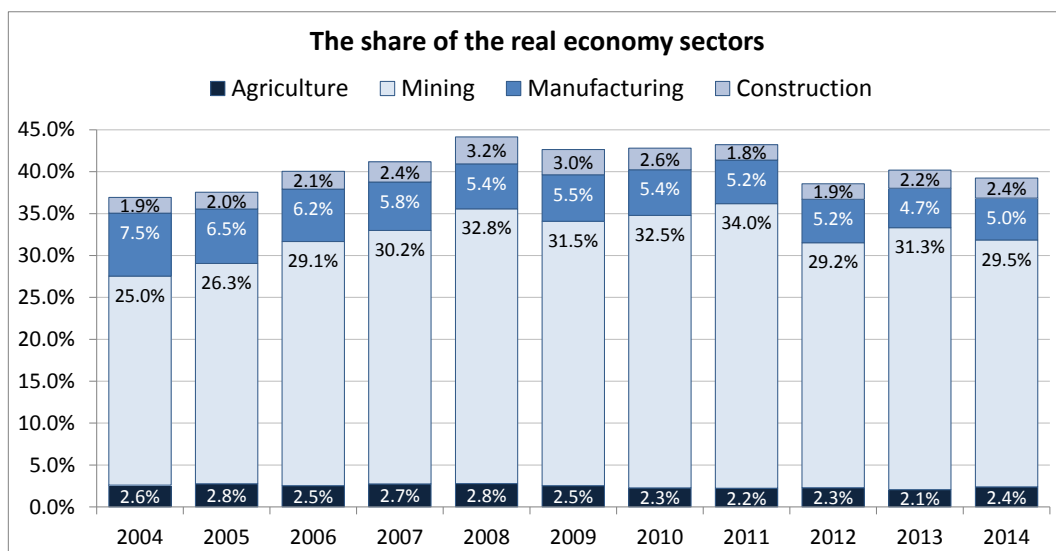
Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

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 9% a year from 2004 to 2011, but then fell 3,5% a year through 2014. In purchasing power, as measured by the deflated rand value of production, mining growth far outstripped the rest of the North West economy during the commodity boom.



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

The importance of mining for the North West emerged from its dominant share in the provincial economy. During the commodity boom, its contribution climbed from 25% in 2004 to 35% in 2011. It then fell back to 30% in 2014 as metal 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 economy in the North West.

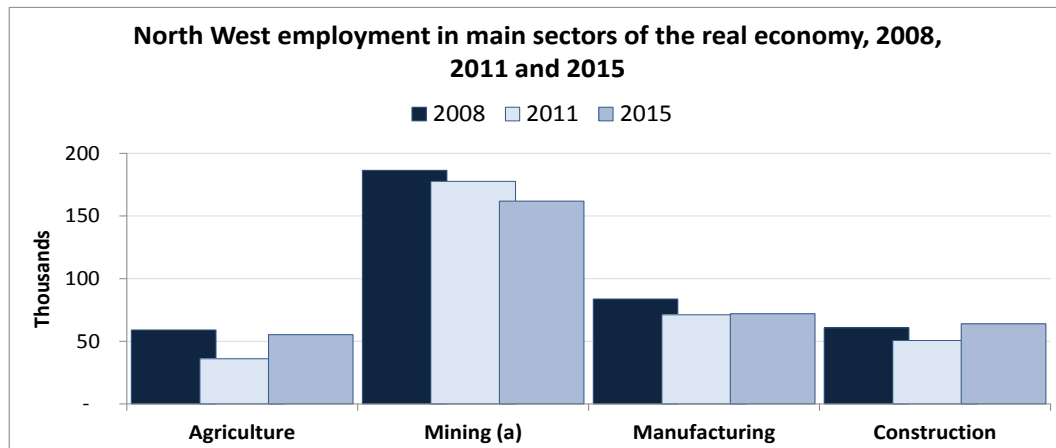
In 2015 (using the average for year of the Quarterly Labour Force Survey - QLFS), the province accounted for 6% of total employment in South Africa. Some 348 000 people were employed in the real economy sectors, which contributed 37% of total provincial employment.

Of employed people in the real economy in the North West in 2015:

- 162 000 were in mining (in 2014)
- 72 000 were in manufacturing
- 64 000 were in construction
- 55 000 were in agriculture

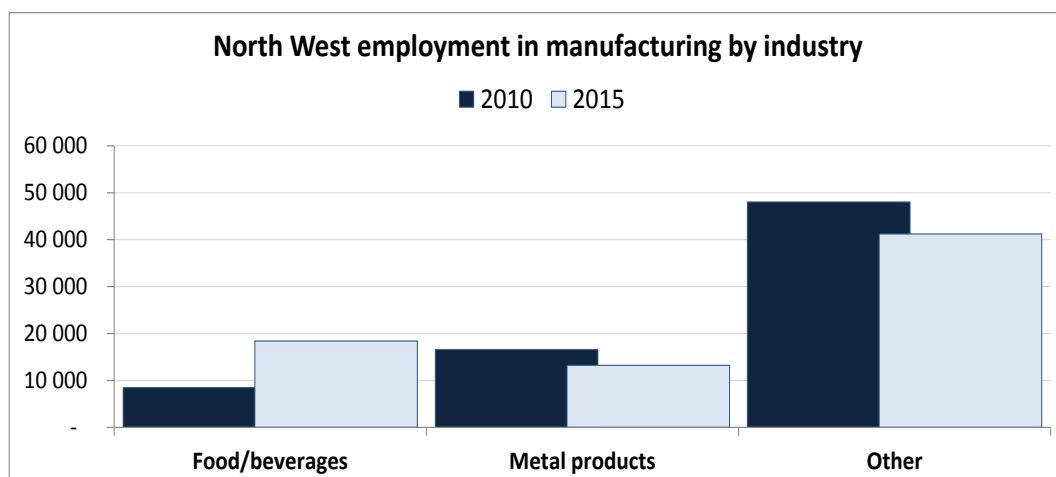
The North West was the only province where mining was the largest employment sector.

The following chart shows the change in employment by major sector in the real economy from 2008 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.

The North West accounted for 4% of South African manufacturing employment in 2015. The top five manufacturing industries in the province, in terms of employment, was food and beverages. The province accounted for 5% of national employment in that industry. Notably, the main manufacturing industry in the province was not linked to its rich mining sector, which instead depended mainly on inputs from Gauteng and abroad.



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.

Platinum dominated mining employment in the North West. 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 the North West climbed from 139 000 in 2003 to 177 500 in 2011, even though its sales declined from 31% of the national total to 22%, mostly because prices of iron ore and coal outstripped platinum during the boom. From 2011 to 2014, the number of the North West miners declined to 162 000, while sales slumped to 16% of the national total.

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

#### **Large recent private real-economy projects in the North West**

<b>Sector</b>	<b>Project Name</b>	<b>Company</b>	<b>Value</b>
Construction	Sun City Refurbishment Project	Sun International	R1,1 billion
Mining	Maseve Platinum Mine	Maseve Investments 11	\$514 million
Manufacturing/ Mining	Sephaku Cement Holdings	Sephaku Cement	R3,3 billion
Mining	Styldrift 1 Expansion Project	Royal Bafokeng Platinum (67%) with AAC	R11 billion

### **Employment and unemployment**

The North West has relatively high levels of joblessness with 39% of the working-age population employed in 2015, compared to a national average of over 40%. The international norm is around 60%. The share of working-age people with employment had risen from 37% in 2010, when employment hit a low point following the 2008/2009 global financial crisis.

In the North West, 77% of total employment was in the formal sector, compared to the national average of 69%. In 2014, the median formal wage was R4 500 and the median wage for domestic, informal and agricultural workers was R1 500. That compared to R4 000 nationally for formal workers, and R1 500 for other employees. Formal wages were relatively high because the dominant industries were mining and the public service, both of which paid well compared to the rest of formal employment.

The growth of mining meant the North West attracted substantial in-migration, even though many people also left poorer regions for Gauteng. The province's population grew 36% from 1996 to 2015, compared to a national average of 35%.

### **The North West 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 North West has:

- A relatively high share of former so-called "homeland" areas within its borders. In 2015, 47% of the population lived in former "homeland" regions, compared to 27% for the country as a whole.

- No metro areas and four secondary cities, out of a total of 23 municipalities. Secondary cities housed 40% of the province's population. That was the same as the share of the national population living in metro areas and secondary cities.
- A relatively small share of non-Africans in the total population, at 8% 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 mainly deprived of infrastructure and government services.

Some indicators of the implications for the North West are:

- The 2015 General Household Survey found that the median household income was R2 800 a month, compared to R3 260 nationally. In the former "homeland" regions in the North West it was R2 520 a month, but in the rest of the province it was R3 500. In other words, the median income in the province was low because of a disproportionately large share of former "homeland" areas, with low employment and pay, despite relatively high wages for the formally employed.
- In 2015, only 25% of working-age people in the former "homeland" regions were employed, compared to 42% in the rest of the North West.
- According to Census data, the population in the former so-called "homeland" regions in the North West increased by 15% from 1996 to 2011, while the rest of the province saw population growth of 44%. This trend underscored the impact of large-scale migration from both inside and outside the province to the platinum towns of Rustenburg and Madibeng during the commodity boom.
- In 2015, matric degrees were held by 25% of the province's working-age population aged over 20, but only by 23% in the former "homeland" regions. For the country as a whole, the figure was 29%. The share of adults in the North West with matric had climbed from 12% in 1996. Only 8% of the North West's adult population had a degree, compared to 13% nationally.
- The 2015 General Household Survey found that 63% of households in the North West had running water in their houses or yards, compared to 51% in 1996. Some 84% had electricity, up from 43% in 1996. Nationally, 73% of households had running water and 85% electricity.
- Municipal expenditure per person in the North West came to R4 200 in 2015/2016, compared to R5 900 nationally. But the secondary cities spent R5 700 per person compared to R3 100 per person in the other municipalities in the North West. They had 40% of the population but raised 78% of all municipal rates and tariffs in the province. They also received 34% of current and 40% of capital transfers and subsidies, mostly from the national government.

## Economic policy initiatives

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

- In terms of Department of Trade and Industry (the dti) support, from 2013/2014 to 2014/2015, a total of 10 projects were approved under the Manufacturing Competitiveness Enhancement Programme (MCEP) in the North West, for a total value of R46 million. A further 13 projects were approved under the Manufacturing Investment Programme (MIP), with a value of R57 million.
- The North West also planned a Special Economic Zone that would focus on platinum group metals.
- The Industrial Development Corporation (IDC) invested 0.8% of its total spending in the North West.

In 2015/2016, the provincial budget set aside R3 billion, or 12.4% 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 R2,1 billion, or 8,5% of the North West's 2015/2016 budget. The provinces as a whole expected to provide R18 billion in housing subsidies, or 5% of their spending.

The North West budget totalled R24 billion in 2015/2016. Per person, the province spent R6 600, compared to an average for all the provincial budgets of R7 000. In constant 2015 rand (deflated by CPI), the budget had risen by 1,4% from 2014/2015. From 2011/2012, it had climbed 12,9%.

Some 92% of the North West'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 Economy and Enterprise Development, Tourism, and Rural, Environment and Agricultural Development. In 2015/2016, their combined budgets came to around R1,5 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.