



# finance

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## SUSTAINABLE RESOURCE MANAGEMENT

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**July 2013**

## ECONOMIC UPDATE

### North West Socio-Economic Overview



#### Geographical Background

The North West province lies in the north of South Africa, close to the Botswana border and has a surface area of 105 076 square kilometer, 0,2 per cent of which is mines and quarries. The province is made up of 23 municipalities (4 district municipalities (Bojanala, Ngaka Modiri Molema, Dr Ruth Mompati and Dr Kenneth Kaunda) and 19 local municipalities). The average annual rainfall is around 621,97 mm and temperatures generally range between 4 and 30 degrees Celsius, making it a conducive province for agricultural production.

#### Demographics

The total population of North west is 3,5 million, approximately 6,7 per cent of the total South African population, with 1,8 million males and 1,7 million females. The majority of the population, 64,5 per cent, speaks Setswana as first language. The province has 980 370 households (87,7%=African; 9,9%=White; 1,8%= coloured; 0,6%= Asian).

#### Development

	North West Province				
	Development Indicators				
	African	White	Coloured	Asian	Total
Human Development Index (HDI)	0.58	0.87	0.66	0.79	0.61
Gini coefficient	0.57	0.45	0.55	0.48	0.61
Literacy rate	68,3%	97,2%	78,3%	89,8%	71,3%
Urbanization rate (% of people living in urban areas)	36,2%	86,8%	86,8	95,0	41,4%

The human development index which is a composite statistic of life expectancy, education and income indices indicates a fairly good level of development of the North West population, with the HDI index at 0,61 per cent (0=underdevelopment; 1=complete development).

71,3 per cent of the North West population is literate and 41,4 per cent of the population lives in urban areas.

#### Economy

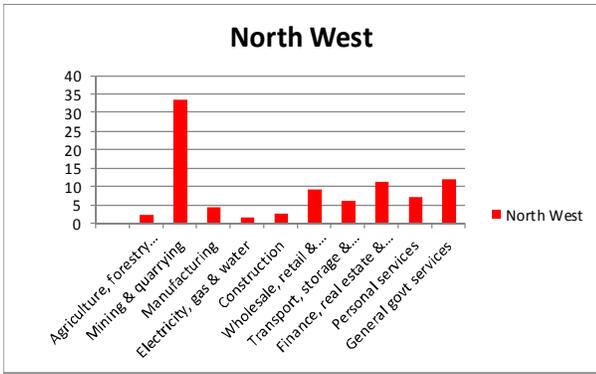


The North West Consumer Price Index (CPI) which is a measure of inflation as experienced by consumers, came out at 5,2 per cent in June 2013, 3 percentage points below the national CPI of 5,5 per cent. This is an indication that cost of living in province is relatively cheaper.

The economy of the North West province has grown significantly over the past decade with its Gross Domestic Product (GDP), which is a measure of economic activity, having almost tripled to R181 billion. GDP grew by 3,2 per cent in 2011 and by only 1,5 per cent in 2012 following the mining strikes and slowdown in mining production, which is the main driver of the North West GDP.

The Mining sector accounts for 33,6 per cent of the North West GDP followed by general government services 6 per cent, as depicted in the accompanying graph, making the North West economy a concentrated and not diversified economy as it is driven largely by these two sectors.





It is therefore not surprising that the two sectors also account for the bulk of the wage bill of the province as depicted by the labour remuneration item in the table below

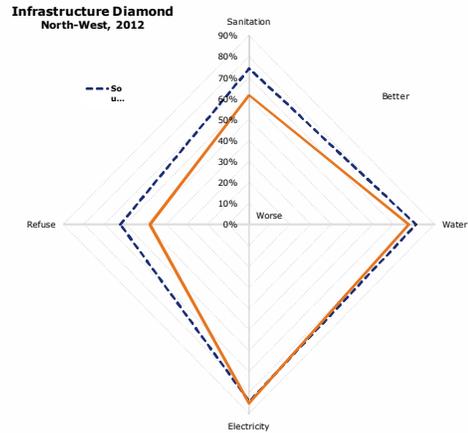
North West Province						
Economic Indicators						
	2001	2011	2012	Units	Movement	
	(2001/2011)					
Gross Domestic Product (GDP at market prices)	58 113 402	170 853 397	180 713 905	R'000	increase	
GDP growth	0.6	3.2	1.5	%	increase	
GDP per capita	18 951	48 862	50 840	R	increase	
Exports	23 289 639	18 236 903	N.a	R'000	decline	
Imports	1 458 943	2 945 799	N.a	R'000	increase	
Trade Balance	21 830 696	15 291 104	N.a	R'000	decline	
Tourism Spending	2 460 932	5 329 120	5 725 344	R'000	increase	
Labour remuneration						
		Mining	General Government Services			
	2011	18 830 018	23 493 046	R'000	increase	
	2012	23 939 775	25 266 059	R'000	increase	

Growth in the North West Tourism sector has generally been increasing since 2006 with a moderate decline recorded since 2009, following the global financial crisis. In 2012 the North West registered total tourism (local & foreign) growth of around 10 per cent.



**Infrastructure**

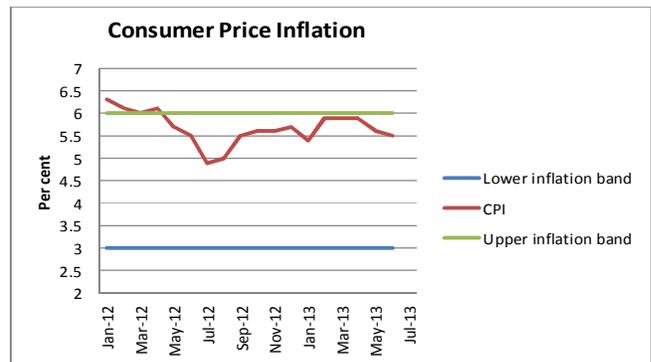
As depicted in the graph below, infrastructural development or service delivery in terms of refuse collection, water, sanitation and electricity availability in the province (shown by the brown rectangle) is outpaced by the national infrastructural development (shown by the dotted rectangle) in 2012, consistent with the water and sanitation challenges continued to be experienced in the province.



Source: IHS Global Insight Regional Explorer version 674

**South African Economy**

The National consumer price index (CPI) slowed down marginally from 5,6% in May 2013 to 5,5% in June and is still within its targeted band of between 3% and 6%; reducing the probability of general interest rate hikes in the short term. There are however expectations of continued fuel price hikes, between 20 and 30 cents a litre on 7 August 2013, driven by the relatively weaker rand exchange rate and slightly higher oil prices. The prime interest rate is at 8,50%



GDP of South Africa, which is a measure of economic activity, grew by 0,9 per cent for the first quarter of 2013 driven mainly by the mining sector due to increased platinum and gold production. The finance sector was the second largest contributor to GDP and manufacturing the least performing sector, however according to the Kagiso purchasing manager's index (PMI) which is a leading indicator of manufacturing and projects its future performance, manufacturing is



expected to improve going forward, in line with a 0,6 points increase in the PMI.

This GDP or economic growth rate of 0,9 per cent is however too low, if sustained, to generate meaningful employment. It undermines the National Development Plan (NDP) target of decreasing unemployment to 14% by 2020.

South Africa's official unemployment rate deteriorated slightly to 25,6% in the second quarter from 25,2% in the first. This translates to 122 000 people joining the ranks of the unemployed. Joblessness is a pressing economic issue which can be curbed through business investment and consequently economic growth. It is to be noted however that the North West province created 17000 jobs over the same period, yet its unemployment rate is above the national rate at 27,1%.

The trade deficit narrowed from R11 billion in May to R7,7 billion in June 2013 due to a 3,4% rise in exports and a 2,0 % decline in imports as a result of a weaker rand. The weaker rand makes South African commodities relatively cheaper to foreign buyers thus increasing exports, and foreign goods become relatively expensive domestically, thus lowering Imports.

## Markets

Currencies			Commodities		
GBP/ZAR	15.12	↓	Platinum	1449.50	↑
EUR/ZAR	13.06	↑	Gold	1302.50	↓
USD/ZAR	9.85	↑	Silver	19.72	↓
JPY/ZAR	0.10	↑	Oil	108.61	↓
As at 05 August 2013					

## African Economic Developments

The **Zimbabweans** stock exchange tumbled as market players lost faith in the credibility of the elections, marred by negativity of the voters roll having illegitimate voters registered, such as dead people! The results as at the 05 August 2013 indicated ZANU-PF as

the winning political party. Zimbabweans took to the polls on 31 July 2013.

It is estimated that around three in ten young children in **Swaziland** are stunted by hunger.

Diamond mining company, De-Beers plans to relocate its marketing arm from London to **Botswana**. This move is estimated to draw diamantaires to Southern Africa 10 times more.

Malay companies are the largest source of developing foreign Direct Investment (FDI), having invested US \$ 19 billion in the African continent.

**Nigeria**, the second largest economy in Africa after South Africa, is estimated to have lost out on \$10.9 billion in potential oil revenues due to oil theft between 2009 and 2011. Oil theft in Nigeria is often associated with criminal gangs who tap crude from pipelines for local refining but the majority of stolen crude leaves the country in large tankers

## World Economy

The **Eurozone** economy is expected to start showing signs of recovery this year, which should drive stocks (shares, Bonds) in the region by up to 10 per cent.

Guangdong province, South **China's** economic powerhouse posted fiscal revenue growth of 16% for the previous financial year on the back of booming business taxes and land transfer fees.

Chinese steel makers have followed the Japanese suit and raised steel wire prices by up to 100 yuan a ton.

It is estimated that 4 out of every 5 **American** adults struggle with joblessness, poverty and reliance on welfare, a sign of deteriorating economic security.

## Unpacking Economic Concepts

What are austerity measures?

These are measures undertaken by governments to reduce government budget deficits and consequently government debt, by either raising government revenue (mainly taxes) or lowering government expenditure. The latter is preferred by policymakers.



Revenue – expenditure = Surplus (if positive)

Revenue – expenditure = Balanced (if = zero)

Revenue – expenditure = Deficit (if negative)

To move from a deficit position to either a balanced budget or surplus position, government embarks on austerity measures as follows:

Revenue $\uparrow$  – expenditure $\downarrow$  = Deficit  $\rightarrow$  Balanced/ Surplus

Revenue is increased and expenditure is reduced by government to reduce the government budget deficit to either a balanced budget position or a budget surplus.

