
THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

PROVINCIAL REVIEW 2016

Provincial Review 2016: Northern Cape

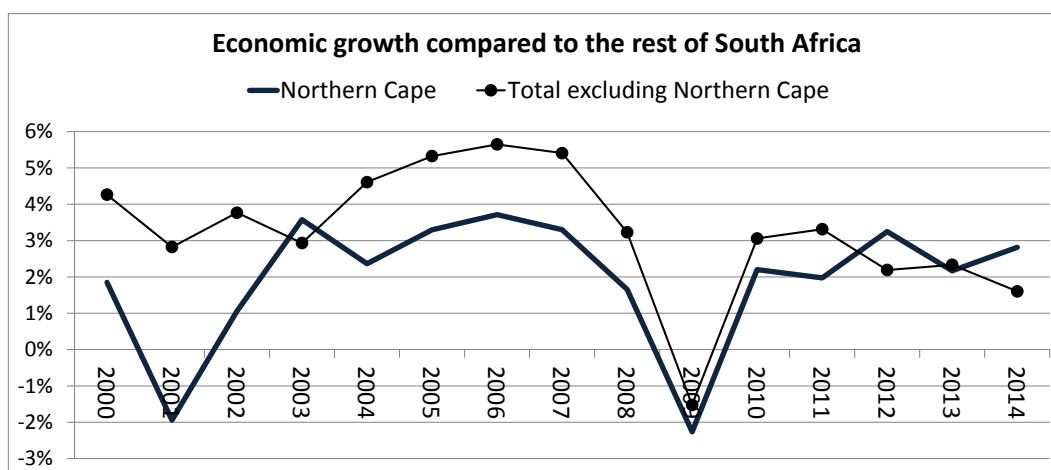
The Northern Cape has by far the smallest population and economy of any of the provinces. Its real economy has been dominated by iron ore and ferro alloys, with the mines linked to the coast by significant investments in rail transport. As a result, its economy has been closely linked to the price of iron ore, with rapid growth during the commodity boom and a significant slowdown since then. The province has seen significant out-migration over the past 20 years.

The real economy in the Northern Cape

The Northern Cape, with 1,2 million residents, accounted for only 2% of South Africa's population in 2014/2015, and contributed a similar share of the GDP. In 2014 – the latest available data – the real economy (represented by agriculture, mining, manufacturing and construction) made up 34% of the Northern Cape's output. The largest real-economy sector was mining, at 22% of the provincial economy, followed by agriculture at 7%, manufacturing at 3%, and construction at 2%. The Northern Cape contributed 6% of national mining, 0,5% of national manufacturing and 7% of national agriculture, but just 1% of construction.

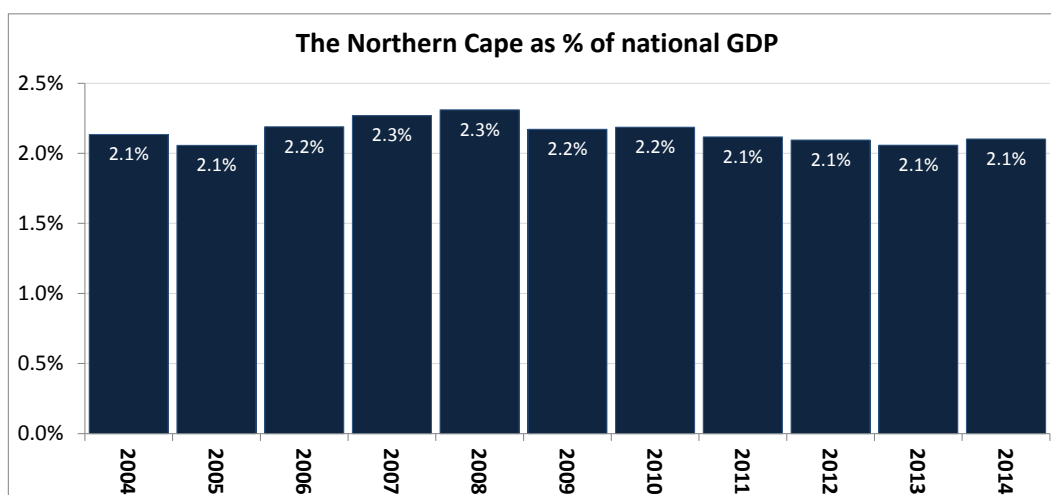
The rapid increase in mining prices compared to other products during the commodity boom, and their subsequent sharp decline, makes it more difficult to assess GDP growth at provincial level. Looking only at the volume of production understates the benefits for mining-dependent provinces during the boom 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 Northern Cape 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 Northern Cape mostly lagged national economic growth, especially during the commodity boom.



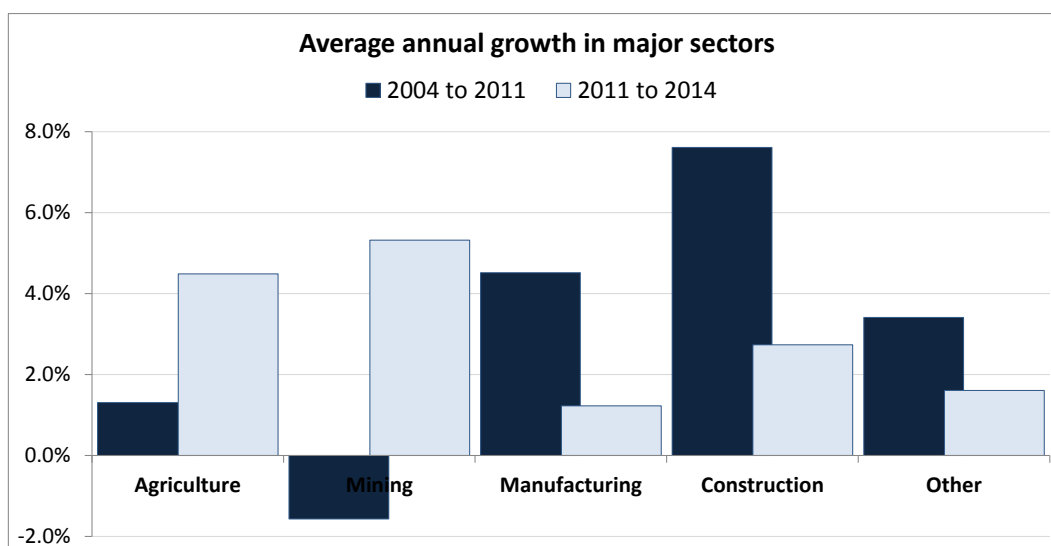
Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

In contrast, as a share of the national GDP, which uses current values of output, the Northern Cape's output climbed through 2008, then stabilised at 2,1%.



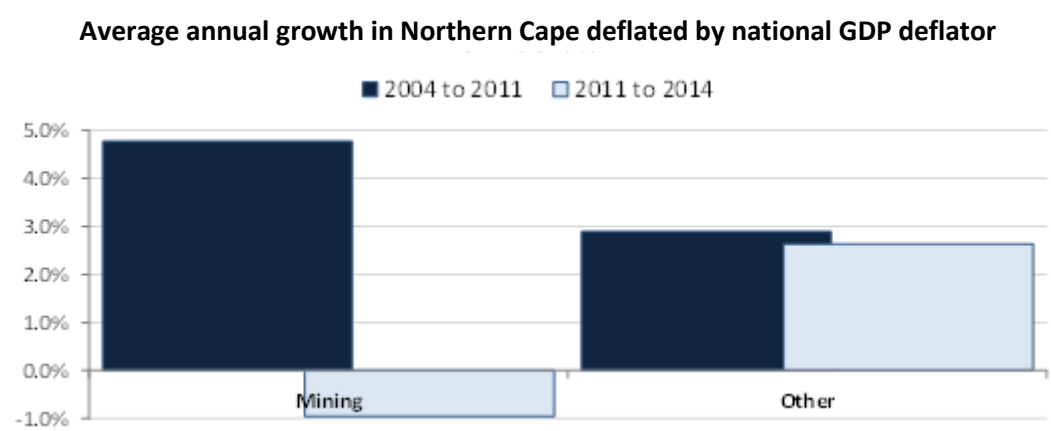
Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

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 Northern Cape 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.



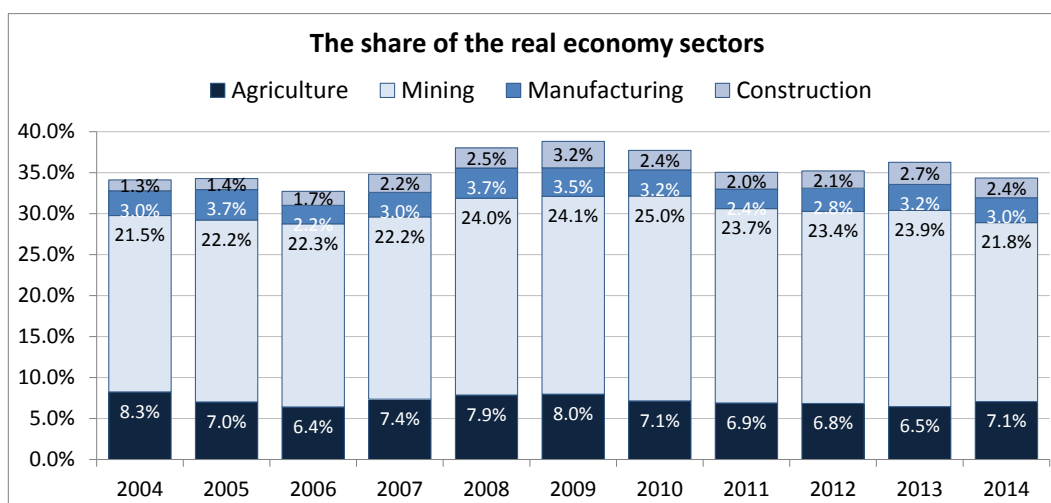
Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

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 in the Northern Cape climbed almost 5% a year from 2004 to 2011, but then fell 1% a year through 2014. In terms of purchasing power, as measured by the deflated rand value of production, mining growth far outstripped the rest of the Northern Cape's 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 Northern Cape emerged from its dominant share in the provincial economy. During the commodity boom, its contribution climbed from 21,5% in 2004 to 25% in 2010. It then fell back to 22% in 2014 as iron ore 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 Northern Cape.

In 2015 (using the average for year of the QLFS), the province accounted for 2% of total employment in South Africa. Some 102 500 people were employed in the real economy sectors, which contributed 33% of total provincial employment.

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

- 39 500 were in mining (in 2014)
- 36 000 were in agriculture
- 29 000 were in construction
- 11 000 were in manufacturing.

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 Northern Cape accounted for 1% of South African manufacturing employment. The top manufacturing industry in the province for employment was food and beverages. But the province accounted for only 1% of employment in that industry.

Iron ore and ferro alloys dominated mining employment in the province. 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 province climbed from 22 000 in 2003 to 35 500 in 2011, while sales climbed sharply from 8% of the national total to 20%, mostly because iron ore prices multiplied more than tenfold. From 2011 to 2014, the number of Northern Cape miners increased to 39 500, while sales dropped to 19% of the national total as iron prices fell by almost 25%.

The major private projects announced for the real economy of the Northern Cape in the past three years have been in mining, including in rare earths, zinc and diamonds. The province has seen large public infrastructure projects (see policy initiatives section).

Employment and unemployment

Employment in the province is close to the national average, with 40% of the working-age population employed in 2015, compared to a national average of over 40%. The international norm is around 60%. Working-age people with employment had risen from 39% in 2010, when employment hit a low following the 2008/ 2009 global financial crisis. Sixty-four percent of total employment was in the formal sector, compared to the national average of 69%. In 2014, the median formal wage was R2 600 and the median wage for domestic, informal and agricultural workers was R1 400, compared to R4 000 nationally for formal workers, and R1 500 for other employees.

The Northern Cape has seen significant out-migration, in part due to low pay and limited employment opportunities outside of mining. Its population grew 17% from 1996 to 2015, compared to a national average of 35%.

The Northern Cape 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 Northern Cape has:

- A relatively low share of former “homeland” areas within its borders. In 2015, 21% of the population lived in former “homeland” regions, compared to 27% for the country as a whole.
- No metro areas and one secondary city (Sol Plaatje, which includes Kimberley) out of 32 municipalities. Sol Plaatje accounts for 20% of the province’s population. That compared to 40% of the national population living in metro areas and secondary cities.
- A relatively large share of non-Africans in the total population, at 47% 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 Northern Cape are:

- The 2015 General Household Survey found that the median household income was R3 460 a month, compared to a national median of R3 260. In the former “homeland” regions it was R2 260 a month, compared to R3 900 in the rest of the province.

- In 2015, only 21% of working-age people in the former “homeland” regions were employed, compared to 40% in the rest of the Northern Cape.
- According to Census data, the population in the former “homeland” regions in the Northern Cape increased by 2% from 1996 to 2011, while the rest of the province saw population growth of 16% - still well below the national average growth.
- In 2015, matric degrees were held by 26% of the province's working-age population aged over 20, but only by 21% in the former “homeland” regions. For the country as a whole, the figure was 29%. The share of adults in the Northern Cape with matric had climbed from 11% in 1996. Only 9% of the Northern Cape’s adult population had a degree, compared to 13% nationally.
- The 2015 General Household Survey found that 77% of households in the Northern Cape had running water in their houses or yards, compared to 73% in 1996. Some 92% had electricity, up from 64% in 1996. Nationally, 73% of households had running water and 85% electricity.
- Municipal expenditure per person in the Northern Cape came to R5 500 in 2015/2016, compared to R5 900 nationally. The lone secondary city, with 20% of the population, raised 36% of all municipal rates and tariffs in the province. It only received 10% of current and 8% of capital transfers and subsidies, mostly from the national government. Still, it spent R7 000 per person compared to R5 100 per person in the other municipalities in the Northern Cape.

Economic policy initiatives

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

- In terms of Department of Trade and Industry (the dti) support, from 2013/2014 to 2014/5, seven projects were approved under the Manufacturing Competitiveness enhancement Programme (MCEP) for R40 million. Eight projects were approved under the Manufacturing Investment Programme (MIP), with a value of R17 million.
- In part because of its scattered population, the Northern Cape has begun to host large-scale renewable energy projects as well as the largest radio telescope programme in the world, known as the Square Kilometre Array (SKA). It is planning a solar corridor as a Special Economic Zone in Upington. In addition, the Industrial Development Corporation (IDC) invested 23,4% of its total spending in the Northern Cape, mostly in renewable energy projects.
- The renewable energy and SKA projects were included in the major infrastructure programmes in the province, which also included rail lines to move iron ore and ferro alloys for export and domestic refining. The rail investments have been scaled back in the wake of the collapse in international prices for these commodities. The Northern Cape should also benefit from a range of investments in education and health facilities as well as the roll-out of broadband to poor communities.

Major infrastructure projects in the Northern Cape as of 2016/2017

Project name	Agent	R billion	Project description
Square Kilometre Array	National Research Foundation	16	The most powerful radio telescope in the world
Sishen-Saldanha corridor expansion	Transnet	9.4	Expand Sishen-Saldanha iron ore line export capacity
Solar park and other renewable energy projects	Various	200	Establish 1GW solar park near Upington region and further 4GW elsewhere in Northern Cape, among others

The Northern Cape also invested a large share of its own budget in infrastructure. In 2015/2016, the provincial budget set aside R1,1 billion, or 10.9% 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. Transfers to households for housing came to R400 million, or 3.7% of the Northern Cape's 2015/2016 budget. The provinces as a whole expected to provide R18 billion in housing subsidies, or 5% of their spending.

The Northern Cape budget totalled R10 billion in 2015/2016. Per person, the province spent R8 600, compared to an average for all the provincial budgets of R7 000. In constant 2015 rand (deflated by CPI), the budget had fallen 1% from 2014/2015. From 2011/2012, however, it had risen by 7,9%. Some 89% of the Northern Cape's budget went to 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, Land Reform and Rural Development. In 2015/2016, their combined budgets came to R900 million, or about 9% 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.