

## 2 National Context: Outline of the South African Economy

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“The economics of climate change is fundamentally an ‘externality’ story. So far – or at least until recently – polluters, particularly emitters of greenhouse gases, have not had to pay for the damage they have caused. Hence, they have had no economic incentive to limit them. However, to the extent that the science of greenhouse gases comes to be accepted as broadly correct, social and political pressure will likely build to internalize this externality, one way or another.”

- Lehman Brothers (2007)

### 2.1 Overview

This section of the report provides an overview of the South African economy, drawing on data obtained primarily from the Quantec Online Database for the period 1999 to 2008. Certain analysis may therefore not capture the further implications of the recent global economic recession for the economy from 2009 onwards.

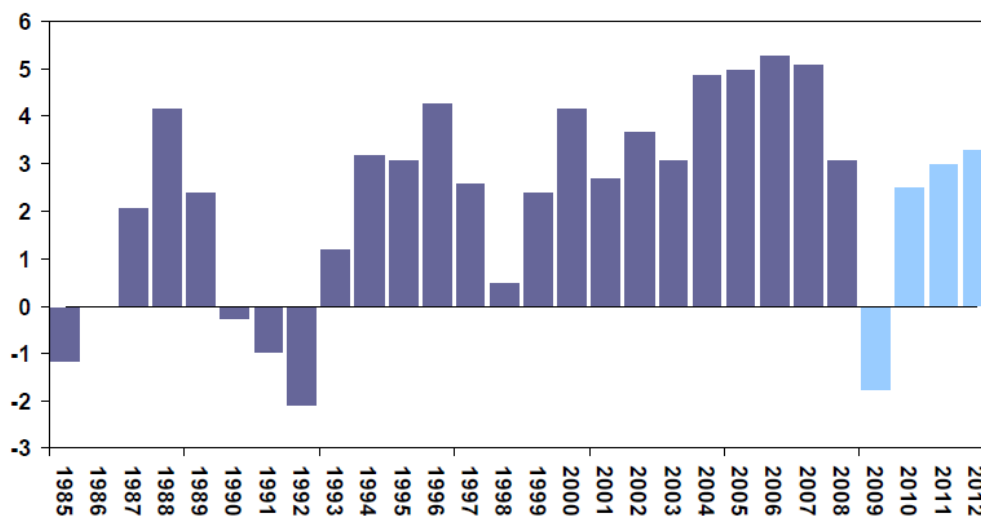
South Africa has enjoyed a period of sustained economic growth in recent years, with the annual growth rate of total Gross Domestic Product (GDP) averaging 5.4% from 1999 to 2008. Employment levels also benefitted from a record 32 consecutive quarters of positive growth: in the period 2004 to 2007, it is estimated that approximately 1.4 million jobs were created in the formal and informal sector, although unemployment levels remained high at 25.5% (IDC, 2007).

Despite these meaningful gains, South Africa has been marked by the recent international economic crisis. South Africa’s GDP fell down markedly in the third quarter of 2008 (to only grow at 0.2%) to become negative in the fourth quarter of 2008. This slowdown continued into 2009, with the economy contracting by 1.8% in comparison to 2008 levels (StatsSA, 2010).

This contraction of economic activities has witnessed a sharp reduction in manufacturing output, in line with weaker domestic and foreign demand, and responses by manufacturers to reduce output even further than the fall in demand through cutting back on their inventories. Employment trends experienced under the economic crisis are also worrying. Overall employment in the South African economy decreased by 2% in the first half of 2009, representing a loss of 267 000 jobs. It is estimated that as many as 900 000 people in South Africa may have lost their jobs in 2009 (National Treasury, 2010). Less-skilled younger Africans have been those particularly affected by the crisis and resultant declines in employment. Finally, concerns remain over increasing inequality in the country, in the context of large portions of the population still affected by poor service delivery and a lack of access to basic services.

Despite these challenges, economic growth is expected to recover in 2010 and beyond, with GDP estimated to reach a moderate growth rate of 2.3% in 2010 and approaching 3.6% in 2012, offering cautious optimism for a slow but steady economic recovery in the country (National Treasury, 2010). This prediction of national economic growth trends is also supported by a number of private sector economists, as depicted, for example, in Figure 1 below.

**Figure 1: South Africa GDP Annual Growth Rate (1985 – 2008) and Projected GDP Growth (2010-2012)**

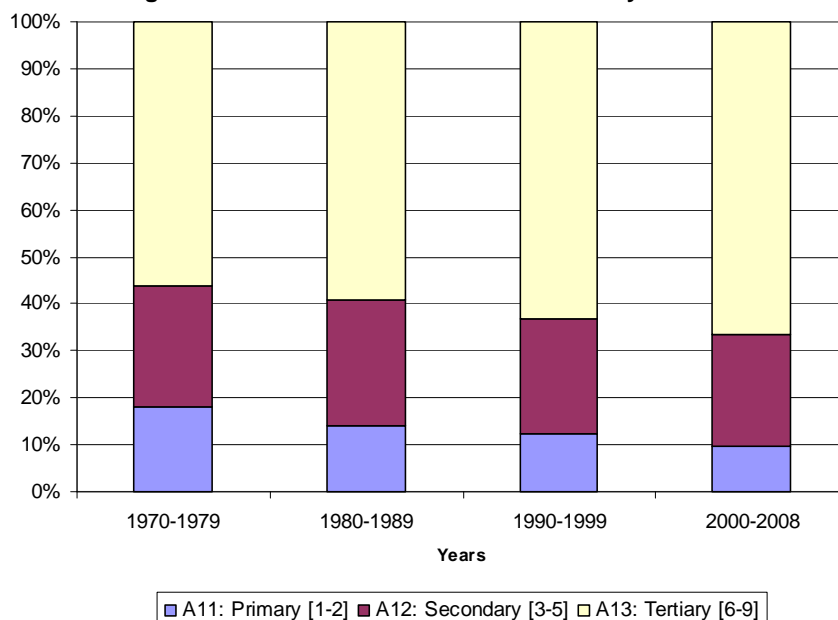


Source: STANLIB (2009)

## 2.2 Economic Output by Sector

South Africa has undergone a restructuring of its economy over a long-time horizon. This has been in favour of the tertiary sector over both the secondary (e.g. Manufacturing) and primary sectors (Agriculture, Forestry & Fishing, Mining and Quarrying). The expansion of the tertiary sector has coincided with a notable contraction of the primary sector since 1970, as reflected in Figure 2 below:

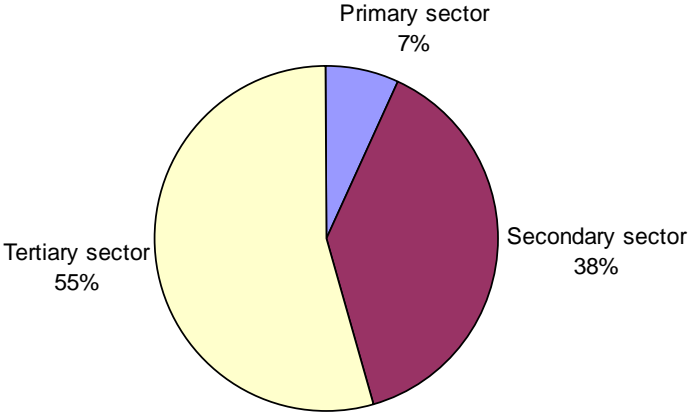
**Figure 2: Average Share of Value Added at Basic Prices by Main Economic Sectors**



Source: Calculated using data from Quantec Standardised Industry Database

Continuing with the trend depicted in Figure 2 above, as of the end of 2008 the tertiary sector accounted for 55% of GDP, the secondary sector 38%, and the primary sector 7% of national output:

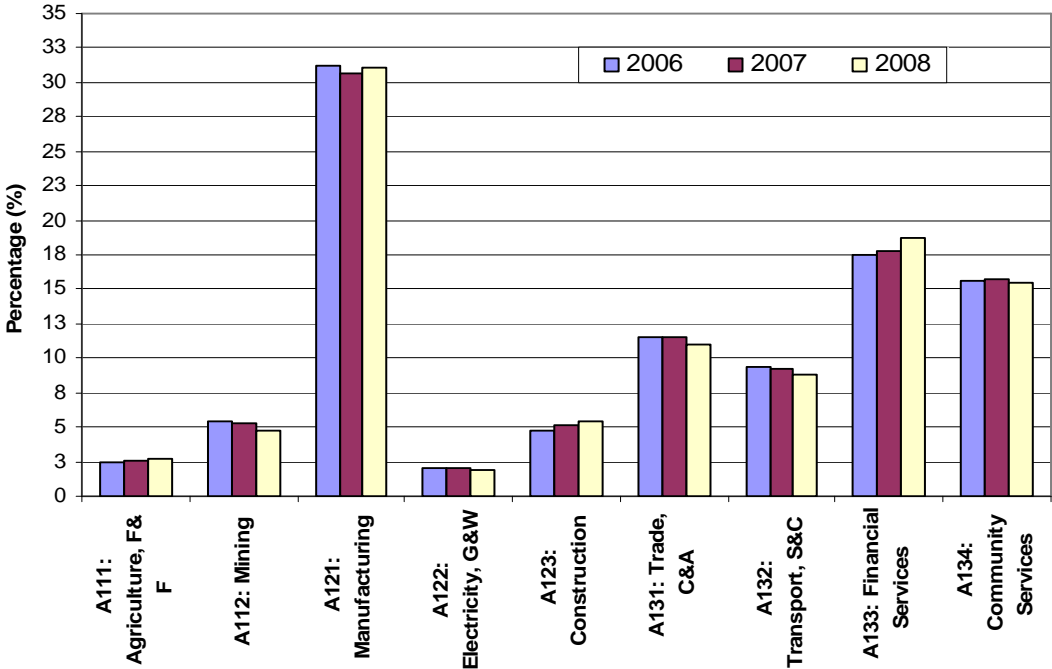
**Figure 3: Sector Contribution to GDP in 2008 at SIC 2-digit level – at 2005 Constant Prices**



Source: Quantec Online Database 2010 (<http://www.quantec.co.za/>)

A more detailed breakdown of relative contributions to GDP by sector for the period 2006 to 2008 is provided below:

**Figure 4: Sector Contribution to GDP at SIC 3-digit level (2006-2008) - at 2005 Constant Prices**



Note: F & F - Forestry and Fishing; G & W - Gas and Water; C & A - Catering and Accommodation; S & C - Storage and Communication

Source: Quantec Online Database 2010

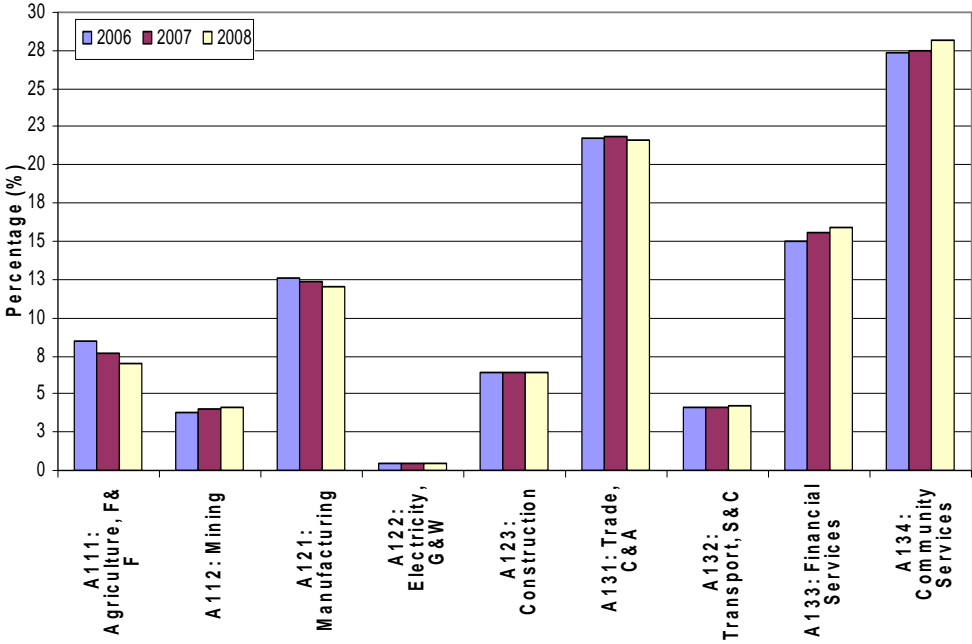
The relatively poor performance of Agriculture, Forestry and Fishing, as well as Mining and Quarrying, is one of the main reasons the primary sector's contribution to GDP has shrunk. Gold mining production has fallen by over 6% since 1999.

The Manufacturing sector is the single largest contributor to GDP with over 30% of the country's output produced in this sector from 2006 to 2008. Financial and Community Services both contribute to over 15% of GDP output. Trade, Catering and Accommodation Services; Transport, Storage and Communication; Financial Services as well as Community Services, all located within the tertiary sector, together accounted for 54% of GDP in 2008.

### 2.3 Employment by Sector

Employment in South Africa is dominated by the tertiary sector (Figure 5). Community Services (which includes government services) is one of the main absorbers of the labour force. The wholesale and retail industries, which fall under Trade, Catering and Accommodation Services, contribute 11% of South Africa's total employment. Agriculture is also an important employer, supporting rural development and providing relatively labour intensive economic output.

**Figure 5: Sector Contribution to Employment at SIC 3-digit level (2006-2008) - at 2005 Constant Prices**



Source: Quantec Online Database 2010

## 2.4 Breakdown of National Exports

South Africa's largest exports are mineral products, precious metals and base metals, followed by machinery and vehicles. These sectors are also amongst the highest growing export sectors in South Africa, which once again includes machinery and vehicles (Table 1).

**Table 1: South Africa's Exports at Chapter Level - Share and Average Annual Growth Rates (%)**

Sectors at Chapter level	Share of SA Total Exports (%)		Sector average annual growth rates of export (%)	
	1999	2008	1999-2003	2004-2008
C01: Live animals, animal products	1.4	0.8	18.7	11.6
C02: Vegetable products	4.0	3.5	14.5	18.4
C03: Animal or vegetable fats	0.2	0.2	4.7	34.4
C04: Prepared foodstuffs	3.7	2.7	16.7	13.5
C05: Mineral products	13.3	18.7	14.8	34.0
C06: Chemical Products	6.0	6.4	14.4	20.9
C07: Plastics & Rubber Products	1.7	1.6	20.0	16.6
C08: Raw hides & skins	0.7	0.2	5.8	0.2
C09: Wood & articles of wood	1.1	0.5	20.0	-1.5
C10: Pulp & Paper	2.9	1.9	9.4	17.5
C11: Textiles & textile articles	2.1	0.8	19.2	3.3
C12: Footwear	0.1	0.1	17.6	12.2
C13: Articles of stone	0.7	0.3	14.9	5.3
C14: Precious Metals	21.8	23.0	14.6	18.5
C15: Base metals	15.0	18.2	15.8	19.9
C16: Machinery	6.6	9.4	22.6	27.6
C17: Vehicles	6.9	10.2	23.2	24.8
C18: Scientific Equipment	0.4	0.5	21.4	22.7
C19: Arms & ammunition	0.0	-	0.0	0.0
C20: Misc. manufactured articles	1.8	0.8	15.4	3.7
C21: Works of art	0.1	0.1	9.2	23.5
C22: Other unclassified goods	9.4	0.0	-66.6	-6.7
C23: Special classification	0.0	0.0	5.9	92.8

Source: Quantec Online Database 2010

## 2.5 Breakdown of National Imports

As can be seen in the table below, South Africa's largest imports are machinery, vehicles, chemical products and mineral products (Table 2).

**Table 2: South Africa's Imports at Chapter Level - Share and Average Annual Growth Rates (%)**

Sectors at Chapter level	Share of SA Total Imports (%)		Sector average annual growth rates of import (%)	
	1999	2008	1999-2003	2004-2008
C01: Live animals, animal products	0.7	0.7	12.0	22.6
C02: Vegetable products	2.0	1.7	15.3	27.2
C03: Animal or vegetable fats	0.9	0.9	15.1	32.4
C04: Prepared foodstuffs	2.1	2.1	14.5	28.5
C05: Mineral products	10.5	23.9	19.1	39.8
C06: Chemical Products	11.5	9.0	13.4	22.9
C07: Plastics & Rubber Products	4.1	3.4	15.4	21.4
C08: Raw hides & skins	0.6	0.3	8.9	13.7
C09: Wood & articles of wood	0.6	0.4	16.9	15.7
C10: Pulp & Paper	2.3	1.5	11.5	21.7
C11: Textiles & textile articles	3.4	2.3	14.4	13.7
C12: Footwear	0.8	0.7	17.4	17.9
C13: Articles of stone	1.5	1.2	11.9	25.7
C14: Precious Metals	2.4	1.3	7.7	14.6
C15: Base metals	4.3	5.0	16.1	31.7
C16: Machinery & mechanical appliances	31.1	24.8	13.2	23.0
C17: Vehicles	7.3	9.9	29.7	16.0
C18: Scientific Equipment	4.0	2.6	14.4	16.1
C19: Arms & ammunition	0.0	0.0	0.0	0.0
C20: Miscellaneous manufactured articles	1.6	1.4	11.4	23.4
C21: Works of art	0.0	0.1	32.2	22.6
C22: Other unclassified goods	0.1	0.0	28.0	-0.3
C23: Special classification	8.1	6.7	21.3	16.2

Source: Quantec Online Database 2010

## 2.6 Balance of Payments

Although exports have increased steadily, South Africa has been experiencing a trade deficit since 2003, with this deficit reaching a significant R84 Billion by the end of 2008 (Table 3).

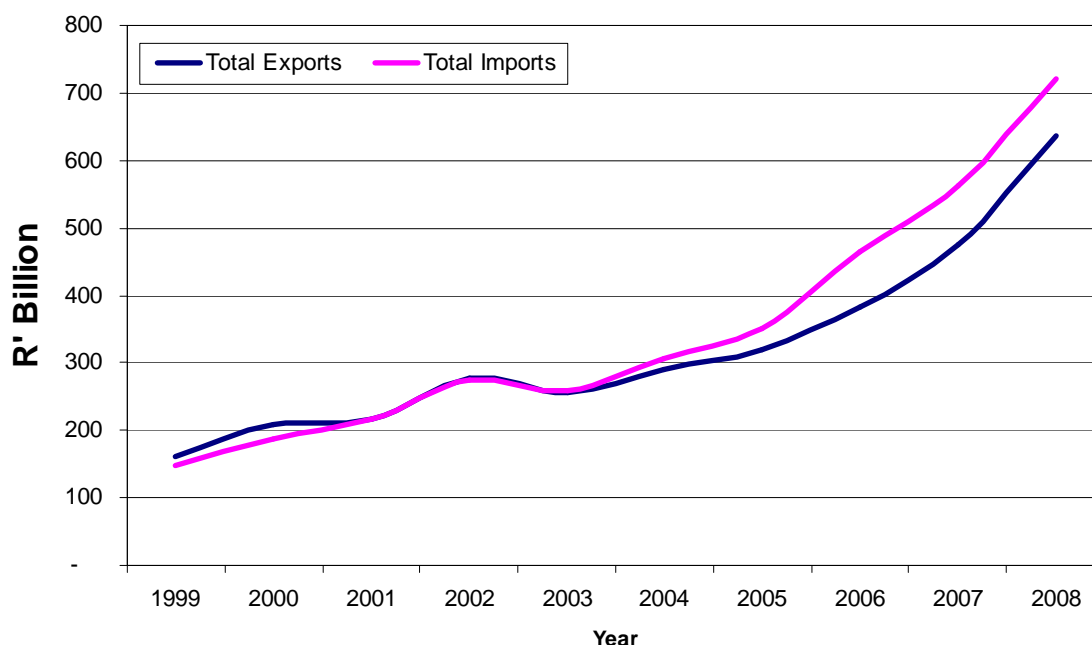
**Table 3: South Africa's Total Imports and Exports from 1999 to 2008 - R' Billion at constant prices**

Trade Flow	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total Exports	162	208	215	278	256	291	320	383	474	637
Total Imports	147	188	215	274	258	306	351	465	563	721
<b>Total Trade<sup>2</sup></b>	<b>309</b>	<b>396</b>	<b>431</b>	<b>552</b>	<b>514</b>	<b>598</b>	<b>671</b>	<b>848</b>	<b>1,037</b>	<b>1,358</b>
<b>Trade Balance<sup>3</sup></b>	<b>14</b>	<b>20</b>	<b>-0</b>	<b>4</b>	<b>-3</b>	<b>-15</b>	<b>-30</b>	<b>-81</b>	<b>-88</b>	<b>-84</b>

Source: Quantec Online Database 2010

This declining balance of payments trend is depicted in Figure 6 below:

**Figure 6: South Africa's Total Imports and Exports from 1999 to 2008 - R' Billion**



Source: Quantec Online Database 2010

More recently, since the onset of the economic recession, exports have struggled to accelerate given the strengthening of the Rand and sluggish global demand. However, from a balance of payments perspective, this has been somewhat counteracted by lowered demand for imports as a result of reduced domestic demand. In 2010 the trade balance is expected to decline only slightly from its current position; however, this trade deficit is expected to deteriorate more significantly as South Africa's infrastructure development programmes continue apace, driving an accelerated demand for imports.

Please note that comprehensive reviews of each of the major economic sectors in South Africa, completed as part of the research for this study, are available for download at the project website: [www.climateriskandopportunity.co.za](http://www.climateriskandopportunity.co.za). A total of eighteen economic sectors are evaluated, ranging from the Construction sector to Textiles and Clothing.

<sup>2</sup> Total Trade = Total Exports plus Total Imports

<sup>3</sup> Trade Balance = Total Exports minus Total Imports